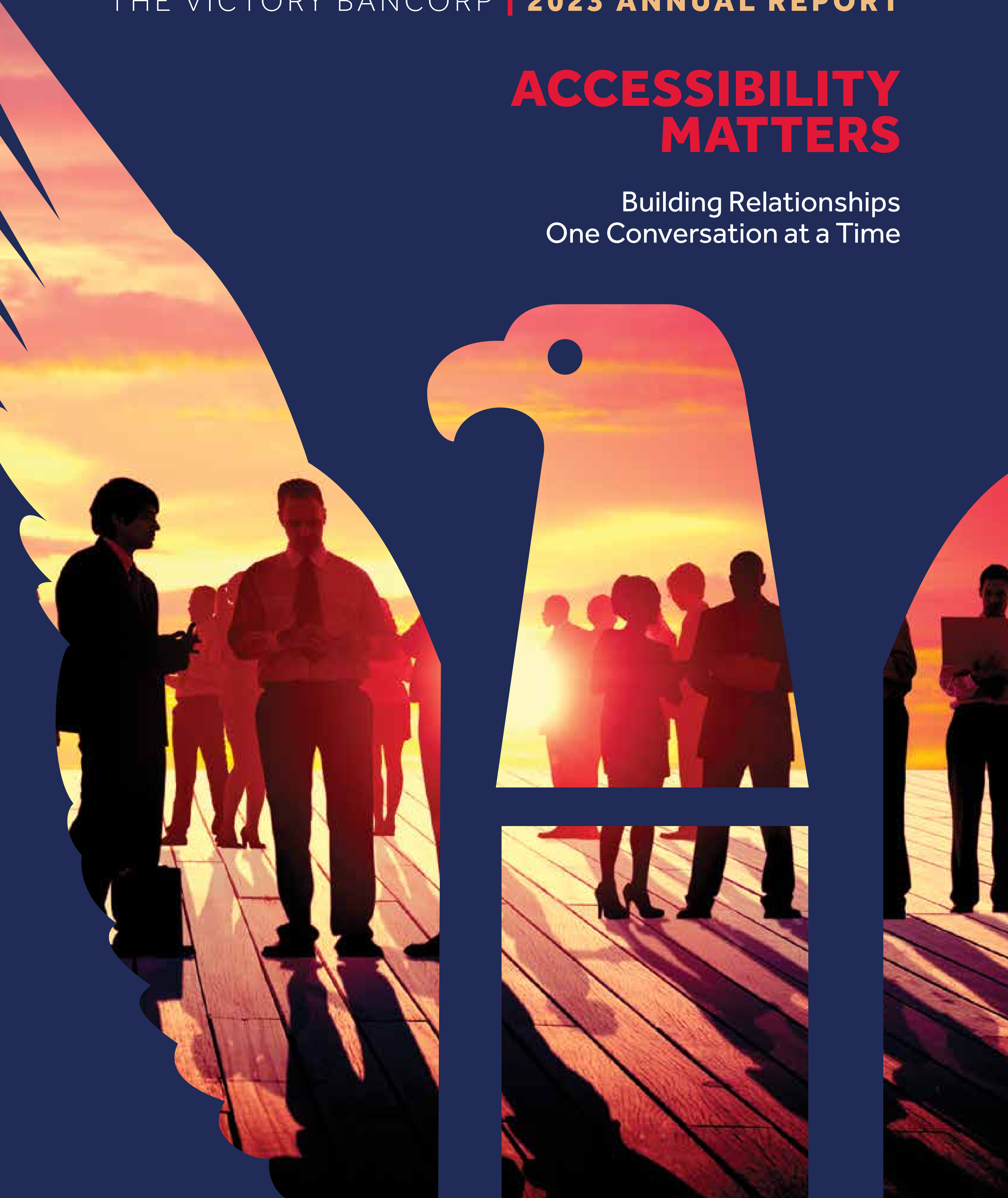
THE VICTORY BANCORP | **2023 ANNUAL REPORT**

ACCESSIBILITY MATTERS

Building Relationships
One Conversation at a Time



THE VICTORY BANK

STATEMENT OF PURPOSE

We exist to help our clients fulfill their visions and dreams.

OUR VALUES

Extraordinary Personal Service

- We deliver professional financial advice and good value in a convenient and highly responsive manner. Every contact is an opportunity to help our clients feel important and satisfied.

Respect for All, Teamwork and a Great Working Environment

- We believe that happiness and job satisfaction are integral parts of business success. We strive to make The Victory Bank the employer of choice for an exclusive team of professionals who joyfully seek purpose in their work and are fully engaged in the pursuit of excellence.
- We conduct ourselves with respect and tolerance for all, regardless of age, disability, gender, race, sexual preference, economic status, religion or political views.
- We recognize and celebrate the importance and power of teamwork, where individual recognition is secondary to working in a collaborative way in pursuit of common goals.
- We willingly accept the responsibilities of leadership. We consistently model and teach our core values, and gauge our effectiveness through the positive changes that we create.

Candor, Credibility and Integrity

- We communicate openly, honestly and directly, regardless of title or position. We do not pollute our work environment with gossip and negativity.
- Our decisions and actions consider the long-term best interests of our clients, team members, communities and shareholders.
- We deliver what we promise.
- We do what is ethically right. Business relationships must provide good value to our clients, and be fair and profitable to the Bank.
- Our values stand the challenges of business, and the tests of time. We do not compromise our values for personal or corporate gain.

Accountability and Efficiency

- We hold ourselves accountable to do our jobs well, and are relentlessly committed to excellence.
- We plan our work, set clear goals, and think systematically about the long- term implications of our decisions.
- We operate efficiently and without waste.

Innovation, Adaptation and Learning

- We are stewards of our team's collective talents and capabilities, committed to helping all team members reach their ultimate potential.
- We must always be in a state of growth, adapting to an evolving world through the improvement of our knowledge, processes and systems. We recognize those individuals who innovate and challenge the status quo.
- Mistakes are viewed as opportunities to learn and improve, and when things go wrong, we focus on solutions rather than blame.

Perfection is our inspiration.

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FROM THE CHAIRMAN

MARKET CONDITIONS AND THE ECONOMY

In 2023, the Banking industry set sail on a stormy ocean of negativity. Virtually all of the economists were predicting the start of an economic recession; inflation was high, driven by the nation's response to the COVID 19 pandemic (which included stimulus checks, loan deferrals and PPP business lending), and the mood of the American consumer was decidedly negative. Banks were "hunkering down," building reserves and projecting meager loan activity and poor returns. To get inflation under control, the Federal Reserve Bank pushed interest rates upward at unprecedented speed, and during the first quarter of 2023, three large banks unexpectedly became insolvent, adding to the general gloom surrounding the banking industry.

Throughout the year, short-term borrowing costs and the costs of deposits moved up rapidly, notably diminishing bank margins and profits. Despite

this, bank credit quality remained strong and the predicted recession never happened, with unemployment remaining at historic lows and consumers experiencing real wage growth. Increased mortgage rates made residential real estate lending more difficult, yet home prices and rents continued to climb because of housing shortages in certain markets, including Southeast Pennsylvania. Despite the good news of a falling inflation rate and real wage growth, the overall mood of consumers remained gloomy.

"The Bank enjoyed another strong year in lending."

2023 FINANCIAL HIGHLIGHTS

Loans and Credit Quality

The Bank had no loan charge-offs for 2023, and enjoyed another strong year in lending, closing $133 million in loans, and growing the loan portfolio, net of loan loss reserves, from $327 million to $364 million, or 11%. Overall yields on the loan portfolio were 6.32% at year-end 2023, an increase of 9% from 5.82% at the prior year-end. Because of loan growth, loan loss reserves were increased from $3.275 million to $3.444 million. In addition, the Bank enhanced its lending staff with several new hires, and the "pipeline" of loans under consideration reached an all-time high of $68 million during the 4th quarter of 2023.

"The Bank continued to maintain a strong liquidity position."

Deposits

Deposits were volatile and expensive, as much of the "pandemic boom" of excess bank deposits continued to run-off. Total deposits decreased from $380 million at year-end 2022 to $364 million at year-end 2023, although the total number of deposit accounts increased by approximately 11% during this period. The Bank's average cost on interest bearing deposits increased markedly, from .87% in 2022 to 3.34% in 2023, putting considerable pressure on margins and profits.

Liquidity

Despite modest deposit run-off, the Bank continued to maintain a strong liquidity position. To supplement funding and build loan growth, the Bank maintained borrowing capacity of $217 million, primarily from the Federal Home Loan Bank of Pittsburgh. Total borrowings increased from $3.75 million at year-end 2022 to $36.2 million at year-end 2023.

Expense Control

In response to challenging conditions and margin compression, the Bank aggressively managed its non-interest expenses during 2023, resulting in a decrease from $11.235 million for 2022 to $11.140 million for 2023. At the same time, the Bank significantly improved the overall quality of its staff through judicious hiring and training.

Income

Interest income grew sharply from $19.580 million at year-end 2022 to $24.666 million at year-end 2023, an increase of 26%. Despite these increases, because of rapidly escalating funding costs, net interest income (i.e., interest income minus interest expense) decreased by $2.408 million from $15.911 million for 2022 to $13.503 million for 2023.

Non-interest income was ($45) thousand in 2022 due to a non-recurring loss on a sale of securities. In 2023, non-interest income was $610 thousand. We anticipate a modest increase in non-interest income due to the expansion of commercial product offerings in fiscal year 2024 based on the addition of several significant new clients.

Primarily because of spread and margin compression caused by rapidly rising interest rates, total consolidated income for Victory Bancorp declined from $3.694 million in 2022 to $2.141 million in 2023. Book value climbed to $14.13 per share at year-end 2023.

BANK CAPITAL RATIOS

The 2023 year-end capital ratios for The Victory Bank were:

Total capital to risk-weighted assets – 11.51%

Tier 1 capital to risk-weighted assets – 10.61%

Tier 1 capital to average assets – 9.61%

STRATEGY AND ADAPTATION AND CULTURE

Deposit Gathering and a New Branch

As a portfolio lender to local businesses, the Bank has long relied on traditional bank deposits to fund loan growth. We have enjoyed consistent success gathering deposits in our traditional market areas, serving the needs of local businesses, municipalities and families, with a high percentage of our clients supplementing in-person banking with various on-line tools.

"The Victory Bank is a values-managed company."

So that we may continue this steady growth, in the summer of 2024 the Bank will be opening a second, full-service retail branch in Horsham, Pennsylvania, near the Route 611 intersection with the Pennsylvania Turnpike, just a few hundred feet away from the existing Horsham Loan Production Office. With three experienced Commercial Bankers based in the Horsham market, plus Business Development Officers and support staff, we have been building a growing list of clients in Eastern Montgomery and Bucks Counties, and we believe the new retail banking facility will lead to even greater success in those markets.

A Culture of Learning, Integrity and Client Service

The Victory Bank is a *values-managed* company, constantly seeking to align our team's day-to-day behavior with the values listed in our Statement or Purpose, which is printed on the inside cover of this report. If you are curious to understand what the company stands for and how it operates, a careful reading of the Statement is the best place to start. We believe

"We create an unmatched client experience."

that sustainability of a culture based on *integrity and client service* is truly the most important factor in building a growing and profitable company. In fact, we believe that our culture is "the secret sauce," and that we must be constantly vigilant and intentional in how we build and preserve it. In short - by living and working in accord with the bank's value system, we create an unmatched client experience that brings repeat business and referrals to the bank.

