

REFINITIV

# DELTA REPORT

## 10-K

TC BANCSHARES, INC.

10-K - DECEMBER 31, 2023 COMPARED TO 10-K - DECEMBER 31, 2022

The following comparison report has been automatically generated

TOTAL DELTAS 2769

CHANGES 479

DELETIONS 1070

ADDITIONS 1220

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
**FORM 10-K**

(Mark One)

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

For the fiscal year ended December 31 **2022, 2023**

OR

☐ 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 001-40637

**TC BANCSHARES, INC.**

(Exact name of Registrant as specified in its Charter)

**Georgia**

(State or other jurisdiction of  
incorporation or organization)

**86-2650449**

(I.R.S. Employer  
Identification No.)

**131 South Dawson Street, Thomasville, Georgia**

(Address of principal executive offices)

**31792**

(Zip Code)

**Registrant's telephone number, including area code: (229) 226-3221**

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

Title of each class	Trading Symbol	Name of each exchange on which registered
Common Stock, par value \$0.01	TCBC	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. YES ☐ NO ☒

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. YES ☐ NO ☒

Indicate by check mark 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 ☒

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 has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

As of June 30, 2022, (the last business day of the registrant's most recently completed second fiscal quarter) the aggregate market value of the common stock held by nonaffiliates of the registrant was approximately \$60 million based on the closing sale price of \$13.60 per share as reported on the NASDAQ Market on June 30, 2022.

The number of shares of Registrant's common stock outstanding as of March 22, 2023 March 22, 2024 was 4,974,200 4,321,148.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's definitive proxy statement (the "Proxy Statement") for its 2023 2024 annual meeting of shareholders are incorporated by reference herein into Part III, Items 10 through 14 of this Annual Report.

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## CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This annual report on Form 10-K (this "report") contains forward-looking statements, which reflect our current opinions, expectations, beliefs, plans, objectives, assumptions or projections regarding, among other things, future events or future results, in contrast with statements that reflect historical facts. Forward-looking statements can be identified by the use of words such as "expects," "intends," "believes," "seek to," "potential," "goal," "may," "will," "would," "could," "should," "plan," "anticipate," "estimate," "possible," "likely" or the negative thereof as well as other similar words and expressions of the future. These forward-looking statements include, but are not limited to statements of our goals, intentions and expectations; statements regarding our business plans, prospects, growth and operating strategies; statements regarding the quality of our loan and investment portfolios; and estimates of our risks and future costs and benefits.

These forward-looking statements are based on our current beliefs and expectations and are inherently subject to significant business, economic and competitive uncertainties and contingencies, many of which are beyond our control. In addition, these forward-looking statements are subject to assumptions with respect to future business strategies and decisions that are subject to change. The following factors, among others, could cause actual results to differ materially from the anticipated results or other expectations expressed in the forward-looking statements:

- our ability to maintain liquidity, primarily through deposits, in light of recent events in the banking industry;

- the ongoing effects of the COVID-19 pandemic on our business, customers, employees and third-party service providers;
- general economic conditions, either nationally or in our market areas, that are worse than expected;
- changes in the level and direction of loan delinquencies and write-offs and changes in estimates of the adequacy of the allowance for loan losses including after implementation of under the credit impairment model for Current Expected Credit Losses ("CECL");
- our ability to maintain liquidity, primarily through deposits;
- the ongoing effects of the COVID-19 pandemic on our business, customers, employees, and third-party service providers;
- our ability to access cost-effective funding;
- fluctuations in real estate values and both residential and commercial real estate market conditions;
- demand for loans and deposits in our market area;
- our ability to implement and change our business strategies;
- competition among depository and other financial institutions;
- inflation and changes in the interest rate environment that reduce our margins and yields, our mortgage banking revenues, the fair value of financial instruments or our level of loan originations, or increase the level of defaults, losses and prepayments on loans we have made;
- adverse changes in the securities or secondary mortgage markets;
- changes in laws or government regulations or policies affecting financial institutions, including changes in regulatory fees and capital requirements;
- changes to statutes, regulations or regulatory policies or practices;
- our ability to comply with the extensive laws and regulations to which we are subject, including the laws for each jurisdiction where we operate;
- the impact of the Dodd-Frank Act and the implementing regulations;
- changes in the quality or composition of our loan or investment portfolios;
- changes in consumer spending and saving habits;
- the effects of harsh weather conditions, including hurricanes, and man-made disasters;
- technological changes that may be more difficult or expensive than expected;
- the inability of third party providers to perform as expected;
- the efficiency and effectiveness of our internal control environment;
- our ability to manage market risk, credit risk, interest rate risk, liquidity risk and operational risk in the current economic environment;
- the soundness of other financial institutions;

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- our ability to enter new markets successfully and capitalize on growth opportunities;
- our ability to successfully integrate into our operations any assets, liabilities, customers, systems and management personnel we may acquire;
- our ability to realize related revenue synergies and cost savings within expected time frames, and any goodwill charges related thereto;
- changes in accounting policies and practices, as may be adopted by the bank regulatory agencies, the Financial Accounting Standards Board, the Securities and Exchange Commission or the Public Company Accounting Oversight Board;
- our ability to retain key employees;
- our management team's ability to focus primarily on the operation of our business rather than diversion of management attention to response to the COVID-19 pandemic;

- our compensation expense associated with equity allocated or awarded to our employees;
- changes in the financial condition, results of operations or future prospects of issuers of securities that we own;
- the adverse effects of events beyond our control that may have a destabilizing effect on financial markets and the economy, such as epidemics and pandemics, war or terrorist activities, essential utility outages, deterioration in the global economy, instability in the credit markets, disruption in our customers' supply chains or disruption in transportation; and
- each of the factors and risks under the heading "Risk Factors" in this report and in subsequent filings we make with the SEC.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. Accordingly, you are cautioned not to place undue reliance on these forward-looking statements. The forward-looking statements included in this prospectus document are made only as of the date hereof. New factors emerge from time to time, and it is not possible for us to predict which will arise. We do not undertake, and specifically decline, any obligation to update any such statements or to publicly announce the results of any revisions to any of such statements to reflect future events or developments, except as required by law.

## PART I

### Item 1. Business.

#### TC Bancshares, Inc.

TC Bancshares, Inc. (the "Company") is a holding company incorporated under the laws of the State of Georgia on March 5, 2021, to serve as the holding company for TC Federal Bank (the "Bank"). The Bank is a federally chartered covered savings bank association headquartered in Thomasville, Georgia that opened in 1937, 1934.

The Company was formed as part of the bank holding company reorganization of the Bank, which was completed on July 20, 2021. In connection with the reorganization, the Company sold 4,898,350 shares of its common stock at a price of \$10.00 per share to the depositors of the Bank for net proceeds of approximately \$49.0 million. On July 21, 2021, the Company's common stock commenced trading on the NASDAQ Stock Market under the symbol "TCBC".

In this report, unless the context indicates otherwise, all references to "we," "us" and "our" refer to the Company and the Bank, except that if the discussions relate to a period before July 20, 2021, these terms refer solely to the Bank.

#### TC Federal Bank

The Bank was organized in 1934 as Thomas County Federal Savings & Loan Association and chartered in 1937 by the Federal Home Loan Bank Board as a mutual savings and loan association owned 100% by its depositors. Effective January 1, 2018, the Bank amended its corporate name to TC Federal Bank. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from operations in one-to-four family residential real estate loans, commercial real estate and multi-family loans, acquisition, development and land loans, commercial and industrial loans, home equity loans and lines of credit and consumer loans. In recent years, we have increased our focus, consistent with what we believe to be conservative underwriting standards, originating higher yielding commercial real estate and commercial and industrial loans.

We conduct our business from our main office in Thomasville, Georgia, as well as additional branch office and a residential mortgage center banking locations in Tallahassee, Florida, and commercial loan production offices ("LPOs") new branch locations in Jacksonville, Florida and

Savannah, Georgia, Georgia. We also operate two Loan Production Offices (LPOs), one in Tallahassee and a second in Jacksonville, Florida. We provide a variety of financial services to individual and commercial customers in its market areas. the markets we serve.

Our results of operations are largely dependent on net interest income, which is the difference between the interest earned on loans and securities and interest paid on deposits and borrowings, and borrowings. We generate non-interest income largely from our customer service fees and the sale of residential mortgages into the secondary market. Our results of operations are also affected impacted by our level of operating expenses, the provision for loan credit losses, the impact of federal and state income taxes, the relative levels of interest rates and local and national economic activity. At December 31, 2022 December 31, 2023, we had total consolidated assets of \$429.6 million \$466.6 million, loans, net of the allowance for loan credit losses and deferred fees, of \$334.1 million \$372.1 million, deposits of \$328.8 million \$369.9 million and stockholders' equity of \$85.3 million \$79.6 million.

#### Available Information

Our internet address is [www.tcfederal.com](http://www.tcfederal.com). We file with or furnish to the U.S. Securities and Exchange Commission (the "SEC") annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and proxy statements. These documents are available free of charge on or through the "Investor Relations" section of our website as soon as reasonably practicable after they are filed with the SEC. The information contained on our website is not included in, nor incorporated by reference into, this Annual Report on Form 10-K. The SEC also maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC at [www.sec.gov](http://www.sec.gov).

#### Market Area

Our headquarters are located in Thomasville, Georgia, which is approximately 35 miles north of Tallahassee and 225 miles southwest south of Atlanta, and 225 230 miles southwest of Savannah, Georgia. We primarily serve retail and small business customers located in and around Thomasville and Savannah, Georgia as well as Tallahassee and Jacksonville, Florida and Savannah, Georgia, through our branch network, and commercial LPOs located in Jacksonville, Florida Tallahassee and Savannah, Georgia, and a residential mortgage center in Tallahassee, Jacksonville, Florida. We consider our primary markets to be demographically and socioeconomically attractive.

Thomasville was founded in 1825, and serves as the county seat of Thomas County, Georgia. In 2022, the most recent estimate available, Thomas County had an estimated total population of 49,421. The largest employers in Thomas County are the Archbold Medical Center, the Thomas County School System and the Thomasville City School System. Thomasville is home to Flowers Foods (NYSE: FLO), the second largest baking company in the nation, and Archbold Medical Center, a four hospital, three nursing home

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health system with state-of-the-art facilities. Thomasville's economy focuses on healthcare and educational services, but also has significant manufacturing, retail and tourism industries.

Tallahassee is the capital city of Florida and is the county seat of Leon County, Florida. In 2022, the most recent estimate available, Leon County had an estimated total population of 297,211. The largest employers in Leon County are the State of Florida, Florida State University and Tallahassee Memorial Healthcare, Inc. Government and educational services are the central focus of Tallahassee's economy although professional, scientific and technical services, drawing on the highly educated population, play an important role as well.

Savannah is the oldest city in the state of Georgia and is the county seat of Chatham County, Georgia. In 2022, the most recent estimate available, Chatham County had an estimated total population of 304,339. The largest employers in Chatham County are Gulfstream Aerospace Corporation, Memorial Health University Medical Center and Savannah-Chatham County Board Education. Savannah's diverse economy consists of

tourist attractions and retail shops, a major seaport, an army airbase, and health and educational services. The port of Savannah is home to the largest single-terminal container facility of its kind in North America.

Jacksonville, Florida is the largest city by area in the contiguous United States. Its location on the St. Johns River and the Atlantic Ocean have provided tremendous growth opportunities for the city. Jacksonville has a sizable deepwater port, which helps make it a leading port in the U.S. for automobile imports, as well as the leading transportation and distribution hub in the state. The strength of the city's economy lies in its broad diversification. The area's economy is balanced among distribution, financial services, biomedical technology, consumer goods, information services, manufacturing, insurance, and other industries. In addition, Jacksonville is home to the headquarters of four Fortune 500 companies: CSX Corporation, Fidelity National Financial, Fidelity National Information Services and Southeastern Grocers.

### Competition

We face competition within our market areas both in making loans and attracting deposits. Our market area has a concentration of financial institutions that include large money center and regional banks, as well as community banks and credit unions. We also face competition from savings institutions, mortgage banking firms, consumer finance companies and, credit unions and, with respect to deposits from money market funds, brokerage firms, mutual funds and insurance companies. As of June 30, 2022 June 30, 2023 (the most recent date for which data is available), our market share of deposits represented approximately 12.4% 12.2% of Federal Deposit Insurance Corporation-insured the deposits in Thomas County Georgia, ranking us third in market share of deposits out of six seven institutions operating in the county. Our deposit market share in Leon County is 1.3% Florida was 1.0%, ranking us 13 14<sup>th</sup> in market share of deposits out of 17 19 institutions operating in the county and reflecting Leon County's much more competitive environment. county. As of June 30, 2023, while our Savannah branch ranked 21st out of the 21 banking institutions operating in Chatham County, Georgia, in one-month's time we were able to generate \$22.5 million in deposits, which represented 0.25% of the overall deposit market in the county. Our new Jacksonville, Florida branch location, despite being opened for less than a month, ranked 23rd in deposit market share as of June 30, 2023, out of 27 banking institutions located in Duval County.

We compete for loans principally through the quality of our client service and our responsiveness to client needs in addition to competing on interest rates and loan fees. Management believes that our long-standing presence in the community and personal one-on-one service philosophy enhances our ability to compete favorably in attracting and retaining individual and business customers.

We rely upon personalized customer service, long-standing relationships with individual customers and businesses, and the favorable image of the Bank in the community to attract and retain deposits in addition to competing on rates paid. The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts we offer allows us to be competitive in obtaining funds and responding to changes in customer demand.

### Personnel

At December 31, 2022 December 31, 2023, we had 59 65 full-time employees. Our employees are not represented by any collective bargaining group. Management believes that we have good working relations with our employees.

### Lending Activities

**General.** Since the early 2000's, we have sought It is our goal to build a diversified loan portfolio. We grant loans and extensions of credit to individuals and a variety of small businesses in our market areas. Our loan portfolio generally consists of one-to-four family residential real estate loans, commercial and multi-family real estate loans, construction and land development loans, commercial and industrial loans and consumer loans.



**Loan Portfolio Composition.** The following table presents information concerning the composition of our loan portfolio in dollar amounts and in percentages as of the dates indicated.

	At December 31,						At December 31,			
	2022	Percent	2021	Percent	2020	Percent	2023	Percent	2022	Percent
	(Dollars in thousand)						(Dollars in thousand)			
Real estate loans:										
Residential	136				105					
	,38	40	98,	36	,83	39				
	\$ 2	.2 %	\$ 433	.3 %	\$ 7	.6 %	\$ 148,534	39.3 %	\$ 138,276	40.7 %
Home equity	12,	3.	11,	4.	8,8	3.				
	411	7	511	2	92	3	11,099	2.9 %	12,411	3.7 %
Multi-family	24,	7.	19,	7.	15,	5.				
	614	2	937	3	141	7	19,138	5.1 %	19,649	5.8 %
Commercial	111									
	,39	32	89,	33	72,	27				
	4	.8	830	.1	718	.2	123,573	32.7 %	116,110	34.2 %
Construction and land development	27,	8.	34,	12	29,	11				
	921	2	402	.7	983	.2	55,461	14.7 %	28,661	8.4 %
Total real estate loans	312		254		232					
	,72	92	,11	93	,57	87				
	2	.1	3	.6	1	.0	357,805	94.6 %	315,107	92.8 %
Consumer loans	1,2	0.	1,3	0.	5,3	2.				
	10	3	74	5	72	0	3,345	0.9 %	847	0.2 %
Commercial and industrial loans	25,	7.	15,	5.	29,	11				
	666	6	900	9	600	.0	16,919	4.5 %	23,644	7.0 %
Total loans	339	10	271	10	267	10				
	,59	0.	,38	0.	,54	0.				
	8	0 %	7	0 %	3	0 %	378,069	100.0 %	339,598	100.0 %
Less: Allowance for loan losses	4,3		4,1		4,0					
	62		84		86					
Less: Allowance for credit losses							4,837		4,362	
Less: Deferred loan fees	1,0				1,1					
	97		899		01		1,169		1,097	
Loans, net	334		266		262					
	,13		,30		,35					
	\$ 9		\$ 4		\$ 6		\$ 372,063		\$ 334,139	

**Contractual Maturities.** The following table sets forth certain information at **December 31, 2022** **December 31, 2023** regarding the dollar amount of loans maturing in our portfolio based on their contractual terms to maturity, but does not include scheduled payments or potential prepayments. Loans with scheduled maturities are reported in the maturity category in which the payment is due. Demand loans with no stated maturity and overdrafts are reported in the “due one year or less” category. Loans that have adjustable rates are shown as amortizing to final maturity rather than when the interest rates are next subject to change. Loan balances do not include undisbursed loan proceeds, unearned discounts, unearned income and the allowance for **loan credit** losses.

	Commercial and Land Development				Commercial and Industrial			
December 31, 2022	Residential	Real Estate	Development	Industrial				
December 31, 2023	Residential	Home Equity	Multi-family	Real Estate				
	(Dollars in thousands)				(Dollars in thousands)			
Amounts Due in:								
One year or less	\$ 3,213	\$ 3,434	\$ 9,861	\$ 1,742	\$ 4,544	\$ 8	\$ 1,309	\$ 10,983
More than one to five years	17,133	47,286	7,119	11,361	20,567	496	13,364	54,363
More than five to fifteen years	20,812	54,037	3,138	12,563	21,246	10,595	4,179	42,863
More than fifteen years	95,224	6,637	7,803		102,177	-	286	15,364
Total	\$ 136,382	\$ 111,394	\$ 27,921	\$ 25,666	\$ 148,534	\$ 11,099	\$ 19,138	\$ 123,573
December 31, 2022	Home Equity	Multi-family	Consumer	Total				
December 31, 2023	Construction and Land Development	Consumer	Commercial and Industrial	Total				
Amounts Due in:								
One year or less	\$ 240	\$ 971	\$ 114	\$ 19,575	\$ 17,898	\$ 74	\$ 2,474	\$ 37,290
More than one to five years	-	14,685	1,030	98,614	23,356	807	11,144	124,097
More than five to fifteen years	12,171	4,502	66	107,289	5,334	2,464	3,301	89,982
More than fifteen years	-	4,456	—	114,120	8,873	-	—	126,700
Total	\$ 12,411	\$ 24,614	\$ 1,210	\$ 339,598	\$ 55,461	\$ 3,345	\$ 16,919	\$ 378,069

The total amount of loans due after **December 31, 2023** **December 31, 2024**, which have pre-determined or fixed interest rates is **\$153.1 million** **\$190.1 million**, while the total amount of loans due after this date which have floating or adjustable interest rates is **\$166.9 million** **\$150.7 million**. The following **table shows**

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**table shows** the dollar amount of all loans as of **December 31, 2022** **December 31, 2023** contractually due after **December 31, 2023** **December 31, 2024**, as shown in the table above, which have fixed interest rates or which have floating or adjustable interest rates.

	Due after December 31, 2023			Due after December 31, 2024		
	Floating or			Floating or		
	Fixed Rate	Adjustable Rate	Total	Fixed Rate	Adjustable Rate	Total
	(Dollars in thousands)			(Dollars in thousands)		
Residential	\$ 107,485	\$ 25,684	\$ 133,169	\$ 114,597	\$ 29,393	\$ 143,990
Home equity	—	12,171	12,171	11,091	-	11,091

Multi-family residential	3,323	20,320	23,643	1,282	16,547	17,829
Commercial real estate	24,261	83,699	107,960	39,616	72,974	112,590
Construction and land development	13,355	4,705	18,060	20,881	16,682	37,563
Consumer	269	826	1,095	333	2,938	3,271
Commercial and industrial	4,416	19,508	23,924	2,292	12,153	14,445
Total	\$ 153,109	\$ 166,913	\$ 320,022	\$ 190,092	\$ 150,687	\$ 340,779

**One-to-Four Family Residential Real Estate Lending.** At December 31, 2022 December 31, 2023, we had \$136.4 million \$148.5 million of loans secured by one- to-four family real estate, representing 40.2% 39.3% of our total loan portfolio. Of the \$136.4 million \$148.5 million, \$71.2 million \$99.0 million are loans secured by non-owner owner occupied properties, with the remaining \$65.2 million \$49.5 million of loans secured by owner non-owner occupied properties. Generally, non-owner occupied loans are booked into our loan portfolio on balloon terms with amortizations up to 20 years. In recent years, we have We also originated originate single family owner-occupied owner occupied loans for sale in the secondary market, and we intend to continue this activity to generate fee income. market.

Our one-to-four family owner occupied residential real estate loans are generally underwritten to internal guidelines and/or that of our investors. We generally follow documentation practices of Fannie Mae and Freddie Mac guidelines. The significant majority of our one-to-four family residential real estate loans are secured by properties located in our primary market area.

Our one-to-four family non-owner occupied residential real estate loans are underwritten per internal guidelines. We consider a number of factors in originating non-owner occupied residential real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower and its related entities, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property, the debt service coverage ratio (the ratio of net operating income to debt service), and underlying leases. Personal guarantees are generally obtained from the principals of the asset owning entities.

We generally limit the loan-to-value ratios of our one-to-four family residential mortgage loans to 89.9% of the purchase price or appraised value, whichever is lower. In addition, we occasionally make one-to-four family residential mortgage loans with loan-to-value ratios in excess of 89.9% of the purchase price or appraised value, whichever is less, if the borrower obtains private mortgage insurance.

Our one-to-four family owner occupied residential real estate loans typically have terms of up to 30 years. Our adjustable-rate loans typically have five, seven or ten year fixed interest periods and then adjust annually with amortization terms of up to 30 years.

Our one-to-four family non-owner occupied residential real estate loans typically have fixed rates and have balloon terms of five to seven years. We offer one home equity line of credit with an interest only option and a ten-year term. These loans are generally limited primarily to borrowers' personal primary residences and to those borrowers who reside within our primary market area with acceptable credit ratings. These loans can be secured either by a first or second lien position. At December 31, 2022 December 31, 2023, our home equity loans totaled \$12.4 million \$11.1 million, or 3.7% 2.9% of gross total loans.

We did have five "interest only" mortgage loans on permanent one-to-four family residential real estate loans (where the borrower pays interest for an initial period, after which the loan converts to a fully amortizing loan) totaling \$851,000 at December 31, 2022, All five loans mature in 2023.

We do not offer loans that provide for negative amortization of principal, such as "Option ARM" loans, where the borrower can pay less than the interest owed on the loan, resulting in an increased principal balance during the life of the loan. We do not offer

"subprime" "subprime loans" on one-to-four family residential real estate loans (i.e., generally loans to borrowers with credit scores less than 620).

**Commercial and Multi-Family Real Estate Loans.** Our commercial real estate loans include both owner occupied as well as investment properties. They are secured by office buildings, farms, retail and mixed-use properties, churches, warehouses and restaurants, substantially all located in our market areas. Our multi-family real estate loans are secured by apartments, mobile home parks or other multi-family properties, substantially all located in our market areas. At December 31, 2022 December 31, 2023, we had \$111.4 million \$123.6 million in commercial real estate loans, representing 32.8% 32.7% of our total loan portfolio. In addition, we had \$24.6 million \$19.1 million of multi-family residential

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real estate loans. loans, representing 5.1% of our total loan portfolio. At December 31, 2022 December 31, 2023, our commercial real estate loans had an average principal balance of \$651,000 \$668,000 and our multi-family loans had an average principal balance of \$879,000 \$766,000.

Most of our commercial real estate loans are balloon loans balloons with a five to seven year initial term and a 20-year amortization period, although we do originate loans that fully amortize over 20 years with certain financial covenants in the loan agreements that would trigger an event of default. years. The maximum loan-to-value ratio of our commercial real estate loans is generally 80%. vary by collateral type. All of our commercial real estate loans are subject to our underwriting procedures and guidelines. At December 31, 2022 December 31, 2023, our two largest commercial real estate loans had \$4.4 million \$3.9 million and \$3.3 million \$3.7 million exposure, respectively. The first loan originated in December 2023 in the amount of \$3.9 million and is secured by a hotel. The second loan originated in September 2023 and had an original balance of \$8.7 million; however, \$4.9 million was participated with another financial institution. This loan is secured by a hotel. At December 31, 2023, our largest multi-family real estate loan had \$4.2 million exposure. This loan was originated in December 2020 in the amount of \$4.6 million and is secured by various multi-family units. The second loan originated in January 2022 and had an original balance of \$4.4 million; however, \$750,000 was participated with another financial institution. This loan is secured by various multi-family units.

We have a policy to manage concentration risk whereas we limit our total exposure to a single piece of collateral property to \$4.0 million for a single piece of collateral and exposure to a related entity aggregate debt of \$6.5 million. There were no loans at December 31, 2022 December 31, 2023, that exceeded these limits.

We consider a number of factors in originating commercial real estate loans. We evaluate the qualifications and financial condition of the borrower, including credit history, profitability and expertise, as well as the value and condition of the property securing the loan. When evaluating the qualifications of the borrower, we consider the financial resources of the borrower and its related entities, the borrower's experience in owning or managing similar property and the borrower's payment history with us and other financial institutions. In evaluating the property securing the loan, the factors we consider include the net operating income of the mortgaged property before debt service and depreciation, the ratio of the loan amount to the appraised value of the mortgaged property, the debt service coverage ratio (the ratio of net operating income to debt service), and the composition of the tenants and underlying leases. The significant majority of our commercial real estate loans are appraised by outside independent appraisers approved by the board of directors, although we are only required to obtain independent appraisals on commercial real estate loans in amounts of \$500,000 or greater if the property is income-producing property or \$1,000,000 \$1.0 million or greater if the property is owner-occupied. Personal guarantees are generally obtained from the principals of commercial real estate borrowers.

**Construction and Land Development Loans.** We make construction loans primarily to individuals for the construction of their primary or secondary residences or commercial structures, as well as loans to contractors and builders of single-family homes. We also make a limited amount of land development loans to complement our construction lending activities, as such loans are generally secured by lots that will be used for residential development. Land development loans also include loans secured by land purchased for investment purposes. purposes as well as loans secured by farmland. At December 31, 2022 December 31, 2023, our construction and land development loans totaled \$27.9 million \$55.5 million, representing 8.2% 14.7% of our total loan portfolio. Of that total, \$16.1 million was single-family construction loans, \$16.3 million was other construction

loans, and included \$2.3 million of \$23.1 million was land development loans. At December 31, 2022 December 31, 2023, \$12.6 million of our single-family construction loans were to individuals and \$13.0 million were other construction loans to contractors and builders. At that date, we also had \$20.1 million \$20.9 million in unfunded commitments on construction and land development loans of which \$10.5 million \$5.9 million were for single family single-family construction loans, \$7.1 million \$13.8 million were other construction loans and \$2.5 million \$1.2 million were land development loans.

While we may originate loans to contractors and builders whether or not the collateral property underlying the loan is under contract for sale, we consider each project carefully in light of current residential real estate market conditions. We actively monitor the number of unsold homes in our construction loan portfolio and local housing markets to attempt to maintain an appropriate balance between home sales and new loan originations. We generally will limit the maximum number of speculative units (units that are not pre-sold) approved for each builder. We have attempted to attenuate mitigate the risk inherent in speculative construction lending by doing business with experienced small and mid-sized builders within our market area.

We also originate construction loans for commercial development projects, including retail buildings, churches, small industrial, hotels and office buildings. Most of our construction loans are interest-only loans that provide for the payment of interest during the construction phase, which is usually up to 12 months. At the end of the construction phase, the loan may convert to a permanent mortgage loan or the loan may be paid in full. Construction loans are generally can be made with a maximum loan-to-value ratio of 80% of that varies depending on the estimated appraised market value upon completion of the project collateral type. Before making a commitment to fund a construction loan, we require an appraisal of the property by an independent licensed appraiser. We also require inspections of the property before disbursements of funds during the term of the construction loan.

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At December 31, 2022 December 31, 2023, our largest construction and land development loan exposure to any one borrower was \$6.0 million \$6.5 million. As of December 31, 2022 December 31, 2023, the outstanding balance was \$17,000, \$6.5 million. This loan originated in December 2022 August 2023 and is secured by an apartment complex being built 9.56 acres of improved land in Thomasville, Georgia. Tallahassee.

**Commercial and Industrial Loans.** We make commercial and industrial loans, primarily in our market area, to a variety of professionals, sole proprietorships and small businesses. These loans are generally secured by business assets, and we may support this collateral with junior liens on real property. At December 31, 2022 December 31, 2023, commercial and industrial loans were \$25.7 million \$16.9 million, or 7.6% 4.5% of our

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gross loans held for investment. As part of our relationship driven focus, we encourage our commercial borrowers to maintain their primary deposit accounts with us, which enhances our interest rate spread and margin. Our commercial and industrial loan portfolio was inflated due to our participation in the PPP loan program. In 2021 and 2020, we originated 448 PPP loans totaling \$33.8 million before the PPP program expired on May 31, 2021. We began receiving SBA forgiveness payments towards the end of 2020, and our PPP loan portfolio had been reduced to 24 loans totaling \$1.4 million at December 31, 2021, and there were no PPP loans outstanding at December 31, 2022.

Commercial lending products include term loans and revolving lines of credit. Commercial loans and lines of credit are made with either adjustable or fixed rates of interest. Adjustable rates and fixed rates are based on the *Wall Street Journal* prime rate or the constant maturity treasury, plus a margin. We are focusing our efforts on experienced, growing small- to medium-sized, privately-held companies with solid historical financial performance and projected cash flow that operate in our market areas.

When making commercial and industrial loans, we consider the financial statements of the borrower and its related entities, our lending history with the borrower, the debt service capabilities and global cash flows of the borrower and other guarantors, the projected cash flows of the business and the value of the collateral, accounts receivable, inventory and equipment.

Our largest commercial and industrial loan at December 31, 2022 December 31, 2023 totaled \$6.5 million \$2.2 million, was originated in December 2022 August 2021 for \$6.5 million \$2.6 million. It is secured primarily with equipment commercial vehicles of the company.

**Consumer Loans.** We offer a limited range of consumer loans, principally to customers residing in our primary market areas with other relationships with us and with acceptable credit ratings. Our consumer loans generally consist of loans secured by deposit accounts, loans on new and used automobiles and unsecured personal loans. At December 31, 2022 December 31, 2023, consumer and other loans were \$1.2 million \$3.3 million, or 0.3% 0.9% of gross loans held for investment investment, of which, \$2.5 million were purchased from a third party.

## Loan Underwriting Risks

**Commercial Real Estate Loans.** Loans secured by commercial real estate generally have larger balances and involve a greater degree of risk than one-to-four family residential real estate loans. The primary concern in commercial real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans, to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we We require borrowers and loan guarantors to provide annual financial statements on commercial real estate loans. In reaching a decision on whether to make a commercial real estate loan, we consider and review a global cash flow analysis of the borrower and consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have an aggregate debt service ratio, including the guarantor's cash flow and the borrower's other projects, of at least 1.20x. An environmental phase one Phase 1 report is obtained when the possibility exists that hazardous materials may have existed on the site, or the site may have been impacted by adjoining properties that handled hazardous materials.

If we foreclose on a commercial real estate loan, the marketing and liquidation period to convert the real estate asset to cash can be lengthy with substantial holding costs. In addition, vacancies, deferred maintenance, repairs and market stigma can result in prospective buyers expecting sale price concessions to offset their real or perceived economic losses for the time it takes them to return the property to profitability. Depending on the individual circumstances, initial charge-offs and subsequent losses on commercial real estate loans can be unpredictable and substantial.

**Commercial and Industrial Loans.** Unlike residential real estate loans, which generally are made on the basis of the borrower's ability to make repayment from his or her employment or other income, and which are secured by real property whose value tends to be more easily ascertainable, commercial and industrial loans are of higher risk and typically are made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business and the collateral securing these loans may fluctuate in value. Our commercial and industrial loans are originated primarily based on the identified cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. Most often, this collateral consists of accounts receivable, inventory or equipment, including rolling stock. Credit support provided by the borrower for most of these loans is based on the liquidation of the pledged

collateral and enforcement of a personal guarantee, if any. Further, any collateral securing such loans may depreciate over time, may be difficult to appraise and may fluctuate in value. As a result, the availability of funds for the repayment of commercial and industrial loans may depend substantially on the success of the business itself.

**Construction and Land Development Loans.** Our construction loans are based upon estimates of costs and values associated with the completed project, along with the marketability of the completed project. Underwriting is focused on the borrower's financial strength, credit history and demonstrated ability to produce a quality product and effectively market and manage their operations.

Construction lending involves additional risks when compared with permanent lending because funds are advanced upon the security of the project, which is of uncertain value prior to its completion. Because of the uncertainties inherent in estimating construction costs, as well as the market value of the completed project and the effects of governmental regulation of real property, it is relatively difficult to evaluate accurately the total funds required to complete a project and the related loan-to-value ratio. To mitigate this uncertainty, we generally require a third party review of the construction contracts or budgets on loans of over \$1.0 million to assure reasonableness and ability to complete the project for the stated amount. In addition,

generally during the term of a construction loan, interest may be funded by the borrower or disbursed from an interest reserve set aside from the construction loan budget. These loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project

and the ability of the borrower to sell or lease the property or obtain permanent take-out financing, rather than the ability of the borrower or guarantor to repay principal and interest. If the appraised value of a completed project proves to be overstated, we may have inadequate security for the repayment of the loan upon completion of construction of the project and may incur a loss.

**Balloon Loans.** Although balloon mortgage loans may reduce to an extent our vulnerability to changes in market interest rates because they reprice at the end of the term, the ability of the borrower to renew or repay the loan and the marketability of the underlying collateral may be adversely affected if real estate values decline prior to the expiration of the term of the loan or in a rising interest rate environment.

**Adjustable-Rate Loans.** Adjustable-rate loans better offset the adverse effects of an increase in interest rates as compared to fixed-rate loans, an loans. An increased monthly payment required of adjustable-rate loan borrowers in a rising interest rate environment could cause an increase in delinquencies and defaults. The marketability of the underlying collateral also may be adversely affected in a high interest rate environment.

**Consumer Loans.** Consumer loans may entail greater risk than residential real estate loans, particularly in the case of consumer loans that are unsecured or secured by assets that depreciate rapidly, such as motor vehicles. Repossessed collateral for a defaulted consumer loan may not provide an adequate source of repayment for the outstanding loan and a small remaining deficiency often does not warrant further substantial collection efforts against the borrower. Consumer loan collections depend on the borrower's continuing financial stability, and therefore are likely to be adversely affected by various factors, including job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount that can be recovered on such loans.

Originations, Purchases and Sales of Loans

Our lending activities are conducted by our loan personnel operating at our main and branch office locations, our LPOs and residential mortgage center, various locations. All loans originated by us are underwritten pursuant to our policies and procedures. We primarily originate hybrid ARM loans and fixed-rate balloon loans and, to a lesser extent, fully amortized fixed-rate loans. Our ability to originate hybrid ARM loans and fixed-rate balloon loans or fully amortized fixed-rate loans is dependent upon relative customer demand for such loans, which is affected by current and expected future levels of market interest rates. We originate real estate and other loans through our loan officers, marketing efforts, our customer base, walk-in customers and referrals from real estate brokers, builders and attorneys.

We will continue to evaluate purchasing or selling participation interests in loans. We underwrite our participation interest in the loan that we are purchasing according to our own underwriting criteria and procedures. At December 31, 2022 December 31, 2023, we had \$6.2 million \$17.6 million of committed funds for loan participation interests that we purchased, all \$17.3 million of which had been funded. At December 31, 2022 December 31, 2023, we had \$20.5 million \$29.9 million related to loans for which we had sold participations, with \$7.0 million \$340,000 still to be funded at December 31, 2022; December 31, 2023, of which \$2.8 million \$170,000 will be sold to our participating banks.

The following table shows total loans (excluding loans held for sale) originated, purchased, sold and repaid during the periods indicated.

Year Ended December 31,	Year Ended December 31,
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	2022	2021	2020	2023	2022
	(Dollars in thousands)			(Dollars in thousands)	
Loan originations:(1)					
Residential	\$ 55,152	\$ 23,738	\$ 21,320	\$ 15,847	\$ 55,152
Home equity	2,631	3,822	2,496	1,005	2,631
Multi-family residential	-	4,189	2,177	701	-
Commercial real estate	17,183	26,956	17,539	21,867	17,183
Construction and land development	13,435	14,576	12,796	27,410	13,435
Commercial and industrial	16,047	8,914	29,845	3,466	16,047
Consumer	495	701	7,067	2,837	495
Total loan originations	104,943	82,896	932,400	73,133	104,943
Loans purchased (2)	981	—	1,500	12,054	981
Total loans originated and acquired	105,924	82,896	94,740	85,187	105,924
Loans sold (3)	5,058	2,050	5,425	11,106	5,058
Loans transferred to real estate owned	—	1,380	—	—	—
Loan principal repayments	32,656	75,622	70,432	35,682	32,656
Total loans sold and principal repayments	37,714	79,052	68,657	46,788	37,714
Net increase in loan portfolio	\$ 68,210	\$ 3,844	\$ 18,883	\$ 38,399	\$ 68,210

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- (1) Includes loan participations originated by the Bank and sold to other lenders.  
(2) Participation interests in loans bought by the Bank.  
(3) Participation interests in loans sold by the Bank.

In addition to originating loans for our own portfolio, we currently originate loans for sale to generate fee income. We sell residential loans through third-party loan servicers. At **December 31, 2022** **December 31, 2023**, we held **\$2.1 million** **\$289,000** of loans for sale, and we sold **\$48.1 million** **\$12.6 million** of loans during the year ended **December 31, 2022** **December 31, 2023**, all on a servicing-released basis, generating **\$1.0 million** **\$245,000** in gain on sale of loans income.

### Loan Approval Procedures and Authority

Pursuant to federal law, the aggregate amount of loans that the Bank is permitted to make to any one borrower or a group of related borrowers is generally limited to 15% of the Bank's unimpaired capital and surplus (25% if the amount in excess of 15% is secured by "readily marketable collateral" or 30% for certain residential development loans). At **December 31, 2022** **December 31, 2023**, based on the 15% limitation, the Bank's loans-to-one-borrower limit was approximately **\$10.7 million** **\$11.0 million**. No relationship exceeded that amount at **December 31, 2022** **December 31, 2023**.

Our lending is subject to written underwriting standards and origination procedures. Decisions on loan applications are made on the basis of detailed applications submitted by the prospective borrower, credit histories that we obtain, and property valuations (consistent with our appraisal policy) prepared by outside independent licensed appraisers approved by our board of directors as well as internal evaluations, where permitted by regulations. The loan applications are designed primarily to determine the borrower's ability to repay the requested loan, and the more significant items on the application are verified through use of credit reports, bank statements and tax returns.



All loan approval amounts are based on the aggregate loans, including total balances of outstanding loans and the proposed loan to the individual borrower and any related entity. With respect to residential mortgage loans, our Mortgage Manager has individual authorization to approve residential mortgage loans up to the conforming mortgage limit, currently \$726,200, \$766,550. For all loans, each of our President/Chief Executive Officer and Chief Credit Officer have individual authorization to approve secured loans up to \$750,000, \$1.5 million. These individuals can combine their authority to approve loans up to \$1.5 million \$3.0 million as long as the total relationship exposure does not exceed \$3.0 million. Combined, our President/Chief Executive Officer, Chief Financial Officer, Chief Credit Officer and Senior Lending Officer can approve loans up to the legal lending limit of the Bank. The A sub-committee of the Bank's Board of Directors reviews credit decisions on a monthly basis.

Generally, we require title insurance or abstracts on our mortgage loans as well as fire and extended coverage casualty insurance in amounts at least equal to the principal amount of the loan or the value of improvements on the property, depending on the type of loan.

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## Delinquencies and Asset Quality

**Delinquency Procedures.** When a loan payment becomes 15 days past due, we contact the customer by mailing a late notice, and loan officers may contact their customers. If a loan payment becomes 30 days past due, we mail an additional late notice and a loan-specific letter written by a collection representative, and we also place telephone calls to the borrower. notice. These loan collection efforts continue until a loan becomes 90 120 days past due, at which point we would refer the loan for foreclosure proceedings unless management determines that it is in the best interest of TC Federal Bank to work further with the borrower to arrange a workout plan. The foreclosure process would begin when a loan becomes 120 days delinquent. From time to time we may accept deeds in lieu of foreclosure.

**Loans Past Due and Non-Performing Assets.** Loans are reviewed on a regular basis. Management determines that a loan is impaired or non-performing when it is probable that at least a portion of the loan will not be collected in accordance with the original terms due to a deterioration in the financial condition of the borrower or the value of the underlying collateral if the loan is collateral dependent. When a loan is determined to be impaired, the measurement of the loan in the allowance for loan credit losses is based on present value of expected future cash flows, except that all collateral-dependent loans are measured for impairment estimated credit loss based on the fair value of the collateral. Non-accrual loans are loans for which collectability is questionable and, therefore, interest on such loans will no longer be recognized on an accrual basis. All Generally, loans that become 90 days or more delinquent are placed on non-accrual status unless the loan is well secured and in the process of collection. When loans are placed on non-accrual status, unpaid accrued interest is fully reversed, and further payments are used to reduce the principal outstanding.

When we acquire real estate as a result of foreclosure, the real estate is classified as other real estate owned. The other real estate owned is recorded at the lower of carrying amount or fair value, less estimated costs to sell. Soon after acquisition, we order a new appraisal to determine the current market value of the property. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan credit losses, or, if the existing allowance is inadequate, charged to expense

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in the current period. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development and improvement of the property, however, are capitalized to the extent of estimated fair value less estimated costs to sell.

A loan is classified as a troubled debt restructuring if, for economic or legal reasons related to the borrower's financial difficulties, we grant a concession to the borrower that we would not otherwise consider. This usually includes a modification of loan terms, such as a reduction of the interest rate to below market terms, capitalizing past due interest or extending the maturity date and possibly a partial forgiveness of the principal amount due.

Initially, such loans are on non-accrual. Interest income on restructured loans is accrued after the borrower demonstrates the ability to pay under the restructured terms through a sustained period of repayment performance, which is generally six consecutive months.

**Delinquent Loans.** The following table shows our delinquent loans and leases by the type of loan or lease and number of days delinquent as of the dates indicated.

	At December 31,						At December 31,					
	2022			2021			2023			2022		
	90 Days or 30-59 Days Past Due			90 Days or 30-59 Days Past Due			90 Days or 30-59 Days Past Due			90 Days or 30-59 Days Past Due		
	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due	Past Due
	(Dollars in thousands)						(Dollars in thousands)					
Real estate loans:												
Residential	22			1,3								
	\$ 1	\$ —	\$ 32	\$ 31	\$ 75	\$ —	\$ 154	\$ 89	\$ 12	\$ 221	\$ —	\$ 32
Home equity	25	57	—	—	—	—	—	—	47	25	57	—
Multi-family	—	—	—	—	—	—	—	—	—	—	—	—
Commercial	—	—	57	—	—	—	—	—	—	—	—	57
Construction and land development	—	—	—	—	10	60	—	—	—	—	—	—
Total real estate loans	24	57	89	31	85	60	154	89	59	246	57	89
Consumer loans	—	—	—	—	—	—	—	1	—	6	—	—
Commercial and industrial loans	6	—	—	—	—	—	—	—	—	—	—	—
	25			1,3								
	\$ 2	\$ 57	\$ 89	\$ 31	\$ 85	\$ 60	\$ 154	\$ 90	\$ 59	\$ 252	\$ 57	\$ 89

**Non-Performing Assets.** Non-performing assets include loans that are 90 or more days past due or on non-accrual status, including troubled debt restructurings on non-accrual status, and other real estate and owned as well as other loan collateral acquired through foreclosure and repossession. Troubled debt restructurings include loans for which either a portion of interest or principal has been forgiven or loans modified at interest rates materially less than current market rates.

The following table shows the amounts of non-performing assets at the dates indicated.

	December 31,			December 31,	
	2022	2021	2020	2023	2022
	(Dollars in thousands)			(Dollars in thousands)	
Non-accruing loans:					
Residential	\$ 454	\$ 354	\$ 624	\$ 513	\$ 454
Home equity	—	—	—	47	—
Multi-family	—	—	—	—	—
Commercial	57	—	1,339	—	57
Construction and land development	43	60	—	—	43
Commercial and industrial	—	—	—	728	—
Consumer	—	—	—	—	—
Total non-accruing loans	\$ 554	\$ 414	\$ 1,963	\$ 1,288	\$ 554
Accruing loans 90 days or more past due:					
Residential	—	—	16		
Home equity	—	—	—		
Multi-family	—	—	—		
Commercial	—	—	—		
Construction	—	—	—		
Commercial and industrial	—	—	—		
Consumer	—	—	—		
Total accruing loans 90 days or more past due	—	—	16		
Total non-performing loans (1)	554	414	1,979	1,288	554
Real estate owned, net (2)	684	1,115	81		
Other real estate owned, net (2)				-	684
Total non-performing assets	1,238	1,529	2,060	1,288	1,238
Total accruing troubled debt restructurings	310	431	319		
Total non-performing loans as a percentage of loans, gross	0.16%	0.15%	0.74%	0.34%	0.16%
Total non-performing loans as a percentage of total assets	0.13%	0.11%	0.57%	0.28%	0.13%
Total non-performing assets as a percentage of total assets	0.29%	0.40%	0.59%	0.28%	0.29%

(1) Non-performing loans consist of non-accruing loans plus accruing loans 90 days or more past due.

(2) Real estate owned balances are shown net of related loss credit allowances.

For the year ended December 31, 2022 December 31, 2023, gross interest income which would have been recorded had the non-accruing loans been current in accordance with their original terms amounted to \$68,000. The amount that was included in interest income on such loans during the

period was \$48,000, \$21,000. There were no loans that were 90 days or more past due and still accruing as of December 31, 2023 and 2022.

**Non-accrual Loans.** Our As of December 31, 2023, the Company had \$1.3 million of loans in non-accrual status. The single largest loan in non-accrual status at year-end 2022 is 2023 was a residential mortgage commercial credit with a book value balance of \$374,000 which was originated in September 2018 for \$405,000 as a one-to-four family loan, \$680,000. The borrower went into non-accrual status in June 2022 when August 2023. The Bank has charged off \$78,000 of this loan and has established a \$70,000 specific reserve as of the loan was more than 90 days past due. There has been no charge-off on the loan, but the end of 2023. The borrower was current on his payments at December 31, 2022; however, he had not made six consecutive timely payments. December 31, 2023. In order to be returned to accruing status, a borrower must make a minimum of six consecutive principal and interest payments on time, time and have no other issues that would cause concern that the Bank would not collect all of the contractual payments due on the credit.

