UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

**☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2024

**☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from ______ to ______

Commission file number: 0-50765

VILLAGE BANK AND TRUST FINANCIAL CORP.
(Exact name of registrant as specified in its charter)

Virginia (State or other jurisdiction of incorporation or organization)	**16-1694602** (I.R.S. Employer Identification No.)
13319 Midlothian Turnpike, Midlothian, Virginia (Address of principal executive offices)	**23113** (Zip code)

804-897-3900
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, par value $4.00 per share	VBFC	Nasdaq Capital Market

Indicate by check whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☐	Accelerated Filer ☐
Non-Accelerated Filer ☒	Smaller Reporting Company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

1,495,251 shares of common stock, $4.00 par value, outstanding as of April 16, 2024

Village Bank and Trust Financial Corp.
Form 10-Q

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PART I – FINANCIAL INFORMATION

ITEM 1 – FINANCIAL STATEMENTS

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Balance Sheets
March 31, 2024 (Unaudited) and December 31, 2023*
(in thousands, except share and per share data)

	March 31, 2024	December 31, 2023
Assets		
Cash and due from banks	$ 13,073	$ 10,383
Federal funds sold	19,323	7,331
Total cash and cash equivalents	32,396	17,714
Investment securities available for sale, at fair value	82,784	105,585
Restricted stock, at cost	2,755	2,985
Loans held for sale	7,019	4,983
Loans		
Outstandings	591,338	575,008
Allowance for credit losses	(3,574)	(3,423)
Deferred costs, net	750	803
Total loans, net	588,514	572,388
Premises and equipment, net	11,773	11,760
Bank owned life insurance	13,198	13,120
Accrued interest receivable	3,531	3,827
Other assets	4,902	4,254
Total Assets	$ 746,872	$ 736,616
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest bearing demand	$ 230,118	$ 247,624
Interest bearing	390,151	357,721
Total deposits	620,269	605,345
Long-term debt - trust preferred securities	8,764	8,764
Subordinated debt, net	5,700	5,700
Federal Home Loan Bank advances	40,000	45,000
Accrued interest payable	406	210
Other liabilities	3,375	4,041
Total liabilities	678,514	669,060
Shareholders' equity		
Common stock, $4 par value, 10,000,000 shares authorized; 1,495,251 shares issued and outstanding at March 31, 2024 and 1,492,879 shares issued and outstanding at December 31, 2023	5,918	5,908
Additional paid-in capital	55,557	55,486
Retained earnings	13,278	11,775
Stock in directors rabbi trust	(439)	(467)
Directors deferred fees obligation	439	467
Accumulated other comprehensive loss	(6,395)	(5,613)
Total shareholders' equity	68,358	67,556
Total liabilities and shareholders' equity	$ 746,872	$ 736,616

** Derived from audited consolidated financial statements.*

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Income
Three Months Ended March 31, 2024 and 2023
(Unaudited)
(in thousands, except per share data)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Interest income		
Loans	$ 8,201	$ 6,762
Investment securities	932	727
Federal funds sold	202	94
Total interest income	9,335	7,583
Interest expense		
Deposits	2,096	624
Borrowed funds	843	594
Total interest expense	2,939	1,218
Net interest income	6,396	6,365
Provision for credit losses	150	—
Net interest income after provision for credit losses	6,246	6,365
Noninterest income		
Service charges and fees	641	669
Mortgage banking income, net	850	478
Other	113	109
Total noninterest income	1,604	1,256
Noninterest expense		
Salaries and benefits	3,464	3,448
Occupancy	332	311
Equipment	278	285
Supplies	49	49
Data processing	439	440
Professional and outside services	418	372
Advertising and marketing	83	111
FDIC insurance premium	92	50
Other operating expense	474	690
Total noninterest expense	5,629	5,756
Income before income tax expense	2,221	1,865
Income tax expense	449	325
Net income	$ 1,772	$ 1,540
Earnings per share, basic	$ 1.19	$ 1.04
Earnings per share, diluted	$ 1.19	$ 1.04

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Comprehensive Income
Three Months ended March 31, 2024 and 2023
(Unaudited)
(in thousands)

	Three Months Ended March 31,	
	2024	**2023**
Net income	$ 1,772	$ 1,540
Other comprehensive (loss) income		
Unrealized holding (losses) gains arising during the period	(990)	1,876
Tax effect	208	(394)
Net change in unrealized holding (losses) gains on securities available for sale, net of tax	(782)	1,482
Minimum pension adjustment	—	3
Tax effect	—	(1)
Minimum pension adjustment, net of tax	—	2
Total other comprehensive (loss) income	(782)	1,484
Total comprehensive income	$ 990	$ 3,024

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Shareholders' Equity
Three Months Ended March 31, 2024 and 2023
(Unaudited)
(In thousands)

	Three Months Ended March 31, 2024						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligation	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2023	$ 5,908	55,486	$ 11,775	$ (467)	$ 467	$ (5,613)	$ 67,556
Restricted stock redemption	—	—	—	28	(28)	—	—
Vesting of restricted stock	10	(10)	—	—	—	—	—
Stock based compensation	—	81	—	—	—	—	81
Cash dividend declared ($0.18 per share)	—	—	(269)	—	—	—	(269)
Net income	—	—	1,772	—	—	—	1,772
Other comprehensive loss	—	—	—	—	—	(782)	(782)
Balance, March 31, 2024	$ 5,918	$ 55,557	$ 13,278	$ (439)	$ 439	$ (6,395)	$ 68,358

	Three Months Ended March 31, 2023						
	Common Stock	Additional Paid-in Capital	Retained Earnings	Stock in Directors Rabbi Trust	Directors Deferred Fees Obligation	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	$ 5,868	$ 55,167	$ 10,957	$ (689)	$ 689	$ (10,881)	$ 61,111
Restricted stock redemption	—	—	—	94	(94)	—	—
Vesting of restricted stock	13	(13)	—	—	—	—	—
Stock based compensation	—	102	—	—	—	—	102
Cash dividend declared ($0.16 per share)	—	—	(237)	—	—	—	(237)
Impact of adoption of ASC 326	—	—	(119)	—	—	—	(119)
Net income	—	—	1,540	—	—	—	1,540
Other comprehensive income	—	—	—	—	—	1,484	1,484
Balance, March 31, 2023	$ 5,881	$ 55,256	$ 12,141	$ (595)	$ 595	$ (9,397)	$ 63,881

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Consolidated Statements of Cash Flows
Three Months Ended March 31, 2024 and 2023
(Unaudited)
(in thousands)

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
Cash Flows from Operating Activities		
Net income	$ 1,772	$ 1,540
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	163	140
Amortization of debt issuance costs	—	8
Deferred income taxes	(32)	59
Provision for credit losses	150	—
Gain on sales of loans held for sale	(514)	(611)
Stock compensation expense	81	102
Proceeds from sale of mortgage loans	19,954	25,187
Origination of mortgage loans held for sale	(21,476)	(24,160)
Amortization of premiums and accretion of discounts on securities, net	(69)	(39)
Increase in bank owned life insurance	(78)	(68)
Net change in:		
Interest receivable	296	77
Other assets	(408)	(615)
Interest payable	196	142
Other liabilities	(679)	334
Net cash (used in) provided by operating activities	(644)	2,096
Cash Flows from Investing Activities		
Purchases of available for sale securities	—	(2,652)
Proceeds from maturities, calls and paydowns of available for sale securities	21,880	2,467
Net increase in loans	(16,263)	(1,667)
Purchases of premises and equipment, net	(176)	(198)
Purchase of restricted stock, net	230	(626)
Net cash provided by (used in) investing activities	5,671	(2,676)
Cash Flows from Financing Activities		
Cash dividends paid	(269)	(237)
Net increase (decrease) in deposits	14,924	(6,727)
Net (decrease) increase in other borrowings	(5,000)	15,000
Net cash provided by financing activities	9,655	8,036
Net increase in cash and cash equivalents	14,682	7,456
Cash and cash equivalents, beginning of period	17,714	16,678
Cash and cash equivalents, end of period	$ 32,396	$ 24,134
Supplemental Disclosure of Cash Flow Information		
Cash payments for interest	$ 2,743	$ 1,076
Cash payments for taxes	$ —	$ 168
Supplemental Schedule of Non-Cash Activities		
Unrealized (losses) gains on securities available for sale	$ (990)	$ 1,876
Minimum pension adjustment	$ —	$ 3

See accompanying notes to consolidated financial statements.

Village Bank and Trust Financial Corp. and Subsidiary
Notes to Consolidated Financial Statements
Three Months Ended March 31, 2024 and 2023
(Unaudited)

Note 1 – Principles of presentation

Village Bank and Trust Financial Corp. (the "Company") is the holding company of Village Bank (the "Bank"). The consolidated financial statements include the accounts of the Company, the Bank and the Bank's subsidiary, Village Bank Mortgage Corporation. All material intercompany balances and transactions have been eliminated in consolidation.

In the opinion of management, the accompanying condensed consolidated financial statements of the Company have been prepared on the accrual basis in accordance with generally accepted accounting principles for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, all adjustments that are, in the opinion of management, necessary for a fair presentation have been included. The results of operations for the three-month period ended March 31, 2024 are not necessarily indicative of the results to be expected for the full year ending December 31, 2024. The unaudited interim financial statements should be read in conjunction with the audited financial statements and notes to financial statements that are presented in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 as filed with the Securities and Exchange Commission ("SEC").

Note 2 – Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities as of the date of the balance sheets and statements of income for the period. Actual results could differ significantly from those estimates. Material estimates that are particularly susceptible to significant change include the determination of the allowance for credit losses and its related provision including collateral dependent loans.

Note 3 – Earnings per common share

The following table presents the basic and diluted earnings per common share computation (dollars in thousands, except per share data):

	Three Months Ended March 31,	
	2024	2023
Numerator		
Net income - basic and diluted	$ 1,772	$ 1,540
Denominator		
Weighted average shares outstanding - basic	1,493	1,484
Dilutive effect of common stock options	—	—
Weighted average shares outstanding - diluted	1,493	1,484
Earnings per share - basic	$ 1.19	$ 1.04
Earnings per share - diluted	$ 1.19	$ 1.04

Applicable guidance requires that outstanding, unvested share-based payment awards that contain voting rights and rights to nonforfeitable dividends participate in undistributed earnings with common shareholders. Accordingly, the weighted average number of shares of the Company's common stock used in the calculation of basic and diluted net income per common share includes unvested shares of the Company's outstanding restricted common stock.

The vesting of 10,252 and 10,658 of the unvested restricted units at March 31, 2024 and 2023, respectively, included in Note 10 "Stock incentive plan" was dependent upon meeting certain performance criteria. As of March 31, 2024 and 2023, it was indeterminable whether these unvested restricted units would vest and as such the underlying shares were excluded from common shares issued and outstanding at such date and were not included in the computation of earnings per share for such period.

Note 4 – Investment securities available for sale

The amortized cost and fair value of investment securities available for sale as of March 31, 2024 and December 31, 2023 are as follows (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
March 31, 2024				
U.S. Government agency obligations	$ 695	$ —	$ (17)	$ 678
Mortgage-backed securities	75,706	261	(6,060)	69,907
Municipals	2,263	—	(611)	1,652
Subordinated debt	12,202	29	(1,684)	10,547
	$ 90,866	$ 290	$ (8,372)	$ 82,784
December 31, 2023				
U.S. Government agency obligations	$ 20,690	$ —	$ (75)	$ 20,615
Mortgage-backed securities	77,275	643	(5,381)	72,537
Municipals	2,264	—	(608)	1,656
Subordinated debt	12,449	30	(1,702)	10,777
	$ 112,678	$ 673	$ (7,766)	$ 105,585

The Company had investment securities with a fair value of $ 575,000 and $24,926,000 pledged to secure borrowings from the Federal Home Loan Bank of Atlanta ("FHLB") at March 31, 2024 and December 31, 2023, respectively.

There were no sales of available for sale securities for the three months ended March 31, 2024 and 2023.

Investment securities available for sale that have an unrealized loss position at March 31, 2024 and December 31, 2023 are detailed below (in thousands):

	Securities in a loss position for less than 12 Months		Securities in a loss position for more than 12 Months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
March 31, 2024						
U.S. Government agency obligations	$ 322	$ (1)	$ 356	(16)	$ 678	$ (17)
Mortgage-backed securities	10,224	(100)	31,221	(5,960)	41,445	(6,060)
Municipals	—	—	1,652	(611)	1,652	(611)
Subordinated debt	2,789	(443)	7,060	(1,241)	9,849	(1,684)
	$ 13,335	$ (544)	$ 40,289	$ (7,828)	$ 53,624	$ (8,372)
December 31, 2023						
U.S. Government agency obligations	$ —	$ —	$ 20,289	$ (75)	$ 20,289	$ (75)
Mortgage-backed securities	4,631	(24)	30,311	(5,357)	34,942	(5,381)
Municipals	—	—	1,656	(608)	1,656	(608)
Subordinated debt	4,145	(587)	5,937	(1,115)	10,082	(1,702)
	$ 8,776	$ (611)	$ 58,193	$ (7,155)	$ 66,969	$ (7,766)

As of March 31, 2024, there were 60 investments available for sale totaling $53.6 million that were in a loss position and had an unrealized loss of $8.4 million.

All of the unrealized losses are attributable to increases in interest rates and not to credit deterioration. Currently, the Company believes that it is probable that the Company will be able to collect all amounts due according to the contractual terms of the investments. Because the declines in fair value are attributable to changes in interest rates and not to credit quality, and because it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company has not recorded an allowance for credit losses on these investments at March 31, 2024.

