National Capital Bancorp, Inc.

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2023 FINANCIAL REPORT

& PRESIDENT'S LETTER

NATIONAL CAPITAL BANCORP, INC.

To our Shareholders, Customers, and Friends,

As we embark on a new year, I am thrilled to reflect on the remarkable achievements and milestones we have reached together at National Capital Bank. In my inaugural year as National Capital Bank's President and CEO, I am proud of our commitment to providing the best products and services to our customers while staying dedicated to the communities we serve.

During the first and second quarters, we navigated the liquidity crisis with resilience and strategic foresight. Our sound financial practices, coupled with the work of our talented team, ensured stability of National Capital Bank. We remain vigilant, adapting to changing circumstances and maintaining our focus on delivering value to our stakeholders. Through the course of the year, we have responded to the rise of interest rates, implementing prudent strategies to navigate these changes effectively. We have worked to provide competitive products and services that align with the financial goals of our customers.

Throughout the year we placed an emphasis on providing an excellent banking experience by successfully implementing process efficiencies by leveraging key FIS core banking system platforms. These initiatives have streamlined our operations while enhancing the overall efficiency of our banking process. Connections, our Client Relationship Management (CRM) solution, has proven instrumental in empowering our commercial and retail teams. This system enables better management of customer interactions and the seamless sharing of information, ultimately enhancing our customer-centric approach. The Collaboration Hub has been a pivotal addition, providing secure document management, while improving the customer experience. Ensuring heightened security, our website now has a .BANK domain, along with a fresh, modern look, and improved navigation.

In our ongoing commitment to supporting community organizations, the National Capital Bank Community Donor Directed Fund continued to make a difference, donating to various non-profits who work to make a positive impact in the communities we serve. Our team served the community through volunteer hours, being recognized by the Washington Business Journal for the 5th consecutive year for our volunteerism and charitable giving.

Our focus on growth is evident with the robust expansion of our balance sheet. Loans saw an increase of $72 million (16.9%). Our performance was marked by a 17.1% increase in pre-provision earnings, driven by a 5.5% rise in operating revenue and a measured 2.1% increase in operating expenses. Importantly, our credit quality remained stalwart, with no charge-offs in 2023 and no non-performing loans at year-end.

Our year's accomplishments represent a collective effort by the entire team. As we look ahead, we remain committed to the core principles of growth, profitability, shareholder value, and steadfast support for the communities we serve.

Thank you for your continued trust and investment in National Capital Bank.

Jimmy Olevson
President and CEO,
The National Capital Bank of Washington

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The Board of Directors
National Capital Bancorp, Inc.
Washington, D.C.

Opinion

We have audited the consolidated financial statements of National Capital Bancorp, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 Consolidated 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, on January 1, 2023, the Company adopted Accounting Standards Update 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated 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 these consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audits of the Consolidated 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

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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 National Capital Bancorp, Inc.'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.

FORVIS, LLP

Tysons, Virginia
February 29, 2024

December 31, 2023 and 2022

Assets	**2023**	2022
Cash and due from banks	**$ 2,050,453**	$ 1,884,439
Interest-bearing deposits	**41,681,637**	35,069,065
Total cash and cash equivalents	**43,732,090**	36,953,504
Investment securities:		
Available-for-sale, at fair value	**67,038,733**	84,714,497
Held-to-maturity, (fair value of $57,530,519 and $61,145,125, net of allowance for credit losses of $5,000 and $0, as of December 31, 2023 and December 31, 2022, respectively)	**67,109,635**	72,343,639
Restricted stock, at cost	**1,621,700**	670,950
Total investment securities	**135,770,068**	157,729,086
Loans held for sale	**786,000**	-
Loans receivable, net of allowance for credit losses of $5,450,000 and $5,069,312 at December 31, 2023 and 2022, respectively	**491,532,062**	420,080,107
Bank premises and equipment, net	**6,661,790**	7,145,781
Bank-owned life insurance	**14,402,429**	12,609,903
Deferred income taxes	**4,769,717**	5,083,256
Accrued interest and other assets	**5,397,043**	4,554,664
Total Assets	**$ 703,051,199**	$ 644,156,301
Liabilities and Shareholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	**$ 165,362,020**	$ 208,041,822
Interest-bearing	**415,287,237**	363,709,579
Total deposits	**580,649,257**	571,751,401
Securities sold under agreements to repurchase	-	7,274,013
FHLB borrowings	**17,000,000**	-
FRB borrowings	**35,000,000**	-
Subordinated debt, net of unamortized debt issuance cost of $266,255 and $321,028 at December 31, 2023 and 2022, respectively	**13,733,745**	13,678,972
Accrued interest and other liabilities	**3,298,493**	3,123,779
Total Liabilities	**649,681,495**	595,828,166
Commitments and contingent liabilities	**-**	-
Shareholders' Equity:		
Common stock, $0.01 par value per share: 3,000,000 shares authorized, 287,602 and 287,300 issued and outstanding at December 31, 2023 and 2022, respectively	**2,876**	2,873
Additional paid-in capital	**1,578,343**	1,490,725
Retained earnings	**61,505,528**	58,185,075
Accumulated other comprehensive income (loss)	**(9,717,043)**	(11,350,538)
Total Shareholders' Equity	**53,369,704**	48,328,135
Total Liabilities and Shareholders' Equity	**$ 703,051,199**	$ 644,156,301

See Notes to Consolidated Financial Statements.

Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income:		
Loans, including fees	$ 24,225,207	$ 18,030,975
Investment securities	3,096,040	3,194,287
Interest-bearing deposits	1,199,321	1,221,663
Total interest income	28,520,568	22,446,925
Interest Expense:		
Deposits	6,162,104	1,436,377
Borrowings	1,517,509	589,541
Total interest expense	7,679,613	2,025,918
Net interest income	20,840,955	20,421,007
Provision for (recovery of) credit losses	210,000	(891,000)
Net interest income after provision for (recovery of) credit losses	20,630,955	21,312,007
Noninterest Income:		
Service charges on deposit accounts	211,466	216,463
Other service charges and fees	238,697	96,485
Rental income	1,381,229	1,224,381
Asset management fees	1,899,402	1,799,958
Net gain (loss) on sale of securities	(789,152)	(392,946)
Net gain on sale of loans	74,619	-
Net gain on sale of assets	835,566	-
Bank owned life insurance income	292,526	213,409
Other income	160,036	162,856
Total noninterest income	4,304,389	3,320,606
Noninterest Expense:		
Salaries and employee benefits expense	12,611,595	12,418,964
Occupancy expense	1,500,771	1,596,250
Equipment expense	426,321	439,559
Professional fees	1,223,671	1,240,663
FDIC assessments	279,000	233,000
Data processing expense	1,554,630	1,251,644
Insurance expense	155,988	137,998
Other expense	1,410,975	1,316,475
Total noninterest expense	19,162,951	18,634,553
Income before income taxes	5,772,393	5,998,060
Provision for Income Taxes	1,409,037	1,410,512
Net income	$ 4,363,356	$ 4,587,548
Basic and Diluted Earnings Per Share of Common Stock	$ 15.17	$ 15.98
Average Shares Outstanding	287,622	287,115
Dividends	$ 2.40	$ 2.40

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

Years Ended December 31, 2023 and 2022

	2023	2022
Net Income	**$ 4,363,356**	$ 4,587,548
Other comprehensive income (loss):		
Unrealized gains (losses) on securities available for sale	**1,090,659**	(11,479,200)
Tax effect	**(304,896)**	3,056,486
Reclassification adjustment for net loss (gains) included in income	**789,152**	392,946
Tax effect	**(209,212)**	(104,681)
Unrealized loss on securities transferred to held-to-maturity	**-**	(3,831,739)
Tax effect	**-**	1,020,775
Amortization of unrealized loss on securities transferred to held-to-maturity	**370,123**	569,897
Tax effect	**(102,331)**	(151,821)
Total other comprehensive income (loss)	**1,633,495**	(10,527,337)
Total Comprehensive Income (Loss)	**$ 5,996,851**	$ (5,939,789)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2023 and 2022

	Common Stock		Additional Paid-In	Retained	Accumulated Other Comprehensive	
	Shares	Amount	Capital	Earnings	Income (Loss)	Total
Balances, January 1, 2022	286,457	$ 2,865	$ 1,387,920	$ 54,286,660	$ (823,201)	$ 54,854,244
Net income	-	-	-	4,587,548	-	4,587,548
Other comprehensive income (loss), net of tax	-	-	-	-	(10,527,337)	(10,527,337)
Stock-based compensation	843	8	102,805	-	-	102,813
Cash dividends declared ($2.40 per share)	-	-	-	(689,133)	-	(689,133)
Balances, December 31, 2022	**287,300**	**$ 2,873**	**$ 1,490,725**	**$ 58,185,075**	**$ (11,350,538)**	**$ 48,328,135**
Net income	-	-	-	**4,363,356**	-	**4,363,356**
Cumulative effect adjustment due to adoption of ASC 326, net of tax	-	-	-	**(352,633)**	-	**(352,633)**
Other comprehensive income (loss), net of tax	-	-	-	-	**1,633,495**	**1,633,495**
Stock-based compensation	**302**	**3**	**87,618**	-	-	**87,621**
Cash dividends declared ($2.40 per share)	-	-	-	**(690,270)**	-	**(690,270)**
Balances, December 31, 2023	**287,602**	**$ 2,876**	**$ 1,578,343**	**$ 61,505,528**	**$ (9,717,043)**	**$ 53,369,704**

See Notes to Consolidated Financial Statements.