**Foreclosed Assets (Other Real Estate Owned).** Foreclosed assets consist of property acquired through formal foreclosure, in-substance foreclosure or by deed in lieu of foreclosure, and are recorded at the lower of recorded investment or fair value, less estimated costs to sell. Write-downs from recorded investment to fair value, which are required at the time of foreclosure, are charged to the allowance for loan credit losses. We order a new appraisal before commencing foreclosure to determine the current market value of the property. Any excess of the recorded value of the loan satisfied over the market value of the property is charged against the allowance for loan credit losses, or, if the existing allowance is inadequate, charged to expense, in either case during the applicable period of such determination. After acquisition, all costs incurred in maintaining the property are expensed. Costs relating to the development

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and improvement of the property, however, are capitalized to the extent of estimated fair value, less estimated costs to sell. At December 31, 2022, we had

During 2023, the Company disposed of two other real estate owned ("OREO") properties at a net pre-tax loss of \$684,000, \$31,000. At December 31, 2023, we had no OREO on our books.

We have two other real estate properties owned. The largest property is a professional medical/surgical center facility with a book value of \$631,000. This property originated as a loan in August 2016 for \$2.7 million as an SBA 7(a) loan with a 75% guaranty. The borrower went into default in September 2019, abandoning the building and the medical office equipment. The Bank took possession of the property through a deed in lieu in July 2021. The property was under contract at December 31, 2022, for \$701,000 which subsequently closed on January 31, 2023. The property had been written down to its contract price less 10% selling costs which resulted in an additional write-down of \$431,000 for 2022, of which our portion was \$108,000 and the SBA's portion was \$323,000.

**Classified Assets.** Federal regulations provide for the classification of loans and other assets, such as debt and equity securities considered by the OCC regulators to be of lesser quality, as "substandard," "doubtful" or "loss." An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard," with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable." Assets classified as "loss" are those considered "uncollectible" and of such little

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value that their continuance as **assets** **an asset** without the establishment of a specific **loss** allowance is not warranted. Assets which do not currently expose the insured institution to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses are designated as "special mention" by our management.

When an insured institution classifies problem assets as either substandard or doubtful, it may establish general allowances in an amount deemed prudent by management to cover **probable incurred** **estimated credit** losses. General allowances represent loss allowances which have been established to cover probable incurred losses associated with lending activities, but which, unlike specific allowances, have not been allocated to particular problem assets. When an insured institution classifies problem assets as "loss," it is required either to establish a specific allowance for losses equal to 100% of that portion of the asset so classified or to charge-off such amount. An institution's determination as to the classification of its assets and the amount of its valuation allowances is subject to review by the regulatory authorities, which may require the establishment of additional general or specific loss allowances.

In connection with the filing of our periodic **regulatory** reports **with the OCC** and in accordance with our classification of assets policy, we regularly review the problem loans in our portfolio to determine whether any loans require classification in accordance with applicable regulations.

On the basis of this review of our assets, our classified and special mention assets at the dates indicated were as follows:

	At December 31,			At December 31,	
	2022	2021	2020	2023	2022
	(Dollars in thousands)			(Dollars in thousands)	
Special mention	\$ 7,804	\$ 12,761	\$ 9,042	\$ 6,500	\$ 7,804
Substandard	4,211	4,338	6,836	7,892	4,211
Doubtful	—	—	—	—	—
Loss	—	—	—	—	—
Total classified and criticized assets	\$ 12,015	\$ 17,099	\$ 15,878	\$ 14,392	\$ 12,015

**Allowance for Credit Losses.** On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic ASC 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net reduction of retained earnings of \$302,000 upon adoption. The transition adjustment includes an increase in credit related reserves of \$255,000 for loans plus an increase in credit related reserves of \$149,000 for unfunded commitments net of a corresponding increase in deferred tax assets of \$102,000. In accordance with the standard, management did not reassess whether modifications to individually acquired financial assets accounted for in pools were troubled debt restructurings as of the date of adoption.

The allowance for credit losses ("ACL") is evaluated on a regular basis and established through charges to earnings in the form of a provision for credit losses. When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and

subsequent recoveries, if any, are credited to the allowance. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

#### a. Portfolio Segmentation ("Collectively Evaluated Loans")

Portfolio segmentation is defined as the pooling of loans based upon similar risk characteristics such that quantitative methodologies and qualitative adjustment factors for estimating the ACL are constructed for each segment. The Company has identified seven portfolio segments of loans including; real estate - residential, real estate - home equity, real estate - multi-family, real estate - commercial, real estate - construction and land development, consumer loans and commercial and industrial loans.

The ACL for Collectively Evaluated Loans estimate is based upon periodic review of the collectability of the loans quantitatively correlating historical loss experience with reasonable and supportable forecasts using forward looking information. Adjustments to the quantitative evaluation may be made for differences in current or expected qualitative risk characteristics. The Company has determined the nine "universal" qualitative adjustments categories prescribed by the 2006 Interagency Policy Statement are appropriate given their markets and pool of loans. These criteria are evaluated quarterly to ensure additional criteria do not need to be added, nor do the ranges assigned to each category need to be changed. The nine factors are as follows:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.
2. Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
3. Changes in the nature and volume of the portfolio and in the terms of loans.
4. Changes in the experience, ability, and depth of lending management and other relevant staff.
5. Changes in the volume and severity of past-due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans.
6. Changes in the quality of the institution's loan review system.
7. Changes in the value of underlying collateral for collateral-dependent loans.
8. The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
9. The effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the institution's existing portfolio.

#### b. Individually Evaluated Loans

The Company establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans included in the collectively evaluated loan pools. These individually evaluated loans are removed from the pooling approach discussed above for the collectively evaluated loan pools, and may include nonaccrual loans, loan modifications to borrowers with financial difficulty, and other loans deemed appropriate by management.

#### c. Available-for-Sale ("AFS") Debt Securities

For AFS securities in an unrealized loss position, management first assesses whether (i) the Company intends to sell, or (ii) it is more likely than not that the Company will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously

recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income. If there were any adjustments to the allowance, they would be reported in the Company's income statement as a component of provision for credit loss. AFS securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

#### d. Accrued Interest Receivable

Upon adoption of ASC 326 and its related amendments on January 1, 2023, the Company made the following elections regarding accrued interest receivable:

- Presenting accrued interest receivable balances within another line item on the consolidated balance sheets labeled "accrued interest receivable and other assets".
- Excluding accrued interest receivable that is included in the amortized cost of financing receivables and debt securities from related disclosure requirements.
- Continuing the Company's policy to write off accrued interest receivable by reversing interest income. The write-off of accrued interest on loans typically occurs upon becoming 90 days past due. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Historically, the Company has not experienced uncollectible accrued interest receivable on its investment securities. However, the Company would generally write off accrued interest receivables by reversing interest income if the Company does not reasonably expect to receive payments. Due to the timely manner in which accrued interest receivables are written off, the amounts of such write offs are immaterial.

#### e. Reserve for Unfunded Commitments

The reserve for unfunded commitments (the "Unfunded Reserve") represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Company. The Unfunded Reserve is recognized as a liability (accrued interest payable and other liabilities in the consolidated balance sheets), with adjustments to the reserve recognized as an expense in other expenses in the consolidated statements of income. The Unfunded Reserve is determined by estimating expected future fundings, under each segment, and applying to the expected loss rates. Expected future fundings are based on historical averages of funding rates (i.e., the likelihood of draws taken).

#### **Allowance for Loan Losses**

**The** Prior to January 1, 2023, as described in further detail in the Company's 2022 Annual Report on Form 10-K, the Company used the incurred loss impairment model. Under this methodology, loans were charged against the allowance for loan losses when management believed that the collectability of the principal is maintained at a level unlikely. The allowance represented an amount which, in management's management's judgment, is based on, among other things, historical losses and on the current economic environment, would be adequate to absorb probable credit losses inherent in the loan portfolio. The amount of on existing loans that may become uncollectible. Loans deemed uncollectible were charged-off and

deducted from the allowance is based and recoveries on management's evaluation of the collectability of the loan portfolio, including the nature of the portfolio, credit concentrations, trends in historical loss experience, specific impaired loans and economic conditions. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable loan losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by full and partial charge-offs, net of recoveries. Changes in the allowance relating to impaired loans are charged or credited previously charged-off were added back to the provision for loan losses. The Asset Quality Committee's periodic evaluation of allowance. Management's judgment in determining the adequacy of the allowance is was based on various evaluations of the collectability of loans. These evaluations took into consideration such factors including, but not limited to, an ongoing review as changes in the nature and grading volume of loans, facts and issues related to specific loans, historical the loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of

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specific loans or loan pools, the fair value of underlying collateral, portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and other qualitative and quantitative factors which could affect potential credit losses. review of specific problem loans.

As an integral part of their examination process, the OCC periodically reviews our allowance for loan credit losses, and as a result of such reviews, we may have to adjust our allowance for loan losses. allowance. However, regulatory agencies are not directly involved in the process for establishing our allowance for loan losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of the Asset Quality Committee. credit losses.

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The following table sets forth an analysis of our allowance for loan credit losses at the dates and for the periods indicated.

	At or for the years ended			At or for the years ended December 31,	
	December 31,			December 31,	
	2022	2021	2020	2023	2022
	(Dollars in thousands)			(Dollars in thousands)	
Balance at beginning of period:	4,1	4,0	3,0		
	\$ 84	\$ 86	\$ 65	\$ 4,362	\$ 4,184
ASC 326 adoption				255	—
Charge-offs:					
Real estate loans:					
Residential	\$ (3)	\$ (11)	\$ (3)	\$ -	\$ (3)
Home equity	—	—	(1)	—	—
Multi-family					
Commercial	—	—	(63)	—	—
Construction and land development	—	—	(1)	—	—
Total real estate loans	(3)	(11)	(68)	-	(3)
Consumer loans	(65)	(48)	—	(34)	(65)



Commercial and industrial	-	(78)	—	(78)	-
Total Charge-offs		(13)			
	<u>\$ (68)</u>	<u>\$ 7</u>	<u>\$ (68)</u>	<u>\$ (112)</u>	<u>\$ (68)</u>
Recoveries:					
Real estate loans:					
Residential			12		
	\$ 53	\$ 34	\$ 3	\$ 36	\$ 53
Home equity	—	—	—	—	—
Multi-family	—	—	—	—	—
Commercial	—	20	—	—	—
Construction and development	11	24	32	23	11
Total real estate loans			15		
	64	78	5	59	64
Consumer loans	7	6	8	3	7
Commercial and industrial			14		
	64	28	6	95	64
Total recoveries	13		30		
	<u>\$ 5</u>	<u>\$ 112</u>	<u>\$ 9</u>	<u>\$ 157</u>	<u>\$ 135</u>
Net (charge-offs) recoveries			24		
	\$ 67	\$ (25)	\$ 1		
	11		78		
Provision for loan losses	1	123	0		
Net recoveries				\$ 45	\$ 67
Provision for credit losses				175	111
Balance at end of period	4,3	4,1	4,0		
	<u>\$ 62</u>	<u>\$ 84</u>	<u>\$ 86</u>	<u>\$ 4,837</u>	<u>\$ 4,362</u>
Net (charge-offs) recoveries during the period to average loans outstanding	0.01	(0.01)	0.0		
during the period	%	%)	9 %		
Net recoveries during the period to average loans outstanding during the period				0.01 %	0.01%
Allowance as a percentage of non-performing loans	78	101	20		
	7.4 %	0.6 %	6.5 %	375.5 %	787.4 %
Allowance as a percentage of total loans, net (end of period)	1.2	1.5	1.5		
	8 %	4 %	3 %	1.28 %	1.28 %

**Allocation of Allowance for Loan Credit Losses.** The following tables set forth the allowance for loan credit losses allocated by loan category and the percent of the loans in each category at the dates indicated. The allowance for loan credit losses allocated to each category

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is not necessarily indicative of future losses in any particular category and does not restrict the use of the allowance to absorb losses in other categories.

The following table summarizes the distribution of the allowance for loan credit losses by category at the dates indicated.

	At December 31,						At December 31,			
	2022		2020		2019		2023		2022	
	Per	cen	Per	cen	Per	cen				
	t of	t of	t of	t of	t of	t of				
	loa	loa	loa	loa	loa	loa				
	ns	ns	ns	ns	ns	ns				
	in	in	in	in	in	in				
	eac	eac	eac	eac	eac	eac				
	h	h	h	h	h	h				
	cat	cat	cat	cat	cat	cat				
	ego	ego	ego	ego	ego	ego				
	ry	ry	ry	ry	ry	ry				
	to	to	to	to	to	to				
	Allowa	tota	Allowan	tota	Allowa	tota		Percent of		Percent of
	nce for	l	ce for	l	nce for	l		loans in each		loans in each
	loan	loa	Loan	loa	loan	loa		category to		category to
	losses	ns	Losses	ns	losses	ns		total loans		total loans
	(Dollars in thousands)						Allowance for Credit Losses		Allowance for Loan Losses	
							(Dollars in thousands)			
Real estate loans:										
Residential	1,961	40.2%	1,469	36.3%	1,445	39.6%	3,078	39.3%	1,961	40.2%
Home equity	187	7.3%	174	2.4%	134	3.3%	118	2.9%	187	3.7%
Multi-family	226	2.7%	288	3.7%	311	7.5%	82	5.1%	226	7.2%
Commercial	1,632	32.8%	1,758	33.1%	1,531	27.2%	1,092	32.7%	1,632	32.8%
Construction and land development	264	2.8%	351	7.7%	387	11.2%	306	14.7%	264	8.2%
Total real estate loans	4,270	92.1%	4,040	93.6%	3,808	86.9%	4,676	94.7%	4,270	92.1%



U.S. treasuries	10 ,1	9, 32	5, 12	5, 10									
	\$ 15	\$ 5	\$ 9	\$ 4	\$ —	\$ —	\$	10,090	\$	9,534	\$	10,115	\$ 9,325
Municipal bonds	8, 76	7, 02	8, 76	8, 59									
	3	9	7	7	—	—		8,759		7,466		8,763	7,029
Mortgage- backed securities	9, 61	8, 73	10 ,2	10 ,3	5, 94	6, 28							
	8	2	95	69	4	1		9,194		8,406		9,618	8,732
Collateral mortgage obligations	15 ,7	14 ,8	18 ,8	18 ,7	8, 96	9, 13							
	13	44	04	30	6	5							
Collateralized mortgage obligations								14,677		13,954		15,713	14,844
Commercial mortgage- backed securities								963		1,007		-	-
Corporate obligations	3, 62	3, 16	2, 87	2, 83	50 ,50	50 ,50							
	5	7	5	2	0	1		3,125		2,598		3,625	3,167
Total investment securities	47 ,8	43 ,0	45 ,8	45 ,6	15 ,4	15 ,9							
	\$ 34	\$ 97	\$ 70	\$ 32	\$ 10	\$ 17	\$	46,808	\$	42,965	\$	47,834	\$ 43,097

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**Portfolio Maturities and Yields.** The composition and maturities of our investment portfolio at **December 31, 2022** **December 31, 2023** are indicated in the following table. Maturities are based on the final contractual payment date and do not reflect the effect of scheduled principal repayments, prepayments, or early redemptions that may occur. As of **December 31, 2022** **December 31, 2023**, no securities were **held to maturity**. **There were no securities due in one year designated as held-to-maturity or less at December 31, 2022. trading.**

	Over One to Five Years		Over Five to Ten Years		Over Ten Years		Total Securities	
	Weighted		Weighted		Weighted		Weighted	
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield
<b>Securities available for sale:</b>								
U.S. treasuries	\$ 5,006	2.14 %	\$ 5,109	1.28 %	\$ —	— %	\$ 10,115	1.71 %

Government Sponsored Mortgage Backed Securities	5,136	3.79	4,072	2.24	410	3.5	9,618	3.12
Government Sponsored Collateral Mortgage Obligations	12,604	3.97	3,109	2.78	—	—	15,713	3.73
Municipal bonds	—	—	8,763	1.72	—	—	8,763	1.72
Corporate obligations	—	—	3,625	3.81	—	—	3,625	3.70
Total securities available for sale	<u>\$ 22,746</u>	<u>3.51 %</u>	<u>\$ 24,678</u>	<u>2.16 %</u>	<u>\$ 410</u>	<u>2.16 %</u>	<u>\$ 47,834</u>	<u>1.52 %</u>

	One Year or Less		Over One to Five Years		Over Five to Ten Years		Over Ten Years		Total Securities	
	Weighted		Weighted		Weighted		Weighted		Weighted	
	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average	Amortized	Average
	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield	Cost	Yield
<b>Securities available-for-sale:</b>										
U.S. treasuries									10,09	
	\$ 5,001	2.15 %	\$ 5,089	1.27 %	\$ -	- %	\$ -	- %	\$ 0	1.71 %
Municipal bonds	-	-	1,006	1.77	7,753	1.71	-	-	8,759	1.72
Mortgage-backed securities	-	-	1,629	2.33	1,502	1.57	6,063	5.36	9,194	4.20
Collateralized mortgage obligations	-	-	1,079	2.08	3,167	4.57	10,43	5.97	14,67	5.38
Commercial mortgage-backed securities	-	-	-	-	963	5.78	-	-	963	5.78
Corporate obligations	-	-	-	-	3,125	3.76	-	-	3,125	3.76
Total investment securities	<u>\$ 5,001</u>	<u>2.15 %</u>	<u>\$ 8,803</u>	<u>1.62 %</u>	<u>\$ 16,51</u>	<u>2.87 %</u>	<u>\$ 16,49</u>	<u>5.74 %</u>	<u>\$ 46,80</u>	<u>3.57 %</u>

## Sources of Funds

**General.** Deposits have traditionally been our primary source of funds funding for use in our lending and investment activities. We also may use borrowings wholesale sources of funding to supplement cash flow needs, lengthen the maturities of liabilities for interest rate risk purposes and to assist in managing our balance sheet, or to manage the our cost of funds. In addition, we receive funds from scheduled loan payments, investment maturities and repayments, loan prepayments, retained earnings and income on earning assets. While scheduled loan payments and income on earning assets are relatively stable sources of funds, deposit inflows and outflows can vary widely and are influenced by prevailing interest rates, market conditions and levels of competition.

**Deposits.** Our deposits are generated primarily from our primary market area branch banking network. Our primary deposit products are personal checking accounts, business checking accounts, savings accounts, money market accounts and certificates of deposit. Deposit account terms vary, with the principal differences being the minimum balance required, the amount of time the funds must remain on deposit and the interest rate. We have accepted minimal In addition, we utilize brokered deposits in recent periods as an additional source of funding and as a balance sheet management tool.

Interest rates paid, maturity terms, service fees and withdrawal penalties are established on a periodic basis. Deposit rates and terms are based primarily on current operating strategies and market rates, liquidity requirements, rates paid by competitors and growth goals. We While we offer competitive deposit rates, we also rely upon personalized customer service and long-standing relationships with customers and the favorable image of TC Federal Bank in the community to attract and retain deposits. We also seek The addition of our new branch locations during 2023, in Savannah, Georgia and Jacksonville, Florida has significantly increased our ability to obtain generate additional deposits from to fund our commercial loan customers.operations.

The flow of deposits is influenced significantly by general economic conditions, changes in money market and other prevailing interest rates and competition. The variety of deposit accounts offered allows us to be competitive in obtaining funds and responding to changes in consumer demand. Based on experience, we believe that our deposits are relatively stable. However, the ability to attract and maintain deposits and as well as the rates paid on these deposits, has been and will continue to be significantly affected by market conditions.the prevailing interest rate environment.

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The following table sets forth our average deposits by dollar amount and the average rate paid for the various types of deposit programs we offered at the dates indicated.

										Years Ended December 31,									
										2023						2022			
										Average			Percent			Average		Percent	
										Average			Percent			Average		Percent	
										Average			Percent			Average		Percent	
										Average			Percent			Average		Percent	
(Dollars in thousands)									(Dollars in thousands)										
Deposits:																			
Non-																			
interest-	45,	1			1			1											
bearing	87	2.			38,	2.		52,	8.										
checking	\$ 9	6 %	— %	\$472	6 %	— %	\$552	7 %	—	\$ 44,314	13.0 %	- %	\$ 44,931	14.2 %	- %				
Interest-	57,	1			1														
bearing	87	7.	0.0	52,	7.	0.0	14,	5.	0.0										
checking	9	1	9	224	1	9	636	2	7	53,763	15.7	0.45	59,426	18.8	0.13				
Savings	33,	1			1			1											
	94	1.	0.1	35,	1.	0.0	32,	1.	0.3										
	1	5	4	059	5	4	999	7	9	41,880	12.2	1.46	33,935	10.7	0.14				
Money	10	3		10	3			2											
market	3,0	3.	0.7	0,6	3.	0.2	82,	9.	0.7										
	42	0	1	07	0	5	778	5	2	104,560	30.6	2.73	103,042	32.6	0.71				

The following table sets forth our total deposit activities for the periods indicated.

The following table sets forth the rate and maturity information of our time certificates of deposit certificates at December 31, 2022 December 31,

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correspondent banks, and engage in overnight borrowings from the Federal Reserve. The level and terms of short-term borrowings can fluctuate on a daily basis depending based on funding needs, costs, and the source of the funds to satisfy the needs. utilized.

As of December 31, 2022 December 31, 2023, we had \$45.4 million \$98.9 million in credit available with FHLB. In addition, we have four unsecured federal funds lines of credit, in the aggregate amount of \$28.5 million, and approximately \$5.8 million \$24.8 million available from the Federal Reserve Discount Window. We had \$11.0 million at an of long-term advances outstanding with the FHLB with a weighted average interest rate of 4.57%, outstanding under the daily rate credit program with FHLB 4.40% at December 31, 2022 December 31, 2023.

The following table sets forth information regarding our borrowing borrowings at the end of and during the periods indicated. The table includes both long-long and short-term borrowings.

	Years Ended December 31,		
	2022	2021	2020
	(Dollars in thousands)		
FHLB Advances			
Average balance outstanding	\$ 11,000	\$ 4,736	\$ 9,313
Maximum Amount outstanding at any month-end during the period	\$ 11,000	\$ 10,345	\$ 12,769
Balance outstanding at end of period	\$ 11,000	\$ —	\$ 9,515
Average interest rate during the period	0.70 %	0.85 %	1.00 %
Weighted average interest rate at end of period	4.57 %	—	0.86 %
	Years Ended December 31,		
	2023	2022	
	(Dollars in thousands)		
FHLB Advances			
Average balance outstanding	\$ 6,164	\$ 1,268	
Maximum Amount outstanding at any month-end during the period	\$ 11,000	\$ 11,000	
Balance outstanding at end of period	\$ 11,000	\$ 11,000	
Average interest rate during the period	4.35 %	4.20 %	
Weighted average interest rate at end of period	4.40 %	4.36 %	

## SUPERVISION AND REGULATION

### General

As a bank holding company, TC Bancshares, Inc. is subject to examination and supervision by, and is required to file certain reports with, the Board of Governors of the Federal Reserve System ("Federal Reserve Board"). The Company is also subject to the rules and regulations of the SEC under the federal securities laws. The Federal Reserve Board has not introduced any corresponding regulations for treatment of holding companies of covered savings associations, so ambiguity remains regarding the ongoing treatment and regulation of such holding companies.

As a federal savings bank, TC Federal Bank is subject to examination, supervision and regulation, primarily by the Office of the Comptroller of the Currency ("OCC"), and, secondarily, by the Federal Deposit Insurance Corporation ("FDIC") as deposits insurer. The federal system of supervision and regulation establishes a comprehensive framework of activities in which the Bank may engage and is intended primarily for the protection of depositors and the FDIC's Deposit Insurance Fund.

The Bank is also regulated to a lesser extent by the Federal Reserve Board, which governs the reserves to be maintained against deposits and other matters. In addition, the Bank is a member of and owns stock in the Federal Home Loan Bank of Atlanta, which is one of the 11 regional banks in the Federal Home Loan Bank System. The Bank's relationship with its depositors and borrowers is also regulated to a great extent by federal law and, to a lesser extent, state law, including in matters concerning the ownership of deposit accounts and the form and content of the Bank's loan documents.

The Bank elected to operate as a “covered savings association.” As a covered savings association, the Bank maintains its charter as a federal savings bank, but also has the power to engage in the same activities (including investment activities) as a national bank, subject to the same authorization, terms, and conditions as a national bank. Covered savings associations are subject to the federal savings association laws in the area of governance, consolidation, merger, dissolution, conservatorship and receivership. As a covered savings association, the Bank is not required to comply with the lending limits established by the Home Owners’ Loan Act that are applicable to federal savings associations.

Set forth below are certain material regulatory requirements that are applicable to the Company and the Bank. This description of statutes and regulations is not intended to be a complete description of such statutes and regulations and their effects on the Company and the Bank and is qualified by reference to the statutory and regulatory provisions discussed. Any change in these laws or regulations, whether by Congress or the applicable regulatory agencies, could have a material adverse impact on the Company, Bank and their operations.

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### **The Dodd-Frank Wall Street Reform and Consumer Protection Act**

The Dodd-Frank Act Wall Street Reform and Consumer Protection Act (the “Dodd-Frank Act”) made significant changes to the regulatory structure for depository institutions and their holding companies. However, the Dodd-Frank Act’s changes go well beyond that and affect the lending, investments and other operations of all depository institutions. The Dodd-Frank Act required the Federal Reserve Board to set minimum capital levels for both bank holding companies and savings and loan holding companies that are as stringent as those required for the insured depository subsidiaries, and the components of Tier 1 capital for holding companies were restricted to capital instruments that were then currently considered to be Tier 1 capital for insured depository institutions. Subsequent regulations issued by the Federal Reserve Board generally exempted from these requirements bank and savings and loan holding companies of less than \$3 billion of consolidated assets, such as the Company. The legislation also established a floor for capital of insured depository institutions that cannot be lower than the standards in effect upon passage, and directed the federal banking regulators to implement new leverage and capital requirements that take into account off-balance sheet activities and other risks, including risks relating to securitized products and derivatives. Additionally, the Dodd-Frank Act authorized the payment of interest on commercial checking accounts, effective July 21, 2011.

The Dodd-Frank Act created a new Consumer Financial Protection Bureau (the “CFPB”) with broad powers to supervise and enforce consumer protection laws. The CFPB has broad rule-making authority for a wide range of consumer protection laws that apply to all banks and savings institutions such as the Bank, including the authority to prohibit “unfair, deceptive or abusive” acts and practices. The CFPB has examination and enforcement authority over all banks and savings institutions with more than \$10 billion in assets. Banks and savings institutions with \$10 billion or less in assets continue to be examined for compliance by their applicable bank regulators. The new legislation also weakened the federal preemption available for national banks and federal savings banks, and gave state attorneys general the ability to enforce applicable federal consumer protection laws.

The Dodd-Frank Act broadened the base for FDIC insurance assessments. Assessments are now based on the average consolidated total assets less tangible equity capital of a financial institution. The legislation also permanently increased the maximum amount of deposit insurance for banks, savings institutions and credit unions to \$250,000 per depositor, retroactive to January 1, 2008. The Dodd-Frank Act increased stockholder influence over boards of directors by requiring publicly traded companies to give stockholders a non-binding vote on executive compensation and so-called “golden parachute” payments. The legislation also directed the Federal Reserve Board to promulgate rules prohibiting excessive compensation paid to bank holding company executives, regardless of whether the company is publicly traded. Further, the legislation required that originators of securitized loans retain a percentage of the risk for transferred loans, directed the Federal Reserve Board to regulate pricing of certain debit card interchange fees and contained a number of reforms related to mortgage origination.

Many provisions of the Dodd-Frank Act involve delayed effective dates and/or require implementing regulations. The implementation of the legislation is an ongoing process and the impact on operations cannot yet fully be assessed. However, there is a significant likelihood that the Dodd-

Frank Act will result in an increased regulatory burden and compliance, operating and interest expense for the Company and the Bank.

## Federal Banking Regulation

**Business Activities.** A federal savings bank derives its lending and investment powers from the Home Owners' Loan Act, as amended, and applicable federal regulations. Under these laws and regulations, the Bank may invest in mortgage loans secured by residential and commercial real estate, commercial business and consumer loans, certain types of debt securities and certain other assets, subject to applicable limits. However, as a covered savings association, the Bank is not subject to the qualified thrift lender test and the lending restrictions under the Home Owners' Loan Act. Covered savings associations such as the Bank have the power and authority to engage in the same activities as a national bank. Prior to the Bank's election to become a covered savings association, the Bank had authority to establish, subject to specified investment limits, service corporation subsidiaries that may engage in certain activities not otherwise permissible for the Bank, including real estate investment and securities and insurance brokerage. Upon election to become a covered savings association, the Bank was required to divest or discontinue subsidiaries, assets or activities that are not permissible for national banks, and no divestitures were required.

**Examinations and Assessments.** The Bank is primarily supervised by the OCC. The Bank is required to file reports with and is subject to periodic examination by the OCC. The Bank is required to pay assessments to the OCC to fund the agency's operations.

**Capital Requirements.** Federal regulations require FDIC-insured depository institutions, including federal savings banks, to meet several minimum capital standards: a common equity Tier 1 capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets and a Tier 1 capital to total assets leverage ratio. The existing capital requirements were effective January 1, 2015 and are the result of a final rule implementing regulatory amendments based on recommendations of the Basel Committee on Banking Supervision and certain requirements of the Dodd-Frank Act.

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The capital standards require the maintenance of common equity Tier 1 capital, Tier 1 capital and Total capital to risk-weighted assets of at least 4.5%, 6% and 8%, respectively. The regulations also establish a minimum required leverage ratio of at least 4% Tier 1 capital. Common equity Tier 1 capital is generally defined as common stockholders' equity and retained earnings. Tier 1 capital is generally defined as common equity Tier 1 and Additional Tier 1 capital. Additional Tier 1 capital generally includes certain noncumulative perpetual preferred stock and related surplus and minority interests in equity accounts of consolidated subsidiaries. Total capital includes Tier 1 capital (common equity Tier 1 capital plus Additional Tier 1 capital) and Tier 2 capital. Tier 2 capital is comprised of capital instruments and related surplus meeting specified requirements, and may include cumulative preferred stock and long-term perpetual preferred stock, mandatory convertible securities, intermediate preferred stock and subordinated debt. Also included in Tier 2 capital is the allowance for loan and lease credit losses limited to a maximum of 1.25% of risk-weighted assets and, for institutions that have exercised an opt-out election regarding the treatment of accumulated other comprehensive income ("AOCI"), up to 45% of net unrealized gains on available-for-sale equity securities with readily determinable fair market values. Institutions that have not exercised the AOCI opt-out have AOCI incorporated into common equity Tier 1 capital (including unrealized gains and losses on available-for-sale securities). Calculation of all types of regulatory capital is subject to deductions and adjustments specified in the regulations. The Bank exercised the AOCI opt-out.

In determining the amount of risk-weighted assets for purposes of calculating risk-based capital ratios, an institution's assets, including certain off-balance sheet assets (e.g., recourse obligations, direct credit substitutes, residual interests), are multiplied by a risk weight factor assigned by the regulations based on the risk deemed inherent in the type of asset. Higher levels of capital are required for asset categories believed to present greater risk. For example, a risk weight of 0% is assigned to cash and U.S. government securities, a risk weight of 50% is generally assigned to prudently underwritten first lien one to four-family residential mortgages, a risk weight of 100% is assigned to commercial and consumer loans, a risk weight of

150% is assigned to certain past due loans and a risk weight of between 0% to 600% is assigned to permissible equity interests, depending on certain specified factors.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions and certain discretionary bonus payments to management if the institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

The FASB adopted a new credit loss accounting standard applicable to all banks, savings banks, credit unions, and financial holding companies, regardless of size and is effective for the Bank for our fiscal year beginning on January 1, 2023. The final rule allows for an optional three-year phase in of the day-one adverse effects on a bank's regulatory capital. This Current Expected Credit Loss ("CECL") standard requires financial institutions to determine periodic estimates of lifetime expected credit losses on loans, and recognize the expected credit losses as allowances for **loan credit** losses.

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios and define what constitutes "capital" for calculating these ratios. The minimum capital requirements are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 to risk-based assets capital ratio of 6%; (3) a total capital ratio of 8%; and (4) a Tier 1 leverage ratio of 4%. The regulations also require unrealized gains and losses on certain "available-for-sale" securities holdings to be included for calculating regulatory capital requirements unless a one-time opt out is exercised. We elected to exercise our one-time option to opt out of the requirement to include certain "available-for-sale" securities holdings for calculating our regulatory capital ratios. The regulations also establish a "capital conservation buffer" of 2.5%, resulting in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 to risk-based assets capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, repurchasing its shares, and paying discretionary bonuses, if its capital levels fall below the buffer amount.

The federal banking agencies proposed a rule to establish for institutions with assets of less than \$10 billion that meet other specified criteria a "community bank leverage ratio" (the ratio of a bank's tangible equity capital to average total consolidated assets) of 9% that such institutions may elect to utilize in lieu of the generally applicable leverage and risk-based capital requirements under the Basel Committee on Banking Supervision ("Basel III"). A "qualifying community bank" with capital exceeding 9% will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be "well capitalized." The rule was adopted in final form, effective January 1, 2020. The Bank has not elected to use the community bank leverage ratio.

We have analyzed the effects of these **new** capital requirements, and at **December 31, 2022** **December 31, 2023**, the Bank's capital exceeded and we believe that the Bank meets all of these **new** requirements, including the full 2.5% capital conservation buffer.

**Loans-to-One Borrower.** Generally, a federal savings bank may not make a loan or extend credit to a single or related group of borrowers in excess of 15% of unimpaired capital and surplus. An additional amount may be lent, equal to 10% of unimpaired capital

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and surplus, if secured by "readily marketable collateral," which generally includes certain financial instruments (but not real estate). As of **December 31, 2022** **December 31, 2023**, the Bank was in compliance with the loans-to-one borrower limitations.

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**Standards for Safety and Soundness.** Federal law requires each federal banking agency to prescribe certain standards for all insured depository institutions. These standards relate to, among other things, internal controls, information systems and audit systems, loan documentation, credit underwriting, interest rate risk exposure, asset growth, compensation and other operational and managerial standards as the agency deems

appropriate. Interagency guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. If the appropriate federal banking agency determines that an institution fails to meet any standard prescribed by the guidelines, the agency may require the institution to submit to the agency an acceptable plan to achieve compliance with the standard. Failure to implement such a plan can result in further enforcement action, including the issuance of a cease and desist order or the imposition of civil money penalties.

**Prompt Corrective Action Regulations.** Under the federal Prompt Corrective Action statute, the OCC is required to take supervisory actions against undercapitalized institutions under its jurisdiction, the severity of which depends upon the institution's level of capital. An institution that has a total risk-based capital ratio of less than 8.0%, a Tier 1 risk-based capital ratio of less than 6.0%, a common equity Tier 1 ratio of less than 4.5% or a leverage ratio of less than 4% is considered to be "undercapitalized." A savings institution that has total risk-based capital of less than 6.0%, a Tier 1 risk-based capital ratio of less than 4.0%, a common equity Tier 1 ratio of less than 3.0% or a leverage ratio that is less than 3.0% is considered to be "significantly undercapitalized." A savings institution that has a tangible capital to assets ratio equal to or less than 2.0% is deemed to be "critically undercapitalized."

Generally, the OCC is required to appoint a receiver or conservator for a federal savings bank that becomes "critically undercapitalized" within specific time frames. The regulations also provide that a capital restoration plan must be filed with the OCC within 45 days of the date that a federal savings bank is deemed to have received notice that it is "undercapitalized," "significantly undercapitalized" or "critically undercapitalized." Any holding company of a federal savings bank that is required to submit a capital restoration plan must guarantee performance under the plan in an amount of up to the lesser of 5.0% of the savings bank's assets at the time it was deemed to be undercapitalized by the OCC or the amount necessary to restore the savings bank to adequately capitalized status. This guarantee remains in place until the OCC notifies the savings bank that it has maintained adequately capitalized status for each of four consecutive calendar quarters. Institutions that are undercapitalized become subject to certain mandatory measures such as restrictions on capital distributions and asset growth. The OCC may also take any one of a number of discretionary supervisory actions against undercapitalized federal savings banks, including the issuance of a capital directive and the replacement of senior executive officers and directors.

At **December 31, 2022** **December 31, 2023**, the Bank met the criteria for being considered "well capitalized," which means that its total risk-based capital ratio exceeded 10%, its Tier 1 risk-based ratio exceeded 8.0%, its common equity Tier 1 ratio exceeded 6.5% and its leverage ratio exceeded 5.0%

**Qualified Thrift Lender Test.** As a covered savings association, the Bank is not required to satisfy the qualified thrift lender, or "QTL," test with which other federal savings banks would otherwise be required to comply. If the QTL test were to apply to the Bank, the bank would be required maintain at least 65% of its "portfolio assets" in "qualified thrift investments" (primarily residential mortgages and related investments, including mortgage-backed securities) in at least nine months of every 12-month period under the QTL test. "Portfolio assets" generally means total assets of a savings bank, less the sum of specified liquid assets up to 20% of total assets, goodwill and other intangible assets, and the value of property used in the conduct of the savings bank's business. Alternatively, the Bank would be able to satisfy the QTL test by qualifying as a "domestic building and loan association" as defined in the Internal Revenue Code.

**Capital Distributions.** Federal regulations govern capital distributions by a federal savings bank, which include cash dividends, stock repurchases and other transactions charged to the savings bank's capital account. A federal savings bank must file an application with the OCC for approval of a capital distribution if:

- the total capital distributions for the applicable calendar year exceed the sum of the savings bank's net income for that year to date plus savings bank's retained net income for the preceding two years;
- the savings bank would not be at least adequately capitalized following the distribution;
- the distribution would violate any applicable statute, regulation, agreement or regulatory condition; or
- the savings bank is not eligible for expedited treatment of its filings.

An application or notice related to a capital distribution may be disapproved if:

- the federal savings bank would be undercapitalized following the distribution;
- the proposed capital distribution raises safety and soundness concerns; or
- the capital distribution would violate a prohibition contained in any statute, regulation or agreement.

In addition, the Federal Deposit Insurance Act provides that an insured depository institution shall not make any capital distribution if, after making such distribution, the institution would fail to meet any applicable regulatory capital requirement. A federal savings bank also may not make a capital distribution that would reduce its regulatory capital below the amount required for the liquidation account established in connection with its conversion to stock form.

**Community Reinvestment Act and Fair Lending Laws.** All federal savings banks have a responsibility under the Community Reinvestment Act and related regulations to help meet the credit needs of their communities, including low- and moderate-income borrowers. In connection with its examination of a federal savings bank, the OCC is required to assess the federal savings bank's record of compliance with the Community Reinvestment Act. A savings bank's failure to comply with the provisions of the Community Reinvestment Act could, at a minimum, result in denial of certain corporate applications such as branches or mergers, or in restrictions on its activities. In addition, the Equal Credit Opportunity Act and the Fair Housing Act prohibit lenders from discriminating in their lending practices on the basis of characteristics specified in those statutes. The failure to comply with the Equal Credit Opportunity Act and the Fair Housing Act could result in enforcement actions by the OCC, as well as other federal regulatory agencies and the Department of Justice.

The On October 24, 2023, the OCC, FDIC, and Federal Reserve announced that they are working together adopted a final rule intended to "strengthen and modernize" modernize the rules regulations implementing the Community Reinvestment Act. Act to better achieve the purpose of the law." Most of these rules' requirements will be applicable beginning January 1, 2026. The full effects on the Bank of any potential change these changes to the Community Reinvestment Act rules will depend on the final form regulatory interpretation of any this federal rulemaking and cannot be predicted at this time. Management will continue to evaluate any changes to the Community Reinvestment Act's regulations and their impact to the Bank.

The Community Reinvestment Act requires all institutions insured by the FDIC to publicly disclose their rating. The Bank received a "satisfactory" Community Reinvestment Act rating in its most recent federal examination.

**Transactions with Related Parties.** A federal savings bank's authority to engage in transactions with its affiliates is limited by Sections 23A and 23B of the Federal Reserve Act and federal regulation. An affiliate is generally a company that controls, or is under common control with an insured depository institution such as the Bank. The Company is an affiliate of the Bank because of its control of the Bank. In general, transactions between an insured depository institution and its affiliates are subject to certain quantitative limits and collateral requirements. In addition, transactions with affiliates must be consistent with safe and sound banking practices, not involve the purchase of low-quality assets and be on terms that are as favorable to the institution as comparable transactions with non-affiliates.

The Bank's authority to extend credit to its directors, executive officers and 10% stockholders, as well as to entities controlled by such persons, is currently governed by the requirements of Sections 22(g) and 22(h) of the Federal Reserve Act and Regulation O of the Federal Reserve Board. Among other things, these provisions generally require that extensions of credit to insiders:

- be made on terms that are substantially the same as, and follow credit underwriting procedures that are not less stringent than, those prev for comparable transactions with unaffiliated persons and that do not involve more than the normal risk of repayment or present other unfavc features; and
- not exceed certain limitations on the amount of credit extended to such persons, individually and in the aggregate, which limits are based, in on the amount of the Bank's capital.

In addition, extensions of credit in excess of certain limits must be approved by the Bank's board of directors. Extensions of credit to executive officers are subject to additional limits based on the type of extension involved.

**Enforcement.** The OCC has primary enforcement responsibility over federal savings banks and has authority to bring enforcement action against all "institution-affiliated parties," including directors, officers, stockholders, attorneys, appraisers and accountants who knowingly or recklessly participate in wrongful action likely to have an adverse effect on a federal savings bank. Formal enforcement action by the OCC may range from the issuance of a capital directive or cease and desist order to removal of officers and/or directors of the institution to the appointment of a receiver or conservator. Civil penalties cover a wide range of violations and actions, and range up to \$25,000 per day, unless a finding of reckless disregard is made, in which case penalties may be as high as \$1.0 million per day. The FDIC also has the authority to terminate deposit insurance or recommend to the OCC that enforcement action be taken with respect to a particular savings bank. If such action is not taken, the FDIC has authority to take the action under specified circumstances.

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**Insurance of Deposit Accounts.** The Deposit Insurance Fund of the FDIC insures deposits at FDIC insured financial institutions such as the Bank. Deposit accounts in the Bank are insured by the FDIC generally up to a maximum of \$250,000 per separately insured depositor and up to a maximum of \$250,000 for self-directed retirement accounts.

The FDIC charges insured depository institutions premiums to maintain the Deposit Insurance Fund. Under the FDIC's risk-based assessment system, assessments for most institutions are now based on financial measures and supervisory ratings derived from

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statistical modeling estimating the probability of failure within three years and certain other factors. An institution's rate depended upon the category to which it is assigned, and certain adjustments specified by FDIC regulations. Institutions deemed less risky pay lower FDIC assessments. FDIC assessments are based upon each insured institution's total assets less tangible equity instead of deposits. Effective July 1, 2016, the FDIC adopted an assessment range (inclusive of possible adjustments) for most banks and savings banks of 1.5 basis points to 30 basis points.

The FDIC has authority to increase insurance assessments. Any significant increases would have an adverse effect on the operating expenses and results of operations of the Bank. Management cannot predict what assessment rates will be in the future.

Insurance of deposits may be terminated by the FDIC upon a finding that an institution has engaged in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations or has violated any applicable law, regulation, rule, order or condition imposed by the FDIC. We do not currently know of any practice, condition or violation that may lead to termination of our deposit insurance.

**Financial Privacy and Cybersecurity.** Under privacy protection provisions of the Gramm-Leach-Bliley Act of 1999 and related regulations, we are limited in our ability to disclose non-public information about consumers to nonaffiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to a nonaffiliated third party. Federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of the board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial services.

Consumers must be notified in the event of a data breach under applicable state laws. Under federal regulations, banking organizations are required to notify their primary federal regulator as soon as possible and no later than 36 hours after the discovery of a "computer-security incident" that rises to the level of a "notification incident" within the meaning attributed to those terms by the federal regulations. Banks' service providers are required



under the federal regulations to notify any affected bank to or on behalf of which the service provider provides services “as soon as possible” after determining that it has experienced an incident that materially disrupts or degrades, or is reasonably likely to materially disrupt or degrade, covered services provided to such bank for as much as four hours.

**Federal Home Loan Bank System.** The Bank is a member of the Federal Home Loan Bank System, which consists of 11 regional Federal Home Loan Banks. The Federal Home Loan Bank System provides a central credit facility primarily for member institutions as well as other entities involved in home mortgage lending. As a member of the Federal Home Loan Bank of Atlanta, the Bank is required to acquire and hold shares of capital stock in the Federal Home Loan Bank. As of **December 31, 2022** **December 31, 2023**, the Bank was in compliance with this requirement. While the Bank's ability to borrow from the Federal Home Loan Bank of Atlanta provides an additional source of liquidity, the Bank has historically not used Federal Home Loan Bank advances to fund its operations.

## Other Regulations

Interest and other charges collected or contracted for by the Bank are subject to state usury laws and federal laws concerning interest rates. The Bank's operations are also subject to federal laws applicable to credit transactions, such as the:

- Truth-In-Lending Act, governing disclosures of credit terms to consumer borrowers;
- Home Mortgage Disclosure Act, requiring financial institutions to provide information to enable the public and public officials to determine whether a financial institution is fulfilling its obligation to help meet the housing needs of the community it serves;
- Equal Credit Opportunity Act, prohibiting discrimination on the basis of race, creed or other prohibited factors in extending credit;
- Fair Credit Reporting Act, governing the use and provision of information to credit reporting agencies;
- Fair Debt Collection Act, governing the manner in which consumer debts may be collected by collection agencies;

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- Truth in Savings Act; and
  - rules and regulations of the various federal agencies charged with the responsibility of implementing such federal laws.

The operations of the Bank also are subject to the:

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- Right to Financial Privacy Act, which imposes a duty to maintain confidentiality of consumer financial records and prescribes procedures complying with administrative subpoenas of financial records;
  - Electronic Funds Transfer Act and Regulation E promulgated thereunder, which govern automatic deposits to and withdrawals from depository accounts and customers' rights and liabilities arising from the use of automated teller machines and other electronic banking services;
  - Check Clearing for the 21st Century Act (also known as “Check 21”), which gives “substitute checks,” such as digital check images and checks made from that image, the same legal standing as the original paper check;
  - The USA PATRIOT Act, which requires savings banks to, among other things, establish broadened anti-money laundering compliance programs and due diligence policies and controls to ensure the detection and reporting of money laundering. Such required compliance program is intended to supplement existing compliance requirements that also apply to financial institutions under the Bank Secrecy Act and the Offshore Foreign Assets Control regulations; and
  - The Gramm-Leach-Bliley Act, which places limitations on the sharing of consumer financial information by financial institutions with unaffiliated third parties. Specifically, the Gramm-Leach-Bliley Act requires all financial institutions offering financial products or services to retail customers to provide such customers with the financial institution's privacy policy and provide such customers the opportunity to “opt out” of the sharing of certain personal financial information with unaffiliated third parties.