The amortized cost and estimated fair value of investment securities available for sale as of March 31, 2024, by contractual maturity, are as follows (in thousands):

	Amortized Cost	Fair Value
Less than one year	$ —	$ —
One to five years	10,834	10,823
Five to ten years	17,098	15,485
More than ten years	62,934	56,476
Total	$ 90,866	$ 82,784

Note 5 – Loans and allowance for credit losses

Loans classified by type as of March 31, 2024 and December 31, 2023 are as follows (dollars in thousands) :

	March 31, 2024		December 31, 2023	
	Amount	**%**	**Amount**	**%**
Construction and land development				
Residential	$ 9,077	1.53 %	$ 10,471	1.82 %
Commercial	34,437	5.83 %	37,024	6.44 %
	43,514	7.36 %	47,495	8.26 %
Commercial real estate				
Owner occupied	121,429	20.53 %	122,666	21.33 %
Non-owner occupied	165,508	27.99 %	154,855	26.93 %
Multifamily	18,254	3.09 %	12,743	2.22 %
Farmland	24	0.00 %	326	0.06 %
	305,215	51.61 %	290,590	50.54 %
Consumer real estate				
Home equity lines	21,682	3.67 %	21,557	3.75 %
Secured by 1-4 family residential,				
First deed of trust	95,994	16.23 %	95,638	16.63 %
Second deed of trust	11,955	2.02 %	11,337	1.97 %
	129,631	21.92 %	128,532	22.35 %
Commercial and industrial loans				
(except those secured by real estate)	92,600	15.66 %	86,203	14.99 %
Guaranteed student loans	15,782	2.67 %	17,923	3.12 %
Consumer and other	4,596	0.78 %	4,265	0.74 %
Total loans	591,338	100.0 %	575,008	100.0 %
Deferred and costs, net	750		803	
Less: allowance for credit losses	(3,574)		(3,423)	
	$ 588,514		$ 572,388	

The Bank has a purchased portfolio of rehabilitated student loans guaranteed by the U.S. Department of Education ("DOE"). The guarantee covers approximately 98% of principal and accrued interest. The loans are serviced by a third-party servicer that specializes in handling the special needs of the DOE student loan programs.

Loans pledged as collateral with the FHLB as part of their lending arrangement with the Company totaled $ 54.8 million and $35.5 million as of March 31, 2024, and December 31, 2023, respectively.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table provides information on nonaccrual loans segregated by type at the dates indicated (in thousands):

	March 31, 2024	December 31, 2023
Consumer real estate		
Secured by 1-4 family residential		
First deed of trust	$ 159	$ 160
Second deed of trust	100	105
	259	265
Commercial and industrial loans		
(except those secured by real estate)	22	26
Total loans	$ 281	$ 291

There were no individual allowances associated with the total nonaccrual loans of $ 281,000 and $291,000 at March 31, 2024 and December 31, 2023, respectively, that were considered collateral dependent.

The Company recognized $7,000 of interest on nonaccrual loans outstanding as of March 31, 2024.

Management considers the guidance in Accounting Standards Codification ("ASC") 310-20 when determining whether a modification, extension, or renewal of loan constitutes a current period origination. Generally, current period renewals of credit are reunderwritten at the point of renewal and considered current period originations for purposes of the table below.

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As of March 31, 2024, based on the most recent analysis performed, the risk category of loans based on year of origination is as follows (in thousands):

	2024	2023	2022	2021	2020	Prior	Revolving	Revolving-Term	Total Loans
March 31, 2024									
Construction and land development									
Residential									
Pass	$ 876	$ 5,656	$ 2,206	$ 339	$ —	$ —	$ —	$ —	$ 9,077
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Residential	$ 876	$ 5,656	$ 2,206	$ 339	$ —	$ —	$ —	$ —	$ 9,077
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial									
Pass	692	6,649	14,193	10,331	224	1,081	1,267	—	34,437
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Commercial	$ 692	$ 6,649	$ 14,193	$ 10,331	$ 224	$ 1,081	$ 1,267	$ —	$ 34,437
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial real estate									
Owner occupied									
Pass	666	12,518	21,638	19,149	9,276	52,199	574	—	116,020
Special Mention	—	—	200	71	461	4,677	—	—	5,409
Substandard	—	—	—	—	—	—	—	—	—
Total Owner occupied	$ 666	$ 12,518	$ 21,838	$ 19,220	$ 9,737	$ 56,876	$ 574	$ —	$ 121,429
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Non-owner occupied									
Pass	6,692	9,425	25,419	28,243	23,337	57,626	9,856	—	160,598
Special Mention	—	—	—	2,160	—	2,750	—	—	4,910
Substandard	—	—	—	—	—	—	—	—	—
Total Non-owner occupied	$ 6,692	$ 9,425	$ 25,419	$ 30,403	$ 23,337	$ 60,376	$ 9,856	$ —	$ 165,508
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Multifamily									
Pass	5,250	1,300	—	2,434	542	6,857	1,871	—	18,254
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Multifamily	$ 5,250	$ 1,300	$ —	$ 2,434	$ 542	$ 6,857	$ 1,871	$ —	$ 18,254
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Farmland									
Pass	—	—	—	—	—	24	—	—	24
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Farmland	$ —	$ —	$ —	$ —	$ —	$ 24	$ —	$ —	$ 24
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer real estate									
Home equity lines									
Pass	—	—	445	—	—	—	21,162	—	21,607
Special Mention	—	—	—	—	—	—	75	—	75
Substandard	—	—	—	—	—	—	—	—	—
Total Home equity lines	$ —	$ —	$ 445	$ —	$ —	$ —	$ 21,237	$ —	$ 21,682
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Secured by 1-4 family residential									
First deed of trust									
Pass	4,330	32,416	14,608	14,152	8,006	19,985	2,124	—	95,621
Special Mention	—	—	—	—	—	214	—	—	214
Substandard	—	—	—	—	—	159	—	—	159
Total First deed of trust	$ 4,330	$ 32,416	$ 14,608	$ 14,152	$ 8,006	$ 20,358	$ 2,124	$ —	$ 95,994
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Second deed of trust									
Pass	593	4,485	3,088	1,009	388	1,572	522	—	11,657
Special Mention	88	—	—	—	—	110	—	—	198
Substandard	—	—	—	—	—	100	—	—	100
Total Second deed of trust	$ 681	$ 4,485	$ 3,088	$ 1,009	$ 388	$ 1,782	$ 522	$	$ 11,955
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans									
(except those secured by real estate)									
Pass	6,036	18,185	15,095	13,837	5,313	5,903	27,757	—	92,126
Special Mention	—	34	—	—	—	49	369	—	452
Substandard	—	—	—	—	11	11	—	—	22
Total Commercial and industrial	$ 6,036	$ 18,219	$ 15,095	$ 13,837	$ 5,324	$ 5,963	$ 28,126	$ —	$ 92,600
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Guaranteed student loans									
Pass	—	—	—	—	—	15,782	—	—	15,782
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Guaranteed student loans	$ —	$ —	$ —	$ —	$ —	$ 15,782	$ —	$ —	$ 15,782
Current period gross writeoff	$ 6	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Consumer and other									
Pass	242	424	403	107	38	22	3,360	—	4,596
Special Mention	—	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—	—
Total Consumer and other	$ 242	$ 424	$ 403	$ 107	$ 38	$ 22	$ 3,360	$	$ 4,596
Current period gross writeoff	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —

Total Current period gross writeoff	$ 6	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total loans	$ 25,465	$ 91,092	$ 97,295	$ 91,832	$ 47,596	$ 169,121	$ 68,937	$ —	$ 591,338

The following table presents the aging of the recorded investment in past due loans and leases as of the dates indicated (in thousands):

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Investment > 90 Days and Accruing
March 31, 2024							
Construction and land development							
Residential	$ —	$ —	$ —	$ —	$ 9,077	$ 9,077	$ —
Commercial	—	—	—	—	34,437	34,437	—
	—	—	—	—	43,514	43,514	—
Commercial real estate							
Owner occupied	—	—	—	—	121,429	121,429	—
Non-owner occupied	—	—	—	—	165,508	165,508	—
Multifamily	—	—	—	—	18,254	18,254	—
Farmland	—	—	—	—	24	24	—
	—	—	—	—	305,215	305,215	—
Consumer real estate							
Home equity lines	247	—	—	247	21,435	21,682	—
Secured by 1-4 family residential							
First deed of trust	174	—	—	174	95,820	95,994	—
Second deed of trust	—	—	—	—	11,955	11,955	—
	421	—	—	421	129,210	129,631	—
Commercial and industrial loans (except those secured by real estate)	719	49	375	1,143	91,457	92,600	375
Guaranteed student loans	588	342	2,200	3,130	12,652	15,782	2,200
Consumer and other	—	—	—	—	4,596	4,596	—
Total loans	$ 1,728	$ 391	$ 2,575	$ 4,694	$ 586,644	$ 591,338	$ 2,575

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans	Recorded Investment > 90 Days and Accruing
December 31, 2023							
Construction and land development							
Residential	$ —	$ —	$ —	$ —	$ 10,471	$ 10,471	$ —
Commercial	—	—	—	—	37,024	37,024	—
	—	—	—	—	47,495	47,495	—
Commercial real estate							
Owner occupied	—	—	—	—	122,666	122,666	—
Non-owner occupied	—	—	—	—	154,855	154,855	—
Multifamily	—	—	—	—	12,743	12,743	—
Farmland	—	—	—	—	326	326	—
	—	—	—	—	290,590	290,590	—
Consumer real estate							
Home equity lines	83	25	—	108	21,449	21,557	—
Secured by 1-4 family residential							
First deed of trust	—	—	—	—	95,638	95,638	—
Second deed of trust	33	—	—	33	11,304	11,337	—
	116	25	—	141	128,391	128,532	—
Commercial and industrial loans							
(except those secured by real estate)	—	—	—	—	86,203	86,203	—
Guaranteed student loans	690	493	2,228	3,411	14,512	17,923	2,228
Consumer and other	734	—	—	734	3,531	4,265	—
Total loans	$ 1,540	$ 518	$ 2,228	$ 4,286	$ 570,722	$ 575,008	$ 2,228

Loans greater than 90 days past due consist of student loans that are guaranteed by the DOE which covers approximately 98% of the principal and interest. Accordingly, these loans will not be placed on nonaccrual status and are not considered to be impaired.

Loans that are individually evaluated for credit losses are limited to loans that have specific risk characteristics that are not shared by other loans and based on current information and events it is probable the Company will be unable to collect all amounts when due in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments. The repayment of these loans is expected to be substantially through the operations or the sale of the collateral. The allowance for credit losses on loans that are individually evaluated will be measured based on the fair value of the collateral either through operations or the sale of the collateral. When repayment is expected through the sale of the collateral, the allowance will be based on the fair value of the collateral less estimated costs to sell. Collateral dependent loans, or portions thereof, are charged off when deemed uncollectible.

Collateral dependent loans are set forth in the following table as of the dates indicated (in thousands):

	March 31, 2024			December 31, 2023		
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded						
Secured by 1-4 family residential						
First deed of trust	$ 159	$ 159	$ —	$ 160	$ 160	$ —
Second deed of trust	100	100	—	105	105	—
	259	259	—	265	265	—
Commercial and industrial loans						
(except those secured by real estate)	22	22	—	26	26	—
	281	281	—	291	291	—
Total						
Secured by 1-4 family residential,						
First deed of trust	159	159	—	160	160	—
Second deed of trust	100	100	—	105	105	—
	259	259	—	265	265	—
Commercial and industrial loans						
(except those secured by real estate)	22	22	—	26	26	—
Consumer and other	—	—	—	—	—	—
	$ 281	$ 281	$ —	$ 291	$ 291	$ —

The following is a summary of average recorded investment in collateral dependent loans with and without a valuation allowance and interest income recognized on those loans for the periods indicated (in thousands):

	For the Three Months Ended March 31, 2024		For the Three Months Ended March 31, 2023	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded				
Commercial real estate				
Owner occupied	$ —	$ —	$ 3,468	$ 16
Non-owner occupied	—	—	496	—
	—	—	3,964	16
Consumer real estate				
Home equity lines	—	—	300	6
Secured by 1-4 family residential				
First deed of trust	160	2	1,394	2
Second deed of trust	103	5	186	1
	263	7	1,880	9
Commercial and industrial loans				
(except those secured by real estate)	23	—	54	1
	286	7	5,898	26
With an allowance recorded				
Commercial real estate				
Owner occupied	—	—	191	—
	—	—	191	—
Consumer real estate				
Secured by 1-4 family residential				
First deed of trust	—	—	86	—
Second deed of trust	—	—	8	—
	—	—	94	—
Consumer and other	—	—	16	—
	—	—	301	—
Total				
Commercial real estate				
Owner occupied	—	—	3,659	16
Non-owner occupied	—	—	496	—
	—	—	4,155	16
Consumer real estate				
Home equity lines	—	—	300	6
Secured by 1-4 family residential,				
First deed of trust	160	2	1,480	2
Second deed of trust	103	5	194	1
	263	7	1,974	9
Commercial and industrial loans				
(except those secured by real estate)	23	—	54	1
Consumer and other	—	—	16	—
	$ 286	$ 7	$ 6,199	$ 26

Loan Modifications to Borrowers in Financial Difficulty

As part of its credit risk management, the Company may modify a loan agreement with a borrower experiencing financial difficulties through a refinancing or restructuring of the borrower’s loan agreement. There were no modified loans identified during the three months ended March 31, 2024 and March 31, 2023.