Years Ended December 31, 2023 and 2022

	2023	2022
Cash Flows From Operating Activities:		
Net income	$ 4,363,356	$ 4,587,548
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	725,194	732,748
Provision for (recovery of) credit losses	210,000	(891,000)
Accretion and amortization on investments, net	1,040,157	1,565,337
Amortization of debt issuance cost	54,773	54,772
Deferred income tax	(174,845)	468,094
Realized (gain) loss on sales of available-for-sale securities	789,152	392,946
Gain on sale of other assets	(835,566)	-
Gain on sale of loans	(74,619)	-
Residential mortgage loans originated for sale	(4,618,060)	-
Proceeds from loans originated for sale	3,906,679	-
Stock-based compensation expense	87,621	102,813
Increase in cash surrender value of BOLI	(292,526)	(213,409)
Net change in:		
Accrued interest and other assets	(842,379)	271,060
Accrued interest and other liabilities	(130,286)	336,263
Net cash from operating activities	4,208,651	7,407,172
Cash Flows From Investing Activities:		
Loan (originations) and principal payments, net	(61,492,296)	(15,214,868)
Loan participations purchased, net of repurchases and payments	(6,847,481)	(11,391,891)
Loan participations sold, net of repurchases and payments	(3,492,868)	(2,088,122)
Activity in available-for-sale securities:		
Purchases	-	(29,527,599)
Sales, maturities, paydowns, and calls	18,023,296	27,442,400
Activity in held-to-maturity securities:		
Purchases	-	(961,847)
Maturities, paydowns, and calls	5,302,098	8,136,852
Net change in restricted stock	(950,750)	(59,550)
Proceeds from sale of other assets	835,566	-
Purchase of bank-owned life insurance	(1,500,000)	-
Purchase of premises and equipment	(241,203)	(289,698)
Net cash from investing activities	(50,363,638)	(23,954,324)
Cash Flows From Financing Activities:		
Increase (decrease) in demand deposits and savings accounts	(45,111,390)	(81,543,656)
Increase (decrease) in time deposits	54,009,246	(3,820,557)
Increase (decrease) in repurchase agreements	(7,274,013)	946,699
Proceeds from FHLB borrowings, net	17,000,000	-
Proceeds from FRB borrowings	195,000,000	-
Repayment of FRB borrowings	(160,000,000)	-
Dividends paid	(690,270)	(689,133)
Net cash from financing activities	52,933,573	(85,106,647)
Increase (Decrease) in Cash and Cash Equivalents	6,778,586	(101,653,799)
Cash and Cash Equivalents, Beginning of Year	36,953,504	138,607,302
Cash and Cash Equivalents, End of Year	$ 43,732,090	$ 36,953,504
Supplemental Disclosures of Cash Flow Information		
Cash paid during the year for:		
Interest	$ 7,545,449	$ 2,008,606
Taxes	$ 1,622,000	$ 579,500

See Notes to Consolidated Financial Statements.

Note 1. Nature of Banking Activities and Significant Accounting Policies

Nature of Operations: National Capital Bancorp, Inc. (the “Company”) is a holding company with corporate headquarters in Washington, D.C. The Company is the parent company of its wholly owned subsidiary, The National Capital Bank of Washington (the “Bank”), which operates under a national bank charter and provides full banking services principally to customers in the Washington, D.C. metropolitan area. As a national bank, the Bank is subject to regulations of the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC).

The Consolidated Financial Statements include the accounts of National Capital Bancorp, Inc. and its wholly owned subsidiary. All significant intercompany transactions have been eliminated in consolidation. The accounting and reporting policies of the Company, including retrospective presentation, conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry.

Use of Estimates: In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. 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 loan losses.

Cash and Cash Equivalents: For purposes of the statement of cash flows, cash equivalents are highly liquid investments with original maturities of three months or less and include cash and due from banks and federal funds sold. There were no minimum reserve requirements with the Federal Reserve Bank at December 31, 2023 and 2022. In addition, the Company maintains cash balances in other correspondent banks that may exceed federally insured limits. The Company has not experienced any losses in such accounts and does not believe it is exposed to any significant credit risk.

Investment Securities: Investment securities are segregated into the following three categories: trading, held-to-maturity (HTM), and available-for-sale (AFS). Trading securities are purchased and held principally for the purpose of reselling them within a short period of time. Unrealized gains and losses on trading securities are included in earnings. As of December 31, 2023 and 2022, the Company did not hold any trading securities.

Debt securities classified as held-to-maturity are accounted for at amortized cost and require the Company to have both the positive intent and ability to hold these securities to maturity. Transfer of debt securities into the held-to-maturity classification from the available-for-sale classification are made at fair value on the date of transfer. The unrealized holding gain or loss on the date of transfer is reported in accumulated other comprehensive income (loss) and in the carrying value of the held-to-maturity securities. Such amounts are amortized over the remaining contractual lives of the securities. Securities not classified as either trading or held-to-maturity are considered to be available-for-sale and are carried at fair value. Unrealized gains and losses on available-for-sale debt securities are reported, net of taxes, in accumulated other comprehensive income (loss) until realized. Realized gains or losses on the sale of debt securities are reported in earnings and are determined using the adjusted cost of the specific security sold. Interest income is accrued on the investment’s face value. Purchase premium and discounts are recognized in interest income using the interest method over the term of the securities.

For the impairment of investment securities, see "Allowance for Credit Losses - Available-for-sale debt securities" and "Allowance for Credit Losses - Held-to-maturity debt securities" below.

Due to the nature and restrictions placed on the Company’s investment in common stock of the Federal Reserve Bank (FRB) and the Federal Home Loan Bank of Atlanta, these securities are classified as restricted stock and carried at cost.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Investment Securities (continued):
During 2023, the Company sold 3,418 shares of Visa Class B stock, which it held to participate in Visa services in support of the Company's credit card, debit card, and related payment programs (permissible activities under banking regulations) as a member institution. Due to the limited market for this stock, the lack of orderly trades and public information of such trades, Visa Class B shares did not have a readily determinable fair value and had a carrying cost of $0 as of December 31, 2022. The net proceeds received were $835,566 and were reported as non-interest income in the consolidated statements of income.

Loans held for sale: Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or market value in the aggregate. Net unrealized losses, if any, are recognized in a valuation allowance and charged to income.

Loans: Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the allowance for credit losses is netted against the recorded investment in loans on the consolidated balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan's contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest.

All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

Allowance for Credit Losses: On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326").

The following table presents a breakdown of the current provision for credit losses included in the consolidated statements of income for the applicable periods:

	2023	2022
Provision for (recovery of) credit losses - loans	**$ 280,000**	$ (891,000)
Provision for (recovery of) credit losses - unfunded commitments	**(70,000)**	-
Provision for (recovery of) credit losses - HTM securities	**-**	-
	$ 210,000	$ (891,000)

The Company 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 Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

Allowance for Credit Losses - Loans: The allowance for credit losses (ACL) is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance for Credit Losses – Loans (Continued):
The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has segmented the portfolio based on regulatory call report codes and calculates the allowance for credit losses for each using a Weighted Average Remaining Maturity (WARM) methodology. Due to the fact that very limited internal loss history exists to generate statistical significance, management determined it was most prudent to rely on peer data when deriving its best estimate of expected losses. The WARM methodology is applied at a loan-level over the remaining contractual maturity, adjusted for estimated prepayments. Qualitative adjustments are separately added to each of the loan segments and include both regression-based forward-looking adjustments and management-determined custom qualitative factors as prescribed in ASC 326. The forward-looking adjustments typically revert back to historical loss rates on a straight-line basis after 12-18 months.

Loans that do not share risk characteristics are evaluated on an individual basis. The individual reserve component relates to loans that have shown substantial credit deterioration as measured by risk rating and/or delinquency status. In addition, the Company has elected the practical expedient that would include loans for individual assessment consideration if the repayment of the loan is expected substantially through the operation or sale of collateral because the borrower is experiencing financial difficulty. Where the source of repayment is the sale of collateral, the ACL is based on the fair value of the underlying collateral, less selling costs, compared to the amortized cost basis of the loan. If the ACL is based on the operation of the collateral, the reserve is calculated based on the fair value of the collateral calculated as the present value of expected cash flows from the operation of the collateral, compared to the amortized cost basis. If the Company determines that the value of a collateral dependent loan is less than the recorded investment in the loan, the Company charges off the deficiency if it is determined that such amount is deemed to be a confirmed loss.

As part of the Company's estimation process, management will continue to assess the reasonableness of the data, assumptions, and model methodology utilized to derive its allowance for credit losses.

Allowance for Credit Losses – Unfunded Commitments: Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The Company records a reserve for unfunded commitments on off-balance sheet credit exposures through a charge to provision for credit loss expense in its consolidated statements of income. The reserve for unfunded commitments is estimated by call report code segmentation as of the valuation date using the same methodologies as portfolio loans taking utilization rates into consideration. The allowance for unfunded commitments is reflected in accrued interest and other liabilities on the Company's consolidated balance sheet.