Another important value we share at the bank is a commitment to constant learning and growth for all members of our team. During 2023, the bank methodically built the overall talent and experience of the staff, by hiring experienced business developers, commercial bankers and supporting staff, and sending many of our bankers through high-quality training programs and banking schools. We also conduct a substantial amount of internal training on a wide range of relevant topics.

Robert L. Brant

On a solemn note, I must sadly report that we suffered a terrible loss in 2023 at the passing of our dear friend and charter Director, Mr. Robert L. Brant. His contributions to the bank were expansive and profound: helping to start the bank, working to bring in new clients, serving as a key recruiter and an important strategic thinker. Bob combined the enthusiasm of youth with the maturity and savvy-thinking of a sage. His master skill was helping people find ways to work together and build positive solutions. Please take a few minutes to review the memorial page we have included in this report. He was a dear friend and we miss him every day.

Thank You

To all of you who own shares in the company, who bank with us, who refer business to us and who work here and make this growing company really run, please know that you have my heartfelt thanks for another amazing year.

Best Regards,

Joseph W. Major
Bank Leader, CEO, President,
Chairman

NEW BRANCH OPENING!

"This new branch is set to transform the way local residents and businesses experience banking."

We are excited to announce the latest expansion of our banking services with the opening of a new branch in the dynamic and thriving Horsham, PA market. This strategic addition is part of our ongoing commitment to broaden our reach and enhance our ability to serve communities with top-tier financial solutions.

This new branch is set to transform the way local residents and businesses experience banking. Our goal is to offer a comprehensive suite of services tailored to meet the diverse needs of the community. From personal savings and checking accounts to a variety of loan options, we are poised to support our clients with their financial journey.

Understanding the importance of accessibility and convenience in today's fast-paced world, our bank prioritizes providing effortless online and mobile banking platforms, empowering customers to manage their finances seamlessly, regardless of time or location. We are dedicated to fostering a welcoming environment where clients can access personalized advice and support from our team of friendly and knowledgeable banking professionals. In addition to our promise of exceptional service, we demonstrate our

"We demonstrate our commitment by ensuring our phones are always answered by a person."

commitment by ensuring our phones are always answered by a person, eliminating voicemail and ensuring our clients receive prompt attention and support.

Community engagement is at the core of our values, and we look forward to becoming an integral part of the Horsham area. By fostering local partnerships, implementing financial education programs, and organizing community events, we aim to enhance the region's economic growth and wellbeing. As enthusiastic proponents of local charitable organizations and volunteering efforts, we strive to make a substantial and meaningful contribution to the communities we serve.

As we prepare to open the doors of our new branch, we invite the Horsham community to join us in celebrating this milestone. Stay tuned for more details about our grand opening event, where we look forward to meeting members of the community and discussing how we can help fulfill dreams. Together, we're banking on a brighter future for Horsham!

The Victory Bancorp, Inc.

Consolidated Financial Statements
December 31, 2023 and 2022

The report accompanying these financial statements was issued by BDO USA, P.C., a Virginia professional corporation, and the U.S. member of BDO International Limited, a UK company limited by guarantee.

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Independent Auditor's Report

To the Board of Directors
The Victory Bancorp, Inc.
Limerick, Pennsylvania

Opinion

We have audited the consolidated financial statements of The Victory Bancorp, Inc. (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, effective January 1, 2023, the Company changed its method of accounting for the allowance for credit losses due to the adoption of Accounting Standards Codification Topic 326, *Financial Instruments – Credit Losses* ("ASC 326").

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern within one year after the date that the consolidated financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

BDO USA, P.C.

Philadelphia, Pennsylvania
April 22, 2024

Consolidated Financial Statements

The Victory Bancorp, Inc.

Consolidated Balance Sheets

(in thousands, except share and per share data)

December 31,		**2023**		2022
Assets				
Cash and due from banks	**$**	**12,438**	$	8,054
Federal funds sold		**2,100**		3,000
Cash and cash equivalents		**14,538**		11,054
Securities available-for-sale		**35,890**		38,883
Securities held-to-maturity (fair value $11,686 at December 31, 2023 and $12,328 at December 31, 2022)		**12,041**		12,883
Loans receivable, net of allowance for credit losses 2023: $3,444 2022: $3,275		**364,383**		327,366
Premises and equipment, net		**3,017**		3,195
Restricted investment in bank stocks		**3,203**		1,738
Accrued interest receivable		**1,613**		1,356
Bank owned life insurance		**5,744**		5,610
Investment broker receivable		**-**		20,113
Other assets		**1,734**		1,656
Total Assets	**$**	**442,163**	$	423,854
Liabilities and Stockholders' Equity				
Liabilities				
Deposits:				
Non-interest bearing	**$**	**55,022**	$	73,793
Interest-bearing		**309,010**		306,151
Total Deposits		**364,032**		379,944
Borrowings		**36,200**		3,750
Subordinated debt		**12,830**		12,804
Accrued interest payable and other liabilities		**1,153**		1,157
Total Liabilities		**414,215**		397,655
Commitments and contingencies (Note 11)				
Stockholders' Equity				
Common stock, $1 par value; authorized 10,000,000 shares; issued and outstanding were 1,971,362 shares at December 31, 2023 and 2022		**1,971**		1,971
Surplus		**14,561**		14,505
Retained earnings		**13,374**		11,745
Accumulated other comprehensive loss		**(1,958)**		(2,022)
Total Stockholders' Equity		**27,948**		26,199
Total Liabilities and Stockholders' Equity	**$**	**442,163**	$	423,854

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Income
(in thousands, except share and per share data)

Years Ended December 31,		**2023**		2022
Interest Income				
Interest and fees on loans	**$**	**22,297**	$	17,419
Interest on investment securities		**2,109**		1,523
Other interest income		**260**		638
Total Interest Income		**24,666**		19,580
Interest Expense				
Deposits		**9,685**		2,694
Borrowings		**1,478**		975
Total Interest Expense		**11,163**		3,669
Net interest income		**13,503**		15,911
Provision for (Reversal of) Credit Losses		**245**		(26)
Net Interest Income After Provision for (Reversal of) Credit Losses		**13,258**		15,937
Non-Interest Income				
Service charges and activity fees		**223**		235
Net gains on sales of loans		**108**		37
Losses on sale of securities		**-**		(586)
Other income		**279**		269
Total Non-Interest Income (Loss)		**610**		(45)
Non-Interest Expenses				
Salaries and employee benefits		**6,859**		6,859
Occupancy and equipment		**654**		739
Legal and professional fees		**479**		588
Advertising and promotion		**98**		80
Loan expenses		**195**		124
Data processing costs		**1,305**		1,513
Supplies, printing and postage		**100**		105
Telephone		**39**		41
Entertainment		**147**		109
Mileage and tolls		**48**		33
Insurance		**61**		53
FDIC insurance premiums		**250**		213
Dues and subscription		**92**		94
Shares tax		**370**		336
Other		**443**		348
Total Non-Interest Expense		**11,140**		11,235
Income before income taxes		**2,728**		4,657
Income Taxes		**(587)**		(963)
Net Income Available to Common Stockholders	**$**	**2,141**	$	3,694
Basic earnings per common share	**$**	**1.09**	$	1.88
Diluted earnings per common share	**$**	**1.06**	$	1.80
Weighted Average Common Shares Outstanding:				
Basic		**1,971,362**		1,966,428
Diluted		**2,028,543**		2,048,878

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Comprehensive Income
(in thousands)

Years Ended December 31,		**2023**		2022
Net Income	**$**	**2,141**	$	3,694
Other Comprehensive Loss				
Unrealized holding gain (loss) arising on securities available-for-sale		**82**		(3,389)
Tax effect		**(18)**		712
Net loss on the sale of investment securities available-for-sale		**-**		586
Tax effect		**-**		(123)
Other comprehensive income (loss)		**64**		(2,214)
Total Comprehensive Income	**$**	**2,205**	$	1,480

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Stockholders' Equity
(in thousands, except per share data)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2021	$ 1,950	$ 14,318	$ 8,730	$ 192	$ 25,190
Net income	-	-	3,694	-	3,694
Other comprehensive loss	-	-	-	(2,214)	(2,214)
Share based compensation expense	-	56	-	-	56
Cash dividends on common stock of $0.35 per share	-	-	(679)	-	(679)
Exercise of stock options (21 shares)	21	131	-	-	152
Balance, December 31, 2022	1,971	14,505	11,745	(2,022)	26,199
Net income	-	-	2,141	-	2,141
Other comprehensive income	-	-	-	64	64
Share based compensation expense	-	56	-	-	56
Cash dividends on common stock of $0.26 per share	-	-	(512)	-	(512)
Balance, December 31, 2023	$ 1,971	$ 14,561	$ 13,374	$ (1,958)	$ 27,948

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,		**2023**		2022
Cash Flows from Operating Activities				
Net income	**$**	**2,141**	$	3,694
Adjustments to reconcile net income to net cash provided by (used in) operating activities:				
Provision for (reversal of) for loan losses		**245**		(26)
Depreciation and amortization		**301**		320
Loss on disposal of premises and equipment		**-**		73
Share-based compensation		**56**		56
Deferred income tax (benefit) expense		**69**		66
Net accretion of investment securities		**(58)**		(34)
Realized losses on sale of investment securities		**-**		586
Earnings on bank owned life insurance		**(153)**		(159)
Net realized gains on sale of SBA loans held for sale		**(108)**		(19)
Net realized gains on sale of non-SBA loans held for sale		**-**		(18)
Proceeds from sale of non-SBA loans held for sale		**-**		355
Origination of SBA loans held for sale		**(1,091)**		(203)
Proceeds from sale of SBA loans held for sale		**1,199**		222
Amortization of debt issuance costs		**26**		27
Change in:				
Investment broker receivable		**20,113**		(20,113)
Accrued interest receivable		**(257)**		(315)
Other assets		**(42)**		602
Accrued interest payable		**212**		(9)
Other liabilities		**(417)**		204
Net Cash Provided by (Used In) Operating Activities		**22,236**		(14,691)
Cash Flows from Investing Activities				
Available-for-sale securities:				
Purchases		**-**		(32,502)
Proceeds from sales, maturities, calls and principal pay downs		**3,146**		14,273
Held-to-maturity securities:				
Purchases		**-**		(32,855)
Proceeds from maturities, calls, and principal pay downs		**829**		20,051
Net increase in loans		**(37,184)**		(26,174)
Purchase of restricted stock		**(1,465)**		-
Proceeds from sale of restricted stock		**-**		3
Purchases of premises and equipment		**(123)**		(368)
Proceeds from sale of premises and equipment		**-**		7
Proceeds from BOLI		**19**		-
Net Cash Used in Investing Activities		**(34,778)**		(57,565)
Cash Flows from Financing Activities				
Net decrease in deposits		**(15,912)**		(14,405)
Exercise of stock options		**-**		152
Cash dividends on common stock		**(512)**		(679)
Repayment of long-term borrowing		**-**		(6,750)
Net increase in short-term borrowing		**32,450**		-
Net Cash Provided by (Used In) Financing Activities		**16,026**		(21,682)

See accompanying notes to consolidated financial statements.

The Victory Bancorp, Inc.

Consolidated Statements of Cash Flows
(in thousands)

Years Ended December 31,		**2023**		2022
Net increase (decrease) in cash and cash equivalents		**3,484**		(93,938)
Cash and Cash Equivalents, Beginning		**11,054**		104,992
Cash and Cash Equivalents, Ending	**$**	**14,538**	$	11,054
Supplementary Cash Flows Information				
Income taxes paid	**$**	**558**	$	1,083
Interest paid		**10,951**		3,390

See accompanying notes to consolidated financial statements.

1. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements of The Victory Bancorp, Inc. (the "Corporation") are prepared on the accrual basis and include the accounts of The Victory Bancorp, Inc. and its wholly-owned subsidiary, The Victory Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated from the accompanying consolidated financial statements.

In preparing these consolidated financial statements, the Bank evaluated the events and transactions that occurred from December 31, 2023 through April 22, 2024 the date these consolidated financial statements were available for issuance.

Organization and Nature of Operations

The Victory Bancorp, Inc. is a registered bank holding company, which owns 100% of the outstanding capital stock of The Victory Bank. The Corporation was incorporated under the laws of the State of Pennsylvania in 2009 for the purpose of serving as The Victory Bank's holding company. The holding company structure provides flexibility for growth through expansion of core business activities and access to varied capital raising operations. The Corporation's primary business activity consists of ownership of all of the outstanding stock of The Victory Bank. As of December 31, 2023, the Corporation had 340 common stockholders of record.

The Bank is a Pennsylvania chartered commercial bank which was chartered in January 2008. The Bank operates a full-service commercial and consumer banking business in Montgomery County, Pennsylvania. The Bank's focus is on small- and middle-market commercial and retail customers. The Bank originates secured and unsecured commercial loans, commercial mortgage loans, consumer loans and construction loans and does not make subprime loans. The Bank also offers revolving credit loans, small business loans and automobile loans. The Bank offers a variety of deposit products, including demand and savings deposits, regular savings accounts, investment certificates and fixed-rate certificates of deposit. As a state-chartered bank, the Bank is subject to regulation of the Pennsylvania Department of Banking and Federal Deposit Insurance Corporation.

Recent Accounting Pronouncements

Accounting Standards Codification (ASC) Topic 326: *Financial Instrument – Credit Losses* (ASC 326). On January 1, 2023, the Bank adopted ASC 326 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 such as loan commitments, standby letters of credit, financial guarantees and other similar instruments. In addition, ASC 326 makes changes to the accounting for credit-related impairment of available-for-sale debt securities by eliminating other-than-temporary impairment charges. Following the expected loss model, credited-related losses on available-for-sale debt securities will be reflected as a valuation allowance for credit losses on those securities.

Accrued interest for all financial instruments is included in a separate line on the face of the Consolidate Balance Sheets. The Bank elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Bank believes the collection of interest is doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

In adopting ASC 326, the Bank utilized the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. The resulting calculation resulted in an immaterial impact to the allowance for credit losses, and therefore no adjustment was recorded effective January 1, 2023. Prior periods have not been restated and continue to be presented under the incurred loss methodology. There are no credit losses in the available-for-sale security portfolio.

ASU 2022-02, Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures. The amendments contained in this Accounting Standards Update (ASU) eliminate the accounting guidance for troubled debt restructurings by creditors, while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. This ASU also requires entities to disclose current period gross write-offs by year of origination for financing receivables. The Bank adopted ASU 2022-02 effective January 1, 2023 using a modified retrospective transition approach for the amendments related to the recognition and measurement of troubled debt restructurings. The impact of the adoption resulted in no change to the allowance for credit losses.

ASU 2022-06, "Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848." In 2020, the FASB issued ASU No. 2020-04, Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provided optional guidance to ease the potential burden in accounting for (or recognizing the effects of) reference rate reform. The objective of the guidance in Topic 848 was to provide relief during the temporary transition period and the FASB included a sunset provision based on expectations of when the London Interbank Offered Rate (LIBOR) would cease being published. The United Kingdom Financial Conduct Authority has announced that the intended LIBOR cessation date has been extended from December 31, 2021 to June 30, 2023. As such, ASU 2022-06 defers the sunset date previously set to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848; moreover, it applies to all entities, subject to meeting certain criteria, that have contracts, hedging relationships, and other transactions that reference LIBOR or another reference rate expected to be discontinued because of reference rate reform. The Bank does not expect this ASU to have a material effect on its consolidated financial statements.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated balance sheet and the reported amounts of revenues and expenses during the reporting year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the fair value of financial instruments, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Montgomery County, Pennsylvania. Note 4 discusses the types of lending that the Bank engages in. Although the Bank has a diversified loan portfolio, its borrowers' ability to honor their contracts is influenced by the economy of Montgomery County and the surrounding areas.

The Bank monitors potential concentrations of loans to particular borrowers or groups of borrowers, industries, and geographic regions. The Bank also monitors exposures to credit risk that could arise from potential concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.) and loans with high loan to value ratios. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. The Bank has determined that there is no concentration of credit risk associated with its lending policies or practices.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold, all of which mature within ninety days. Generally, federal funds are sold for one day periods.

Securities

Management determines the appropriate classification of debt investment securities at the time of purchase and re-evaluates such designation as of each consolidated balance sheet date. As of December 31, 2023 and 2022, the Bank's investment portfolio contained available-for-sale and held-to-maturity investment securities.

Investment securities that are classified as available-for-sale are stated at fair value. Unrealized gains and losses on investment securities classified as available-for-sale are excluded from results of operations and are reported as other comprehensive income or loss, a separate component of stockholders' equity, net of taxes. Investment securities classified as available-for-sale include investment securities that may be sold in response to changes in interest rates, changes in prepayment risks or for asset/liability management purposes.

Investment securities which the Bank has the intent and ability to hold until maturity are classified as held-to-maturity and are recorded at cost, adjustment for amortization of premiums and accretion of discounts.

The cost of investment securities is adjusted for amortization of premiums and accretion of discounts to maturity, or in the case of mortgage-backed securities, over the estimated life of the security. Such amortization or accretion recorded as adjustments to interest and dividends are included in interest income from investments using the interest method. Realized gains and losses are included in gains (losses) on sales of investment securities in the consolidated statements of income. Gains and losses on the sale of securities are recorded on the trade date and are determined based on the specific-identification method.

The investment portfolio is classified into the following major security types: Corporate bonds, Collateralized mortgage obligations, U.S. agency securities, and State and municipal securities.

All corporate bonds and state and municipal securities undergo an initial and ongoing credit analysis. The analysis includes the review of various financial and demographic information. All securities have a minimum evaluation rating of "A" or higher.

All collateralized mortgage obligations held by the Bank are guaranteed by Ginnie Mae, a U.S. government agency, or a government sponsored enterprise (GSEs) Fannie Mae or Freddie Mac. These securities along with U.S. agency securities are explicitly guaranteed by the U.S. government or guaranteed by the GSEs that have credit ratings and perceived credit risk comparable to the U.S. government, are highly rated by major rating agencies, and have a history of no credit losses.

For available-for-sale debt securities with an unrealized loss position, the Bank will determine whether it has the intent to sell the debt security or whether it is more likely than not it will be required to sell the debt security before the recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with the establishment of an allowance under CECL compared to a direct write down of the security under the previously applicable incurred loss methodology. For available-for-sale debt securities that do not meet the criteria, the Bank evaluates whether any decline in fair value is due to the credit loss factors. In making this assessment, management considers any changes to the rating of the security by a rating agency and 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 from the security is compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit loss 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 allowance for credit losses is recognized in other comprehensive income.

Prior to the adoption of CECL, management evaluated securities for other-than-temporary impairment ("OTTI") on at least an annual basis, and more frequently when economic or market concerns warranted such evaluation. Declines in fair value of debt securities below their cost that were deemed to be other-than-temporary were separated into (a) the amount of the total OTTI related to a decrease in cash flows expected to be collected from the debt security (the credit loss) and (b) the amount of the total OTTI related to all other factors. The amount of the total OTTI related to the credit loss is recognized in earnings. The amount of the total OTTI related to all other factors was recognized in other comprehensive loss. In estimating OTTI losses, management considered (1) the length of time and the extent to which the fair value had been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether or not management intended to sell or expected that it was more likely than not that it would be required to sell the debt security prior to any anticipated recovery in fair value.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Bank is amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The accrual of interest is generally discontinued when the contractual payment of principal or interest has become 90-days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

When a loan is placed on nonaccrual status, unpaid interest is reversed against interest income. The amount of accrued interest reversed against interest income totaled $37,000 and $5,000 for the year ended December 31, 2023 and 2022, respectively. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The Bank's loan receivable portfolio is segmented into commercial and consumer loans. Commercial loans consist of the following classes: commercial term, commercial mortgage, commercial lines of credit, and construction. Consumer loans consist of the following classes: home equity and other consumer.

The Bank's credit policies determine advance rates against the different forms of collateral that can be pledged against commercial term, lines of credit and mortgage loans. Typically, the majority of loans will be limited to a percentage of their underlying collateral values such as real estate values, equipment, eligible accounts receivable and inventory. Individual loan advance rates may be higher or lower depending upon the financial strength of the borrower and/or term of the loan. The assets financed through commercial loans are used within the business for its ongoing operation. Repayment of these kinds of loans generally comes from the cash flow of the business or the ongoing conversions of assets. Commercial mortgage loans include long-term loans financing commercial properties. Repayment of this kind of loan is dependent upon either the ongoing cash flow of the borrowing entity or the resale of or lease of the subject property. Commercial mortgage loans typically require a loan to value ratio of not greater than 80% and vary in terms.

Construction lending is generally considered to involve high risk due to the concentration of principal in a limited number of loans and borrowers and the effects of general economic conditions on developers and builders. Moreover, a construction loan can involve additional risks because of the inherent difficulty in estimating both a property's value at completion of the project and the estimated cost (including interest) of the project. The nature of these loans is such that they are generally difficult to evaluate and monitor.

Home equity loans are secured by the borrower's residential real estate in either a first or second lien position. Residential mortgages and home equity loans have varying loan rates depending on the financial condition of the borrower and the loan to value ratio. Risks associated with home equity loans in second lien positions are greater than those in first position due to the subordinate nature of the loans.

Other consumer loans include installment loans, car loans, and overdraft lines of credit. The majority of these loans are unsecured. Risks associated with other consumer loans tend to be greater due to unsecured position or the rapidly depreciating nature of the underlying assets.

Allowance for Credit Losses

The allowance for credit losses ("allowance") represents management's estimate of losses inherent in the loan portfolio as of the balance sheet date and is recorded as a reduction to loans. The allowance is increased by the provision for loan losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable are charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. The Bank has elected to not estimate an allowance for credit losses on accrued interest receivable, as it already has a policy in place to reverse or write-off accrued interest in a timely manner.

The Bank adopted ASC 326 January 1, 2023 which replaced the incurred loss methodology with the current expected credit loss (CECL) approach. CECL requires an estimate of the credit losses expected over the life of an exposure (or pool of exposures) whereas the incurred loss approach delayed the recognition of a credit loss until it was probable a loss event was incurred.

The estimate of expected credit losses is based on relevant information about historical events, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The Bank uses current loan data and loss history, calculates the weighted average remaining maturity in each loan category, and utilizes leading economic indicators to provide a forward-looking feature. The Bank then takes that information, adds custom qualitative factors and specific reserves tied to collateral dependent loans to calculate its allowance for credit losses.

The historical loss rate for the loan portfolio is determined by pooling loans into groups sharing similar risk characteristics and tracking historical net charge offs to calculate the historical loss rate.

