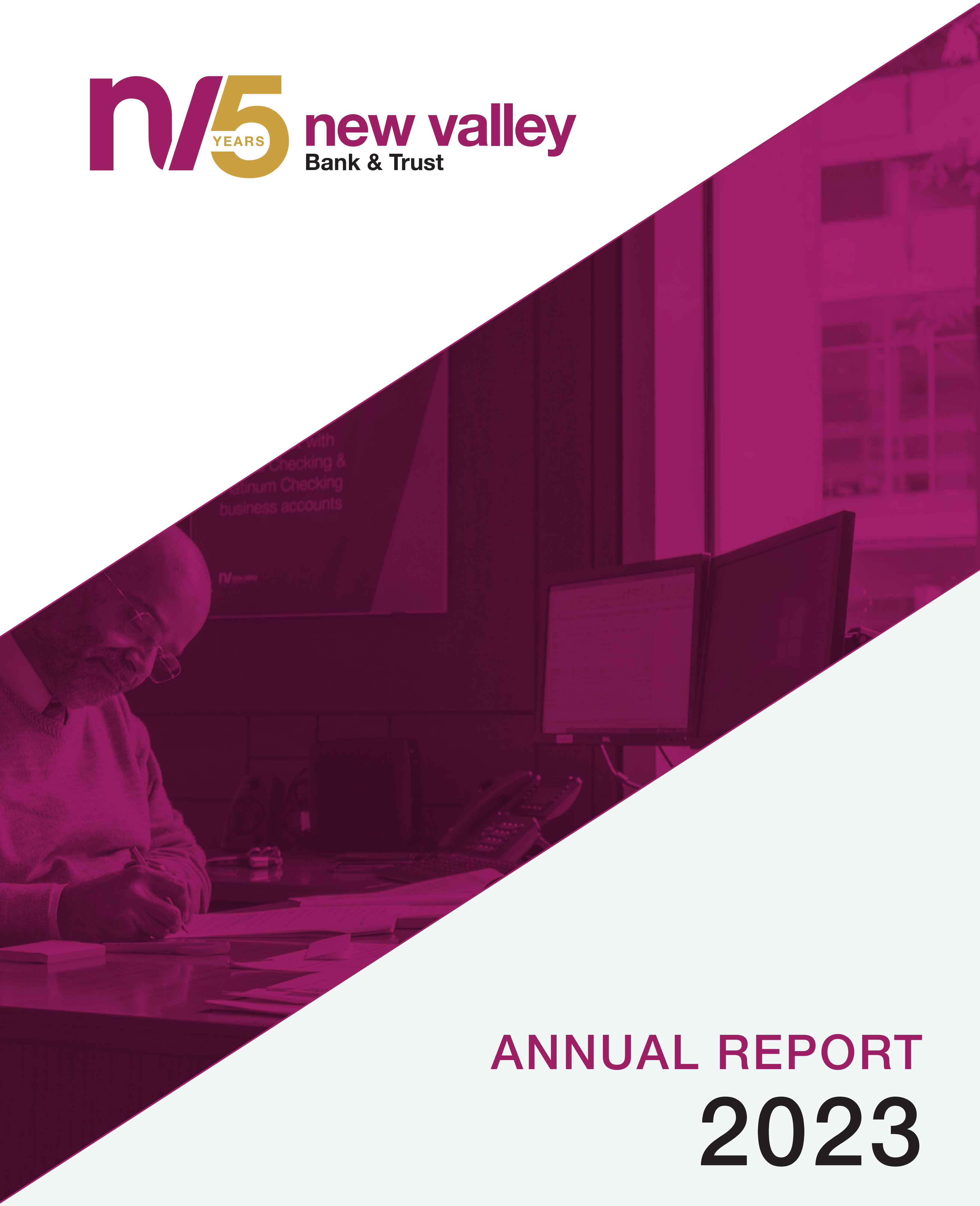
nv 5 YEARS new valley
Bank & Trust



ANNUAL REPORT
2023

Letter from the Chairman

Dear Fellow Shareholder,

We are pleased to provide you with the 2023 Annual Report for your bank. Thanks to your continued support, and with the leadership of your Board of Directors, along with Jeff Sullivan and his entire New Valley Bank team, your bank has successfully navigated a unique and challenging economic environment.

In our 2022 Annual Report, we indicated that 2023 was likely to be a challenging year. We are pleased to report that your bank remains healthy with $30.5 million of tier 1 capital and a tier 1 capital to assets ratio of 11.14%. As you will see from the enclosed financial reports, the bank has continued its growth track, ending the year with $332 million in assets, an increase of $61 million from prior year end. Deposits grew $39 million, and the loan portfolio grew by $35 million.

Rapidly rising rates have impacted net interest income, yet the bank has consistently performed in accordance with its original projected plan. We continue to focus on our primary mission of accepting deposits and making loans to local businesses and families and project profitable earnings in 2024 and beyond.

We are ever mindful of the bank's obligations to you, our shareholders, while continuing to serve our existing and new customers with a culture driven by their banking needs. You should be proud of the impact your bank is having on your community supporting local businesses and families through products and services geared towards their specific needs.

We hope to see you at our upcoming Annual Meeting and 5th anniversary celebration on May 29th starting at 3:30 p.m. at our corporate headquarters located at One Monarch Place, Suite 215, Springfield, Massachusetts 01144.

Respectfully,

Frank P. Fitzgerald

Board of Directors

Chairman Frank Fitzgerald, Esq.
Founder, Fitzgerald Law, PC, The Bank of Western Mass

Frank M. Antonacci
Owner, USA Recycle, Lindy Farms, Greathorse CC

Lamont Clemons
President, S-Cel-O Painting

Maureen Devine
Retired President, Strategic Information Resources

Rocco Falcone
President, Rocky's Hardware

Jim Garvey
Owner, James Motors, Inc. and St. James Checking, Inc.