Allowance for Credit Losses - Available-for-*s*ale debt *s*ecurities: For AFS securities, the Company evaluates the fair value and credit quality of its AFS securities on at least a quarterly basis. In the event the fair value of a security falls below its amortized cost basis, the security will be evaluated to determine whether the decline in value was caused by changes in market interest rates or security credit quality. The primary indicators of credit quality for the Company's AFS portfolio are security type and credit rating, which is influenced by a number of security-specific factors that may include obligor cash flow, geography, seniority, and others. There is currently no ACL recorded against any securities in the Company's AFS securities portfolio at December 31, 2023*.* See Note *2* - Investment Securities for additional information on the Company's ACL analysis. If unrealized losses are related to credit quality, the Company estimates the credit-related loss by evaluating the present value of cash flows expected to be collected from the security with the amortized cost basis of the security. If the present value of cash flows

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Allowance for Credit Losses - Available-for-sale debt securities (Continued):
expected to be collected is less than the amortized cost basis of the security and a credit loss exists, an ACL shall be recorded for the credit loss, limited by the amount that the fair value is less than amortized cost basis.

Allowance for Credit Losses - Held-to-maturity debt securities: The Company estimates expected credit losses on held-to-maturity securities on an individual basis based on a Probability of Default/Loss Given Default ("PD/LGD") methodology primarily using security-level credit ratings. The primary indicators of credit quality for the Company's held-to-maturity portfolio are security type and credit rating, which are influenced by a number of factors including obligor cash flow, geography, seniority, among other factors. The Company's held-to-maturity securities with credit risk are municipal bonds. All other held-to-maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies and do not have an ACL assigned to them.

Changes in the allowance for credit loss are recorded as provision for (or recovery of) credit losses in the consolidated statements of income. Refer to Note 2 – Investment Securities for further discussion.

Company Premises and Equipment: Land is carried at cost. Property and equipment are stated at cost, less accumulated depreciation, which is computed on the straight-line method over the estimated useful lives of the assets, which range between 3 and 45 years.

Maintenance and repairs of property and equipment are charged to operations, and major improvements are capitalized. Upon retirement, sale, or other disposition of premises and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss is included in noninterest income and noninterest expenses, respectively.

Foreclosed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. As of and during the years ended December 31, 2023 and 2022, the Company did not have any foreclosed assets.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Interest Rate Swap Derivatives: The Company uses derivatives primarily to manage risk associated with changing interest rates. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. The Company recognizes derivative financial instruments at fair value as either other assets or other liabilities in the balance sheets. The effective portion of the gain or loss on the Company's cash flow hedges is reported as a component of other comprehensive income, net of deferred income taxes, and is reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. There are no cash flow hedges outstanding as of December 31, 2023 and 2022.

Earnings Per Share of Common Stock: The Company has a simple capital structure, with no common stock equivalents, such as stock options or warrants. Earnings per share represents income available to common stockholders divided by the weighted average number of common shares outstanding during the year. The participating unvested restricted stock awards are included in the calculated weighted average number of common shares outstanding.

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Income Taxes: The Company accounts for income taxes under the asset and liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, the Company determines deferred tax assets and liabilities on the basis of the differences between the financial statement and tax bases of assets and liabilities by using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period that includes the enactment date.

The Company recognizes deferred tax assets to the extent that the Company believes that these assets are more likely than not to be realized. In making such a determination, the Company considers all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. If the Company determines that the Company would be able to realize their deferred tax assets in the future in excess of their net recorded amount, the Company would make an adjustment to the deferred tax asset valuation allowance, which would reduce the provision for income taxes.

The Company records uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740 on the basis of a two-step process in which (1) the Company determines whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, the Company recognizes the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

The Company’s deferred tax assets are fully realizable after considering the four sources of taxable income under ASC 740-10-30-18.

Advertising Costs: Advertising costs are expensed as incurred. Advertising costs were $264,660 and $287,301 for the years ended December 31, 2023 and 2022, respectively.

Transfers of Financial Assets: Transfers of financial assets 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 Company – put presumptively beyond 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, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Rental Income: Rental income is recognized when earned in accordance with the terms of the respective leases on a straight-line basis for the period of occupancy using the average monthly rental. Accordingly, rental income is recognized over the terms of the respective leases.

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, on securities transferred to held-to-maturity along with related amortization, and on cash flow hedges; all which are collectively recognized as a separate component of shareholders’ equity.

Stock-based compensation plan: The Company maintains a stock-based compensation plan, as described more fully in Note 10, which provides for grants of restricted stock. The plan has been presented to and approved by the Bank’s board of directors.

Compensation cost for stock-based awards is measured at fair value on the date of grant and recognized over the service period for awards expected to vest. Such value is recognized as expense over the service period. Any

Note 1. Nature of Banking Activities and Significant Accounting Policies (Continued)

Stock-based compensation plan (Continued):
adjustment due to the forfeiture of stock-based awards will be recorded as a cumulative adjustment in the period the awards are forfeited.

Reclassifications: Certain 2022 balances have been reclassified to conform to the 2023 consolidated financial statement presentation, including retrospective presentation. These reclassifications had no impact on net income or stockholders' equity.

Accounting Standards Adopted in 2023

ASU 2016-13: On January 1, 2023, the Company adopted Accounting Standards Update ("ASU") 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("ASC 326"). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The CECL methodology requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost are presented at the net amount expected to be collected by using an allowance for credit losses.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. At adoption, the after-tax impact to retained earnings was a reduction of $352,633 based on our evaluation as of that date. This adjustment consisted of increases to the allowance for credit losses on loans of $100,688, to the allowance for unfunded loan commitments of $375,000, and to the allowance for held-to-maturity securities of $5,000.

The Company 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 Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

ASU 2022-02: On January 1, 2023, the Company adopted ASU 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings ("TDRs") by creditors that have adopted the CECL model and enhance the disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, the amendments require that the Company disclose current-period gross write-offs for financing receivables by year of origination in the vintage disclosures. The Company adopted the standard prospectively and it did not have a material impact on the consolidated financial statements.

Recent Accounting Pronouncements:
In November 2023, ASU 2023-07 Segment Reporting (Topic 280) Improvements to Reportable Segment Disclosures was issued by the FASB. Among its provisions, the standard requires that a public entity that has a single reportable segment provide all the disclosures required by this update as well as existing segment disclosures in Topic 280. The standard is effective for fiscal years beginning after December 15, 2023. The Company does not expect this pronouncement to have a material impact on its consolidated financial statements.

Other accounting standards that have been issued by the FASB or other standards-setting bodies are not currently expected to have a material effect on the Company's financial position, results of operations or cash flows.

Note 2. Investment Securities

Investment securities are summarized as follows at December 31:

	2023			
	Amortized Cost	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Debt securities:				
Available-for-sale:				
Mortgage-backed securities	**$ 56,281,102**	**$ -**	**$ (7,668,228)**	**$ 48,612,874**
State & political subdivision obligations	**13,538,358**	**-**	**$ (1,274,951)**	**12,263,407**
Corporate	**7,550,000**	**-**	**$ (1,387,548)**	**6,162,452**
Total securities available-for-sale	**$ 77,369,461**	**$ -**	**$ (10,330,728)**	**$ 67,038,733**
Held to maturity:				
U.S. Treasury & agency obligations	**$ 1,001,431**	**$ -**	**$ (56,801)**	**$ 944,630**
Mortgage-backed securities	**53,185,598**	**-**	**(8,273,464)**	**44,912,134**
State & political subdivision obligations	**12,927,606**	**-**	**(1,253,852)**	**11,673,755**
Total securities held to maturity	**$ 67,114,635**	**$ -**	**$ (9,584,116)**	**$ 57,530,519**
Allowance for credit losses	**(5,000)**			
Total held-to-maturity securities, net of ACL	**$ 67,109,635**			
Restricted stock, at cost	**$ 1,621,700**	**$ -**	**$ -**	**$ 1,621,700**

	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Debt securities:				
Available-for-sale:				
Mortgage-backed securities	$ 70,197,158	$ -	$ (8,814,798)	$ 61,382,360
State & political subdivision obligations	19,177,878	-	(2,365,266)	16,812,612
Corporate	7,550,000	-	(1,030,475)	6,519,525
Total securities available-for-sale	$ 96,925,036	$ -	$ (12,210,539)	$ 84,714,497
Held to maturity:				
U.S. Treasury & agency obligations	$ 1,011,362	$ -	$ (90,932)	$ 920,430
Mortgage-backed securities	58,274,751	-	(9,149,691)	49,125,060
State & political subdivision obligations	13,057,526	-	(1,957,891)	11,099,635
Total securities held to maturity	$ 72,343,639	$ -	$ (11,198,514)	$ 61,145,125
Restricted stock, at cost	$ 670,950	$ -	$ -	$ 670,950

During the first quarter of 2022, the Company transferred investment securities with a carrying value of $79.2 million, including an unrealized loss of $3.8 million, from available-for-sale to held-to-maturity and began classifying certain newly purchased debt securities as held-to-maturity, as it has the intent and ability to hold these securities to maturity. The unrealized loss at the time of transfer is being amortized over the remaining lives of the securities. There were no gains of losses recognized as a result of this transfer.