The Bank also incorporates a reasonable and supportable loss forecast period to account for the effect of forecasted economic conditions and other factors on the performance of the loan portfolio which could differ from historical loss experience. Forward looking adjustments considers macro-economic indicators. The Bank generally utilizes a forecast period ranging over 12 - 24 months. For the contractual term that extends beyond the forecast period, the Bank immediately reverts to historical loss rates.

The Bank uses several qualitative factors to supplement the other elements of its allowance for credit losses calculation under CECL. These qualitative factors are intended to estimate losses that differ from actual historical loss experience. Relevant factors included, but are not limited to, economic trends and conditions such as regional unemployment, experience and depth of lending staff, trends in delinquencies, trends in collateral values, and results of loan reviews and loan-related audits. Although the estimation of credit losses can be somewhat subjective, the application of such qualitative factors must be reasonable and supportable.

Prior to the adoption of ASC 326, under the incurred loss methodology, the allowance was maintained at a level considered adequate to provide for losses that can be reasonably anticipated.

Management performed a quarterly evaluation of the adequacy of the allowance for loan losses. The allowance for loan losses was based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, composition of the loan portfolio, current economic conditions and other relevant factors. This evaluation was inherently subjective as it required material estimates that may have been susceptible to significant revision as more information became available.

The allowance for loan losses consisted of specific and general components. The specific component related to loans that were classified as impaired. For loans that were classified as impaired, an allowance for loan loss was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered pools of loans by loan class including commercial loans not considered impaired, as well as smaller balance homogeneous loans, such as home equity and other consumer loans. These pools of loans were evaluated for loss exposure based upon historical loss rates for each of these categories of loans, adjusted for qualitative factors. These qualitative risk factors included:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Volume and severity of past due, classified and nonaccrual loans as well as and other loan modifications.
5. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
6. Effect of external factors, such as competition and legal and regulatory requirements.
7. Experience, ability and depth of lending management staff.

Each factor was assigned a value to reflect improving, stable or declining conditions based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a narrative accompanying the allowance for loan loss calculation.

Under the CECL methodology, collateral dependent loans are those loans that are non-accruing and on which the borrowers cannot demonstrate the ability to make and are not making regularly scheduled loan payments, thereby making repayment of the loan dependent upon the operation or sale of the collateral securing the loan. Collateral dependent loans are evaluated individually as they do not share similar risk characteristics with other loans and are removed from their respective homogeneous pools. Under CECL, for collateral dependent loans, the Bank has adopted the practical expedient to measure the allowance for credit losses based on the fair value of the collateral.

The Bank's policy is to obtain third-party appraisals on any significant pieces of collateral held on collateral dependent loans. For such loans secured by real estate, the Bank's policy is to estimate the allowance by discounting the appraised value by 20%, which considers estimated selling costs and additional discounts estimated to be incurred in a sale. For real estate collateral that is considered special- or limited-purpose or in industries that are undergoing heightened stress, the

Bank may further discount the collateral values. For non-real estate collateral secured loans, the Bank generally discounts values by 0%-50% depending on the nature and marketability of the collateral. This provides for selling costs and liquidity discounts that are usually incurred when disposing of non-real estate collateral.

Prior to the adoption of CECL, under the incurred loss methodology, a loan was considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management would determine the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan by loan basis for commercial term, commercial mortgage, commercial lines of credit and commercial construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan was collateral dependent.

On January 1, 2023, the Bank adopted ASU 2022-02*, Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for troubled debt restructurings by creditors while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty.

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral.

Prior to January 1, 2023, when a loan was modified and a concession was made to a borrower experiencing financial difficult, the modification was considered a troubled debt restructuring. An allowance for credit losses for loans that have been modified in a troubled debt restructuring is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Management exercised significant judgement in developing these estimates.

The Bank maintains an allowance for credit losses for lending-related commitments such as unfunded loan commitments and letters of credit. The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Bank. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for credit losses. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans and discussed previously in Note 1. The allowance for credit losses for unfunded loan commitments were separately classified on the Consolidated Balance Sheets within other liabilities.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership; (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity, and (4) transfers that do meet the criteria to be accounted for as sales are accounted for a secured borrowings.

Premises and Equipment

Premises (including leasehold improvements) and equipment are stated at cost less accumulated depreciation and amortization. Depreciation is computed on the straight-line method over the estimated useful lives and amortization of leasehold improvements is computed over the shorter of the estimated useful life or lease term of the related assets.

Restricted Investment in Bank Stocks

Restricted investment in bank stocks, which represents required investments in the common stock of correspondent banks, is carried at cost, and consists of $60,000 common stock of the Atlantic Community Bankers Bank (“ACBB”) at December 31, 2023 and 2022, Federal Home Loan Bank of Pittsburgh (“FHLB”) stock totaling $2,531,000 and $1,050,000 at December 31, 2023 and 2022, and Federal Reserve Bank (“FRB”) stock of $612,000 and $628,000 at December 31, 2023 and 2022, respectively.

Management considers whether these long-term investments are impaired based on the ultimate recoverability of the cost basis rather than by recognizing temporary declines in value. Management believes no impairment has occurred related to these investments at December 31, 2023 and 2022.

Bank Owned Life Insurance

The Bank is the owner and beneficiary of life insurance policies on certain employees and directors. The life insurance investment is carried at the cash surrender value of the underlying owned policies. The increase in the cash surrender value is recognized as a component of non-interest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Bank intends to hold these policies and, accordingly, the Bank has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income taxes using the asset and liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, net operating loss carryforwards, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense (benefit) results from changes in deferred tax assets and liabilities between periods.

The Corporation evaluates the carrying amount of its deferred tax assets on a quarterly basis or more frequently, if necessary, in applying the criteria set forth therein to determine whether it is more likely than not (i.e., a likelihood of more than 50%) that some portion, or all, of the deferred tax asset will not be realized within its life cycle, based on the weight of available evidence. If management makes a determination based on the available evidence that it is more likely than not that some portion or all of the deferred tax assets will not be realized in future periods, a valuation allowance is calculated and recorded. These determinations are inherently subjective and dependent upon estimates and judgments concerning management's evaluation of both positive and negative evidence.

In conducting the deferred tax asset analysis, the Corporation believes it is important to consider the unique characteristics of an industry or business. In particular, characteristics such as business model, level of capital and reserves held by financial institutions and their ability to absorb potential losses are important distinctions to be considered for bank holding companies like the Corporation. Most importantly, it is also important to consider that net operating losses for federal income tax purposes can generally be carried forward for a period of twenty years. In order to realize deferred tax assets, the Corporation must generate sufficient taxable income in such future years.

In assessing the need for a valuation allowance, the Corporation carefully weighed both positive and negative evidence currently available. Judgment is required when considering the relative impact of such evidence. The weight given to the potential effect of positive and negative evidence must be commensurate with the extent to which it can be objectively verified. A cumulative loss in recent years is a significant piece of negative evidence that is difficult to overcome. As a result of limited sources of state income that can be used to realize state net operating losses generated by the holding company, the Corporation has concluded that a full valuation allowance is required related to state net operating loss carryforwards at December 31, 2023 and 2022.

The Corporation accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. At December 31, 2023 and 2022, the Corporation did not have any uncertain tax positions.

The Corporation recognizes interest and penalties on income taxes, if any, as a component of the provision for income taxes. There were no interest and penalties recognized during the years ended December 31, 2023 or 2022. With limited exception, tax years prior to 2020 are no longer subject to examination by tax authorities.

Comprehensive Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of stockholders' equity section of the Consolidated Balance Sheets, such items along with net income are components of comprehensive income.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 13. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Employee Benefit Plan

The Bank has established a 401(k) plan ("the Plan"). Under the Plan, all employees are eligible to contribute the maximum allowed by the Internal Revenue Code of 1986, as amended. The Bank may make discretionary matching contributions. For the years ended December 31, 2023 and 2022, expense recorded in salaries and employee benefits attributable to the Plan amounted to $199,000 and $181,000, respectively.

Share-Based Compensation

The Bank recognizes the cost of employee and organizer services received in share-based payment transactions and measure the cost based on the grant-date fair value of the award. The cost will be recognized over the period during which the employee or organizer is required to provide service in exchange for the award.

Compensation cost for all stock awards is calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the fair value of the Corporation's common stock at the date of grant is used for restricted stock awards. Because of the insignificant amount of forfeitures the Corporation has experienced, forfeitures are recognized as they occur.

Earnings per Share

Basic earnings per share ("EPS") represents net income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS includes all potentially dilutive common shares outstanding during the period. Potential common shares that may be issued related to outstanding stock options are determined using the treasury stock method.

The following table sets forth the composition of basic and diluted earnings per share.

Years Ended December 31,		**2023**		2022
		(In thousands, except for share and per share data)		
Net income available to common stockholders	**$**	**2,141**	$	3,694
Basic weighted average shares outstanding		**1,971,362**		1,966,428
Plus: effect of dilutive options		**57,181**		82,450
Diluted weighted average common shares		**2,028,543**		2,048,878
Earnings per share:				
Basic	**$**	**1.09**	$	1.88
Diluted	**$**	**1.06**	$	1.80

2. Restrictions on Cash and Due from Banks

In return for services obtained through correspondent banks, the Bank is required to maintain non-interest-bearing cash balances in those correspondent banks. Compensating balances totaled $1,000,000 at December 31, 2023 and 2022, included in cash and due from banks.

3. Securities

The amortized cost and fair value of securities as of December 31, 2023 and 2022 is summarized as follows (in thousands):

December 31, 2023		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
Available-for-sale:								
Corporate bonds	**$**	**8,470**	**$**	**-**	**$**	**(991)**	**$**	**7,479**
Residential mortgage-backed securities – government sponsored enterprises (“GSE”)		**14,693**		**9**		**(523)**		**14,179**
U.S. government agency		**10,653**		**-**		**(849)**		**9,804**
State and Political Subdivisions		**4,552**		**-**		**(124)**		**4,428**
	$	**38,368**	**$**	**9**	**$**	**(2,487)**	**$**	**35,890**

December 31, 2023		**Amortized Cost**		**Gross Unrealized Gains**		**Gross Unrealized Losses**		**Fair Value**
Held-to-Maturity:								
Corporate bonds	**$**	**500**	**$**	**-**	**$**	**(82)**	**$**	**418**
Residential mortgage-backed securities – government sponsored enterprises ("GSE")		**6,561**		**-**		**(263)**		**6,298**
U.S. government agency		**2,268**		**-**		**(107)**		**2,161**
State and Political Subdivisions		**2,712**		**111**		**(14)**		**2,809**
	$	**12,041**	**$**	**111**	**$**	**(466)**	**$**	**11,686**

December 31, 2022		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Available-for-Sale:								
Corporate bonds	$	8,471	$	-	$	(740)	$	7,731
Residential mortgage-backed securities – government sponsored enterprises ("GSE")		16,463		-		(713)		15,750
U.S. government agency		11,678		-		(839)		10,839
State and Political Subdivisions		4,831		-		(268)		4,563
	$	41,443	$	-	$	(2,560)	$	38,883

December 31, 2022		Amortized Cost		Gross Unrealized Gains		Gross Unrealized Losses		Fair Value
Held-to-Maturity:								
Corporate bonds	$	500	$	-	$	(50)	$	450
Residential mortgage-backed securities – government sponsored enterprises ("GSE")		6,551		-		(326)		6,225
U.S. government agency		2,473		-		(119)		2,354
State and Political Subdivisions		3,359		-		(60)		3,299
	$	12,883	$	-	$	(555)	$	12,328