## Holding Company Regulation

**General.** The Company is a bank holding company within the meaning of the Bank Holding Company Act of 1956, as amended, and is registered with the Federal Reserve Board and subject to the regulation, examination, supervision and reporting requirements applicable to bank holding companies. In addition, the Federal Reserve Board has enforcement authority over the Company and its non-savings institution subsidiaries. Among other things, this authority permits the Federal Reserve Board to restrict or prohibit activities that are determined to be a serious risk to the subsidiary depository institution. Little is known regarding the supervision and regulation of holding companies of covered savings associations because the adopting rules governing covered savings association does not address the issue and neither the OCC nor the Federal Reserve Board has provided any guidance.

**Permissible Activities.** A bank holding company is generally prohibited from engaging in non-banking activities, or acquiring direct or indirect control of more than 5% of the voting securities of any company engaged in non-banking activities. One of the principal exceptions to this prohibition is for activities found by the Federal Reserve Board to be so closely related to banking or managing or controlling banks as to be a proper incident thereto. Some of the principal activities that the Federal Reserve Board has determined by regulation to be so closely related to banking are: (i) making or servicing loans; (ii) performing certain data processing services; (iii) providing discount brokerage services; (iv) acting as fiduciary, investment or financial advisor; (v) leasing personal or real property; (vi) making investments in corporations or projects designed primarily to promote community welfare; and (vii) acquiring a savings and loan association whose direct and indirect activities are limited to those permitted for bank holding companies.

As a bank holding company, the Company can elect to be treated as a “financial holding company,” which would allow us to engage in a broader array of activities. In sum, a financial holding company can engage in activities that are financial in nature or incidental or complementary to financial activities, including insurance underwriting, sales and brokerage activities; providing financial and investment advisory services and underwriting services; and engaging in limited merchant banking activities. We have not sought financial holding company status, but we may elect that status in the future as our business matures. If we were to elect in writing for financial holding company status, we would be required to be well capitalized and well managed, and the Bank would also have to be well capitalized, well managed and have at least a satisfactory rating under the Community Reinvestment Act.

**Capital.** The Dodd-Frank Act required the Federal Reserve Board to promulgate consolidated capital requirements for depository institution holding companies that are no less stringent, both quantitatively and in terms of components of capital, than those applicable to institutions themselves. Consolidated regulatory capital requirements identical to those applicable to the subsidiary banks apply to bank holding companies; as is the case with institutions themselves, the capital conservation buffer was phased in between 2016 and 2019. However, the Federal Reserve Board has provided a “small bank holding company” exception to its consolidated capital requirements, and legislation and the related issuance of regulations by the Federal Reserve Board has increased

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the threshold for the exception to \$3.0 billion. As a result, the Company is not currently subject to the capital requirement because its consolidated assets do not exceed \$3.0 billion.

**Source of Strength.** The Dodd-Frank Act “source of strength” doctrine applies to bank holding companies. The Federal Reserve Board has issued regulations requiring that all bank holding companies serve as a source of strength to their subsidiary depository institutions.

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**Dividends and Stock Repurchases.** The Federal Reserve Board has issued a policy statement regarding the payment of dividends by holding companies. In general, the policy provides that dividends should be paid only out of current earnings and only if the prospective rate of earnings retention

by the holding company appears consistent with the organization's capital needs, asset quality and overall supervisory financial condition. Separate regulatory guidance provides for prior consultation with Federal Reserve Bank staff concerning dividends in certain circumstances such as where the company's net income for the past four quarters, net of dividends previously paid over that period, is insufficient to fully fund the dividend or the company's overall rate or earnings retention is inconsistent with the company's capital needs and overall financial condition. The ability of a bank holding company to pay dividends may be restricted if a subsidiary insured depository institution becomes undercapitalized. The regulatory guidance also states that a bank holding company should inform Federal Reserve Bank supervisory staff prior to redeeming or repurchasing common stock or perpetual preferred stock if the bank holding company is experiencing financial weaknesses or the repurchase or redemption would result in a net reduction, at the end of a quarter, in the amount of such equity instruments outstanding compared with the beginning of the quarter in which the redemption or repurchase occurred. These regulatory policies may affect the ability of the Company to pay dividends, repurchase shares of common stock or otherwise engage in capital distributions.

**Change in Control.** Under the Change in Bank Control Act, a notice must be submitted to the Federal Reserve Board if any person (including a company), or group acting in concert, seeks to acquire direct or indirect "control" of a bank holding company. Under certain circumstances, a change of control may occur, and prior notice is required, upon the acquisition of 10% or more of the company's outstanding voting stock, unless the Federal Reserve Board has found that the acquisition will not result in control of the company. A change in control definitively occurs upon the acquisition of 25% or more of the company's outstanding voting stock. Under the Change in Bank Control Act, the Federal Reserve Board generally has 60 days from the filing of a complete notice to act, taking into consideration certain factors, including the financial and managerial resources of the acquirer and the competitive effects of the acquisition.

#### Federal Securities Laws

Our common stock is registered with the SEC under the Securities Exchange Act of 1934, as amended, and we are subject to the information, proxy solicitation, insider trading restrictions and other requirements under the Securities Exchange Act of 1934.

#### Emerging Growth Company Status

The Jumpstart Our Business Startups Act (the "JOBS Act"), which was enacted in April 2012, has made numerous changes to the federal securities laws to facilitate access to capital markets. Under the JOBS Act, a company with total annual gross revenues of less than \$1.0 billion during its most recently completed fiscal year qualifies as an "emerging growth company." The Company qualifies as an emerging growth company under the JOBS Act.

An "emerging growth company" may choose not to hold stockholder votes to approve annual executive compensation (more frequently referred to as "say-on-pay" votes) or executive compensation payable in connection with a merger (more frequently referred to as "say-on-golden parachute" votes). An emerging growth company also is not subject to the requirement that its auditors attest to the effectiveness of the company's internal control over financial reporting, and can provide scaled disclosure regarding executive compensation; however, the Company will also not be subject to the auditor attestation requirement or additional executive compensation disclosure so long as it remains a "smaller reporting company" under SEC regulations. The Company will remain a "smaller reporting company" so long as it has a less than \$250 million in shares tradable by the public (excluding equity held by affiliates and insiders, referred to as a "public float") or the Company has less than \$100 million in annual revenues and less than \$700 million in public float. Finally, an emerging growth company may elect to comply with new or amended accounting pronouncements in the same manner as a private company, but must make such election when the company is first required to file a registration statement. Such an election is irrevocable during the period a company is an emerging growth company. The Company has elected to comply with new or amended accounting pronouncements in the same manner as a private company.

A company loses emerging growth company status on the earlier of: (i) the last day of the fiscal year of the company during which it had total annual gross revenues of \$1.07 billion or more; (ii) the last day of the fiscal year of the issuer following the fifth anniversary of the date of the first sale of common equity securities of the company pursuant to an effective registration statement under the Securities Act of 1933, which for us is July 20, 2021; (iii) the date on which such company has, during the previous

three-year period, issued more than \$1.0 billion in non-convertible debt; or (iv) the date on which such company is deemed to be a “large accelerated filer” under SEC regulations (generally, at least \$700 million of voting and non-voting equity held by non-affiliates).

## Item 1A. Risk Factors.

Our operations and financial results are subject to various risks and uncertainties that could adversely affect our financial position, results of operations and cash flows. The risks described below should carefully be considered together with the other information contained in this report.

### *Risks Related to Lending Activities.*

**We originate commercial and multi-family real estate, commercial and industrial, and construction and land development loans, which involve credit risks that could adversely affect our financial condition and results of operations.**

At ~~December 31, 2022~~ December 31, 2023, commercial real estate loans totaled ~~\$111.4 million~~ \$123.6 million, or ~~32.8%~~ 32.7% of our loan portfolio, commercial and industrial loans totaled ~~\$25.7 million~~ \$16.9 million, or ~~7.6%~~ 4.5% of our loan portfolio, construction and land development loans totaled ~~\$27.9 million~~ \$55.5 million, or ~~8.2%~~ 14.7% of our loan portfolio and multi-family loans totaled ~~\$24.6 million~~ \$19.1 million, or ~~7.2%~~ 5.1% of our loan portfolio. Given their larger balances and the complexity of the underlying collateral, commercial and multi-family real estate, construction and land development loans, and commercial and industrial loans generally have more risk than the one-to-four family residential real estate loans we originate. Because the repayment of commercial real estate and commercial and industrial loans depends on the successful management and operation of the borrower's properties or related businesses, repayment of such loans can be affected by adverse conditions in the local real estate market or economy. Because construction and development loans rely on the demand for lots and housing, the ability of developers to repay loans can be impacted by the economy's impact on consumers. A downturn in the real estate market or the local economy could adversely impact the value of properties securing the loan or the revenues from the borrower's business, thereby increasing the risk of nonperforming loans. Further, unlike residential mortgage loans, commercial and industrial loans may be secured by collateral other than real estate, such as inventory and accounts receivable, the value of which may depreciate over time, may be more difficult to appraise and may be more susceptible to fluctuation in value at default. A downturn in the economy may also impact landlords' ability to retain and find new tenants in non-owner-occupied real estate properties. In addition, the physical condition of non-owner-occupied properties may be below that of owner-occupied properties due to lax property maintenance standards, which have a negative impact on the value of the collateral properties. As our commercial and multi-family real estate and commercial and industrial loan portfolios increase, the corresponding risks and potential for losses from these loans may also increase.

**Our business may be adversely affected by credit risk associated with residential property.**

At ~~December 31, 2022~~ December 31, 2023, ~~\$136.4 million~~ \$148.5 million, or ~~40.2%~~ 39.3%, of our total loan portfolio, was secured by one-to-four family ~~residential~~ real estate. One- to-four family residential mortgage lending is generally sensitive to regional and local economic conditions that significantly impact the ability of borrowers to meet their loan payment obligations, making loss levels difficult to predict. A decline in residential real estate values as a result of a downturn in the Pennsylvania housing market could reduce the value of the real estate collateral securing these types of loans. As a result, we have increased risk that we could incur losses if borrowers default on their loans because we may be unable to recover all or part of the defaulted loans by selling the real estate collateral. In addition, if borrowers sell their homes, they may be unable to repay their loans in full from the sale proceeds. For these reasons, we may experience higher rates of delinquencies, defaults and losses on our residential mortgage loans. We have a significant number of loans secured by real estate, and a downturn in the local real estate market could negatively impact our profitability.

**We have a significant volume of loans secured by real estate, and a downturn in the local real estate market could negatively impact our profitability.**

At **December 31, 2022** **December 31, 2023**, approximately **\$312.7 million** **\$357.8 million**, or **92.1%** **94.6%**, of our total loan portfolio, was secured by real estate, most of which is located in our primary lending market areas. Future declines in the real estate values in our primary lending markets and surrounding markets as a result of the economic downturn could significantly impair the value of the particular collateral securing our loans and our ability to sell the collateral upon foreclosure for an amount necessary to satisfy the borrower's obligations to us. This could require increasing our allowance for **loan credit** losses to address the decrease in the value of the real estate securing our loans, which could have a material adverse effect on our business, financial condition, results of operations and growth prospects.

Unlike larger financial institutions that are more geographically diversified, our profitability depends primarily on the general economic conditions in our primary market areas. Local economic conditions have a significant impact on our residential real estate, commercial real estate, construction, commercial and industrial and consumer lending, including, the ability of borrowers to repay these loans and the value of the collateral securing these loans. Deterioration in economic conditions in our primary market areas

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could result in the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decrease;
- loan delinquencies, problem assets and foreclosures may increase;

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- collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of the assets and collateral associated with existing loans;
- the value of our securities portfolio may decrease; and
- the net worth and liquidity of loan guarantors may decrease, thereby impairing their ability to honor commitments made to us.

Moreover, a significant decline in general economic conditions, caused by inflation, acts of terrorism, an outbreak of hostilities or other international or domestic calamities or other factors beyond our control could further impact these local economic conditions and could further negatively affect our financial performance. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

**If our allowance for **loan credit** losses is not sufficient to cover actual loan losses, our earnings could decrease.**

In originating loans there is a substantial likelihood that we will experience credit losses. The risk of loss will vary with, among other things, general economic conditions, the type of loan, the creditworthiness of the borrower over the term of the loan that represents management's best estimate of probable losses within the existing portfolio of loans. We make various assumptions and judgments about the collectability of our loan portfolio, including the creditworthiness of borrowers and the value of the real estate and other assets serving as collateral for the repayment of loans. In determining the adequacy of the allowance for **loan credit** losses, we rely on our experience and our evaluation of economic conditions. If our assumptions prove to be incorrect, our allowance for **loan credit** losses may not be sufficient to cover losses inherent in our loan portfolio and adjustment may be necessary to allow for different economic conditions or adverse developments in our loan portfolio. Consequently, a problem with one or more loans could require us to significantly increase the level of our provision for **loan credit** losses. In addition, federal regulators periodically review our allowance for **loan credit** losses and as a result of such reviews, we may have to adjust our allowance for **loan credit** losses or recognize further loan charge-offs. However, regulatory agencies are not directly involved in the process of establishing the allowance for **loan credit** losses, as the process is

our responsibility and any adjustment of the allowance is the responsibility of management. Material additions to the allowance would materially decrease our net income.

Effective January 1, 2023, we will adopt the Current Expedited Credit Loss ("CECL") standard for determining the amount of our allowance for credit losses which we expect will increase our allowance for loan and lease losses and cause our historic allowance for loan and lease losses not to be indicative of how we will maintain our allowance for credit losses going forward. The Company is estimating an overall increase in its allowance for credit losses ranging from \$67,000 to \$408,000, or an allowance for credit losses to total loans of between 1.30% and 1.40% as of December 31, 2022. The adoption of this standard on January 1, 2023, will be recognized as a cumulative effect adjustment to the January 1, 2023 retained earnings balance. There is no impact on the Company's available for sale securities or other instruments.

The CECL standard became effective for the Bank on January 1, 2023. Under CECL, the allowance for credit loss losses is an estimate of the expected credit losses on financial assets measured at amortized cost, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. Changes in economic forecasts, loan portfolio composition and credit quality, changes in model assumptions and other factors will influence the CECL outcomes and the resulting calculation of our allowance for credit losses. This will change the current method of providing allowances for credit losses that are incurred or probable, which would likely require us to increase our allowance for credit losses, and to greatly increase the types of data we will need to collect and review to determine the appropriate level of the allowance for credit losses. We anticipate that if there is an onset of economic distress that management believes is likely to materially increase our non-performing loans, CECL will likely have the effect of causing management to accelerate the increase in our allowance for credit losses, as compared to our prior loan loss methodology.

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**Liquidity, primarily through deposits, is essential to our business model and a lack of liquidity, or an increase in the cost of liquidity could materially impair our ability to fund our operations and jeopardize our results of operation, financial condition and cash flows.**

Liquidity represents an institution's ability to provide funds to satisfy demands from depositors, borrowers and other creditors by either converting assets into cash or accessing new or existing sources of incremental funds. Liquidity risk arises from the possibility that we may be unable to satisfy current or future funding requirements and needs.

Deposit levels may be affected by several factors, including rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, customers seeking to maximize deposit insurance by limiting their deposits at a single financial institution to \$250,000, general economic and market conditions and other factors. Loan repayments are a relatively stable source of funds but are subject to the borrowers' ability to repay loans, which can be adversely affected by a number of factors including changes in general economic conditions, adverse trends or events affecting business industry groups or specific businesses, declines in real estate values or markets, business closings or lay-offs, inclement weather, natural disasters and other factors.

Furthermore, loans generally are not readily convertible to cash. From time to time, if deposits and loan payments are not sufficient to meet our needs, we may be required to rely on secondary sources of liquidity to meet growth in loans, deposit withdrawal demands or otherwise fund operations. Such secondary sources include FHLB advances, brokered deposits, secured and unsecured federal funds lines of credit from correspondent banks, Federal Reserve borrowings and/or accessing the equity or debt capital markets. The availability of these secondary funding sources is subject to broad economic conditions, to regulation and to investor assessment of our financial strength and, as such, the cost of funds may fluctuate significantly and/or the availability of such funds may be restricted, thus impacting our net interest income, our immediate liquidity and/or our access to additional liquidity. Additionally, if we fail to remain "

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well-capitalized" our ability to utilize brokered deposits may be restricted. We have somewhat similar risks to the extent high balance core deposits exceed the amount of deposit insurance coverage available.

We anticipate we will continue to rely primarily on deposits, loan repayments, and cash flows from our investment securities to provide liquidity. Additionally, when necessary, the secondary sources of borrowed funds described above will be used to augment our primary funding sources. **In March 2023, the Federal Reserve announced the creation of a new Bank Term Funding Program in an effort to minimize the need for banks to sell securities at a loss in times of stress. We may use the Bank Term Funding Program on an as needed basis.** An inability to maintain or raise funds (including the inability to access secondary funding sources) in amounts necessary to meet our liquidity needs would have a substantial negative effect, individually or collectively, on our liquidity. Our access to funding sources in amounts adequate to finance our activities, or on terms attractive to us, could be impaired by factors that affect us specifically or the financial services industry in general. For example, factors that could detrimentally impact our access to liquidity sources include our financial results, a decrease in the level of our business activity due to a market downturn or adverse regulatory action against us, a reduction in our credit rating, any damage to our reputation, counterparty availability, changes in the activities of our business partners, changes affecting our loan portfolio or other assets, or any other event that could cause a decrease in depositor or investor confidence in our creditworthiness and business. Those factors may lead to depositors withdrawing their deposits or creditors limiting our borrowings. Our access to liquidity could also be impaired by factors that are not specific to us, such as general business conditions, interest rate fluctuations, severe volatility or disruption of the financial markets, bank closures or negative views and expectations about the prospects for the financial services industry as a whole, or legal, regulatory, accounting, and tax environments governing our funding transactions. In addition, our ability to raise funds is strongly affected by the general state of the U.S. and world economies and financial markets as well as the policies and capabilities of the U.S. government and its agencies, and may remain or become increasingly difficult due to economic and other factors beyond our control. Any such event or failure to manage our liquidity effectively could affect our competitive position, increase our borrowing costs and the interest rates we pay on deposits, limit our access to the capital markets and have a material adverse effect on our results of operations or financial condition.

#### ***Risks Related to Our Business Strategy.***

**Our business strategy includes growth, and our financial condition and results of operations could be negatively affected if we fail to grow or fail to manage our growth effectively. Growing our operations could also cause our expenses to increase faster than our revenues.**

Our business strategy includes growth in assets, deposits and the scale of our operations. Achieving such growth will require us to attract customers that currently bank at other financial institutions in our market area. Our ability to successfully grow will depend on a variety of factors, including our ability to attract and retain experienced bankers, the continued availability of desirable business opportunities, competition from other financial institutions in our market area and our ability to manage our growth. Growth opportunities may not be available or we may not be able to manage our growth successfully. If we do not manage our growth effectively, our financial condition and operating results could be negatively affected. Furthermore, there can be considerable costs involved in opening branches and expanding lending capacity that generally require a period of time to generate the necessary revenues to offset their costs, especially in areas in which we do not have an established presence. Accordingly, any such business

expansion, if done without proper due diligence and consideration of unexpected outcomes, could be expected to negatively impact our earnings for some period of time until certain economies of scale are reached. Our expenses could be further increased if we encounter delays in the opening of new branches.

**We depend on our management team and other key personnel to implement our business strategy and execute successful operations and we could be harmed by the loss of their services.**

We are dependent upon the services of the members of our senior management team who direct our strategy and operations. Members of our senior management team, or lending personnel who possess expertise in our markets and key business relationships, could be difficult to replace. Competition for employees is intense, and the process of locating key personnel with the combination of skills and attributes required to execute our business strategy may be lengthy. In 2021, there has been a dramatic increase in workers leaving their positions throughout our industry (and other

industries) that is being referred to as the "great resignation," and the market to build, retain and replace talent has become even more highly competitive. Our loss of these persons, or our inability to hire additional qualified personnel, or the cost of replacing such personnel, could impact our ability to implement our business strategy and could have a material adverse effect on our results of operations and our ability to compete in our markets. We currently have a comprehensive succession plan in place for key members of our senior management team.

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### ***Risks Related to Economic Conditions.***

#### **Future changes in interest rates could reduce our profits and asset values.**

Net income is the amount by which net interest income and non-interest income exceeds non-interest expense, provision for **loan** **credit** losses, and taxes. Net interest income makes up a majority of our income and is based on the difference between:

- the interest income we earn on interest-earning assets, such as loans and securities; and
- the interest expense we pay on interest-bearing liabilities, such as deposits and borrowings.

The rates we earn on our assets and the rates we pay on our liabilities are generally fixed for a contractual period of time. Like many savings institutions, our liabilities generally have shorter contractual maturities than our assets. This imbalance can create significant earnings volatility because market interest rates change over time. In a period of rising interest rates, the interest income we earn on our assets may not increase as rapidly as the interest we pay on our liabilities. In a period of declining interest rates, the interest income we earn on our assets may decrease more rapidly than the interest we pay on our liabilities, as borrowers prepay mortgage loans, and mortgage-backed securities and callable investment securities are called, requiring us to reinvest those cash flows at lower interest rates.

In addition, changes in interest rates can affect the average life of loans and mortgage-backed and related securities. A decline in interest rates results in increased prepayments of loans and mortgage-backed and related securities as borrowers refinance their debt to reduce their borrowing costs. This creates reinvestment risk, which is the risk that we may not be able to reinvest prepayments at rates that are comparable to the rates we earned on the prepaid loans or securities. Furthermore, an inverted interest rate yield curve, where short-term interest rates (which are usually the rates at which financial institutions borrow funds) are higher than long-term interest rates (which are usually the rates at which financial institutions lend funds for fixed-rate loans) can reduce a financial institution's net interest margin and create financial risk for financial institutions who originate longer-term, fixed rate mortgage loans.

Any substantial, unexpected, prolonged change in market interest rates could have a material adverse effect on our financial condition, liquidity and results of operations. Changes in the level of interest rates also may negatively affect the value of our assets and ultimately affect our earnings.

#### **Inflation may have an adverse impact on our business and on our customers.**

Inflation risk is the risk that the value of assets or income from investments will be worth less in the future as inflation decreases the value of money. Recently, there have been market indicators of a pronounced rise in inflation and the Federal Reserve Board has raised certain benchmark interest rates in an effort to combat inflation. The Federal Reserve Board has signaled that further increases may be necessary to control inflation. As inflation increases, the value of our investment securities, particularly those with longer maturities, would decrease, although this effect can be less pronounced for floating rate instruments. In addition, inflation increases the cost of goods and services we use in our business operations, which increases our noninterest expenses. Furthermore, our customers are also affected by inflation and the rising costs of goods and services used in their households and businesses, which could have a negative impact on their ability to repay their loans with us.



### ***Risks Related to Competitive Markets.***

#### **Strong competition within our market areas may limit our growth and profitability.**

Competition in the banking and financial services industry is intense and we experience strong competition from many other financial institutions as well as financial technology companies ("fintechs"). In our market area, we compete with commercial banks, savings institutions, mortgage brokerage firms, credit unions, finance companies, mutual funds, insurance companies, and brokerage and investment banking firms and unregulated or less regulated non-banking entities, operating locally and elsewhere. Because technology and other changes have lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, we also compete with fintechs seeking to disrupt conventional banking markets. In particular, the activity of fintechs has grown significantly over recent years and is expected to continue to grow. Fintechs have and may continue to offer bank or bank-like products and a number of fintechs have applied for bank or industrial loan charters. In addition, other fintechs have partnered with existing banks to allow them to offer deposit products to their customers. Many of these competitors have substantially greater resources and higher lending limits than we have and offer certain services that we do not or cannot provide. In addition, some of our competitors offer loans with lower interest rates on more attractive terms than loans we offer. Competition also makes it increasingly difficult and costly to attract and retain qualified employees. Our profitability depends upon our continued ability to successfully compete in our market area. If we must raise interest rates paid on deposits or lower interest rates charged on our loans, our net interest margin and profitability could be adversely affected.

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The financial services industry could become even more competitive as a result of new legislative, regulatory and technological changes and continued consolidation. Banks, securities firms and insurance companies can merge under the umbrella of a financial holding company, which can offer virtually any type of financial service, including banking, securities underwriting, insurance (both agency and underwriting) and merchant banking. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as automatic transfer and automatic payment systems. Many of our competitors have fewer regulatory constraints and may have lower cost structures. Additionally, due to their size, many competitors may be able to achieve economies of scale and, as a result, may offer a broader range of products and services as well as better pricing for those products and services than we can. We expect competition to increase in the future as a result of legislative, regulatory and technological changes and the continuing trend of consolidation in the financial services industry.

#### **Our asset size makes it more difficult for us to compete.**

Our asset size makes it more difficult to compete with other financial institutions that are larger and can more easily afford to invest in the marketing and technologies needed to attract and retain customers. Our ability to diversify economic risks is limited by our own local markets and economies. Because our principal source of income is the net interest income we earn on our loans and investments after deducting interest paid on deposits and other sources of funds, our ability to generate the revenues needed to cover our expenses and finance such investments is limited by the size of our loan and investment portfolios. Accordingly, we are not always able to offer new products and services as quickly as our competitors. In addition, our smaller customer base may make it difficult to generate meaningful non-interest income from such activities as securities and insurance brokerage. Finally, compared to larger institution, we are disproportionately affected by the continually increasing costs of compliance with new banking and other regulations.

### ***Risks Related to Laws and Regulations.***

#### **We may be materially and adversely affected by the highly regulated environment in which we operate.**

The Bank is subject to extensive regulation, supervision and examination by the OCC, and the Company is subject to extensive regulation, supervision and examination by the Federal Reserve Board. Such supervision and regulation governs the activities in which an institution and its holding company may engage and are intended primarily for the protection of the federal deposit insurance fund and the depositors and borrowers of the Bank,



rather than for our stockholders. Regulatory authorities have extensive discretion in their supervisory and enforcement activities, including the imposition of restrictions on our operations, the classification of our assets and determination of the level of our allowance for **loan credit** losses. These regulations, along with existing tax, accounting, securities, insurance and monetary laws, rules, standards, policies, and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. Any change in such regulation and oversight, whether in the form of regulatory policy, regulations, legislation or supervisory action, may have a material impact on our operations. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent accounting firms. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of operations.

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#### **Uncertainty exists with regard to regulation of holding companies of covered savings associations.**

Effective July 1, 2019, the Bank qualified as a “covered savings association” and elected to hold such status. On May 24, 2019, the OCC issued a final rule and outlined the nature and powers of a covered savings association as well as the applicable regulatory structure. Although as a covered savings association we are subject to the same reporting and regulatory requirements as a federal savings bank, neither the OCC nor the Federal Reserve Board has adopted regulations on the treatment of covered savings association holding companies. Based on guidance from the Federal Reserve Board, the Company is a bank holding company of a covered savings association. However, ambiguity remains on the ongoing treatment and regulation of such entities.

#### **Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.**

The USA PATRIOT and Bank Secrecy Acts require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury’s Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts. Failure to comply with these regulations could result in fines or sanctions, including restrictions on conducting acquisitions or establishing new branches. The policies and procedures we have adopted that are designed to assist in compliance with these laws and regulations may not be effective in preventing violations of these laws and regulations.

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#### **We are subject to stringent capital requirements, which may adversely impact our return on equity, require us to raise additional capital, or limit our ability to pay dividends or repurchase shares.**

Federal regulations establish minimum capital requirements for insured depository institutions, including minimum risk-based capital and leverage ratios and define what constitutes “capital” for calculating these ratios. The minimum capital requirements are: (1) a common equity Tier 1 capital ratio of 4.5%; (2) a Tier 1 to risk-based assets capital ratio of 6%; (3) a total capital ratio of 8%; and (4) a Tier 1 leverage ratio of 4%. The regulations also require unrealized gains and losses on certain “available-for-sale” securities holdings to be included for calculating regulatory capital requirements unless a one-time opt out is exercised. We elected to exercise our one-time option to opt out of the requirement to include certain “available-for-sale” securities holdings for calculating our regulatory capital ratios. The regulations also establish a “capital conservation buffer” of 2.5%, resulting in the following minimum ratios: (1) a common equity Tier 1 capital ratio of 7.0%, (2) a Tier 1 to risk-based assets capital ratio of 8.5%, and (3) a total capital ratio of 10.5%. An institution will be subject to limitations on paying dividends, repurchasing its shares, and paying discretionary bonuses, if its capital levels fall below the buffer amount.

The federal banking agencies proposed a rule to establish for institutions with assets of less than \$10 billion that meet other specified criteria a “community bank leverage ratio” (the ratio of a bank’s tangible equity capital to average total consolidated assets) of 9% that such institutions may elect to utilize in lieu of the generally applicable leverage and risk-based capital requirements under the Basel Committee on Banking Supervision (“Basel III”). A “qualifying community bank” with capital exceeding 9% will be considered compliant with all applicable regulatory capital and leverage requirements, including the requirement to be “well capitalized.” The rule was adopted in final form, effective January 1, 2020.

We have analyzed the effects of these capital requirements, and we believe that the Bank meets all of these requirements, including the full 2.5% capital conservation buffer. Furthermore, the Bank runs an annual stress test on its loan portfolio to determine its ability to maintain the full capital conservation buffer in the event of heightened loan losses similar or greater than those experienced by banking peers in the Great Recession. See “Supervision and Regulation—Federal Banking Regulation—Capital Requirements.”

#### ***Risks Related to Operational Matters.***

**We face significant operational risks because the financial services business involves a high volume of transactions and increased reliance on technology, including risk of loss related to cyber-security breaches.**

We operate in diverse markets and rely on the ability of our employees and systems to process a high number of transactions and to collect, process, transmit and store significant amounts of confidential information regarding our customers, employees and others and concerning our own business, operations, plans and strategies. Operational risk is the risk of loss resulting from our operations, including but not limited to, the risk of fraud by employees or persons outside our company, the execution of unauthorized transactions by employees, errors relating to transaction processing and technology, systems failures or interruptions, breaches of our internal control systems and compliance requirements, and business continuation and disaster recovery. Insurance coverage may not be available for such losses, or where available, such losses may exceed insurance limits. This risk of loss also includes the potential legal actions that could arise as a result of operational deficiencies or as a result of non-compliance with applicable regulatory

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standards or customer attrition due to potential negative publicity. In addition, we outsource some of our data processing to certain third-party providers. If these third-party providers encounter difficulties, including as a result of cyber-attacks or information security breaches, or if we have difficulty communicating with them, our ability to adequately process and account for transactions could be affected, and our business operations could be adversely affected.

In the event of a breakdown in our internal control systems, improper operation of systems or improper employee actions, disruptions or failures in the physical infrastructure or operating systems that support our business and customers, or a breach of our security systems, including if confidential or proprietary information were to be mishandled, misused or lost, we could suffer financial loss, customer attrition, the inability of our customers to transact business with us, violations of applicable privacy and other laws, regulatory fines, penalties or intervention, reputational damage, reimbursement or other compensation costs, and/or additional compliance costs, any of which could materially adversely affect our results of operations or financial condition.

**The cost of additional finance and accounting systems, procedures and controls in order to satisfy our new public company reporting requirements will increase our expenses.**

As a result of our stock offering in July 2021, we became a public reporting company. We expect that the obligations of being a public company, including the substantial public reporting obligations, will require significant expenditures and place additional demands on our management team. We have made, and will continue to make, changes to our internal controls and procedures for financial reporting and accounting systems to meet our reporting obligations as a stand-alone public company. However, the measures we take may not be sufficient to satisfy our obligations as a public company. Section 404 of the Sarbanes-Oxley Act of 2002 (the “Sarbanes Oxley Act”) requires annual management assessments of the effectiveness of our internal control over financial reporting, starting with the second annual report that we would expect to file with the SEC. Any failure to achieve and maintain an effective

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internal control environment could have a material adverse effect on our business and stock price. In addition, we may need to hire additional compliance, accounting and financial staff with appropriate public company experience and technical knowledge, and we may not be able to do so in a timely fashion. As a result, we may need to rely on outside consultants to provide these services for us until qualified personnel are hired. These obligations will increase our operating expenses and could divert our management's attention from our operations.

#### ***Risks Related to Accounting Matters.***

##### **Changes in accounting standards could affect reported earnings.**

The bodies responsible for establishing accounting standards, including the FASB or SEC and other regulatory bodies, periodically change the financial accounting and reporting guidance that governs the preparation of our financial statements. These changes can be hard to predict and can materially impact how we record and report our financial condition and results of operations. In some cases, we could be required to apply new or revised guidance retroactively.

##### **Changes in management's estimates and assumptions may have a material impact on our consolidated financial statements and our financial condition or operating results.**

In preparing periodic reports we will be required to file under the Securities Exchange Act of 1934, including our consolidated financial statements, our management is and will be required under applicable rules and regulations to make estimates and assumptions as of a specified date. These estimates and assumptions are based on management's best estimates and experience as of that date and are subject to substantial risk and uncertainty. Materially different results may occur as circumstances change and additional information becomes known. The areas requiring significant estimates and assumptions by management include our evaluation of the adequacy of our allowance for **loan credit** losses and our determinations with respect to amounts owed for income taxes. The uncertainty surrounding the lasting effects of the COVID-19 pandemic may negatively impact results, and our management team's assumptions may not account for such effects.

##### **We have a significant amount of net operating losses that we may not be able to utilize.**

During the Great Recession, we generated significant net operating losses and unrealized tax losses (collectively, "NOLs"). As of **December 31, 2022** **December 31, 2023**, we had an estimated federal NOL carryforward of **\$2.6 million** **\$1.5 million** and an estimated state NOL carryforward of **\$3.8 million** **\$3.2 million**, and recognized a deferred tax asset of **\$0.7 million** **\$454,000** related to NOL carryforwards. These NOLs generally may be carried forward for a 20-year period to offset future taxable income and reduce our federal and state income tax liability, respectively. Our federal and state NOL carry-forwards begin to expire in 2031 unless previously utilized.

As a result of our conversion from mutual to stock form of ownership and our contemporaneous stock offering, it is possible that we would incur an "ownership change" under Section 382 of the Internal Revenue Code ("Section 382"). An ownership change will occur if after the conversion, the persons who are considered "owners" of the Bank before the conversion own less than 50% of our

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holding company's stock immediately after the conversion. In addition, an ownership change will occur if, over a rolling three-year period, the percentage of the common stock of the Company owned by stockholders holding 5% or more of our common stock has increased by more than 50% over the lowest percentage of common stock owned by such stockholders during the three-year period. In general, if a company incurs an ownership change under Section 382, the company's ability to utilize an NOL carryforward to offset its taxable income becomes limited to a certain amount per year. This limitation is computed by multiplying the company's fair market value immediately before the ownership change by a rate equal to the long-term tax-exempt rate for the month in which the ownership change occurs.

If we are unable to fully utilize the NOL carryforwards to reduce our taxable income prior to their expiration, either because of insufficient taxable income or a limitation imposed under Section 382, we will need to write off any remaining deferred tax asset and will incur additional income tax liability,

which would adversely affect our results of operations.

**Risks related to the Public Health Issues, including COVID-19 Pandemic and the Associated Economic Slowdown.**

The ongoing Outbreaks of communicable diseases, such as COVID-19 pandemic could and its variants, have an adverse impact on led to periods of significant volatility in financial commodities (including oil and gas) and other markets, adversely affected our ability to conduct normal business, adversely affected our clients, and are likely to harm our businesses, financial performance condition and results of operations.

As Pandemics and widespread outbreaks of communicable diseases (such as COVID-19) have caused and may continue to cause significant disruption in the international and United States economies and financial markets and have had an adverse effect on our business and results of operations. This has recently been accompanied by a surge in flu and other respiratory illnesses of varying seriousness and magnitude. The spread of these diseases, including COVID variants, has caused illness and death resulting in

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quarantines, cancellation of events and travel, business and school shutdowns, reduction in business activity and financial transactions, supply chain interruptions, and overall economic and financial market instability. In response to the COVID-19 pandemic, has evolved from its emergence the governments of the states in early 2020, so has its impact. Many which we have branches, and most other states, periodically have re-instituted, taken preventative or strongly encouraged, varying levels protective actions, such as imposing restrictions on travel and business operations, advising or requiring individuals to limit or forego their time outside of quarantines their homes, and ordering temporary closures of businesses that have been deemed to be non-essential. These restrictions and other consequences of public health issues have resulted in significant adverse effects for many different types of businesses, including, among others, those in the hospitality (including hotels and lodging) and restaurant industries, and resulted in a significant number of layoffs and furloughs of employees nationwide and in some cases have at times limited operations of certain businesses and taken other restrictive measures designed to help slow the spread of COVID-19 and its variants. Governments and businesses have also instituted vaccine mandates and testing requirements for employees. While vaccine availability and uptake has increased, the long-term macro-economic effects on global supply chains, inflation, labor shortages and wage increases continue to impact many industries, including the collateral underlying certain of our loans. Moreover, with the potential for new strains of COVID-19 to emerge, governments and businesses may re-impose aggressive measures to help slow its spread regions in the future. For this reason, among others, as the COVID-19 pandemic continues, the potential impacts are uncertain and difficult to assess, which we operate.

Although financial markets have largely rebounded from we take precautions to protect the significant declines that occurred earlier in safety and well being of our employees and customers, the unpredictability of the pandemic and global economic conditions showed signs of improvement during the second half of 2020 and throughout 2021, many of the circumstances that arose or became more pronounced after the onset of the COVID-19 pandemic persist, which may subject us to a number of risks including, without limitation, public health issues could result in the following:

- lower loan demand and an increased risk of loan delinquencies, defaults, and foreclosures due a number of factors, including continuing s chain issues, decreased consumer and business confidence and economic activity;
- collateral for loans, especially real estate, may decline in value, which may reduce our ability to liquidate such collateral and could cause losses to increase and impair our ability over the long run to maintain our loan origination volume;
- volatility in financial and capital markets and interest rates;
- a significant decline in the market value of our common stock;
- increased demands on capital and liquidity;
- heightened cybersecurity, information security, and operational risks as cybercriminals attempt to profit from the disruption resulting from pandemic given increased online and remote activity, including as a result of work-from-home arrangements;

- disruptions to business operations experienced by counterparties and service providers;
- increased risk of business disruption from the loss of employees due to their inability to work effectively because of illness, quarantines, government actions, failures in systems or technology that disrupt work-from-home arrangements, or other effects of the COVID-19 pandemic including the increase in employee resignations currently taking place throughout the United States in connection with the COVID-19 pandemic which is commonly referred to as the “great resignation”; and
- decreased demands for our products and services.

We have also experienced and may continue to experience other negative impacts to our business as a result of the pandemic that could exacerbate other risks discussed in this “Risk Factors” section. The ongoing fluidity of this situation precludes any prediction as to the ultimate adverse impact of COVID-19 on economic and market conditions, and, as a result, presents material uncertainty and risk with respect to us.

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**A worsening of economic conditions in our market area could reduce demand for our products and services and/or result in increases in our level of nonperforming loans, which could adversely affect our operations, financial condition and earnings.**

Local economic conditions have a significant impact on the ability of our borrowers to repay loans and the value of the collateral securing loans. A deterioration in economic conditions could have the following consequences, any of which could have a material adverse effect on our business, financial condition, liquidity and results of operations:

- demand for our products and services may decline;
- loan delinquencies, problem assets and foreclosures may increase;
- collateral for loans, especially real estate, may decline in value, thereby reducing customers' future borrowing power, and reducing the value of assets and collateral associated with existing loans; and
- the net worth and liquidity of loan guarantors may decline, impairing their ability to honor commitments to us.

Moreover, a significant decline in general economic conditions caused by pandemics, inflation, recession, acts of terrorism, an outbreak of hostilities or other international or domestic calamities, unemployment or other factors beyond our control could further impact these local economic conditions and could further negatively affect the financial results of our banking operations. In addition, deflationary pressures, while possibly lowering our operating costs, could have a significant negative effect on our borrowers, especially our business borrowers, and the values of underlying collateral securing loans, which could negatively affect our financial performance.

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**Other Risks related to Our Business.**

**Legal and regulatory proceedings and related matters could adversely affect us.**

We have been and may in the future become involved in legal and regulatory proceedings. We consider most of the proceedings to be in the normal course of our business or typical for the industry; however, it is inherently difficult to assess the outcome of these matters, and we may not prevail in any proceedings or litigation. There could be substantial cost and management diversion in such litigation and proceedings, and any adverse determination could have a materially adverse effect on our business, brand or image, or our financial condition and results of our operations.

**We are subject to environmental liability risk associated with lending activities or properties we own.**

A significant portion of our loan portfolio is secured by real estate, and we could become subject to environmental liabilities with respect to one or more of these properties, or with respect to properties that we own in operating our business. During the ordinary course of business, we may foreclose

on and take title to properties securing defaulted loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous conditions or toxic substances are found on these properties, we may be liable for remediation costs, as well as for personal injury and property damage, civil fines and criminal penalties regardless of when the hazardous conditions or toxic substances first affected any particular property. Environmental laws may require us to incur substantial expenses to address unknown liabilities and may materially reduce the affected property's value or limit our ability to use or sell the affected property. In addition, future laws or more stringent interpretations or enforcement policies with respect to existing laws may increase our exposure to environmental liability. Our policies, which require us to perform appropriate environmental due diligence when originating loans secured by certain types of commercial properties, may not be sufficient to detect all potential environmental hazards, particularly at the point of foreclosure, if necessary. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on us.

#### **Natural disasters, acts of terrorism and other external events could harm our business.**

Natural disasters can disrupt our operations, result in damage to our properties, reduce or destroy the value of the collateral for our loans and negatively affect the economies in which we operate, which could have a material adverse effect on our results of operations and financial condition. A significant natural disaster, such as a hurricane, pandemic, tornado, earthquake, fire or flood, could have a material adverse impact on our ability to conduct business, and our insurance coverage may be insufficient to compensate for losses that may occur. Acts of terrorism, war, civil unrest, violence, pandemics or human error could cause disruptions to our business or the economy as a whole. While we have established and regularly test disaster recovery procedures, the occurrence of any such event could have a material adverse effect on our business, operations and financial condition.

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#### **We are a community bank and our ability to maintain our reputation is critical to the success of our business and the failure to do so may materially adversely affect our performance.**

We are a community bank, and our reputation is one of the most valuable components of our business. A key component of our business strategy is to rely on our reputation for customer service and knowledge of local markets to expand our presence by capturing new business opportunities from existing and prospective customers in our market area and contiguous areas. As such, we strive to conduct our business in a manner that enhances our reputation. This is done, in part, by recruiting, hiring and retaining employees who share our core values of being an integral part of the communities we serve, delivering superior service to our customers and caring about our customers and associates. If our reputation is negatively affected, by the actions of our employees, by our inability to conduct our operations in a manner that is appealing to current or prospective customers, or otherwise, our business and, therefore, our operating results may be materially adversely affected.

#### **We may be required to transition from the use of LIBOR interest rate index in the future.**

Certain of our investment securities are currently indexed to LIBOR to calculate the loan interest rate. The continued availability of the LIBOR index is not guaranteed after 2022. We cannot predict whether and to what extent banks will continue to provide LIBOR submissions to the administrator of LIBOR or whether any additional reforms to LIBOR may be enacted. At this time, no consensus exists as to what rate or rates may become acceptable alternatives to LIBOR (with the exception of overnight repurchase agreements, which are expected to be based on the Secured Overnight Financing Rate, or SOFR). The language in our LIBOR-based contracts and financial instruments has developed over time and may have various events that trigger when a successor rate to the designated rate would be selected. If a trigger is satisfied, contracts and financial instruments may give the calculation agent discretion over the substitute index or indices for the calculation of interest rates to be selected.

#### **Risks Related to our Common Stock**

##### **The market price of our common stock may be subject to substantial fluctuations, which may make it difficult for you to sell your shares at the volume, prices and times desired.**

The market price of our common stock may be highly volatile, which may make it difficult for you to resell your shares at the volume, prices and times desired. There are many factors that may affect the market price and trading volume of our common stock, including, without limitation, the risks discussed elsewhere in this "Risk Factors" section and:

- actual or anticipated fluctuations in our operating results, financial condition or asset quality;
- changes in economic or business conditions;
- the effects of, and changes in, trade, monetary and fiscal policies, including the interest rate policies of the Federal Reserve Board;

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- publication of research reports about us, our competitors or the financial services industry generally, or changes in, or failure to meet, security analysts' estimates of our financial and operating performance, or lack of research reports by industry analysts or the cessation of coverage;
- operating and stock price performance of companies that investors deem comparable to us;
- additional or anticipated sales of our common stock or other securities by us or our existing stockholders;
- additions, departures or inability to retain of key personnel;
- perceptions and speculations in the marketplace regarding our competitors or us;
- price and volume fluctuations in the overall stock market from time to time;
- litigation involving us, our industry or both;
- investigations by regulators into our operations or those of our competitors;
- new laws or regulations or new interpretations of existing laws or regulations applicable to our business;
- changes in accounting standards, policies, guidelines, interpretations or principles;
- actual or anticipated developments in our business, our competitors' businesses or the competitive landscape generally;
- significant acquisitions or business combinations, strategic partnerships, joint ventures or capital commitments by or involving our competitors or us;

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- other economic, competitive, governmental, regulatory or technological factors affecting our operations, pricing, products and services; and
- other news, announcements or disclosures (whether by us or others) related to us, our competitors, our core market or the financial services industry.

The stock market and, in particular, the market for financial institution stocks have experienced substantial fluctuations in recent years, which in many cases have been unrelated to the operating performance and prospects of particular companies. In addition, significant fluctuations in the trading volume in our common stock may cause significant price variations to occur. Increased market volatility may materially and adversely affect the market price of our common stock, which could make it difficult to sell your shares at the volume, prices and times desired.

In addition, in the past, following periods of volatility in the overall market and the market price of a particular company's securities, securities class action litigation has often been instituted against these companies. Such litigation, if instituted against us, could result in substantial costs and a diversion of our management's attention and resources.

**The implementation of the 2022 Equity Incentive Plan may dilute your ownership interest.**

In 2022, we adopted the TC Bancshares, Inc. 2022 Equity Incentive Plan, which authorized the issuance of up to 700,000 shares of our common stock. To the extent issuances under the 2022 Equity Incentive Plan exceed the amount of the Company's open market purchases, our stockholders will experience a reduction in ownership interest.

**The corporate governance provisions in our articles of incorporation and bylaws may prevent or impede the holders of a minority of our common stock from obtaining representation on our board of directors and may also prevent or impede a change in control.**



Provisions in our articles of incorporation and bylaws may prevent or impede holders of a minority of our common stock from obtaining representation on our board of directors. For example, our board of directors is divided into three classes with staggered three-year terms. A classified board makes it more difficult for stockholders to change a majority of the directors because it generally takes at least two annual elections of directors for this to occur. Second, our articles of incorporation provides that there will not be cumulative voting by stockholders for the election of our directors. Also, we have the ability to issue preferred stock without stockholder approval with voting rights to third parties who may be friendly to our board of directors.