In accordance with ASC 326, the Company has segmented its loan portfolio based on similar risk characteristics by call report code. The Company's forecast of estimated expected losses is based on a twelve-month forecast of the national rate of unemployment and external observations of historical loan losses. The Company uses the Federal Open Market Committee's projection of unemployment for its reasonable and supportable forecasting of current expected credit losses. For the periods beyond the reasonable and supportable forecast period, projections of expected credit losses are based on a reversion to the long-run mean for the national unemployment rate. To further adjust the allowance for credit losses for expected losses not already included within the quantitative component of the calculation, the Company may consider the following qualitative adjustment factors: changes in lending policies and procedures including changes in underwriting standards, and collections, charge-offs, and recovery practices, changes in international, national, regional, and local conditions, changes in the nature and volume of the portfolio and terms of loans, changes in experience, depth, and ability of lending management, changes in the volume and severity of past due loans and other similar conditions, changes in the quality of the organization's loan review system, changes in the value of underlying collateral for collateral dependent loans, the existence and effect of any concentrations of credit and changes in the levels of such concentrations, and the effect of other external factors (i.e. competition, legal and regulatory requirements) on the level of estimated credit losses.

Activity in the allowance for credit losses on loans is as follows for the periods indicated (in thousands):

	Beginning Balance	Provision for (Recovery of) Credit Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended March 31, 2024					
Construction and land development					
Residential	$ 86	$ (29)	$ —	$ —	$ 57
Commercial	228	(26)	—	—	202
	314	(55)	—	—	259
Commercial real estate					
Owner occupied	409	28	—	—	437
Non-owner occupied	1,467	129	—	—	1,596
Multifamily	44	42	—	—	86
Farmland	3	(3)	—	—	—
	1,923	196	—	—	2,119
Consumer real estate					
Home equity lines	40	(18)	—	10	32
Secured by 1-4 family residential		—			
First deed of trust	293	4	—	1	298
Second deed of trust	99	(6)	—	5	98
	432	(20)	—	16	428
Commercial and industrial loans					
(except those secured by real estate)	640	22	—	4	666
Student loans	57	4	(6)	—	55
Consumer and other	36	—	—	—	36
Unallocated	21	(10)	—	—	11
	$ 3,423	$ 137	$ (6)	$ 20	$ 3,574

	Beginning Balance	Impact of adopting ASC 326	Provision for (Recovery of) Credit Losses	Charge-offs	Recoveries	Ending Balance
Three Months Ended March 31, 2023						
Construction and land development						
Residential	$ 79	$ 3	$ (31)	$ —	$ —	$ 51
Commercial	192	34	38	—	—	264
	271	37	7	—	—	315
Commercial real estate						
Owner occupied	867	(475)	(1)	—	—	391
Non-owner occupied	1,289	192	(21)	—	—	1,460
Multifamily	33	7	—	—	—	40
Farmland	—	—	—	—	—	—
	2,189	(276)	(22)	—	—	1,891
Consumer real estate						
Home equity lines	11	24	(2)	—	—	33
Secured by 1-4 family residential			—			
First deed of trust	131	76	6	—	1	214
Second deed of trust	43	25	5	—	2	75
	185	125	9	—	3	322
Commercial and industrial loans						
(except those secured by real estate)	576	1	(34)	—	6	549
Student loans	52	—	63	(3)	—	112
Consumer and other	37	(5)	2	—	—	34
Unallocated	60	(9)	(2)	—	—	49
	$ 3,370	$ (127)	$ 23	$ (3)	$ 9	$ 3,272

	Beginning Balance	Impact of adopting ASC 326	Provision for (Recovery of) Loan Losses	Charge-offs	Recoveries	Ending Balance
Year Ended December 31, 2023						
Construction and land development						
Residential	$ 79	$ 3	$ 4	$ —	$ —	$ 86
Commercial	192	34	2	—	—	228
	271	37	6	—	—	314
Commercial real estate						
Owner occupied	867	(475)	17	—	—	409
Non-owner occupied	1,289	192	(14)	—	—	1,467
Multifamily	33	7	4	—	—	44
Farmland	—	—	3	—	—	3
	2,189	(276)	10	—	—	1,923
Consumer real estate						
Home equity lines	11	24	5	—	—	40
Secured by 1-4 family residential						
First deed of trust	131	76	83	—	3	293
Second deed of trust	43	25	15	—	16	99
	185	125	103	—	19	432
Commercial and industrial loans						
(except those secured by real estate)	576	1	(110)	—	173	640
Student loans	52	—	35	(30)	—	57
Consumer and other	37	(5)	7	(3)	—	36
Unallocated	60	(9)	(30)	—	—	21
	$ 3,370	$ (127)	$ 21	$ (33)	$ 192	$ 3,423

Loans are required to be measured at amortized costs and to be presented at the net amount expected to be collected. Off balance sheet credit exposures, including loan commitments, are not recorded on balance sheet, but expected credit losses arising from off balance sheet credit exposures are recorded as a reserve for unfunded commitments and reported in Other Liabilities. Credit losses on available for sale debt securities are accounted for as an allowance for credit losses, which is a valuation account that is deducted from the amortized cost basis of the financial asset to present the net carrying value and the amount expected to be collected on the financial assets. The allowance for credit losses on loans, available for sale debt securities and the reserve for unfunded commitments are established through a provision for credit losses charged against earnings.

The following table presents a breakdown of the provision for credit losses for the periods indicated (in thousands):

	Three Months Ended March 31,	
	2024	**2023**
Provision for credit losses:		
Provision for loans	$ 137	$ 23
Provision (recovery) for unfunded commitments	13	(23)
Total	$ 150	$ —

As of March 31, 2024, the allowance for credit losses was $ 3.89 million and included an allowance for credit losses on loans of $ 3.57 million and a reserve for unfunded commitments of $320,000.

The Company recorded a provision for credit losses for loans of $ 136,700 for the three months ended March 31, 2024, which was the result of loan growth as all credit metrics remained strong compared to year-end 2023. Non-performing loans as a percentage of loans decreased from 0.12% at March 31, 2023 to 0.05% at March 31, 2024.

The Company recorded a provision for credit losses for unfunded commitments of $ 13,300 for the three months ended March 31, 2024, which was driven by an increase in the total commitments outstanding at March 31, 2024.

The allowance for credit losses on loans to total loans ratio at the Company is 0.60% compared to the peer average of 1.11%, management considers this level of allowance sufficient and appropriate based on the current asset quality and assessment of the Company's loan portfolio.

As of March 31, 2023, the allowance for credit losses was $ 3.53 million and included an allowance for credit losses on loans of $ 3.27 million and a reserve for unfunded commitments of $254,000.

The provision for credit for loans was driven by the increase in loan balances at March 31, 2023, while the recovery of credit losses for unfunded commitments was a result of the reduction in the total balance outstanding at March 31, 2023. The lack of an overall provision for credit losses was driven by stable local economic conditions and credit quality remaining strong. While higher inflation and the speed at which interest rates have been rising remain a risk to credit quality, we believe our current level of allowance for credit losses is sufficient.

Loans were evaluated for credit losses as follows for the periods indicated (in thousands):

	Recorded Investment in Loans					
	Allowance			Loans		
	Ending Balance	Individually	Collectively	Ending Balance	Individually	Collectively
Three Months Ended March 31, 2024						
Construction and land development						
Residential	$ 57	$ —	$ 57	$ 9,077	$ —	$ 9,077
Commercial	202	—	202	34,437	—	34,437
	259	—	259	43,514	—	43,514
Commercial real estate						
Owner occupied	437	—	437	121,429	—	121,429
Non-owner occupied	1,596	—	1,596	165,508	—	165,508
Multifamily	86	—	86	18,254	—	18,254
Farmland	—	—	—	24	—	24
	2,119	—	2,119	305,215	—	305,215
Consumer real estate						
Home equity lines	32	—	32	21,682	—	21,682
Secured by 1-4 family residential						
First deed of trust	298	—	298	95,994	159	95,835
Second deed of trust	98	—	98	11,955	100	11,855
	428	—	428	129,631	259	129,372
Commercial and industrial loans						
(except those secured by real estate)	666	—	666	92,600	22	92,578
Student loans	55	—	55	15,782	—	15,782
Consumer and other	47	—	47	4,596	—	4,596
	$ 3,574	$ —	$ 3,574	$ 591,338	$ 281	$ 591,057
Year Ended December 31, 2023						
Construction and land development						
Residential	$ 86	$ —	$ 86	$ 10,471	$ —	$ 10,471
Commercial	228	—	228	37,024	—	37,024
	314	—	314	47,495	—	47,495
Commercial real estate						
Owner occupied	409	—	409	122,666	—	122,666
Non-owner occupied	1,467	—	1,467	154,855	—	154,855
Multifamily	44	—	44	12,743	—	12,743
Farmland	3	—	3	326	—	326
	1,923	—	1,923	290,590	—	290,590
Consumer real estate						
Home equity lines	40	—	40	21,557	—	21,557
Secured by 1-4 family residential						
First deed of trust	293	—	293	95,638	160	95,478
Second deed of trust	99	—	99	11,337	105	11,232
	432	—	432	128,532	265	128,267
Commercial and industrial loans						
(except those secured by real estate)	640	—	640	86,203	26	86,177
Student loans	57	—	57	17,923	—	17,923
Consumer and other	57	—	57	4,265	—	4,265
	$ 3,423	$ —	$ 3,423	$ 575,008	$ 291	$ 574,717

Note 6 – Deposits

Deposits as of March 31, 2024 and December 31, 2023 were as follows (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Amount	%	Amount	%
Demand accounts	$ 230,118	37.1 %	$ 247,624	40.9 %
Interest checking accounts	78,739	12.7 %	76,289	12.6 %
Money market accounts	207,640	33.5 %	195,249	32.3 %
Savings accounts	35,238	5.7 %	39,633	6.5 %
Time deposits of $250,000 and over	31,355	5.0 %	9,145	1.5 %
Other time deposits	37,179	6.0 %	37,405	6.2 %
Total	$ 620,269	100.0 %	$ 605,345	100.0 %

Note 7 – Borrowings

The Company uses both short-term and long-term borrowings to supplement deposits when they are available at a lower overall cost to the Company or they can be invested at a positive rate of return.

As a member of the Federal Home Loan Bank of Atlanta, the Bank is required to own capital stock in the FHLB and is authorized to apply for advances from the FHLB. The Company held $2,414,000 in FHLB stock at March 31, 2024 and $ 2,644,000 at December 31, 2023, which is held at cost. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB may prescribe the acceptable uses to which the advances may be put, as well as on the size of the advances and repayment provisions. The FHLB borrowings are secured by the pledge of commercial and 1-4 family residential loans and investment securities. The Company had FHLB advances of $40,000,000 at March 31, 2024 and $ 45,000,000 at December 31, 2023.

The Company uses federal funds purchased and repurchase agreements for short-term borrowing needs. Securities sold under agreements to repurchase are classified as borrowings and generally mature within one to four days from the transaction date. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities. There were no borrowings against the lines at March 31, 2024 or December 31, 2023.

The Company's unused lines of credit for future borrowings total approximately $ 26.1 million at March 31, 2024, which consists of $ 3.3 million available from the FHLB based on current pledged assets, $20 million on revolving bank line of credit, and $ 2.8 million under secured federal funds agreements with third party financial institutions. Additional loans and securities are available that can be pledged as collateral for future borrowings from the Federal Reserve Bank of Richmond or the FHLB above the current lendable collateral value.

Note 8 – Trust preferred securities

During the first quarter of 2005, Southern Community Financial Capital Trust I, a wholly-owned unconsolidated subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On February 24, 2005, $5.2 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have a floating rate of interest indexed to the London InterBank Offered Rate ("LIBOR") (three-month LIBOR plus 2.15%) which adjusts, and is payable, quarterly. The interest rate at March 31, 2024 was 7.71%. As a result of the discontinuation of the 3-month LIBOR on June 30, 2023, the Company replaced the 3-month LIBOR leg of the calculated floating rate with the three-month term Secured Overnight Funding Rate ("SOFR") plus the applicable tenor spread adjustment for 3-month LIBOR of 0.26161 percent as per the guidelines outlined within the final rulings under the Adjustable Interest Rate (LIBOR) Act published by the Board of Governors of the Federal Reserve System. The securities were redeemable at par beginning on March 15, 2010 and each quarter after such date until the securities mature on March 15, 2035. No amounts have been redeemed at March 31, 2024 and there are no plans to do so. The principal asset of the Trust is $5.2 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

During the third quarter of 2007, Village Financial Statutory Trust II, a wholly-owned unconsolidated subsidiary of the Company, was formed for the purpose of issuing redeemable securities. On September 20, 2007, $3.6 million of Trust Preferred Capital Notes were issued through a pooled underwriting. The securities have LIBOR-indexed floating rate of interest (three-month LIBOR plus 1.4%) which adjusts, and is also payable, quarterly. The interest rate at March 31, 2024 was 6.96%. As a result of the discontinuation of the 3-month LIBOR on June 30, 2023, the Company replaced the 3-month LIBOR leg of the calculated floating rate with the three-month term SOFR plus the applicable tenor spread adjustment for 3-month LIBOR of 0.26161 percent as per the guidelines outlined within the final rulings under the Adjustable Interest Rate (LIBOR) Act published by the Board of Governors of the Federal Reserve System. The securities may be redeemed at par at any time commencing in December 2012 until the securities mature in 2037. No amounts have been redeemed at March 31, 2024 and there are no plans to do so. The principal asset of the Trust is $3.6 million of the Company's junior subordinated debt securities with like maturities and like interest rates to the Trust Preferred Capital Notes.