Note 2. Investment Securities (Continued)

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position follows at December 31:

	2023					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Available-for-sale:						
Mortgage-backed securities	$ -	$ -	$ 48,612,874	$ (7,668,228)	$ 48,612,874	$ (7,668,228)
State & political subdivision obligations	-	-	12,263,407	(1,274,951)	12,263,407	(1,274,951)
Corporate	-	-	6,162,452	(1,387,548)	6,162,452	(1,387,548)
Total available-for-sale	$ -	$ -	$ 67,038,733	$ (10,330,728)	$ 67,038,733	$ (10,330,728)
Held to maturity:						
U.S. Treasury & agency obligations	$ -	$ -	$ 944,630	$ (56,801)	$ 944,630	$ (56,801)
Mortgage-backed securities	-	-	44,912,134	(8,273,464)	44,912,134	(8,273,464)
State & political subdivision obligations	-	-	11,673,755	(1,253,852)	11,673,755	(1,253,852)
Total held to maturity	$ -	$ -	$ 57,530,519	$ (9,584,116)	$ 57,530,519	$ (9,584,116)

At December 31, 2023, 89 AFS securities with a fair value of $67,038,733 had gross unrealized losses of $10,330,728. All of the Company's mortgage-backed securities were issued by U.S. government-sponsored entities and agencies. As of December 31, 2023, the Company's unrealized losses in debt securities are related to interest rate fluctuations. Since the Company does not intend to sell any of the investments before recovery of its amortized cost basis and has the ability and intent to hold these investments to maturity, there is currently no ACL recorded against any securities in the Company's AFS securities portfolio at December 31, 2023.

The Company estimates expected credit losses on held-to-maturity securities on an individual basis based on a Probability of Default/Loss Given Default ("PD/LGD") methodology primarily using security-level credit ratings. The Company's only held-to-maturity securities with credit risk are municipal bonds. 100% of the Company's HTM municipal securities were rated AAA/AA/A at December 31, 2023. All other held-to-maturity securities are covered by the explicit or implied guarantee of the United States government or one of its agencies. The Company's HTM securities ACL was $5,000 at December 31, 2023.

Note 2. Investment Securities (Continued)

	2022					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Debt securities:						
Available-for-sale:						
Mortgage-backed securities	$ 27,519,436	$(2,962,352)	$ 33,862,924	$ (5,852,446)	$ 61,382,360	$ (8,814,798)
State & political subdivision						-
obligations	16,812,612	(2,365,266)	-	-	16,812,612	(2,365,266)
Corporate	4,831,715	(718,285)	1,687,810	(312,190)	6,519,525	(1,030,475)
Total available-for-sale	$ 49,163,763	$(6,045,903)	$ 35,550,734	$ (6,164,636)	$ 84,714,497	$ (12,210,539)
Held to maturity:						
U.S. Treasury & agency obligations	$ 920,430	$ (90,932)	$ -	$ -	$ 920,430	$ (90,932)
Mortgage-backed securities	6,219,610	(793,664)	42,905,450	(8,356,027)	49,125,060	(9,149,691)
State & political subdivision obligations	6,868,598	(1,138,950)	4,231,037	(818,941)	11,099,635	(1,957,891)
Corporate	-	-	-	-	-	-
Total held to maturity	$ 14,008,638	$(2,023,546)	$ 47,136,487	$ (9,174,968)	$ 61,145,125	$ (11,198,514)

At December 31, 2022, 175 securities with a fair value of $145,859,622 had gross unrealized losses of $23,409,053. All of the Company's mortgage-backed securities were issued by U.S. government-sponsored entities and agencies. As of December 31, 2022, the Company's unrealized losses in debt securities are related to interest rate fluctuations. Since the Company did not intend to sell any of the investments before recovery of its amortized cost basis and had the ability and intent to hold these investments to maturity, the Company did not consider these investments to be other-than-temporarily impaired at December 31, 2022.

Note 2. Investment Securities (Continued)

The amortized cost and estimated fair value of debt securities at December 31, 2023, by contractual maturity are shown in the table that follows. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
Available-for-sale:		
Due less than one year	$ -	$ -
Due after one year through five years	500,000	409,955
Due after five years through ten years	7,050,000	5,752,497
Due after ten years	13,538,358	12,263,407
Mortgage-backed securities	56,281,102	48,612,874
Total available-for-sale	$ 77,369,461	$ 67,038,733
Held to maturity:		
Due less than one year	$ -	$ -
Due after one year through five years	1,001,431	944,630
Due after five years through ten years	-	-
Due after ten years	12,927,606	11,673,755
Mortgage-backed securities	53,185,598	44,912,134
Total held to maturity	$ 67,114,635	$ 57,530,519

Investment securities with an amortized cost of $13,535,573 and fair market value of $11,844,676 were pledged to secure repurchase agreements at December 31, 2022. There were no repurchase agreements at December 31, 2023. Investment securities with an amortized cost of $82,110,827 and $73,267,187 and fair market value of $70,641,448 and $61,987,748, were pledged for other purposes as required or permitted by law at December 31, 2023 and 2022, respectively.

For the year ended December 31, 2023, proceeds from sales of securities available-for-sale amounted to $11,686,191; gross realized losses were $789,152. The tax benefit applicable to the net realized gains and losses was $209,212. For the year ended December 31, 2022, proceeds from sales of securities available-for-sale amounted to $9,043,052; gross realized gains were $2,680 and gross realized losses were $395,626. The tax benefit applicable to the net realized gains and losses was $104,681.

Note 3. Loans Receivable

Loans receivable consisted of the following at December 31:

	2023	2022
Real estate loans:		
Residential real estate	$ 176,470,102	$ 143,882,852
Commercial real estate	238,090,828	212,583,442
Commercial construction	49,613,320	36,979,814
Commercial	33,419,031	32,039,291
Consumer	97,114	76,301
	497,690,395	425,561,700
Net deferred loan costs (fees)	(708,333)	(412,281)
Allowance for credit losses	(5,450,000)	(5,069,312)
Total	$ 491,532,062	$ 420,080,107

The Company is principally engaged in banking in the Washington, D.C. metropolitan area. The Company primarily originates commercial and residential loans, the majority of which are secured by real estate. Although the Company has a diversified portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon the economy of the Washington, D.C. metropolitan area.

A summary of transactions in the allowance for credit losses is as follows for the year ended December 31, 2023:

	Real Estate					
	Residential	Commercial	Construction	Commercial	Consumer	Total
Allowance for Credit Losses:						
Balance, December 31, 2022	$ 1,349,794	$ 2,953,879	$ 458,386	$ 306,615	$ 638	$ 5,069,312
Impact of Adoption of ASC 326	699,687	(786,465)	66,724	119,225	1,517	$ 100,688
Loans charged off	-	-	-	-	-	-
Recoveries	-	-	-	-	-	-
Net loans charged off	-	-	-	-	-	-
Provision for (recovery of) credit losses	(9,822)	33,299	121,460	135,346	(283)	280,000
Balance, December 31, 2023	$ 2,039,659	$ 2,200,714	$ 646,569	$ 561,186	$ 1,872	$ 5,450,000
Ending balance: individually evaluated allowance	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated allowance	$ 2,039,659	$ 2,200,714	$ 646,569	$ 561,186	$ 1,872	$ 5,450,000
Loans Receivable:						
Balance, December 31, 2023	$ 176,470,102	$ 238,090,828	$ 49,613,320	$ 33,419,031	$ 97,114	$ 497,690,395
Ending balance: individually evaluated loans	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated loans	$ 176,470,102	$ 238,090,828	$ 49,613,320	$ 33,419,031	$ 97,114	$ 497,690,395
Ending balance: non-accrual loans with no ACL	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance: non-accrual loans with an ACL	$ -	$ -	$ -	$ -	$ -	$ -

There were no individually evaluated loans or collateral-dependent loans as of December 31, 2023.

Note 3. Loans Receivable (Continued)

A summary of transactions in the allowance for loan losses is as follows for the year ended December 31, 2022:

Allowance for Loan Losses:	**Real Estate**	**Commercial**	**Consumer**	**Total**
Balance, January 1, 2022	$ 5,716,901	$ 238,958	$ 3,219	$ 5,959,078
Loans charged off	-	-	-	-
Recoveries	-	-	1,234	1,234
Net loans charged off	-	-	1,234	1,234
Provision for (recovery of) loan losses	(954,842)	67,657	(3,815)	(891,000)
Balance, December 31, 2022	$ 4,762,059	$ 306,615	$ 638	$ 5,069,312
Ending balance: individually evaluated for impairment	$ -	$ -	$ -	$ -
Ending balance: collectively evaluated for impairment	$ 4,762,059	$ 306,615	$ 638	$ 5,069,312
Loans Receivable:				
Balance, December 31, 2022	$ 393,446,109	$ 32,039,291	$ 76,301	$ 425,561,700
Ending balance: individually evaluated for impairment	$ 226,170	$ -	$ -	$ 226,170
Ending balance: collectively evaluated for impairment	$ 393,219,939	$ 32,039,291	$ 76,301	$ 425,335,530

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Company's internal risk grading is based on experiences with similarly graded loans. Management analyzes risk grades on an ongoing basis. In addition, risk grades are validated by an independent loan review performed on an annual basis.

The Company's internally assigned grades are as follows:

- Pass – Loans are supported by adequate financial statements, adequately secured by collateral and borrower demonstrates the ability to repay from normal business operations; includes Watch rated loans.
- Special Mention – Loans with no immediate problem, but trends exist with the borrower or the borrower's industry that warrant close watch. This category also includes loans that are currently performing but have experienced problems in the past.
- Substandard – Loans meeting any of the following conditions: (1) Loans where problems have arisen with the current net worth and/or paying capacity of the borrower, or the collateral pledged, if any, to cause the Company to further protect its position; (2) Loans having a well-defined weakness or weaknesses that jeopardize the liquidation of the debt; (3) Loans having the distinct possibility that the Company will sustain some loss if the deficiencies are not satisfactorily corrected.
- Doubtful – Loans classified as doubtful have all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and therefore improbable.
- Loss – Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though full or partial recovery may be affected in the future.