Peter Martins
Owner Salema Management, Salmar Realty

Tim Lamotte
President, Northern Tree

Sarah Maggi Morin
Chief of Staff, Tree House Brewing Company

Jacob Waah
Owner, Victory Home Health Care

Jeff Sullivan
President & Chief Executive Officer of New Valley Bank & Trust

Management Team

Mike Paré

SVP, Chief Administrative Officer, Chief Financial Officer, & Treasurer

Becky Elias

SVP, Chief Lending Officer

Elizabeth Beaudry

SVP, Chief Credit Officer

Jill Brody

SVP, Risk Management

Jeannette Ramos

SVP, Operations & Technology

Renee Messier

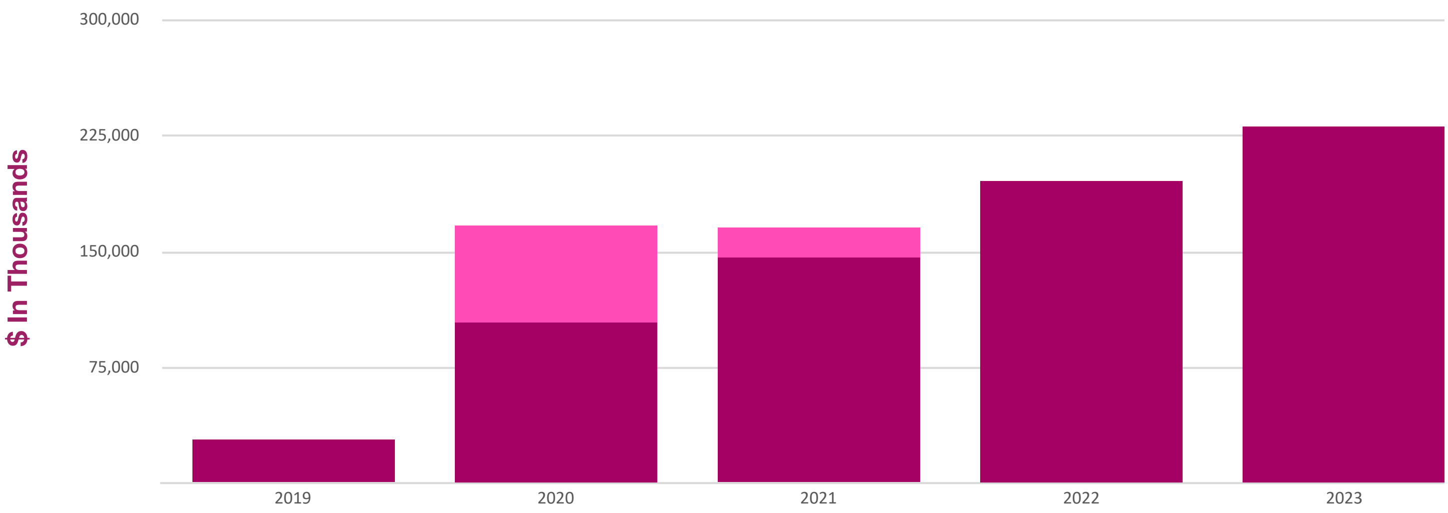
SVP, Cash Management & Retail Banking





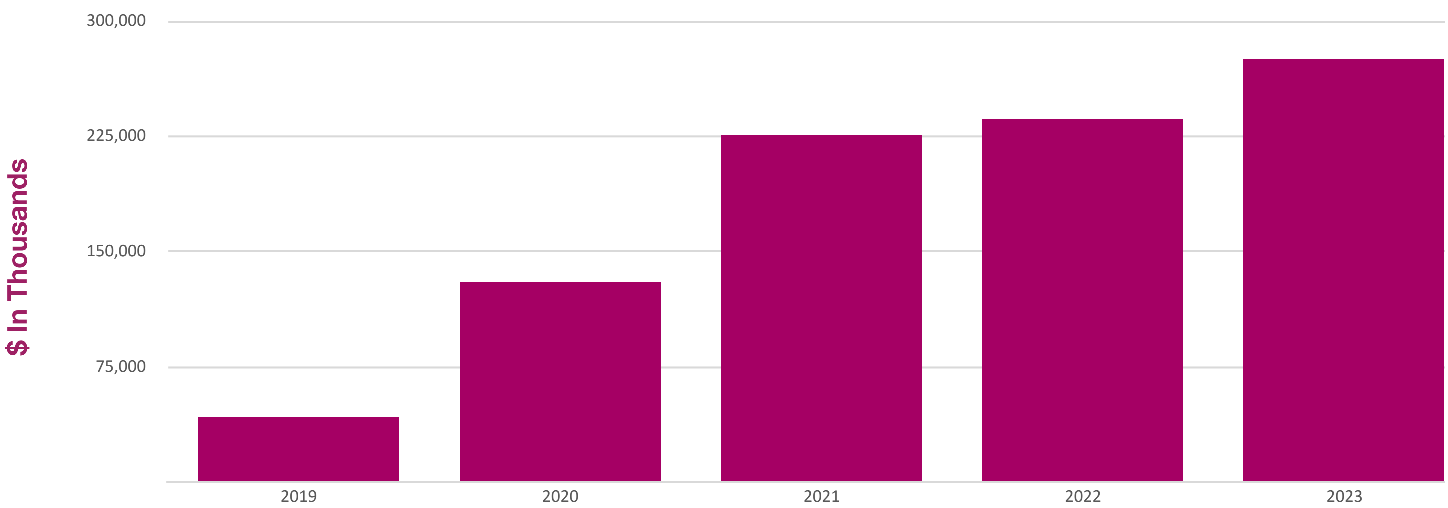
Shouldn't your money work as hard as you do?
Earn interest with Capital Checking & Platinum Checking business accounts


Annual Loan Growth



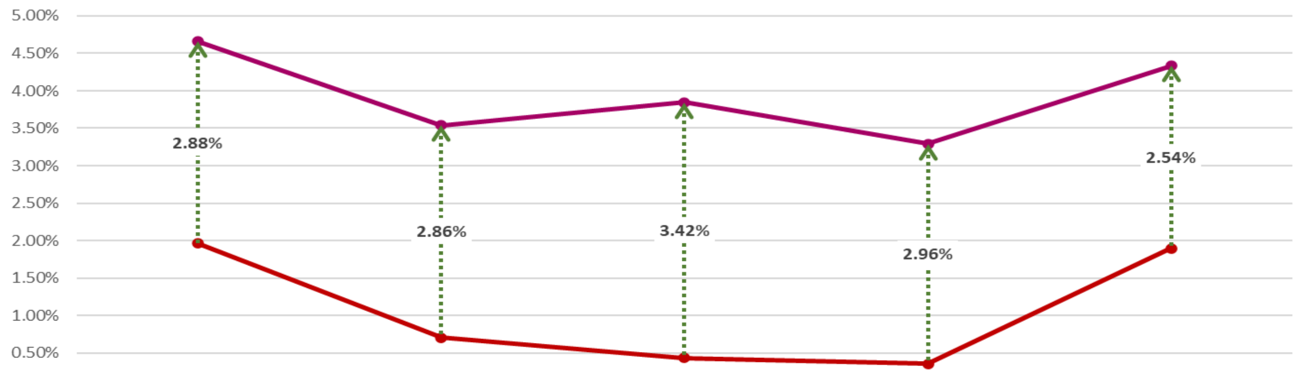
- *Net organic loan growth excluding Paycheck Protection Program (PPP) loans was 18.1% or $35.5 million in 2023, ending at $231.1 million.*
- *Loan demand remained stable, allowing the bank to maintain its growth trajectory. The compound annual growth rate (CAGR) for core loans has been 51.5% since 2019.*
- *The bank's loan to deposit ratio remained stable at 84.21% at December 31, 2023, an increase of 1.13%.*
- *The Paycheck Protection Program (PPP) ended May 31, 2021. Most of the bank's PPP loans have been forgiven as of Q4 2023.*

Annual Deposit Growth



- *Net deposit growth was 16.4% or $38.8 million in 2023, ending at $274.9 million.*
- *Competition for core deposits has continued to intensify as the Federal Reserve has left short term rates unchanged since its July 2023 meeting. Currently the Fed Funds target range remains between 5.25% and 5.50% and median policymaker expectations for the Fed's benchmark overnight interest rate are to fall 0.75% in 2024.*
- *Wholesale funding sources such as brokered deposits and listing service deposits comprise 13.9% or $38.2 million of total deposits. The bank retains the option to put back a significant portion of these funds for more favorable rates as circumstances warrant.*

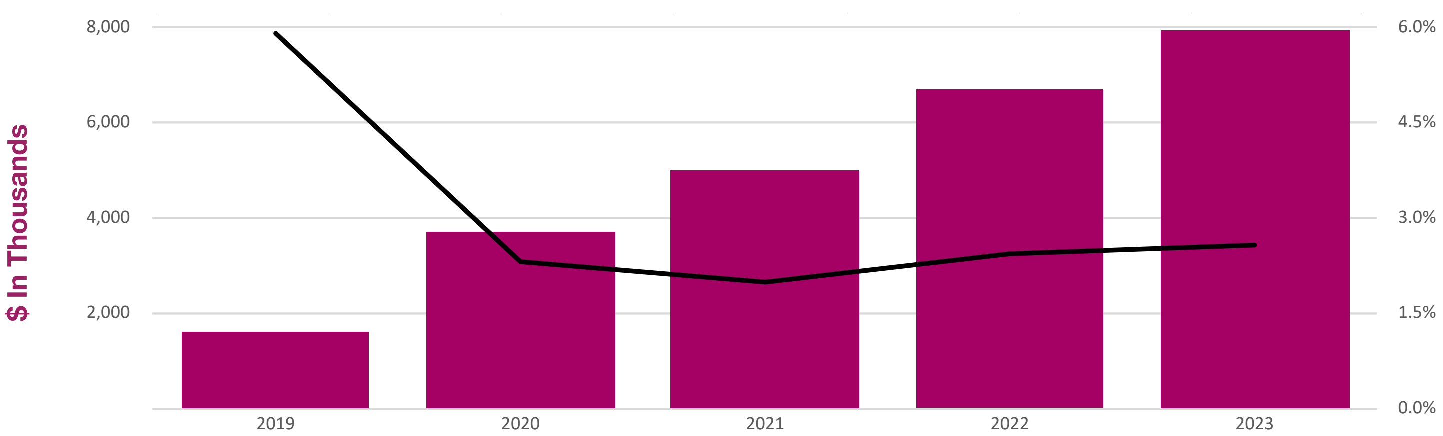
Net Interest Margin



	2019	2020	2021	2022	2023
Earning Asset Yield	4.66%	3.54%	3.85%	3.30%	4.34%
All In Cost of Funds	1.96%	0.70%	0.43%	0.35%	1.89%
Net Interest Margin	2.88%	2.86%	3.42%	2.96%	2.54%