The Trust Preferred Capital Notes may be included in Tier 1 capital for regulatory capital adequacy determination purposes up to 25% of Tier 1 capital after its inclusion. The portion of the Trust Preferred Capital Notes not considered as Tier 1 capital may be included in Tier 2 capital.

The obligations of the Company with respect to the issuance of the Trust Preferred Capital Notes constitute a full and unconditional guarantee by the Company of the Trust's obligations with respect to the Trust Preferred Capital Notes. Subject to certain exceptions and limitations, the Company may elect from time to time to defer interest payments on the junior subordinated debt securities, which would result in a deferral of distribution payments on the related Trust Preferred Capital Notes and require a deferral of common dividends. The Company is current on these interest payments.

Note 9 – Subordinated Debt

On March 21, 2018, the Company issued $5,700,000 of fixed-to-floating rate subordinated notes due March 31, 2028 in a private placement. The Company received $5,539,000 in net proceeds after deducting issuance costs. The subordinated notes accrued interest at a fixed rate of 6.50% for the first five years until March 21, 2023. The subordinated notes have a LIBOR-indexed floating rate of interest (three-month LIBOR plus 3.73%) which adjusts and is also payable quarterly. The interest rate at March 31, 2024 was 9.05%. As a result of the discontinuation of the 3-month LIBOR on June 30, 2023, the Company is replaced the 3-month LIBOR leg of the calculated floating rate with the three-month term SOFR plus the applicable tenor spread adjustment for 3-month LIBOR of 0.26161 percent as per the guidelines outlined within the final rulings under the Adjustable Interest Rate (LIBOR) Act published by the Board of Governors of the Federal Reserve System. The Company may redeem the subordinated notes in whole or in part, on or after March 31, 2023. The subordinated notes are unsecured and subordinated in right of payment to all of the Company's existing and future senior indebtedness, whether secured or unsecured, including claims of depositors and general creditors, and rank equally in right of payment with any unsecured, subordinated indebtedness that the Company may incur in the future. The carrying value of the notes totaled $5,700,000 at March 31, 2024 and December 31, 2023, respectively.

Note 10 – Stock incentive plan

In accordance with accounting standards, the Company measures the cost of employee services received in exchange for an award of equity instruments based on the grant-date fair value of the award (with limited exceptions). That cost is recognized over the period during which an employee is required to provide service in exchange for the award rather than disclosed in the financial statements.

The following table summarizes option activity under the Company's stock incentive plans during the indicated periods:

	Three Months Ended March 31,							
	2024				2023			
	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value	Options	Weighted Average Exercise Price	Fair Value Per Share	Intrinsic Value
Options outstanding, beginning of period	—	$ —	$ —		14	$ 25.63	$ 9.76	
Granted	—	—	—		—	—	—	
Forfeited	—	—	—		—	—	—	
Exercised	—	—	$ —		—	—	—	
Options outstanding, end of period	—	$ —	$ —	$ —	14	$ 25.28	$ 9.76	$ —
Options exercisable, end of period	—				14			

During the three months ended March 31, 2023, we granted certain officers time-based restricted shares of common stock. The time-based restricted shares vest ratably over a three year period provided the officer is employed with the Company on the applicable vesting date.

The total number of shares underlying non-vested restricted stock was 26,111 and 26,152 at March 31, 2024 and 2023, respectively. The fair value of the stock is based on the grant date of the award and the expense is recognized over the vesting period. Unamortized stock-based compensation related to non-vested share-based compensation arrangements granted under the stock incentive plan as of March 31, 2024 and 2023 was $782,000 and $883,400, respectively. The time-based unrecognized compensation of $558,200 is expected to be recognized over a weighted average period of 2.01 years. For the period ended March 31, 2024, there were no forfeitures of restricted stock.

A summary of changes in the Company's non-vested restricted stock and restricted stock unit awards for the three months ended March 31, 2024 follows:

	Shares	Weighted-Average Grant-Date Fair-Value	Aggregate Intrinsic Value
December 31, 2023	31,077	$ 45.93	$ 1,320,773
Granted	—	—	—
Vested	(4,179)	52.32	(177,608)
Forfeited	—	—	—
Other (1)	(787)	58.95	(33,448)
March 31, 2024	26,111	$ 44.52	$ 1,109,718

(1) Represents the incremental decrease in shares that vested based on the restricted stock units vesting at a lower value as opposed to the targeted value of the award.

Stock-based compensation expense was approximately $81,000 and $102,000 for the three months ended March 31, 2024 and 2023, respectively.

Note 11 – Fair value

The Company determines the fair value of its financial instruments based on the requirements established in ASC 820: *Fair Value Measurements,* which provides a framework for measuring fair value under GAAP and requires an entity to maximize the use of observable inputs when measuring fair value. ASC 820 defines fair value as the exit price, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions.

ASC 820 establishes a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair values hierarchy is as follows:

Level 1 Inputs — Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 Inputs — Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 Inputs — Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods to determine the fair value of each type of financial instrument:

Securities: Fair values for securities available-for-sale are obtained from an independent pricing service. The prices are not adjusted. The independent pricing service uses industry-standard models to price U.S. Government agency obligations and mortgage backed securities that consider various assumptions, including time value, yield curves, volatility factors, prepayment speeds, default rates, loss severity, current market and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Securities of obligations of state and political subdivisions are valued using a type of matrix, or grid, pricing in which securities are benchmarked against the treasury rate based on credit rating. Substantially all assumptions used by the independent pricing service are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace (Levels 1 and 2). If the inputs used to provide the evaluation for certain securities are unobservable and/or there is little, if any, market activity, then the security would fall to the lowest level of the hierarchy (Level 3).

Collateral dependent: The Company does not record loans held for investment at fair value on a recurring basis. However, there are instances when a loan is considered collateral dependent and an allowance for credit losses is established. The Company measures expected credit losses based on the fair value of the collateral either through the operation of the collateral or the sale of the collateral to include estimated cost to sell. The Company maintains a valuation allowance to the extent that this measure of the collateral dependent loan is less than the recorded investment in the loan. The Company records the collateral dependent loan as a nonrecurring fair value measurement classified as Level 2. However, if based on management's review, additional discounts to appraisals are required or if observable inputs are not available, the Company records the collateral dependent loan as a nonrecurring fair value measurement classified as Level 3.

Loans held for sale: Fair value of the Company's loans held for sale is based on observable market prices for similar instruments traded in the secondary mortgage loan markets in which the Company conducts business. The Company's portfolio of loans held for sale is classified as Level 2. Gains and losses on the sale of loans are recorded within mortgage banking income, net on the Consolidated Statements of Income.

Derivative asset – interest rate lock commitments ("IRLCs"): The Company recognizes IRLCs at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis while taking into consideration the probability that the rate lock commitments will close. All of the Company's IRLCs are classified as Level 2.

Forward sale commitments: Best efforts sale commitments are entered into for loans intended for sale in the secondary market at the time the borrower commitment is made. The Company has elected the fair value option on their firm commitments under ASC 825.

The best efforts commitments are valued using the committed price to the counter-party against the current market price of the interest rate lock commitment or mortgage loan held for sale. All of the Company's forward sale commitments are classified as Level 2.

Assets and liabilities measured at fair value under Topic 820 on a recurring and non-recurring basis are summarized below for the indicated dates (in thousands):

		Fair Value Measurement at March 31, 2024 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
U.S. Government Agencies	$ 678	$ —	$ 678	$ —
Mortgage-backed securities	69,907	—	69,907	—
Municipals	1,652	—	1,652	—
Subordinated debt	10,547	—	10,047	500
Loans held for sale	7,019	—	7,019	—
IRLC	293	—	293	—
Financial Liabilities - Recurring				
Forward sales commitment	42	—	42	—

		Fair Value Measurement at December 31, 2023 Using		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets - Recurring				
U.S. Government Agencies	$ 20,615	$ —	$ 20,615	$ —
Mortgage-backed securities	72,537	—	72,537	—
Municipals	1,656	—	1,656	—
Subordinated debt	10,777	—	10,277	500
Loans held for sale	4,983	—	4,983	—
IRLC	271	—	271	—
Financial Liabilities - Recurring				
Forward sales commitment	506	—	506	—

There were no Level 3 fair value measurements for financial instruments measured on a non-recurring basis at fair value at March 31, 2024 and December 31, 2023.

ASC 825, Financial Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. In accordance with Accounting Standards Update ("ASU") 2016-01, the Company uses the exit price notion, rather than the entry price notion, in calculating the fair values of financial instruments not measured at fair value on a recurring basis.

The following table reflects the carrying amounts and estimated fair values of the Company's financial instruments whether or not recognized on the Consolidated Balance Sheets at fair value (in thousands).

	Level in Fair Value Hierarchy	March 31, 2024		December 31, 2023	
		Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets					
Cash	Level 1	$ 13,073	$ 13,073	$ 10,383	$ 10,383
Cash equivalents	Level 2	19,323	19,323	7,331	7,331
Investment securities available for sale	Level 2	82,284	82,284	105,085	105,085
Investment securities available for sale	Level 3	500	500	500	500
Federal Home Loan Bank stock	Level 2	2,644	2,644	2,644	2,644
Loans held for sale	Level 2	7,019	7,019	4,983	4,983
Loans	Level 3	591,338	567,741	575,008	547,935
Bank owned life insurance	Level 2	13,198	13,198	13,120	13,120
Accrued interest receivable	Level 2	3,531	3,531	3,827	3,827
Interest rate lock commitments	Level 2	293	293	271	271
Financial liabilities					
Deposits	Level 2	620,269	620,673	605,345	605,226
FHLB borrowings	Level 2	40,000	39,886	45,000	44,999
Trust preferred securities	Level 2	8,764	8,969	8,764	8,848
Other borrowings	Level 2	5,700	5,700	5,700	5,700
Accrued interest payable	Level 2	406	406	210	210
Forward sales commitment	Level 2	42	42	506	506

Note 12 – Segment Reporting

The Company has two reportable segments: traditional commercial banking and mortgage banking. Revenues from commercial banking operations consist primarily of interest earned on loans and securities and fees from deposit services. Mortgage banking operating revenues consist principally of interest earned on mortgage loans held for sale, gains on sales of loans in the secondary mortgage market, and loan origination fee income.

The Commercial Banking Segment provides the Mortgage Banking Segment with the short-term funds needed to originate mortgage loans through a warehouse line of credit and charges the Mortgage Banking Segment interest based on the Commercial Banking Segment's cost of funds. Additionally, the Mortgage Banking Segment leases premises from the Commercial Banking Segment. These transactions are eliminated in the consolidation process.

The following table presents segment information as of and for the three months ended March 31, 2024 and 2023 (in thousands):

Three Months Ended March 31, 2024	Commercial Banking	Mortgage Banking	Eliminations	Consolidated Totals
Revenues				
Interest income	$ 9,243	$ 92	$ —	$ 9,335
Mortgage banking income, net	—	909	(59)	850
Other revenues	795	—	(41)	754
Total revenues	10,038	1,001	(100)	10,939
Expenses				
Provision for credit losses	150	—	—	150
Interest expense	2,939	—	—	2,939
Salaries and benefits	2,785	679	—	3,464
Other expenses	2,030	235	(100)	2,165
Total operating expenses	7,904	914	(100)	8,718
Income before income taxes	2,134	87	—	2,221
Income tax expense	431	18	—	449
Net income	$ 1,703	$ 69	$ —	$ 1,772
Total assets	$ 756,005	$ 16,777	$ (25,910)	$ 746,872
				—

Three Months Ended March 31, 2023	Commercial Banking	Mortgage Banking	Eliminations	Consolidated Totals
Revenues				
Interest income	$ 7,543	$ 40	$ —	$ 7,583
Mortgage banking income, net	—	538	(60)	478
Other revenues	821	—	—	821
Total revenues	8,364	578	(60)	8,882
Expenses				
Interest expense	1,218	—	—	1,218
Salaries and benefits	2,742	706	—	3,448
Other expenses	2,137	274	(60)	2,351
Total operating expenses	6,097	980	(60)	7,017
Income (loss) before income taxes	2,267	(402)	—	1,865
Income tax expense (benefit)	409	(84)	—	325
Net income (loss)	$ 1,858	$ (318)	$ —	$ 1,540
Total assets	$ 749,402	$ 17,878	$ (32,483)	$ 734,797

Note 13 – Shareholders' Equity and Regulatory Matters

Accumulated Other Comprehensive Loss

The following table presents the change in accumulated other comprehensive loss for the three months ended March 31, 2024 and year ended December 31, 2023 and is summarized as follows, net of tax (dollars in thousands):

	Unrealized Losses on AFS Securities	Defined Benefit Plan	Total
Accumulated other comprehensive loss December 31, 2023	$ (5,604)	$ (9)	$ (5,613)
Other comprehensive loss			
Other comprehensive loss before reclassification		-	-
Amounts reclassified from AOCI into earnings	(782)	-	(782)
Net current period other comprehensive loss	(782)	-	(782)
Accumulated other comprehensive loss March 31, 2024	$ (6,386)	$ (9)	$ (6,395)

	Unrealized Losses on AFS Securities	Defined Benefit Plan	Total
Accumulated other comprehensive loss December 31, 2022	$ (10,863)	$ (18)	$ (10,881)
Other comprehensive income			
Other comprehensive income before reclassification	1,320	9	1,329
Amounts reclassified from AOCI into earnings	3,939	-	3,939
Net current period other comprehensive income	5,259	9	5,268
Accumulated other comprehensive loss December 31, 2023	$ (5,604)	$ (9)	$ (5,613)

Regulatory Matters

The Company meets the eligibility criteria of a small bank holding company in accordance with the Board of Governors of the Federal Reserve System's ("Federal Reserve") Small Bank Holding Company Policy Statement (the "SBHC Policy Statement"). Under the SBHC Policy Statement, qualifying bank holding companies, such as the Company, have additional flexibility in the amount of debt they can issue and are also exempt from the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act (the "Basel III Capital Rules"). The SBHC Policy Statement does not apply to the Bank and the Bank must comply with the Basel III Capital Rules.