In addition, our articles of incorporation generally provide that, for a period of three years from July 20, 2021, the date closing of our initial public offering, no person may directly or indirectly offer to acquire or acquire the beneficial ownership of more than 10% of any class of our equity securities held by any person other than the Company, and that any shares acquired in excess of this limit would

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not be entitled to be voted and would not be counted as voting stock in connection with any matters submitted to the stockholders for a vote.

Under Federal Reserve Board regulations, no person may directly or indirectly acquire or offer to acquire beneficial ownership of more than 10% of our common stock without prior approval of the Federal Reserve Board. Under federal law, subject to certain exemptions, a person, entity or group must notify the Federal Reserve Board before acquiring control of a bank holding company. Acquisition of 10% or more of any class of voting stock of a bank holding company creates a rebuttable presumption that the acquirer “controls” the holding company. Also, a bank holding company must obtain the prior approval of the Federal Reserve Board before, among other things, acquiring direct or indirect ownership or control of more than 5% of any class of voting shares of any bank, including the Bank.

**Our management team has limited experience managing a public company, and regulatory compliance may divert its attention from the day-to-day management of our business.**

Our management team has limited experience managing a publicly-traded company or complying with the increasingly complex laws pertaining to public companies. Our management team may not successfully or efficiently manage our transition into a public company, which will be subject to significant regulatory oversight and reporting obligations under federal securities laws. In particular, these new obligations will require substantial attention from our management and may divert their attention away from the day-to-day management of our business, which could materially and adversely impact our business operations.

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**You may not receive dividends on our common stock.**

Holders of our common stock are only entitled to receive dividends as our board of directors may declare out of funds legally available for such payments. The declaration and payment of future cash dividends will be subject to, among other things, regulatory restrictions, our then current and projected consolidated operating results, financial condition, tax considerations, future growth plans, general economic conditions, and other factors our board of directors deems relevant. See the sections entitled “Supervision and Regulation—Federal Banking Regulation—Capital Requirements”; “—Capital Distributions”; and “—Holding Company Regulation” in Item 1 of this report.

The Company will depend primarily upon the proceeds it retains from the offering as well as earnings of the Bank to provide funds to pay dividends on our common stock. The payment of dividends by the Bank also is subject to certain regulatory restrictions. Federal law generally prohibits a depository institution from making any capital distributions (including payment of a dividend) to its parent holding company if the depository institution would thereafter be or continue to be undercapitalized, and dividends by a depository institution are subject to additional limitations.



As a result, any payment of dividends in the future by the Company will depend, in large part, on the Bank's ability to satisfy these regulatory restrictions and its earnings, capital requirements, financial condition and other factors.

**We are an emerging growth company, and any decision on our part to comply only with certain reduced reporting and disclosure requirements applicable to emerging growth companies could make our common stock less attractive to investors.**

We are an emerging growth company, and, for as long as we continue to be an emerging growth company, we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to "emerging growth companies," including, but not limited to, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. As an emerging growth company, we also will not be subject to Section 404(b) of the Sarbanes-Oxley Act, which would require that our independent auditors review and attest as to the effectiveness of our internal control over financial reporting. We have also elected to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. Accordingly, our financial statements may not be comparable to the financial statements of public companies that comply with such new or revised accounting standards.

We could remain an "emerging growth company" for up to five years following the completion of our initial public offering, or until the earliest of (a) the last day of the first fiscal year in which our total annual gross revenues amount to \$1.07 billion or more, (b) the date that we become a "large accelerated filer" as defined in Rule 12b-2 under the Securities Exchange Act of 1934, as amended, which would occur if the market value of our common stock that is held by non-affiliates exceeds \$700 million as of the last business day of our most recently completed second fiscal quarter, or (c) the date on which we have issued more than \$1.0 billion in non-convertible debt during the preceding three-year period.

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As a result, our stockholders may not have access to certain information they may deem important, and investors may find our common stock less attractive if we choose to rely on these exemptions. This could result in a less active trading market for our common stock and the price of our common stock may be more volatile.

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**Item 1B. Unresolved Staff Comments.**

None.

**Item 1C. Cybersecurity.**

Policy statements and regulations by state and federal bank regulators indicate that financial institutions should design multiple layers of security controls to establish lines of defense and to ensure that their risk management processes also address the risk posed by compromised customer credentials, including security measures to reliably authenticate customers accessing internet-based services of the financial institution. For example, a financial institution's management is expected to maintain sufficient business continuity planning processes to ensure the rapid recovery, resumption and maintenance of the institution's operations after a cyberattack involving destructive malware.

On April 1, 2022, a final rule issued by federal financial regulatory agencies became effective – that rule imposes upon banking organizations and their service providers notification requirements for significant cybersecurity incidents. Specifically, the rule requires banking organizations to notify their primary federal regulator as soon as possible and no later than 36 hours after the discovery of a "computer-security incident" that rises to the level of a

"notification incident" as those terms are defined in the rule. Banks' service providers are required under that rule to notify any affected bank to or on behalf of which the service provider provides services "as soon as possible" after determining that it has experienced an incident that materially disrupts or degrades, or is reasonably likely to materially disrupt or degrade, covered services provided to such bank for as much as four hours.

Additionally, effective December 9, 2022, the FTC's amendments to the GLBA's Safeguards Rule went into effect. That rule requires financial institutions to: (i) appoint a qualified individual to oversee and implement their information security programs; (ii) implement additional criteria for information security risk assessments; (iii) implement safeguards identified by assessments, including access controls, data inventory, data disposal, change management, and monitoring, among other things; (iv) implement information system monitoring in the form of either "continuous monitoring" or "periodic penetration testing;" (v) implement additional controls including training for security personnel, periodic assessment of service providers, written incident response plans, and periodic reports from the qualified individual to the board of directors. Additionally, multiple states and Congress are considering laws or regulations which could create new individual privacy rights and impose increased obligations on companies handling personal data.

#### ***Risk management and strategy.***

Our risk management program is designed to identify, assess, and mitigate risks across various aspects of our Company, including financial, operational, regulatory, reputational, and legal. Cybersecurity is a critical component of this program, given the increasing reliance on technology and potential of cyber threats. Our Information Security Officer Committee (ISOC) is primarily responsible for this cybersecurity component. The ISOC is chaired by the Company's Chief Financial Officer with oversight by a third-party information security specialist. In addition, the ISOC members include our Chief Information Officer along with external technology and internal business resources. The ISOC makes quarterly reports to the board of directors.

Our objective for managing cybersecurity risk is to avoid or minimize the impacts of external threat events or other efforts to penetrate, disrupt or misuse our systems or information. The structure of our information security program is designed around the National Institute of Standards and Technology ("NIST") Cybersecurity Framework, regulatory guidance, and other industry standards. In addition, we leverage certain industry and government associations, third-party benchmarking, audits, and threat intelligence feeds to facilitate and promote program effectiveness. Our Chief Information Officer, who reports directly to our Chief Financial Officer, along with key members of their teams, regularly collaborate with peer banks, industry groups, and policymakers to discuss cybersecurity trends and issues and identify best practices. The information security program is periodically reviewed by such personnel with the goal of addressing changing threats and conditions.

We employ an in-depth, layered, defensive strategy that embraces a "trust by design" philosophy when designing new products, services, and technology. We leverage people, processes, and technology as part of our efforts to manage and maintain cybersecurity controls. We also employ a variety of preventative and detective tools designed to monitor, block, and provide alerts regarding suspicious activity, as well as to report on suspected advanced persistent threats. We have established processes and systems designed to mitigate cyber risk, including regular and on-going education and training for employees, preparedness simulations and tabletop exercises, and recovery and resilience tests. We engage in regular assessments of our infrastructure, software systems, and network architecture, using

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internal cybersecurity experts and third-party specialists. We also actively monitor our email gateways for malicious phishing email campaigns and monitor remote connections as a significant portion of our workforce has the option to work remotely. We leverage internal and external auditors and independent external partners to periodically review our processes, systems, and controls, including with respect to our information security program, to assess their design and make recommendations to strengthen our risk management program.

We maintain an Incident Response Plan that provides a documented framework for responding to actual or potential cybersecurity incidents, including timely notification of and escalation to executive management and/or the Board of Directors. The Incident Response Plan is coordinated through the Chief Information Officer and key members of management are embedded into the Plan by its design. The Incident Response Plan facilitates coordination across multiple parts of our organization and is evaluated at least annually.

Notwithstanding our defensive measures and processes, the threat posed by cyber-attacks is severe. Our internal systems, processes, and controls are designed to mitigate loss from cyber-attacks and, while we have experienced cybersecurity events in the past, to date, risks from

cybersecurity threats have not materially affected our company. For further discussion of risks from cybersecurity threats, see the section captioned "Risks Related to Operational Matters" in Item 1A. Risk Factors.

Governance.

Our Chief Information Officer is accountable for managing our enterprise information security department and delivering our information security program. The responsibilities of this department include cybersecurity risk assessment, defense operations, incident response, vulnerability assessment, threat intelligence, identity access governance, third-party risk management, and business resilience. The foregoing responsibilities are covered on a day-to-day basis by a first line of defense function, and our second line of defense function, including the Chief Information Officer, provides guidance, oversight, monitoring and challenge of the first line's activities. The second line of defense function is separated from the first line of defense function through organizational structure and ultimately reports directly to the Chief Financial Officer. The department, as a whole, consists of information security professionals with varying degrees of education and experience, as well as third-party information security specialists. In particular, our Chief Information Officer has substantial relevant expertise and formal training in the areas of information security and cybersecurity risk management.

In addition to the ISOC, our board of directors has created the Information Technology Steering Committee. These committees provide oversight and governance of the technology program and the information security program. These committees include the Chief Financial Officer and Chief Information Officer as well as their direct reports and other key departmental managers from throughout the entire Company. The Information Technology Steering Committee meets on a quarterly basis. The ISOC generally meets monthly to provide oversight of the risk management strategy, standards, policies, practices, controls, and mitigation and prevention efforts employed to manage security risks. More frequent meetings occur from time to time in accordance with the Incident Response Plan in order to facilitate timely informing and monitoring efforts. The Chief Information Officer reports summaries of key issues, including significant cybersecurity and/or privacy incidents, discussed at committee meetings and the actions taken to the Information Technology Steering Committee of our board of directors on a quarterly basis (or more frequently as may be required by the Incident Response Plan).

The Information Technology Steering Committee of our board of directors is responsible for overseeing our information security and technology programs, including management's actions to identify, assess, mitigate, and remediate or prevent material cybersecurity issues and risks. Our Chief Information Officer provides quarterly reports to the Information Technology Steering Committee of our board of directors regarding the information security program and the technology program, key enterprise cybersecurity initiatives, and other matters relating to cybersecurity processes. The board of directors reviews and approves our information security and technology budgets and strategies annually.

Item 2. Properties.

We currently conduct business from our main office a in Thomasville, Georgia, as well as additional full service branch branches in Tallahassee, Florida; Savannah, Georgia; and Jacksonville, Florida. We also operate LPOs in Tallahassee, Florida commercial LPOs in Savannah, Georgia and Jacksonville, Florida, and a residential mortgage center in Tallahassee, Florida. The following table sets forth the net book value of the land, building and leasehold improvements and certain other information with respect to our offices at December 31, 2022 December 31, 2023:

Location	Leased/Owned	Date of	Net Book Value	Amount of
		Lease	of Property and	
		Expiration	Leasehold	Deposits
			Improvements	
(Dollar in thousands)				

Main Office 131 South Dawson Street Thomasville, Georgia 31799	Owned	N/A	\$	1,820	\$	237,643
Tallahassee Branch 2915-501 Kerry Forest Parkway Tallahassee, Florida 32309	Owned	N/A	\$	1,212	\$	91,197
Savannah Commercial LPO 105 West Congress St, Unit C Savannah, Georgia 31401	Leased	12/31/22	\$	58		N/A
Residential Mortgage Center 2282 Killearn Center Boulevard, Suite B Tallahassee, Florida 32308	Leased	9/1/22		5		N/A
Jacksonville Commercial LPO 3121 Venture Place, Suite 3 Jacksonville, Georgia 32257	Leased	5/31/24	\$	37		N/A
			\$	3,132	\$	328,840
			Net Book Value			
		Date of	of Property and			
		Lease	Leasehold			
Location	Leased/Owned	Expiration	Amount of			
			Improvements			
			Deposits			
(Dollar in thousands)						
Main Office 131 South Dawson Street Thomasville, Georgia 31792	Owned	N/A	\$	1,405	\$	202,348
Tallahassee Branch 2915-501 Kerry Forest Parkway Tallahassee, Florida 32309	Owned	N/A	\$	1,048	\$	100,233
Savannah Branch 7150 Hodgson Memorial Drive Suite A Savannah, Georgia 31406	Leased	5/14/33	\$	729	\$	32,450
Jacksonville Branch 10970 San Jose Boulevard Jacksonville, Florida 32223	Leased	3/22/33	\$	429	\$	34,838
Tallahassee LPO 6267 Old Water Oak Road Suite 205 Tallahassee, Florida 32312	Leased	9/14/26	\$	-		N/A
Jacksonville LPO 3121 Venture Place Jacksonville, Florida 32257	Leased	5/31/24	\$	-		N/A
			\$	3,611	\$	369,869

### Item 3. Legal Proceedings

We are not involved in any pending legal proceedings other than routine legal proceedings occurring in the ordinary course of business. At December 31, 2022 December 31, 2023, we were not involved in any legal proceedings the outcome of which would be material to our financial condition or results of operations.

#### Item 4. Mine Safety Disclosures.

Not applicable.

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## PART II

#### Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

The Company's shares of common stock are traded on the Nasdaq Capital Market under the symbol TCBC. As of March 22, 2023 March 22, 2024 there were approximately 534 500 active stockholders of record of our common stock.

**Dividends.** The Company commenced the payment of semi-annual dividends in 2022, with a \$0.05 per common share of common stock semi-annual dividend in July of 2022. During 2023, the Company declared two cash dividends of \$0.05 each. The first was declared in June and paid on July 15, 2022, to in July of 2023. The second was declared by the stockholders of record on June 27, 2022, and \$0.05 per share of common stock paid on January 18, 2023, to the stockholders of record on January 3, 2023. Any future determination relating to our dividend policy will be made by our board of directors in December of 2023 and will depend on paid to shareholders in January of 2024. The Board's decision to declare any future dividends would entail a review of a number of factors including our financial condition, capital requirements, earnings, cash flow, and as well as other factors.

**Stock Repurchases.** The following table contains information regarding the Company's purchases of its common stock made during the fourth quarter 2022 2023 by or on behalf of the Company or any "affiliated purchaser," as defined by Rule 10b-18(a)(3) of the Exchange Act.

Period	Total Number of Shares purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Programs	Maximum Number of Shares that May Yet Be Purchased under the Plans or Programs (1)
October 1-31, 2022	21,057	\$ 14.80	21,057	177,422
November 1-30, 2022	2,594	\$ 14.81	2,594	174,828
December 1-31, 2022	-	-	-	174,828
Total	23,651	\$ 14.80	23,651	174,828

Period	Total Number of Shares Repurchased (1)	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plan or Programs	Maximum Number of Shares that May Yet Be Repurchased under the Plans or Programs (2), (3)
October 1-31, 2023	119,800	\$ 13.89	119,800	-
November 1-30, 2023	-	-	-	-
December 1-31, 2023	82,000	14.09	201,800	368,000

Total	201,800	\$	13.97	368,000	368,000
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- <sup>(1)</sup> During fourth quarter 2022, the Company withheld 5,568 common Thesees numbers do not include shares repurchased and canceled for minimum tax withholding settlements obligations on restricted stock. These are not considered "repurchases" and, therefore, do not count against shares vested during the maximum number of shares that may yet be purchased under the board of directors' authorization. quarter.
- <sup>(2)</sup> On August 3, 2022 June 27, 2023, the Company announced a program to repurchase up to 250,000 shares of the Company's common stock through June 30, 2023 June 30, 2024. This program was completed during the fourth quarter of 2023.
- <sup>(3)</sup> On December 15, 2023, the Company announced a program to repurchase up to 450,000 shares of the Company's common stock through June 30, 2024.

Item 6. [Reserved]

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Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion provides additional information regarding our results of operations and financial condition for the years ending December 31, 2022 December 31, 2023 and 2021, 2022, and should be read in conjunction with our consolidated financial statements and the related notes, which appear beginning in Item 8 of this report. Historical results of operations and the percentage relationships among any amounts included, and any trends that may appear, may not indicate trends in operations or results of operations for any future periods.

We have made, and will continue to make, various forward-looking statements with respect to financial and business matters. Comments regarding our business that are not historical facts are considered forward-looking statements that involve inherent risks and uncertainties. Actual results may differ materially from those contained in these forward-looking statements. For additional information regarding our cautionary disclosures, see the “Cautionary Note Regarding Forward-Looking Statements” at the beginning of this annual report.

Recent Mutual-to-Stock Conversion and Reorganization

The Company, a Georgia corporation, was formed on March 5, 2021 to serve as the savings and loan holding company for the Bank. The Bank is a federally chartered covered savings bank association headquartered in Thomasville, Georgia that has served the banking needs of our customers since 1934. On July 20, 2021, the Bank completed a mutual-to-stock conversion in a series of transactions by which it reorganized its corporate structure from a mutual savings bank to a federal stock covered savings bank, association, and became a wholly-owned subsidiary of the Company. In connection with the reorganization and conversion, the Company sold 4,898,350 shares of its common stock at a price of \$10.00 per share, which we refer to as the “stock offering,” and on July 21, 2021, the Company’s common stock commenced trading on the NASDAQ Stock Market under the symbol “TCBC.”

Before the reorganization and conversion, the Company conducted no operations other than organizational activities. In this annual report, unless the context indicates otherwise, all references to “we,” “us” and “our” refer to the Company and the Bank, except that if the discussions relate to a period before July 20, 2021, these terms refer solely to the Bank.

Recent Banking Events

There were two significant five bank failures in the 2023. The first part two of March 2023, primarily due to the failed banks' these failures were caused by a lack of liquidity as depositors sought to withdraw their deposits. Due to embedded losses in their investment portfolios from rising interest rates, the failed these banks were unable to sell investment securities held to meet liquidity needs without realizing substantial losses. As a result of the March 2023 bank closures and in an effort to strengthen public confidence in the banking system and protect depositors, regulators have announced that any losses to the Deposit Insurance Fund to support uninsured depositors will be recovered by a special assessment on banks, as required by law, which could increase the cost of our FDIC insurance assessments. Additionally, the Federal Reserve announced the creation of a new Bank Term Funding Program in an effort to minimize the need for banks to sell securities at a loss in times of stress. stress, the Federal Reserve announced the creation of a new Bank Term Funding Program. In January of 2024, the Federal Reserve announced that March 11, 2024 will be the last day loans will be made under this program.

The future COVID-19 pandemic impacted business and the economy in a variety of ways. Having employees working remotely became a much more accepted practice for businesses. As a result, the need for office space in a postpandemic world has decreased. During this same time frame the Federal Reserve has increased interest rates multiple times causing concerns about borrowers' ability to refinance their debt over the near-term. The combination of these factors is beginning to strain the commercial real estate market. How the impact of these failures on changes will unfold in the economy, financial institutions and their depositors, as well as any governmental regulatory responses or actions resulting from the same, banking industry is difficult yet unknown, however regulators have heightened concerns that asset quality metrics may suffer due to predict at this time, losses associated with commercial real estate lending.

## Overview

We are a full service community bank that provides a variety of services to individual individuals and commercial accounts businesses in our market areas. Our business consists primarily of taking deposits from the general public and investing those deposits, together with funds generated from our operations, in one-to-four family residential real estate into loans commercial and multi-family residential real estate loans, commercial and industrial loans, construction and land development loans and consumer loans, to support the communities we serve as well as other liquid assets. At December 31, 2022 December 31, 2023, we had total assets of \$429.6 million \$466.6 million, loans, net of the allowance for loan credit losses and deferred fees, of \$334.1 million \$372.1 million, total deposits of \$328.8 million \$369.9 million and total stockholders' equity of \$85.3 million \$79.6 million. During 2019, the Bank elected to be treated as a "covered savings association" which allows us to engage in the same activities as a national bank.

Our primary deposit products are personal checking accounts, business checking accounts, savings accounts, money market accounts and certificates of deposit. Our lending products include single-family residential loans, construction loans, land development loans and SBA/USDA guaranteed loans.

We expect to continue to focus on originating one-to-four family residential real estate loans, commercial and multi-family residential real estate loans, commercial and industrial loans, construction and land development loans and consumer loans. Although in recent years, we have increased our focus, consistent with what we believe to be conservative underwriting standards, on originating higher yielding commercial real estate and commercial and industrial loans.

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We also invest in securities, which have historically consisted securities. Our bond portfolio consists primarily of U.S. Agency issued mortgage-backed securities. In addition, at year-end 2023, we also held securities issued by the U.S. government sponsored enterprises but in 2021 Treasury, as well as those issued by a variety of municipalities and 2022 we also invested in U.S. treasuries and municipal bonds. In recent years, we have originated single-family owner-occupied loans for sale into other banking institutions. These securities support the secondary market and for liquidity position of the



Company, while providing an additional source of interest income to our own portfolio. We intend to continue this activity in the future. overall revenue stream.

As a general matter, With our current balance sheet structure, our interest-bearing liabilities reprice or mature more quickly than our interest-earning assets, which can assets. As a result, the rate of increase in our interest expense increasing more rapidly than has outpaced the rate of increases in interest income as interest our earning asset yields during this recent window when the Federal Reserve has increased rates increase. Therefore, increases in interest rates may adversely affect multiple times. As a result, our net interest income and net economic value, which in turn would likely have an adverse effect on our results margin for the full year of operations. To help manage interest rate risk, we promote core deposit products and we are continuing 2023 compressed 28 basis points when compared to diversify our loan portfolio by adding more commercial-related loans. We will seek to continue to increase our core checking accounts during 2023. that of the prior twelve-month period.

## Business Strategy

Our goal is to provide long-term value to our stockholders, depositors, customers, employees and the communities we serve by executing a safe and sound business strategy that produces increasing earnings. We believe there is a significant opportunity for a community-focused bank to provide a full range of financial services to commercial and retail customers in our market areas, and we believe that the increased capital resulting from the completion of our stock offering enables us to compete more effectively with other financial institutions.

Our current business strategy consists of the following:

- **Leverage the infrastructure of the Bank to create additional value for shareholders, depositors, employees, customers and the communities in which we operate.** We seek to improve our operating efficiency as we optimize a During 2023, the Company expanded its branch network by opening two new core processing system that was implemented in 2020 in order to enhance service features for both retail and business customers, and continue the process improvements implemented over the last two years. Our efficiency ratio has gradually improved from 91.2% for the year ended December 31, 2020 to 76.7% as of December 31, 2021, before regressing slightly to 82.7% as of December 31, 2022. Based on the personnel and systems now in place, we believe we can continue our trend of improving our operational efficiency, particularly as we are able to utilize the capital raised in the stock offering to grow assets and increase top line revenue. The increase in 2022 was related to the expense that accompanied the implementation of the stockholder approved management incentive plans. During 2022, the Bank opened a new commercial lending LPO in the Jacksonville market. Currently the Bank is in the process of launching new retail locations branch offices, one in Savannah, Georgia, and another in Jacksonville, Florida. Both While the initial costs of opening, staffing, and promoting these new branch locations facilities have hampered our bottom line results, these facilities are scheduled located in two dynamic markets that have the potential to open during provide strong growth for the second quarter of 2023. Additionally, management foresees Company going into the future. The Bank's capital position provides us with the opportunity to add an additional branch in Tallahassee, Florida with possible further expansion in both Savannah, Georgia and Jacksonville, Florida. take steps today that can lead the Company to a more valuable tomorrow.

Our core processing system conversion was completed in late 2020 which we believe improved our competitive position with constituencies that demand digital access to accounts for the movement of money through expanded capability made available in the new core processing system.

- **Grow our loan portfolio prudently.** We intend to continue to build and maintain a high quality and diversified portfolio of loans, loan portfolio. While our capital base can support a larger balance sheet, we intend on increasing our loan outstandings through our expanded footprint with an emphasis on commercial experienced lending and multi-family real estate loans and residential mortgage loans. We expect to be able to continue to grow credit staff, without compromising our loan portfolio, having grown our outstanding loans \$67.8 million, or 25.5%, from year-end 2021, and \$3.9 million, or 1.5%, and from year-end 2020 through year-end 2021. We intend to continue to grow our commercial lending activities through government sponsored loan programs, such as the SBA and USDA loan programs. Through our residential mortgage office in Tallahassee, we will continue to seek to originate residential loans for our portfolio as well as for sale in the secondary market, using multiple correspondent relationships for the sale of residential mortgages on a servicing-released basis. Residential lending introduces new customer relationships to the Bank and provides an opportunity for us to offer additional banking services to those clients. credit standards.

For much of the Bank's existence as a federal savings bank, our loan portfolio focused on residential mortgage lending. However, in the first decade of the 2000's, we expanded our loan product mix and now have a diversified mix of one-to- four family residential real estate



loans, commercial and multi-family real estate loans, commercial and industrial loans, construction and land development loans and consumer loans. As of December 31, 2022, 40.2% of our loan portfolio consisted of residential real estate loans, 41.0% were commercial and multi-family real estate loans, 8.2% per construction and land development loans, 7.6% were commercial and industrial loans, 3.7% were home equity loans and 0.3% were consumer loans. Residential loans increased \$37.9 million, or 27.8%, to \$136.4 million as of December 31, 2022, from \$98.4 million as of December 31, 2021. Commercial and multi-family real estate loans increased \$26.2 million, or 23.9%, to \$136.0 million as of December 31, 2022, from \$109.8 million as of December 31, 2021, commercial and industrial loans increased \$9.8 million, or 61.6%, to \$25.7 million as of December 31, 2022, from \$15.9 million as of December 31,

2021 while construction and land development loans decreased 6.5% to \$25.7 million as of December 31, 2022, from \$34.4 million as of December 31, 2021.

- Continue to increase core deposits.** We seek to increase the proportion of our core deposit base consisting of core deposits in order to provide a stable source of funds to support our loan and overall balance sheet growth. Our two new branch offices are in high growth at costs consistent markets and are staffed with improving our interest rate spread and margin. Historically, experience bankers. While we have relied heavily on certificates of paid market rates to attract and retain depositors at these new locations, their performance has exceeded our initial expectations. We believe that these new branch offices, coupled with our existing branch footprint, will provide the Company with a solid core deposit but in recent years we have been building a base for our future.

We continue to strive to build our core deposit base. We have begun reducing deposit costs to market rates and by placing greater emphasis on developing core deposits. As part of our focus on commercial loan growth, our lenders are expected to seek to secure non-interest bearing business checking accounts from our borrowers. We placed greater emphasis on developing core deposits in both 2021 and 2022. As a result of these efforts, core deposits increased by \$39.5 million, or 13.7%, to \$328.8 million as of December 31, 2022 from \$289.3 million as of December 31, 2021. Management will continue to emphasize the growth of both retail and commercial core deposits.

Core deposits also help us maintain loan-to-deposit ratios at levels consistent with regulatory expectations. We consider our core deposits to include checking accounts (both interest-bearing and non-interest bearing), savings accounts and money market deposit accounts. However, we will also explore utilizing non-core funding sources such as CDARs, and brokered deposits, and may use borrowings to supplement funding asset growth as needed, well as to fund future loan growth and assist in the overall management of our operations, balance sheet.

- Maintain Credit Standards while Growing.** We believe strong asset quality is a critical key to our long-term financial success. Our strategy for credit risk management focuses on having an experienced team of credit professionals, well-defined policies and procedures, prudent loan underwriting criteria, and active credit monitoring. Our non-performing assets to total assets ratio was 0.29% as of December 31, 2022 and 0.40% at December 31, 2021. Leading up to our conversion, we invested in the enhancement of our credit function by hiring additional experienced credit staff, implemented enhanced internal and external credit review processes, and implemented new technology for underwriting processing and credit analysis. We intend to maintain the high value of our credit culture, both in the personnel we employ, as well as ancillary support systems we utilize in order to be able to evaluate more complex loans and better manage credit risk, which risk. This approach, we believe, will also support allow us to grow our intended loan growth, especially in the commercial loan market, portfolio while maintaining our high credit standards.
- Supplement organic growth through opportunistic bank or branch acquisitions.** Although management has no current definitive plans or commitments to acquire other institutions or financial services businesses, for an acquisition, we expect would continue to consider acquisition opportunities that we believe would enhance the value of our franchise and yield potential financial benefits for our stockholders. The Our capital we raised in our stock offering may provide position provides us with the opportunity ability to acquire consider the acquisition of other institutions and financial services businesses institutions located within a reasonable proximity of our current market areas. We believe we are well positioned to take advantage of, and execute on, opportunities given the infrastructure improvements we have undertaken, including the upgrade of our core processing system and expanded management expertise, footprint.
- Enhance the sales, marketing and service culture.** We believe that loyalty is a key component of the success of community banks. We will continue to develop loyalty with our community and our customers. We will invest in customer and community relationships with the spirit of a servant's heart and servant leadership. We expect to serve customers when and how they wish to be served within the boundaries of safe and sound risk management. Our technology was significantly enhanced during 2020, including an expansion of our

digital banking capabilities, as a result of our core conversion upgrade and ancillary services. We plan to continue to optimize the system for greater internal efficiencies and customer interactions.

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We believe the core system will allow us to materially improve the customer experience and help us facilitate greater cross selling.

- **Expand our employee base to support future growth.** We plan to continue to build depth and expertise as needed with increases in our size and complexity.

#### Lending Operations and Accommodations to Borrowers

- Starting in March 2020, we modified the terms of loans with customers impacted by the COVID-19 pandemic to permit payment deferral. For the year ended December 31, 2020, these deferrals had affected a total of \$46.6 million of loans, including \$4.0 million of construction loans, \$2.1 million of commercial and industrial loans, \$7.9 million of owner-occupied commercial real estate loans and \$17.9 million of non-owner-occupied commercial real estate loans. These deferrals were intended to provide customers with temporary relief. At year-end 2020, none of the loans modification were still on modified terms. We believe these actions provided our customers with the best chance to meet their longer-term obligations and for us to work with those who will not be able to meet their obligations or default on their loans. In 2021 and 2022, there were no COVID-19 related payment deferrals.
- We did not automatically downgrade borrowers that requested a deferral. However, if the borrower requested a deferral that extended beyond the initial three months granted, we considered downgrades based on the trend in revenues. During 2020, we downgraded to substandard \$2.1 million in loans that were placed on deferral, and combined with our other

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lending activity during the year ended December 31, 2020, these adjustments resulted in a provision for loan losses of \$780,000. In 2021 or 2022, there were no COVID-19 related loan downgrades.

- During 2020, as part of the PPP, we originated 307 PPP loans totaling \$25.1 million. In January 2021 through May 31, 2021, when the PPP program ended, we originated an additional 141 PPP loans totaling \$8.7 million. Payment of principal, interest and fees on PPP loans is deferred until the amount to be forgiven is finalized, in general. We were paid a processing fee by the SBA on PPP loan originations ranging from 1% to 5% of the amount of the loan, based on the size of the loans. We recorded approximately \$481,000 in PPP-related SBA fees for the year ended December 31, 2021, compared to \$478,000 for the year ended December 31, 2020, and we are accreting these fees into interest income over the estimated life of the applicable loans. If a PPP loan is forgiven or paid off before maturity, the remaining unearned fee is recognized into income at that time. As of December 31, 2021 and 2022, we recognized \$678,000 and \$62,000, respectively, in PPP-related SBA fees through accretion. There were no PPP loans outstanding as of December 31, 2022 and all related PPP fees have been recognized into income.

#### Critical Accounting Estimates

We have adopted various accounting policies that govern the application of accounting principles generally accepted in the U.S. and with general practices within the banking industry in the preparation of our financial statements. Our significant accounting policies are described in Note 1 to our Consolidated Financial Statements as of **December 31, 2022** **December 31, 2023**.

Certain accounting policies inherently involve a greater reliance on the use of estimates, assumptions and judgments and, as such, have a greater possibility of producing results that could be materially different than originally reported, which could have a material impact on the carrying values of our assets and liabilities and our results of operations. We consider these accounting policies and estimates to be critical accounting policies. We have identified the determination of the allowance for **loan credit** losses and income taxes to be our significant accounting policies that require the most subjective or complex judgments and, as such, could be most subject to revision as new or additional information becomes available or circumstances change, including overall changes in the economic climate and/or market interest rates.

The following represent our significant accounting policies:

**Allowance for Loan Credit Losses.** On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic ASC 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The allowance for loan credit losses is a reserve for estimated credit losses on individually evaluated loans determined to be impaired as well as estimated credit losses inherent in the loan or AFS investment portfolio. Actual credit losses, net of recoveries, are deducted from the allowance for loan credit losses. Loans are charged off when the Asset Quality Committee (which consists of Board and management members) believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance for loan credit losses. A provision for loan credit losses, which is a charge against earnings, is recorded to bring the allowance for loan credit losses to a level that, in the Asset Quality Committee's judgment of management, is adequate to absorb probable losses in the loan portfolio. The Asset Quality Committee's evaluation process used Committee and the Board of Directors are responsible for ensuring that the methodology and processes applied by management to determine the appropriateness of the allowance for loan credit losses is appropriate, subject to the use of estimates, assumptions, and judgment. The evaluation process involves gathering and interpreting many qualitative and quantitative factors which could affect probable credit losses. Because interpretation and analysis involve judgment, current economic or business conditions can change, and future events are inherently difficult to predict, the anticipated amount of estimated loan credit losses and therefore the appropriateness of the allowance for loan credit losses could change significantly.

The allocation methodology we apply allowance for credit losses is designed evaluated on a regular basis and established through charges to assess earnings in the appropriateness form of a provision for credit losses. When a loan or portion of a loan is determined to be uncollectible, the portion deemed uncollectible is charged against the allowance for loan losses and includes allocations for specifically identified impaired loans and loss factor allocations for all remaining loans, with a component primarily based on historical loss rates and a component primarily based on other qualitative factors. The methodology includes evaluation and consideration of several factors, such as, but not limited to, an ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. While the Asset Quality Committee uses the best information available to make its evaluation, future adjustments subsequent recoveries, if any, are credited to the allowance may be necessary if there allowance. This evaluation is inherently subjective as it requires estimates that are susceptible to significant changes in economic conditions or circumstances underlying the collectability of loans. Because each of the criteria used is subject to change, the allocation of the allowance for loan losses is made for analytical purposes and is not necessarily indicative of the trend of future loan losses in any particular loan category. The total allowance is available to absorb losses from any segment of the loan portfolio. The Asset Quality Committee believed the allowance for loan losses is appropriate at December 31, 2022. The allowance analysis is reviewed by the Asset Quality Committee on a no less than quarterly basis in compliance with regulatory requirements. In addition, various regulatory agencies and our external auditors, periodically review the allowance for loan losses. As a result of such reviews, we may have to adjust our allowance for loan losses. However, regulatory agencies are not directly involved in the process of establishing the allowance for loan losses revision as the process is our responsibility and any increase or decrease in the allowance is the responsibility of the Asset Quality Committee.

more information becomes available.

**Income Taxes.** The assessment of income tax assets and liabilities involves the use of estimates, assumptions, interpretation, and judgment concerning certain accounting pronouncements and federal and state tax codes. There can be no assurance that future events, such as court decisions or positions of federal and state taxing authorities, will not differ from management's current assessment, the impact of which could be significant to the results of operations and reported earnings.

We file a federal and a state income tax return. Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax law rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision

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for income tax expense. Valuation allowances are established when it is more likely than not that a portion of the full amount of the deferred tax asset will not be realized. In assessing the ability to realize deferred tax assets, management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies. We may also recognize a liability for unrecognized tax benefits from uncertain tax positions. Unrecognized tax benefits represent the differences between a tax position taken or expected to be taken in a tax return and the benefit recognized and measured in the financial statements. Penalties related to unrecognized tax benefits are classified as income tax expense.

#### Comparison of Financial Condition at December 31, 2022 December 31, 2023 and 2021

**Total assets.** Total assets increased \$48.7 million \$37.0 million, or 12.8% 8.6%, to \$466.6 million at December 31, 2023, from \$429.6 million at December 31, 2022 from \$380.9 million at December 31, 2021. The increase was principally due to increases a \$37.9 million increase in net loans, of \$67.8 million coupled with a \$1.7 million and \$1.9 million increase in our premises & equipment and right-of use lease assets, respectively. The new branch offices in Savannah, Georgia, and Jacksonville, Florida are the main reason for our increase in the latter two categories. These increases were partially offset by a \$2.2 million decrease in cash and cash equivalents of \$16.3 million and certificates of deposit with other banks of \$1.7 million. In addition, growth in deposits during 2023, the year-over-year balance of \$39.5 million helped fund the loan growth along with \$11.0 million borrowed from FHLB. mortgage loans held-for-sale fell by \$1.8 million.

**Cash and cash equivalents.** Cash and cash equivalents decreased \$16.3 million, \$507,000, or 39.0% 2.0%, to \$25.5 million \$25.0 million at December 31, 2022 December 31, 2023, from \$41.9 million \$27.3 million at December 31, 2021 December 31, 2022. The decrease resulted Company's cash position was primarily from an supported by a \$40.7 million increase in loans deposits, which outpaced the growth of \$67.8 million, partially offset by increases in deposits of \$39.5 million and FHLB advances of \$11.0 million. net loans.

**Total Loans.** Total loans increased \$68.2 million \$38.5 million, or 25.1% 11.3%, to \$378.1 million at December 31, 2023, from \$339.6 million at December 31, 2022 from to \$271.4 million at December 31, 2021. One-to-four family residential Residential real estate loans remained our largest loan category and increased \$37.9 million \$10.2 million, or 38.6% 7.4%, to \$136.4 million \$148.5 million at December 31, 2022 December 31, 2023, from \$98.4 million \$138.3 million at December 31, 2021 December 31, 2022. As a percentage of the net loan portfolio, residential Commercial real estate loans, our second largest loan category representing 32.7% of total loans, increased \$7.5 million, or 6.4%, to 40.2% \$123.6 million at December 31, 2023, from \$116.1 million at December 31, 2022 from 36.3% at December 31, 2021. Commercial and multi-family real estate loans also increased \$26.2 million, or 23.9%, to \$136.0 million from \$109.8 million at December 31, 2021, and commercial and industrial loans increased \$9.8 million, or 61.4%, to \$25.7 million at December 31, 2022, from \$15.9 million at December 31, 2021. Construction and land development loans decreased \$6.5 million experienced \$26.8 million of growth to \$27.9 million \$55.5 million at December 31, 2022 December 31, 2023, from \$34.4 million \$28.7 million at December 31, 2021 December 31, 2022. We increased our focus on commercial lending which has benefitted from the opening of our LPO in Jacksonville, Florida in 2022 and from the opening of our LPO in Savannah, Georgia in 2017.

**Allowance for Loan Credit Losses.** Management's policy is to maintain the allowance for loan credit losses at a level sufficient to absorb probable losses inherent in the loan portfolio as of the balance sheet date. The allowance is increased by the provision for loan credit losses and recoveries and is decreased by charge-offs, net charge-offs. With the adoption of recoveries. ASC 326 in January of 2023, the Company made a one-time addition of \$255,000 to the allowance. Our allowance for loan credit losses was \$4.8 million, or 1.28% of total loans, at December 31, 2023,

compared to \$4.4 million, or 1.28% of gross total loans, at December 31, 2022, compared to \$4.2 million, or 1.54% of gross loans, at December 31, 2021. During the year ended December 31, 2022, there a total of \$112,000 in loans were \$68,000 in charge-offs; principally the result of overdrawn deposit accounts, which were more than offset by \$135,000 in recoveries, resulting in net recoveries of \$67,000 during 2022. Combined with our other lending activities these adjustments resulted in our recording a \$111,000 provision for loan losses \$45,000 for the year ended December 31, 2022 compared to \$123,000 year. Also, during 2023, the Company recognized a provisions for the year ended December 31, 2021. We had 15 impaired loans, totaling \$1.1 million at December 31, 2022, compared to 27 impaired loans, totaling \$1.5 million at December 31, 2021. At December 31, 2022, there were no specific reserves and \$10,000 credit losses of the allowance for loan losses was unallocated. We had \$67,000 in net recoveries for the year ended December 31, 2022, compared to net charge-offs of \$25,000 for the year ended December 31, 2021. \$175,000.

**Investment securities.** The balance of our investment securities portfolio, all of which are available-for-sale, and other investments, decreased \$1.3 million, remained relatively unchanged, increasing \$120,000, or 2.9% 0.3%, to \$44.6 million at December 31, 2023, from \$44.5 million at December 31, 2022 from \$45.8 million at December 31, 2021. The amortized cost of investment securities available-for-sale decreased \$2.5 million to \$46.8 million at December 31, 2023, or 5.63% , to \$43.1 million versus \$47.8 million at December 31, 2022 from \$45.6 million. The net unrealized losses embedded in the investment portfolio totaled \$3.8 million at December 31, 2021. This decrease is due principally from the change in our unrealized loss increasing \$4.5 million to December 31, 2023, and \$4.7 million at December 31, 2022 from \$238,000 at December 31, 2021. Management does not believe that was offset by purchases any of investment securities available for sale these losses are credit related, but rather are the result of \$5.8 million changes in 2022. We have invested excess cash in higher-yielding securities instead of lower yielding cash and cash equivalents.

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interest rates.

**Bank Owned Life Insurance.** Our investment in bank owned life insurance increased \$276,000, \$286,000, or 2.5%, to \$11.7 million at December 31, 2023, from \$11.4 million at December 31, 2022, from \$11.2 million at December 31, 2021. We invest in bank owned life insurance to provide us with a funding additional revenue to help offset for our the cost of benefit plan obligations. programs we offer to attract and retain employees. Bank owned life insurance also generally provides us with a source of non-taxable noninterest income that is non-taxable. income.

**Deposits.** Total deposits increased \$39.5 million \$40.7 million, or 13.7% 12.4%, to \$328.8 million \$369.8 million at December 31, 2022 December 31, 2023, from \$289.3 million \$329.1 million at December 31, 2021 December 31, 2022. The This increase was primarily due to increase growth in interest-bearing checking savings accounts which and certificates of deposits as customers sought out higher returns as the Federal Reserve increased \$21.8 million short-term interest rates on multiple occasions during 2023. Savings accounts grew \$22.6 million, or 14.8% 15.9%, to \$168.6 million \$164.6 million at December 31, 2023, from \$142.0 million at December 31, 2022, from \$146.8 million at December 31, 2021, and increase in certificates Certificates of deposit of \$17 million increased \$21.4 million, or 23.4% 24.0%, to \$110.9 million at December 31, 2023, from \$89.5 million at December 31, 2022, from \$72.5 million at December 31, 2021. It should be noted that \$12.0 million and \$13.0 million of the balances in certificate of deposit at year end 2023 and 2022, respectively, was comprised of brokered funds. Further contributing to the Company's favorable deposit growth was from brokered deposits placed the addition of our two new full-service branches, one located in Savannah, Georgia, and the second in Jacksonville, Florida. While both of these new branch facilities opened in the one-way buy CDARs program with IntraFi. In addition, non-interest bearing demand deposits increased \$3.2 million, or 8.9%, to \$39.2 million at December 31, 2022, from \$35.9 million at December 31, 2021. Only our savings accounts decreased \$2.4 million, or 7.2%, to \$31.6 million at December 31, 2022, from \$34.0 million at December 31, 2021. The growth in deposits generally represented continued business growth, including deposits placed remotely from middle of 2023, the Savannah and Jacksonville from customers interested branches ended the year with \$32.4 million and \$34.8 million in the Bank's planned expansion into those markets. total deposits, respectively.

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**Federal Home Loan Bank Advances.** We had \$11 million of outstanding in advances from FHLB at December 31, 2022, both December 31, 2023 and no outstanding 2022. The advances at December 31, 2021. We began borrowing from FHLB under their daily year-end 2023, are longer-term fixed rate credit program in November 2022 to fund sources of funding versus the same amount of short-term funds on our strong long growth balance sheet at the end of \$22.9 million in the fourth quarter of 2022.

**Stockholders' Equity.** Total stockholders' equity decreased \$1.5 million \$5.7 million, or 1.8% 6.6%, to \$79.6 million at December 31, 2023, from \$85.3 million at December 31, 2022, from \$86.8 million at December 31, 2021. This decrease resulted primarily from the \$2.7 million decrease Company's repurchase of \$6.1 million of common stock during 2023. In addition, the Company declared \$463,000 in cash dividends to its stockholders and had a \$303,000 charge, net of deferred taxes, to its retained earnings for the adoption of ASC 326 in January of 2023. These decreases were partially offset by a \$1.2 million increase in our accumulated other comprehensive losses, income due to a \$680,000 improvement in our level of which \$3.4 million was from decrease in net unrealized losses on securities available for sale offset by the \$675,000 decrease our available-for-sale investment portfolio and, to a lesser extent, a \$499,000 change in our post-retirement obligation, net of taxes. The unrealized loss on our securities available for sale are not from credit losses but from the change unfunded pension liability. In addition, in interest rates as the FOMC increased the federal funds rate 425 basis points, from 0.25% at January 1, 2022, to 4.25%, at December 31, 2022. During 2022, the Company purchased 75,172 shares of our common stock for \$1.1 million, which is reflected as treasury stock. In December 2022, the Company implemented the Equity Incentive Plan, which resulted in an increase in Plan. During 2023, additional paid in capital increased by \$485,000 and \$226,000 associated with the ongoing vesting of \$2.6 million, or 5.6%, to \$50.1 million at December 31, 2022, from \$47.5 million at December 31, 2021 as well as a restricted stock adjustment and option awards, respectively. Also, the Company increased its retained earnings through the \$266,000 of (\$1.9 million). Also, net income of \$1.1 million increased stockholders' equity which was partially offset by generated during the dividends declared of \$0.10 per share, or total of \$497,000 of which \$252,000 was paid to stockholders in January 2023. year ended December 31, 2023.