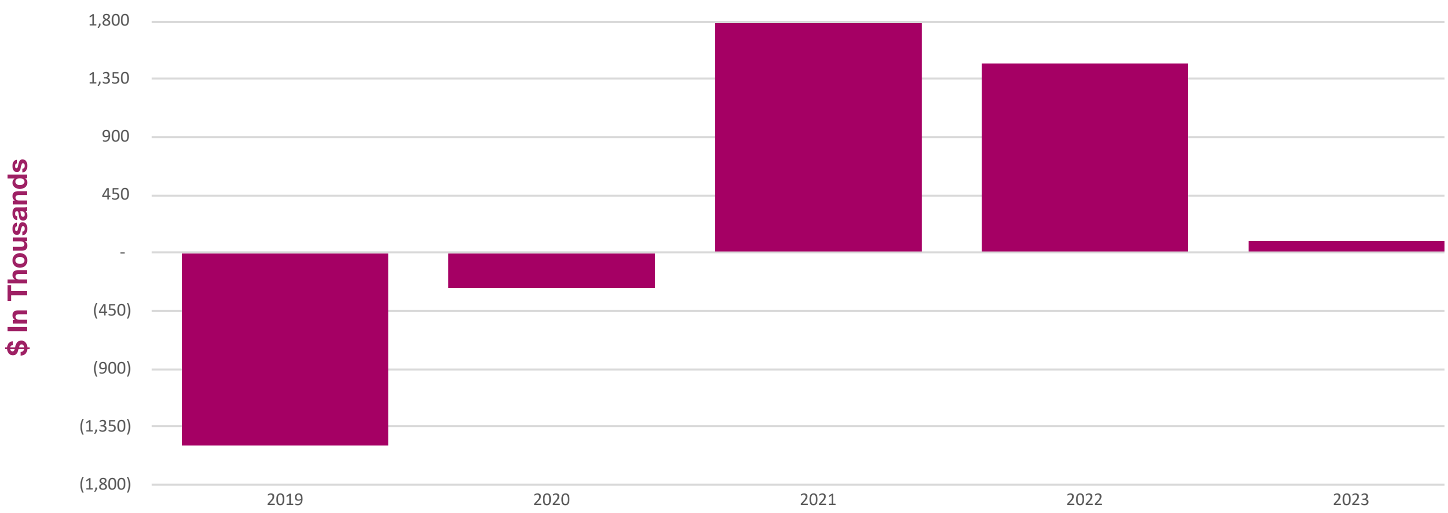
- *Net interest margin declined by 0.42% to 2.54%, driven primarily by the rapid rise in short term interest rates and its resulting impact on deposit cost of funds.*
- *Earning asset yields increased 1.04% to 4.34% as variable rate assets repriced to higher rates and the bank continued to originate loans at market rates throughout 2023.*
- *The bank is focused on expanding net interest margin in 2024 and when rates begin to decline expect to see a similar reduction in deposit cost of funds.*

Expense Management



- *Non-interest expense increased 18.6% or $1.3 million in 2023 for a total expense of $7.4 million. As a percentage of assets non-interest expense increased slightly to 2.6%.*
- *The most significant drivers of increased expense were full year costs associated with the occupancy and salaries expense for the bank's West Springfield branch, which opened in September 2022. Additional impacts included higher regulatory assessment costs due to larger asset size and larger increases in software maintenance renewals driven by inflation.*
- *Given the interest rate environment the bank has limited adding new positions in 2023 and expects to continue to hold back on hiring in 2024.*

Net Income



- *Net income declined $1.4 million in 2023 to $94,000.*
- *Rapidly rising rates impacted deposit and borrowing interest expense.*
- *Reduced net interest income paired with full year non-interest expense increases in 2023 put pressure on annual earnings.*

New Valley Bank & Trust and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

MEMBER OF ALLINIAL GLOBAL,
AN ASSOCIATION OF LEGALLY INDEPENDENT FIRMS

255 STATE STREET, BOSTON, MA 02109
P: 617.439.9700

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Independent Auditor's Report

To the Audit Committee of New Valley Bank & Trust and Subsidiary:

Opinion

We have audited the accompanying consolidated financial statements of New Valley Bank & Trust and Subsidiary (the "Bank"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of net income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Bank 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.

Change in Accounting Principle

As discussed in Note 1 to the financial statements, the Bank changed its method of accounting for credit losses in 2023 due to the adoption of Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 326, Financial Instruments – Credit Losses ("ASC 326"). The Bank adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

Wolf & Company, P.C.

Boston, Massachusetts
March 20, 2024

New Valley Bank & Trust and Subsidiary

Consolidated Balance Sheets

December 31, 2023 and 2022

	2023	2022
	(In thousands)	
Assets		
Cash and due from banks	$ 10,940	$ 8,450
Federal funds sold	27,198	728
Restricted cash	1,554	1,554
Total cash and cash equivalents	39,692	10,732
Interest-bearing deposits in banks	1,747	2,049
Securities available for sale	28,658	31,972
Securities held to maturity (fair value of $20,893 in 2023 and $19,674 in 2022)	21,390	21,341
Federal Home Loan Bank stock, at cost	1,216	327
Loans, net of allowance for credit losses of $2,820 in 2023 and $2,446 in 2022	228,700	193,732
Bank-owned life insurance	4,218	4,123
Deferred tax asset	1,550	1,695
Premises and equipment, net	1,389	1,542
Other assets	3,919	3,957
	$ 332,479	$ 271,470
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 25,205	$ 23,233
Interest-bearing	249,722	212,903
Total deposits	274,927	236,136
Long-term debt	27,000	5,000
Accrued expenses and other liabilities	2,862	3,416
Total liabilities	304,789	244,552
Commitments and contingencies (Notes 7 and 12)		
Stockholders' equity:		
Common stock, $100 par value; 50,000 shares authorized; 29,868 shares issued and outstanding	2,987	2,987
Class A common stock, $0.25 par value; 1,500 shares authorized; none issued	-	-
Additional paid-in capital	27,982	27,929
Retained deficit	(459)	(362)
Accumulated other comprehensive loss	(2,820)	(3,636)
Total stockholders' equity	27,690	26,918
	$ 332,479	$ 271,470

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Net Income

Years Ended December 31, 2023 and 2022

	2023	2022
	(In thousands, except per share data)	
Interest and dividend income:		
Loans, including fees	$ 10,275	$ 7,359
Debt securities	1,314	1,220
Interest-bearing deposits and other	202	66
Federal funds sold	1,058	167
Total interest income	12,849	8,812
Interest expense:		
Deposits	4,373	844
Long-term debt	893	29
Total interest expense	5,266	873
Net interest income	7,583	7,939
Provision for credit losses	60	835
Net interest income, after provision for credit losses	7,523	7,104
Non-interest income		
Loan servicing fees, net	40	41
Net loss on sales of available-for-sale securities	-	(20)
Other	526	408
Total non-interest income	566	429
Operating expenses:		
Salaries and employee benefits	4,558	3,891
Occupancy and equipment	848	622
Data processing	698	636
Advertising	87	99
Professional	348	413
Other general and administrative	1,403	1,031
Total non-interest expenses	7,942	6,692
Income before income taxes	147	841
Provision (benefit) for income taxes	53	(625)
Net income	$ 94	$ 1,466
Income per common share		
Basic and diluted gain per share	$ 3.15	$ 49.16
Weighted average basic and diluted shares outstanding	29,868	29,824

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
	(In thousands)	
Net income	$ 94	$ 1,466
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale	644	(4,326)
Reclassification adjustment for losses realized in income	-	20
Reclassification adjustment for accretion of net unrealized losses transferred from available for sale to held to maturity	390	(119)
Tax effects	(218)	893
Net unrealized gains (losses)	816	(3,532)
Comprehensive income (loss)	$ 910	$ (2,066)

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2023 and 2022

(In thousands)

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2021	29,428	$ 2,943	$ 27,380	$ (1,828)	$ (104)	$ 28,391
Issuance of common stock in connection with stock offering	440	44	462	-	-	506
Comprehensive income (loss)	-	-	-	1,466	(3,532)	(2,066)
Share based compensation - stock options	-	-	87	-	-	87
Balance at December 31, 2022	29,868	$ 2,987	$ 27,929	$ (362)	$ (3,636)	$ 26,918
Cumulative change in accounting principle (1)	-	-	-	(191)	-	(191)
Comprehensive income	-	-	-	94	816	910
Share based compensation - stock options	-	-	53	-	-	53
Balance at December 31, 2023	29,868	$ 2,987	$ 27,982	$ (459)	$ (2,820)	$ 27,690

(1) Represents adjustment needed to reflect the cumulative impact on retained deficit pursuant to the Bank's adoption of Accounting Standards Update ("ASU") 2016-13. The adjustment presented includes $266,000 ($191,000, net of tax) attributable to the change in accounting methodology for estimating the allowance for credit losses related to loans.