The unrealized losses and related fair value of investment securities available for sale with unrealized losses less than 12 months and those with unrealized losses 12 months or longer as of December 31, 2023 and 2022, are as follows (in thousands):

December 31, 2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Corporate Bonds	$ -	$ -	$ 6,979	$ (991)	$ 6,979	$ (991)
Residential mortgage-backed securities – government sponsored enterprises (“GSE”)	4,058	(15)	7,888	(508)	11,946	(523)
U.S. government agency	-	-	9,804	(849)	9,804	(849)
State and Political Subdivisions	-	-	4,428	(124)	4,428	(124)
Total	$ 4,058	$ (15)	$ 29,099	$ (2,472)	$ 33,157	$ (2,487)

December 31, 2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
Corporate Bonds	$ -	$ -	$ 418	$ (82)	$ 418	$ (82)
Residential mortgage- backed securities – government sponsored enterprises (“GSE”)	-	-	6,298	(263)	6,298	(263)
U.S. government agency	-	-	2,161	(107)	2,161	(107)
State and Political Subdivisions	-	-	611	(14)	611	(14)
Total	$ -	$ -	$ 9,488	$ (466)	$ 9,488	$ (466)

December 31, 2022	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for-sale:						
Corporate Bonds	$ 5,113	$ (438)	$ 2,618	$ (302)	$ 7,731	$ (740)
Agency	9,768	(566)	1,071	(273)	10,839	(839)
Municipal	4,563	(268)	-	-	4,563	(268)
Residential mortgage-backed securities	13,670	(389)	2,080	(324)	15,750	(713)
Total	$ 33,114	$ (1,661)	$ 5,769	$ (899)	$ 38,883	$ (2,560)

December 31, 2022	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Held-to-maturity:						
Corporate Bonds	$ 450	$ (50)	$ -	$ -	$ 450	$ (50)
Agency	2,354	(119)	-	-	2,354	(119)
Municipal	3,299	(60)	-	-	3,299	(60)
Residential mortgage-backed securities	6,225	(326)	-	-	6,225	(326)
Total	$ 12,328	$ (555)	$ -	$ -	$ 12,328	$ (555)

All of the securities that were in an unrealized loss position at December 31, 2023 and 2022, are bonds the Bank has determined are in a loss position due primarily to interest rate factors and not credit quality concerns. In management’s opinion, based on third party credit ratings and the amount of the impairment, credit risk for these securities is minimal. Management has the intent and ability to hold debt securities until recovery and does not believe it will have to sell the securities prior to recovery.

At December 31, 2023, the Bank had 51 securities in an unrealized loss position for 12 months or more and 1 securities in an unrealized loss position less than 12 months, none of which exceeded 21.4% of the security’s carrying amount. At December 31, 2022, the Bank had 13 securities in an unrealized loss position for 12 months or more and 41 securities in an unrealized loss position less than 12 months, none of which exceeded 20.5% of the security’s carrying amount.

At December 31, 2023, there was no allowance for credit losses related to the available-for-sale portfolio. Accrued interest receivable on available-for-sale debt securities totaled $207,000 at December 31, 2023 and was excluded from the estimate of credit losses. At December 31, 2023, the Bank evaluated its held-to-maturity debt securities under the CECL standards and based on the credit reviews of the issuers of the corporate debt securities, and determined no allowance for credit losses was required.

At December 31, 2022, there was no other than temporary impairment related to the available-for-sale or held-to-maturity portfolios.

The amortized cost and fair value of securities as of December 31, 2023 and 2022, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities may differ from contractual maturities because the securities may be called without any penalties (in thousands):

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
Due after one year through five years	$ 3,989	$ 3,881	$ -	$ -
Due after five years through ten years	19,686	17,830	13,301	12,294
Due after 10 years	-	-	11,679	10,839
Mortgage-backed investment securities	14,693	14,179	16,463	15,750
Total	$ 38,368	$ 35,890	$ 41,443	$ 38,883

	2023		2022	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Held-to-maturity:				
Due after one year through five years	$ 2,893	$ 2,773	$ 1,262	$ 1,195
Due after five years through ten years	2,587	2,615	2,597	2,554
Due after 10 years	-	-	2,473	2,354
Mortgage-backed investment securities	6,561	6,298	6,551	6,225
Total	$ 12,041	$ 11,686	$ 12,883	$ 12,328

Approximately, $20 million of sales were not yet settled and reported as a receivable on the Consolidated Balance Sheets at December 31, 2022.

There were no securities pledged as collateral at December 31, 2023 and 2022 to secure public deposits.

There were no gross gains or losses on the sale or call of securities in 2023 and $586,000 of gross losses on the sale of securities in 2022.

4. Loans Receivable

The composition of loans receivable at December 31, 2023 and 2022 is as follows (in thousands):

	2023	2022
Commercial term	$ 38,682	$ 35,782
Commercial mortgage	224,500	196,159
Commercial line	20,665	22,001
Construction	61,250	48,659
Home equity	2,740	3,936
Consumer	20,937	24,856
Total loans	368,774	331,393
Deferred fees, net	(947)	(752)
Allowance for credit losses	(3,444)	(3,275)
Net Loans	$ 364,383	$ 327,366

The Bank elected to exclude accrued interest receivable from the amortized cost basis of loans disclosed throughout this footnote. As of December 31, 2023 and 2022, accrued interest receivable for loans totaled $1,339,000 and $1,099,000, respectively, and is included in the accrued interest receivable line item on the Bank's Consolidated Balance Sheets.

The following table presents the activity in the allowance for credit losses by loan portfolio segment for the year ended December 31, 2023 under the CECL methodology (in thousands):

December 31, 2023	Commercial Term	Commercial Mortgage	Commercial Line	Construction	Home Equity	Consumer	Total
Allowance for credit losses:							
Beginning balance	$ 333	$ 1,839	$ 186	$ 453	$ 149	$ 315	$ 3,275
Charge-offs	-	-	-	-	-	-	-
Recoveries	-	2	-	-	-	-	2
Provision for credit losses on loans	30	121	173	(17)	(105)	(35)	167
Total ending allowance balance	$ 363	$ 1,962	$ 359	$ 436	$ 44	$ 280	$ 3,444

The following table presents the activity in the allowance for loan losses by loan portfolio segment for the year ended December 31, 2022 under the incurred loss methodology (in thousands):

December 31, 2022		Commercial Term	Commercial Mortgage	Commercial Line	Construction	Home Equity	Consumer	Total
Allowance for credit losses:								
Beginning balance	$	354 $	1,713 $	458 $	476 $	109 $	345 $	3,455
Charge-offs		23	22	20	-	-	97	162
Recoveries		6	2	-	-	-	-	8
Provision for credit losses on loans		(4)	146	(252)	(23)	40	67	(26)
Ending balance	$	333 $	1,839 $	186 $	453 $	149 $	315 $	3,275
Ending balance:								
Individually evaluated for impairment	$	- $	93 $	- $	- $	- $	- $	93
Collectively evaluated for impairment	$	333 $	1,746 $	186 $	453 $	149 $	315 $	3,182
Loan receivables:								
Ending balance	$	35,782 $	196,159 $	22,001 $	48,659 $	3,936 $	24,856 $	331,393
Ending balance:								
Individually evaluated for impairment	$	- $	251 $	- $	- $	- $	- $	251
Collectively evaluated for impairment	$	35,782 $	195,908 $	22,001 $	48,659 $	3,936 $	24,856 $	331,142

Information about loans that meet the definition of an impaired loan in ASC 310-10-35 is as follows as of and for the year ended December 31, 2022 (in thousands):

		Recorded Investment		Unpaid Principal Balance		Related Allowance
With no related allowance recorded:						
Commercial term	$	-	$	-	$	-
Commercial mortgage		85		85		-
Commercial line		-		-		-
Construction		-		-		-
Consumer		-		-		-
With an allowance recorded:						
Commercial term	$	-	$	-	$	-
Commercial mortgage		166		172		93
Commercial line		-		-		-
Construction		-		-		-
Consumer		-		-		-
Total:						
Commercial term	$	-	$	-	$	-
Commercial mortgage		251		257		93
Commercial line		-		-		-
Construction		-		-		-
Consumer		-		-		-

	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:		
Commercial term	$ -	$ -
Commercial mortgage	85	-
Commercial line	-	-
Construction	-	-
Consumer	-	-
With an allowance recorded:		
Commercial term	$ -	$ -
Commercial mortgage	173	11
Commercial line	-	-
Construction	-	-
Consumer	-	-
Total:		
Commercial term	$ -	$ -
Commercial mortgage	258	11
Commercial line	-	-
Construction	-	-
Consumer	-	-

As discussed in Note 1, the Bank identifies loans in which the borrower cannot demonstrate the ability to make regularly scheduled payments and the repayment of the loan is dependent upon the operation or sale of the collateral of the loan. These collateral dependent loans are evaluated individually for allowance for credit losses based on the fair value of the collateral. The Bank believes that there is no significant over-coverage of collateral for any of the loans noted below.

The following table presents an analysis of collateral-dependent loans of the Bank by class of loans as of December 31, 2023 (in thousands):

December 31, 2023	Residential Property	Business Assets	Commercial Property	Total Collateral-Dependent Loans
Commercial Term	$ -	$ 3	$ 428	$ 431
Commercial Mortgage	-	77	2,592	2,669
Commercial Line	-	-	2,518	2,518
Construction	-	-	138	138
Home Equity	57	-	-	57
Consumer	-	-	-	-
Total	**$ 57**	**$ 80**	**$ 5,676**	**$ 5,813**

The Bank monitors ongoing risk for loans with a commercial purpose using a nine-point internal grading system. The first five rating categories, representing the lowest risk to the Bank, are combined and given a Pass rating. The Special Mention category includes loans that have potential weaknesses that may, if not monitored or corrected, weaken the asset or inadequately protect the Bank's position at some future date. These assets pose elevated risk, but their weakness does not justify a more severe, or criticized rating.

Management generally follows regulatory definitions in assigning criticized ratings to loans, including substandard, doubtful, or loss. Substandard loans are classified as they have a well-defined weakness or weaknesses that jeopardize liquidation of the debt. These loans are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans include loans that management has determined are not adequately protected by current cash flows or net worth of the borrower. A doubtful loan has the same weaknesses as a substandard loan, however, collection or liquidation of principal in full is questionable and improbable. For doubtful loans, loss is present, but may not be determined until specific factors occur. Loss assets are considered uncollectible, as the underlying borrowers are often in bankruptcy, have suspended debt repayments, or ceased business operations. Once a loan is classified as Loss, there is little prospect of collecting the loan's principal or interest and it is generally written off.

Loans with a consumer purpose, which also includes certain commercial loans, construction and land development loans, and residential loans, are not-rated and are monitored based on the length of time a loan is past due. Not-rated loans are categorized as either Performing or Non-performing. Non-performing loans would be those in non-accrual status, which generally occurs when a loan is maintained on a cash basis due to deterioration in the financial condition of the borrower, full payment of principal or interest is not expected, or principal or interest has been in default for a period of 90 days or more.

The Bank's Board of Directors reviews on a quarterly reviews the ratings of all criticized loans. In addition, an independent third-party performs an annual loan review. The review focuses on a sample of business and consumer purpose loans, and all previously criticized loans over a certain dollar threshold.