The Bank is required to comply with the capital adequacy standards established by the Federal Deposit Insurance Corporation ("FDIC"). The FDIC has adopted rules to implement the Basel III Capital Rules. The Basel III Capital Rules establish minimum capital ratios and risk weightings that are applied to many classes of assets held by community banks, including applying higher risk weightings to certain commercial real estate loans.

The Basel III Capital Rules require banks to comply with the following minimum capital ratios: (1) a ratio of common equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7%); (2) a ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (3) a ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (effectively resulting in a minimum total capital ratio of 10.5%); and (4) a leverage ratio of 4%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures (computed as the average for each quarter of the month-end ratios for the quarter). The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking organizations with a ratio of common equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. As of March 31, 2024, the Bank exceeded the minimum ratios under the Basel III Capital Rules.

The Bank must also comply with the capital requirements set forth in the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act of 1950. To be well capitalized under these regulations, a bank must have the following minimum capital ratios: (1) a common equity Tier 1 capital ratio of at least 6.5%; (2) a Tier 1 risk-based capital ratio of at least 8.0%; (3) a total risk-based capital ratio of at least 10.0%; and (4) a leverage ratio of at least 5.0%. As of March 31, 2024, the Bank exceeded the minimum ratios to be classified as well capitalized.

The capital amounts and ratios at March 31, 2024 and December 31, 2023 for the Bank are presented in the table below (dollars in thousands):

	Actual		Minimum Capital Requirements Including Conservation Buffer [1]		To be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
March 31, 2024						
Total capital (to risk- weighted assets) Village Bank	$88,249	14.13 %	$ 65,568	10.50 %	$ 62,446	10.00 %
Tier 1 capital (to risk- weighted assets) Village Bank	84,355	13.51 %	53,079	8.50 %	49,957	8.00 %
Leverage ratio (Tier 1 capital to average assets) Village Bank	84,355	11.36 %	29,698	4.00 %	37,122	5.00 %
Common equity tier 1 (to risk- weighted assets) Village Bank	84,355	13.51 %	43,712	7.00 %	40,590	6.50 %
December 31, 2023						
Total capital (to risk- weighted assets) Village Bank	$86,493	14.49 %	$ 62,679	10.50 %	$ 59,695	10.00 %
Tier 1 capital (to risk- weighted assets) Village Bank	82,764	13.86 %	50,740	8.50 %	47,756	8.00 %
Leverage ratio (Tier 1 capital to average assets) Village Bank	82,764	11.14 %	29,706	4.00 %	37,133	5.00 %
Common equity tier 1 (to risk- weighted assets) Village Bank	82,764	13.86 %	41,786	7.00 %	38,801	6.50 %

(1) Basel III Capital Rules require banking organizations to maintain a minimum CETI ratio of4.5%, plus a 2.5% capital conservation buffer; a minimum Tier 1 capital ratio of 6.0%, plus a 2.5% capital conservation buffer; a minimum, total risk-based capital ratio of 8.0%, plus a 2.5% conservation buffer; and a minimum Tier leverage ratio of 4.0%.

Note 14 – Commitments and contingencies

Off-balance-sheet risk – The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amounts recognized in the financial statements. The contract amounts of these instruments reflect the extent of involvement that the Company has in particular classes of instruments.

The Company's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit, and to potential credit loss associated with letters of credit issued, is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for loans and other such on-balance sheet instruments.

At March 31, 2024 and December 31, 2023, the Company had the following approximate off-balance-sheet financial instruments whose contract amounts represent credit risk (in thousands):

	March 31, 2024	December 31, 2023
Undisbursed credit lines	$ 137,230	$ 127,918
Commitments to extend or originate credit	11,298	7,463
Standby letters of credit	1,246	1,202
Total commitments to extend credit	$ 149,774	$ 136,583

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require the payment of a fee. Historically, many commitments expire without being drawn upon; therefore, the total commitment amounts shown in the above table are not necessarily indicative of future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary by the Company upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include personal or income-producing commercial real estate, accounts receivable, inventory and equipment.

Standby letters of credit are written conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

Concentrations of credit risk – Generally, the Company's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Company's market area. Although the Company is building a diversified loan portfolio, a substantial portion of its clients' ability to honor contracts is reliant upon the economic stability of the Richmond, Virginia area, including the real estate markets in the area. The concentrations of credit by type of loan are set forth in Note 5. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

Note 15 – Mortgage Banking and Derivatives

Loans held for sale. The Company, through the Bank's mortgage banking subsidiary, originates residential mortgage loans for sale in the secondary market. Residential mortgage loans held for sale are sold to the permanent investor with the mortgage servicing rights released. The Company's portfolio of loans held for sale ("LHFS") is accounted for in accordance with ASC 820 - Fair Value Measurement and Disclosures. Fair value of the Company's LHFS is based on observable market prices for the identical instruments traded in the secondary mortgage loan markets in which the Company conducts business and totaled $7.0 million as of March 31, 2024, of which $6.9 million is related to unpaid principal, and totaled $ 5.0 million as of December 31, 2023, of which $ 4.8 million is related to unpaid principal. The Company's portfolio of LHFS is classified as Level 2.

Interest Rate Lock Commitments and Forward Sales Commitments. The Company, through the Bank's mortgage banking subsidiary, enters into commitments to originate residential mortgage loans in which the interest rate on the loan is determined prior to funding, termed interest rate lock commitments. Such rate lock commitments on mortgage loans to be sold in the secondary market are considered to be derivatives. Upon entering into a commitment to originate a loan, the Company protects itself from changes in interest rates during the period prior to sale by requiring a firm purchase agreement from a permanent investor before a loan can be closed (forward sales commitment). The Company locks in the loan and rate with an investor and commits to deliver the loan if settlement occurs on a best efforts basis, thus limiting interest rate risk. Certain additional risks exist if the investor fails to meet its purchase obligation; however, based on historical performance and the size and nature of the investors the Company does not expect them to fail to meet their obligation. The Company determines the fair value of IRLCs based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best efforts basis while taking into consideration the probability that the rate lock commitments will close. The fair value of these derivative instruments is reported in "Other Assets" in the Consolidated Balance Sheet at March 31, 2024, and totaled $293,000, with a notional amount of $11.3 million and total positions of 36, and was reported in "Other Assets" at December 31, 2023, and totaled $271,000 with a notional amount of $7.5 million and total positions of 27. Changes in fair value are recorded as a component of mortgage banking income, net in the Consolidated Income Statement for the period ended March 31, 2024 and 2023. The Company's IRLCs are classified as Level 2. At March 31, 2024 and December 31, 2023, each IRLC and all LHFS were subject to a forward sales commitment on a best efforts basis.

The Company uses fair value accounting for its forward sales commitments related to IRLCs and LHFS under ASC 825-10-15-4(b). The fair value of forward sales commitments is reported in "Other Liabilities" in the Consolidated Balance Sheet at March 31, 2024, and totaled $42,000 with a notional amount of $18.2 million and total positions of 58 and was reported in "Other Liabilities" at December 31, 2023, and totaled $506,000, with a notional amount of $12.3 million and total positions of 47.

Note 16 Recent Accounting Pronouncements

In December 2023, the Financial Accounting Standards Board ("FASB") issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-06 to have a material impact on its consolidated financial statements.

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to the chief operating decision mark ("CODM"), an amount for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of the CODM and how the CODM uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in an entity's consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of ASU 2023-06 to have a material impact on its consolidated financial statements.

In October 2023, the FASB issued ASU 2023-06, "Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative." This ASU incorporates certain U.S. Securities and Exchange Commission ("SEC") disclosure requirements into the FASB Accounting Standards Codification. The amendments in the ASU are expected to clarify or improve disclosure and presentation requirements of a variety of Codification Topics, allow users to more easily compare entities subject to the SEC's existing disclosures with those entities that were not previously subject to the requirements, and align the requirements in the Codification with the SEC's regulations. For entities subject to the SEC's existing disclosure requirements and for entities required to file or furnish financial statements with or to the SEC in preparation for the sale of or for purposes of issuing securities that are not subject to contractual restrictions on transfer, the effective date for each amendment will be the date on which the SEC removes that related disclosure from its rules. For all other entities, the amendments will be effective two years later. However, if by June 30, 2027, the SEC has not removed the related disclosure from its regulations, the amendments will be removed from the Codification and not become effective for any entity. The Company does not expect the adoption of ASU 2023-06 to have a material impact on its consolidated financial statements.

In July 2023, the FASB issued ASU 2023-03, "Presentation of Financial Statements (Topic 205), Income Statement—Reporting Comprehensive Income (Topic 220), Distinguishing Liabilities from Equity (Topic 480), Equity (Topic 505), and Compensation—Stock Compensation (Topic 718)". This ASU amends the FASB ASC pursuant to SEC Staff Accounting Bulletin No. 120, SEC Staff Announcement at the March 24, 2022 EITF Meeting, and Staff Accounting Bulletin Topic 6.B, Accounting Series Release 280—General Revision of Regulation S-X: Income or Loss Applicable to Common Stock. ASU 2023-03 is effective upon addition to the FASB Codification. The Company does not expect the adoption of ASU 2023-03 to have a material impact on its consolidated financial statements.

ITEM 2 - MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Caution about forward-looking statements

In addition to historical information, this report may contain forward-looking statements. For this purpose, any statement that is not a statement of historical fact may be deemed to be a forward-looking statement. These forward-looking statements may include statements regarding profitability, liquidity, allowance for credit losses, interest rate sensitivity, market risk, growth strategy and financial and other goals. Forward-looking statements often use words such as “believes,” “expects,” “plans,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends” or other words of similar meaning. You can also identify them by the fact that they do not relate strictly to historical or current facts. Forward-looking statements are subject to numerous assumptions, risks and uncertainties, and actual results could differ materially from historical results or those anticipated by such statements.

There are many factors that could have a material adverse effect on the operations and future prospects of the Company including, but not limited to:

- changes in assumptions underlying the establishment of allowances for credit losses, and other estimates;
- the risks of changes in interest rates on levels, composition and costs of deposits, loan demand, and the values and liquidity of loan collateral, securities, and interest sensitive assets and liabilities;
- the ability to maintain adequate liquidity by retaining deposit customers and secondary funding sources, especially if the Company’s or banking industry’s reputation becomes damaged;
- the effects of future economic, business and market conditions;
- legislative and regulatory changes, including the Dodd-Frank Act and other changes in banking, securities, and tax laws and regulations and their application by our regulators, and changes in scope and cost of FDIC insurance and other coverages;
- our inability to maintain our regulatory capital position;
- the Company’s computer systems and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions despite security measures implemented by the Company;
- changes in market conditions, specifically declines in the residential and commercial real estate market, volatility and disruption of the capital and credit markets, and soundness of other financial institutions with which we do business;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- changes in operations of Village Bank Mortgage Corporation as a result of the activity in the residential real estate market;
- exposure to repurchase loans sold to investors for which borrowers failed to provide full and accurate information on or related to their loan application or for which appraisals have not been acceptable or when the loan was not underwritten in accordance with the loan program specified by the loan investor;
- governmental monetary and fiscal policies;
- geopolitical conditions, including acts or threats of terrorism and/or military conflicts, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, negatively impacting business and economic conditions in the U.S. and abroad;
- changes in accounting policies, rules and practices;
- reliance on our management team, including our ability to attract and retain key personnel;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- demand, development and acceptance of new products and services;
- problems with technology utilized by us;
- the occurrence of significant natural disasters, including severe weather conditions, floods, health related issues, and other catastrophic events;
- changing trends in customer profiles and behavior; and
- other factors described from time to time in our reports filed with the SEC.

These risks and uncertainties should be considered in evaluating the forward-looking statements contained herein, and readers are cautioned not to place undue reliance on such statements. Any forward-looking statement speaks only as of the date on which it is made, and the Company undertakes no obligation to update any forward-looking statement to reflect events or circumstances after the date on which it is made. In addition, past results of operations are not necessarily indicative of future results.

General

The Company's primary source of earnings is net interest income, and its principal market risk exposure is interest rate risk. The Company is not able to predict market interest rate fluctuations and its asset/liability management strategy may not prevent interest rate changes from having a material adverse effect on the Company's results of operations and financial condition.

Although we endeavor to minimize the credit risk inherent in the Company's loan portfolio, we must necessarily make various assumptions and judgments about the collectability of the loan portfolio based on our experience and evaluation of economic conditions. If such assumptions or judgments prove to be incorrect, the current allowance for credit losses may not be sufficient to cover loan losses and additions to the allowance may be necessary, which would have a negative impact on net income.

Results of operations

The following presents management's discussion and analysis of the financial condition of the Company at March 31, 2024 and December 31, 2023 and the results of operations for the Company for the three months ended March 31, 2024 and 2023. This discussion should be read in conjunction with the Company's consolidated financial statements and the notes thereto appearing elsewhere in this Quarterly Report.