Note 3. Loans Receivable (Continued)

The following table represents the credit quality of loan by class at December 31, 2023:

	Term Loans Amortized Cost Basis by Origination Year							
Balance at December 31, 2023	2023	2022	2021	2020	2019	Prior	Revolving	Total
Residential real estate:								
Pass	$ 33,877,074	$ 17,699,255	$ 19,775,489	$ 24,394,403	$30,717,202	$ 34,503,837	$15,502,842	$176,470,102
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total residential real estate	$ 33,877,074	$ 17,699,255	$ 19,775,489	$ 24,394,403	$30,717,202	$ 34,503,837	$15,502,842	$176,470,102
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial real estate:								
Pass	$ 38,826,271	$ 41,906,443	$ 28,088,917	$ 28,479,451	$14,829,106	$ 81,418,262	$ 1,282,386	$234,830,835
Special Mention	-	-	-	-	-	3,259,993	-	3,259,993
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial real estate	$ 38,826,271	$ 41,906,443	$ 28,088,917	$ 28,479,451	$14,829,106	$ 84,678,254	$ 1,282,386	$238,090,828
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction real estate:								
Pass	$ 30,474,001	$ 13,928,790	$ 3,564,670	$ 203,500	$ -	$ 134,057	$ 1,308,302	$ 49,613,320
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total construction real estate	$ 30,474,001	$ 13,928,790	$ 3,564,670	$ 203,500	$ -	$ 134,057	$ 1,308,302	$ 49,613,320
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial:								
Pass	$ 9,947,927	$ 7,450,891	$ 925,138	$ 139,963	$ 72,865	$ 728,553	$14,153,694	$ 33,419,031
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total commercial	$ 9,947,927	$ 7,450,891	$ 925,138	$ 139,963	$ 72,865	$ 728,553	$14,153,694	$ 33,419,031
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer:								
Pass	$ 37,488	$ -	$ -	$ -	$ -	$ -	$ 59,626	$ 97,114
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total consumer	$ 37,488	$ -	$ -	$ -	$ -	$ -	$ 59,626	$ 97,114
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total Loans:								
Pass	$113,162,761	$ 80,985,379	$ 52,354,215	$ 53,217,317	$45,619,172	$116,784,709	$32,306,849	$494,430,402
Special Mention	-	-	-	-	-	3,259,993	-	3,259,993
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-	-
Total loans	$113,162,761	$ 80,985,379	$ 52,354,215	$ 53,217,317	$45,619,172	$120,044,702	$32,306,849	$497,690,395
Current period charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -

Note 3. Loans Receivable (Continued)

The following table represents the credit quality of loan by class at December 31, 2022:

December 31, 2022	Pass	Watch and Special Mention	Substandard	Doubtful	Loss	Total
Real estate loans:						
Residential real estate	$142,502,972	$ 1,153,710	$ 226,170	$ -	$ -	$143,882,852
Commercial real estate	194,673,716	17,909,726	-	-	-	212,583,442
Commercial construction	36,730,814	249,000	-	-	-	36,979,814
Commercial	30,971,549	1,067,742	-	-	-	32,039,291
Consumer	76,301	-	-	-	-	76,301
Total	$404,955,352	$ 20,380,178	$ 226,170	$ -	$ -	$425,561,700

Past due loans based on contractual payment status, including loans on nonaccrual status, presented by class before unearned fees were as follows as of December 31, 2023 and 2022:

December 31, 2023	**Current**	**30 - 59 Days Past Due**	**60-89 Days Past Due**	**Greater Than 89 Days**	**Total Past Due**	**Recorded Investments > 90 Days Accruing**	**Non-Accrual Loans**	**Total**
Real estate loans:								
Residential real estate	**$ 176,470,102**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 176,470,102**
Commercial real estate	**237,476,499**	**-**	**614,329**	**-**	**614,329**	**-**	**-**	**238,090,828**
Commercial construction	**49,613,320**	**-**	**-**	**-**	**-**	**-**	**-**	**49,613,320**
Commercial	**33,419,031**	**-**	**-**	**-**	**-**	**-**	**-**	**33,419,031**
Consumer	**97,114**	**-**	**-**	**-**	**-**	**-**	**-**	**97,114**
Total	**$ 497,076,066**	**$ -**	**$ 614,329**	**$ -**	**$ 614,329**	**$ -**	**$ -**	**$ 497,690,395**

December 31, 2022	Current	30 - 59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Recorded Investments > 90 Days Accruing	Non-Accrual Loans	Total
Real estate loans:								
Residential real estate	$ 143,656,682	$ -	$ -	$ 226,170	$ 226,170	$ -	$ 226,170	$ 143,882,852
Commercial real estate	212,583,442	-	-	-	-	-	-	212,583,442
Commercial construction	36,979,814	-	-	-	-	-	-	36,979,814
Commercial	32,039,291	-	-	-	-	-	-	32,039,291
Consumer	76,301	-	-	-	-	-	-	76,301
Total	$ 425,335,530	$ -	$ -	$ 226,170	$ 226,170	$ -	$ 226,170	$ 425,561,700

The Company recognized $10,472 of interest income on nonaccrual loans during the year ended December 31, 2023. The following table presents the Company's impaired loan balances by portfolio class at December 31:

	2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Residential real estate	$ 226,170	$ 229,670	$ -	$ 1,407,370	$ 62,431
Commercial real estate	-	-	-	-	-
Commercial	-	-	-	-	-
	$ 226,170	$ 229,670	$ -	$ 1,407,370	$ 62,431

Note 3. Loans Receivable (Continued)

There were no loans designated as modifications for borrowers who were experiencing financial difficulty for the year ended December 31, 2023.

No loans were modified as troubled debt restructurings (TDR) during 2022 and there were no outstanding TDR's as of December 31, 2022.

Note 4. Premises and Equipment

Premises and equipment are comprised of the following at December 31:

	2023	2022
Land and buildings	**$ 11,581,466**	$ 11,484,224
Furniture and equipment	**2,701,209**	2,557,247
	14,282,674	14,041,471
Accumulated depreciation	**(7,620,884)**	(6,895,690)
Premises and equipment, net	**$ 6,661,790**	$ 7,145,781
Depreciation expense	**$ 725,194**	$ 732,748

Note 5. Leases

A lease is defined as a contract that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. On January 1, 2019, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and all subsequent ASUs that modified Topic 842. The Company elected the prospective application approach provided by ASU 2018-11 and did not adjust prior periods for ASC 842. The right-of-use asset and lease liability are included in accrued interest and other assets and accrued interest and other liabilities, respectively, in the Company's consolidated balance sheets as of December 31, 2023 and 2022.

Lease liabilities represent the Company's obligation to make lease payments and are presented as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the later of the adoption date or commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

Note 5. Leases (Continued)

The following tables present information about the Company's leases, as of and for years ended December 31:

		2023		2022
Lease liabilities	$	277,626	$	401,004
Right-of-use assets		277,626		401,004
Weighted average remaining lease term (in years)		2.55		3.52
Weighted average discount rate		2.84%		2.67%
Lease cost:				
Operating lease cost	$	132,796	$	130,033
Short-term lease cost		-		161
Total lease cost	$	132,796	$	130,194
Cash paid for amounts included in the measurement of lease liabilities	$	132,796	$	130,033

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of December 31, 2023 is as follows:

Lease payments due:		
2024		115,424
2025		103,377
2026		69,831
2027		-
2028		-
Thereafter		-
Total undiscounted cash flows	$	288,632
Discount		(11,006)
Lease liabilities	$	277,626

The Company owns but does not fully occupy its main office building at 316 Pennsylvania Avenue, SE, Washington, D.C. To generate additional cash flow, as a lessor, the Company has various lease agreements to utilize the remaining available office space within its main office building. The leases were determined to be operating leases and typically range from three to five years although a few of the smaller leases operate under shorter terms. The leases may contain renewal options for the tenant at pre-determined rates or fair market value rates at the time of renewal. The Company recognized rental income related to operating lease payments of $1,094,288 and $961,812 for the years ended December 31, 2023 and 2022, respectively, and are reported as rental income in the Company’s consolidated statements of income.

Note 5. Leases (Continued)

The following table sets forth the undiscounted cash flows for future minimum base rents to be received by the Company for leases in effect at December 31, 2023:

Lease payments due:		
2024	$	**1,230,538**
2025		**1,172,213**
2026		**978,738**
2027		**169,209**
2028		**-**
Thereafter		**-**
Total	$	**3,550,698**

Note 6. Affordable Housing Project Tax Credit Partnership

During 2018, the Company made an equity investment in a limited partnership that sponsors affordable housing projects utilizing the Low Income Housing Tax Credit ("LIHTC") pursuant to Section 42 of the Internal Revenue Code. The purpose of this type of investment is to achieve a satisfactory return on capital, and to assist in achieving goals associated with the Community Reinvestment Act. The Company is a limited partner in the LIHTC limited partnership, which is managed by an unrelated third-party general partner who exercises significant control over the affairs of the limited partnership. The Company has determined that it is not the primary beneficiary of the LIHTC partnership. The Company accounts for its affordable housing tax credit investments using the proportional amortization method. Tax credits, net of amortization recognized related to these investments during the years ended December 31, 2023 and 2022 were ($5,254) and ($7,083), respectively and included in income tax expense in the consolidated statements of income.