#### Comparison of Operating Results for the Years Ended December 31, 2022 December 31, 2023 and 2021 2022

**General. Net** For the year ended December 31, 2023, the Company posted net income decreased \$880,000, \$266,000, or 33.3%, \$0.06 per diluted share, compared to \$1.8 million of net income, or \$0.36 per diluted share, earned for the year ended December 31, 2022, compared to \$2.6 million for the year ended December 31, 2021. The decrease was due to a decrease variety of factors. We experienced a significant rise in other interest expense as the Federal Reserve increased rates multiple times during 2023, causing a corresponding increase in deposit as well as wholesale funding costs. This rise in our cost of funds out paced the increase in our level of interest income generated from our earning asset base. Furthermore, as a result of the Federal Reserve increasing short-term rates, longer term borrowing rates also increased, negatively impacting the volume of housing sales and mortgage loan refinancings. This reduction in the volume of mortgage lending, coupled with changes in our staffing, resulted in a lower level of fee income related to our secondary mortgage business. Another factor impacting our earnings was an increase in other noninterest expenses partially offset by an increase in net interest income, associated with the ongoing expansion of our franchise as described in more detail below.

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we continue to leverage our capital.

**Interest Income. Interest** The Company's interest income increased \$2.0 million \$5.5 million, or 2.9% 35.8%, to \$15.4 million \$20.8 million for the year ended December 31, 2022 December 31, 2023, from \$13.5 million \$15.3 million for the year ended December 31, 2021 December 31, 2022. The increase was due primarily to a \$1.2 million \$4.2 million, or 9.3% 30.6%, increase in interest income on loans, which is driven by an increase in both the volume of and rate earned on our primary source loan portfolio. The average balance of interest income, our loans outstanding, including loans held-for-sale, increased \$47.1 million, or 15.6%, to \$349.2 million for the year ended December 31, 2023, from \$302.1 million for the year ended December 31, 2022. The average yield on our loans increased 60 basis points to 5.19% for the year ended December 31, 2023, from 4.59% for the year ended December 31, 2022, as new loans have gone on the books at higher rates in response to increases in market rates overall. Interest and dividend income on investment securities and interest earning deposits also increased \$424,000 \$678,000 and \$359,000, \$561,000, respectively. Our The average balance outstandings of loans, including loans held for sale, increased \$34.0 million our available-for-sale securities portfolio fell \$1.5 million, or 12.7% 3.1%, to \$301.6 million \$47.1 million for the year ended December 31, 2022 December 31, 2023, from \$267.5 million \$48.6 million for the year ended December 31, 2021 December 31, 2022. Our The average yield on loans decreased 14 this portfolio increased 140 basis points to 4.65% 3.18% for the year ended December 31, 2022 December 31, 2023, from 4.79% 1.78% for the year ended December 31, 2021, as less in deferred fees were recognized in 2022 than in 2021 as the majority December 31, 2022. Our level of our PPP loans were paid off in 2021. Our average interest-earning

deposits decreased \$20.9 million \$14.9 million, or 35.4% 38.9%, to \$23.3 million for the year ended December 31, 2023, from \$38.2 million for the year ended December 31, 2022. However, revenue generated from \$59.1 million for these funds benefited from the year ended December 31, 2021. The multiple Federal Reserve rate increases during 2023, moving the average yield on our interest-earning deposits increased 110 up 331 basis points or 354.9% to 4.72% for the year ended December 31, 2023, to from 1.41% for the year ended December 31, 2022, from 0.31% for the year ended December 31, 2021. Our securities average balance increased \$16.4 million, or 56.0%, to \$45.7 million for the year ended December 31, 2022, from \$29.3 million for the year ended December 31, 2021. The average yield on our securities increased 39 basis points, or 26.0%, to 1.89% for the year ended December 31, 2022 from 1.50% for the year ended December 31, 2021.

**Interest Expense.** Interest expense increased \$340,000, was significantly impacted by an elevated interest rate environment, coupled with an increase in the level of our interest bearing liabilities used to fund our earning asset growth. Interest expense totaled \$6.9 million, an increase of \$5.5 million, or 33.4% 407.9%, to \$1.4 million for the year ended December 31, 2022 December 31, 2023, when compared to \$1.0 million the \$1.4 million of interest expense for the year ended December 31, 2021 December 31, 2022. This increase is primarily the result of costs to attract and retain deposits after the Federal Reserve raised the Federal funds rate multiple times during 2022 and 2023. In addition, during the first quarter of 2023, two large bank failures put additional pressure on the banking industry to maintain liquidity, which came at an additional cost to ensure depositors funds were retained. This increase in rates was followed by a transition of customer deposits into higher yielding products. Specifically, during 2023, the average balance in our savings and money market accounts grew \$9.5 million, due or 6.9%, to \$146.4 million. While the average balance in our certificate of deposit products increased \$22.9 million, or 30.6%, to \$97.5 million. Due primarily to an increase in interest expense on deposits due to higher interest rising rates, that were offered after the FOMC raised federal funds rates in 2022. Specifically, interest expense on savings and money market accounts increased \$508,000, \$2.7 million, or 189.6% 346.3%, to \$3.5 million for the year ended December 31, 2023, from \$776,000 for the year ended December 31, 2022, from \$268,000 for the year ended December 31, 2021 resulting from primarily an increase in rates. The average rate paid on our savings and money market accounts increased 37 179 bps to 0.57% 2.36% for the year ended December 31, 2022 December 31, 2023, from 0.20% 0.57% paid for the year ended December 31, 2021 December 31, 2022.

**Interest** Similarly, interest expense on certificates of deposit decreased \$211,000, increased \$2.5 million, or 31.2% 546.3%, to \$2.9 million for the year ended December 31, 2023, from \$451,000 for the year ended December 31, 2022, from \$662,000 for the year ended December 31, 2021. The average balance outstanding of our certificates of deposit did decrease \$4.2 million climbed \$22.9 million, or 5.3% 30.6%, to \$97.5 million for the year ended December 31, 2023, from \$74.6 million for the year ended December 31, 2022, from \$78.8 million. Further, as we expanded our branch footprint into the Savannah, Georgia, and Jacksonville, Florida, markets mid-year 2023, we offered competitive deposit rates to support these new facilities. In addition, the Company utilized borrowings during the year with an average outstanding balance of \$6.2 million and an average cost of 4.43% for the year ended December 31, 2021 December 31, 2023, as compared to \$1.3 million

of average outstandings at a rate of 4.23% for the year ended December 31, 2022. Interest expense on borrowing totaled \$273,000 and \$55,000 for the years ended December 31, 2023, and December 31, 2022, respectively.

**Net Interest Income.** Net interest income increased \$1.7 million, or 13.5%, to \$14.0 million for the year ended December 31, 2022 December 31, 2023, totaling \$13.9 million, remained relatively unchanged from \$12.4 million the \$14.0 million generated during the year ended December 31, 2022. While the Company was able to produce gains in the level of earning assets, as well as the yield on those assets, the need to increase the offering rates to attract and retain deposits in a highly competitive market for funding resulted in an increase in our cost of funds that outpaced our gains on the asset side of the balance sheet during 2023. Our average earning assets increased by \$31.1 million, or 8.0%, to \$420.9 million for the year ended December 31, 2021 December 31, 2023, primarily as a result of a higher balance of net interest-earning assets and, to a lesser extent, a higher net interest margin. Our average interest-earning assets increased by \$29.9 million, or 8.4%, to \$386.3 million from \$389.8 million for the year ended December 31, 2022, from \$356.4 million for the year ended December 31, 2021, due primarily to a \$34.1 million \$47.1 million increase in the average balances of our loan

portfolio and a \$16.5 million increase in portfolio. In funding this asset growth, the level of our average securities interest-bearing liabilities grew \$31.5 million, or 11.6%, to \$303.9 million for the year ended December 31, 2023, from \$272.4 million for the year ended December 31, 2022. While the yield on our average earning assets outstanding during 2023 grew 102 basis points to 4.95%, our cost on interest-bearing liabilities increased 177 basis points to 2.27% from 0.50% for the same twelve month period one year ago. As a result, we experienced a reduction in both our net interest spread and margin. Our net interest rate spread increased by 10 decreased 75 basis points to 3.50% 2.68% for the year ended December 31, 2022 December 31, 2023, from 3.40% 3.43% for the year ended December 31, 2021 December 31, 2022. Our net interest margin increased fell by 16 27 basis points to 3.65% 3.31% for the year ended December 31, 2022 December 31, 2023, from 3.49% 3.58% for the year ended December 31, 2021, reflecting December 31, 2022.

While we can not predict the timing, direction, or magnitude of future interest rates, the Company's current balance sheet is comprised primarily of longer-term fixed rate earning assets, funded by short-term interest-bearing liabilities. As a result, we believe that our net interest spread and margin will be favorably impacted in an environment where short-term funding rates come down and the increase in the average balance of interest-earning assets combined with the increase in our yield on interest-earning assets curve regains a positive slope.

Average Balances, Interest and Average Yields/Cost

The following tables set forth for the periods indicated, information regarding average balances of assets and liabilities as well as the total dollar amounts of interest income from average interest-earning assets and interest expense on average interest-bearing liabilities, resultant yields, interest rate spread, net interest margin (otherwise known as net yield on interest-earning assets), and the ratio of average interest-earning assets to average interest-bearing liabilities. All average balances are daily average balances. Non-accruing loans have been included in the table as loans carrying a zero yield. Loan fees are included in interest income on loans and are not material. No tax-equivalent yield adjustments have been made, as the effects would be immaterial.

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Interest-earning assets:	For the twelve months ended December 31,						For the twelve months ended December 31,					
	2022			2021			2023			2022		
	Average			Average			Average			Average		
	Interest			Interest			Interest			Interest		
	Expense			Expense			Expense			Expense		
	Yield			Yield			Yield			Yield		
	Balance			Balance			Balance			Balance		
	Earned/			Earned/			Earned/			Earned/		
	Rate			Rate			Rate			Rate		
	(Dollars in thousands)											



[illegible]

Savings and money market accounts	131,607,268	0%	136,977	776	0.57%
Interest-bearing checking accounts	50,771,479	0.45%	59,426	75	0.13%
Certificate accounts	4,086,539	2.99%	74,639	451	0.60%
Total interest-bearing deposits	186,455,286	2.22%	271,042	1,302	0.48%
Borrowings	1,259,348	4.43%	1,299	55	4.23%
Total interest-bearing liabilities	187,714,634	2.27%	272,341	1,357	0.50%
Non-interest-bearing liabilities	5,139		49,489		

Total liabilities	3,830	3,816	354,529	321,830
Total equity	85,202	85,202	82,967	85,823
Total liabilities and equity	<u>\$ 3,830</u>	<u>\$ 3,816</u>	<u>\$ 437,496</u>	<u>\$ 407,653</u>
Net interest income	14,100	12,400	<u>\$ 13,924</u>	<u>\$ 13,970</u>
Net earning assets	<u>\$ 9</u>	<u>\$ 0</u>	<u>\$ 117,015</u>	<u>\$ 117,411</u>
Net interest rate spread <sup>(1)</sup>	3.05%	3.04%	2.68%	3.43%
Net interest margin <sup>(2)</sup>	3.6%	3.2%	3.31%	3.58%

Average interest-earning assets to average	1	1		
interest-bearing liabilities	4	3		
	2.	1.		
	6	2		
	4 %	9 %	138.51 %	143.11 %

- (1) Net interest rate spread represents the difference between the weighted average yield on interest-earning assets and the weighted average rate on interest-bearing liabilities.
- (2) Net interest margin represents net interest income divided by average total interest-earning assets.

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## Rate/Volume Analysis

The following schedule presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and that due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (i) changes in volume (i.e., changes in volume multiplied by old rate) and (ii) changes in rate (i.e., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Year Ended December 31, 2022 vs. 2021			Year Ended December 31, 2023 vs. 2022		
	Increase/ (decrease) due to		Total increase/ (decrease)	Increase/ (decrease) due to		Total increase/ (decrease)
	Volume	Rate	(decrease)	Volume	Rate	(decrease)
	(In thousands)			(In thousands)		
<b>Interest-earning assets:</b>						
Loans receivable	\$ 1,631	\$ (444)	\$ 1,187	\$ 1,725	\$ 2,525	\$ 4,250
Securities available for sale	246	178	424			
Securities available-for-sale				(24)	659	635
Interest-earning deposits	(64)	423	359	(165)	726	561
Other interest-earning assets	20	3	23	26	17	43

Total interest-earning assets	1,833	160	1,993	1,562	3,927	5,489
<b>Interest-bearing liabilities:</b>						
Savings and money market accounts	3	505	508	18	2,670	2,688
Interest-bearing checking accounts	5	23	28	(8)	174	166
Certificate accounts	(36)	(175)	(211)	930	1,533	2,463
Total interest-bearing deposits	(28)	353	325	940	4,377	5,317
Borrowings	(29)	44	15	214	4	218
Total interest-bearing liabilities	(57)	397	340	1,154	4,381	5,535
Change in net interest income	\$ 1,890	\$ (237)	\$ 1,653	\$ 408	\$ (454)	\$ (46)

**Provision for Loan Credit Losses.** Provisions for loan credit losses are charged to operations to establish an allowance for loan credit losses at a level necessary to absorb known and inherent losses in our loan portfolio that are both probable and reasonably estimable at the date of the financial statements. In evaluating the level of the allowance for loan credit losses, management analyzes several qualitative loan portfolio risk factors including, but not limited to, management's ongoing review and grading of loans, facts and issues related to specific loans, historical loan loss and delinquency experience, trends in past due and non-accrual loans, existing risk characteristics of specific loans or loan pools, the fair value of underlying collateral, current economic conditions and other qualitative and quantitative factors which could affect potential credit losses. See the section entitled "Critical Accounting Estimates" in this Item 7, and the section entitled "Allowance for Loan Credit Losses" in Item 1 of this report.

Our allowance for loan credit losses was \$4.8 million at December 31, 2023, an increase of \$475,000 when compared to the \$4.4 million balance at December 31, 2022 compared to \$4.2 million at December 31, 2021. The allowance for loan credit losses to total net loans decreased to remained flat at 1.28% at December 31, 2022 from 1.54% at December 31, 2021, December 31, 2023 and the 2022. The allowance for loan credit losses to covered non-performing loans decreased 223.2% 376 times at December 31, 2023, versus 787 times at December 31, 2022. The largest impaired loan in the portfolio totaled \$680,000 and represented over half all non-performing loans at year end 2023. This loan is supported by a guarantee from the Small Business Administration (SBA) and management has established a specific reserve for the exposure believed to 787.4% at December 31, 2022, from 1010.6% at December 31, 2021. We increased the portion be in excess of the allowance for loan losses allocated to amount that is the residential loan portfolio due to the \$38 million growth in this loan type due to potential for increased loan losses as we apply historical loss ratios to newly originated loans. We modestly decreased the portion responsibility of the allowance SBA.

In January of 2023, the Company adopted ASC 326 using the modified retrospective approach for loan losses allocated all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to construction and land development be reported in accordance with previously applicable GAAP. The transition adjustment includes an increase in credit related reserves for funded loans as this portfolio decreased \$6.5 million, to \$27.9 million at December 31, 2022 from \$34.4 million at December 31, 2021, and we also have a low loss history with respect to construction and land development loans. of \$255,000.

To the best of our knowledge, we have recorded all loan credit losses that are both probable and reasonable to estimate at December 31, 2022 December 31, 2023. However, future changes in the factors described above, including, but not limited to, actual loss experience with respect to our loan portfolio, could result in material increases in our provision for loan credit losses. In addition, the OCC, as an integral part of its examination process, will periodically review our allowance for loan losses, asset quality and as a result of such reviews, we may have recommend adjustments to adjust our allowance for loan credit losses. However, regulatory agencies are not directly involved in establishing the allowance for loan credit losses as the process is our responsibility and any increase or decrease in the allowance is the responsibility of management. management under the supervision of the Board of Directors.

**Other Income.** Non-interest income information is as follows.

	For the twelve months ended				For the twelve months ended			
	December 31,		Change		December 31,		Change	
	2022	2021	Amount	Percent	2023	2022	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Service charges on deposit accounts	\$ 555	\$ 576	\$ (21)	(3.6)%	\$ 548	\$ 585	\$ (37)	(6.3) %
Gain on sale of loans	972	2,064	(1,092)	(52.9)%	245	1,061	(816)	(76.9)
Other	381	313	68	21.7 %	363	307	56	18.2
Total non-interest income	\$ 1,908	\$ 2,953	\$ (1,045)	(35.4)%	\$ 1,156	\$ 1,953	\$ (797)	(40.8) %

In 2022, other income decreased approximately \$1.0 million from 2021, \$797,000, or a 35.4% decrease from 40.8%, to \$1.2 million for the previous year. year ended 2023, when compared to the \$2.0 of non-interest income generated during 2022. This decrease is primarily due in response to the Federal Reserve increasing short-term rates multiple times during 2022 and 2023. As a consequence of this action by the Federal Reserve, longer term borrowing rates also increased, negatively impacting the volume of housing sales and mortgage loan refinancings. This reduction in the volume of mortgage lending, coupled with changes in our staffing, resulted in a lower level of fee income related to our secondary mortgage business. As noted in the table above, the Company realized \$245,000 on the gain from the sale of \$49.0 million of residential mortgage loans during 2022 that 2023, an \$816,000 change when compared to the \$1.1 million of income generated \$1.0 million from the sale of loans in gain on sale the prior year. While we continue to dedicate resources to the generation of mortgage loans compared to service the sale needs of \$99.5 million of residential mortgage loans that generated \$2.1 million our customers, we do not anticipate the revenue from this activity to attain levels reached in gain on sale of mortgage loans during 2021.prior periods.

**Other Expense.** Non-interest expense information is as follows.

	For the twelve months ended				For the twelve months ended			
	December 31,		Change		December 31,		Change	
	2022	2021	Amount	Percent	2023	2022	Amount	Percent
	(Dollars in thousands)				(Dollars in thousands)			
Salaries and employee benefits	\$ 8,009	\$ 7,430	\$ 579	7.8 %	\$ 8,527	\$ 7,904	\$ 623	7.9 %
Occupancy and equipment	828	819	9	1.1 %	1,295	828	467	56.4
Advertising	240	269	(29)	(10.8)%	399	288	111	38.5
Audit and examination	597	436	161	36.9 %	528	554	(26)	(4.7)
Checking account related expenses	634	620	14	2.3 %	122	158	(36)	(22.8)
Consulting and advisory fees	106	202	(96)	(47.5)%	71	106	(35)	(33.0)

Data system conversion costs			(100)					
	—	1	(1)	.0)%				
Data processing fees	509	517	(8)	(1.5)%	459	509	(50)	(9.8)
Director fees	576	296	280	94.6%	537	576	(39)	(6.8)
Legal				117.				
	287	132	155	4%	185	286	(101)	(35.3)
Other real estate loss/(gain) on sale and write-downs	132	116	16	13.8%	38	132	(94)	(71.2)
Other Insurance Expense	215	169	46	27.2%				
Insurance					227	215	12	5.6
Other	1,32							
	8	806	522	64.8%	2,143	1,820	323	17.7
Total non-interest expense	13,4	11,8	1,64					
	\$ 61	\$ 13	\$ 8	14.0%	\$ 14,531	\$ 13,376	\$ 1,155	8.6 %

Overall, our non-interest Non-interest expenses increased \$1.6 million\$1.1 million, or 14.0%8.6%, in 2022 to \$13.5 million\$14.5 million for 2022 the year ended December 31, 2023, from \$11.8 million\$13.4 million for 2021, primarily the same period ended December 31, 2022. The bulk of this increase was due to the \$579,000 a \$623,000 increase in salaries and employee benefits due principally to the implementation additions of staffing for our Equity Incentive Plan of which \$497,000 was expensed two new branch locations. In addition, we experienced an increase in December 2022 occupancy and equipment expenses, as well as costs to promote the opening of these two new branch facilities. Occupancy and equipment expenses for 2023, totaled \$1.3 million, a \$272,000\$467,000 or 56.4% increase over the \$828,000 spent during the year ended December 31, 2022. Advertising related expenses grew \$111,000 during 2023, totaling \$399,000, a 38.5% increase over the \$288,000 spent in deferred compensation expense. In addition, director fees increased \$280,000, or 94.6%, due to the implementation of our Equity Incentive Plan for directors for which \$330,000 was expensed. Legal 2022. Other non-interest expenses also increased \$155,000, or 117.4%, as there were additional legal expense associated infrastructure items, such as data processing and FDIC deposit insurance, have risen with the Equity Incentive Plan expansion of our franchise. While some of the initial costs of opening our new Savannah, Georgia, and Jacksonville, Florida, branches will not be recurring, we do expect that the special stockholder meeting held in September 2022 to approve the plan.baseline of our non-interest expenses on a go-forward basis will remain above that of prior periods.

**Income Tax Expense.** We incurred income tax expense of \$675,472\$108,000 and \$823,000\$675,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively, resulting in effective rates of 27.7%28.9% and 23.8%27.7%, respectively. The differences in the effective tax rates in 2022 2023 and 2021 2022 and the statutory federal rate of 21% are mainly due to fluctuations in pretax earnings, state income taxes and tax exempt income.

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## Management of Market Risk

**General.** Our most significant form of market risk is interest rate risk because, as a financial institution, the majority of our assets and liabilities are sensitive to changes in interest rates. Therefore, a principal part of our operations is to manage interest rate risk and limit the exposure of our financial condition and results of operations to changes in market interest rates. Our Asset/Liability Management Committee is responsible for evaluating the interest rate risk inherent in our assets and liabilities, for determining the level of risk that is appropriate, given our business strategy, operating

environment, capital, liquidity and performance objectives, and for managing this risk consistent with the policy and guidelines approved by our board of directors. We currently utilize a third-party modeling program, prepared on a quarterly basis, to evaluate our sensitivity to changing interest rates, given our business strategy, operating environment, capital, liquidity and performance objectives, and for managing this risk consistent with the guidelines approved by the board of directors.

We have sought to manage our interest rate risk in order to minimize the exposure of our earnings and capital to changes in interest rates. We have implemented the following strategies to manage our interest rate risk:

- growing the loan portfolio, with a focus on commercial real estate and commercial and industrial loans, in accordance with our risk appetite, and operating in a safe and sound manner;
- increasing the diversification of our loan portfolio; and
- growing our level of core deposits.

By following these strategies, we believe that we are better positioned to react in increased in market interest rates. Beginning in the calendar year 2020, we introduced adjustable-rate, one-to-four family residential real estate loans (in addition to our existing home equity loans and lines of credit, which are originated with adjustable interest rates). In addition, we generally only originate fixed-rate residential mortgage loans for sale into the secondary mortgage market.

**Net Interest Income.** We analyze our sensitivity to changes in interest rates through an interest rate risk model, developed by a third-party provider. Net interest income is the difference between the interest income we earn on our interest-earning assets, such as loans and securities, and the interest we pay on our interest-bearing liabilities, such as deposits and borrowings. We estimate what our net interest income would be for a 12-month period. We then calculate what the net interest income would be for the same period under the assumptions that the United States Treasury yield curve increases instantly by up to 400 basis points or decreases instantly by up to 200 300 basis points, in 100 point increments, with changes in interest rates representing immediate and permanent, parallel shifts in the yield curve. A One basis point equals one-hundredth of one percent, and 100 basis points equals one percent. An increase in interest rates from 3% 2.0% to 4% 3.0% would mean, for example, a 100 basis point increase in the “Change in Interest Rates” column below.

The table below sets forth, as of December 31, 2022 December 31, 2023, the calculation of the estimated changes in our Bank's net interest income that would result from the designated immediate changes in the United States Treasury yield curve.

Change in Interest Rates (basis points) (1)	Net Interest Income Year 1 Forecast	Year 1 Change from Level	Net Interest Income Year 1 Forecast	Year 1 Change from Level
(Dollars in thousands)	(Dollars in thousands)		(Dollars in thousands)	
+400	\$ (3,093)	(20.10)		
+300	(2,213)	(14.38)	\$ (1,965)	(15.29) %
+200	(1,599)	(10.39)	(1,349)	(10.49)
+100	(866)	(5.63)	(692)	(5.38)
Level	—	—	—	—
-100	691	4.49	281	2.18
-200	624	4.06	804	6.25
-300			1,249	9.72

(1) Assumes an immediate uniform change in interest rates at all maturities.

**Economic Value of Equity.** We also compute amounts by which the net present value of our Bank's assets and liabilities (economic value of equity or “EVE”) would change in the event of a range of assumed changes in market interest rates. This model uses a discounted cash flow analysis and an option-based pricing approach to measure the interest rate sensitivity of net portfolio value. The model estimates the economic value of each type of asset, liability and off-balance sheet contract under the assumptions that the United States Treasury yield curve increases or decreases



	Estimated Increase (Decrease) in EVE			EVE as a Percentage of Present value of Assets(3)		EVE as a Percentage of Present value of Assets(3)					
				Increase (Decrease) EV (Basis Points)		Estimated Increase (Decrease) in EVE			EVE as a Percentage of Present value of Assets(3)		
Basis Point ("bp")	Estimated	Amount	Percent	Ratio(4)	Points						
Change in Interest Rates(1)	EVE(2)										
Basis Point									Increase		
Change in Interest Rates (1)						Estimated EVE(2)			EVE Ratio(4)		
	(Dollars in thousands)					(Dollars in thousands)					
+400	18										
	68,6	(19,	(22.	.5	(29						
	\$ 16	\$ 527)	15) %	1 %	6)						
+300	19										
	74,2	(13,	(15.	.5	(19						
	04	939)	81)	2	5)	\$ 70,851	\$ (10,645)	(13.06) %	16.71	%	(123)
+200	20										
	79,5	(8,6	(9.7	.3	(10						
	36	07)	7)	9	8)	74,934	(6,562)	(8.05)	17.27		(67)
+100	21										
	84,2	(3,8	(4.3	.0							
	80	63)	8)	6	(41)	78,657	(2,839)	(3.48)	17.72		(22)

Level				21						
	88,1			.4						
	43	—	—	7	—	81,496	—	—	17.94	—
-100				21						
	90,1	2,05	2.3	.4						
	98	5	3	5	(2)	83,095	1,599	1.96	17.89	(5)
-200				20						
	88,7		0.6	.6						
	16	572	5	2	(85)	82,556	1,060	1.30	17.39	(55)
-300						78,845	(2,651)	(3.25)	16.27	(167)

(1) Assumes an instantaneous uniform change in interest rates at all maturities.

(2) EVE is the discounted present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

(3) Present value of assets represents the discounted value of incoming cash flows on interest-earning assets.

(4) EVE Ratio represents EVE divided by the present value of assets.

The table above indicates that at **December 31, 2022** **December 31, 2023**, in the event of an instantaneous parallel **200 300** basis point increase in interest rates, we would experience a **9.77%** **13.06%** decrease in economic value of equity, and in the event of an instantaneous **200 300** basis point decrease in interest rates, we would experience a **0.65% increase** **3.25% decrease** in economic value of equity.

Certain shortcomings are inherent in the methodologies used in the above interest rate risk measurements. Modeling changes require making certain assumptions that may or may not reflect the manner in which actual yields and costs respond to changes in market interest rates. In this regard, the net interest income and economic value of equity tables presented assume that the composition of our interest-sensitive assets and liabilities existing at the beginning of a period remains constant over the period being measured and assumes that a particular change in interest rates is reflected uniformly across the yield curve regardless of the duration or repricing of specific assets and liabilities. Accordingly, although the net interest income and EVE tables provide an indication of our interest rate risk exposure at a particular point in time, such measurements are not intended to and do not provide a precise forecast of the effect of changes in market interest rates on net interest income and EVE and will differ from actual results. Furthermore, although certain assets and liabilities may have similar maturities or periods to repricing, they may react in different degrees to changes in market interest rates. Additionally, certain assets have features that restrict changes in interest rates both on a short-term basis and over the life of the asset.

Interest rate risk calculations also may not reflect the fair values of financial instruments. For example, decreases in market interest rates can increase the fair values of our loans **deposits** and **borrowings**. **investment securities**.

**Liquidity and Capital Resources.** Liquidity describes our ability to meet the financial obligations that arise in the ordinary course of business. Liquidity is primarily needed to meet the borrowing and deposit withdrawal requirements of our customers and to fund current and planned expenditures. Our primary sources of funds are deposits, principal and interest payments on loans and securities, proceeds from the sale of loans, and proceeds from maturities of securities. We also have the ability to borrow from **FHLB**, the Federal Home Loan Bank of Atlanta (FHLB) as well as from the Federal Reserve Bank of Atlanta's Discount Window. In addition, we have unsecured Federal Fund lines through our correspondent banking relationships. Further, we have established relationships that provide the Bank with the ability to issue brokered deposits. While we did not utilize the program, as an additional avenue to liquidity, during 2023, the Bank established the ability to borrow under the Federal Reserve's Bank Term Funding Program.

At **December 31, 2022** **December 31, 2023**, we had **\$45.4 million in borrowing** the capacity to borrow up to \$98.9 million under our credit line with the FHLB, and \$11 million in outstanding **advances** **advances**. In addition, as of **December 31, 2022**. In addition, year end 2023, we have had \$24.8 million and \$28.5 million in of borrowing capacity through the Federal Reserve Discount Window and unsecured federal funds lines of credit through with our correspondent banks, and \$5.8 million secured borrowing capacity through FHLB, respectively. No amounts were outstanding on these lines of credit at **December 31, 2022** **December 31, 2023**.

While maturities and scheduled amortization of loans and securities are predictable sources of funds, deposit flows and loan prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are cash and short-term investments including

interest-bearing demand deposits. The levels of these assets are dependent on our operating, financing, lending, and investing activities during any given period.

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Our cash flows are comprised of three primary classifications: cash flows from operating activities, investing activities, and financing activities. Net cash provided by operating activities was \$4.4 million and \$3.9 million for the years ended December 31, 2022 and 2021, respectively. Net cash used in investing activities, which consists primarily of disbursements for loan originations and the purchase of securities, offset by principal collections on loans, proceeds from the sale of securities and proceeds from maturing securities and pay downs on mortgage-backed securities, was \$69.6 million and \$33.2 million for the years ended December 31, 2022

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and 2021, respectively. Net cash provided by financing activities was \$48.9 million and \$29.2 million for the years ended December 31, 2022 and 2021, respectively.

We are committed to maintaining a strong liquidity position. We monitor our liquidity position on a daily basis. We anticipate that we will have sufficient funds to meet our current funding commitments. Based on our deposit retention experience and current pricing strategy, we anticipate that a significant portion of maturing time deposits our deposit base will be retained.

At December 31, 2022, we Our Bank's capital levels are strong, exceeded all of our the regulatory capital requirements to be considered "well capitalized" at December 31, 2023 and we were categorized as well capitalized at December 31, 2022 and 2021. 2022. Management is not aware of any conditions or events since the most recent notification that would change our category. See note 10 11 to the financial statements included in this Annual Report.

Off-Balance Sheet Arrangements and Aggregate Contractual Obligations

**Commitments.** As a financial services provider, we routinely are a party to various financial instruments with off-balance-sheet risks, such as commitments to extend credit and unused lines of credit. While these contractual obligations represent our future cash requirements, a significant portion of commitments to extend credit may expire without being drawn upon. Such commitments are subject to the same credit policies and approval process accorded to loans we make. At December 31, 2022 December 31, 2023, we had outstanding commitments to originate loans of \$49.2 million \$48.6 million. We anticipate that we will have sufficient funds available to meet our current lending commitments.

The following table is a summary of the total contractual amount of loan commitments outstanding at December 31, 2022 December 31, 2023 and 2021. 2022.

	Year Ended December 31,	
	2022	2021
	(Dollars in thousands)	
Commitments to extend credit	\$ 13,057	\$ 4,204
Unused lines of credit	14,870	10,348
Construction loans in process	21,262	13,652
Standby financial letters of credit	819	931

Total off-balance sheet instruments	\$	50,008	\$	29,135
-------------------------------------	----	--------	----	--------

Certificates of deposit that are scheduled to mature in less than one year from December 31, 2022 totaled \$76.7 million. As a result of the current interest rate environment, a significant portion of funds have moved from certificate accounts to money market accounts, which provides the customer more flexibility and liquidity. We reduced both certificates of deposit and money market account rates accordingly. Management expects that a substantial portion of the maturing certificates of deposit will be renewed. If a substantial portion of these deposits is not retained, we may utilize FHLB advances or raise interest rates on deposits to attract new deposits, which may result in higher levels of interest expense.

	Year Ended December 31,	
	2023	2022
	(Dollars in thousands)	
Commitments to extend credit	\$ 11,810	\$ 13,057
Unused lines of credit	15,174	14,870
Construction loans in process	20,887	21,262
Standby financial letters of credit	719	819
Total off-balance sheet instruments	\$ 48,590	\$ 50,008

**Contractual Obligations.** In the ordinary course of our operations, we enter into certain contractual obligations. Such obligations include data processing services, operating leases for premises and equipment, agreements with respect to borrowed funds and deposit liabilities.

#### Recent Accounting Pronouncements

Please refer to Note 1 to the Financial Statements for the years ended December 31, 2022 December 31, 2023 and 2021 beginning on page F-1 2022, for a description of recent accounting pronouncements that may affect our financial condition and results of operations.

As an "emerging growth company" we may delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies. We intend to take advantage of the benefits of this extended transition period. Accordingly, our financial statements may not be comparable to companies that comply with such new or revised accounting standards.

#### Impact of Inflation and Changing Price

The financial statements and related data presented herein have been prepared in accordance with U.S. GAAP which requires the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

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#### Item 7A. Quantitative and Qualitative Disclosures About Market Risk.

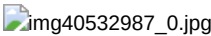
Not applicable to smaller reporting companies.

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Item 8. Financial Statements and Supplementary Data.

TC BANCSHARES, INC AND SUBSIDIARY  
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and Board of Directors  
TC Bancshares, Inc.  
Thomasville, Georgia

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of TC Bancshares, Inc. and subsidiary (the “Company”) as of [December 31, 2022](#) [December 31, 2023](#) and [2021](#), [2022](#), and the related consolidated statements of income, comprehensive income (loss) [income](#), changes in stockholders’ equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of [December 31, 2022](#) [December 31, 2023](#) and [2021](#), [2022](#), and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

#### Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for the recognition and measurement of allowance for credit losses as of January 1, 2023 due to the adoption of ASC Topic 326, *Financial Instruments – Credit Losses*.

#### Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

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#### Estimate of allowance for loan credit losses – reserves related to loans collectively evaluated for impairment loans

As described in Notes 1 and 3 to the consolidated financial statements, the Company's allowance for loan credit losses ("ALL" ACL) totaled approximately \$4.4 million, all \$4,837,000 of which approximately \$4,762,000 relates to loans collectively evaluated for impairment loans ("general reserves"). The Company estimated the general reserves using the weighted average remaining life method. The Company considers historical loss method which utilizes historical loss rates of pools of loans with similar risk characteristics which are then applied experience, current economic and business conditions, as well as reasonable and supportable forecasts to develop the respective loan pool balances. These amounts are quantitative component. This quantitative component is then adjusted for certain qualitative environmental factors related to current economic and general conditions currently observed by management, that involve significant assumptions that require a high degree of management's judgment.

We identified management's selection of qualitative factor adjustments, including reasonable and supportable forecasts, used in the estimate calculation of the general reserves related to loans collectively evaluated for impairment as a critical audit matter because auditing this portion matter. Management's selection of qualitative factor adjustments, including reasonable and supportable forecasts, which are used to adjust the ALL required quantitative historical losses (both upwards and downwards), are highly subjective and could have a significant impact on the allowance for credit losses. Auditing these complex judgments and assumptions involved especially challenging auditor judgment due to the nature and evaluation extent of significant

estimates requiring industry audit evidence and effort required to address these matters, including the extent of specialized skill and knowledge and experience needed.

The primary audit procedures we performed to address this critical audit matter included:

- We gained obtained an understanding of internal the relevant controls surrounding relating to the allowance Company's ACL calculation, including controls over the segmentation of the loan portfolio, the completeness and accuracy of data used in the calculation, the periods and assumptions used in the calculation, the determination of qualitative factors including reasonable and supportable forecasts, and the precision of management's review and approval of the calculation and resulting estimate.
- We tested the Company's ACL calculation for loan losses computational accuracy.
- We tested the completeness and accuracy of the data information used by management to calculate historical loss rates general reserves, including evaluating the relevance and reliability of such information.
- We evaluated management's judgments and assumptions used in the development of the qualitative factor adjustments, including reasonable supportable forecasts, for reasonableness, and tested the reliability of the underlying data on which these factors are based, by comparing information to source documents and external information sources.
- We evaluated the completeness and accuracy of disclosures made within the data used by management in determining qualitative factor adjustments by agreeing them to internal and external information.
- We analyzed the qualitative factors in comparison to historical periods to evaluate the directional consistency in relation consolidated financial statements with regards to the Company's loan portfolio and local economy ACL.

We have served as the Company's auditor since 2012.

/s/ WIPFLI LLP  
Atlanta, Georgia  
March 23, 2023 22, 2024

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TC BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED BALANCE SHEETS  
DECEMBER 31, 2022 2023 AND 2021 2022

ASSETS	ASSETS		ASSETS	
	Decemb	Decemb	December 31, 2023	December 31, 2022
	er 31,	er 31,		
	2022	2021		
Cash and due from banks	25,5	31,8	\$ 25,039,214	\$ 25,545,872
	45,8	90,8		
	\$ 72	\$ 31		
Federal funds sold		10,0		
		00,0		
	—	00		

Cash and cash equivalents	25,5	41,8		
	45,8	90,8		
	72	31		
Certificates of deposit with other banks	1,73	3,45		
	9,00	1,00		
	0	0	—	1,739,000
Investment securities available-for-sale	43,0	45,6		
	96,5	31,6		
	52	36		
Investment securities available-for-sale (amortized cost of \$46,807,212 and \$47,834,395; \$0 allowance for credit losses)			42,964,495	43,096,552
Other investments	1,37			
	7,50	190,		
	0	700	1,629,150	1,377,500
Mortgage loans held for sale	2,08	2,84		
	5,09	4,70		
	9	7	289,111	2,085,099
Loans, net	334,	266,		
	138,	304,		
	871	448		
Loans			376,899,968	338,501,049
Allowance for credit losses			(4,836,878)	(4,362,178)
Net loans			372,063,090	334,138,871
Premises and equipment, net	3,13	3,22		
	2,28	4,88		
	2	9	4,782,760	3,132,282
Right-of-use asset			1,944,885	—
Other real estate owned		1,11		
	683,	5,10		
	800	0	—	683,800
Bank owned life insurance	11,4	11,1		
	42,6	66,5		
	53	73	11,729,019	11,442,653
Accrued interest receivable and other assets	6,37	5,12		
	5,89	2,26		
	7	3	6,141,545	6,375,897
Total Assets	429,	380,		
	617,	942,		
	\$ 526	\$ 147	\$ 466,583,269	\$ 429,617,526
	LIABILITIES AND STOCKHOLDER S' EQUITY		LIABILITIES AND STOCKHOLDERS' EQUITY	



Deposits:				
Demand	39,1	35,9		
	54,4	39,9		
	\$ 20	\$ 17	\$ 41,571,035	\$ 38,703,612
Interest-bearing demand	168,	146,		
	607,	831,		
	990	902	52,721,981	58,873,304
Savings	31,5	34,0		
	72,4	14,6		
	24	35	164,622,926	142,045,939
Certificates of deposit	89,5	72,5		
	05,3	30,2		
	98	54	110,952,852	89,505,398
Total deposits	328,	289,		
	840,	316,		
	232	708	369,868,794	329,128,253
Federal Home Loan Bank advances	11,0			
	00,0			
	00	—	11,000,000	11,000,000
Lease liability			2,102,426	—
Accrued interest payable and other liabilities	4,49	4,81		
	9,46	2,85		
	0	8	3,977,628	4,211,439
Total liabilities	344,	294,		
	339,	129,		
	692	566	386,948,848	344,339,692
Commitments				
Stockholders' Equity:				
Common stock, \$.01 par value, 20,000,000 shares authorized as of December 31, 2022 and 2021; 5,049,372 and 4,898,350 shares issued as of December 31, 2022 and 2021; 4,974,200 and 4,898,350 shares outstanding as of December 31, 2022 and 2021, respectively	50,4	48,9		
	94	84		
Common stock, \$.01 par value, 20,000,000 shares authorized as of December 31, 2023 and 2022; 4,461,667 shares and 5,049,372 shares issued as of December 31, 2023 and 2022, respectively; 4,461,667 and 4,974,200 shares outstanding as of December 31, 2023 and 2022, respectively			44,617	50,494
Additional paid in capital	50,1	47,4		
	28,0	81,0		
	52	77	43,181,994	48,267,762
Retained earnings	45,8	44,6		
	76,6	13,6		
	94	68	42,863,945	45,876,694
Accumulated other comprehensive loss	(4,30	(1,60		
	5,03	8,40		
	9)	1)	(3,125,257)	(4,305,039)

Treasury stock: 75,172 shares and 0 shares as of December 31, 2022 and December 31, 2021, respectively	(1,08 5,26 5)	—
Unearned ESOP 352,682 shares and 372,275 shares unallocated at December 31, 2022 and 2021, respectively	(3,52 6,81 2)	(3,72 2,74 7)
Restricted Stock	(1,86 0,29 0)	—
Treasury stock: -0- shares and 75,172 shares as of December 31, 2023 and 2022, respectively	—	(1,085,265)
Unearned ESOP 333,088 shares and 352,682 shares unallocated at December 31, 2023 and 2022, respectively	(3,330,878)	(3,526,812)
Total stockholders' equity	85,2 77,8 34	86,8 12,5 81
Total Liabilities and Stockholders' Equity	429, 617, \$ 526	380, 942, \$ 147
	\$ 466,583,269	\$ 429,617,526

The accompanying notes are an integral part of these consolidated financial statements.

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**TC BANCSHARES, INC. AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2022 2023 AND 2021 2022**

	Year Ended December 31,		Year Ended December 31,	
	2022	2021	2023	2022
<b>Interest and Dividend Income:</b>				
Interest and fees on loans	\$ 14,009,944	\$ 12,822,564	\$ 18,129,865	\$ 13,880,109
Interest and dividends on taxable investment securities	862,572	439,153	1,585,248	906,936
Interest on deposits with other banks and federal fund sold	584,357	202,452	1,101,382	539,993
Total interest and dividend income	15,456,873	13,464,169	20,816,495	15,327,038
<b>Interest Expense:</b>				
Interest on deposits	1,301,618	977,150	6,619,095	1,301,618
Interest on borrowings	55,300	40,137	272,769	55,300
Total interest expense	1,356,918	1,017,287	6,891,864	1,356,918
Net interest income	14,099,955	12,446,882	13,924,631	13,970,120

<b>Provision for Loan Losses</b>	110,905	123,183		
Net interest income after provision for allowance for loan losses	13,989,050	12,323,699		
<b>Provision for Credit Losses</b>			175,000	110,905
Net interest income after provision for credit losses			13,749,631	13,859,215
<b>Other Income:</b>				
Service charges on deposits accounts	554,856	576,139	547,766	584,510
Gain on sale of mortgage loans	971,970	2,064,404		
Gain on sale of loans			245,362	1,061,276
Gain on sale of fixed assets			12,086	—
Bank owned life insurance income	276,080	283,145	286,366	276,080
Other	105,159	29,412	64,163	31,137
Total other income	1,908,065	2,953,100	1,155,743	1,953,003
<b>Other Expense:</b>				
Salaries and employee benefits	8,008,837	7,429,568	8,526,759	7,903,629
Occupancy and equipment	827,785	819,303	1,294,952	827,785
Other real estate owned, net of operations, loss on sales and write-downs	131,606	111,590	37,844	131,606
Data processing conversion costs	—	503		
Other	4,493,002	3,452,365	4,671,764	4,513,313
Total other expense	13,461,230	11,813,329	14,531,319	13,376,333
<b>Income Before Income Taxes</b>	2,435,885	3,463,470	374,055	2,435,885
<b>Income Tax Expense</b>	675,472	823,013	108,230	675,472
<b>Net Income</b>	\$ 1,760,413	\$ 2,640,457	\$ 265,825	\$ 1,760,413
<b>Earnings per share:</b>				
Basic	\$ 0.36	\$ 0.27	\$ 0.06	\$ 0.36
Diluted	\$ 0.36	\$ 0.27	\$ 0.06	\$ 0.36
<b>Weighted Average Shares Outstanding:</b>				
Basic	4,880,723	4,371,646	4,783,618	4,880,723
Diluted	4,881,923	4,371,646	4,796,488	4,881,923

The accompanying notes are an integral part of these consolidated financial statements.

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TC BANCSHARES, INC. AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF COMPREHENSIVE **INCOME (LOSS) INCOME**  
FOR THE YEARS ENDED DECEMBER 31, **2022** **2023** AND **2021** **2022**

	Year Ended December 31,	
	2022	2021
<b>Net Income</b>	<b>\$ 1,760,413</b>	<b>\$ 2,640,457</b>
<b>Other Comprehensive (Loss) Income,</b>		
<b>Net of Income Taxes:</b>		
Unrealized losses on securities available-for-sale:		
Holding losses arising during the period, net of taxes of \$1,127,099 and \$203,372, respectively	(3,371,973)	(542,668)
Change in post-retirement benefit obligations, net of taxes of \$226,917 and \$352,533, respectively	675,335	1,049,190
Total other comprehensive (loss) income	(2,696,638)	506,522
<b>Comprehensive (Loss) Income</b>	<b>\$ (936,225)</b>	<b>\$ 3,146,979</b>

	Year Ended December 31,	
	2023	2022
<b>Net Income</b>	<b>\$ 265,825</b>	<b>\$ 1,760,413</b>
<b>Other Comprehensive Income (Loss),</b>		
<b>Net of Income Taxes:</b>		
Unrealized gains (losses) on securities available-for-sale:		
Holding gains (losses) arising during the period, net of taxes of \$214,747 and (\$1,127,099), respectively	680,379	(3,371,973)
Change in post-retirement benefit obligations, net of taxes of \$167,802 and \$226,917, respectively	499,403	675,335
Total other comprehensive income (loss)	1,179,782	(2,696,638)
<b>Comprehensive Income (Loss)</b>	<b>\$ 1,445,607</b>	<b>\$ (936,225)</b>

The accompanying notes are an integral part of these consolidated financial statements.