Summary

For the three months ended March 31, 2024, the Company had a net income of $1.77 million, or $1.19 per fully diluted share, compared to net income of $1.54 million, or $1.04 per fully diluted share, for the same period in 2023.

On January 1, 2023, the Commercial Banking Segment adopted the Current Expected Credit Loss ("CECL") methodology for estimating credit losses, which resulted in an increase of $150,000 in the allowance for credit losses on January 1, 2023 to $3.52 million. The allowance for credit losses included an allowance for credit losses on loans of $3.24 million and a reserve for unfunded commitments of $277,000.

As of March 31, 2024, the allowance for credit losses was $3.89 million and included an allowance for credit losses on loans of $3.57 million and a reserve for unfunded commitments of $320,000.

Net interest income

Net interest income, which represents the difference between interest earned on interest-earning assets and interest incurred on interest-bearing liabilities, is the Company's primary source of earnings. Net interest income can be affected by changes in market interest rates as well as the level and composition of assets, liabilities and shareholders' equity. Net interest spread is the difference between the average rate earned on interest-earning assets and the average rate paid on interest-bearing liabilities. The net yield on interest-earning assets ("net interest margin" or "NIM") is calculated by dividing tax equivalent net interest income by average interest-earning assets.

Generally, the net interest margin will exceed the net interest spread because a portion of interest earning assets are funded by various noninterest-bearing sources, principally noninterest-bearing deposits and shareholders' equity.

	For the Three Months Ended March 31,		
	2024	2023	Change
	(dollars in thousands)		
Average interest-earning assets	$ 692,089	$ 681,553	$ 10,536
Interest income	$ 9,335	$ 7,583	$ 1,752
Yield on interest-earning assets	5.42 %	4.51 %	0.91 %
Average interest-bearing liabilities	$ 429,394	$ 406,015	$ 23,379
Interest expense	$ 2,939	$ 1,218	$ 1,721
Cost of interest-bearing liabilities	2.75 %	1.22 %	1.53 %
Net interest income	$ 6,396	$ 6,365	$ 31
Net interest margin	3.72 %	3.79 %	(0.07)%

The following are variances of note for the three months ended March 31, 2024 compared to the three months ended March 31, 2023:

- NIM compressed by seven basis points to 3.72% for the three months ended March 31, 2024 compared to 3.79% for the three months ended March 31, 2023. The compression was driven by the following:

  - The cost of interest bearing liabilities increased by 153 basis points to 2.75% for the three months ended March 31, 2024 compared to 1.22% for the three months ended March 31, 2023. The increase in our cost of interest bearing liabilities continues to be driven by an increase in the rate paid on variable rate debt and market pressures on deposit rates. The rate paid on money market deposit accounts increased 192 basis points to 2.93% for the three months ended March 31, 2024 compared to 1.01% for the three months ended March 31, 2023, and the rate paid on time deposits increased 240 basis points to 3.21% for the three months ended March 31, 2024 compared to 0.81% for the three months ended March 31, 2023. The increase in the rate on time deposits was impacted heavily by the addition of $20.0 million in brokered time deposits at a weighted average rate of 4.89% during the three months ended March 31, 2024. While we expect there will be continued pressure on our funding base, we anticipate the velocity of those increases to slow down during 2024.

  - While the rate paid on interest bearing liabilities increased by 153 basis points for the three months ended March 31, 2024, overall cost of funds increased by 103 basis points, 1.78% for the three months ended March 31, 2024 vs. 0.75% for the three months ended March 31, 2023. The lower increase in cost of funds was driven by our strong non-interest bearing deposits level, which remained near 38% of our deposit base.

  - Offsetting the increased cost of funds, our yield on our earning assets increased by 91 basis points, 5.42% as of the three months ended March 31, 2024 compared to 4.51% as of the three months ended March 31, 2023. The increase in our yield on earning assets continues to be a result of improvement in our earning asset mix as well as the impact of the rise in interest rates during 2023 and 2024. We expect to see continued improvement in the yield on earning assets due to higher yielding loan growth combined with the amortization of lower yielding assets.

The following tables illustrate average balances of total interest-earning assets and total interest-bearing liabilities for the periods indicated, showing the average distribution of assets, liabilities, shareholders' equity and related income, expense and corresponding weighted-average yields and rates (dollars in thousands). The average balances used in these tables and other statistical data were calculated using daily average balances. We had no tax exempt interest-earning assets for the periods presented.

	Three Months Ended March 31, 2024			Three Months Ended March 31, 2023		
	Average Balance	Interest Income/ Expense	Yield Rate	Average Balance	Interest Income/ Expense	Yield Rate
Loans						
Commercial	$ 89,376	$ 1,533	6.90 %	$ 86,007	$ 1,218	5.74 %
Real estate - residential	128,486	2,031	6.36 %	95,272	1,296	5.52 %
Real estate - commercial	294,857	3,484	4.75 %	282,952	3,180	4.56 %
Real estate - construction	47,885	676	5.68 %	48,065	623	5.26 %
Student loans	16,878	276	6.58 %	20,482	339	6.71 %
Consumer	4,484	109	9.78 %	4,068	66	6.58 %
Loans net of deferred fees	581,966	8,109	5.60 %	536,846	6,722	5.08 %
Loans held for sale	5,681	92	6.51 %	2,553	40	6.35 %
Investment securities	90,742	932	4.13 %	135,011	727	2.18 %
Federal funds and other	13,700	202	5.93 %	7,143	94	5.34 %
Total interest earning assets	692,089	9,335	5.42 %	681,553	7,583	4.51 %
Allowance for loan losses	(3,431)			(3,253)		
Cash and due from banks	11,406			11,263		
Premises and equipment, net	11,785			11,778		
Other assets	24,462			23,127		
Total assets	$ 736,311			$ 724,468		
Interest bearing deposits						
Interest checking	$ 72,753	$ 117	0.65 %	$ 84,262	$ 62	0.30 %
Money market	197,764	1,438	2.92 %	180,020	446	1.00 %
Savings	34,568	14	0.16 %	49,473	19	0.16 %
Certificates	65,628	526	3.22 %	47,986	97	0.82 %
Total deposits	370,713	2,095	2.27 %	361,741	624	0.70 %
Borrowings						
Long-term debt - trust preferred securities	8,789	161	7.37 %	8,786	140	6.46 %
FHLB advances	43,868	545	5.00 %	29,500	347	4.77
Subordinated debt, net	5,700	135	9.53 %	5,695	104	7.41 %
Other borrowings	324	3	3.72 %	293	3	4.15 %
Total interest bearing liabilities	429,394	2,939	2.75 %	406,015	1,218	1.22 %
Noninterest bearing deposits	234,295			252,647		
Other liabilities	4,719			3,133		
Total liabilities	668,408			661,795		
Equity capital	67,903			62,673		
Total liabilities and capital	$ 736,311			$ 724,468		
Net interest income before provision for loan losses		$ 6,396			$ 6,365	
Interest spread - average yield on interest earning assets, less average rate on interest bearing liabilities			2.67 %			3.29 %
Net interest margin (net interest income expressed as a percentage of average earning assets)			3.72 %			3.79 %

Provision for Credit losses

On January 1, 2023, the Commercial Banking Segment adopted the CECL methodology for estimating credit losses, which resulted in an increase of $150,000 in the allowance for credit losses on January 1, 2023. The allowance for credit losses included an allowance for credit losses on loans of $3.24 million and a reserve for unfunded commitments of $277,000.

As of March 31, 2024, the allowance for credit losses was $3.89 million and included an allowance for credit losses on loans of $3.57 million and a reserve for unfunded commitments of $320,000.

The Company recorded a provision for credit losses for loans of $136,700 for the three months ended March 31, 2024, which was the result of loan growth as all credit metrics remained strong compared to year-end 2023. Non-performing loans as a percentage of loans decreased from 0.12% at March 31, 2023 to 0.05% at March 31, 2024.

The Company recorded a provision for credit losses for unfunded commitments of $13,300 for the three months ended March 31, 2024, which was driven by an increase in the total commitments outstanding at March 31, 2024.

The allowance for credit losses on loans to total loans ratio at the Company is 0.60% compared to the peer average of 1.11%. Management considers this level of allowance sufficient and appropriate based on the current asset quality and assessment of the Company's loan portfolio.

As of March 31, 2023, the allowance for credit losses was $3.53 million and included an allowance for credit losses on loans of $3.27 million and a reserve for unfunded commitments of $254,000.

The provision for credit losses on loans was driven by the increase in loan balances at March 31, 2023, while the recovery of credit losses for unfunded commitments was a result of the reduction in the total balance outstanding at March 31, 2023. The lack of an overall provision for credit losses was driven by stable local economic conditions and credit quality remaining strong.

While current economic challenges due to higher inflation and the speed at which interest rates have risen remain a risk to credit quality, we believe our current level of allowance for credit losses is sufficient.

For more financial data and other information about the allowance for credit losses refer to section, "Balance Sheet Analysis" under this Item 2 – "Management's Discussion and Analysis of Financial Condition and Results of Operations", and Note 5 "Loans and allowance for credit losses" in the "Notes to Consolidated Financial Statements" contained in Item 1 of this Form 10-Q.

Noninterest income

Noninterest income includes service charges and fees on deposit accounts, fee income related to loan origination, and mortgage banking income, net. The most significant noninterest income item has historically been mortgage banking income, net, representing 53% and 38%, for the three month periods ended March 31, 2024 and 2023, respectively. Service charges and fees represent 40% and 53%, of net interest income for the three month periods ended March 31, 2024 and 2023, respectively.

	For the Three Months Ended March 31,		Change	
	2024	**2023**	**$**	**%**
	(dollars in thousands)			
Service charges and fees	$ 641	$ 669	$ (28)	(4.2)%
Mortgage banking income, net	850	478	372	77.8 %
Other	113	109	4	3.7 %
Total noninterest income	$ 1,604	$ 1,256	$ 348	27.7 %

The increase in noninterest income of $348,000 for the three months ended March 31, 2024, was the result of the following:

- During the three months ended March 31, 2024, the fair value of forward sales commitments associated with the Mortgage Banking Segment's loans held for sale and interest rate lock commitments was adjusted to properly reflect the timing of income recognition in the life cycle of the interest rate lock commitments and loans held for sale, which resulted in a $233,900 increase to net income for the period. This increase was a one-time adjustment and is not expected to be recurring. Mortgage revenue is expected to normalize going forward.

Noninterest expense

	For the Three Months Ended March 31,		Change	
	2024	2023	$	%
	(dollars in thousands)			
Salaries and benefits	$ 3,464	$ 3,448	$ 16	0.5 %
Occupancy	332	311	21	6.8 %
Equipment	278	285	(7)	(2.5)%
Supplies	49	49	—	— %
Data processing	439	440	(1)	(0.2)%
Professional and outside services	418	372	46	12.4 %
Advertising and marketing	83	111	(28)	(25.2)%
FDIC insurance premium	92	50	42	84.0 %
Other operating expense	474	690	(216)	(31.3)%
Total noninterest expense	$ 5,629	$ 5,756	$ (127)	(2.2)%

The decrease in noninterest expense of $127,000 for the three months ended March 31, 2024, was the result of the following:

- Professional and outside services expense increased by $46,000 as a result of increased costs associated with the implementation of new licensed software products, consultant fees, and increased fees associated with debit and credit card usage, which were implemented in the latter half of 2023.

- FDIC insurance premium increased by $42,000 as a result of an increase in the assessment rate implemented by the FDIC.

- Other operating expenses decreased by $216,000 primarily as a result of an decrease in check and card fraud during the three months ended March 31, 2024.

Income taxes

The Company's effective tax rate, income tax as a percent of pre-tax income, may vary significantly from the statutory rate due to permanent differences and available tax credits. Income tax benefit for the three months ended March 31, 2024, was $449,000, resulting in an effective tax rate of 20.2% compared to income tax expense of $325,000 or 17.4%, for the same period in 2023. The increase in the effective tax rate was primarily related to a decrease in the tax credit received related to state taxes attributed to the Company and the Mortgage Banking Segment as well as the impact of permanent difference related to the cash surrender value on bank owned life insurance. The Bank is not subject to Virginia income taxes, and instead is subject to a franchise tax based on bank capital.

Balance Sheet Analysis

Investment securities

At March 31, 2024 and December 31, 2023, all of our investment securities were classified as available for sale.

For more financial data and other information about investment securities refer to Note 4 "Investment Securities Available for Sale" in the "Notes to Consolidated Financial Statements" contained in Item 1 of this Form 10-Q.

Loans

The Company maintains rigorous underwriting standards coupled with regular evaluation of the creditworthiness of and the designation of lending limits for each borrower. The portfolio strategies include seeking industry, loan type and loan size diversification in order to minimize credit concentration risk. Management also focuses on originating loans in markets with which the Company is familiar. Additionally, as a significant amount of the loan losses we have experienced in the past is attributable to construction and land development loans, our strategy has shifted from reducing this type of lending to closely managing the quality and concentration in these loan types.

Approximately 81.0% of all loans are secured by mortgages on real property located principally in the Commonwealth of Virginia. Approximately 2.7% of the loan portfolio consists of rehabilitated student loans purchased by the Bank from 2014 to 2017 (see discussion following). The Company's commercial and industrial loan portfolio represents approximately 15.7% of all loans. Loans in this category are typically made to individuals and small and medium-sized businesses, and range between $250,000 and $2.5 million. Based on underwriting standards, commercial and industrial loans may be secured in whole or in part by collateral such as liquid assets, accounts receivable, equipment, inventory, and real property. The collateral securing any loan may depend on the type of loan and may vary in value based on market conditions. The remainder of our loan portfolio is in consumer loans which represent less than 1% of the total.