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Cash Flows

Years Ended December 31, 2023 and 2022

	2023	2022
	(In thousands)	
Cash flows from operating activities:		
Net income	$ 94	$ 1,466
Adjustments to reconcile net income to net cash used by operating activities:		
Provision for credit losses	60	835
Amortization of deferred loan (fees)/costs, net	135	149
Accretion of deferred PPP loan fees	(2)	(591)
Net amortization of premiums on securities	376	62
Depreciation and amortization of premises and equipment	286	216
Net loss on sales of securities available for sale	-	20
Increase in cash surrender value of bank-owned life insurance	(95)	(87)
Share based compensation expense	53	87
Deferred income tax expense/(benefit)	3	(802)
Net change in:		
Other assets and liabilities, net	(517)	(1,686)
Net cash used by operating activities	393	(331)
Cash flows from investing activities:		
Net change in interest-bearing deposits in banks	302	4,180
Activity in securities available for sale:		
Sales	295	4,858
Purchases	(50,383)	(40,324)
Maturities and prepayments	54,011	24,120
Purchases of Federal Home Loan Stock	(889)	-
Loan purchases	(3,647)	(5,164)
Loan principal originations, net	(31,780)	(24,921)
Additions to premises and equipment, net	(133)	(558)
Net cash used by investing activities	(32,224)	(37,809)
Cash flows from financing activities:		
Net increase in deposits	38,791	10,711
Proceeds from issuance of long-term debt	54,300	15,000
Repayment of long-term debt	(32,300)	(10,000)
Net proceeds from issuance of common stock	-	506
Net cash provided by financing activities	60,791	16,217
Net change in cash and cash equivalents	28,960	(21,923)
Cash and cash equivalents at beginning of period	10,732	32,655
Cash and cash equivalents at end of period	$ 39,692	$ 10,732
Supplementary information:		
Interest paid on deposits and borrowed funds	$ 5,266	$ 845
Income taxes paid, net	53	176
Non-cash activities:		
Right-of-use assets obtained in exchange for lease liabilities	$ -	$ 2,576
Securities transferred from available for sale to held to maturity classification	-	15,815

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of New Valley Bank & Trust (the "Bank") and its wholly owned subsidiary, New Valley Securities Corporation (the "Subsidiary"). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Bank provides a variety of financial services to individuals, small and medium-sized businesses, professionals, municipalities, and not-for-profit organizations through its offices in Springfield, Massachusetts and West Springfield, Massachusetts. Its primary deposit products are checking, money market, savings and term certificate accounts, and its primary lending products are commercial real estate and commercial loans.

Use of Estimates

In preparing consolidated 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 credit losses, and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's lending activities are with customers located within Massachusetts and Connecticut. The Bank does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents

Cash and cash equivalents include cash, balances due from banks and federal funds sold on an overnight basis. The Bank maintains cash balances in excess of federally insured limits Restricted cash of $1,554,000 at December 31, 2023 is pledged for customer letters-of-credit at a correspondent bank.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost. At December 31, 2023 and 2022, interest-bearing deposits in banks with a carrying value of $250,000 and $1,674,000, respectively, were pledged to secure public deposits.

Fair Value Hierarchy

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

Reclassification

Certain amounts in the prior year consolidated financial statements have been reclassified to conform to the current year presentation.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities except for purchase premiums on callable securities, which are amortized to the earliest call date. Gains and losses on the sale of securities are recorded on the settlement date and are determined using the specific identification method.

Each reporting period, the Bank evaluates all debt securities classified as available for sale or held to maturity with a decline in fair value below the amortized cost of the investment to determine whether or not an allowance for credit losses should be recorded. The Bank first assesses if there is intent to sell, or if it is more likely than not that the Bank will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through a provision for credit losses charged to earnings. For debt securities available for sale that the Bank intends to hold, management evaluates whether the decline in fair value has resulted from credit losses or other factors. The Bank considers both quantitative and qualitative factors in making this assessment. Credit loss is measured based on discounted cash flow analysis and recorded in a valuation allowance. The allowance is limited by the amount that the fair value is less than the amortized cost basis. Impairment that has not been recorded through an allowance for credit losses shall be recorded through other comprehensive income, net of applicable taxes. Changes in the allowance shall be recorded in the period of the change as credit loss expense (or reversal of credit loss expense).

The Bank measures expected credit losses on held to maturity securities on a collective basis by major security type in accordance with the CECL methodology using discounted cash flow analysis and credit losses are recognized as part of the allowance for credit losses.

Debt securities are placed on non-accrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

Federal Home Loan Bank Stock

The Bank, as a member of the Federal Home Loan Bank ("FHLB") system, is required to maintain an investment in capital stock of the FHLB. Based on redemption provisions, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. The Bank reviews for impairment based on the ultimate recoverability of the cost basis in the stock. As of December 31, 2023 and 2022, no impairment has been recognized.

Loans

The Bank's loan portfolio includes 1-4 family residential real estate, owner occupied commercial real estate, non-owner occupied commercial real estate, commercial and consumer segments.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination costs, net of certain direct origination fees, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on non-accrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not collected for loans that are placed on non-accrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current for 90 days and future payments are reasonably assured.

Allowance for Credit Losses-Loans

Prior to January 1, 2023, the allowance for loan losses was based on an incurred loss methodology and represented the estimated risk of loss inherent in the loan portfolio as of the balance sheet date. Effective January 1, 2023, the allowance for credit losses is based on Current Expected Credit Loss ("CECL") methodology.

The allowance for credit losses 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. Such allowance is based on the credit losses expected to arise over the life of the asset (contractual term). The allowance for credit losses on loans is established through a provision for credit losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses on loans is evaluated on a regular basis by management. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management estimates the allowance for credit losses on loans using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience including peer information provides the basis for the estimation of expected credit losses. Qualitative and quantitative adjustments related to current conditions and the reasonable and supportable forecast period may consider all of the following: the borrower's creditworthiness, changes in lending policy and procedures, changes in nature and volume of the loan portfolio and in the terms of loans, changes in experience, ability and depth of lending management and staff, changes in the quality of the loan review system, changes in the value of underlying collateral for collateral-dependent loans, existence and effect of any concentration of credit and changes in the level of such concentrations, effect of other external forces such as competition, legal and regulatory requirements on the level of estimated credit losses in the existing portfolio, and the current and forecasted direction of the economic and business environment. Such forecasted information may include: GDP growth, unemployment rates, interest rates and house price indexes amongst others.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

1-4 family residential real estate - The Bank generally does not originate or purchase loans with a loan-to-value ratio greater than 80 percent and does not generally grant or purchase loans that would be classified as subprime upon origination. All loans in this segment are collateralized by residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will influence the credit quality in this segment.

Commercial real estate (owner and non-owner occupied) – Loans in this segment are primarily income-producing properties in Massachusetts and Connecticut. The underlying cash flows generated by the properties can be adversely impacted by a downturn in the economy as evidenced by increased vacancy rates, which in turn, could have an effect on the credit quality in this segment. Management obtains rent rolls annually and continually monitors the cash flows of these loans.

Commercial loans – Loans in this segment are made to businesses and are generally secured by assets of the business. Repayment is expected from the cash flows of the business. A weakened economy, and resultant decreased consumer spending, could have an effect on the credit quality in this segment. In addition, this segment includes loans issued under the United States Small Business Administration's ("SBA") Paycheck Protection Program ("PPP"). These loans are guaranteed and are not allocated a general reserve because the Bank has not experienced losses on such loans and management expects the guarantees will be effective, if necessary.

Consumer loans – Loans in this segment are generally secured by personal property or unsecured, and repayment is dependent on the credit quality of the individual borrower.

The Bank measures the allowance for credit losses using the SCALE method.

The SCALE method is a simple, spreadsheet-based method developed by the Federal Reserve to assist community banks in calculating a CECL compliant allowance for credit losses using proxy expected lifetime loss rates. The SCALE tool is a template designed for smaller community banks with total assets of less than $1 billion. It uses publicly available data from Schedule RI-C of the Call Report to derive the initial proxy lifetime loss rates.

Individually Evaluated Loans

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For loans that are collateral dependent, that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Accrued Interest Receivable

The Bank elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on non-accrual status, which is generally when the instrument is 90 days past due, or earlier if the Bank believes the collection of interest is doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

Accrued interest receivable of $1,123,000 as of December 31, 2023, is in other assets on the consolidated balance sheet.