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TC BANCSHARES, INC AND SUBSIDIARY  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
FOR THE YEARS ENDED DECEMBER 31, 2022 2023 AND 2021 2022

[illegible]

Balance,			44	(1,				86											
December 31,			47,	,6	60			,8											
2021			48	481	13	8,	(3,7	12											
			,9	,07	,6	40	22,	,5											
	\$ 84	\$ 7	\$ 68	\$ 1)	\$ —	\$ 747)	\$ —	\$ 81	\$ 48,984	\$ 47,481,077	\$ 44,613,668	\$ (1,608,401)	\$ —	\$ (3,722,747)	\$ 86,812,581				
Net income			1,					1,											
			76					76											
			0,					0,											
			41					41											
	—	—	3	—	—	—	—	3	—	—	1,760,413	—	—	—	1,760,413				
Other					(2,			(2,											
comprehensive					69			69											
loss, net of tax					6,			6,											
					63			63											
	—	—	—	8)	—	—	—	8)	—	—	—	(2,696,638)	—	—	(2,696,638)				
Restricted								(2,											
stock award	1,	2,3						32											
	56	23,						5,3											
	6	796	—	—	—	—	62)	—	1,566	(1,566)	—	—	—	—	—				
Amortization of																			
unearned								46											
compensation								46											
associated with								5,0											
restricted stock	—	—	—	—	—	—	72	2	—	465,072	—	—	—	—	465,072				
Stock based								36											
compensation		361						1,											
		,49						49											
	—	3	—	—	—	—	—	3	—	361,493	—	—	—	—	361,493				
Repurchase of																			
stock for tax								(8											
obligation on								2,											
restricted	(5	(82,						68											
shares	6)	629)	—	—	—	—	—	5)	(56)	(82,629)	—	—	—	—	(82,685)				
ESOP loan								24											
payment and							195	0,											
release of		44,				,93		25											
ESOP shares	—	315	—	—	—	5	—	0											
Release of																			
ESOP shares									—	44,315	—	—	—	—	195,935	240,250			
Dividends			(4					(4											
			97					97											
			,3					,3											
	—	—	87)	—	—	—	—	87)	—	—	(497,387)	—	—	—	(497,387)				

Purchase of common stock				(1,085,265)				(1,085,265)											
	—	—	—	—	5	—	—	5											
Repurchase of common stock									—	—	—	—	(1,085,265)	—	(1,085,265)				
Balance, December 31, 2022			45	(4,305,039)	(1,085,265)			85											
		50,128	,876	30,526	08	(3,526)	86	,277											
	,4	,05	,6	03	26	26	0,2	,8											
	\$ 94	\$ 2	\$ 94	\$ 9	\$ 5	\$ 812	\$ 90	\$ 34	\$ 50,494	\$ 48,267,762	\$ 45,876,694	\$ (4,305,039)	\$ (1,085,265)	\$ (3,526,812)	\$ 85,277,834				
Cumulative change in accounting principle (Note 1)									—		(302,504)	—	—	—	(302,504)				
Balance, January 1, 2023									50,494	48,267,762	45,574,190	(4,305,039)	(1,085,265)	(3,526,812)	84,975,330				
Net income									—	—	265,825	—	—	—	265,825				
Other comprehensive income, net of tax									—	—	—	1,179,782	—	—	1,179,782				
Amortization of unearned compensation associated with restricted stock									—	484,944	—	—	—	—	484,944				
Stock based compensation									—	225,810	—	—	—	—	225,810				
Repurchase of stock for tax obligation on restricted shares									(62)	(61,688)	(24,643)	—	—	—	(86,393)				
Release of ESOP shares									—	74,651	—	—	—	195,934	270,585				
Dividends									—	—	(463,076)	—	—	—	(463,076)				
Repurchase of common stock												—	(6,062,999)		(6,062,999)				
Retirement of common stock									(5,815)	(5,809,485)	(2,488,351)	—	7,148,264	—	(1,155,387)				



Balance,									
December 31,									
2023	\$ 44,617	\$ 43,181,994	\$ 42,863,945	\$ (3,125,257)	\$ —	\$ (3,330,878)	\$ 79,634,421		

The accompanying notes are an integral part of these consolidated financial statements.

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**TC BANCSHARES, INC AND SUBSIDIARY**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**YEARS ENDED DECEMBER 31, 2022 2023 AND 2021 2022**

	Year Ended December 31,		Year Ended December 31,	
	2022	2021	2023	2022
<b>Cash Flows from Operating Activities</b>				
Net income	1,760,41	2,640,45		
	\$ 3	\$ 7	\$ 265,825	\$ 1,760,413
Adjustments to reconcile net income to net cash provided by operating activities				
Depreciation, amortization and accretion	652,727	465,520	686,348	652,727
Lease expense			157,541	—
Deferred income tax expense	685,772	808,623	113,086	683,123
Provision for allowance for loan losses	110,905	123,183		
Amortization of unearned compensation associated with restricted stock	465,072	—		
Provision for credit losses			175,000	110,905
Net loss on sale of other real estate owned			30,848	
(Gain) loss on sale of premises and equipment			(12,086)	583
Stock based compensation	361,493	—	710,754	826,565
ESOP expense	240,250	265,937	270,585	240,250
Increase in cash surrender value of bank owned life insurance	(276,080)	(283,145)	(286,366)	(276,080)
Write-down of other real estate owned	107,825	86,850	—	107,825
Gain on mortgage loans sold, net		(2,064,40		
	(971,970)	4)	(245,362)	(971,970)
Proceeds from the sale of mortgage loans held for sale	49,782,8	99,453,0		
	16	73	14,640,905	49,782,816
Originations of mortgage loans held for sale	(48,051,2	(97,288,4		
	38)	14)	(12,599,555)	(48,051,238)
Change in:				
Accrued interest receivable and other assets	(1,039,22			
	5)	(21,045)	(140,985)	(1,036,576)

Accrued interest payable and other liabilities	588,854	(238,960)	265,592	544,335
Net cash provided by operating activities	4,417,614	3,947,675	4,032,130	4,373,678
<b>Cash Flows from Investing Activities</b>				
Net change in interest-bearing deposits in other banks	1,712,000	2,201,000		
	0	0	1,739,000	1,712,000
Purchase of investment securities available-for -sale	(5,750,000)	(34,711,467)	(962,344)	(5,750,000)
Proceeds from calls, paydowns and maturities of investment securities available-for-sale	3,480,977	4,151,056	1,771,566	3,480,977
Purchase of other investments	(1,186,800)	—	(719,150)	(1,186,800)
Proceeds from sales of other investment	—	523,300	467,500	—
Net change in loans	(67,945,328)	(5,192,614)	(38,354,219)	(67,945,328)
Proceeds from sales of other real estate owned	323,475	—	652,952	323,475
Proceeds from sales of premises and equipment			18,500	—
Purchase of premises and equipment	(255,084)	(147,299)	(2,125,279)	(255,667)
Net cash used in investing activities	(69,620,760)	(33,176,024)	(37,511,474)	(69,621,343)
<b>Cash Flows from Financing Activities:</b>				
<b>Cash Flows from Financing Activities</b>				
Net change in deposits	39,523,524	(4,783,119)	40,740,541	39,568,043
Proceeds from Federal Home Loan Bank advances	11,000,000	—	14,500,000	11,000,000
Repayments of Federal Home Loan Bank advances	—	(9,515,477)	(14,500,000)	—
Proceeds from sale of common stock		48,983,500		
Stock offering expenses	—	(1,523,443)		
Common stock purchased by ESOP	—	(3,918,680)		
Dividend	(497,387)	—		
Repurchase of common stock	(1,085,265)	—		
Dividends			(463,076)	(497,387)
Repurchase and retirement of common stock			(7,218,386)	(1,085,265)
Repurchase of stock for tax obligation on restricted shares	(82,685)	—	(86,393)	(82,685)
Net cash provided by financing activities	48,858,187	29,242,781	32,972,686	48,902,706
<b>Net Change in Cash and Cash Equivalents</b>	(16,344,959)	14,432	(506,658)	(16,344,959)

Cash and Cash Equivalents, Beginning of Year	41,890,831	41,876,399	25,545,872	41,890,831
Cash and Cash Equivalents, End of Year	25,545,872	41,890,831	25,039,214	25,545,872
<b>Supplement Disclosures of Cash Flow Information:</b>				
Cash paid during the period for interest	1,242,524	1,034,559	6,454,199	1,242,524
Cash received from tax refund	6,885	—	—	6,885
<b>Non-Cash Investing and Financing Activities:</b>				
Transfer of loans to other real estate owned	—	1,120,950	—	—
Change in unrealized losses on securities-for-sale, net of tax	(3,371,973)	(542,668)	680,379	(3,371,973)
Change in defined benefit pension obligations, net of tax	675,335	1,049,190	499,403	675,335

The accompanying notes are an integral part of these consolidated financial statements.

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## TC BANCSHARES, INC. AND SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

#### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

##### *Nature of Operations:*

TC Bancshares, Inc. ("Company" (the "Company")) is a holding company incorporated under the laws of the State of Georgia in 2021, to serve as the holding company for TC Federal Bank ("Bank" (the "Bank")). The Company owns 100% of the outstanding stock of the Bank. See Note 13 for a detailed discussion of the Company. The Bank was organized opened in 1934 and was chartered in 1937 by the Federal Home Loan Bank Board as a mutual savings and loan association owned 100% by its depositors. The Bank currently operates one four branch locations; in Thomasville, and Savannah, Georgia, and one as well as in Tallahassee, Florida as well as and Jacksonville, Florida. In addition, the Bank maintains loan production offices in Tallahassee and Jacksonville, Florida and Savannah, Georgia, that provide a variety of services to individuals and corporate customers in their markets. Florida. The Bank's primary deposit products are interest-bearing checking accounts, savings accounts, and certificates of deposit. Its Bank's primary lending products consist of single-family residential mortgage loans and commercial and multi-family real estate loans. Its deposit products are the primary source of funding. The Bank is regulated by the Office of the Comptroller of the Currency ("OCC") and its deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). The Bank undergoes periodic examinations by the OCC. The Company is subject to the supervision, examination, and reporting requirements of the Bank Holding Company Act and the regulations of the Board of Governors of the Federal Reserve System (the "Federal Reserve").

##### *Basis of Presentation:*

The accounting and financial reporting policies of the Company conform, in all material respects to accounting principles generally accepted in the United States of America ("GAAP") and with general practices within the banking industry. The consolidated financial statements have been prepared in accordance with GAAP and with the instructions to Form 10-K adopted by the Securities and Exchange Commission (the "SEC"). In preparing financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from those estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for loan credit losses and the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of the post-retirement obligation, and valuation allowance associated with the realization of deferred tax assets, which are based on future taxable income.

#### *Cash and Cash Equivalents:*

For purposes of reporting cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within 90 days. Effective March 26, 2020, the Federal Reserve eliminated reserve requirements for all depository institutions. These reserve requirements are subject to annual adjustment by the Federal Reserve.

#### *Investment Securities:*

The Company classifies its securities in one of three categories: trading, available-for-sale, or held-to-maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held-to-maturity securities are those securities for which the Company has the ability and intent to hold the security until maturity. All other securities not included in trading or held-to-maturity are classified as available-for-sale. As of December 31, 2022, December 31, 2023 and 2021, 2022, all of the Company's securities were classified as available-for-sale.

Trading and available-for-sale securities are recorded at fair value. Held-to-maturity securities are recorded at amortized cost, adjusted for the amortization of premiums and accretion of discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available-for-sale are excluded from income and are reported as a separate component of accumulated other comprehensive income in stockholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

Management Effective January 1, 2023, the Company evaluates investment individual available-for-sale securities for other-than-temporary impairment on an annual basis. A decline in the market value of any investment below cost that is deemed other-than-temporary is charged to income for unrealized loss position by first determining whether the decline in fair value deemed below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be credit related and a new cost basis in collected from the security is established. The decline in less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value attributed is less than the amortized cost basis, adverse conditions related to non-credit the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that the fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or a recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

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Premiums and discounts are amortized or accreted over the life of the related security as an adjustment to the yield. Realized gains and losses for securities classified as available-for-sale are included in income and are derived using the specific identification method for determining the cost of securities sold.

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#### *Other Investments:*

Other investments are carried at cost and consist of Federal Reserve Bank and Federal Home Loan Bank of Atlanta ("FHLB") stock, which are held in accordance with certain lender and/or member requirements and are stated at cost, which approximates fair value. The Bank is required to hold the FHLB stock as a member of the FHLB, and transfer of the stock is substantially restricted. The stock is pledged as collateral for outstanding FHLB advances.

#### *Loans, Loan Fees and Interest Income on Loans:*

Loans are stated at the principal amount outstanding, net of the allowance for **loan credit** losses. Interest on loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

Accrual of interest is discontinued on a loan when management believes, after considering economic and business conditions and collection efforts that the borrower's financial condition is such that collection of interest is doubtful. When a loan is placed on nonaccrual status, previously accrued and uncollected interest is charged to interest income on loans. Generally, payments on nonaccrual loans are applied to principal. **Interest income on certain, well collateralized loans, may be recognized using the cash-basis method of accounting.**

Loan fees, net of certain origination costs, are deferred and amortized over the lives of the respective loans.

#### **Allowance for Credit Losses:**

**A** On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, *Financial Instruments - Credit Losses (Topic ASC 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. Results for the periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a cumulative effective adjustment to retained earnings of \$302,504 upon adoption. The transition adjustment includes an increase in credit related reserves of \$255,000 for loans plus an increase in credit related reserves of \$149,000 for unfunded commitments net of a corresponding increase in deferred tax assets of \$102,000.

The allowance for credit losses ("ACL") is evaluated on a regular basis and established through charges to earnings in the form of a provision for credit losses. When a loan or portion of a loan is **impaired when**, determined to be uncollectible, the portion deemed uncollectible is charged against the allowance and subsequent recoveries, if any, are credited to the allowance. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

#### **a. Portfolio Segmentation ("Collectively Evaluated Loans")**

Portfolio segmentation is defined as the pooling of loans based upon similar risk characteristics such that quantitative methodologies and qualitative adjustment factors for estimating the ACL are constructed for each segment. The Company has identified seven portfolio segments of loans including; real estate - residential, real estate - home equity, real estate - multi-family, real estate - commercial, real estate - construction and land development, consumer loans and commercial and industrial loans.

The ACL for Collectively Evaluated Loans estimate is based upon periodic review of the collectability of the loans quantitatively correlating historical loss experience with reasonable and supportable forecasts using forward looking information. Adjustments to the quantitative evaluation may be made for differences in current or expected qualitative risk characteristics. The Company has determined

the nine "universal" qualitative adjustments categories prescribed by the 2006 Interagency Policy Statement are appropriate given their markets and pool of loans. These criteria are evaluated quarterly to ensure additional criteria do not need to be added, nor do the ranges assigned to each category need to be changed. The nine factors are as follows:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere in estimating credit losses.
2. Changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the portfolio, including the condition of various market segments.
3. Changes in the nature and volume of the portfolio and in the terms of loans.
4. Changes in the experience, ability, and depth of lending management and other relevant staff.
5. Changes in the volume and severity of past-due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans.
6. Changes in the quality of the institution's loan review system.
7. Changes in the value of underlying collateral for collateral-dependent loans.
8. The existence and effect of any concentrations of credit, and changes in the level of such concentrations.
9. The effect of other external factors such as competition and legal and regulatory requirements on current information the level of estimated credit losses in the institution's existing portfolio.

#### b. Individually Evaluated Loans

The Company establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans included in the collectively evaluated loan pools. These individually evaluated loans are removed from the pooling approach discussed above for the collectively evaluated loan pools, and events, may include nonaccrual loans, loan modifications to borrowers with financial difficulty, and other loans deemed appropriate by management.

#### c. Available-for-Sale ("AFS") Debt Securities

For AFS securities in an unrealized loss position, management first assesses whether (i) the Company intends to sell, or (ii) it is probable more likely than not that all amounts the Company will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income. If there were any adjustments to the allowance, they would be reported in the Company's income statement as a

component of credit loss expense. AFS securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met.

#### d. Accrued Interest Receivable

Upon adoption of ASU 2016-13 and its related amendments on January 1, 2023, the Company made the following elections regarding accrued interest receivable:

- Presenting accrued interest receivable balances within another line item on the consolidated balance sheets labeled "accrued interest receivable and other assets".
- Excluding accrued interest receivable that is included in the amortized cost of financing receivables and debt securities from related disclosure requirements.

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• Continuing the Company's policy to write off accrued interest receivable by reversing interest income. The write-off of accrued interest on loans typically occurs upon becoming 90 days past due. Past due **according to** status is based on the contractual terms of the **loan agreement will not be collected. Impaired loan**. In all cases, loans are **measured** placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. Historically, the Company has not experienced uncollectible accrued interest receivable on its investment securities. However, the Company would generally write off accrued interest receivables by reversing interest income if the Company does not reasonably expect to receive payments. Due to the timely manner in which accrued interest receivables are written off, the amounts of such write offs are immaterial.

#### e. Reserve for Unfunded Commitments

The reserve for unfunded commitments (the "Unfunded Reserve") represents the expected credit losses on off-balance sheet commitments such as unfunded commitments to extend credit and standby letters of credit. However, a liability is not recognized for commitments unconditionally cancellable by the Company. The same segmentation is utilized for off-balance sheet commitments as is applied to the funded loan portfolio. The Unfunded Reserve is recognized as a liability (accrued interest payable and other liabilities in the consolidated balance sheets), with adjustments to the reserve recognized as an expense in other expenses in the consolidated statements of income. The Unfunded Reserve is determined by estimating expected future fundings, under each segment, and applying to the expected loss rates. Expected future fundings are based on historical averages of funding rates (i.e., the **present value likelihood of expected future cash flows discounted at draws taken**) for each loan segment. We then apply the **loan's effective interest rate, or at loss rates that were derived on the loan's observable market price, or at funded loan portfolio, by loan segment, to calculate the fair value of the collateral of the loan if the loan is collateral dependent**. Estimated impairment losses for collateral dependent loans are set up as specific reserves. **Interest income on impaired loans is recognized using the cash-basis method of accounting during the time the loans are impaired.** Unfunded Reserve.

#### Allowance for Loan Losses:

The allowance for loan losses is established through a provision for loan losses charged **Prior to expense**. Loans **are** January 1, 2023, as described in further detail in the Company's 2022 Annual Report on Form 10-K, the Company used the incurred loss impairment model. Under this methodology, loans **were** charged against the allowance for loan losses when management **believes** **believed** that the collectability of the principal is unlikely. The allowance **represents** **represented** an amount which, in **management's** **management's** judgment, based on, among other things, historical losses and on the current economic environment, **will** **would** be adequate to absorb probable losses on existing loans that may become uncollectible. Loans deemed uncollectible **are** **were** charged-off and deducted from the allowance and recoveries on loans previously charged-off **are** **were** added back to the allowance.



Management's judgment in determining the adequacy of the allowance is based on evaluations of the collectability of loans. These evaluations take into consideration such factors as changes in the nature and volume of the loan portfolio, current economic conditions that may affect the borrower's ability to pay, overall portfolio quality, and review of specific problem loans.

Management believes that the allowance for loan losses is adequate. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for loan losses. As a result of such review, the Bank may have to recognize additions to its allowance for loan losses.

#### *Mortgage Loans Held for Sale:*

The Bank sells mortgage loans for an amount equal to the principal amount of loans with yields to investors based upon current market rates. Realized gains and losses related to loan sales are included in gains on sale of loans and are determined using the specific identification method. For financial reporting purposes, the Bank classifies a portion of its loans as "Mortgage loans held for sale". Included in this category are loans which the Bank has the current intent to sell and loans which are available to be sold in the event the Bank determines that loans should be sold to support the Bank's investment and liquidity objectives. Loans included in this category for which the Bank has the current intention to sell are recorded at the lower of the aggregate cost or fair value. As of December 31, 2022, December 31, 2023 and 2021, 2022, the Bank had \$2,085,099, 289,111 and \$2,844,707, 2.1 million, respectively, in loans classified as "Mortgage loans held for sale."

#### *Premises and Equipment:*

Premises and equipment are carried at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the related asset. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period. The cost

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of maintenance and repairs which do not improve or extend the useful life of the respective asset is charged to income as incurred, whereas significant renewals and improvements are capitalized. The range of estimated useful lives for premises and equipment is:

Building and improvements	20 - 40 years
Furniture, automobiles and equipment	5 - 10 years

#### *Leases:*

ASC 842, "Leases" ("ASC 842") requires a lessee to recognize a right-of-use asset and a lease liability for all leases with a term greater than 12 months on its consolidated balance sheet regardless of whether the lease is classified as financing or operating.

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All of the Company's lessee arrangements are operating leases, being real estate leases for Company facilities. Under these arrangements, the Company records right-of-use assets and corresponding lease liabilities, each of which is based on the present value of the remaining lease payments discounted using the risk-free rate practical expedient allowable under ASC 842. Right-of-use assets and the related lease liabilities are reported on separate line items on the consolidated balance sheets. All leases are recorded on the consolidated balance sheet except for leases with an initial term less than 12 months for which the Company elected short-term lease recognition under ASC 842. Lease terms may contain renewal and extension options and early termination features. Many leases include one or more options to renew, with renewal terms that can extend the lease term from one to

ten years or more. The exercise of lease renewal options is at the Company's sole discretion. Renewal options which are reasonably certain to be exercised in the future were included in the measurement of right-of-use assets and lease liabilities.

Lease expense is recognized on a straight-line basis over the lease term and is recorded in the "Occupancy and equipment" line item in the consolidated statements of operations. The Company does not have any material sublease agreements currently in place.

#### *Advertising Costs:*

Advertising costs are expensed as incurred.

#### *Other Real Estate Owned:*

Other real estate owned ("OREO") represents properties acquired through or by deed in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate owned is charged to the allowance for loan credit losses. Costs of improvements are capitalized, whereas costs relating to holding other real estate owned and subsequent adjustments to the value are expensed. There were As of December 31, 2023, the Company had no consumer mortgage loans collateralized by residential real estate property in the process OREO on its books and had \$684,000 of foreclosure OREO at December 31, 2022 and 2021. The Bank held year end 2022.no foreclosed residential real estate at December 31, 2022 and 2021.

#### *Bank owned life insurance:*

The Bank has purchased life insurance policies on certain key executives and members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other changes or other amounts due that are probable of settlement.

#### *Income Taxes:*

The Company uses the liability method of accounting for income taxes which requires the recognition of deferred tax assets and liabilities for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Additionally, this method requires the recognition of future tax benefits, such as net operating loss carryforwards, to the extent that realization of such benefits is more likely than not. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which the assets and liabilities are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income tax expense in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the Company's assets and liabilities results in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realization of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income, and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. A loss contingency reserve is accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

The Company and the Bank file consolidated income tax returns, with income tax expense or benefit computed and allocated on a separate return basis.

#### *Post-Retirement Defined Benefit Obligation:*

The Bank accounts for its post-retirement defined benefit obligations under Accounting Standards Codification ("Codification" or "ASC") Topic 715, *Retirement Benefits* ("ASC 715"). The under or over funded status of the Bank's post-retirement defined benefit obligations are recognized as a liability or asset in the balance sheet. To the extent these obligations are funded, changes in funded status

are reflected in other comprehensive income. Net actuarial gains and losses and adjustments to prior service costs that are not recorded as components of the net periodic benefit cost are charged to other comprehensive income.

#### *Employee Stock Ownership Plan:*

The Company sponsors an employee stock ownership plan ("ESOP") that covers all employees who meet certain service requirements. The Company will make annual contributions to the ESOP in amounts as defined by the plan document. These contributions are used to pay debt service and purchase additional shares. Certain ESOP shares are pledged as collateral for debt. As the debt is repaid, shares are released from collateral and allocated to active employees, based on the proportion of debt service paid in the year.

In connection with the Company's initial public stock offering, the ESOP borrowed \$3.9 million payable to the Company for the purpose of purchasing shares of the Company's common stock. A total of 391,868 shares were purchased with the loan proceeds. Because the source of the loan payments was the unearned ESOP shares, the related note receivable is shown reflected as a reduction of stockholders' equity on the Company's balance sheet.

#### *Equity Incentive Plan:*

On September 21, 2022, the Company's stockholders approved the TC Bancshares, Inc. 2022 Equity Incentive Plan ("Equity Plan") which provides for the grant of stock options, restricted stock awards and other equity awards to our officers, employees, directors, advisors, and consultants. During the year ended December 31, 2023, no stock options were granted under the Equity Plan, while 357,510 stock options were granted during the year ended December 31, 2022. In addition, no restricted stock awards were granted during the year ended December 31, 2023, while 156,590 restricted stock awards were granted during the year ended December 31, 2022. During the years ended December 31, 2023, and 2022, there were 30,998 and 32,598 restricted stock awards that vested, respectively, and there were 92,994 unvested as of December 31, 2023.

#### *Stock Based Compensation:*

The Company accounts for its stock-based compensation plan using a fair value-based method of accounting, whereby compensation cost is measured at the grant date based on the value of the award and is recognized over the service period, which is usually the vesting period.

#### *Revenue from Contracts with Customers:*

Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers* ("Accounting Standards Codification ("ASC") Topic 606") ("ASU 2014-09") focuses on revenues from contracts earned over time. Fee income is generally earned over a short period of time, such as monthly, or is earned concurrently with a specific transaction. The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. There are no ASC Topic 606 implications unless the Company finances the sale of the OREO property. ASC Topic 606 could change the timing of revenue recognition in the case of seller financing. The Company's other revenue streams are outside the scope of ASU 2014-09, ASC Topic 606.

#### *Comprehensive Income (Loss):*

The Company has elected to present comprehensive income (loss) in a separate statement of comprehensive income (loss). Accumulated other comprehensive income (loss) includes the net of tax effect of unrealized gains (losses) on securities available-for-sale and the unfunded post-retirement

benefit obligation of the Company's defined benefit plan, plans.

#### *Treasury Stock:*

Treasury stock is accounted for by the cost method. Subsequent reissuances are accounted for at average cost. It is the current practice of the Company to retire shares as they are repurchased. See Note 14 for further discussion.

#### *Earnings per Share:*

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share is computed in a manner similar to that of basic earnings per share except that the weighted-average number of common shares outstanding is increased to include the number of incremental common shares (computed using the treasury method) that would have been outstanding if all potentially dilutive common stock

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equivalents were issued during the period. Unallocated ESOP employee stock ownership plan shares are not deemed outstanding for earnings per share calculations.

#### *Dividends:*

The Company announced that its Board of Directors declared a semi-annual cash dividend on June 15, 2022, in the amount of \$0.05 per share of common stock. The cash dividend was paid on July 15, 2022, to the stockholders of record at the close of business on June 27, 2022.

The Company announced that its Board of Directors declared a semi-annual cash dividend on December 22, 2022, in the amount of \$0.05 per share of common stock. The cash dividend was paid on January 18, 2023, to stockholders of record at the close of business on January 3, 2023.

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#### *Emerging Growth Company Status:*

The Company qualifies as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 (the "JOBS Act"). For as long as the Company is an emerging growth company, it may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies. An emerging growth company may elect to use the extended transition period to delay adoption of new or revised accounting pronouncements applicable to public companies until such pronouncements are made applicable to private companies, but must make such election when the company is first required to file a registration statement. The Company elected to use the extended transition period described above and intends to maintain its emerging growth company status as allowed under the JOBS Act.

#### *Reclassifications:*

Certain prior period amounts have been reclassified to conform to the current period presentation.

#### *Subsequent Events:*

We have evaluated subsequent events through the time of filing on the date we have issued this Annual Report on Form 10-K. As of the time of filing, there were no material, reportable subsequent events.

#### *Recent Issued Not Yet Effective Accounting Pronouncements:*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments: Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This update will require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now include forward-looking information in the determination of their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, this update amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. In November 2019, the FASB issued ASU 2019-10, *Financial Instruments: Credit Losses (Topic 326), Derivatives and Hedging (Topic 815), and Leases (Topic 842)*. This update clarified the effective date of ASC 2016-13 business entities to fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. The Company is estimating an overall increase in its allowance for credit losses ranging from \$67,000 to \$408,000, or an allowance for credit losses to total loans of between 1.30% and 1.40% at December 31, 2022. The adoption of this standard on January 1, 2023, will be recognized as a cumulative effect adjustment to retained earnings.

In March 2022, the FASB issued ASU 2022-02, *Financial Instruments: Credit Losses* 2022-03, *Fair Value Measurement (Topic 326) - Troubled Debt Restructurings 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions*, which clarifies that a contractual sale restriction should not be considered in measuring fair value. It also requires entities with investments in equity securities subject to contractual sale restrictions to disclose certain qualitative and Vintage Disclosures quantitative information about such securities. The amendments in this update eliminate the TDR recognition and measurement guidance as prescribed by ASC 310-40 and, instead, require that an entity evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The amendments also enhance existing disclosure requirements and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For entities that have not yet adopted the amendments in ASU 2016-13, the effective dates for the amendments in ASU 2022-02 are the same as the effective dates for ASU 2016-13. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-14, *Compensation – Retirement Benefits – Defined Benefit Plans - General (Subtopic 715-20): Disclosure Framework – Changes to the Disclosure Requirements for Defined Benefit Plans*. This ASU removes disclosures that no longer are considered cost beneficial, clarifies the specific requirements of disclosures and adds disclosure requirements identified as relevant. This ASU is effective for fiscal years ending after December 15, 2020, for public business entities and for fiscal years ending after December 15, 2021, for all other entities. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements.

In December 2019, the FASB issued ASU 2019-12, *Income Taxes (Topic 740): Simplifying the Accounting for Income Taxes*. The amendments in this ASU simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. For public business entities, the amendments in this ASU are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020. For all other entities, the amendments are effective companies for fiscal years beginning after December 15, 2021, December 15, 2023. All other entities have an extra year to adopt; early adoption is permitted. The Company is assessing ASU 2022-03 and interim periods within fiscal years beginning after December 15, 2022. The adoption of this ASU did not have a significant its impact on the Company's consolidated financial statements.

In May 2021, the FASB issued ASU 2021-04, *Earning per Share (Topic 260), Debt - Modifications its accounting and Extinguishments (Subtopic 470-50), Compensation - Stock Compensation (Topic 718), and Derivatives and Hedging - Contracts in Entity's Own Equity (Subtopic 815-40)*. This ASU provides clarity and reduction in diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options that remain equity classified after modification or exchange. The amendments in this ASU affect all entities that issue freestanding written call options that are classified in equity. Specifically, the amendments affect those entities when a freestanding equity-classified written call option is modified or exchanged and remains equity classified after the

modification or exchange. The amendments that relate to the recognition and measurement of EPS for certain modifications or exchanges of freestanding equity-classified written call options affect entities that present EPS in accordance with the guidance in Topic 260, Earnings per Share. The amendments do not apply to modifications or exchanges of financial instruments that are within the scope of another Topic. The amendments do not

affect a holder's accounting for freestanding call options. The amendments in this ASU are effective for all entities for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. An entity should apply the amendments prospectively to modifications or exchanges occurring on or after the effective date of the amendments. The adoption of this ASU did not have a significant impact on the Company's consolidated financial statements. [disclosures](#).

## NOTE 2 - INVESTMENT SECURITIES

Investment securities available-for-sale at **December 31, 2022** **December 31, 2023** and **2021** **2022** are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Fair Value as % of Total
December 31, 2022-					
US treasuries	\$ 10,115,310	\$ —	\$ 790,778	\$ 9,324,532	22 %
Mortgage-backed securities	9,618,355	—	886,322	8,732,033	20 %
Collateralized mortgage obligations	15,713,313	—	869,283	14,844,030	35 %
Municipal bonds	8,762,417	—	1,733,506	7,028,911	16 %
Corporate obligations	3,625,000	—	457,954	3,167,046	7 %
	<u>\$ 47,834,395</u>	<u>\$ —</u>	<u>\$ 4,737,843</u>	<u>\$ 43,096,552</u>	<u>100 %</u>
December 31, 2021-					
US treasuries	\$ 5,129,275	\$ —	\$ 25,271	\$ 5,104,004	11 %
Mortgage-backed securities	10,295,332	174,102	100,143	10,369,291	23 %
Collateralized mortgage obligations	18,804,325	70,925	145,656	18,729,594	41 %
Municipal bonds	8,766,475	1,513	170,787	8,597,201	19 %
Corporate obligations	2,875,000	—	43,454	2,831,546	6 %
	<u>\$ 45,870,407</u>	<u>\$ 246,540</u>	<u>\$ 485,311</u>	<u>\$ 45,631,636</u>	<u>100 %</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Fair Value as % of Total
December 31, 2023-					
US treasuries	\$ 10,089,682	\$ —	\$ 555,847	\$ 9,533,835	22 %
Mortgage-backed securities	10,157,271	43,157	787,592	9,412,836	22 %
Collateralized mortgage obligations	14,676,623	—	722,772	13,953,851	33 %
Municipal bonds	8,758,636	—	1,292,743	7,465,893	17 %
Corporate obligations	3,125,000	—	526,920	2,598,080	6 %
	<u>\$ 46,807,212</u>	<u>\$ 43,157</u>	<u>\$ 3,885,874</u>	<u>\$ 42,964,495</u>	<u>100 %</u>
December 31, 2022-					
US treasuries	\$ 10,115,310	\$ —	\$ 790,778	\$ 9,324,532	22 %
Mortgage-backed securities	9,618,355	—	886,322	8,732,033	20 %

Collateralized mortgage obligations	15,713,313	—	869,283	14,844,030	35 %
Municipal bonds	8,762,417	—	1,733,506	7,028,911	16 %
Corporate obligations	3,625,000	—	457,954	3,167,046	7 %
	<u>\$ 47,834,395</u>	<u>\$ —</u>	<u>\$ 4,737,843</u>	<u>\$ 43,096,552</u>	<u>100 %</u>

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The following outlines the unrealized losses and estimated fair value by investment category and length of time that individual securities have been in a continuous unrealized loss position at **December 31, 2022**, **December 31, 2023** and **2021:2022**:

	December 31, 2022		December 31, 2021		December 31, 2023		December 31, 2022	
	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses
Unrealized loss for less than 12 months:								
US treasuries	4,863,478	142,541	5,104,004	25,271	\$ —	\$ —	\$ 4,863,478	\$ 142,541
Mortgage-backed securities	3,004,339	304,844	6,389,012	100,143	—	—	3,004,339	304,844
Collateralized mortgage obligations	5,558,664	329,329	11,190,910	145,656	—	—	5,558,664	329,329
Municipal bonds	—	—	7,828,330	170,787	—	—	—	—
Corporate obligations	651,464	98,536	2,831,546	43,454	—	—	651,464	98,536
Total less than 12 months	<u>14,077,945</u>	<u>875,250</u>	<u>33,343,802</u>	<u>485,311</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 14,077,945</u>	<u>\$ 875,250</u>
Unrealized loss for more than 12 months:								
US treasuries	4,461,054	648,237	—	—	9,533,835	555,847	4,461,054	648,237
Mortgage-backed securities	5,727,694	581,478	—	—	8,406,330	787,592	5,727,694	581,478
Collateralized mortgage obligations	9,285,366	539,954	—	—	13,953,851	722,772	9,285,366	539,954
Municipal bonds	7,028,911	1,733,506	—	—	7,465,893	1,292,743	7,028,911	1,733,506

Corporate obligations	2,515,582	359,418	—	—	2,598,080	526,920	2,515,582	359,418
Total more than 12 months	29,018,607	3,862,593	—	—	41,957,989	3,885,874	29,018,607	3,862,593
Total	43,096,552	4,737,843	33,343,802	485,311	\$ 41,957,989	\$ 3,885,874	\$ 43,096,552	\$ 4,737,843

At December 31, 2022 December 31, 2023 and 2021, 2022, unrealized losses in the investment portfolio related to debt securities. The unrealized losses on the debt securities arose due to changing interest rates and market conditions and are considered to be temporary because of acceptable investment grades or the repayment sources of principal and interest are backed by government entities. At December 31, 2023, five of five US treasuries, 14 of 16 mortgage-backed securities, 13 of 13 collateralized mortgage obligations, nine of nine municipals and six of six corporate obligations contained unrealized losses. At December 31, 2022, all 48 securities contained unrealized losses. At December 31, 2021, all US treasuries, four of fourteen mortgage backed

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securities, seven of thirteen collateralized mortgage obligations, eight of nine municipal bonds and all corporate obligations contained unrealized losses. The Bank does not intend to sell the investments and it is not likely that the Bank will be required to sell the investments before recovery of their amortized cost basis, which may be at maturity.

As of December 31, 2023, no ACL has been recognized on AFS securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon our analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our AFS securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to sell any of the securities classified as AFS in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

As of December 31, 2023 and 2022, accrued interest on investment securities was approximately \$214,000 and \$211,000, respectively.

The amortized cost and estimated fair value of investment securities available-for-sale at December 31, 2022 December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers have the right to call or prepay certain obligations with or without call or prepayment penalties.

	Amortized Cost	Estimated Fair Value	Amortized Cost	Estimated Fair Value
Investment securities with maturities -				
Within 1 year	\$ —	\$ —	\$ 5,000,845	\$ 4,970,749
1 to 5 years	5,006,018	4,863,478	6,094,486	5,446,465
5 to 10 years	17,496,709	14,657,011	10,877,987	9,180,594
Over 10 years	—	—		
Mortgage-backed securities and collateralized mortgage obligations	25,331,668	23,576,063	24,833,894	23,366,687
Total	\$ 47,834,395	\$ 43,096,552	\$ 46,807,212	\$ 42,964,495

The Bank did not sell any investment securities available-for-sale during 2022 2023 or 2021, 2022. Securities with carrying market values of approximately \$197,000 2.0 million and \$142,000 197,000 at December 31, 2022 December 31, 2023 and 2021, 2022, respectively, were pledged to secure public deposits as required by law and for other purposes, deposits.



### NOTE 3 - LOANS AND ALLOWANCE FOR LOAN CREDIT LOSSES

Major classifications of loans, by purpose code, at December 31, 2022, December 31, 2023 and 2021, 2022, are summarized as follows:

	December 31, 2022	Percen t	December 31, 2021	Percen t	December 31, 2023	Percent	December 31, 2022	Percent
Real estate loans:								
Residential	136,382,014	40.16%	98,433,124	36.27%	\$ 148,533,603	39.29%	\$ 138,275,923	40.72%
Home equity	12,410,820	3.65%	11,510,661	4.24%	11,099,027	2.94%	12,410,820	3.65%
Multi-family	24,613,700	7.25%	19,937,187	7.35%	19,137,789	5.06%	19,649,491	5.79%
Commercial	111,394,065	32.80%	89,830,611	33.10%	123,572,774	32.69%	116,109,590	34.19%
Construction and land development	27,921,088	8.22%	34,401,702	12.68%	55,461,430	14.67%	28,660,635	8.44%
Total real estate loans	312,721,687		254,113,285		357,804,623		315,106,459	
Consumer loans	1,210,164	0.36%	1,373,761	0.51%	3,345,453	0.88%	846,717	0.25%
Commercial and industrial loans	25,665,751	7.56%	15,900,097	5.85%	16,918,558	4.47%	23,644,426	6.96%
Total loans	339,597,602	100.00%	271,387,143	100.00%	378,068,634	100.00%	339,597,602	100.00%
Less: Allowance for loan losses	4,362,178		4,183,599					
Less: Allowance for credit losses					4,836,878		4,362,178	
Deferred loan fees	1,096,553		899,096		1,168,666		1,096,553	
Loans, net	334,138,871		266,304,448		\$ 372,063,090		\$ 334,138,871	

The Bank Company grants loans and extensions of credit to individuals, and as well as a variety of firms and corporations primarily in Thomas County, Georgia; Tallahassee, Florida; Savannah, Georgia; and Jacksonville, Florida throughout its footprint. Although the Bank Company has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent on the real estate market.

The Bank Company has divided the loan portfolio into seven portfolio segments, each with different risk characteristics and methodologies for assessing risk. The portfolio segments identified by the Bank Company are real estate - residential, real estate - home equity, real estate - multi-family, real estate - commercial, real estate - construction and land development, consumer loans and commercial and industrial loans.

*Real Estate - Residential:* The Bank Company originates residential real estate loans for the purchase or refinancing of a mortgage. These loans are primarily collateralized by owner-occupied properties and rental properties located primarily in the Bank's Company's market areas.

*Real Estate - Home Equity:* The Bank Company originates home equity real estate loans to provide home equity lines of credit and closed-end home equity loans. These loans are primarily collateralized by owner-occupied properties located primarily in the Bank's Company's market areas.

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*Real Estate - Multi-family:* Multi-family loans consist of loans to finance real estate purchases, refinancings, expansions and improvements to multi-family multifamily properties. These loans may be secured by, but are not limited to, first liens on apartments, mobile home parks or other multi-family properties primarily located within the Bank's Company's market areas. The Bank's Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's and borrower's related entities' financial condition, and a detailed analysis of the borrower's underlying cash flows. Multi-family loans are larger than residential or home equity loans and involve greater credit risk. The repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions also affect the repayment ability to a greater extent than residential or home equity real estate loans.

*Real Estate - Commercial:* Commercial real estate loans consist of loans to finance real estate purchases, refinancings, expansions and improvements to commercial properties. These loans may be secured by first liens on office buildings, farms, retail and mixed-use properties, churches, warehouses and restaurants primarily located within the Bank's Company's market areas. The Bank's Company's underwriting analysis includes credit verification, independent appraisals, a review of the borrower's and borrower's related entities' financial condition, and a detailed analysis of the borrower's underlying cash flows. Commercial real estate loans are larger than residential loans and involve greater credit risk. The repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions also affect the repayment ability to a greater extent than residential real estate loans.

*Real Estate - Construction and land development:* These loans are made to borrowers to build commercial structures, a primary or secondary residence and, in some cases, to real estate investors to acquire and develop land. These loans are more difficult to evaluate since they are significantly more vulnerable to changes in economic conditions. In addition, these loans possess a higher degree of credit risk since they are made based on estimates of the future worth of a project and the estimated costs required for completion. The Bank Company limits its overall investment in this portfolio segment due both to management's assessment of risk and certain percentage guidance set by the regulatory agencies.

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*Consumer:* Consumer loans mainly consist of personal loans, revolving credit plans and other loans. The Bank's Company's consumer loans may be uncollateralized and rely on the borrower's income for repayment.

*Commercial and industrial:* Commercial and industrial loans consist generally of business loans and lines of credit to companies in the Bank's Company's market area. Commercial and industrial loans are generally used for working capital purposes or for acquiring equipment, inventory or furniture. Such loans are usually collateralized by the financed assets, although a portion may be made on an unsecured basis and contain the guarantee of the business principals. The Bank's Company's underwriting analysis consists of a review of the financial statements of the borrower, the lending history of the borrower, the debt service capabilities of the borrower, the projected cash flows of the business, the value of the collateral, if any, and whether the loan is guaranteed by the principals of the borrower. Commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from the cash flow of the borrower's business, which makes them of higher risk than residential loans and the collateral securing loans may be difficult to appraise and may fluctuate in value based on the success of the business.

Commercial As of December 31, 2023 and industrial 2022, accrued interest on loans also include loans originated under the Paycheck Protection Program ("PPP"), as prescribed in the CARES Act. These loans have an interest rate of 1.0% and a two-year or five-year loan term to maturity. The Small Business Administration ("SBA") guarantees 100% of the PPP loans made to eligible borrowers, and loan proceeds may be partially or fully forgiven by the SBA if the funds are used for eligible expenses during the relevant forgiveness period and the borrower meets the employee retention criteria.

The Bank was paid a processing fee from the SBA on PPP loan originations ranging from 1% to 5%, based on the size of the loans. During the years ended December 31, 2022 and 2021, the Bank recorded approximately \$0.1.4 and 481,000, respectively, in PPP-related SBA fees in total. These fees are accreted into interest income over the estimated life of the applicable loans. If a PPP loan is forgiven or paid off before maturity, the remaining unearned fee is recognized into income at that time. As of December 31, 2022 and 2021, the Bank has recognized approximately \$62,000million and \$678,000, respectively, in PPP-related SBA fees through accretion. Deferred PPP-related SBA fees totaled \$4,000 1.1 and \$62,000 at December 31, 2022 and 2021, million, respectively.

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#### Allowance for **Loan Credit** Losses:

The Company's estimate of the ACL reflects losses expected over the remaining contractual life of the assets.

The following schedule presents a roll-forward tables present the activity in the ACL by class of loans for year ended December 31, 2023, and the activity in the allowance for loan losses as of December 31; by portfolio segment for the year ended December 31, 2022.

	Year Ended December 31,	
	2022	2021
Beginning balance	\$ 4,183,599	\$ 4,085,719
Charge-offs:		
Real estate loans:		
Residential	(2,842)	(11,123)
Home equity	—	—
Multi-family	—	—
Commercial	—	—
Construction and land development	—	—
Total real estate loans	(2,842)	(11,123)
Consumer loans	(64,612)	(48,022)
Commercial and industrial loans	—	(78,219)
Total charge-offs	(67,454)	(137,364)
Recoveries:		
Real estate loans:		
Residential	53,026	33,794
Home equity	—	—
Multi-family	—	—
Commercial	—	19,651
Construction and land development	11,345	24,392
Total real estate loans	64,371	77,837
Consumer loans	6,884	6,595
Commercial and industrial loans	63,873	27,629

Total recoveries		135,128	112,061
Net recoveries (charge offs)		67,674	(25,303)
Provision for allowance for loan losses		110,905	123,183
Ending balance		\$ 4,362,178	\$ 4,183,599

	Real Estate Loans								Total
						Construction and Land	Commercial and	Unallocated	
						Development	Industrial		
	Residential	Home Equity	Multi-family	Commercial		Consumer loans	loans		
Year Ended December 31, 2023									
Allowance for credit losses:									
Beginning balance	1,960,95			1,632,	264,58				
	\$ 5	\$ 186,733	\$ 225,869	\$ 241	\$ 9	\$ 615	\$ 81,182	\$ 9,994	\$ 4,362,178
ASC 326 adoption	1,028,70			(694,1	(102,3				
	0	(27,875)	(68,217)	35)	49)	48,540	80,330	(9,994)	255,000
Charge-offs						(33,87	(77,94		
	—	—	—	—	—	9)	0)	—	(111,819)
Recoveries	36,000	—	—	—	22,690	2,897	94,932	—	156,519
Provision				154,03	121,21		(45,70		
	52,197	(41,142)	(75,359)	1	9	9,757	3)	—	175,000
Balance at December 31, 2023	3,077,85			1,092,	306,14		132,80		
	\$ 2	\$ 117,716	\$ 82,293	\$ 137	\$ 9	\$ 27,930	\$ 1	\$ —	\$ 4,836,878
Year Ended December 31, 2022									
Allowance for loan losses:									
Beginning balance	1,468,64			1,757,	350,58		109,72		
	\$ 9	\$ 174,579	\$ 288,455	\$ 794	\$ 6	\$ 1,798	\$ 4	\$ 32,014	\$ 4,183,599
Charge-offs						(64,61			
	(2,842)	—	—	—	—	2)	—	—	(67,454)
Recoveries	53,026	—	—	—	11,345	6,884	63,873	—	135,128
Provision				(125,5	(97,34		(92,41	(22,02	
	442,122	12,154	(62,586)	53)	2)	56,545	5)	0)	110,905
Balance at December 31, 2022	1,960,95			1,632,	264,58				
	\$ 5	\$ 186,733	\$ 225,869	\$ 241	\$ 9	\$ 615	\$ 81,182	\$ 9,994	\$ 4,362,178

As described in Note 1 General: Basis of Presentation, the Company adopted ASU 2016-13 on January 1, 2023, which introduced the CECL methodology for estimating all expected losses over the life of a financial asset. The primary reason for the increase in required ACL was to capture the expected lifetime losses of the portfolio, which was previously measured under an incurred loss model.