Loans classified by type as of March 31, 2024 and December 31, 2023 are as follows (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Amount	%	Amount	%
Construction and land development				
Residential	$ 9,077	1.53 %	$ 10,471	1.82 %
Commercial	34,437	5.83 %	37,024	6.44 %
	43,514	7.36 %	47,495	8.26 %
Commercial real estate				
Owner occupied	121,429	20.53 %	122,666	21.33 %
Non-owner occupied	165,508	27.99 %	154,855	26.93 %
Multifamily	18,254	3.09 %	12,743	2.22 %
Farmland	24	0.00 %	326	0.06 %
	305,215	51.61 %	290,590	50.54 %
Consumer real estate				
Home equity lines	21,682	3.67 %	21,557	3.75 %
Secured by 1-4 family residential,				
First deed of trust	95,994	16.23 %	95,638	16.63 %
Second deed of trust	11,955	2.02 %	11,337	1.97 %
	129,631	21.92 %	128,532	22.35 %
Commercial and industrial loans				
(except those secured by real estate)	92,600	15.66 %	86,203	14.99 %
Guaranteed student loans	15,782	2.67 %	17,923	3.12 %
Consumer and other	4,596	0.78 %	4,265	0.74 %
Total loans	591,338	100.00 %	575,008	100.00 %
Deferred fees and costs, net	750		803	
Less: allowance for credit losses	(3,574)		(3,423)	
	$ 588,514		$ 572,388	

For more financial data and other information about loans refer to Note 5 "Loans and allowance for credit losses" in the "Notes to Consolidated Financial Statements" contained in Item 1 of this Form 10-Q.

Allowance for Credit losses

On January 1, 2023, the Commercial Banking Segment adopted the CECL methodology for estimating credit losses, which resulted in an increase of $150,000 in the allowance for credit losses on January 1, 2023 to $3.52 million. The allowance for credit losses included an allowance for credit losses on loans of $3.24 million and a reserve for unfunded commitments of $277,000.

As of March 31, 2024, the allowance for credit losses was $3.89 million and included an allowance for credit losses on loans of $3.57 million and a reserve for unfunded commitments of $320,000.

We monitor and maintain an allowance for credit losses to absorb an estimate of expected losses inherent in the loan portfolio. The following table presents the credit loss experience on loans for the dates indicated (dollars in thousands).

	Beginning Balance	(Recovery of) Credit Losses on Loans	Charge-offs	Recoveries	Ending Balance	Average Loans	Ratio of Net (Charge-offs) to Average Loans
Three Months Ended March 31, 2024							
Construction and land development							
Residential	$ 86	$ (29)	$ —	$ —	$ 57	$ 10,129	— %
Commercial	228	(26)	—	—	202	37,756	— %
	314	(55)	—	—	259	47,885	— %
Commercial real estate							
Owner occupied	409	28	—	—	437	122,015	— %
Non-owner occupied	1,467	129	—	—	1,596	157,933	— %
Multifamily	44	42	—	—	86	14,673	— %
Farmland	3	(3)	—	—	—	236	— %
	1,923	196	—	—	2,119	294,857	— %
Consumer real estate							
Home equity lines	40	(18)	—	10	32	21,777	0.05
Secured by 1-4 family residential		—					
First deed of trust	293	4	—	1	298	94,906	0.00 %
Second deed of trust	99	(6)	—	5	98	11,803	0.04 %
	432	(20)	—	16	428	128,486	0.01 %
Commercial and industrial loans							
(except those secured by real estate)	640	22	—	4	666	89,376	0.00 %
Student loans	57	4	(6)	—	55	16,878	(0.04)%
Consumer and other	36	—	—	—	36	4,484	— %
Unallocated	21	(10)	—	—	11	—	— %
		0					
	$ 3,423	$ 137	$ (6)	$ 20	$ 3,574	$ 581,966	0.00 %

	Beginning Balance	Impact of adopting ASC 326	Provision for (Recovery of) Loan Losses	Charge-offs	Recoveries	Ending Balance	Average Loans	Ratio of Net (Charge-offs) to Average Loans
Year Ended December 31, 2023								
Construction and land development								
Residential	$ 79	$ 3	$ 4	$ —	$ —	$ 86	$ 8,153	— %
Commercial	192	34	2	—	—	228	41,328	— %
	271	37	6	—	—	314	49,481	— %
Commercial real estate								
Owner occupied	867	(475)	17	—	—	409	119,678	— %
Non-owner occupied	1,289	192	(14)	—	—	1,467	153,506	— %
Multifamily	33	7	4	—	—	44	12,385	— %
Farmland	—	—	3	—	—	3	183	— %
	2,189	(276)	10	—	—	1,923	285,752	— %
Consumer real estate								
Home equity lines	11	24	5	—	—	40	18,459	— %
Secured by 1-4 family residential								
First deed of trust	131	76	83	—	3	293	79,584	0.00 %
Second deed of trust	43	25	15	—	16	99	9,550	0.17 %
	185	125	103	—	19	432	107,593	0.02 %
Commercial and industrial loans								
(except those secured by real estate)	576	1	(110)	—	173	640	86,065	0.20 %
Student loans	52	—	35	(30)	—	57	19,716	(0.15) %
Consumer and other	37	(5)	7	(3)	—	36	4,270	(0.07) %
Unallocated	60	(9)	(30)	—	—	21	—	— %
	$ 3,370	$ (127)	$ 21	$ (33)	$ 192	$ 3,423	$ 552,877	0.03 %

For more financial data and other information about loans refer to Note 5 "Loans and allowance for credit losses" in the "Notes to Consolidated Financial Statements" contained in Item 1 of this Form 10-Q.

Asset quality

The following table summarizes asset quality information at the dates indicated (dollars in thousands):

	March 31, 2024	December 31, 2023
Nonaccrual loans	$ 281	$ 291
Foreclosed properties	—	—
Total nonperforming assets	$ 281	$ 291
Restructured loans (not included in nonaccrual loans above)	$ —	$ —
Loans past due 90 days and still accruing *(1)*	$ 2,200	$ 2,228
Nonaccrual loans to total loans *(2)*	0.05 %	0.05 %
Nonperforming assets to loans *(2)*	0.05 %	0.05 %
Nonperforming assets to total assets	0.04 %	0.04 %
Allowance for credit losses on loans to		
Loans, net of deferred fees and costs	0.60 %	0.59 %
Loans, net of deferred fees and costs (excluding guaranteed loans)	0.62 %	0.61 %
Nonaccrual loans	1,271.89 %	1,176.29 %

(1) All loans 90 days past due and still accruing are rehabilitated student loans which have a 98% guarantee by the DOE.
(2) Loans are net of unearned income and deferred cost.

Nonperforming assets totaled $281,000 at March 31, 2024 compared to $291,000 at December 31, 2023. Nonperforming assets, consisting solely of nonaccrual loans, totaled $281,000 at March 31, 2024, compared to $291,000 at December 31, 2023.

The following table presents an analysis of the changes in nonperforming assets for the three months ended March 31, 2024 (in thousands):

	Nonaccrual Loans	OREO	Total
Balance December 31, 2023	$ 291	$ —	$ 291
Additions	—	—	—
Loans placed back on accrual	—	—	—
Repayments	(10)	—	(10)
Charge-offs	—	—	—
Balance March 31, 2024	$ 281	$ —	$ 281

Nonperforming restructured loans are included in nonaccrual loans. Until a nonperforming restructured loan has performed in accordance with its restructured terms for a minimum of three months, it will remain on nonaccrual status.

Interest is accrued on outstanding loan principal balances, unless the Company considers collection to be doubtful. Commercial and unsecured consumer loans are designated as non-accrual when the Company considers collection of expected principal and interest doubtful. Mortgage loans and most other types of consumer loans past due 90 days or more may remain on accrual status if management determines that concern over our ability to collect principal and interest is not significant. When loans are placed on non-accrual status, previously accrued and unpaid interest is reversed against interest income in the current period and interest is subsequently recognized only to the extent cash is received. Interest accruals are resumed on such loans only when in the judgment of management, the loans are estimated to be fully collectible as to both principal and interest.

There were no individual allowances associated with the total nonaccrual loans of $281,000 and $291,000 at March 31, 2024 and December 31, 2023, respectively, that were considered individually evaluated.

Cumulative interest income that would have been recorded had nonaccrual loans been performing would have been approximately $85,000 and $80,000 for the three months ended March 31, 2024 and 2023, respectively. Student loans totaling $2,200,000 and $2,228,000 at March 31, 2024 and December 31, 2023, respectively, were past due 90 days or more and interest was still being accrued as principal and interest on such loans have a 98% guarantee by the DOE. The 2% not covered by the DOE guarantee is provided for in the allowance for credit losses.

Deposits

Deposits as of March 31, 2024 and December 31, 2023 were as follows (dollars in thousands):

	March 31, 2024		December 31, 2023	
	Amount	%	Amount	%
Demand accounts	$ 230,118	37.1 %	$ 247,624	40.9 %
Interest checking accounts	78,739	12.7 %	76,289	12.6 %
Money market accounts	207,640	33.5 %	195,249	32.3 %
Savings accounts	35,238	5.7 %	39,633	6.5 %
Time deposits of $250,000 and over	31,355	5.0 %	9,145	1.5 %
Other time deposits	37,179	6.0 %	37,405	6.2 %
Total	$ 620,269	100.0 %	$ 605,345	100.0 %

Total deposits increased by $14,924,000, or 2.47%, from December 31, 2023. Variances of note are as follows:

- Noninterest bearing demand account balances decreased $17,506,000, or 7.07%, from December 31, 2023 and represented 37.1% of total deposits compared to 40.9% as of December 31, 2023. The decrease in noninterest bearing demand deposits was driven by a combination of consumers and businesses drawing down balances due to higher costs associated with continued pressure from inflation, as well as some movement into higher yielding accounts.

- Low cost relationship deposits (i.e. interest checking, money market, and savings) balances increased $10,446,000, or 3.36%, from December 31, 2023. The increase in low-cost relationship deposits from the prior periods was the result of seasonal relationship growth as well as some deposits moving from non-interest bearing to interest bearing.

- Time deposits increased by $21,984,000, or 47.23%, from December 31, 2023. The increase was the result of the Commercial Bank Segment issuing $20.0 million in brokered time deposits, at a weighted average rate of 4.89%, during the quarter to supplement the noninterest-bearing reduction.

The following table presents the average deposits balance and average rate paid for the dates indicated (dollars in thousands).

	Average Balance		Average Cost Rate	
	March 31, 2024	December 31, 2023	March 31, 2024	December 31, 2023
Noninterest bearing deposits	$ 234,295	$ 249,711		
Interest checking	72,753	79,744	0.65 %	0.53 %
Money market	197,764	197,720	2.92 %	1.97 %
Savings	34,568	42,559	0.16 %	0.16 %
Certificates				
Less than $250,000	34,854	42,191	3.95 %	1.49 %
$250,000 or more	30,774	9,396	2.39 %	2.94 %
Total interest bearing deposits	370,713	371,610	2.27 %	1.42 %
Total deposits	$ 605,008	$ 621,321	1.39 %	0.85 %

The following table presents (in thousands) the scheduled maturities of time deposits greater than $250,000 which is the maximum FDIC insurance limit.

	March 31, 2024	December 31, 2023
Months to maturity:		
Three or less	$ 3,924	$ 1,268
Over three through six	9,244	3,889
Over six through twelve	17,647	3,449
Over twelve	540	539
Total	$ 31,355	$ 9,145

The variety of deposit accounts that we offer has allowed us to be competitive in obtaining funds and has allowed us to respond with flexibility to, although not to eliminate, the threat of disintermediation (the flow of funds away from depository institutions such as banking institutions into direct investment vehicles such as government and corporate securities). Our ability to attract and retain deposits, and our cost of funds, has been, and is expected to continue to be, significantly affected by market conditions.

Borrowings

We utilize borrowings to supplement deposits to address funding or liability duration needs. For more financial data and other information about borrowings refer to Note 7 “Borrowings” in the “Notes to Consolidated Financial Statements” contained in Item 1 of this Form 10-Q.

Capital resources

Shareholders’ equity at March 31, 2024 was $68,358,000 compared to $67,556,000 at December 31, 2023. The $802,000 increase in shareholders’ equity during the three months ended March 31, 2024, was due primarily to the recognition of net income of $1,772,000 offset by the $782,000 increase in accumulated other comprehensive loss.

The following table presents the composition of regulatory capital and the capital ratios for the Bank at the dates indicated (dollars in thousands):

	March 31, 2024	December 31, 2023
Tier 1 capital		
Total bank equity capital	$ 77,960	$ 77,151
Net unrealized loss on available-for-sale securities	6,385	5,603
Defined benefit postretirement plan	10	10
Total Tier 1 capital	84,355	82,764
Tier 2 capital		
Allowance for credit losses	3,894	3,729
Tier 2 capital deduction	—	—
Total Tier 2 capital	3,894	3,729
Total risk-based capital	88,249	86,493
Risk-weighted assets	$ 624,461	$ 596,946
Average assets	$ 742,444	$ 742,655
Capital ratios		
Leverage ratio (Tier 1 capital to average assets)	11.36 %	11.14 %
Common equity tier 1 capital ratio (CET 1)	13.51 %	13.86 %
Tier 1 capital to risk-weighted assets	13.51 %	13.86 %
Total capital to risk-weighted assets	14.13 %	14.49 %
Equity to total assets	10.46 %	10.50 %

For more financial data and other information about capital resources, refer to Note 13 “Shareholders’ Equity and Regulatory Matters” in the “Notes to Consolidated Financial Statements” contained in Item 1 of this Form 10-Q.