The following table presents the Bank's loan portfolio based on its internal risk rating system by origination year as of December 31, 2023 (in thousands):

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial Term								
Pass	$ 11,552	$ 5,273	$ 8,928	$ 5,023	$ 2,798	$ 4,677	$ -	$ 38,251
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	104	-	327	-	431
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	11,552	5,273	8,928	5,127	2,798	5,004	-	38,682
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total non-rated commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial Mortgage								
Pass	$ 40,848	$ 58,988	$ 41,081	$ 19,915	$ 16,609	$ 43,581	$ 809	$ 221,831
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	2,596	73	2,669
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	40,848	58,988	41,081	19,915	16,609	46,177	882	224,500
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total non-rated commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

(Continued)

	2023	2022	2021	2020	2019	Prior	Revolving	Total
Commercial Line								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ 18,147	$ 18,147
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	2,518	2,518
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-	20,665	20,665
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total non-rated commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction								
Pass	$ 24,439	$ 18,692	$ 5,622	$ 1,457	$ 914	$ 9,988	$ -	$ 61,112
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	138	-	138
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	24,439	18,692	5,622	1,457	914	10,126	-	61,250
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	-	-	-	-	-
Non-performing	-	-	-	-	-	-	-	-
Total non-rated commercial	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Home Equity								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-	-	-
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	-	-	-	457	1,070	837	319	2,683
Non-performing	-	-	-	-	-	-	57	57
Total non-rated commercial	$ -	$ -	$ -	$ 457	$ 1,070	$ 837	$ 376	$ 2,740
Consumer								
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Special mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Not-rated	-	-	-	-	-	-	-	-
Total commercial	-	-	-	-	-	-	-	-
Gross charge-offs, YTD	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Non-rated loans:								
Performing	107	16	16	80	56	1,276	18,749	20,300
Non-performing	-	-	-	-	-	23	614	637
Total non-rated commercial	$ 107	$ 16	$ 16	$ 80	$ 56	$ 1,299	$ 19,363	$ 20,937

The following table presents the Bank's loan portfolio based on its internal risk rating system as of December 31, 2022 under the incurred loss methodology (in thousands):

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Total
Commercial term	$ 35,542	$ -	$ 240	$ -	$ 35,782
Commercial mortgage	193,875	-	2,284	-	196,159
Commercial line	21,241	-	760	-	22,001
Construction	48,075	-	584	-	48,659
Home equity	3,936	-	-	-	3,936
Consumer	24,856	-	-	-	24,856
	$ 327,525	$ -	$ 3,868	$ -	$ 331,393

Management monitors the performance and credit quality of the loan portfolio by analyzing the length of time a recorded payment is past due, by aggregating loans based on their delinquencies. The following table presents an aging of the payment status of the Bank's loans as of December 31, 2023 (in thousands):

December 31, 2023	**30-59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 90 Days**	**Total Past Due**	**Current**	**Total Loans Receivables**	**Loans Receivable >90 Days and Accruing**
Commercial term	**$ -**	**$ -**	**$ -**	**$ -**	**$ 38,682**	**$ 38,682**	**$ -**
Commercial mortgage	**-**	**833**	**-**	**833**	**223,667**	**224,500**	**-**
Commercial line	**-**	**-**	**694**	**694**	**19,971**	**20,665**	**-**
Construction	**-**	**-**	**-**	**-**	**61,250**	**61,250**	**-**
Home equity	**25**	**-**	**57**	**82**	**2,658**	**2,740**	**-**
Consumer	**212**	**42**	**637**	**891**	**20,046**	**20,937**	**-**
	$ 237	**$ 875**	**$ 1,388**	**$ 2,500**	**$ 366,274**	**$ 368,774**	**$ -**

The following table presents an aging of the payment status of the Bank's loans as of December 31, 2022 (in thousands):

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivables	Loans Receivable >90 Days and Accruing
Commercial term	$ -	$ -	$ -	$ -	$ 35,782	$ 35,782	$ -
Commercial mortgage	-	-	85	85	196,074	196,159	-
Commercial line	-	-	-	-	22,001	22,001	-
Construction	-	-	-	-	48,659	48,659	-
Home equity	3	-	-	3	3,933	3,936	-
Consumer	117	2	-	119	24,737	24,856	-
	$ 120	$ 2	$ 85	$ 207	$ 331,186	$ 331,393	$ -

Loans pledged at December 31, 2023 and 2022 had a carrying amount of $257 million and $295 million and were pledged to secure FHLB advances.

The following table is a summary of the Bank's nonaccrual loans by major categories for the periods indicated (in thousands).

	CECL December 31, 2023			Incurred Loss December 31, 2022
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans	Nonaccrual Loans
Commercial term	$ -	$ -	$ -	$ -
Commercial mortgage	-	786	786	85
Commercial line	-	694	694	-
Construction	-	-	-	-
Home equity	57	-	57	-
Consumer	613	23	636	-
Total	$ 670	$ 1,503	$ 2,173	$ 85

Interest income recognized on loans on non-accrual status during the year ended December 31,2023 was $113,000. There was no interest income recognized on loans on non-accrual status during the year ended December 31, 2022. Additional interest income that would have been recognized on non-accrual loans, had the loans been performing in accordance with the original terms of their contracts totaled $37,000 and $5,000 for the years ended December 31, 2023 and 2022, respectively.

As of December 31, 2023 and 2022, there are no foreclosed assets. As of December 31, 2023 and 2022, the Bank has not initiated formal foreclosure proceedings on any consumer residential mortgages.

The Bank closely monitors the performance of all loans that are modified to borrowers experiencing financial difficulty to better understand the effectiveness of its modification efforts. These modifications may or may not extend the term of the loan, provide for an adjustment to the interest rate, lower the payment amount, or otherwise delay payments during a defined period for the purpose of providing borrowers additional time to return to compliance with the original loan terms.

There were no loans experiencing financial difficulty that were modified during the year ended December 31, 2023.

Prior to the adoption of ASU 2022-02, the restructuring of a loan was considered a troubled debt restructuring if both (1) the borrower was experiencing financial difficulties and (2) the creditor had granted a concession. The adoption of ASU 2022-02 on January 1, 2023 replaced the accounting for troubled debt restructurings with modified loans with financial difficulties.

There were no troubled debt restructurings during the year ended December 31, 2022.

The following table summarizes the activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023 (in thousands):

($ in thousands)		Total Allowance for Credit Losses – Unfunded Loan Commitments
Beginning balance at December 31, 2022	$	-
Adjustment due to the adoption of CECL		-
Charge-offs		-
Recoveries		-
Provision for credit losses		78
Ending balance at December 31, 2023	$	78

Prior to January 1, 2023, the reserve for unfunded commitment was deemed to be immaterial and not report.

Loan Sales

The Bank originates and sells loans secured by the SBA. The Bank retains the unguaranteed portion of the loan and the servicing on the loans sold and receives a fee based upon the principal balance outstanding. During the years ended December 31, 2023 and 2022, the Bank sold SBA loans held for sale for total proceeds of $1,199,000 and $222,000, respectively. The SBA loan sales resulted in realized gains of $108,000 and $19,000 for the years ended December 31, 2023 and 2022, respectively. There were no SBA loans held for sale at December 31, 2023 and 2022.

During the year ended December 31, 2023 and 2022, the Bank sold non-SBA loans for total proceeds of $0 and $355,000 and recorded a gain of $0 and 18,000, respectively.

Loans serviced for others are not included in the accompanying Consolidated Balance Sheets. The risks inherent in the servicing assets included in the other assets on the balance sheet relate primarily to changes in prepayments that result from shifts in interest rates. The unpaid principal balances of loans serviced for others were $3,835,000 and $4,819,000 at December 31, 2023 and 2022, respectively.

5. Bank Premises and Equipment

The components of premises and equipment at December 31, 2023 and 2022 are as follows (in thousands):

	Estimated Useful Lives		2023		2022
Land		**$**	**1,200**	$	1,200
Leasehold improvements	**10 - 20 years**		**1,089**		1,040
Building	**40 years**		**1,687**		1,687
Computer equipment and software	**3 - 5 years**		**1,435**		1,383
Automobiles	**3 years**		**268**		268
Bank unique equipment	**5 years**		**279**		259
Furniture, fixtures and equipment	**3 - 10 years**		**427**		425
			6,385		6,262
Accumulated depreciation			**(3,368)**		(3,067)
		$	**3,017**	$	3,195

Depreciation and amortization expense charged to operations amounted to $301,000 and $320,000 for the years ended December 31, 2023 and 2022, respectively and is included within occupancy and equipment on the Statements of Income.

6. Deposits

The components of deposits at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Demand, non-interest bearing	**$ 55,022**	$ 73,793
Demand interest bearing	**63,387**	72,327
Money market accounts	**118,384**	132,129
Savings accounts	**58,728**	73,113
Time, $250 and over	**19,337**	16,189
Time, other	**49,174**	12,393
	$ 364,032	$ 379,944

At December 31, 2022, the scheduled maturities of time deposits are as follows (in thousands):

Years ending December 31,	
2024	$ 57,311
2025	10,378
2026	500
2027	291
2028	31
Thereafter	-
	$ 68,511

The Bank had brokered deposits of $15,065,000 included in time deposits at December 31, 2023. The Bank did not have any brokered deposits at December 31, 2022.

At December 31, 2023 and 2022, the Bank reclassified overdrafts from deposits of approximately $14,000 and $78,000, respectively.

7. Borrowings

The Holding Company has a $2,500,000 unsecured line of credit with a correspondent bank with an interest rate of Prime plus 0.25%. There was no outstanding balance as of December 31, 2023 and 2022, respectively.

The Bank has a $5,000,000 unsecured federal funds overnight line of credit with a correspondent bank with an interest rate of 6.5% at December 31, 2023. There was no outstanding balance as of December 31, 2023 and 2022, respectively.

The Bank has an agreement with the Federal Home Loan Bank of Pittsburgh ("FHLB") which allows for borrowings up to a percentage of qualifying assets. All FHLB advances are collateralized by a security agreement covering qualifying loans. As of December 31, 2023, qualifying loans totaled $256,744,000. In addition, all FHLB advances are secured by the FHLB capital stock owned by the Bank having a par value of $2,531,000 and $1,050,000 at December 31, 2023 and 2022, respectively. The Bank can borrow a maximum of $209,489,000 from the FHLB. There were short-term borrowings outstanding of $32,450,000 and $0 at December 31, 2023 and 2022, respectively.

Long-term borrowings at December 31, 2023 and 2022 consisted of FHLB borrowings with the following maturity dates and interest rates:

		2023		2022
Fixed note at 1.13%, maturing on March 4, 2025	$	**3,750**	$	3,750

Subordinated Debt

On March 14, 2019, the Corporation closed a pooled private offering of $3 million of subordinated debt, net of offering costs of $25,000. Offering costs are amortized using the effective interest method and included within interest expense on the Consolidated Statements of Income. Unamortized offering costs were $12,700 and $15,000 at December 31, 2023 and 2022, respectively. The Bank may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $100,000, on or after March 14, 2024, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on March 14, 2029. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement.

The subordinated debt may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures had a fixed rate of interest of 6.5% through March 14, 2024, at which time the interest rate will float quarterly at the Secured Overnight Financing rate ("SOFR") plus 390 basis points until the debt is paid off or matures. The debt is subordinated to the claims of general creditors, is unsecured, and is ineligible as collateral for a loan by the Bank.

On June 23, 2020, the Corporation closed a pooled private offering of $10 million of subordinated debt, net of offering costs of $241,000. Unamortized offering costs were $156,728 and $181,000 at December 31, 2023 and 2022, respectively. Offering costs are amortized using the effective interest method and included within interest expense on the Consolidated Statements of Income. The Bank may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of $100,000, on or after June 30, 2025, at 100% of the principal amount, plus accrued and unpaid interest. The subordinated debentures mature on June 30, 2030. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the Subordinated Loan Agreement.