The Company's net carrying value in affordable housing tax credit investment was $510,908 and $636,491 as of December 31, 2023 and 2022, respectively and is included in accrued interest and other assets in the consolidated balance sheets. The Company has unfunded commitments of $44,000 and $71,000 as of December 31, 2023 and 2022, respectively, and is included in accrued interest and other liabilities in the consolidated balance sheets and expected to be funded as follows:

2024	$	**9,000**
2025		**8,000**
2026		**12,000**
2027		**1,000**
2028		**14,000**
Thereafter		**-**
	$	**44,000**

Note 7. Deposits

Deposits as of December 31, are summarized as follows:

	2023		2022	
	Balance	**Weighted Average Interest Rate %**	Balance	Weighted Average Interest Rate %
Non-interest-bearing	**$ 165,362,020**	**-**	$ 208,041,822	-
Interest-bearing:				
Interest checking	**81,975,223**	**0.05**	97,089,131	0.05
Money market accounts	**224,999,963**	**2.27**	207,116,312	1.43
Savings accounts	**20,961,514**	**0.05**	26,162,845	0.05
Certificates of deposit:				
Less than $250,000	**33,470,347**	**3.27**	21,005,713	0.90
$250,000 or more	**53,880,190**	**4.26**	12,335,578	1.42
Total interest-bearing	**415,287,237**		363,709,579	
Total deposits	**$580,649,257**		$571,751,401	

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

2024	**$ 82,081,893**
2025	**4,981,802**
2026	**286,842**
	$ 87,350,537

Note 8. Securities Sold Under Agreements to Repurchase

The Company had no outstanding balance of securities sold under agreements to repurchase at December 31, 2023. Securities sold under agreements to repurchase at December 31, 2022 of $7,274,013 mature within one to ninety days from the transaction date and are secured by U.S. Agency mortgage-backed securities with a fair value of $11,844,676 at December 31, 2022. The weighted average interest rate on these agreements was 0.10 percent at December 31, 2022. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction. The Company may be required to provide additional collateral based on the fair value of the underlying securities.

Note 9. Borrowings

The Company utilizes advances from the Federal Home Loan Bank of Atlanta (FHLB) as a source of funding and interest rate risk management. At December 31, 2023, the Company had outstanding balances of $17,000,000 consisting of overnight borrowings based on an overnight funding rate of 5.57%. There were no outstanding balances at December 31, 2022. Any outstanding advances from the FHLB are secured by certain qualifying loans of $214,980,699 at December 31, 2023 along with certain pledged securities with an amortized cost of $24,681,153 and a fair market value of $22,599,182 at December 31, 2023. Additional available borrowing capacity based on collateral value amounted to $134,214,278 as of December 31, 2023.

On March 12, 2023, the Federal Reserve Bank of Richmond ("Reserve Bank") made available the Bank Term Funding Program ("BTFP"), which enhances the ability of banks to borrow against the par value of certain high-quality, unencumbered investments. The Company began utilization of this program in September 2023 and on December 28, 2023, the Company obtained a $35,000,000 BTFP advance to secure lower funding costs relative to other wholesale funding sources. The BTFP advance has a term of one year, bears interest at a fixed rate of 4.83% and can be prepaid without penalty prior to maturity. At December 31, 2023, the Company had pledged as collateral for the BTFP advance investment securities with an amortized cost and fair value of $56,488,368 and $47,950,135, respectively. Additional available borrowing capacity amounted to $22,448,128 as of December 31, 2023. The Company also has access to the Federal Reserve Bank of Richmond's discount window utilizing the same collateral pool.

At December 31, 2023, the Company had unsecured lines of credit available totaling $26,000,000 with other financial institutions. The interest rate on these agreements is equal to the prevailing federal funds rate. There were no outstanding balances at December 31, 2023 and 2022.

On May 11, 2021, the Company completed an offering of $14,000,000 aggregate principal amount Fixed to Floating Rate Subordinated Notes due in 2031. The notes bear a fixed interest rate of 3.75% per year through May 14, 2026. Beginning May 15, 2026, the interest rate will become a floating rate equal to three-month term SOFR plus 305 basis points through the remaining maturity or early redemption date of the notes. The interest will be paid in arrears semi-annually during the fixed rate period and quarterly during the floating rate period. The Company incurred $410,794 of debt issuance costs which are being amortized through the contractual life of the debt.

Note 10. Employee Benefit Plans

Employee Savings Plan: The Company has a defined contribution plan that covers substantially all of the Company's full-time employees. Participants can contribute up to 15%, or the maximum amount allowable by law, of their annual compensation and receive a dollar-for-dollar matching employer contribution of up to 4% of their annual compensation. Related expenses were $305,683 and $287,810 for the years ended December 31, 2023 and 2022, respectively.

Stock-based Compensation: The Company has stock-based incentive arrangements to attract and retain key personnel. Each stock-based award is governed by a separate agreement, subject to approval by the Bank's board of directors. As of December 31, 2023, all awards consisted of restricted stock which vest ratably over a three-year period. Compensation expense for these awards is recognized over the vesting period.

Stock-based compensation expense included in the consolidated statements of income totaled $87,621 and $102,813 for the years ended December 31, 2023 and 2022, respectively. Unrecognized compensation cost expected to be recognized over the remainder of the vesting period totaled $117,516 at December 31, 2023. The weighted average period remaining to vesting is 11 months at December 31, 2023.

Note 10. Employee Benefit Plans (Continued)

The following table summarizes the unvested restricted stock awards activity during the years ended December 31, 2023 and 2022:

	Year Ended December 31, 2023		Year Ended December 31, 2022	
	Number of Shares	Average Grant Date Fair Value	Number of Shares	Average Grant Date Fair Value
Nonvested at beginning of year	1,235	$ 184.34	977	$ 200.38
Granted	450	164.00	975	183.31
Vested	(517)	187.70	(585)	208.77
Forfeited	(148)	173.40	(132)	187.18
Nonvested at end of year	1,020	$ 175.25	1,235	$ 184.34

Note 11. Shareholders' Equity

The approval of the Office of the Comptroller of the Currency is required if the total of all dividends declared by a national bank in any calendar year exceeds the bank's retained net income, as defined, for that year combined with its retained net income for the preceding two calendar years. Under this formula, the Bank can distribute as dividends, without the approval of the Office of the Comptroller of the Currency, up to $12,162,109 as of December 31, 2023. Dividends paid by the Bank to the Company are the only significant source of funding for dividends paid by the Company to its shareholders.

Note 12. Regulatory Matters

Federal bank regulators have issued substantially similar guidelines requiring banks and bank holding companies to maintain capital at certain levels. In addition, regulators may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Failure to meet minimum capital requirements can trigger certain mandatory and discretionary actions by regulators that could have a direct material effect on the Company's financial condition and results of operations.

The FRB and the Office of the Comptroller of the Currency have adopted rules to implement the Basel III capital framework as outlined by the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Basel III Capital Rules"). The Basel III Capital Rules require banks and bank holding companies to comply with certain minimum capital ratios, plus a "capital conservation buffer," which is designed to absorb losses during periods of economic stress and is applicable to all ratios except the leverage capital ratio.

The Company meets the eligibility criteria of a small bank holding company in accordance with the FRB's Small Bank Holding Company Policy Statement (the "SBHC Policy Statement"). Under the SBHC Policy Statement, qualifying bank holding companies, such as the Company, have additional flexibility in the amount of debt they can issue and are also exempt from the Basel III Capital Rules. The SBHC Policy Statement does not apply to the Bank, and the Bank must comply with the Basel III Capital Rules. The Bank must also comply with the capital requirements set forth in the "prompt corrective action" regulations pursuant to Section 38 of the Federal Deposit Insurance Act. The minimum capital ratios for the Bank to be considered "well capitalized" are set forth in the table below.

Management believes that as of December 31, 2023, the Company and Bank meet all capital adequacy requirements to which they are subject. At December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

Note 12. Regulatory Matters (Continued)

The Bank's required and actual capital amounts and ratios are set forth in the following table as of December 31, 2023 and 2022:

	Actual		**For Capital Adequacy Purposes (1)**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2023:						
Common Equity Tier 1 [to Risk Weighted Assets]	**$ 74,198,000**	**14.91%**	**$ 34,846,300**	**>7.00%**	**$ 32,357,300**	**>6.5%**
Total Capital [to Risk Weighted Assets]	**79,988,000**	**16.07%**	**52,269,400**	**>10.50%**	**49,780,400**	**>10%**
Tier 1 Capital [to Risk Weighted Assets]	**74,198,000**	**14.91%**	**42,313,300**	**>8.50%**	**39,824,300**	**>8%**
Tier 1 Capital [to Average Assets]	**74,198,000**	**10.90%**	**27,240,300**	**>4.00%**	**34,050,400**	**>5%**

	Actual		For Capital Adequacy Purposes (1)		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Common Equity Tier 1 [to Risk Weighted Assets]	$ 68,710,000	15.97%	$ 30,112,700	>7.00%	$ 27,961,800	>6.5%
Total Capital [to Risk Weighted Assets]	73,809,000	17.16%	45,169,100	>10.50%	43,018,200	>10%
Tier 1 Capital [to Risk Weighted Assets]	68,710,000	15.97%	36,565,500	>8.50%	34,414,600	>8%
Tier 1 Capital [to Average Assets]	68,710,000	10.20%	26,933,100	>4.00%	33,666,400	>5%

(1) The December 31, 2023 and 2022 amounts, except for the Tier 1 leverage ratio, include a transition capital conservation buffer of 2.500%

Note 13. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction, the District of Columbia and Maryland. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examinations by tax authorities for years prior to 2020.