Allowance for Credit Losses – Off-Balance Sheet Credit Exposures

The Bank has off-balance sheet financial instruments, which include commitments to extend credit, standby letters of credit and commercial letters of credit. The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The Bank's allowance for credit losses on off-balance sheet credit exposures is recognized as a liability in accrued expenses and other liabilities on the consolidated balance sheets, with adjustments to the reserve recognized in the provision for credit losses in the consolidated statements of net income. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

As of December 31, 2023, the ACL for off-balance sheet credit losses was deemed immaterial.

Bank-owned Life Insurance

Bank-owned life insurance policies are reflected on the consolidated balance sheets at cash surrender value. Changes in the net cash surrender value of the policies, as well as insurance proceeds received, are reflected in non-interest income on the consolidated statement of net income and are not subject to income taxes.

Premises and Equipment

Premises and equipment are carried at cost, less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets or the expected terms of the leases, if shorter. Expected terms include lease option periods to the extent that the exercise of such options is reasonably assured.

Leases

The Bank determines if an arrangement is a lease at inception. Operating lease right-of-use ("ROU") assets are included in other assets and operating lease liabilities are included in accrued expenses and other liabilities in the consolidated balance sheets. The Bank does not have any finance leases.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate, which is generally the Federal Home Loan Bank classic advance rate, based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset is net of lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option.

For operating leases, lease expense is recognized on a straight-line basis over the lease term.

Transfers of Financial Assets

Transfers of an entire financial asset, a group of entire financial assets, or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets.

During the normal course of business, the Bank may transfer a portion of a financial asset, for example, a participation loan. In order to be eligible for sales treatment, the transfer of the portion of the loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

Revenue Recognition

The Bank recognizes revenue from contracts with customers when it satisfies its performance obligations. The Bank’s performance obligations are generally satisfied as services are rendered and can either be satisfied at a point in time or over time. The majority of the Bank’s revenue-generating transactions are not subject to ASC 606, including revenue generated from financial instruments, such as loans, derivatives and investment securities, and revenue related to mortgage servicing activities, as these activities are subject to other GAAP.

Revenues for the Bank subject to ASC 606 include customer service fees in the consolidated statements of net income. These fees are made up of service charges and fees on deposit accounts that is recognized at a point in time, including non-sufficient funds fees, overdraft charge fees and stop-payment fees. Such revenue is derived from transactional information and is recognized as revenue immediately as the transactions occur or upon providing the service to complete the customer’s transaction. Payment is generally received at the time the performance obligations are satisfied.

Advertising

Advertising costs are expensed as incurred.

Share Based Compensation Plans

The Bank measures and recognizes compensation cost relating to share-based payment transactions based on the grant-date calculated value of the equity instruments issued. Share based compensation is recognized over the period the employee is required to provide services for the award. The Bank accounts for forfeitures as they occur. The Bank reverses compensation cost previously recognized when an award is forfeited before the completion of the applicable vesting period. The Bank uses the Black-Scholes option-pricing model to determine the calculated value of stock options granted.

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted accordingly through the provision for income taxes. A valuation allowance is established against deferred tax assets when, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized.

Earnings Per Common Share

Basic earnings/loss per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. If rights to dividends on unvested options/awards are non-forfeitable, these unvested awards/options are considered outstanding in the computation of basic earnings per share. Diluted earnings/loss per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Bank relate to outstanding stock options and stock warrants and are determined using the treasury stock method.

Earnings or loss per common share has been computed based on the following:

	2023	2022
Net gain applicable to common stock (in thousands)	$ 94	$ 1,466
Average number of common shares outstanding used to calculate basic and diluted gain per share	29,868	29,824
Basic and diluted gain per share	$ 3.15	$ 49.16

Earnings Per Common Share

Options for 1,825 shares and warrants for 3,109 shares were not included in the computation of diluted loss per share for the years ended December 31, 2023 and 2022, respectively, because to do so would have been anti-dilutive.

Comprehensive Income (Loss)

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities are reported as a separate component of the stockholders' equity section of the balance sheet, such items, along with net income, are components of comprehensive income (loss).

The components of accumulated other comprehensive income (loss) and related tax effects included in stockholder's equity are as follows:

	December 31, 2023	December 31, 2022
	(in thousands)	(in thousands)
Securities		
Net unrealized holding losses on securities available for sale losses	$ (1,942)	$ (2,586)
Unamortized losses on securities transferred from available for sale to held to maturity	(1,553)	(1,943)
Tax effect	675	893
Net of tax effect	$ 2,820	$ 3,636

Recent Accounting Pronouncements

On January 1, 2023, the Bank adopted ASU 2016-13 Financial Instruments – *Credit Losses (Topic 326)*: Measurement of Credit Losses on Financial Instruments. The Bank adopted CECL using the modified retrospective method for all financial assets measured at amortized cost and off-balance sheet credit exposures. Accordingly, a cumulative effect transition adjustment amounting to $191,000 net of tax decreased opening balance retained deficit, effective January 1, 2023. Prior periods have not been restated and continue to be presented in accordance with previously applicable GAAP. The transition adjustment includes an incremental allowance for credit losses on its loans of $266,000.

In March 2022, the FASB issued ASU 2022-02, Financial Instruments—*Credit Losses (Topic 326)*: Troubled Debt Restructurings and Vintage Disclosures. The amendments in this Update eliminate the existing accounting guidance for troubled debt restructures ("TDRs") by creditors in Subtopic 310-40, Receivables - Troubled Debt Restructurings by Creditors and instead requires that an entity evaluate whether a modification represents a new loan or a continuation of an existing loan. The amendments also enhance disclosure requirements for certain loan refinancing and restructuring by creditors when a borrower is experiencing financial difficulty. The Bank adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. The adoption of ASU 2022-02 did not have a material impact on the Bank's balance sheet or statement of net income. See Note 3, Loans, for additional information.

2. SECURITIES

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In thousands)			
December 31, 2023:				
Securities available for sale:				
U.S. government and federal agency	$ 6,390	$ -	$ (177)	$ 6,213
U.S. government-sponsored residential mortgage-backed securities	5,882	-	(846)	5,036
U.S. government guaranteed residential mortgage-backed securities	3,093	-	(257)	2,836
U.S. government-sponsored commercial mortgage-backed securities	4,511	9	(280)	4,240
State and municipal	3,418	-	(369)	3,049
Corporate	7,306	31	(53)	7,284
Total securities available for sale	$ 30,600	$ 40	$ (1,982)	$ 28,658
Securities Held to Maturity:				
U.S. government and federal agency	$ 7,819	$ -	$ (382)	7,437
State and municipal	8,071	-	(115)	7,956
Corporate	5,500	-	-	5,500
Total securities held to maturity	$ 21,390	$ -	$ (497)	$ 20,893
December 31, 2022:				
Securities available for sale:				
U.S. government and federal agency	$ 5,332	$ -	$ (273)	$ 5,059
U.S. government-sponsored residential mortgage-backed securities	5,708	-	(766)	4,942
U.S. government guaranteed residential mortgage-backed securities	2,991	-	(262)	2,729
U.S. government-sponsored commercial mortgage-backed securities	4,117	-	(533)	3,584
State and municipal	3,467	-	(570)	2,897
Corporate	12,943	-	(182)	12,761
Total securities available for sale	$ 34,558	$ -	$ (2,586)	$ 31,972
Securities Held to Maturity:				
U.S. government and federal agency	$ 7,767	$ -	$ (487)	$ 7,279
State and municipal	8,074	-	(438)	7,636
Corporate	5,500	-	(741)	4,759
Total securities held to maturity	$ 21,341	$ -	$ (1,666)	$ 19,674

On July 31, 2022, the Bank transferred a portion of securities classified as available for sale to held to maturity. Gross unrealized losses on these securities at the time of transfer were $1,943,000 and are being accreted over the life of the securities as a yield adjustment. The corresponding amount in accumulated other comprehensive income is being amortized over the life of the securities as a yield adjustment.

For the year ended December 31, 2022, $119,000 of amortization/accretion was recognized on these securities.

At December 31, 2023 and 2022, securities with a fair value of $40,937,000 and $27,534,000, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of securities by contractual maturity at December 31, 2023 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Within one year	$ 5,410	$ 5,359	$ -	$ -
After 1 year through 5 years	8,309	8,099	7,819	7,437
After 5 years through 10 years	880	824	6,783	6,731
Over 10 years	2,515	2,264	6,788	6,725
	17,114	16,546	21,390	20,893
Mortgage-backed securities	13,486	12,112	-	-
	$ 30,600	$ 28,658	$ 21,390	$ 20,893

For the years ended December 31, 2023 and 2022, proceeds from sales of securities available for sale amounted to $295,000 and $4,858,000, respectively. Gross realized gains amounted to $0 and $238,000, respectively. Gross realized losses amounted to ($20,000) for the year ended December 31, 2022.