The Company uses the weighted-average remaining maturity (WARM) method as the basis for the estimation of expected credit losses. The WARM method uses a historical average annual charge-off rate containing loss content over a historical lookback period and is used as a foundation for estimating the credit loss reserve for the remaining outstanding balances of loans in a segment at the balance sheet date. The average annual charge-

off rate is applied to the contractual term, further adjusted for estimated prepayments, to determine the unadjusted historical charge-off rate. The calculation of the unadjusted historical charge-off rate is then adjusted, using

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qualitative factors described in Note 1, for current conditions and for reasonable and supportable forecast periods. Qualitative loss factors are based on the Company's judgment of the Company, market, industry or business specific data, differences in loan-specific risk characteristics such as underwriting standards, portfolio mix, risk grades, delinquency level or term. These qualitative factors serve to compensate for additional areas of uncertainty inherent in the portfolio that are not reflected in the Company's historical loss factors. Additionally, the Company has adjusted for changes in expected environmental and economic conditions, such as changes in unemployment rates, property values and other relevant factors over the next 12 to 24 months. Management adjusted the historical loss experience for these expectations. No reversion adjustments were necessary, as the starting point for the Company's estimate was a cumulative loss rate covering the expected contractual term of the portfolio.

**Allowance** The ACL is measured on a collective segment basis when similar risk characteristics exist. Our loan portfolio is segmented first by the seven portfolio segments described above, and second, by internally identified risk grades (see description below). Consistent forecasts of the loan drivers are used across the loan segments. For loans that do not share general risk characteristics with segments, we estimate a specific reserve on an individual basis. A reserve is recorded when the carrying amount of the loan exceeds the discounted estimated cash flows using the loan's initial effective interest rate or the fair value of collateral for **Loan Losses (Continued)**: collateral-dependent loans.

The Company closely monitors economic conditions and loan performance trends to manage and evaluate the exposure to credit risk. Key factors tracked by the Company and utilized in evaluating the credit quality of the loan portfolio include trends in delinquency ratios, the level of nonperforming assets, borrower's repayment capacity and collateral coverage.

The following tables present information relative to individually and collectively evaluated loans by portfolio segment as of December 31, 2023 and 2022:

	Loans		Allowance for credit losses	
	Individually	Collectively	Individually	Collectively
	evaluated	evaluated	evaluated	evaluated
	for impairment	for impairment	for impairment	for impairment
December 31, 2023 -				
Real estate loans:				
Residential	\$ 512,611	\$ 148,020,992	\$ —	\$ 3,077,852
Home equity	47,078	11,051,949	4,986	112,730
Multi-family	—	19,137,789	—	82,293
Commercial	—	123,572,774	—	1,092,137
Construction and development	—	55,461,430	—	306,149
Total real estate loans	559,689	357,244,934	4,986	4,671,161
Consumer loans	—	3,345,453	—	27,930
Commercial and industrial loans	728,483	16,190,075	69,660	63,141

Total	\$	1,288,172	\$	376,780,462	\$	74,646	\$	4,762,232
December 31, 2022 -								
Real estate loans:								
Residential	\$	1,037,428	\$	137,238,495	\$	—	\$	1,960,955
Home equity		—		12,410,820		—		186,733
Multi-family		—		19,649,491		—		225,869
Commercial		57,000		116,052,590		—		1,632,241
Construction and development		43,388		28,617,247		—		264,589
Total real estate loans		1,137,816		313,968,643		—		4,270,387
Consumer loans		—		846,717		—		615
Commercial and industrial loans		—		23,644,426		—		81,182
Unallocated		—		—		—		9,994
Total	\$	1,137,816	\$	338,459,786	\$	—	\$	4,362,178

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#### Collateral-Dependent Loans:

A loan is considered collateral dependent when the balance in borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the allowance for loan losses and operation or sale of the recorded investment in collateral. The following table presents collateral dependent loans by portfolio segment and based on impairment method collateral type, including those loans with and without a related allowance allocation as of December 31, 2022 and 2021: December 31, 2023.

	Loans		Allowance for loan losses		Collateral Type					
	Individually evaluated for impairment	Collectively evaluated for impairment	Individually evaluated for impairment	Collectively evaluated for impairment	Real Estate	Other Business Assets	Total	Without an Allowance	With an Allowance	Allowance Allocation
December 31, 2022 -										
December 31, 2023 -										
Real estate loans:										
Residential	1,037,428	135,600	—	1,960,955	\$ 512,611	\$ —	\$ 512,611	\$ 512,611	\$ —	\$ —
Home equity	—	12,473	—	186,733	47,078	—	47,078	29,078	18,000	4,986

Multi-family		24,6		225						
		13,7		,86						
	—	00	—	9	—	—	—	—	—	—
Commercial		111,		1,6						
	57,0	337,		32,						
	00	065	—	241	—	—	—	—	—	—
Construction and development		27,8		264						
	43,3	77,7		,58						
	88	00	—	9						
Construction and land development					—	—	—	—	—	—
Total real estate loans	1,13	311,		4,2						
	7,81	583,		70,						
	6	871	—	387	559,689	—	559,689	541,689	18,000	4,986
Consumer loans		1,21								
		0,16								
	—	4	—	615	—	—	—	—	—	—
Commercial and industrial loans		25,6								
		65,7		81,						
	—	51	—	182	—	728,483	728,483	48,536	679,947	69,660
Unallocated				9,9						
	—	—	—	94						
Total	1,13	338,		4,3						
	7,81	459,		62,						
	\$ 6	\$ 786	\$ —	\$ 178	\$ 559,689	\$ 728,483	\$ 1,288,172	\$ 590,225	\$ 697,947	\$ 74,646
December 31, 2021 -										
Real estate loans:										
Residential	1,51	96,9		1,4						
	7,82	15,3		68,						
	\$ 2	\$ 02	\$ —	\$ 649						
Home equity		11,5		174						
		10,6		,57						
	—	61	—	9						
Multi-family		19,9		288						
		37,1		,45						
	—	87	—	5						
Commercial		89,8		1,7						
		30,6		57,						
	—	11	—	794						
Construction and development		34,3		350						
	9,92	91,7		,58						
	8	74	—	6						
Total real estate loans	1,52	252,		4,0						
	7,75	585,		40,						
	0	535	—	063						

Consumer loans	1,37			
	3,76		1,7	
	—	1	—	98
Commercial and industrial loans	15,9			109
	00,0			,72
	—	97	—	4
Unallocated				32,
	—	—	—	014
Total	1,52	269,		4,1
	7,75	859,		83,
	\$ 0	\$ 393	\$ —	\$ 599

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#### Impaired Loans:

The following tables present impaired loans by class of loans as of December 31, 2022 and 2021:

	Recorded Investment	Principal Balance	Related Allowance
December 31, 2022 -			
Impaired loans with related allowance:			
Real estate loans:			
Residential	\$ —	\$ —	\$ —
Home equity	—	—	—
Multi-family	—	—	—
Commercial	—	—	—
Construction and land development	—	—	—
Total real estate loans	—	—	—
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ —	\$ —	\$ —
Impaired loans without related allowance:			
Real estate loans:			
Residential	\$ 1,037,428	\$ 1,037,428	\$ —
Home equity	—	—	—
Multi-family	—	—	—
Commercial	57,000	57,000	—
Construction and land development	43,388	43,388	—
Total real estate loans	1,137,816	1,137,816	—
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ 1,137,816	\$ 1,137,816	\$ —

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**Impaired Loans (Continued):**

	Recorded Investment	Principal Balance	Related Allowance
December 31, 2021 -			
Impaired loans with related allowance:			
Real estate loans:			
Residential	\$ —	\$ —	\$ —
Home equity	—	—	—
Multi-family	—	—	—
Commercial	—	—	—
Construction and land development	—	—	—
Total real estate loans	—	—	—
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ —	\$ —	\$ —
Impaired loans without related allowance:			
Real estate loans:			
Residential	\$ 1,517,822	\$ 1,517,822	\$ —
Home equity	—	—	—
Multi-family	—	—	—
Commercial	—	—	—
Construction and land development	9,928	9,928	—
Total real estate loans	1,527,750	1,527,750	—
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ 1,527,750	\$ 1,527,750	\$ —

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**The average net investment on impaired loans and interest income recognized and received on impaired loans are as follows:**

	Year Ended December 31,		
	2022		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate loans:			
Residential	\$ 1,312,688	\$ 45,091	\$ 63,343
Home equity	—	—	—
Multi-family	—	—	—

Commercial	19,000	1,247	1,247
Construction and land development	24,606	1,500	3,012
Total real estate loans	1,356,294	47,838	67,602
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ 1,356,294	\$ 47,838	\$ 67,602

	2021		
	Average Recorded Investment	Interest Income Recognized	Interest Income Received
Real estate loans:			
Residential	\$ 1,560,984	\$ 92,374	\$ 92,705
Home equity	598	—	—
Multi-family	—	—	—
Commercial	831,676	—	—
Construction and land development	57,086	520	399
Total real estate loans	2,450,344	92,894	93,104
Consumer loans	—	—	—
Commercial and industrial loans	—	—	—
Total	\$ 2,450,344	\$ 92,894	\$ 93,104

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#### Past Due and Nonaccrual Loans:

The following tables present the aging of the recorded investment in past due loans and nonaccrual loans as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total	Non-accrual
December 31, 2023 -							
Real estate loans:							
Residential	\$ 153,793	\$ 89,089	\$ 11,951	\$ 254,833	\$ 148,278,770	\$ 148,533,603	\$ 512,611
Home equity	—	—	47,078	47,078	11,051,949	11,099,027	47,078
Multi-family	—	—	—	—	19,137,789	19,137,789	—
Commercial	—	—	—	—	123,572,774	123,572,774	—
Construction and land development	—	—	—	—	55,461,430	55,461,430	—

Total real estate loans								153,793	89,089	59,029	301,911	357,502,712	357,804,623	559,689
Consumer loans								—	993	—	993	3,344,460	3,345,453	—
Commercial and industrial loans								—	—	—	—	16,918,558	16,918,558	728,483
December 31, 2022 -	90 Day or Greater							\$ 153,793	\$ 90,082	\$ 59,029	\$ 302,904	\$ 377,765,730	\$ 378,068,634	\$ 1,288,172
	30-59 Days													
	Total													
	Current													
	Non-accrual													
	Past due													
	Past due													
	Past due													
	Past due													
	Past due													
Real estate loans:														
Residential								\$ 221,100	\$ —	\$ 31,541	\$ 252,641	\$ 138,023,282	\$ 138,275,923	\$ 453,749
Home equity								24,968	57,266	—	82,234	12,328,586	12,410,820	—



[illegible]

Home equity					1	1	
					1	1	
					,	,	
					5	5	
					1	1	
					0	0	
					,	,	
					6	6	
					6	6	
	—	—	—	—	1	1	—
Multi-family					1	1	
					9	9	
					,	,	
					9	9	
					3	3	
					7	7	
					,	,	
					1	1	
					8	8	
	—	—	—	—	7	7	—
Commercial					8	8	
					9	9	
					,	,	
					8	8	
					3	3	
					0	0	
					,	,	
					6	6	
					1	1	
	—	—	—	—	1	1	—
Construction and land development					3	3	
					4	4	
					,	,	
					3	4	
					3	0	
			6	7	1	1	6
		9,	0,	0,	,	,	0,
		9	1	0	6	7	1
		2	1	3	6	0	1
	—	8	1	9	3	2	1



Total real				2	2	
estate				5	5	
loans				2	4	
				,	,	
1,			1,	6	1	
3			4	3	1	4
3	8	6	7	7	3	1
0,	5,	0,	5,	,	,	4,
6	0	1	8	4	2	4
4	9	1	5	3	8	0
7	7	1	5	0	5	6
Consumer				1	1	
loans				,	,	
				3	3	
				7	7	
				3	3	
				,	,	
				7	7	
				6	6	
—	—	—	—	1	1	—
Commercial				1	1	
and				5	5	
industrial				,	,	
loans				9	9	
				0	0	
				0	0	
				,	,	
				0	0	
				9	9	
—	—	—	—	7	7	—
				2	2	
				6	7	
				9	1	
				,	,	
1,			1,	9	3	
3			4	1	8	4
3	8	6	7	1	7	1
0,	5,	0,	5,	,	,	4,
6	0	1	8	2	1	4
4	9	1	5	8	4	0
\$ 7	\$ 7	\$ 1	\$ 5	\$ 8	\$ 3	\$ 6

As of December 31, 2022 December 31, 2023 and 2021 2022, there were no loans greater than 90 days past due and still accruing.

As of December 31, 2023, there was one nonaccrual commercial and industrial loan with a balance of \$680,000 that had a related specific allowance of \$70,000. In addition, there was one nonaccrual home equity loan with a balance of \$18,000 that had a related specific allowance of \$5,000. As of December 31, 2022, there were no nonaccrual loans with a related allowance.

#### Troubled Debt Loan Restructurings:

As of January 1, 2023, the Company adopted the accounting guidance in ASU 2022-02 which eliminates the recognition and measurement of troubled debt restructurings ("TDRs"). Due to the removal of the TDR designation, the Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulty that result in a direct change in the timing or amount of contractual cash flows include situations where there is a principal forgiveness, interest rate reduction, other-than-insignificant payment delay, term extension, or combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are only for modifications that directly affect cash flows.

A loan that is considered a restructured loan may be subject to the individually evaluated loan analysis; otherwise, the restructured loan remains in the appropriate segment in the ACL model and associated reserves are adjusted based on changes in the discounted cash flows resulting from the modification of the restructured loan. For a discussion with respect to reserve calculations regarding individually

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evaluated loans refer to the Assets Recorded at Fair Value on a Nonrecurring Basis section of Note 13, Fair Value Measurement, in the Notes to Consolidated Financial Statements.

Since the adoption of ASU 2022-02 and during year ended December 31, 2023, the Company has modified one loan for a borrower experiencing financial difficulty. This modification involved a payment deferral, which was considered to be in the best interest of all parties involved, as we believe this will allow the customer to fulfill their financial obligation. As of December 31, 2023, this loan had an outstanding balance of \$680,000 and a specific reserve of \$70,000. This loan was less than 30 days past due as of December 31, 2023. No loans that were modified since the adoption of ASU 2022-02 subsequently defaulted during the year ended December 31, 2023.

Prior to our adoption of ASU 2022-02, the Company accounted for a modification to the contractual terms of a loan that resulted in granting a concession to a borrower experiencing financial difficulties as TDRs. The Bank Company had identified six loans as TDRs prior to the adoption of ASU 2022-02. These loans had a total outstanding principal balance of \$341,000 at the end of 2023. Two of these loans, totaling \$50,000, were included in individually analyzed loans and were nonaccruing at December 31, 2023. During the year ended December 31, 2022, the Company did not modify any loans in 2022 or 2021 in a manner that would be considered troubled debt restructurings. There were no specific allowances allocated TDR prior to troubled debt restructurings as the adoption of December 31, 2022 or 2021. The Bank did not commit to lend any additional amounts to customers with outstanding ASU 2022-02. No loans that are classified were modified as troubled restructurings. Certain troubled debt restructurings are accruing loans in which interest is earned when payments are made. Management continues a TDR prior to evaluate these accruing troubled debt restructurings for impairment on a quarterly basis. During the adoption of ASU 2022-02 subsequently defaulted during the years ended December 31, 2022 December 31, 2023 and 2021, no restructured loans defaulted subsequent to modification.

#### COVID-19 Related Loan Modifications:2022.

The Bank implemented Company may offer various types of concessions when modifying a customer payment loan. Concessions made to the original contractual term of the loan typically consisted of the deferral program to assist borrowers that may be experiencing financial hardship of interest and/or principal payments due to COVID-19 related challenges, whereby short-term deferrals of payments (generally three to six months) have been provided. As of December 31, 2020, all loans that were granted COVID-19 related payment deferrals deterioration in the borrowers' financial condition. In these cases, the principal balance on the TDR had resumed making payments under matured and/or was in default at the terms time of the original loan agreements. Consistent with industry regulatory guidance, borrowers that were otherwise current on loan payments that were granted COVID-19 related financial hardship payment deferrals continued to be reported as current loans throughout the agreed upon deferral period restructure, and were not classified as troubled debt restructurings. In 2022 and 2021, there were no COVID-19 related modifications.



commitments to lend additional funds to the borrower during the years ended December 31, 2023 and 2022.

*Credit Quality:*

The Bank Company categorized loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Bank Company uses the following definitions for its risk ratings:

*Special Mention.* Evidence of financial deterioration exists, or file documentation is inadequate or not available to determine the borrower's financial status or ability to repay. The loan possesses potential weakness which may, if not reversed or corrected, weaken the credit or inadequately protect the Bank's Company's position.

*Substandard.* A well-defined weakness or weaknesses exists that jeopardizes the liquidation of the debt. The loan is characterized by the distinct possibility that the Bank Company will sustain some loss if the deficiencies are not corrected.

*Doubtful.* All of the weaknesses of a substandard loan exist, with the added characteristic that the weaknesses jeopardize the collection and/or liquidation of the debt. Loss exposure, while evident, is not clearly determinable. Special workout negotiations and/or litigation should be initiated.

*Loss.* Considered uncollectible in full and of such little value that its continuance as a bankable asset is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this asset even though partial recovery may be achieved in the future.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be Pass rated loans. As of December 31, 2022 December 31, 2023 and 2021, 2022, and based on the most recent analysis performed, the risk category of loans by class of loans and origination year is as follows:

**Credit Exposure Based on Risk Ratings:**

	Amortized cost basis by origination year						Revolving Loans	Total
	2023	2022	2021	2020	2019	Prior		
December 31, 2023 -								
Real estate loans:								
Residential								
Pass	14,694,77	57,063,83	23,699,6	12,943,	5,972,9	31,534,	1,162,8	147,072,
	\$ 6	\$ 3	\$ 62	\$ 574	\$ 02	\$ 700	\$ 23	\$ 270
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	595,374	—	103,57	103,81	358,57	300,00	1,461,33
	—	595,374	—	1	3	5	0	3

Total residential	14,694,77	57,659,20	23,699,6	13,047,	6,076,7	31,893,	1,462,8	148,533,
	6	7	62	145	15	275	23	603
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Home equity								
Pass							11,051,	11,051,9
	—	—	—	—	—	—	949	49
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	47,078	47,078
Total home equity							11,099,	11,099,0
	—	—	—	—	—	—	027	27
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Multi-family								
Pass			3,763,53	6,310,5	879,04	6,529,3		19,137,7
	700,663	954,603	1	52	4	96	—	89
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total multi-family			3,763,53	6,310,5	879,04	6,529,3		19,137,7
	700,663	954,603	1	52	4	96	—	89
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial								
Pass	21,791,64	15,233,11	24,305,9	13,608,	19,709,	20,421,		115,145,
	2	8	55	050	850	922	74,946	483
Special Mention						3,605,1		3,605,14
	—	—	—	—	—	49	—	9
Substandard				2,742,1			1,588,2	4,822,14
	—	—	491,804	36	—	—	02	2
Total commercial	21,791,64	15,233,11	24,797,7	16,350,	19,709,	24,027,	1,663,1	123,572,
	2	8	59	186	850	071	48	774
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Construction and land development								
Pass	25,084,29		8,140,28			2,118,2	10,821,	55,399,5
	7	9,150,217	2	53,356	31,944	12	270	78
Special Mention	—	—	—	—	—	10,416	—	10,416
Substandard	—	—	—	—	—	51,436	—	51,436
Total construction and land development	25,084,29		8,140,28			2,180,0	10,821,	55,461,4
	7	9,150,217	2	53,356	31,944	64	270	30
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total real estate loans	62,271,37	82,997,14	60,401,2	35,761,	26,697,	64,629,	25,046,	357,804,
	8	5	34	239	553	806	268	623
Consumer loans								
Pass								3,345,45
	2,813,398	313,560	68,213	42,768	43,689	23,673	40,152	3
Special Mention	—	—	—	—	—	—	—	—

Substandard	—	—	—	—	—	—	—	—
Total consumer loans								3,345,45
	2,813,398	313,560	68,213	42,768	43,689	23,673	40,152	3
YTD Gross Charge-offs	28,198	5,681	—	—	—	—	—	33,879
Commercial and industrial loans								
Pass			1,272,87	1,546,2	334,68	881,46	3,589,6	12,524,3
	2,168,653	2,730,858	5	08	5	2	07	48
Special Mention			2,596,02					2,884,21
	288,188	—	9	—	—	—	—	7
Substandard								1,509,99
	105,369	1,356,088	—	—	—	—	48,536	3
Total commercial and industrial loans			3,868,90	1,546,2	334,68	881,46	3,638,1	16,918,5
	2,562,210	4,086,946	4	08	5	2	43	58
YTD Gross Charge-offs	—	77,940	—	—	—	—	—	77,940
	67,646,98	87,397,65	64,338,3	37,350,	27,075,	65,534,	28,724,	378,068,
	\$ 6	\$ 1	\$ 51	\$ 215	\$ 927	\$ 941	\$ 563	\$ 634
YTD Gross Charge-offs	\$ 28,198	\$ 83,621	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 111,819

	Pass	Special Mention	Substandard	Doubtful	Loss	Total
December 31, 2022 -						
Real estate loans:						
Residential	\$ 134,695,557	\$ 447,915	\$ 1,238,542	\$ —	\$ —	\$ 136,382,014
Home equity	12,410,820	—	—	—	—	12,410,820
Multi-family	24,613,700	—	—	—	—	24,613,700
Commercial	101,192,649	7,335,673	2,865,743	—	—	111,394,065
Construction and land development	27,793,996	20,263	106,829	—	—	27,921,088
Total real estate loans	300,706,722	7,803,851	4,211,114	—	—	312,721,687
Consumer loans	1,210,164	—	—	—	—	1,210,164
Commercial and industrial loans	25,665,751	—	—	—	—	25,665,751
	\$ 327,582,637	\$ 7,803,851	\$ 4,211,114	\$ —	\$ —	\$ 339,597,602
December 31, 2021 -						
Real estate loans:						
Residential	\$ 95,421,741	\$ 1,764,789	\$ 1,246,594	\$ —	\$ —	\$ 98,433,124
Home equity	11,510,661	—	—	—	—	11,510,661
Multi-family	19,937,187	—	—	—	—	19,937,187
Commercial	78,797,687	8,075,262	2,957,662	—	—	89,830,611
Construction and land development	31,347,154	2,920,406	134,142	—	—	34,401,702
Total real estate loans	237,014,430	12,760,457	4,338,398	—	—	254,113,285
Consumer loans	1,373,761	—	—	—	—	1,373,761
Commercial and industrial loans	15,900,097	—	—	—	—	15,900,097

\$ 254,288,288	\$ 12,760,457	\$ 4,338,398	\$ —	\$ —	\$ 271,387,143
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	Amortized cost basis by origination year						Revolving Loans	Total
	2022	2021	2020	2019	2018	Prior		
December 31, 2022 -								
Real estate loans:								
Residential								
Pass	55,675,71	23,257,72	15,631,6	6,621,6	10,117,	24,476,	808,78	136,589,
	\$ 8	\$ 0	\$ 63	\$ 92	\$ 299	\$ 586	\$ 8	\$ 466
Special Mention						447,91		
	—	—	—	—	—	5	—	447,915
Substandard				148,16		1,054,4		1,238,54
	—	—	35,877	7	—	98	—	2
Total residential	55,675,71	23,257,72	15,667,5	6,769,8	10,117,	25,978,	808,78	138,275,
	8	0	40	59	299	999	8	923
YTD Gross Charge-offs	—	—	—	—	—	2,842	—	2,842
Home equity								
Pass							12,410,	12,410,8
	—	—	—	—	—	—	820	20
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total home equity	—	—	—	—	—	—	12,410,	12,410,8
	—	—	—	—	—	—	820	20
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Multi-family								
Pass			6,502,68	1,144,2	824,35	6,216,6		19,649,4
	981,012	3,980,555	8	52	2	32	—	91
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total multi-family	—	—	6,502,68	1,144,2	824,35	6,216,6	—	19,649,4
	981,012	3,980,555	8	52	2	32	—	91
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Commercial								
Pass	17,015,86	24,161,62	16,280,1	20,633,	15,229,	10,029,	2,558,2	105,908,
	2	5	44	262	764	237	80	174
Special Mention				2,713,5		3,947,0		7,335,67
	—	675,000	—	89	—	84	—	3

Substandard	—	57,000	2,808,74	—	—	—	—	2,865,74
			3					3
Total commercial	17,015,86	24,893,62	19,088,8	23,346,	15,229,	13,976,	2,558,2	116,109,
	2	5	87	851	764	321	80	590
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Construction and land development								
Pass		10,736,25			208,36	1,152,0	8,187,6	28,533,5
	8,154,115	4	58,143	37,012	5	37	17	43
Special Mention	—	—	—	—	—	20,263	—	20,263
Substandard	43,388	—	—	—	—	63,441	—	106,829
Total construction and land development		10,736,25			208,36	1,235,7	8,187,6	28,660,6
	8,197,503	4	58,143	37,012	5	41	17	35
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
Total real estate loans	81,870,09	62,868,15	41,317,2	31,297,	26,379,	47,407,	23,965,	315,106,
	5	4	58	974	780	693	505	459
Consumer loans								
Pass	483,151	93,947	92,795	98,284	13,238	28,939	36,363	846,717
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total consumer loans	483,151	93,947	92,795	98,284	13,238	28,939	36,363	846,717
YTD Gross Charge-offs	55,979	8,633	—	—	—	—	—	64,612
Commercial and industrial loans								
Pass			1,846,41	587,71	879,75	566,73	9,534,9	23,644,4
	5,392,327	4,836,577	2	8	4	3	05	26
Special Mention	—	—	—	—	—	—	—	—
Substandard	—	—	—	—	—	—	—	—
Total commercial and industrial loans			1,846,41	587,71	879,75	566,73	9,534,9	23,644,4
	5,392,327	4,836,577	2	8	4	3	05	26
YTD Gross Charge-offs	—	—	—	—	—	—	—	—
	87,745,57	67,798,67	43,256,4	31,983,	27,272,	48,003,	33,536,	339,597,
	\$ 3	\$ 8	\$ 65	\$ 976	\$ 772	\$ 365	\$ 773	\$ 602
YTD Gross Charge-offs	\$ 55,979	\$ 8,633	\$ —	\$ —	\$ —	\$ 2,842	\$ —	\$ 67,454

76 There were no loans classified in the "doubtful" or "loss" risk rating categories as of the periods ended December 31, 2023 and 2022.

#### NOTE 4 - PREMISES AND EQUIPMENT

Major classifications of premises and equipment at December 31, 2022 December 31, 2023 and 2021 2022 are summarized as follows:

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Land	\$ 47,512	\$ 47,512	\$ 181,212	\$ 181,212
Buildings and improvements	4,976,189	4,951,619	4,875,553	4,842,489
Furniture and equipment	1,988,527	1,949,632	2,827,215	1,988,527
Leasehold improvements	16,675	—	1,214,628	16,675
Automobiles	56,845	56,845	92,956	56,845
	7,085,748	7,005,608	9,191,564	7,085,748
Less: Accumulated depreciation and amortization	3,953,466	3,780,719	4,408,804	3,953,466
Premises and equipment, net	\$ 3,132,282	\$ 3,224,889	\$ 4,782,760	\$ 3,132,282

Depreciation expense was approximately \$348,000 468,000 and \$366,000 348,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

#### NOTE 5 - LEASES

The Company leases four locations with obligations which expire from 2024 to 2033. As of December 31, 2023, right-of-use assets and the related lease liabilities related to operating leases totaled \$1.9 million and \$2.1 million, respectively, with total operating lease expense of \$236,000 for 2023.

The following table presents supplemental information pertaining to operating leases as of and for the year ended December 31, 2023:

Operating cash flows from operating leases	\$ 73,777
ROU assets obtained in exchange for new operating lease liabilities	\$ 2,096,531
Weighted-average remaining lease term in years for operating leases	9.06
Weighted-average discount rate for operating leases	4.41 %

The following table presents the maturities of the Company's lease liabilities and the present value discount at December 31, 2023:

2024	\$ 273,788
2025	295,557
2026	281,405
2027	248,400
2028	255,330
Thereafter	1,206,671
Total undiscounted cash flows	2,561,151
Less: present value discount	(458,725)
Total lease liabilities	\$ 2,102,426

#### NOTE 6 - CERTIFICATES OF DEPOSIT

The aggregate amount of certificates of deposit, that exceed the FDIC insurance limit of \$250,000, were approximately \$11,522,000 23.6 million at December 31, 2022 December 31, 2023 and \$7,833,000 11.5 million at December 31, 2021 December 31, 2022.

At December 31, 2022 December 31, 2023, the scheduled maturities of certificates of deposit were as follows:

2023	\$	76,686,579
2024		10,193,633
2025		1,642,485
2026		982,701
2027		—
	\$	89,505,398
2024	\$	100,612,079
2025		8,862,525
2026		802,047
2027		404,604
2028		250,943
Thereafter		20,654
	\$	110,952,852

Certificates of deposit that are scheduled to mature in less than one year from December 31, 2023 totaled \$100.6 million.

#### NOTE 67 - FEDERAL HOME LOAN BANK ADVANCES AND OTHER BORROWINGS

Previous FHLB advances were paid off in July of 2021. Prepayment fees of \$14,537 were netted against gains of \$26,749. A net gain of \$12,212 was recognized in other income during the year ended December 31, 2021. The following advances from the FHLB Federal Home Loan Bank ("FHLB") were outstanding as of December 31, 2022: December 31, 2023 and 2022:

Advance Date	Amount	Interest Rate	Interest Rate	Maturity	Call Feature
11/18/2022	11,000,000	Fixed	4.00 %	May 15, 2026	N/A
December 31, 2023 - May 16, 2023	\$ 5,000,000	Fixed	4.77 %	November 16, 2026	N/A
November 16, 2023	3,000,000	Fixed	4.68 %	November 16, 2027	N/A

	\$	11,000,000			
December 31, 2022 - November 18, 2022	\$	11,000,000	Fixed	4.57 %	N/A

The FHLB advances are collateralized by the Bank's Company's FHLB stock and a blanket lien on certain of the Bank's residential and commercial real estate loans with a carrying lendable collateral value of approximately \$56,438,000 80.8 million and \$15,658,000 56.4 million at December 31, 2022 December 31, 2023 and 2021, 2022, respectively. The Bank Given its pledged collateral position, the Company had approximately \$45,400,000 69.8 million and \$15,700,000 45.4 million in available borrowing capacity through with the FHLB at December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

Unsecured federal funds lines of credit totaling \$28,500,000 28.5 million were available to the Bank Company for overnight borrowing through correspondent banks at December 31, 2022 December 31, 2023 and 2021, 2022. The Bank Company also had approximately \$5,800,000 24.8 million and \$5,700,000 5.8 million in available borrowing capacity through the Federal Reserve Bank of Atlanta at December 31, 2022 December 31, 2023 and 2021, 2022, respectively. There were no borrowings against either of these facilities at December 31, 2022 December 31, 2023 or 2021, 2022. The available borrowings borrowing capacity with the Federal Reserve Bank are is collateralized by a blanket lien on certain of the Bank's residential and commercial real estate loans with a carrying value of approximately \$8,400,000 35.2 million and \$9,300,000 8.4 million at December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

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## NOTE 78 - INCOME TAXES

The components of income tax expense (benefit) for the years ended December 31, 2022 December 31, 2023 and 2021 2022 are as follows:

	2022	2021	2023	2022
Current - Alternative minimum tax	\$ (7,651)	\$ 14,390	\$ (4,856)	\$ (7,651)
Deferred	98,260	(62,721)	(128,075)	98,260
Utilization of operating loss carryforward	614,475	849,585	264,776	614,475
Change in valuation allowance	(29,612)	21,759	(23,615)	(29,612)
	\$ 675,472	\$ 823,013	\$ 108,230	\$ 675,472

The difference between the actual income tax expense and the amount computed by applying the statutory federal income tax rate to income before income taxes for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, is as follows:

	2022	2021	2023	2022
Pretax income at statutory rate	\$ 511,536	\$ 727,329	\$ 78,552	\$ 511,536
Add (deduct):				
State income tax expense, net of federal benefit	99,166	114,775	10,465	99,166
Tax-exempt income	(57,977)	(68,496)	(60,137)	(57,977)
Stock based compensation	74,747	—	36,537	74,747



Change in valuation allowance	(29,612)	21,759	(23,615)	(29,612)
Other	77,612	27,646	66,428	77,612
	<u>\$ 675,472</u>	<u>\$ 823,013</u>	<u>\$ 108,230</u>	<u>\$ 675,472</u>

The following summarizes the sources and expected tax consequences of future taxable deductions or income, which comprise the net deferred tax asset, which is included as a component of other assets at **December 31, 2022** **December 31, 2023** and **2021;2022:**

	2022	2021	2023	2022
<b>Deferred income tax assets:</b>				
Deferred compensation	\$ 363,195	\$ 295,006	\$ 418,877	\$ 363,195
Net operating loss carryforward	719,078	1,333,553	454,302	719,078
Other real estate owned	36,452	26,804	—	36,452
State tax credits	168,609	198,221	144,994	168,609
Defined benefit obligations (non-qualified)	279,483	490,528	114,854	279,483
Accrued bonuses			74,274	—
Non-accrual loans	64,818	126,915	78,240	64,818
Frozen pension accrual (tax qualified)	265,252	327,425	275,052	265,252
Unrealized loss on investment securities available-for-sale	1,191,567	64,467	976,819	1,191,567
Right of use asset/lease liability			40,052	—
Allowance for credit losses			15,655	—
Unfunded loan commitments			35,536	—
Other	4,836	24,412	25,314	4,836
<b>Total gross deferred tax assets</b>	<b>3,093,290</b>	<b>2,887,331</b>	<b>2,653,969</b>	<b>3,093,290</b>
Less: Valuation allowance	(168,609)	(198,221)	(144,994)	(168,609)
<b>Net deferred tax asset</b>	<b>2,924,681</b>	<b>2,689,110</b>	<b>2,508,975</b>	<b>2,924,681</b>
<b>Deferred income tax liabilities:</b>				
Premises and equipment	6,832	14,021	12,331	6,832
Allowance for loan losses	92,649	120,539	—	92,649
Director fee plan	24,535	8,663	27,708	24,535
Other	—	3,863	24,389	—
<b>Total gross deferred tax liabilities</b>	<b>124,016</b>	<b>147,086</b>	<b>64,428</b>	<b>124,016</b>
<b>Net deferred tax asset</b>	<b>\$ 2,800,665</b>	<b>\$ 2,542,024</b>	<b>\$ 2,444,547</b>	<b>\$ 2,800,665</b>

The future tax consequences of the differences between the financial reporting and tax basis of the Company's assets and liabilities resulted in a net deferred tax asset. A valuation allowance in the amount of \$**168,609** **145,000** and \$**198,221** **169,000** as of **December 31, 2022** **December 31, 2023** and **2021, 2022**, respectively, was established as these deferred tax assets relate to state tax credit carryforwards that will likely expire prior to realization. As of **December 31, 2022** **December 31, 2023**, the Company had federal net operating loss carryforwards of approximately \$**2,631,000** **1.5 million** and state net operating loss carryforwards of approximately \$**3,830,000** **3.2 million**, which will begin to expire in 2031 unless previously utilized.

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## NOTE 89 - COMMITMENTS

### *Credit Related Financial Instruments:*

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business the Company is party to off-balance financial instruments to help meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheet. The contractual amounts of those instruments reflect the extent of involvement the Bank Company has in particular classes of financial instruments.

The Bank's 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 standby letters of credit is represented by the contractual amount of those instruments. The Bank Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In most cases, the Bank Company requires collateral or other security to support financial instruments with credit risk.

	December 31, 2022	December 31, 2021	December 31, 2023	December 31, 2022
Financial instruments whose contract amounts represent credit risk:				
Commitments to extend credit	\$ 49,189,000	\$ 28,204,000	\$ 47,871,000	\$ 49,189,000
Stand-by letters of credit	\$ 819,000	\$ 931,000	\$ 719,000	\$ 819,000

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 payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank Company, upon extension of credit is based on management's credit evaluation. Collateral held varies, but may include unimproved and improved real estate, certificates of deposit, or personal property.

Standby letters of credit are conditional commitments issued by the Bank Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to businesses within the Bank's Company's trade area.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank Company holds real estate and assignments of deposit accounts as collateral supporting those commitments for which collateral is deemed necessary. The extent of collateral held for these commitments at December 31, 2022 December 31, 2023 and 2021 2022 varies.

The Company maintain an ACL on unfunded lending commitments and letters of credit to provide for the risk of loss inherent in these arrangements. The allowance is computed using a methodology similar to that used to determine the ACL for loans, modified to take into account the probability of a drawdown on the commitment. The ACL on unfunded loan commitments is classified as a liability account on the balance sheet within other liabilities, while the corresponding provision for these credit losses is recorded as a component of other expense. The allowance for credit losses on unfunded commitments was \$140,000 at December 31, 2023. Prior to January 1, 2023, the Company calculated allowance for losses on unfunded loan commitments using an incurred loss methodology.

## NOTE 910 - RELATED PARTY TRANSACTIONS

In the normal course of business, officers and directors of the Company and the Bank, and certain business organizations and individuals associated with them, maintain a variety of relationships with the Bank. Transactions with officers and directors are made on terms comparable to those available to other Bank customers. At December 31, 2022 December 31, 2023 and 2021, 2022, deposits from directors, executive officers, and their

related interests aggregated approximately \$753,000 2.4 million and \$771,000 753,000, respectively. The following summary reflects related party loan activity during 2022 2023 and 2021, 2022.

	2022	2021	2023	2022
Beginning balance	\$ 364,810	\$ 571,210	\$ 493,989	\$ 364,810
New loans and advancements	319,453	40,000	—	319,453
Change in executive officers and directors	—	(131,838)		
Repayments	(190,274)	(114,562)	(43,712)	(190,274)
<b>Ending Balance</b>	<b>\$ 493,989</b>	<b>\$ 364,810</b>	<b>\$ 450,277</b>	<b>\$ 493,989</b>

#### NOTE 1011 - REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could

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have a direct material effect on the Bank's financial statements. Under certain adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

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In July 2013, the Federal bank regulatory agencies issued a final rule that revised their risk-based capital requirements and the method for calculating components of capital and of computing risk-weighted assets to make them consistent with agreements that were reached by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act. The final rule applies to all depository institutions and, pursuant to the Federal Reserve Board's policy statements, to top-tier bank and savings and loan holding companies with total consolidated assets of \$3.0 billion or more. The rule established a new common equity Tier 1 minimum capital requirement, increased the minimum capital ratios and assigned a higher risk weight to certain assets based on the risk associated with these assets. The final rule includes a transition period that implements the new regulations over a five-year period. These changes were fully phased in on January 1, 2019.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total common equity Tier 1, total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average assets. Management believes, as of December 31, 2022 December 31, 2023 and 2021, 2022, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2022 December 31, 2023 and 2021, 2022, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1 risk-based, total risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth below. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios, and minimum amounts under current regulatory standards, as of December 31, 2022 December 31, 2023 and 2021, 2022, are presented in the following table:

	To Be Well Capitalized Under Prompt Corrective Action Provisions						To Be Well Capitalized Under Prompt Corrective Action Provisions					
	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions		Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
	nt	o	nt	io	nt	o	nt	o	nt	o	nt	o
	(Dollars in Thousands)						(Dollars in Thousands)					
December 31, 2023:												
Common Equity												
Tier 1 Capital to Risk-Weighted Assets							\$ 68,463	19.71 %	\$ 15,631	4.50 %	\$ 22,578	6.50 %
Total Capital to Risk-Weighted Assets							\$ 72,812	20.96 %	\$ 27,788	8.00 %	\$ 34,735	10.00 %
Tier 1 Capital to Risk-Weighted Assets							\$ 68,463	19.71 %	\$ 20,841	6.00 %	\$ 27,788	8.00 %
Tier I Capital to Average Assets							\$ 68,463	15.16 %	\$ 18,068	4.00 %	\$ 22,585	5.00 %
December 31, 2022:												
Common Equity												
Tier 1 Capital to Risk-Weighted Assets	67,153	21.32 %	14,172	4.50 %	20,470	6.50 %						
Total Capital to Risk-Weighted Assets	71,094	22.57 %	25,194	8.00 %	31,492	10.00 %						
Tier 1 Capital to Risk-Weighted Assets	67,153	21.32 %	18,895	6.00 %	25,194	8.00 %						
Tier I Capital to Average Assets	67,153	16.22 %	16,558	4.00 %	20,697	5.00 %						
December 31, 2021:												
Common Equity												
Tier 1 Capital to Risk-Weighted Assets	63,764	8.00 %	11,441	0.00 %	16,526	50.00 %						

Total Capital to	66,	26	20,	8.	25,	10
Risk- Weighted	95	.3	34	0	42	.0
Assets	\$ 4	3%	\$ 0	0%	\$ 5	0%
Tier 1 Capital to	63,	25	15,	6.	20,	
Risk- Weighted	76	.0	25	0	34	8.
Assets	\$ 4	8%	\$ 5	0%	\$ 0	00%
Tier I Capital to	63,	16	15,	4.	19,	
Average Assets	76	.6	32	0	15	5.
	\$ 4	4%	\$ 7	0%	\$ 9	00%

## NOTE 1112 - EMPLOYEE BENEFIT PLANS

### 401(k):

The Bank sponsors a 401(k) plan. The 401(k) plan covers substantially all employees and provides for an employer matching contribution based on a percentage of salary contributed to the plan. The Bank contributed approximately \$193,000 169,000 and \$210,000 193,000 to the 401(k) plan during 2022 2023 and 2021, 2022, respectively.

### Supplemental Executive Retirement Plans:

During 2019, the Bank entered into supplemental executive retirement agreements (each, a "SERP") with certain of its officers whereby a specified monthly benefit is payable upon a normal retirement for a period of 10 years. Each SERP is a nonqualified deferred compensation arrangement that conditions payment of the full normal retirement benefit upon an officer's attaining normal retirement age while in the service of the Bank. Otherwise, the retirement benefit is earned over time and, with the exception of the SERPs for a former and a current executive officer, is subject to a ten-year vesting schedule. Moreover, the amount and timing of payment of the

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retirement benefit may vary depending upon the circumstances of an officer's earlier termination of employment, including death, disability, or in connection with a change in control. The retirement benefit is forfeited in the event of a termination of employment for cause or if grounds exist for such a termination. The expense associated with the SERPs is offset by earnings on life insurance policies owned by the Bank. Bank partially offset the expenses associated with the offering of the SERPs and other employee benefits. The cash surrender value on these insurance policies was approximately \$11,443,000 11.7 million and \$11,167,000 11.4 million as of December 31, 2022 December 31, 2023 and 2021, 2022, respectively. Additionally, at December 31, 2022 December 31, 2023 and 2021, 2022, the Bank has recorded a

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liability for the present value of the future retirement benefits of approximately \$913,000 876,000 and \$641,000 913,000, respectively, to be paid under the SERPs. Expense for the SERPs was approximately \$272,000 183,000 and \$150,000 272,000 for the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. In determining the SERPs obligation for 2022 2023 and 2021, 2022, the discount rate used was 4.74 4.00% and 2.17 4.74%, respectively.

### Director Deferred Fee Practice:

The Bank has maintained a discretionary practice of paying a retirement benefit to eligible non-employee directors who attain at least age 70 in the service of the Bank with at least 15 years of service to their credit. Under this practice, each eligible retired director received a monthly benefit in the

amount of \$825. In anticipation of the Reorganization, (see Note 13), the Bank decided to formalize and revise this practice in 2020. The Bank has relinquished its discretion over the practice with respect to eligible retired directors and current non-employee directors who satisfied the eligibility criteria for the benefit as of December 31, 2019. The normal retirement benefit for this group will be a monthly benefit in the amount of \$825 a month for the remaining life of the director. With respect to all other non-employee directors serving as of December 31, 2019, the amount of the normal monthly benefit will remain unchanged, but will be paid over a period of 10 years following retirement or, if less, the director's remaining lifetime. The eligibility criteria for this group has been changed to the attainment of at least age 65 with at least 10 years of service. No future non-employee director will be eligible for a benefit under this formalized plan. The Bank has recorded and will continue to record a liability for these payments as post-retirement defined benefit obligations. The Bank recognized current year expense of \$42,000 30,000 and \$47,000 42,000 during the years ended December 31, 2022 December 31, 2023 and 2021, 2022, respectively. As of December 31, 2022 December 31, 2023 and 2021, 2022, the Bank had a projected defined benefit obligation of approximately \$433,000 415,000 and \$498,000 433,000, respectively, assuming the continuation of its then existing practice. The discount rate used in determining the accumulated post-retirement defined benefit obligation was 4.54% in 2023, and 4.74% in 2022 and 2022. As of December 31, 2023, the Company had \$2.17 82,000% included in 2021.other comprehensive income associated with this plan,

Tax-Qualified Frozen Defined Benefit Pension Plan:

The Bank also sponsors a tax-qualified defined benefit retirement plan. Effective March 31, 2019, eligibility for the plan was frozen so that no employee who was not then a participant in the plan could later become a participant and to freeze benefit accruals for all existing participants. For existing participants, the plan provides for retirement payments based on a formula using a participant's years of creditable service and highest three years of annual compensation. Retirees age 66 and older are also eligible for an annual supplemental payment equal to one percent of their monthly benefit multiplied by the number of their retirement years beyond age 65. Participants who entered the plan prior to July 1, 1983, are also eligible for a one-time lump sum payment upon retirement after reaching age 55 equal to three times their monthly retirement benefit. A participant is also required to vest in any benefit earned under the plan formula by completing a minimum number of years of vesting service. The plan also provides for disability benefits and surviving spouse benefits in circumstances where the normal retirement benefit would not otherwise be payable.

Tax-Qualified Frozen Defined Benefit Pension Plan (Continued):

The following is a summary of the components of the net periodic post-retirement benefit cost (benefit) during 2022 2023 and 2021:2022:

	2022	2021	2023	2022
Interest cost	\$ 318,035	\$ 300,973	\$ 424,632	\$ 318,035
Expected return on assets	(648,348)	(710,539)	(422,738)	(648,348)
Amortization of unrecognized loss	83,081	219,288	25,224	83,081
Periodic post-retirement cost (benefit)	\$ (247,232)	\$ (190,278)	\$ 27,118	\$ (247,232)

The discount rate used in determining the accumulated post-retirement benefit obligation was 2.68 4.77% and 2.33 4.96% in 2022 2023 and 2021, 2022, respectively. The expected long-term rate of return on assets was 7.00% and 8.00 6.00% during 2023 and 2022, and 2021, respectively. The assumed rates of salary increase used in measuring the accumulated post-retirement benefit obligation ranged from 5.35% to 10.10% during 2021. There was no assumed rate of salary increase used in measuring the accumulated post-retirement benefit obligation during 2023 or 2022.