The provision for income taxes consists of the following for the years ended December 31:

	2023	2022
Current income tax expense:		
Federal income tax	**$ 1,168,932**	$ 646,213
Local income tax	**414,950**	296,205
Total current income tax expense	**1,583,882**	942,418
Deferred income tax expense (benefit):		
Federal income tax (benefit)	**$ (154,851)**	$ 369,602
Local income tax expense (benefit)	**(19,994)**	98,492
Total deferred income tax expense (benefit)	**(174,845)**	468,094
Total income tax expense	**$ 1,409,037**	$ 1,410,512

A reconciliation of the statutory income tax to the income tax expense included in the consolidated financial statements is as follows for the years ended December 31:

	2023	2022
Income before income tax	**$ 5,772,393**	$ 5,998,060
Federal tax rate	**21%**	21%
Tax expense at statutory rate	**1,212,203**	1,259,593
Differences resulting from:		
State and local income tax, net of federal tax effect	**305,836**	323,205
Bank-owned life insurance	**(61,430)**	(44,816)
Nondeductible expenditures	**19,415**	18,389
Tax exempt income	**(56,137)**	(138,401)
Affordable Housing tax credits, net of amortization	**5,254**	7,083
Federal tax refunds from prior years	**-**	-
Revaluation of deferred tax assets	**8,264**	13,167
Other	**(24,366)**	(27,708)
Provision for income taxes	**$ 1,409,037**	$ 1,410,512
Effective tax rate	**24.41%**	23.52%

Note 13. Income Taxes (Continued)

The tax effects of items comprising the Company's net deferred tax assets (liabilities) at December 31 are as follows:

	2023	2022
Deferred tax assets:		
Allowance for credit losses	**$ 1,534,987**	$ 1,350,680
Stock based compensation	**16,989**	19,584
Nonaccrual interest	**-**	880
Deferred loan fees	**206,585**	129,881
Deferred compensation	**196,413**	221,681
Lease liability	**73,601**	106,844
Organization formation costs	**32,764**	35,599
Total deferred tax assets	**2,061,339**	1,865,149
Deferred tax liabilities:		
Accumulated depreciation	**(610,998)**	(680,113)
Affordable Housing Tax Credit Partnership	**(89,163)**	(86,204)
Deferred lease income	**(23,263)**	(30,574)
Right of Use Asset	**(73,601)**	(106,844)
Total deferred tax liabilities	**(797,025)**	(903,735)
Unrealized (gain) loss on available-for-sale securities	**2,738,779**	3,252,887
Unrealized (gain) loss on held-to-maturity securities	**766,624**	868,955
Net deferred tax assets	**$ 4,769,717**	$ 5,083,256

At December 31, 2021, the Company had net operating losses of $468,742 that are being carried forward to reduce future taxable income. The losses arose from filing separate federal income tax returns for the Company and the Bank for 2021 but have been utilized upon filing consolidated returns beginning in 2022.

Note 14. Fair Value Measurements

The Company follows authoritative accounting guidance to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The guidance clarifies that fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The guidance provides key considerations in determining the fair value of a financial asset when the market for that financial asset is not active.

Authoritative accounting guidance specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable. Observable inputs reflect market data obtained from independent sources, while unobservable inputs reflect the Company's market assumptions. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Note 14. Fair Value Measurements (Continued)

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the consolidated financial statements:

Securities available-for-sale: Securities available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).
Interest rate swap agreements: Interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. Based on the complex nature of interest rate swap agreements, the markets these instruments trade in are not as efficient and are less liquid than that of the more mature Level 1 markets. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value. These characteristics classify interest rate swap agreements as Level 2.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

		Fair Value Measurements at December 31, 2023 Using		
Description	**Fair Value as of December 31, 2023**	**Quoted Prices in Active Markets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Other Unobservable Inputs (Level 3)**
Assets:				
Available for sale securities:				
Mortgage-backed securities	**$ 48,612,874**	**$ -**	**$ 48,612,874**	**$ -**
State & political subdivision obligations	**12,263,407**	**-**	**12,263,407**	**-**
Corporate	**6,162,452**	**-**	**6,162,452**	**-**
Interest rate swap agreements	**184,636**	**-**	**184,636**	**-**
Liabilities:				
Interest rate swap agreements	**$ 184,636**	**$ -**	**$ 184,636**	**$ -**

Note 14. Fair Value Measurements (Continued)

		Fair Value Measurements at December 31, 2022 Using		
Description	Fair Value as of December 31, 2022	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Available for sale securities:				
Mortgage-backed securities	$ 61,382,360	$ -	$ 61,382,360	$ -
State & political subdivision obligations	16,812,612	-	16,812,612	-
Corporate	6,519,525	-	6,519,525	-

Certain financial and nonfinancial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial and nonfinancial assets recorded at fair value on a nonrecurring basis in the consolidated financial statements:

Loans: The fair value of individually assessed loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually assessed loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2022, substantially all of the Company's individually assessed loans were evaluated based upon the fair value of the collateral, while there were no individually assessed loans at December 31, 2023. In accordance with ASC 820, individually assessed loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3.

Foreclosed Assets: Foreclosed assets fair value measurements are the same as individually assessed loans which are described above. The Company had no foreclosed assets at December 31, 2023 and 2022.

Note 14. Fair Value Measurements (Continued)

The following table presents the balances of assets measured at fair value on a nonrecurring basis as of December 31, 2022:

		Fair Value Measurements at December 31, 2022 Using		
Description	Fair Value as of December 31, 2022	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Assets:				
Impaired loans	$ 226,170	$ -	$ -	$ 226,170

The following table presents information about level 3 Fair Value Measurements at December 31, 2022:

Level 3 Fair Value Measurement	Valuation Technique	Unobservable Input	Amount
Individually assessed loans	**Discounted appraised value**	**Selling expenses**	**5 - 8%**
	Discounted cash flow analysis	**Market rate for borrower (discount rate)**	**5.50%**

Authoritative accounting guidance requires disclosures of the estimated fair values of financial instruments, which is defined as the amount at which the instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. The assumptions used by management are more fully detailed below. It should be noted that different assumptions could significantly affect these estimates and the net realizable values could be materially different from the estimates presented below.

The fair value estimates presented are based on pertinent information available as of December 31, 2023 and 2022. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented are not necessarily indicative of the amounts that the Company could realize in a current market transaction. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

Note 14. Fair Value Measurements (Continued)

The Company had determined the fair value of its financial instruments using the following assumptions:

Cash and Cash Equivalents, Accrued Interest Receivable and Payable – The fair value of cash and cash equivalents and accrued interest receivable and payable was estimated to equal the carrying value due to the short-term nature of these financial instruments.

Investment Securities – The fair value of securities was estimated based on quoted market prices, dealer quotes, and prices obtained from independent pricing services. The carrying value of restricted stock approximates fair value based on the redemption provisions of the respective entity.

Loans – The loan portfolio is valued using an exit price notion. The present value of cash flows projection is established for each loan in the portfolio projecting contractual payments, default adjusted payments, cash flows in the event of default (including deferred timing of recoveries), and pre-payments. These expected cash flows are then discounted to present value using the note interest rate and an established market rate which, if different from the note rate, allows the Company to isolate the amount above or below par a potential acquirer would pay to acquire the Company's portfolio.

Bank-Owned Life Insurance – Bank-owned life insurance represents insurance policies on officers of the Company. The cash value of these policies are estimates using information provided by insurance carriers. These policies are carried at their cash surrender value, which approximates the fair value.

Interest rate swap agreements - Interest rate swap agreements are measured by alternative pricing sources with reasonable levels of price transparency in markets that are not active. These markets do however have comparable, observable inputs in which an alternative pricing source values these assets in order to arrive at a fair market value.

Deposits – The fair value of demand and savings deposits was estimated to equal the carrying value due to the short-term nature of the financial instruments. The fair value of time deposits was estimated by discounting estimated future cash flows using current rates on time deposits with similar maturities.

Short-Term Borrowings – The carrying amounts of borrowing under repurchase agreements, and other short-term borrowings maturing within ninety days, approximate their fair values.

Other Borrowings – The fair value is estimated by discounting future cash flows using current rates on advances with similar maturities.

Subordinated Debt – The fair value is estimated by discounting future cash flows using current rates on similar borrowings.

Off-Balance-Sheet-Instruments – The estimated fair value of fee income on letters of credit at December 31, 2023 and 2022 was insignificant. Loan commitments on which the committed interest rate is less than the current market rate were also insignificant at December 31, 2023 and 2022.