The subordinated debt may be included in Tier 2 capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The subordinated debentures had a fixed rate of interest of 6.25% through June 30, 2025, at which time the interest rate will bear interest at a rate equal to the 3-month SOFR plus 613 basis points until the debt is paid off or matures. The debt is subordinated to the claims of general creditors, is unsecured, and is ineligible as collateral for a loan by the Bank.

Subordinated debt of $3 million is scheduled to mature in 2029 and $10 million is scheduled to mature in 2030.

8. Federal Income Taxes

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

		2023		2022
Current	$	518	$	897
Deferred		69		66
	$	587	$	963

A reconciliation of the statutory federal income tax at a rate of 21% to federal income tax expense included in the statements of income for the years ended December 31, 2023 and 2022 are as follows (in thousands):

		2023		2022
Federal income tax at statutory rate	$	573	$	979
Bank owned life insurance income		(38)		(33)
Non-deductible dues		2		4
Non-deductible meals and entertainment		29		19
Other		21		(6)
	$	587	$	963

The components of the net deferred tax asset at December 31, 2023 and 2022 are as follows (in thousands):

	2023	2022
Deferred tax assets:		
Allowance for credit losses	$ 670	$ 618
Organization and start-up costs	-	1
Nonqualified stock options	43	43
Net operating losses	434	-
Other	3	-
Unrealized loss on available-for-sale securities	520	537
Total deferred tax assets	1,670	1,199
Valuation Allowance	(434)	-
Net deferred tax assets	1,236	1,199
Deferred tax liabilities:		
Depreciation	(119)	(118)
Deferred loan costs	(105)	(105)
Servicing asset	(11)	(11)
Total deferred tax liabilities	(235)	(234)
Net Deferred Tax Asset, Included in Other Assets	**$ 1,001**	$ 965

The realization of deferred tax assets is largely dependent upon future taxable income, future reversals of existing taxable temporary differences and the ability to carryback losses to available tax years. In assessing the need for a valuation allowance, we consider positive and negative evidence, including taxable income in carry-back years, scheduled reversals of deferred tax liabilities, expected future taxable income and tax planning strategies. It was determined that a full valuation allowance was needed for state net operating loss carryforwards at December 31, 2023.

9. Transactions with Executive Officers, Directors and Principal Stockholders

The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties). There were loans receivable from related parties totaling $3,546,000 and $3,556,000 at December 31, 2023 and 2022, respectively. Loans originated for related parties totaled $422,000 and $239,000 and payments received were $432,000 and $402,000 for the years ended December 31, 2023 and 2022, respectively. Deposits of related parties totaled $3,568,000 and $3,841,000 as of December 31, 2023 and 2022, respectively.

10. Share-Based Compensation

In 2013, the Board of Directors adopted the 2013 Equity Incentive Plan ("2013 Plan"). Under the 2013 Plan 228,000 shares were available to be issued in the form of performance awards that can be settled in stock or cash, restricted stock and restricted stock units, incentive stock options, non-qualified stock options, and stock appreciation rights. The awards under the plan vest over a period up to 7 years.

The following table summarizes stock option activity for the year ended December 31, 2023:

	Shares		Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term
Outstanding, January 1, 2023	161,000	$	7.29	6
Granted	-		-	
Exercised	-		-	
Forfeited	(1,000)		7.25	
Outstanding, December 31, 2023	160,000		7.25	5
Exercisable, December 31, 2023	90,852	$	7.28	5

At December 31, 2023 and 2022, the intrinsic value of the 160,000 and 161,000 options outstanding was $649,000 and $1,218,210, respectively.

Information regarding share-based compensation for the year ended December 31, 2023 is set forth below:

		2023
Stock based compensation expense recognized	$	**56,000**
Number of unvested stock options		**69,000**
Amount remaining to be recognized as expense	$	**118,000**

The stock based compensation recognized in earnings in 2023 and 2022 was $56,000 and $56,000, respectively. The remaining amount of $118,000 will be recognized over a weighted average period of 5 years.

Victory Bank entered into a Supplemental Executive Retirement Plan (SERP) with the CEO that provides annual retirement benefits starting December 31, 2018 and continuing until the earlier of a Separation of Service or January 1, 2028. The SERP requires the Bank to provide an Annual Contribution and Interest Credit on each December 31. The Bank accrued $373,000 and $301,000 SERP liability as of December 31, 2023 and December 31, 2022, respectively which is included in Accrued interest payable and other liabilities. The related expense is recorded in Salaries and employee benefits.

11. Commitments and Contingencies

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The following off-balance sheet financial instruments whose contract amounts represent credit risk at December 31, 2023 and 2022 (in thousands):

	2023	2022
Unfunded commitments under lines of credit	$ 82,482	$ 77,781
Unfunded commitments under letters of credit	2,281	1,143

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include personal or commercial real estate, accounts receivable, inventory and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The amount of the liability as of December 31, 2023 and 2022 for guarantees under standby letters of credit is not material.

The Corporation, in the normal course of business, may be subject to various pending and threatened lawsuits in which claims for monetary damages are asserted. The Corporation is not involved in any legal proceedings which, in management's opinion, could have a material effect on the consolidated financial position of the Corporation.

The Bank maintains an allowance for credit loss for unfunded loan commitments which is included in the balance of other liabilities in the Consolidated Balance Sheets. The allowance for credit loss for unfunded loan commitments is determined as part of the monthly allowance for credit loss analysis. See Note 1 and Note 4 for further detail.

12. Regulatory Matters

The Corporation and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's consolidated financial statements. Under capital 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.

The U.S. Basel III Capital Rules requires the Corporation and the Bank to:

- Meet a minimum Common Equity Tier 1 capital ratio of 4.50% of risk-weighted assets and a Tier 1 capital ratio of 6.00% of risk-weighted assets;

- Meet a minimum total capital ratio of 8.00% of risk-weighted assets and a minimum Tier 1 leverage capital ratio of 4.00% of average assets;

- Maintain a capital conservation buffer of 2.50% above the minimum risk-based capital requirement to avoid restrictions on capital distributions and certain discretionary bonus payments; and

- Comply with a revised definition of capital to improve the ability of regulatory capital instruments to absorb losses. Certain non-qualifying capital instruments, including cumulative preferred stock and trust preferred securities, are excluded as a component of Tier 1 capital for institutions of the Corporation's size.

The U.S. Basel III Capital Rules use a standardized approach for risk weightings that expands the risk-weightings for assets and off-balance sheet exposures from the previous 0%, 20%, 50% and 100% categories to a much larger and more risk-sensitive number of categories, depending on the nature of the assets and off-balance sheet exposures and resulting in higher risk weights for a variety of asset categories.

As of December 31, 2023, the Bank met the applicable minimum requirements of the U.S. Basel III Capital Rules, and each of the Bank's capital ratios exceeded the amounts required to be considered "well capitalized" as defined in the regulations. As of December 31, 2023, the Bank's capital levels met the fully-phased in minimum capital requirements, including the capital conservation buffers.

A comparison of the Corporation's and the Bank's actual capital amounts to the regulatory requirements as of December 31, 2023 and 2022 are presented below (in thousands):

December 31, 2023	**Actual**		**For Capital Adequacy Purposes**		**Minimum Capital Adequacy with Capital Buffer**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk weighted assets)								
The Victory Bancorp, Inc.	**$ 46,258**	**11.84%**	**$ ≥31,253**	**≥8.00%**	**$** N/A	N/A	**$ N/A**	N/A
The Victory Bank	**44,966**	**11.51%**	**≥31,253**	**≥8.00%**	**≥41,020**	**≥10.50%**	**≥39,067**	**≥10.00%**
Tier 1 capital (to risk weighted assets)								
The Victory Bancorp, Inc.	**$ 29,906**	**7.66%**	**$ ≥23,440**	**≥6.00%**	**$** N/A	N/A	**$ N/A**	N/A
The Victory Bank	**41,444**	**10.61%**	**≥23,440**	**≥6.00%**	**≥33,207**	**≥8.50%**	**≥31,253**	**≥8.00%**
Common equity Tier 1 capital (to risk-weighted assets)								
The Victory Bancorp, Inc.	**$ 29,906**	**7.66%**	**$ ≥17,580**	≥4.50%	**$** N/A	N/A	**$** N/A	N/A
The Victory Bank	**41,444**	**10.61%**	**≥17,580**	**≥4.50%**	**≥27,347**	**≥7.00%**	**≥25,393**	**≥6.50%**
Tier 1 capital (to average assets)								
The Victory Bancorp, Inc.	**$ 29,906**	**6.93%**	**$** ≥17,250	≥4.00%	**$** N/A	N/A	**$** N/A	N/A
The Victory Bank	**41,444**	**9.61%**	**≥17,250**	**≥4.00%**	**≥17,250**	**≥4.00%**	**≥21,562**	**≥5.00%**

December 31, 2022	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)								
The Victory Bancorp, Inc.	$ 44,300	12.65%	$ ≥28,024	≥8.00%	$ N/A	N/A	$ N/A	N/A
The Victory Bank	42,927	12.25%	≥28,024	≥8.00%	≥36,782	≥10.50%	≥35,030	≥10.00%
Tier 1 capital (to risk weighted assets)								
The Victory Bancorp, Inc.	$ 28,221	8.06%	$ ≥21,018	≥6.00%	$ N/A	N/A	$ N/A	N/A
The Victory Bank	39,652	11.32%	≥21,018	≥6.00%	≥29,776	≥8.50%	≥28,024	≥8.00%
Common equity Tier 1 capital (to risk-weighted assets)								
The Victory Bancorp, Inc.	$ 28,221	7.66%	$ ≥15,760	≥4.50%	$ N/A	N/A	$ N/A	N/A
The Victory Bank	39,652	9.38%	≥15,760	≥4.50%	≥24,521	≥7.00%	≥22,770	≥6.50%
Tier 1 capital (to average assets)								
The Victory Bancorp, Inc.	$ 28,221	6.68%	$ ≥16,903	≥4.00%	$ N/A	N/A	$ N/A	N/A
The Victory Bank	39,652	9.38%	≥16,903	≥4.00%	≥16,903	≥4.00%	≥21,129	≥5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may declare due to regulatory considerations. The Pennsylvania Banking Code provides that cash dividends may be declared and paid only out of accumulated net earnings.

13. Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been re-evaluated or updated for purposes of these financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year end.

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Accounting guidance defines the fair value of a financial instrument as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instruments.