Tax-Qualified Frozen Defined Benefit Pension Plan (Continued):

The Bank expects to make contributions to the plan in 2023 totaling to generate approximately \$27,000 140,000. of periodic pension income during 2024. The following table presents the estimated benefit payments for each of the next five years and in the aggregate for the five years thereafter as of December 31, 2022 December 31, 2023:

2023	\$	588,005	
2024		591,598	\$ 566,086
2025		590,780	566,849
2026		590,647	569,420
2027		584,585	566,028
2027-2031		2,801,054	
2028			564,210
2029-2033			2,710,611
	\$	5,746,669	\$ 5,543,204

The following is a reconciliation of the accumulated post-retirement benefit obligation as of December 31, 2022 December 31, 2023 and 2021:2022:

	2022	2021	2023	2022
Projected benefit obligation at beginning of year	\$ 12,159,755	\$ 13,209,019	\$ 8,855,122	\$ 12,159,755
Interest cost	318,035	300,973	424,632	318,035
Actuarial gain	(3,034,835)	(766,993)		
Actuarial loss (gain)			86,414	(3,034,835)
Benefits paid	(587,833)	(583,244)	(580,483)	(587,833)
Projected benefit obligation at end of year	\$ 8,855,122	\$ 12,159,755	\$ 8,785,685	\$ 8,855,122

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#### Tax-Qualified Frozen Defined Benefit Pension Plan (Continued):

The following is a summary of the change in plan assets during 2022 2023 and 2021:2022:

	2022	2021	2023	2022
Fair value of plan assets at beginning of year	\$ 9,587,893	\$ 9,168,583	\$ 7,369,637	\$ 9,587,893
Actual (loss) return on assets	(1,570,382)	1,068,427		
Actual return (loss) on assets			1,196,133	(1,570,382)
Employer contributions	—	—	172,752	—
Administrative expenses	(60,041)	(65,873)	(57,615)	(60,041)
Benefits paid, net	(587,833)	(583,244)	(580,483)	(587,833)
Fair value of plan assets at end of year	\$ 7,369,637	\$ 9,587,893	\$ 8,100,424	\$ 7,369,637

The fair values of the Bank's pension plan assets at December 31, 2022 December 31, 2023 and 2021 2022, by asset category, are as follows:

	Fair Value Measurements	Fair Value Measurements			
		Assets Measured at Fair Value	Level 1	Level 2	Level 3
December 31, 2023:					

Cash and cash equivalents					\$	80,325	\$	80,325	\$	—	\$	—
Debt securities mutual funds						2,556,666		2,556,666		—		—
Equity securities mutual funds						5,463,433		5,463,433		—		—
	Assets Measured at		Leve	Leve								
	Fair Value	Level 1	I 2	I 3	\$	8,100,424	\$	8,100,424	\$	—	\$	—
December 31, 2022:												
Cash and cash equivalents		13,48										
	\$	13,488	\$	8	\$—	\$—	\$	13,488	\$	13,488	\$	—
Debt securities mutual funds		2,410,										
		2,410,250	250	—	—			2,410,250		2,410,250		—
Equity securities mutual funds		4,945,										
		4,945,899	899	—	—			4,945,899		4,945,899		—
		7,369,										
	\$	7,369,637	\$	637	\$—	\$—	\$	7,369,637	\$	7,369,637	\$	—
December 31, 2021:												
Cash and cash equivalents		14,88										
	\$	14,881	\$	1	\$—	\$—						
Debt securities mutual funds		3,059,										
		3,059,854	854	—	—							
Equity securities mutual funds		6,513,										
		6,513,158	158	—	—							
		9,587,										
	\$	9,587,893	\$	893	\$—	\$—						

The fair value of all pension assets are determined from quoted market prices and are considered Level 1 fair value measurements.

The plan's investment policy includes various guidelines and procedures designed to ensure assets are invested in a manner necessary to meet expected future benefits earned by participants. The investment guidelines consider a broad range of economic conditions. Central to the policy are target allocation ranges by major asset categories. The objectives of the target allocations are to maintain investment portfolios that diversify risk through prudent asset allocation parameters, achieve asset returns that meet or exceed the plan's actuarial assumptions and achieve asset returns that are competitive with like institutions employing similar investment strategies.

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#### Tax-Qualified Frozen Defined Benefit Pension Plan (Continued):

The following is a summary of the amount recognized in other liabilities as of December 31, 2022 December 31, 2023 and 2021:2022:



	2022	2021	2023	2022
Projected benefit obligation at end of year	\$ 8,855,122	\$ 12,159,755	\$ 8,785,685	\$ 8,855,122
Fair value of plan assets at end of year	(7,369,637)	(9,587,893)	(8,100,424)	(7,369,637)
	<u>\$ 1,485,485</u>	<u>\$ 2,571,862</u>		
Net pension liability			<u>\$ 685,261</u>	<u>\$ 1,485,485</u>

Amounts recognized in accumulated other comprehensive loss, net of tax, as of **December 31, 2022** **December 31, 2023** and **2021** **2022** were:

	2022	2021	2023	2022
Net loss	\$ (1,111,263)	\$ (1,950,408)	\$ (456,673)	\$ (1,111,263)
Total accumulated other comprehensive loss	<u>\$ (1,111,263)</u>	<u>\$ (1,950,408)</u>	<u>\$ (456,673)</u>	<u>\$ (1,111,263)</u>

Amounts recognized in the accumulated post-retirement benefit obligation and other comprehensive income (loss) for the years ended **December 31, 2022** **December 31, 2023** and **2021** **2022** were:

	2022	2021
Net loss	\$ (756,064)	\$ (1,059,008)
Amortization of net unrecognized gain	(83,081)	(219,288)
Total accumulated other comprehensive loss	<u>\$ (839,145)</u>	<u>\$ (1,278,296)</u>

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	2023	2022
Net gain	\$ (629,366)	\$ (756,064)
Amortization of net unrecognized loss	(25,224)	(83,081)
Total recognized in other comprehensive income	<u>\$ (654,590)</u>	<u>\$ (839,145)</u>

#### Employee Stock Ownership Plan:

As part of the **Company's initial** stock offering, the Company established the TC Federal Bank Employee Stock Ownership Plan ("ESOP") to provide eligible employees of the Company the opportunity to own Company stock. The ESOP is a tax-qualified retirement plan for the benefit of Company employees. Contributions are allocated to eligible participants on the basis of compensation, subject to federal limits. The Company uses the principal and interest method to determine the release of shares amounts. The number of shares committed to be released per year through 2040 is 19,593.

The ESOP funded its purchase of 391,868 shares through a loan from the Company equal to 100% of the aggregate purchase price of the common stock. The ESOP trustee will repay the loan principally through the Bank's contributions to the ESOP over the remaining loan term of **18** **17** years. At **December 31, 2022** **December 31, 2023** and **2021**, **2022**, the remaining principal balance on the ESOP debt was **\$3.6** **3.4** million and **\$3.7** **3.6** million, respectively. Dividends and other earnings on shares are used for debt service.

Under applicable accounting requirements, the Company records compensation expense for the ESOP equal to the fair market value of shares when they are committed to be released from the suspense account to participants' accounts under the plan. Total compensation expense recognized in connection with the ESOP for the year ended **December 31, 2022** **December 31, 2023** and **2021** **2022** was approximately **\$342,000** **233,000** and **\$335,000** **221,000**, respectively.

2022	2021	2023	2022
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Shares held by the ESOP include the following:				
Allocated	—	—	58,592	39,186
Committed to be allocated	39,186	19,593	—	—
Unallocated	352,682	372,275	333,088	352,682
Total	391,868	391,868	391,680	391,868

The fair value of unallocated shares was approximately \$5.34.6 million and \$5.05.3 million at December 31, 2022 December 31, 2023 and 2021, 2022, respectively.

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#### Equity Plan:

On September 21, 2022, the Company's stockholders approved the TC Bancshares, Inc. 2022 Equity Incentive Plan ("Equity Plan"), which authorizes the issuance of up to 700,000 shares of the Company's common stock. This plan allows for the grant of stock options, restricted stock awards and other equity awards to its officers, employees, directors, advisors and consultants.

Stock options time-vest over a five four year period and have been fair valued as of the date of the grant. A summary of stock option activity for the year years ended December 31, 2022 December 31, 2023 and 2022 is presented below:

	2022		2023		2022	
	Number of Options	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Grant Date Fair Value	Number of Options	Weighted Average Grant Date Fair Value
Stock Options						
Outstanding at beginning of year	—	—	357,510	\$ 4.08	—	—
Granted	357,510	\$ 5.06	—	—	357,510	\$ 4.08
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Outstanding at end of year	359,532	\$ 5.06	357,510	\$ 4.08	357,510	\$ 4.08

For the year years ended December 31, 2022, December 31, 2023 and 2022, the Company recognized \$226,000 and \$361,000, respectively, in compensation cost related to stock options, which is included in salaries and employee benefits expense for our associates and in other noninterest expense for our directors in the accompanying consolidated statements of income. At December 31, 2022 December 31, 2023, there was \$1.4 872,000 million of unrecognized compensation cost related to stock options, which is expected to be recognized over a period of 4 three years years..

The estimated fair value of stock options granted during the year ended December 31, 2022, was determined as of the date of the grant, using the Black-Scholes options pricing model, under the following assumptions:

2022

Average-risk-free interest rate	3.77	3.78 %
Expected life in years	7.50	6.00
Expected dividend yield	0.05	0.67 %
Expected stock volatility	20.89	21.60 %

Restricted stock awards time-vest over a five four year period and have been fair valued as of the date of the grant. A summary of restricted stock activity for the year years ended December 31, 2022 December 31, 2023 and 2022 is presented below:

	2022		2023		2022	
	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value	Number of shares	Weighted Average Grant Date Fair Value
Restricted Stock Awards						
Outstanding at beginning of year	—	—	123,992	\$ 14.85	—	—
Granted	156,590	\$ 14.85	—	—	156,590	\$ 14.85
Vested	(32,598)	14.85	(30,998)	14.85	(32,598)	14.85
Forfeited	—	—	—	—	—	—
Outstanding at end of year	123,992	\$ 14.85	92,994	\$ 14.85	123,992	\$ 14.85

For the year years ended December 31, 2022, December 31, 2023 and 2022, the Company recognized \$485,000 and \$465,000, respectively, in compensation cost related to restricted stock awards, which is included in salaries and employee benefits expense for our associates and in other noninterest expense for our directors in the accompanying consolidated statements of income. At December 31, 2022 December 31, 2023, there was \$1.9 1.4 million of unrecognized compensation cost related to restricted stock options awards, which is expected to be recognized over a period of 4 three years years The . For our associates, the terms of the restricted stock agreements permit the surrender of shares to the Company upon vesting in order to satisfy applicable tax withholding rates, burdens, and accordingly 6,175 and 5,568 shares were surrendered during 2022, 2023 and 2022, respectively.

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## NOTE 12 13 - FAIR VALUE MEASUREMENT

The Bank Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. From time to time, the Bank Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets. Additionally, the Bank Company is required to disclose, but not record, the fair value of other financial instruments.

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### Fair Value Hierarchy

The Bank Company groups assets at fair value in three levels, based on the markets in which the assets are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

*Assets Recorded at Fair Value on a Recurring Basis.* The table below presents the recorded amount of assets measured at fair value on a recurring basis as of December 31, 2022, December 31, 2023 and 2021, 2022, all of which consisted of investment securities available-for-sale:

	Level 1		Level 2		Level 3		Total	
	1		2		3		Total	
December 31, 2023:								
US treasuries	\$	—	\$	9,533,835	\$	—	\$	9,533,835
Mortgage-backed securities		—		9,412,836		—		9,412,836
Collateralized mortgage obligations		—		13,953,851		—		13,953,851
Municipal bonds		—		7,465,893				7,465,893
Corporate obligations		—		2,598,080		—		2,598,080
Investment securities available-for-sale	\$	—	\$	42,964,495	\$	—	\$	42,964,495
December 31, 2022:								
US treasuries	\$	—	\$	9,324,532	\$	—	\$	9,324,532
Mortgage-backed securities		—		8,732,033		—		8,732,033
Collateralized mortgage obligations		—		14,844,030		—		14,844,030
Municipal bonds		—		7,028,911		—		7,028,911
Corporate obligations		—		3,167,046		—		3,167,046
Investment securities available-for-sale	\$	—	\$	43,096,552	\$	—	\$	43,096,552
December 31, 2021:								
US treasuries	\$	—	\$	5,104,004	\$	—	\$	5,104,004
Mortgage-backed securities		—		10,369,291		—		10,369,291
Collateralized mortgage obligations		—		18,729,594		—		18,729,594

Municipal bonds	8,597,20	8,597,20
	1	1
Corporate obligations	2,831,54	2,831,54
	—	6
Investment securities available-	45,631,6	45,631,6
for-sale	\$ — \$ 36	\$ — \$ 36

*Assets Recorded at Fair Value on a Nonrecurring Basis.* The Bank may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with GAAP. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of **December 31, 2022** **December 31, 2023** and **2021: 2022:**

	Level 1	Level 2	Level 3	Total
December 31, 2023:				
Other real estate owned	\$ —	\$ —	\$ —	\$ —
Individually evaluated loans	—	—	623,301	623,301
	\$ —	\$ —	\$ 623,301	\$ 623,301
December 31, 2022:				
Other real estate owned	\$ —	\$ —	\$ 683,800	\$ 683,800
Impaired loans	—	—	—	—
	\$ —	\$ —	\$ 683,800	\$ 683,800
December 31, 2021:				
Other real estate owned	\$ —	\$ —	\$ 1,115,100	\$ 1,115,100
Impaired loans	—	—	—	—
	\$ —	\$ —	\$ 1,115,100	\$ 1,115,100

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The following tables show significant unobservable inputs used in the fair value measurement of Level 3 assets:

	Fair Value	Valuation Technique	Unobservable Inputs	Weighted Average Discount
December 31, 2023:				
Other real estate owned	\$ —	Third party appraisals and sales contracts	Collateral values, market discounts and estimated costs to sell	—

Individually evaluated loans					\$ 623,301	Third party appraisals and discounted cash flows	Collateral values, market discounts and estimated costs to sell	11 %
				Weighted Average Discount				
				Fair Value	Valuation Technique	Unobservable Inputs	Discount	
December 31, 2022:								
Other real estate owned			Collateral values, market discounts and estimated costs to sell					
	68,300	Third party appraisals and sales contracts	market discounts and estimated costs to sell	52 %	\$ 683,800	Third party appraisals and sales contracts	Collateral values, market discounts and estimated costs to sell	52 %
Impaired loans			Collateral values, market discounts and estimated costs to sell					
	\$ —	Third party appraisals and discounted cash flows	market discounts and estimated costs to sell	—	\$ —	Third party appraisals and discounted cash flows	Collateral values, market discounts and estimated costs to sell	—
December 31, 2021:								
Other real estate owned			Collateral values, market discounts and estimated costs to sell					
	11,500	Third party appraisals and sales contracts	market discounts and estimated costs to sell	22 %				

Impaired		Collateral	
loans	Third	values,	
	party	market	
	appraisa	discounts	
	ls and	and	
	discount	estimated	
	ed cash	costs to	
\$ —	flows	sell	—

The following methods and assumptions were used to estimate the fair value of each class of assets and liabilities either recorded or disclosed at fair value.

*Cash and Cash Equivalents.* The carrying value of cash and cash equivalents is a reasonable estimate of fair value.

*Certificates of deposit with other banks.* The carrying value of certificates of deposit with other banks is a reasonable estimate of fair value.

*Investment Securities Available-for-Sale.* Investment securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities and collateralized mortgage obligations issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets.

*Other Investments.* Other investments consist of FHLB and FRB stock whose carrying value approximates its fair value.

*Mortgage Loans Held for Sale.* The estimated fair value of mortgage loans held for sale, classified within Level 2, is approximated by the carrying value, given the short-term nature of the loans and similarly to what secondary markets are currently offering for portfolios of loans with similar characteristics.

*Loans.* The Bank Company does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and a specific allocation is established within the allowance for loan credit losses. Loans for which it is probable that payment of interest and/or principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment using one of three methods, including collateral value, market value of similar debt, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans in which an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, the Bank records the impaired loan as nonrecurring Level 2. When an appraised value is utilized or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the impaired loan as nonrecurring Level 3.

*Other Real Estate Owned.* Other real estate owned properties are adjusted to fair value less estimated selling costs upon transfer of the loans to other real estate owned. Subsequently, other real estate owned assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value is based on an observable market price, the Bank records the other real estate owned as nonrecurring Level 2. When the fair value is based on an appraised value, or when an appraised value is not available, the Bank records the other real estate owned asset as nonrecurring Level 3.

*Bank Owned Life Insurance.* The carrying value of Bank Owned Life Insurance approximates fair value.

*Commitments to Extend Credit.* Commitments to extend credit are short-term and, therefore, the carrying value and the fair value are considered immaterial for disclosure.

*Deposits.* The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of savings accounts approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered to a schedule of aggregated expected maturities of time deposits.

*Federal Home Loan Bank Advances.* Federal Home Loan Bank advances are carried at cost and the fair value is obtained from the Federal Home Loan Bank of Atlanta.

The carrying amounts and estimated fair values of the Bank's financial instruments as of **December 31, 2022**, **December 31, 2023** and **2021**, **2022** are as follows:

	Fair Value Measurements at December 31, 2022					Fair Value Measurements at December 31, 2023				
	Carrying Amount	Total	Level 1	Level 2	Level 3	Carrying Amount	Total	Level 1	Level 2	Level 3
<b>Financial assets:</b>										
Cash and cash equivalents	25,545,872	25,545,872	25,545,872			\$ 25,039,214	\$ 25,039,214	\$ 25,039,214	\$ —	\$ —
Certificates of deposit with other banks	1,739,000	1,739,000	1,739,000			—	—	—	—	—
Investment securities available-for-sale	43,096,552	43,096,552		43,096,552		42,964,495	42,964,495	—	42,964,495	—
Other investments	1,377,500	1,377,500		1,377,500		1,629,150	1,629,150	—	1,629,150	—
Mortgage loans held for sale	2,085,099	2,085,099		2,085,099		289,111	289,111	—	289,111	—
	334,138	318,195			318,195					
Loans, net	871,000	—	—	—	000					



Loans, net of deferred fees						376,899,968	366,563,968	—	—	366,563,968
	11,4	11,4	11,4							
Bank owned life insurance	42,6	42,6	42,6			11,729,019	11,729,019	11,729,019	—	—
	53	53	53	—	—					
Financial liabilities:										
	328,	327,	239,		87,8					
	840,	148,	334,		14,0	369,868,794	369,191,794	258,915,942	—	110,275,852
Deposits	232	834	834	—	00					
	11,0	10,9			10,9					
FHLB advances	00,0	53,0			53,0	11,000,000	11,068,109	—	—	11,068,109
	00	00	—	—	00					

	Fair Value Measurements at December 31, 2021					Fair Value Measurements at December 31, 2022				
	Carrying Amount	Total	Level 1	Level 2	Level 3	Carrying Amount	Total	Level 1	Level 2	Level 3
Financial assets:										
Cash and cash equivalents	41,8 \$ 90,8	41,8 \$ 90,8	41,8 \$ 90,8	— \$ —	— \$ —	25,545,872 \$	25,545,872 \$	25,545,872 \$	— \$	— \$
	31	31	31							
Certificates of deposit with other banks	3,45 1,00 0	3,45 1,00 0	3,45 1,00 0	—	—	1,739,000	1,739,000	1,739,000	—	—
Investment securities available-for-sale	45,6 31,6 36	45,6 31,6 36	—	45,631 ,63 6	—	43,096,552	43,096,552	—	43,096,552	—
Other investments	190,700	190,700	—	190,700	—	1,377,500	1,377,500	—	1,377,500	—
Mortgage loans held for sale	2,84 4,70 7	2,84 4,70 7	—	2,844,707	—	2,085,099	2,085,099	—	2,085,099	—
Loans, net	266,304,448	274,168,000	—	—	274,168,000					
Loans, net of deferred fees						338,501,049	318,195,000	—	—	318,195,000
Bank owned life insurance	11,1 66,5 73	11,1 66,5 73	11,1 66,5 73	—	—	11,442,653	11,442,653	11,442,653	—	—

Financial liabilities:										
	289,	289,	216,		72,4					
Deposits	316,	267,	786,	—	81,0	329,128,253	327,436,855	239,622,855	—	87,814,000
	708	454	454		00					
FHLB advances	—	—	—	—	—	11,000,000	10,953,000	—	—	10,953,000

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in assumptions could significantly affect these estimates.

#### NOTE 13 14 – STOCKHOLDERS' EQUITY AND CHANGE IN CORPORATE FORM EARNINGS PER SHARE

##### Stockholders' Equity:

On August 4, 2022, the Company announced a program the first of two programs to repurchase up to 250,000 shares of the Company's common stock stock. The second repurchase program was announced on June 27, 2023. Then on December 15, 2023, a third plan to repurchase up to 450,000 shares of the Company's outstanding shares was announced. Shares may be repurchased in on the open market or through private transactions or pursuant to any trading plan that may be adopted in accordance with Rule 10b5-1 of the Securities and Exchange Commission. The timing and amount of any repurchases will depend depends on a number of factors including the availability of stock, general market conditions, the trading price of the stock, alternative uses for capital, and the Company's financial performance. During 2022, 75,172 shares of the Company's common stock had been repurchased at an average price of \$14.44. During 2023, an additional 506,358 shares of the Company's common stock have been repurchased at an average price of \$14.26 and subsequently retired prior to December 31, 2023. Additionally, during 2023, the Company retired the 75,172 shares previously repurchased during 2022 that were held in treasury stock as of December 31, 2022.

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##### Earnings per Share:

Earnings per common share was computed based on the following:

	2022	2021	2023	2022
Numerator:				
Income applicable to common shares	\$ 1,760,413	\$ 1,159,598	\$ 265,825	\$ 1,760,413
Denominator:				
Weighted average common shares outstanding	4,880,723	4,371,646	4,783,618	4,880,723
Effect of dilutive securities:				
Restricted stock			12,870	—
Stock options	1,200	—	—	1,200

Weighted average common shares outstanding - assuming dilution	4,881,923	4,371,646	4,796,488	4,881,923
Earnings per common share	\$ 0.36	\$ 0.27	\$ 0.06	\$ 0.36
Earnings per common share - assuming dilution	\$ 0.36	\$ 0.27	\$ 0.06	\$ 0.36

For the year December 31, 2022, earnings per share is calculated for the full year. For the year December 31, 2021, earnings per share is calculated for the period that the Company's shares of common stock were outstanding (July 20, 2021 through December 31, 2021). The net earnings for this period was approximately \$1,200,000 and the weighted average shares outstanding were 4,371,646.

#### *Change in Corporate Form:*

The Bank converted to the stock form of ownership, followed by the issuance of all of the Bank's outstanding stock to the Company (the "Conversion"). The Bank became the wholly owned subsidiary of the Company, and the Company issued and sold shares of its capital stock pursuant to an independent valuation appraisal of the Bank and the Company. The stock was priced at \$10.00 per share. In addition, the Bank's board of directors adopted an employee stock ownership plan ("ESOP") which subscribed for 8% of the common stock sold in the offering. The Conversion was completed on July 20, 2021 and resulted in the issuance of 4,898,350 common shares by the Company, of which 391,868 were issued to the ESOP. The cost of the Conversion and issuing the capital stock totaled \$1.5 million and was deducted from the proceeds of the offering.

In accordance with OCC regulations, at the time of the Conversion, the Bank substantially restricted retained earnings by establishing a \$42.0 million liquidation account. The liquidation account will be maintained for the benefit of eligible account holders who continue to maintain their accounts at the Bank after the Conversion. The liquidation account will be reduced annually to the extent that eligible holders have reduced their qualifying deposits. Subsequent increases will not restore an eligible account holder's interest in the liquidation account. In the event of a complete liquidation by the Bank, and only in such event, each eligible account holder will be entitled to receive a distribution from the liquidation account in an amount proportionate to the adjusted qualifying account balances then held. The Bank may not pay dividends if those dividends would reduce equity capital below the required liquidation account amount.

The Conversion was accounted for as a change in corporate form with the historic basis of the Bank's assets, liabilities and equity unchanged as a result.

Stock offering expenses totaled \$1,523,443, which were deducted from the proceeds from the sale of common stock.

#### **NOTE 1415 – CONDENSED FINANCIAL STATEMENTS OF PARENT COMPANY**

Financial information pertaining to TC Bancshares Inc. only is as follows:

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CONDENSED  
BALANCE SHEETS

December 31, 2022  
December 31, 2021  
(Dollars in thousands)

CONDENSED BALANCE SHEETS

December 31,  
2023      December 31, 2022

(Dollars in thousands)

ASSETS

[illegible]

[illegible]

Total liabilities	\$ 88,556,622	\$ 88,556,622
Total stockholders' equity	\$ 79,858,244	\$ 85,622,444
Total liabilities and stockholders' equity	\$ 168,414,866	\$ 174,179,066

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CONDENSED  
STATEMENTS OF  
INCOME  
  
For the  
Year  
Ended  
December 31,  
2022  
  
(Dollars  
in  
thousands)

CONDENSED STATEMENTS OF INCOME

For the Year Ended

December 31,  
2023      December 31, 2022

(Dollars in thousands)



I N C O M E	INCOME									
I N T E R E S T I N C O M E	Interest income									
E X P E N S E	EXPENSE									
O T H E R E X P E N S E	Other expense									
( )	(Loss) Income before income tax expense and equity in undistributed net income of TC Federal									
L O S S	Bank									
I N C O M E										
E X P E N S E										
I N C O M E										
E X P E N S E										

tax expense provisions and equity in undistributed net income of TCF Federal Bank



Equity in undistributed net income of TC Federal Bank	1,903	374
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N e t i n c o m e	1 2 , 6 4 e\$1	\$0	Net income		\$	266	\$	1,761
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CONDENSED STATEMENTS OF CASH FLOW			
		For the Year Ended	
		December 31, 2022	December 31, 2021
		(Dollars in thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$	1,761	\$ 2,640
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Undistributed net income of TC Federal Bank		(1,903)	(2,626)
ESOP expense		240	266
Amortization of unearned compensation associated with restricted stock		465	—
Stock based compensation		361	—
Decrease (increase) in other assets		93	(3,735)
Increase in other liabilities		316	28
Net cash provided by (used in) operating activities		1,333	(3,427)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Capital contribution to TC Federal Bank		(1,067)	(20,260)
Net cash used in investing activities		(1,067)	(20,260)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from sale of common stock		—	48,984
Dividends		(497)	—
Purchase of common stock		(1,085)	—
Repurchase of stock for tax obligation on restricted shares		(83)	—
Stock offering expenses		—	(1,523)
Common stock purchased by ESOP		—	(3,919)
Net cash (used in) provided by financing activities		(1,665)	43,542
Net (decrease) increase in cash		(1,399)	19,855
Cash at beginning of year		19,855	—

Cash at end of year	\$	18,456	\$	19,855
CONDENSED STATEMENTS OF CASH FLOW				
	For the Year Ended			
	December 31, 2023		December 31, 2022	
	(Dollars in thousands)			
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net income	\$	266	\$	1,761
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Undistributed net income of TC Federal Bank		(374)		(1,903)
ESOP expense		271		240
Stock based compensation		711		827
Decrease in other assets		151		93
(Decrease) increase in other liabilities		(121)		316
Net cash provided by operating activities		904		1,334
CASH FLOWS FROM INVESTING ACTIVITIES:				
Capital contribution to TC Federal Bank		(981)		(1,067)
Net cash used in investing activities		(981)		(1,067)
CASH FLOWS FROM FINANCING ACTIVITIES:				
Dividends		(463)		(497)
Purchase of common stock		(6,063)		(1,085)
Repurchase of stock		(1,242)		(83)
Net cash used in financing activities		(7,768)		(1,665)
Net decrease in cash		(7,845)		(1,399)
Cash at beginning of year		18,456		19,855
Cash at end of year	\$	10,611	\$	18,456

**Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.**

None.

**Item 9A. Controls and Procedures.****Disclosure Controls and Procedures**

Under the supervision and with the participation of our management, including our Principal Executive Officer and Principal Financial Officer, we evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based upon that evaluation, the Principal Executive Officer and Principal Financial Officer concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management’s Annual Report on Internal Control Over Financial Reporting

The annual report does not include a report of management's assessment regarding internal control over financial reporting or an attestation report of the Company's registered public accounting firm due to a transition period established by rules of the SEC for newly public companies.

Changes in Internal Control Over Financial Reporting

There has been no change in the Company's internal control over financial reporting during the quarter ended December 31, 2022 December 31, 2023, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. As an emerging growth company, management's report is not subject to attestation by the Company's registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information.

None.

Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections.

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance.

The information required by this Item 10 will be set forth in the definitive Proxy Statement for the Company's 2022 2023, annual meeting of stockholders (the "Proxy Statement") to be filed with the SEC in advance of such meeting.

Item 11. Executive Compensation.

The information required by this Item 11 will be set forth in the Proxy Statement to be filed with the SEC.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The information required by this Item 12 will be set forth in the Proxy Statement to be filed with the SEC.

	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) (1)	Weighted average exercise price of outstanding options, warrants and rights (b) (2)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Plan Category			

Equity compensation plans approved by security holders	481,502	\$14.85	185,900
Equity compensation plans not approved by security holders	--	--	--
Total at December 31, 2022	481,502	14.85	185,900

<sup>(1)</sup> Includes 123,992 shares potentially issuable upon the vesting of outstanding restricted stock.

<sup>(2)</sup> The weighted average exercise price relates only to the exercise of outstanding options included in column (a).

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	357,510	\$14.85	185,900
Equity compensation plans not approved by security holders	--	--	--
Total at December 31, 2023	357,510	14.85	185,900

#### Item 13. Certain Relationships and Related Transactions, and Director Independence.

The information required by this Item 13 will be set forth in the Proxy Statement to be filed with the SEC.

#### Item 14. Principal Accountant Fees and Services.

The information required by this Item 14 will be set forth in the Proxy Statement to be filed with the SEC.

### PART IV

#### Item 15. Exhibits and Financial Statement Schedules.

(a)(1) The following consolidated financial statements are located in Item 8 of this report:

<a href="#">Report of Independent Registered Public Accounting Firm</a>	55 56
<a href="#">Consolidated Balance Sheets as of December 31, 2022 and 2021</a>	57 58
<a href="#">Consolidated Statements of Income for the years ended December 31, 2022 and 2021</a>	58 59
<a href="#">Consolidated Statements of Comprehensive Income for the years ended December 31, 2022 and 2021</a>	59 60
<a href="#">Consolidated Statements of Changes in Equity for the years ended December 31, 2022 and 2021</a>	60 61
<a href="#">Consolidated Statements of Cash Flows for the years ended December 31, 2022 and 2021</a>	61 62
<a href="#">Notes to Consolidated Financial Statements</a>	62- 63-92



(2) Exhibits.

The exhibits required to be filed with this report by Item 601 of Regulation S-K are set forth in the Exhibit Index below.

## Exhibit Index

b)Exhibits:

**Posted**

**Exhibit**

**Number**

**Description**

2.1	<a href="#">Plan of Conversion of TC Federal Bank as Adopted by the Board of Directors on March 5, 2021 (incorporated by reference to Exhibit 2 of the Company's Registration Statement on Form S-1 (Registration No. 333-254212) filed March 12, 2021).</a>
3.1	<a href="#">Articles of Incorporation of TC Bancshares, Inc. (incorporated by reference to Exhibit 3.1 of the Company's Registration Statement on Form S-1 (Registration No. 333-254212) filed March 12, 2021).</a>
3.2	<a href="#">Amended and Restated Bylaws of TC Bancshares, Inc. (incorporated herein by reference to Exhibit 3.1 of the Company's Form 8-K filed June 22, 2021).</a>
4.1	<a href="#">Form of Common Stock Certificate of TC Bancshares, Inc. (incorporated by reference to Exhibit 4 of the Company's Registration Statement on Form S-1 (Registration No. 333-254212) filed March 12, 2021).</a>
4.2	<a href="#">Description of TC Bancshares, Inc.'s Securities. (incorporated by reference to Exhibit 4.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021)</a>
10.1	<a href="#">Directors Deferred Compensation Plan. (incorporated by reference to Exhibit 10.1 of the Company's Amendment No. 1 to Registration Statement on Form S-1/A (Registration No. 333-254212) filed April 23, 2021)†</a>
10.2	<a href="#">Amended and Restated Employment Agreement with G.H. Eiford. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed January 31, 2023)†</a>
10.3	<a href="#">Employment Agreement with Nat Higdon (incorporated by reference to Exhibit 10.5 to the Company's Annual Report on Form 10-K for the year ended December 31, 2021)†</a>
10.4	<a href="#">Employment Agreement with S. McLean. (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed May 22, 2023)</a>
10.5	<a href="#">Supplemental Executive Retirement Plan with G.H. Eiford (incorporated by reference to Exhibit 10.6 of the Company's Amendment No. 1 to Registration Statement on Form S-1/A (Registration No. 333-254212) filed April 23, 2021). †</a>
10.5 10.6	<a href="#">Supplemental Executive Retirement Plans with N. Higdon (incorporated by reference to Exhibit 10.8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021)†</a>
10.6	<a href="#">Supplemental Executive Retirement Plan with L. Palmer (incorporated by reference to Exhibit 10.9 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021)†</a>

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10.7	<a href="#">Form of Split Dollar Agreement (Incorporated by reference to Exhibit 10.8 of the Company's Amendment No. 1 to Registration Statement on Form S-1/A (Registration No. 333-254212) filed April 23, 2021)†</a>
10.8	<a href="#">TC Bancshares, Inc. 2022 Equity Incentive Plan (incorporated by reference to Appendix A of the Company's Proxy Statement in Schedule 14A filed on August 5, 2022)†</a>

10.9 [Form of Award Agreement for Stock Options \(incorporated by reference to Exhibit 4.5 of the Company's Registration Statement on Form S-8 \(No. 333-269024\)\)](#)†

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10.10 [Form of Award Agreement for Restricted Stock \(incorporated by reference to Exhibit 4.6 of the Company's Registration Statement on Form S-8 \(No. 333-269024\)\)](#)†

21 [List of Subsidiaries \(incorporated by reference to Exhibit 21 of the Company's Annual Report on Form 10-K for the year ended December 31, 2021\)](#)

23.1 [Consent of Wipfli\\*](#)

31.1 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Executive Officer \\*](#)

31.2 [Rule 13a-14\(a\)/15d-14\(a\) Certification of Principal Financial Officer\\*](#)

32 [Section 1350 Certification of the Principal Executive Officer and Principal Financial Officer\\*](#)

97 [Policy relating to recovery of erroneously awarded compensation\\*](#)

101 Interactive data files pursuant to Rule 405 of Regulation S-T: (i) Consolidated Balance Sheets as of December 31, 2022 and December 31, 2021, (ii) Consolidated Statements of Income for the two-year period ended December 31, 2022, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Change in Equity for the two-year period ended December 31, 2022, (v) Consolidated Statements of Cash Flows for the two-year period ended December 31, 2022, and (vi) the Notes to Consolidated Financial Statements with detail tagging.\*

104 The cover page from this Annual Report on Form 10-K, formatted in inline XBRL.\*

\* Filed herewith.

† Management contract or compensation plan or arrangement.

#### Item 16. Form 10-K Summary

None.

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#### SIGNATURES

Pursuant to the requirements of Section 13 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.

TC BANCSHARES, INC.

Date: March 23, 2023 March 22, 2024

By: /s/ Gregory H. Eiford

**Gregory H. Eiford**  
**Principal Executive Officer**

#### POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Gregory H. Eiford, or his attorneys-in-fact, for such person in any and all capacities, to sign any amendments to this report and to file the same, with exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that either of said attorneys-in-fact, or substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this Report has been signed below by the following persons on behalf of the Registrant in the capacities and on the dates indicated.

Name	Title	Date
/s/ Gregory H. Eiford Gregory H. Eiford	President, Chief Executive Officer, Principal Executive Officer	March 23, 2023 March 22, 2024
/s/ Linda Palmer Scott C. McLean Linda Palmer Scott C. McLean	Executive Vice President, Chief Financial Officer, Principal Financial and Accounting Officer	March 23, 2023 March 22, 2024
/s/ G. Matthew Brown G. Matthew Brown	Director	March 23, 2023 March 22, 2024
/s/ Joshua Travis Bryant Joshua Travis Bryant	Director	March 23, 2023 March 22, 2024
/s/Peter A. DeSantis, III Peter A. DeSantis, III	Director	March 23, 2023 March 22, 2024
/s/Charles M. Dixon Charles M. Dixon	Director	March 23, 2023 March 22, 2024
/s/ Jefferson L. Johnson Jefferson L. Johnson	Director	March 23, 2023 March 22, 2024
/s/Fortson T. Rumble Fortson T. Rumble	Director	March 23, 2023 March 22, 2024
/s/Stephanie B. Tillman Stephanie B. Tillman	Chairman of the Board	March 23, 2023 March 22, 2024

## CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the registration statement on Form S-8 (File No. 333-269024) of our report, dated **March 23, 2023** **March 22, 2024**, relating to the consolidated financial statements of TC Bancshares, Inc., which appear in TC Bancshares, Inc.'s Annual Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023**.

/s/ WIPFLI LLP

Atlanta, Georgia

March **23, 2023** **22, 2024**

Exhibit 31.1

### CERTIFICATION PURSUANT TO RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Gregory H. Eiford, certify that:

1. I have reviewed this Report on Form 10-K for the year ended **December 31, 2022** **December 31, 2023** of TC Bancshares, Inc.;
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 statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respect 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(s) 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 the registrant, 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.

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 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(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, 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:

March 23, 2023 March 22, 2024

By:

/s/ Gregory H. Eiford

Gregory H. Eiford

Chief Executive Officer, President and Principal Executive Officer

Exhibit 31.2

**CERTIFICATION PURSUANT TO  
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,  
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Linda Palmer, Scott C. McLean, certify that:

- 1. I have reviewed this Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 of TC Bancshares, Inc.;
- 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(s) 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 the registrant's 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 ensure that material information required to be disclosed by the registrant in its financial reports is recorded, processed, summarized and reported within the time period specified in the applicable securities exchange act.

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(s) 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: March 23, 2023 March 22, 2024

By: /s/ Linda Palmer Scott C. McLean  
Linda Palmer Scott C. McLean  
Chief Financial Officer and Principal Financial Officer

Exhibit 32

## CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

### PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (18 U.S.C. Section 1350), the undersigned officers of TC Bancshares, Inc. (the "Company"), hereby certify that the Company's Annual Report on Form 10-K for the year ended December 31, 2022 December 31, 2023 as filed with the Securities and Exchange Commission on the date hereof (the "Report") that:

- (1) the Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 23, 2023 March 22, 2024

By: /s/ Gregory H. Eiford  
Gregory H. Eiford  
Chief Executive Officer, President and Principal Executive Officer

Date: March 23, 2023 March 22, 2024

By: /s/ Linda Palmer Scott C. McLean  
Linda Palmer Scott C. McLean  
Chief Financial Officer and Principal Financial Officer

**TC BANCSHARES, INC.****Incentive Compensation Recovery Policy (the "Policy")**

**1. Recovery of Excess Incentive Compensation.** If TC Bancshares, Inc. (the "Company") is required to prepare a Restatement, the Company's board of directors (the "Board") shall, unless the Board's Compensation Committee determines it to be Impracticable, take reasonably prompt action to recover all Recoverable Compensation from any Covered Person. The Company's obligation to recover Recoverable Compensation is not dependent on if or when the restated financial statements are filed. Subject to applicable law, the Board may seek to recover Recoverable Compensation by requiring a Covered Person to repay such amount to the Company; by adding "holdback" or deferral policies to incentive compensation; by adding post-vesting "holding" or "no transfer" policies to equity awards; by set-off of a Covered Person's other compensation; by reducing future compensation; or by such other means or combination of means as the Board, in its sole discretion, determines to be appropriate. This Policy is in addition to (and not in lieu of) any right of repayment, forfeiture or off-set against any Covered Person that may be available under applicable law or otherwise (whether implemented prior to or after adoption of this Policy). The Board may, in its sole discretion and in the exercise of its business judgment, determine whether and to what extent additional action is appropriate to address the circumstances surrounding any Restatement to minimize the likelihood of any recurrence and to impose such other discipline as it deems appropriate.

**2. Administration of Policy.** The Board shall have full authority to administer, amend or terminate this Policy. The Board shall, subject to the provisions of this Policy, make such determinations and interpretations and take such actions in connection with this Policy as it deems necessary, appropriate or advisable. All determinations and interpretations made by the Board shall be final, binding and conclusive. The Board may delegate any of its powers under this Policy to the Compensation Committee of the Board or any subcommittee or delegate thereof.

**3. Acknowledgement by Executive Officers.** The Board shall provide notice to and seek written acknowledgement of this Policy from each Executive Officer; provided that the failure to provide such notice or obtain such acknowledgement shall have no impact on the applicability or enforceability of this Policy.

**4. No Indemnification.** Notwithstanding the terms of any of the Company's organizational documents, any corporate policy or any contract, no Covered Person shall be indemnified against the loss of any Recoverable Compensation.

**5. Disclosures.** The Company shall make all disclosures and filings with respect to this Policy and maintain all documents and records that are required by the applicable rules and forms of the U.S. Securities and Exchange Commission (the "SEC") (including, without limitation, Rule 10D-1 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) and any applicable Exchange listing standard.

**6. Definitions.** In addition to terms otherwise defined in this Policy, the following terms, when used in this Policy, shall have the following meanings:

**"Applicable Period"** means the three completed fiscal years preceding the earlier to occur of: (i) the date that the Board, a committee of the Board, or the officer or officers of the Company authorized to take such action if Board action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare a Restatement; or (ii) the date a court, regulator, or other legally authorized body directs the Company to prepare a Restatement. "Applicable Period" also includes, in addition to the three fiscal year period described in the preceding sentence, any transition period (that results from a change in the Company's fiscal year) within or immediately following that completed three fiscal year period; *provided, further*, a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to 12 months would be deemed a completed fiscal year.

**"Covered Person"** means any person who receives Recoverable Compensation.

**“Exchange”** means any national securities exchange or national securities association upon which the Company has a class of securities listed.

**“Executive Officer”** includes the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit,

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division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person (including any executive officer of the Company's subsidiaries or affiliates) who performs similar policy-making functions for the Company. At a minimum, the term “Executive Officer” shall include all executive officers identified in SEC filings pursuant to Item 401(b) of Regulation S-K, 17 C.F.R. §229.401(b).

**“Financial Reporting Measure”** means a measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part (including “non-GAAP” financial measures, such as those appearing in earnings releases) from such measures; provided, however, that any such measure need not be presented within the Company's financial statements or included in a filing made with the SEC. Examples of Financial Reporting Measures include measures based on: revenues, net income, operating income, financial ratios, liquidity measures, return measures (such as return on average assets or return on average tangible capital), and cost per employee. Stock price and total shareholder return (“TSR”) also are Financial Reporting Measures.

**“Impracticable”** means, after exercising a normal due process review of all the relevant facts and circumstances and taking all steps required by Exchange Act Rule 10D-1 and any applicable Exchange listing standard, the Compensation Committee determines that recovery of the Recoverable Compensation is impracticable because: (i) it has determined that the direct expense that the Company would pay to a third party to assist in enforcing this Policy and recovering the otherwise Recoverable Compensation would exceed the amount to be recovered; (ii) it has concluded that the recovery of the Recoverable Compensation would violate home country law adopted prior to November 28, 2022; or (iii) it has determined that the recovery of the Recoverable Compensation would cause a tax-qualified retirement plan, under which benefits are broadly available to the Company's employees, to fail to meet the requirements of 26 U.S.C. 401(a)(13) or 26 U.S.C. 411(a) and regulations thereunder. The Company must: (i) in the case of clause (i) of the preceding sentence, prior to making that determination, make a reasonable attempt to recover any Recoverable Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Exchange; and (ii) in the case of clause (ii) of the preceding sentence, obtain an opinion of home country counsel, acceptable to the Exchange, that recovery would result in such a violation, and provide that opinion to the Exchange.

**“Incentive-Based Compensation”** means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure; however it does not include: (i) base salaries; (ii) discretionary cash bonuses; (iii) awards (either cash or equity) that are based upon subjective, strategic or operational standards; and (iv) equity awards that vest solely on the passage of time.

**“Received”** – Incentive-Based Compensation is deemed “Received” in any Company fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

**“Recoverable Compensation”** means all Incentive-Based Compensation (calculated on a pre-tax basis) Received after August 10, 2023, by a Covered Person: (i) after beginning service as an Executive Officer; (ii) who served as an Executive Officer at any time during the performance period for that Incentive-Based Compensation; (iii) while the Company had a class of securities listed on an Exchange; and (iv) during the Applicable Period, that exceeded the amount of Incentive-Based Compensation that otherwise would have been Received had the amount been determined based on the Financial Performing Measures, as reflected in the Restatement. With respect to Incentive-Based Compensation based on stock price or TSR, when the amount of erroneously awarded compensation is not subject to mathematical recalculation directly from the information in an accounting restatement: (i) the amount must be based on a reasonable estimate of the effect of the Restatement on the stock price or TSR upon which the Incentive-Based Compensation Received by the



Covered Person originally was based; and (ii) the Company must maintain documentation of the determination of the reasonable estimate and provide such documentation to the Exchange.

**“Restatement”** means an accounting restatement of any of the Company's financial statements due to the Company's material noncompliance with any financial reporting requirement under U.S. securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements (often referred to as a “Big R” restatement), or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period (often referred to as a “little r” restatement). A Restatement does not include situations in which financial statement changes did not result from material non-compliance with financial reporting requirements, such as, but not limited to retrospective: (i) application of a change in accounting principles; (ii) revision to reportable segment information due to a change in the structure of the Company's internal

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organization; (iii) reclassification due to a discontinued operation; (iv) application of a change in reporting entity, such as from a reorganization of entities under common control; (v) adjustment to provision amounts in connection with a prior business combination; and (vi) revision for stock splits, stock dividends, reverse stock splits or other changes in capital structure.

Adopted by the Board of Directors on August 16, 2023

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