Liquidity

Liquidity represents the ability of a company to convert assets into cash or cash equivalents without significant loss, and the ability to raise additional funds by increasing liabilities. Liquidity management involves monitoring our sources and uses of funds in order to meet our day-to-day cash flow requirements while maximizing profits. Liquidity management is made more complicated because different balance sheet components are subject to varying degrees of management control. For example, the timing of maturities of our investment portfolio is fairly predictable and subject to a high degree of control at the time investment decisions are made. However, net deposit inflows and outflows are far less predictable and are not subject to the same degree of control.

At March 31, 2024, our liquid assets, consisting of cash, cash equivalents and investment securities available for sale, totaled $115,180,000, or 15.42% of total assets. Investment securities traditionally provide a secondary source of liquidity since they can be converted into cash in a timely manner.

At March 31, 2024, the Company had approximately $218.5 million in uninsured deposits, which represents 35.30% of total deposits. Total liquidity sources at March 31, 2024 equal $196.4 million, or 89.88% of uninsured deposits.

The Company’s internal policy limits wholesale deposits (i.e., brokered deposits and internet listing services) to 15 percent of total funding, representing $108.5 million of additional availability as of March 31, 2024. The Company had $20.0 million in wholesale deposits as of March 31, 2024, which were brokered deposits with a weighted average rate of 4.89%.

Our holdings of liquid assets plus the ability to maintain and expand our deposit base and borrowing capabilities serve as our principal sources of liquidity. We plan to meet our future cash needs through the liquidation of temporary investments, the generation of deposits, and from additional borrowings. In addition, we will receive cash upon the maturity and sale of loans and the maturity of investment securities. We maintain three federal funds lines of credit with correspondent banks totaling $22.8 million for which there were no borrowings against the lines at March 31, 2024 and December 31, 2023.

We are also a member of the Federal Home Loan Bank of Atlanta, from which applications for borrowings can be made. The FHLB requires that securities, qualifying mortgage loans, and stock of the FHLB owned by the Bank be pledged to secure any advances from the FHLB. The unused borrowing capacity currently available from the FHLB at March 31, 2024 was $3.3 million, based on the Bank's qualifying collateral available to secure any future borrowings. However, we are able to pledge additional collateral to the FHLB in order to increase our available borrowing capacity up to 25% of assets, which would result in a total remaining credit availability of $143.7 million as of March 31, 2024.

Liquidity provides us with the ability to meet normal deposit withdrawals, while also providing for the credit needs of customers. We are committed to maintaining liquidity at a level sufficient to protect depositors, provide for reasonable growth, and fully comply with all regulatory requirements.

At March 31, 2024, we had commitments to originate $149,774,000 of loans. Fixed commitments to incur capital expenditures were less than $100,000 at March 31, 2024. Certificates of deposit scheduled to mature in the 12-month period ending March 31, 2025 totaled $61,259,000. We believe that a significant portion of such deposits will remain with us. We further believe that deposit growth, loan repayments and other sources of funds will be adequate to meet our foreseeable short-term and long-term liquidity needs.

Interest rate sensitivity

An important element of asset/liability management is the monitoring of our sensitivity to interest rate movements. In order to measure the effects of interest rates on our net interest income, management takes into consideration the expected cash flows from the securities and loan portfolios and the expected magnitude of the repricing of specific asset and liability categories. We evaluate interest sensitivity risk and then formulate guidelines to manage this risk based on management’s outlook regarding the economy, forecasted interest rate movements and other business factors. Our goal is to maximize and stabilize the net interest margin by limiting exposure to interest rate changes.

Contractual principal repayments of loans do not necessarily reflect the actual term of our loan portfolio. The average lives of mortgage loans are substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which gives us the right to declare a loan immediately due and payable in the event, among other things, the borrower sells the real property subject to the mortgage and the loan is not repaid. In addition, certain borrowers increase their equity in the security property by making payments in excess of those required under the terms of the mortgage.

The sale of fixed rate loans is intended to protect us from precipitous changes in the general level of interest rates. The valuation of adjustable rate mortgage loans is not as directly dependent on the level of interest rates as is the value of fixed rate loans. As with other investments, we regularly monitor the appropriateness of the level of adjustable rate mortgage loans in our portfolio and may decide from time to time to sell such loans and reinvest the proceeds in other adjustable rate investments.

Impact of inflation and changing prices

The Company's financial statements included herein have been prepared in accordance with GAAP, which require the Company to measure financial position and operating results primarily in terms of historical dollars. Changes in the relative value of money due to inflation or recession are generally not considered. The primary effect of inflation on the operations of the Company is reflected in increased operating costs. In management's opinion, changes in interest rates affect the financial condition of a financial institution to a far greater degree than changes in the inflation rate. While interest rates are greatly influenced by changes in the inflation rate, they do not necessarily change at the same rate or in the same magnitude as the inflation rate. Interest rates are highly sensitive to many factors that are beyond the control of the Company, including changes in the expected rate of inflation, the influence of general and local economic conditions and the monetary and fiscal policies of the United States government, its agencies and various other governmental regulatory authorities.

LIBOR and Other Benchmark Rates

The administrator of LIBOR announced that the most commonly used U.S. dollar LIBOR settings would cease to be published or cease to be representative after June 30, 2023.

The Adjustable Interest Rate (LIBOR) Act, enacted in March 2022, provides a statutory framework to replace LIBOR with a benchmark rate based on Secured Overnight Funding Rate ("SOFR") for contracts governed by U.S. law that have no or ineffective fallbacks. We have a number of borrowings and other financial instruments with attributes that are either directly or indirectly dependent on LIBOR. As a result of the announced discontinuation of LIBOR on June 30, 2023, the Company replaced the LIBOR leg of the calculated floating rate for these instruments with the corresponding term SOFR plus the applicable tenor spread adjustment as per the guidelines outlined within the final rulings under the Adjustable Interest Rate (LIBOR) Act published by the Board of Governors of the Federal Reserve System.

This transition did not have a significant impact on the Company's consolidated financial statements.

ITEM 3 – QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not Applicable.

ITEM 4 – CONTROLS AND PROCEDURES

The Company's Chief Executive Officer and Chief Financial Officer evaluated the effectiveness of the Company's disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934 (the "Exchange Act")) as of March 31, 2024. Based on that evaluation, management concluded that the Company's disclosure controls and procedures were effective as of March 31, 2024 in ensuring that all material information required to be disclosed in reports that it files or submits under the Exchange Act is recorded, processed summarized and reported with the time periods specified in SEC rules and regulations and that such information is accumulated and communicated to the Company's management, including the Company's Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

The Company's management is also responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act.

There were no changes in the Company's internal control over financial reporting identified in connection with the evaluation of it that occurred during the Company's last fiscal quarter that materially affected, or are reasonably likely to materially affect, internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1 – LEGAL PROCEEDINGS

In the course of its operations, the Companymay become a party to legal proceedings. There are no material pending legal proceedings to which the Company is party or of which the property of the Company is subject.

ITEM 1A – RISK FACTORS

There have been no material changes to the risk factors disclosed in the Company's Annual Report on Form 10-K for the year ended December 31, 2023 filed with the SEC on March 22, 2024.

ITEM 2 – UNREGISTERED SALES OF EQUITY SECURITIES and USE OF PROCEEDS

None.

ITEM 3 – DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4 – MINE SAFETY DISCLOSURES

None.

ITEM 5 – OTHER INFORMATION

Not applicable.

ITEM 6 – EXHIBITS

10.1	Amendment No. 2 to Employment Agreement, dated March 26, 2024, by and between Village Bank and Trust Financial Corp. and Donald M. Kaloski, Jr. (incorporated herein by reference to Exhibit 10.1 of the Current Report).
10.2	Amendment No. 2 to Employment Agreement, dated March 26, 2024, by and between Village Bank and Max C. Morehead, Jr. (incorporated herein by reference to Exhibit 10.2 of the Current Report).
31.1	Certification of Chief Executive Officer
31.2	Certification of Chief Financial Officer
32.1	Statement of Chief Executive Officer and Chief Financial Officer Pursuant to 18 U.S.C. Section 1350
101	The following materials from the Village Bank and Trust Financial Corp. Quarterly Report on Form 10-Q for the quarter ended March 31, 2024 formatted in Inline eXtensible Business Reporting Language (XBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Operations, (iii) Consolidated Statements of Comprehensive Income (Loss), (iv) Consolidated Statements of Shareholders' Equity, (v) Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.
104	Cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 2024, formatted in Inline eXtensible Business Reporting Language (included with Exhibit 101).

SIGNATURES

In accordance with the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

	VILLAGE BANK AND TRUST FINANCIAL CORP.
Date: May 10, 2024	By: /s/ James E. Hendricks, Jr. James E. Hendricks, Jr. President and Chief Executive Officer
Date: May 10, 2024	By: /s/ Donald M. Kaloski, Jr. Donald M. Kaloski, Jr. Executive Vice President and Chief Financial Officer

Exhibit 10.1

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

This Amendment No. 2, adopted as of March 26, 2024, is made to the Employment Agreement, dated as of February 22, 2022 (the "Agreement"), between Village Bank and Trust Financial Corp. (the "Corporation") and Donald M. Kaloski, Jr. (the "Executive").

The parties wish to amend the Agreement in order to reflect the increase in the Executive's annual bonus opportunity.

The parties, intending to be legally bound, agree as follows:

1. Subsection (a)(i) of Section 8 of the Agreement is hereby amended as follows:

   (i) The Executive shall be paid the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means (a) the annual base salary in effect on the date of termination (or the annual base salary in effect immediately prior to a reduction in the Executive's base salary in the event the Executive resigns for Good Reason based on Section 8(b)(iii) hereunder) and (b) an annual bonus amount equal to 25% of annual base salary. The payment of Final Compensation shall be made over twelve (12) months in installments such that the Final Compensation payments are made at the same time as Executive would have received his base salary.

2. In all other respects, the Agreement and prior Amendment shall remain in full force and effect. This Amendment No. 2 may be executed in any number of counterparts.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2 to the Agreement effective as of the date first written above.

VILLAGE BANK AND TRUST FINANCIAL CORP. EXECUTIVE

By: /s/ James E. Hendricks, Jr.
James E. Hendricks, Jr.
President and Chief Executive Officer

/s/ Donald M. Kaloski, Jr.
Donald M. Kaloski, Jr.

Exhibit 10.2

AMENDMENT NO. 2 TO EMPLOYMENT AGREEMENT

This Amendment No. 2, adopted as of March 26, 2024, is made to the Employment Agreement, dated as of September 4, 2020 (the "Agreement"), between Village Bank (the "Corporation") and Max C. Morehead, Jr. (the "Executive").

The parties wish to amend the Agreement in order to reflect the increase in the Executive's annual bonus opportunity.

The parties, intending to be legally bound, agree as follows:

1. Subsection (a)(i) of Section 8 of the Agreement is hereby amended as follows:

   (i) The Executive shall be paid the Executive's Final Compensation. For purposes of this Agreement, "Final Compensation" means (a) the annual base salary in effect on the date of termination (or the annual base salary in effect immediately prior to a reduction in the Executive's base salary in the event the Executive resigns for Good Reason based on Section 8(b)(iii) hereunder) and (b) an annual bonus amount equal to 25% of annual base salary. The payment of Final Compensation shall be made over twelve (12) months in installments such that the Final Compensation payments are made at the same time as Executive would have received his base salary.

2. In all other respects, the Agreement and prior Amendment shall remain in full force and effect. This Amendment No. 2 may be executed in any number of counterparts.

[Signatures appear on the following page]

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 2 to the Agreement effective as of the date first written above.

VILLAGE BANK	EXECUTIVE
By: /s/ James E. Hendricks, Jr.	/s/ Max C. Morehead, Jr.
James E. Hendricks, Jr.	Max C. Morehead, Jr.
President and Chief Executive Officer	

Exhibit 31.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, James E. Hendricks, Jr., certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Village Bank and Trust Financial Corp. for the quarter ended March 31, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   - (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   - (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   - (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   - (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   - (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

By: /s/ James E. Hendricks, Jr.
James E. Hendricks, Jr.
Chief Executive Officer

Exhibit 31.2

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Donald M. Kaloski, Jr., certify that:

1. I have reviewed the Quarterly Report on Form 10-Q of Village Bank and Trust Financial Corp. for the quarter ended March 31, 2024;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   (a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   (b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   (c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   (d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   (a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2024

By: /s/ Donald M. Kaloski, Jr.
Donald M. Kaloski, Jr.
Executive Vice President and
Chief Financial Officer

Exhibit 32.1

**STATEMENT OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350**

In connection with the Quarterly Report on Form 10-Q of Village Bank and Trust Financial Corp. (the "Company") for the period ended March 31, 2024, the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that based on their knowledge and belief: (1) the Form 10-Q for the period ended March 31, 2024 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and (2) the information contained in the Form 10-Q for the period ended March 31, 2024 fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented.

/s/ James E. Hendricks, Jr.
James E. Hendricks, Jr.
President and Chief Executive Officer

Date: May 10, 2024

/s/ Donald M. Kaloski, Jr.
Donald M. Kaloski, Jr.
Executive Vice President and Chief Financial Officer

Date: May 10, 2024