Information pertaining to securities with gross unrealized losses at December 31, 2023 and 2022, for which the Bank did not deem to be impaired under its prior methodology, aggregated by investment category and length of time that individual securities have been in a continuous loss position, follows:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
	(In thousands)					
December 31, 2023:						
Securities available for sale:						
U.S. government and federal agency	$ 5	$ 2,605	$ 172	$ 3,607	$ 177	$ 6,212
U.S. government-sponsored residential mortgage-backed securities	-	-	846	5,036	846	5,036
U.S. government guaranteed residential mortgage-backed securities	-	-	257	2,836	257	2,836
U.S. government-sponsored commercial mortgage-backed securities	9	1,878	271	2,363	280	4,241
State and municipal	-	-	369	3,049	369	3,049
Corporate	9	4,645	44	2,639	53	7,284
Total securities available for sale	$ 23	$ 9,128	$ 1,959	$ 19,530	$ 1,982	$ 28,658
Securities held to maturity:						
U.S. government and federal agency	$ -	$ -	$ 382	$ 7,437	$ 382	$ 7,437
State and municipal	-	-	115	7,956	115	7,956
Total securities held to maturity	$ -	$ -	$ 497	$ 15,393	$ 497	$ 15,393
December 31, 2022:						
Securities available for sale:						
U.S. government and federal agency	$ 85	$ 2,568	$ 188	$ 2,491	$ 273	$ 5,059
U.S. government-sponsored residential mortgage-backed securities	206	2,550	560	2,392	766	4,942
U.S. government guaranteed residential mortgage-backed securities	162	1,168	100	1,561	262	2,729
U.S. government-sponsored commercial mortgage-backed securities	158	1,421	375	2,163	533	3,584
State and municipal	407	2,156	163	741	570	2,897
Corporate	127	10,938	55	1,823	182	12,761
Total securities available for sale	$ 1,145	$ 20,801	$ 1,441	$ 11,171	$ 2,586	$ 31,972
Securities held to maturity:						
U.S. government and federal agency	$ -	$ -	$ 487	$ 7,279	$ 487	$ 7,279
State and municipal	252	4,460	186	3,176	438	7,636
Corporate	255	1,745	486	3,014	741	4,759
Total securities held to maturity	$ 507	$ 6,205	$ 1,159	$ 13,469	$ 1,666	$ 19,674

Management evaluates securities for impairment on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation.

At December 31, 2023, seventy-seven securities have unrealized losses with aggregate depreciation of 9.9% from the Bank's amortized cost basis.

The unrealized losses on the Bank's investment in U.S. Government and federal agency bonds, government-sponsored residential and commercial mortgage backed securities, U.S. government guaranteed residential mortgage-backed securities and state and municipal bonds were primarily caused by changes in interest rates. Many of these investments are guaranteed by the U.S. Government or an agency thereof. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the investment. Because the decline in market value is attributable to changes in interest rates and not to credit quality, and because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Bank does not consider these investments to be impaired at December 31, 2023.

The Bank's unrealized losses on investments in corporate bonds primarily relate to investments in companies within the financial services sector. The unrealized losses are primarily caused by (a) recent decreases in profitability and near-term profit forecasts by industry analysts and (b) change in interest rates. The contractual terms of these investments do not permit the companies to settle the security at a price less than the par value of the investment. All corporate bonds are investment grade, and the Bank currently does not believe it is probable that it will be unable to collect all amounts due according to the contractual terms of the investments. Therefore, it is expected that the bonds would not be settled at a price less than the par value of the investment. Because the Bank does not intend to sell the investments and it is more likely than not that the Bank will not be required to sell the investments before recovery of their amortized cost bases, the Bank does not consider these investments to be impaired at December 31, 2023.

Allowance for Credit Losses – Available for Sale Securities

Available-for-sale securities which are guaranteed by government agencies do not currently have an allowance for credit loss as the Bank determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. In assessing the Bank's investments in government-sponsored and U.S. government guaranteed mortgage-backed securities, the contractual cash flows of these investments are guaranteed by the respective government-sponsored enterprise; Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), or Federal Home Loan Bank ("FHLB"). Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Bank's investments. The Bank will evaluate this position no less than annually, however, certain items which may cause the Bank to change this methodology include legislative changes that remove a government-sponsored enterprise's ability to draw funds from the U.S. government, or legislative changes to housing policy that reduce or eliminate the U.S. government's implicit guarantee on such securities. There were no allowance for credit losses established on available for sale debt securities during the year ended December 31, 2023.

Allowance for Credit Losses – Securities Held to Maturity

Held to maturity securities which are issued by the United States Treasury or are guaranteed by government agencies do not currently have an allowance for credit loss as the Bank determined these securities are either backed by the full faith and credit of the U.S. government and/or there is an unconditional commitment to make interest payments and to return the principal investment in full to investors when a debt security reaches maturity. In assessing the Bank's investments in state and municipal bonds contractual cash flows of these investments are guaranteed by the respective state or municipality. Accordingly, it is expected that the securities would not be settled at a price less than the par value of the Bank's investments. The Bank will evaluate this position no less than annually, however, certain items which may cause the Bank to change this methodology include legislative changes that remove a state or municipality's ability to levy taxes to cover debt. Any expected credit losses on held to maturity securities would be presented as an allowance for credit loss. There were no allowance for credit losses established on held to maturity debt securities during the year ended December 31, 2023 as it was determined to be immaterial.

Credit Quality Indicators

The Bank monitors the credit quality of securities held to maturity through the use of credit ratings. The Bank monitors the credit ratings on an annual basis. The following table provides the amortized cost of securities held to maturity at the date indicated, aggregated by credit quality indicator:

	December 31, 2023			
Securities Held To Maturity	AAA/AA/A	BBB/BB/B	Unrated	Total
	(In thousands)			
U.S. Government and federal agency	$ 7,819	$ -	$ -	$ 7,819
State and municipal	8,071	-	-	8,071
Corporate	-	-	5,500	5,500
Total securities held to maturity	$ 15,890	$ -	$ 5,500	$ 21,390

As of December 31, 2023, there are no securities held to maturity on non-accrual status and there are no securities held to maturity past due 90 days or more and still accruing interest. During the year ended December 31, 2023, the Bank did not recognize any interest income on non-accrual securities held to maturity.

These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a history of no credit losses. The Bank reviewed the financial strength of these investments and has concluded that the amortized cost remains supported by the expected future cash flows of the securities.

3. LOANS

A summary of the balances of loans follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
1-4 family residential real estate	$ 18,808	$ 17,522
Commercial real estate	141,307	125,849
Commercial	70,309	51,608
PPP	393	535
Consumer	3	2
Total loans	230,820	195,516
Allowance for credit losses	(2,820)	(2,446)
Deferred PPP loan fees	-	(2)
Deferred loan costs, net	700	664
Loans, net	$ 228,700	$ 193,732

The Bank has transferred a portion its originated commercial real estate and commercial loans to participating lenders. The amounts transferred have been accounted for as a sale and are therefore not included on the Bank's accompanying consolidated balance sheets. The Bank and participating lenders share ratably in cash flows and any gains or losses that may result from a borrower's lack of compliance with contractual terms of the loan. The Bank continues to service the loans on behalf of the participating lenders and, as such, collects cash payments from the borrower, remits payments (net of servicing fees) to the participating lenders and disburses required escrow funds to relevant parties. At December 31, 2023 and 2022, the Bank was servicing loans for participants aggregating $42,458,000 and $52,549,000, respectively.

During the years ended December 31, 2023 and 2022, the Bank purchased 1-4 family residential real estate loans aggregating $1,600,000 and $2,469,000, respectively, and commercial real estate loans aggregating $2,047,000 and $2,695,000, respectively. As of December 31, 2023 and 2022, the outstanding balances of purchased 1-4 family residential real estate, commercial real estate loans, and commercial and industrial loans were $33,124,000 and $31,678,000, respectively.

At December 31 2023 and 2022, loans with a fair value of $50,766,000 and $18,283,000, respectively, were pledged to secure advances payable to, and available borrowings from, the FHLB.