Note 14. Fair Value Measurements (Continued)

		Fair Value Measurements at December 31, 2023 Using			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets:					
Cash and cash equivalents	**$ 43,732,090**	**$ 43,732,090**	**$ -**	**$ -**	**$ 43,732,090**
Investment securities:					
Available-for-sale	**67,038,733**	**-**	**67,038,733**	**-**	**67,038,733**
Held-to-maturity	**67,109,635**	**-**	**57,530,519**	**-**	**57,530,519**
Loans held for sale	**786,000**	**-**	**786,000**	**-**	**786,000**
Loans, net	**491,532,062**	**-**	**-**	**461,297,646**	**461,297,646**
Bank-owned life insurance	**14,402,429**	**-**	**14,402,429**	**-**	**14,402,429**
Accrued interest receivable	**2,416,103**	**-**	**2,416,103**	**-**	**2,416,103**
Interest rate swap agreements	**184,636**	**-**	**184,636**	**-**	**184,636**
Financial Liabilities:					
Deposits	**580,649,257**	**-**	**580,571,623**	**-**	**580,571,623**
FHLB borrowings	**17,000,000**	**-**	**17,000,000**	**-**	**17,000,000**
FRB borrowings	**35,000,000**	**-**	**35,000,000**	**-**	**35,000,000**
Subordinated debt	**13,733,745**	**-**	**12,096,165**	**-**	**12,096,165**
Accrued interest payable	**223,191**	**-**	**223,191**	**-**	**223,191**
Interest rate swap agreements	**184,636**	**-**	**184,636**	**-**	**184,636**

		Fair Value Measurements at December 31, 2022 Using			
	Carrying Value	Quoted Prices in Active Markets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)	Total Fair Value
Financial Assets:					
Cash and cash equivalents	$ 36,953,504	$ 36,953,504	$ -	$ -	$ 36,953,504
Investment securities:					
Available-for-sale	84,714,497	-	84,714,497	-	84,714,497
Held-to-maturity	72,343,639	-	61,145,125	-	61,145,125
Loans, net	420,080,107	-	-	389,240,104	389,240,104
Bank-owned life insurance	12,609,903	-	12,609,903	-	12,609,903
Accrued interest receivable	2,022,667	-	2,022,667	-	2,022,667
Financial Liabilities:					
Deposits	571,751,401	-	571,553,937	-	571,553,937
Securities sold under agreement to repurchase	7,274,013	-	7,274,013	-	7,274,013
Subordinated debt	13,678,972	-	12,017,256	-	12,017,256
Accrued interest payable	89,028	-	89,028	-	89,028

Note 15. Financial Instruments with Off-Balance Sheet Risk

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

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

The contract amounts of these financial instruments at December 31 are as follows:

	2023	2022
Commitments to extend credit – other loans	**$ 105,395,122**	$ 82,948,755
Commercial and standby letters of credit	**4,819,640**	1,886,933
	$ 110,214,762	$ 84,835,688

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

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements and, generally, have terms of one year or less. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments. In the event the customer does not perform in accordance with the terms of the agreement with the third-party, the Company would be required to fund the commitment. The maximum potential amount of future payments the Company could be required to make is represented by the contractual amount of the commitment. If the commitment is funded, the Company would be entitled to seek recovery from the customer. At December 31, 2023 and 2022, no amounts have been recorded as liabilities for the Company's potential obligations under these guarantees.

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The Company records a reserve for unfunded commitments on off-balance sheet credit exposures through a charge to provision for credit loss expense in its consolidated statements of income. The allowance for unfunded commitments is reflected in accrued interest and other liabilities on the Company's consolidated balance sheet.

Note 15. Financial Instruments with Off-Balance Sheet Risk (Continued)

The following table presents the balance and activity in the allowance for credit losses for unfunded commitments for the year ended December 31, 2023:

	Total Allowance for Credit Losses- Unfunded Commitments
Balance,December 31, 2022	$ 30,000
Impact of Adoption of ASC 326	375,000
Provision for (recovery of) credit losses	(70,000)
Balance, December 31, 2023	$ 335,000

Note 16. Interest Rate Swap Derivatives

The Company enters into interest rate swaps ("swaps") with loan customers to provide a facility to mitigate the fluctuations in the variable rate on the respective loans. These swaps are matched in exact offsetting terms to swaps that the Company enters into with highly-rated third party financial institutions. These back-to-back swap agreements are free-standing derivatives and are recorded at fair value in the Company's balance sheets (asset positions are included in other assets and liability positions are included in other liabilities). The Company's swaps qualify as derivatives, but are not designated as hedging instruments, thus any net gain or loss resulting from changes in the fair value is recognized in other non-interest income. As of December 31, 2023, the Company entered into six interest rate swap agreements which are collateralized by $300,000 in cash. There were no interest rate swap agreements in place as of December 31, 2022.

The notional amount and fair value of the Company's derivative financial instruments as of December 31, 2023 were as follows:

	December 31, 2023		
	Number of Contracts	Notional Amount	Fair Value
Interest Rate Swap Agreements:			
Receive Fixed/Pay Variable Swaps	6	$ 12,089,286	$ 149,663
Pay Fixed/Receive Variable Swaps	6	12,089,286	(149,663)

The Company designates derivatives as cash flow hedges when they are used to manage exposure to variability in cash flows on variable rate borrowings such as the Company's advances from the FHLB. The Company uses interest rate swap agreements as part of its hedging strategy by exchanging variable-rate interest payments on a notional amount equal to the principal amount of the borrowings for fixed-rate interest payments, with such interest rates set based on benchmarked interest rates. The effective portion of the gain or loss on the Company's cash flow hedges is reported as a component of other comprehensive income, net of deferred income taxes, and is reclassified into earnings in the same period or periods during which the hedged transactions affect earnings. There are no cash flow hedges outstanding as of December 31, 2023 and 2022.

Note 17. Accumulated Other Comprehensive Income (Loss)

Changes in accumulated other comprehensive income (AOCI) for the years ended December 31, 2023 and 2022 are shown in the following table. The Company has two components of AOCI, which are available-for-sale securities and securities transferred to held-to-maturity, for the years ended December 31, 2023 and 2022. All amounts in table are shown net of tax.

	2023		
	Available-for-Sale Securities	**Securities Transferred from Available-for-sale to Held-to-maturity**	**Total**
Balance, beginning of period	**$ (8,957,650)**	**$ (2,392,888)**	**$ (11,350,538)**
Net unrealized gains (losses) during period	**785,763**		**785,763**
Net reclassification adjustment for losses (gains) realized in income	**579,940**		**579,940**
Net amortization on securities transferred to held-to-maturity		**267,792**	**267,792**
Other comprehensive income (loss), net of tax	**1,365,703**	**267,792**	**1,633,495**
Balance, end of period	**$ (7,591,947)**	**$ (2,125,096)**	**$ (9,717,043)**

	2022		
	Available-for-Sale Securities	Securities Transferred from Available-for-sale to Held-to-maturity	Total
Balance, beginning of period	$ (823,201)	$ -	$ (823,201)
Net unrealized gains (losses) during period	(8,422,714)		(8,422,714)
Net reclassification adjustment for losses (gains) realized in income	288,265		- 288,265
Net unrealized loss on securities transferred to held-to-maturity		(2,810,964)	- (2,810,964)
Net amortization on securities transferred to held-to-maturity		418,076	- 418,076
Other comprehensive income (loss), net of tax	(8,134,449)	(2,392,888)	(10,527,337)
Balance, end of period	$ (8,957,650)	$ (2,392,888)	$ (11,350,538)

The following table presents information related to reclassifications from accumulated other comprehensive income.

	Amount Reclassified from AOCI into Income		**Affected Line Item in the Statements of Income**
	For the Year Ended December 31,		
Details about AOCI:	**2023**	2022	
Net gain (loss) on sale of securities	**$ (789,152)**	$ (392,946)	Net gain (loss) on sale of securities
Amortization of unrealized loss on securities transferred to held-to-maturity	**370,123**	$ 569,897	Interest income: Investment securities
Income tax benefit (expense)	**311,544**	$ 256,501	Provision for Income Taxes
Total	**$ (847,732)**	$ (706,342)	Net income

Note 18. Commitments and Contingencies

In the ordinary course of business, the Company has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the financial condition of the Company.

Note 19. Related Party Transactions

In the normal course of banking business, loans are made to executive officers and directors and certain affiliated entities of such directors and executive officers. These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other persons and did not involve more than normal risks of collectability or present other unfavorable features. At December 31, 2023 and 2022, these loans totaled $6,647,000 and $3,300,000, respectively.

In addition, the Company held deposits of $3,664,000 and $5,582,000 from officers and directors at December 31, 2023 and 2022, respectively. The Company held repurchase agreements of $0 and $149,000 from officers and directors at December 31, 2023 and 2022, respectively.

In 2014, the Company entered into an agreement with a management service company that is owned by one of the directors. The management service company is paid an amount equal to the greater of (i) two and one-half percent (2.5%) of rent collected on behalf of the Company or (ii) three thousand dollars ($3,000) per month. The agreement was amended on December 20, 2023 with a change in the monthly management fee to $2,500 per month. The fees paid to the management service company for the year ended December 31, 2023 and 2022 were $36,217 and $37,682, respectively.

Note 20. Concentrations of Credit

All of the Company's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Company's market area. The concentrations of credit by type of loan are set forth in Note 3. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Note 21. Subsequent Events

The Company evaluated subsequent events that have occurred after the balance sheet date, but before the consolidated financial statements are issued. There are two types of subsequent events (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing consolidated financial statements, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Subsequent events have been considered through February 29, 2024, the date consolidated financial statements were available to be issued. Based on the evaluation, the Company did not identify any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the audited consolidated financial statements.

NATIONAL CAPITAL BANCORP, INC.

National Capital Bank Branch Locations

Capitol Hill Branch
316 Pennsylvania Avenue, SE
Washington, DC 20003
202-546-8232

Courthouse Branch
2505 Wilson Boulevard
Arlington, VA 22201
571-982-5460

Friendship Heights Branch
5228 44th Street, NW
Washington, DC 20015
202-966-2688

Fox Hill Branch
8300 Burdette Road
Bethesda, MD 20817
240-858-4044

202.546.8000 | nationalcapitalbank.bank