The definition of fair value focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. A three-level hierarchy exists for fair value measurements based upon the inputs to the valuation of an asset or liability. The classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Fair Value Hierarchy

The Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

Level 1 - Valuation is based on unadjusted quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2023		**Total**		**(Level 1)**		**(Level 2)**		**(Level 3)**
Available-for-sale:								
Corporate Bonds	**$**	**7,479**	**$**	**-**	**$**	**7,479**	**$**	**-**
Residential mortgage-backed securities - GSE		**14,179**		**-**		**14,179**		**-**
U.S. government agency		**9,804**		**-**		**9,804**		**-**
State and Political Subdivisions		**4,428**		**-**		**4,428**		**-**
Total	**$**	**35,890**	**$**	**-**	**$**	**35,890**	**$**	**-**

December 31, 2022		Total		(Level 1)		(Level 2)		(Level 3)
Available-for-sale:								
Corporate Bonds	$	7,731	$	-	$	7,731	$	-
Residential mortgage-backed securities - GSE		15,750		-		15,750		-
U.S. government agency		10,839		-		10,839		-
State and Political Subdivisions		4,563		-		4,563		-
Total	$	38,883	$	-	$	38,883	$	-

The Bank’s available-for-sale investment securities, which includes debt securities and mortgage-backed securities, are reported at fair value. These securities are valued by an independent third party. The valuations are based on market data. They utilize evaluated pricing models that vary by asset and incorporate available trade, bid and other market information. For securities that do not trade on a daily basis, their evaluated pricing applications apply available information such as benchmarking and matrix pricing. The market inputs normally sought in the evaluation of securities include benchmark yields, reported trades, broker/dealer quotes (only obtained from market makers or broker/dealers recognized as market participants), issuer spreads, two-sided markets, benchmark securities, bid, offers and reference data. For certain securities additional inputs may be used or some market inputs may not be applicable. Inputs are prioritized differently on any given day based on market conditions.

There were no transfers between Levels 1, 2, and 3 during the years ended December 31, 2023 and 2022.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used are as follows (in thousands):

December 31, 2023		**Level 1**		**Level 2**		**Level 3**		**Total**
Individually evaluated loans	**$**	**-**	**$**	**-**	**$**	**544**	**$**	**544**

December 31, 2022		Level 1		Level 2		Level 3		Total
Impaired loans	$	-	$	-	$	73	$	73

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank has utilized Level 3 inputs to determine fair value (dollars in thousands):

December 31, 2023		**Fair Value Estimate**	**Valuation Technique**	**Unobservable Input**	**Range[(1)] (Weighted Average)**
Individually evaluated loans – valued at collateral value	**$**	**544**	**Appraisal of collateral**	**Appraisal adjustments**	**10**%

December 31, 2022		Fair Value Estimate	Valuation Technique	Unobservable Input	Range[(1)] (Weighted Average)
Impaired loans – valued at collateral value	$	73	Appraisal of collateral	Liquidation expenses and valuation of property	10%

(1) In each of the years presented only one loan was measured at fair value. As such, range and weighted average are not applicable.

The following information should not be interpreted as an estimate of the fair value of the entire Bank since a fair value calculation is only provided for a limited portion of the Bank's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Bank's disclosures and those of other companies may not be meaningful.

The fair values, and related carrying amounts, of the Bank's financial instruments were as follows at December 31, 2023 and 2022 (in thousands):

		2023		2022	
	Level in Fair Value Hierarchy	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets					
Cash and cash equivalents	Level 1	$ 14,538	$ 14,538	$ 11,054	$ 11,054
Securities available-for-sale	Level 2	35,890	35,890	38,883	38,883
Securities held-to-maturity	Level 2	12,041	11,686	12,883	12,328
Restricted investments in bank stocks	Level 3	3,203	3,203	1,738	1,738
Loans receivable, net	Level 3	364,383	361,731	327,366	320,218
Accrued interest receivable	Level 2	1,613	1,613	1,356	1,356
Investment broker receivable	Level 2	-	-	20,123	20,123
Liabilities					
Demand deposits	Level 1	295,521	295,521	351,326	351,326
Time deposits	Level 2	68,511	39,453	28,528	23,835
Debt	Level 2	36,200	36,118	3,750	3,491
Subordinated debt	Level 2	12,830	13,169	12,804	12,790
Accrued interest payable	Level 2	230	230	18	18
Off Balance Sheet Asset (Liability)					
Commitments to extend credit		-	-	-	-
Standby letters of credit		-	-	-	-

14. Revenue Recognition

All of the Bank's revenues that are in the scope of the "Revenue from Contracts with Customers' accounting standard (ASC 606) are recognized within noninterest income. ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as gains or losses on sale of loans and securities are not in scope of the guidance. ASC 606 applicable noninterest revenue streams such as deposit related fees and interchange fees are recognized when the Bank's performance obligations have been satisfied, either on an individual transaction basis or ratably over a period of time. Substantially all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of ASC 606 are discussed below.

Service Charges and Activity Fees on Deposits

Service charges on deposit accounts consist of monthly ATM Income, Wire Transfer Fees, Non-Sufficient Funds Charges, and other Deposit related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Revenue is primarily transactional and recognized when earned, which is at the time the respective initiating transaction occurs and the related service charge is subsequently processed. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, when the service is provided. The Bank's performance obligation for wire transfers and returned deposit fees, are largely satisfied, and related revenue recognized, when the services are rendered. Payment is typically received immediately or in the following month.

Other

Other fees are primarily comprised of Remote/Mobile Deposit Fees and other service charges. Other noninterest income consists primarily of other non-recurring revenue which is not recorded in the categories listed above. This revenue is miscellaneous in nature and is recognized as income upon receipt.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of Topic 606, for the years ended December 31, 2023 and 2022.

		2023		2022
Non-Interest Income				
In-scope of Topic 606				
Service Charges and Activity Fees	**$**	**223**	$	235
Other		**46**		40
Non-Interest Income (in-scope of Topic 606)		**269**		275
Non-Interest Income (out-of-scope of Topic 606)		**341**		(320)
Total Non-Interest (Loss) Income	**$**	**610**	$	(45)

Contract Balances

A contract asset balance occurs when an entity performs a service for a customer before the customer pays consideration (resulting in a contract receivable) or before payment is due (resulting in a contract asset). A contract liability balance is an entity's obligation to transfer a service to a customer for which the entity has already received payment (or payment is due) from the customer. The Bank's noninterest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Bank satisfies its performance obligation and revenue is recognized. The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and December 31, 2022, the Bank did not have any contract balances.

Contract Acquisition Costs

The Bank expenses contract acquisition costs immediately because the contract life is one year or less.

NOTES

BOARD OF DIRECTORS

Matthew "Bo" Bates
Chief Executive Officer
Evans Network & Companies

Michael A. Eddinger
Principal and Co-Owner
Suburban Water Technology

Steven D. Gilmore, P.E.
Chairman of the Board
Gilmore and Associates, Inc

"One of the most important values we share is a commitment to constant learning and growth for all members of our team."

Kevin L. Johnson
President
Traffic Planning and Design, Inc.

Kenneth Lawrence
Senior Vice President
Corporate Affairs, Highmark Health

Joseph W. Major
President, Chairman of the Board, and Bank Leader
The Victory Bank

Laurie E. Tolle, CPA
Managing Partner
Maillie LLP

Mary Beth Touey
Retired Controller
Women's Health Care Group of PA

Dennis R. Urffer, CPA
Retired Senior Director
HBK CPAs & Consultants

SENIOR LEADERSHIP TEAM

Alexander S. Kroll
Chief Lending Officer

Benjamin M. Major
Chief Information Officer and Director of Marketing

Robert H. Schultz
Chief Financial Officer

Shelly Stockmal
Victory Bank Community Leader

Jon G. Swearer
Chief Credit Officer

THE VICTORY BANK TEAM

COMMERCIAL TEAM

Alexander S. Kroll, Chief Lending Officer and Market President, Central Region, SVP
Tony D'Antonio, Market President, Western Region, SVP
H. Steen Woodland II, Market Senior Executive Lender for the Eastern Market Region, SVP
Michael Johnson, President of the Eastern Market Region, SVP
Amanda Agudio, Relationship Assistant
Sarah Elaine Benson, Commercial Loan Portfolio Manager, AVP
Amanda Boulden, Relationship Assistant
Raynaldo Crespo, Commercial Relationship Manager, VP
Dana Crouse, Commercial Relationship Manager, VP
John H. Dean, Commercial Relationship Manager, VP
Richard J. Devine, Commercial Relationship Manager, VP
Joseph A. Giunta, Business Development
Rosalia Hoffman, Business Development, Bank Officer
Kathleen A. Kutufaris, Relationship Assistant
Michael Larimer, Commercial Relationship Manager, VP
John A. Pergolin Jr., Senior Commercial Relationship Manager, SVP
Vincent B. Raffeo, Business Development
Mary Ann Riggins, Business Development
Michael Senico, Senior Commercial Relationship Manager, SVP
William Shipp, Business Development, VP
Sharon Stofflet, Commercial Loan Portfolio Manager, Bank Officer
Germaine Walsh, Executive Commercial Lending Assistant
J. Jennifer Yoo, Commercial Relationship Manager, VP

OPERATIONS TEAM

Robert H. Schultz, CFO, COO, and Compliance Officer, Executive Officer
Chelsea Haas, Deposit Operations Specialist
Pamela S. Havrilla, Loan Administration Manager, VP
Mary Locricchio, Deposit Operations Manager, AVP
Danielle L. Millar, Loan Documentation Manager, Bank Officer
Dana M. Perrott, Loan Documentation Specialist II, Bank Officer
Diana E. Scott, BSA Officer, VP
Sally Shirk, Loan Operations Manager, Bank Officer
Ana Valderrabano, Staff Accountant
Tyler Walsh, BSA Analyst and Deposit Operations Specialist

RETAIL TEAM

Shelly Stockmal, Chief HR & Retail Officer, SVP
Elizabeth A. Knott, Retail Branch and Customer Care Center Manager, VP
Stephanie Frederick, Retail Assistant Branch Manager, Bank Officer
Matthew C. Hicks, Personal Banker
Owen M. Magers, Customer Care Center Representative
Christine Popilock, Personal Banker II
Patrick Ryan, Courier
Lindsey R. Smith, Personal Banker II, Bank Officer

INSTITUTIONAL DEPOSITS

William J. Vitiello, Jr., Director of Strategic Relationships, VP

CREDIT TEAM

Jon G. Swearer, Chief Credit Officer, SVP
Kyle B. Carr, Junior Credit Analyst
Allison M. Davis, Junior Credit Analyst
Debra J. Frederick, Senior Credit Analyst
Katelyn M. Gress, Credit Analyst
Kimberly M. Grohosky, Credit Department Manager, VP
Aimee R. Kibbler, Credit Analyst
Brian W. Meyer, Senior Credit Analyst, VP

ADMINISTRATIVE TEAM

Joseph W. Major, Bank Leader, President, CEO & Chairman
Kelly L. Taylor, Executive Assistant/Investor Relations, AVP

INFORMATION TECHNOLOGY/ MARKETING

Benjamin M. Major, Chief Information Officer and Director of Marketing
Nicole H. Crocker, Marketing Manager & System Administrator, Bank Officer

IN MEMORIAM

Robert L. Brant
1955-2023

We deeply mourn the loss of Bank Director Robert L. Brant, a distinguished attorney and beloved member of our community. His work at Robert L. Brant & Associates, LLC in zoning, land use, and municipal law positively impacted our area. He was a respected Special Counsel for various municipalities, leaving a lasting mark through his integrity and legal insight. Beyond his legal career, Robert's dedication extended to his roles as an Emeritus Trustee of Ursinus College, a board member of Gilmore & Associates, Inc., and notably, The Victory Bank.

Bob joined the organizational team of the bank over a year before its opening, and as a committed board member provided ideas, wisdom and friendship. He was a student of the human condition, an historian, a mentor, a friend and a wise leader. Without his energy, guidance, good judgement and sense of humor, our lives would have been far considerably emptier, and our success much more limited.

We extend our heartfelt condolences to his family and all who knew him. His principles and memory will forever guide our community with excellence.

610.948.9000
VictoryBank.com

548 N. Lewis Rd.
Limerick, PA 19468

Transfer Agent

Market Makers

OTCQX:VTYB