The following table illustrates the impact of ASC 326:

	Pre-ASC 326 Adoption December 31, 2022	As Reported Under ASC 326 January 1, 2023	Impact of ASC 326 Adoption
		(In thousands)	
Assets			
Allowance for credit losses on loans	$ (2,446)	$ (2,710)	$ (266)
Deferred tax asset	1,695	1,780	75
Surplus			
Retained deficit, net of tax	(362)	(553)	(191)

Activity in the allowance for credit losses for the years ended December 31, 2023 and 2022 and allocation of the allowance to loan segments, excluding PPP loans, as of December 31, 2023 and 2022 follows:

	1-4 Family Residential Real Estate	Owner Occupied Commercial Real Estate	Non-owner Occupied Commercial Real Estate	Commercial	Consumer	Unallocated	Total
Allowance for credit losses - loans				(In thousands)			
Years Ended December 31,							
Balance at December 31, 2021	$ 113	$ 230	$ 781	$ 1,134	$ -	$ 132	$ 2,390
Provision (credit) for loan losses	7	99	190	585	-	(46)	835
Loans charged-off	-	-	-	(779)	-	-	(779)
Balance at December 31, 2022	120	329	971	940	-	86	2,446
Cumulative effect of change in accounting principle	(10)	197	378	(181)	-	(118)	266
Provisions (credits) for credit losses	(8)	(12)	(299)	347	-	32	60
Loans charged-off	-	-	-	(190)	-	-	(190)
Recoveries of loans previously charged-off	-	-	-	238	-	-	238
Balance at December 31, 2023	$ 102	$ 514	$ 1,050	$ 1,154	$ -	$ -	$ 2,820
December 31, 2022							
Allowance for impaired loans	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Allowance for non-impaired loans	120	329	971	940	-	86	2,446
Total allowance for loan losses	$ 120	$ 329	$ 971	$ 940	$ -	$ 86	$ 2,446
Loans deemed impaired	$ -	$ 510	$ -	$ 388	$ -	$ -	$ 898
Loans not deemed impaired	17,522	34,866	90,473	51,220	2	-	194,083
Total loans	$ 17,522	$ 35,376	$ 90,473	$ 51,608	$ 2	$ -	$ 194,981

The increase in the allowance for credit losses in 2023 reflected incremental allowance related to loan growth, adoption of CECL, and offset partially by net recoveries of loans previously charged off in 2023 of $50,000.

The following is a summary of past due and non-accrual loans at December 31, 2023 and December 31, 2022:

	December 31, 2023				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days Or More	Total Past Due	Loans on Non-Accrual
			(In thousands)		
Residential real estate	$ 27	$ -	$ -	$ 27	$ -
Commercial real estate	902	158	-	1,060	104
Commercial	2,241	225	1,177	3,643	1,609
Total	$ 3,170	$ 383	$ 1,177	$ 4,730	$ 1,713

	December 31, 2022				
	30-59 Days Past Due	60-89 Days Past Due	Past Due 90 Days Or More	Total Past Due	Loans on Non-Accrual
			(In thousands)		
Commercial real estate	$ -	$ -	$ -	$ -	$ 510
Commercial	875	181	-	1,056	388
Total	$ 875	$ 181	$ -	$ 1,056	$ 898

As of December 31, 2022, the Bank had PPP loans of $287,000 past due that are not included in the delinquency table above as the Bank expects to receive the guarantee from the SBA in full.

The following table presents information regarding non-accrual loans:

	Non-accrual loans without Allowance for Credit Loss	Non-accrual loans with Allowance for Credit Loss	Total loans on Non-accrual	Amortized Cost of Loans Past Due 90 and Still Accruing
		(In thousands)		
Residential real estate	$ -	$ -	$ -	$ -
Commercial real estate	104	-	104	-
Commercial	1,609	-	1,609	-
Total	$ 1,713	$ -	$ 1,713	$ -

When a loan is placed on non-accrual status, any accrued interest is reversed from loan interest income. The following table summarizes the amount of accrued interest reversed during the year ended December 31, 2023:

	Total Accrued Interest Reversed
	(In thousands)
Commercial	$ 25
	$ 25

Individually Evaluated Loans

In connection with the adoption of ASU 2106-13, the Bank no longer provides information on impaired loans. A loan is considered individually evaluated when, based on current information and events, the borrower is experiencing financial difficulty and repayment, both principal and interest, is expected to be provided substantially through the operation or sale of the collateral. At December 31, 2023, the Bank had no individually evaluated loans.

Modified Loans

Occasionally, the Bank will modify the contractual terms of loans to a borrower experiencing financial difficulties as a way to mitigate loss, proactively work with borrowers in financial difficulty, or to comply with regulations regarding the treatment of certain bankruptcy filing and discharge situations. Loans are designated as modified when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below market rate, taking into account the credit quality of the note, extension of additional credit based on receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) which materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. When principal forgiveness is provided, the amount forgiven it charged-off against the allowance for credit losses on loans.

There were no loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023 or 2022. During the year ended December 31, 2023 and 2022, no modified loans defaulted, defined as 30 days or more past due, within 12 months of restructuring. There were no charge-offs on modified loans during the years ended December 31, 2023 or 2022.

Pre-ASC 326 CECL adoption impaired loan information as of December 31, 2022 is as follows:

	December 31, 2022	
	Recorded Investment	Unpaid Principal Balance
	(In thousands)	
Impaired loans without a valuation allowance:		
Commercial real estate	$ 510	$ 510
Commercial	388	388
Total	$ 898	$ 898

	December 31, 2022		
	Average Recorded Investment	Interest Income Recognized	Interest Income Recorded on Cash Basis
	(In thousands)		
Commercial real estate	$ 275	$ 23	$ 23
Commercial	637	43	43
Total	$ 912	$ 66	$ 66

There were no pre-ASC 326 CECL adoption troubled debt restructurings for the year ended December 31, 2022. No additional funds are committed to be advanced in connection with impaired loans.

Credit Quality Information

The Bank utilizes a nine-grade internal loan rating system for commercial real estate and commercial loans as follows:

Loans rated 1 – 5: Loans in these categories are considered “pass” rated loans with low to average risk.

Loans rated 6: Loans in this category are considered “special mention.” These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 7: Loans in this category are considered “substandard.” Generally, a loan is considered substandard if it is inadequately protected by the current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Bank will sustain some loss if the weakness is not corrected.

Loans rated 8: Loans in this category are considered “doubtful.” Loans classified as doubtful have all the weaknesses inherent in those classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, highly questionable and improbable.

Loans rated 9: Loans in this category are considered uncollectible (“loss”) and of such little value that their continuance as loans is not warranted.

Management utilizes delinquency reports and communications with borrowers to monitor credit quality in the Bank’s 1-4 family residential real estate and consumer loan portfolios.

On an annual basis, or more often if needed, the Bank formally reviews the ratings on all commercial real estate and commercial loans. Annually, the Bank engages an independent third-party to review a significant portion of loans within these segments. Management uses the results of these reviews as part of its annual review process.

The following table presents the Bank’s loans by risk rating at December 31, 2023 and 2022:

	December 31, 2023		December 31, 2022	
	Commercial Real Estate	Commercial	Commercial Real Estate	Commercial
	(In thousands)			
Loans rated 1-5	$ 139,559	$ 66,877	$ 124,997	$ 49,696
Loans rated 6	400	1,903	160	1,213
Loans rated 7	1,348	1,518	692	699
Loans rated 8	-	11	-	-
	$ 141,307	$ 70,309	$ 125,849	$ 51,608

4. PREMISES AND EQUIPMENT

A summary of the cost and accumulated depreciation and amortization of premises and equipment follows:

	December 31, 2023	December 31, 2022	Estimated Useful Life
	(In thousands)		
Furniture, fixtures and equipment	$ 909	$ 856	3-5 years
Leasehold improvements	1,364	1,189	5-10 years
Assets in process	7	102	N/A
	2,280	2,147	
Less accumulated depreciation and amortization	(891)	(605)	
	$ 1,389	$ 1,542	

Depreciation and amortization expense for the years ended December 31, 2023 and 2022 amounted to $286,000 and $216,000, respectively.

5. DEPOSITS

A summary of deposit balances, by type, is as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
NOW and demand	$ 91,500	$ 84,802
Money market deposits	76,222	102,278
Regular savings and other	7,745	9,274
Total non-certificate accounts	175,467	196,354
Term certificates less than $250,000	27,499	12,600
Term certificates of $250,000 or more	71,961	27,182
Total certificate accounts	99,460	39,782
Total deposits	$ 274,927	$ 236,136

A summary of certificate accounts by maturity at December 31, 2023 (in thousands) is as follows:

2024	$ 59,099
2025	15,624
2026	7,484
2027	5,374
2028	1,915
Thereafter	9,964
	$ 99,460

6. LINE OF CREDIT

The Bank has a $2,500,000 unsecured available line of credit with a correspondent bank at an interest rate that adjusts daily. At December 31, 2023 and 2022, there were no amounts outstanding.

7. LEASES

The Bank has operating leases for the operations center and branch locations. These leases have remaining lease terms of two years to nine years and certain of these leases have options to extend the lease for up to five years. None of the options to extend have been included in the lease term as it was determined that it was not reasonably certain that the Bank will exercise the option. The Bank does not have any material short-term leases.

The components of lease expense for the years ended December 31, 2023 and 2022 is as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Operating lease cost	$ 392	$ 303

Supplemental cash flow and other information related to leases as of and for the year ended December 31, 2023 and 2022 is as follows (dollars in thousands):

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 386	$ 285
Weighted-average remaining lease term in years for operating leases	6.8	7.7
Weighted-average discount rate for operating leases	2.8%	2.8%

Maturities of lease liabilities are as follows (in thousands):

	Operating
2024	$ 389
2025	392
2026	360
2027	337
2028	339
Thereafter	678
Total undiscounted cash flows	2,495
Less: present value discount	(231)
Total lease liabilities	$ 2,264

8. SHORT-TERM DEBT

Federal Reserve Bank Term Funding Program

In March of 2023, the Federal Reserve began its Bank Term Funding Program. This program provides liquidity to U.S. depository institutions, through Federal Reserve Bank advances collateralized by certain types of securities. Advances are limited to the value of eligible collateral pledged by the eligible borrower, are for a term of one year with a fixed rate of the one-year overnight index swap rate plus 10 basis points. Borrowers may prepay advances (including for purposes of refinancing) at any time without penalty. At December 31, 2023 and 2022, there were no amounts outstanding.

9. LONG-TERM DEBT

Federal Home Loan Bank Advances

Long-term FHLB Advances at December 31, 2023 and 2022 consists of the following:

	Amount		Weighted Average Rate	
	2023	2022	2023	2022
	(In thousands)		(In thousands)	
Fixed rate advances maturing:				
2024	$ -	$ 3,000	0.0%	4.1%
2026	1,000	1,000	4.2	4.2
2027	4,000	1,000	4.4	4.1
2028*	22,000	-	4.0	0.0
Total advances	$ 27,000	$ 5,000	4.0%	4.2%

* Includes advances callable on March 13, 2024 aggregating $3,000,000 with a weighted average rate of 3.9%

10. INCOME TAXES

Allocation of federal and state income taxes between current and deferred portions is as follows:

	December 31,	
	2023	2022
	(In thousands)	
Current tax provision:		
Federal	$ 46	$ 129
State	4	48
	50	177
Deferred tax provision (benefit):		
Federal	(4)	28
State	7	14
	3	42
Change in valuation allowance	-	(844)
	$ 53	$ (625)

The reason for the differences between the statutory federal tax provision and the actual income tax provision are summarized as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Statutory federal income tax provision, at 21%	$ 31	$ 177
Increase (decrease) resulting from:		
State taxes	8	49
Tax exempt income	-	(45)
Change in valuation allowance	-	(844)
Bank-owned life insurance	(20)	(18)
Other, net	34	56
Total tax provision	$ 53	$ (625)

The effects of each item that give rise to deferred taxes are as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Organization and start-up costs	$ 392	$ 430
Allowance for credit losses	793	687
Deferred fees	(197)	(186)
Depreciation and amortization	(208)	(232)
Unrealized (gain) loss on securities available for sale, net of valuation allowance	239	273
Unrealized loss on securities held to maturity, net	436	620
Interest on non-accrual loans	11	9
Other, net	84	94
Net deferred tax asset	$ 1,550	$ 1,695

As December 31, 2023 and 2022, the Bank has a valuation allowance impacting other comprehensive income of $241,000 and $272,000, respectively, related to the net available for sale unrealized capital loss on securities at New Valley Securities Corporation for which it is more likely than not that a tax benefit will not be realized.

At December 31, 2023 and 2022, the Bank had no material uncertain tax positions. The Bank accounts for interest and penalties related to uncertain tax positions as part of its provision for income taxes. No interest or penalties were recorded for the years ended December 31, 2023 and 2022. The Bank is currently open to audit under the applicable statutes of limitation by the Internal Revenue Service for the years ended December 31, 2020 through 2023. The years open to examination by taxing authorities vary by jurisdiction; no years prior to 2020 are open.

11. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of its assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Federal banking regulations require the Bank to maintain minimum amounts and ratios of common equity Tier 1, Tier 1 and total capital to risk-weighted assets and Tier 1 capital to average assets, as set forth in the table below. Additionally, community banking institutions must maintain a capital conservation buffer of common equity Tier 1 capital in an amount greater than 2.5% of total risk-weighted assets to avoid being subject to limitations on capital distributions and discretionary bonuses.

As of December 31, 2023, the most recent notification from the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. The Bank's actual capital amounts and ratios are presented in the table. There are no conditions or events since that notification that management believes have changed the Bank's category. Management believes, as of December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

For regulatory capital purposes, loans made under the PPP are risk-weighted at 0% in risk-based capital calculations. For the Tier 1 leverage ratio computation, PPP loans pledged to the PPPLF are excluded from total average assets. Any PPP loan that is not pledged to the PPPLF is included in total average assets for purposes of the Tier 1 leverage ratio calculation.

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in Thousands)			
December 31, 2023:						
Total capital (to risk-weighted assets)	$33,330	12.2%	$21,905	8.0%	$27,382	10.0%
Common equity Tier 1 capital (to risk-weighted assets)	30,510	11.1	12,322	4.5	17,798	6.5
Tier 1 capital (to risk-weighted assets)	30,510	11.1	16,429	6.0	21,905	8.0
Tier 1 leverage ratio (to average assets)	30,510	9.3	13,111	4.0	26,223	8.0
December 31, 2022:						
Total capital (to risk-weighted assets)	$32,999	14.0%	$18,864	8.0%	$23,579	10.0%
Common equity Tier 1 capital (to risk-weighted assets)	30,554	13.0	10,611	4.5	15,327	6.5
Tier 1 capital (to risk-weighted assets)	30,554	13.0	14,148	6.0	18,864	8.0
Tier 1 leverage ratio (to average assets)	30,554	11.5	10,671	4.0	21,343	8.0

12. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Bank is a party to credit related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and advance funds on lines of credit, construction loans and real estate loans, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2023	2022
	(In thousands)	
Commitments to grant loans	$ 600	$ 8,111
Unadvanced funds on lines-of-credit	49,049	32,195
Unadvanced funds on construction loans	2,435	1,319
Unadvanced funds on real estate loans	8,457	5,919
Commercial letter of credit	1,554	1,554

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for lines-of-credit, construction loans, and real estate loans may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis and the commitments are collateralized by real estate or other business assets.

Executive Employment Agreement

The Bank has entered into an employment agreement with a certain executive that provides for specified annual compensation and certain other benefits, as defined in the agreement, for an original term of one year. Thereafter, the agreement automatically renews on an annual basis.

Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

13. RESTRICTIONS ON DIVIDENDS

Federal and state banking regulations place certain restrictions on dividends paid by the Bank. Dividends are limited to an amount that shall not exceed the Bank's net income for the current year, plus its net income retained for the two previous years. At December 31, 2023 and 2022, the Bank had no retained earnings available for payment of dividends. The Bank will be prohibited from paying dividends to the extent that any such payment would reduce the Bank's capital below required well capitalized levels. Any dividend payment would require prior regulatory approval. No dividends have been declared as of December 31, 2023 or 2022.

14. RELATED PARTIES

In the ordinary course of business, the Bank has granted loans to directors, executive officers and their affiliates amounting to $7,001,000 and $8,898,000 at December 31, 2023 and 2022, respectively.

Deposits from directors, executive officers and their affiliates held by the Bank at December 31, 2023 and 2022 amounted to $19,710,000 and $18,727,000, respectively.

15. EMPLOYEE BENEFIT PLANS

Stock Incentive Plan

The Bank has adopted the 2019 Equity Incentive Plan (the "Plan"), whereby 2,359 shares of the Bank's common stock have been reserved for issuance. Under the Plan, the Bank may grant incentive stock options, non-qualified stock options and restricted stock awards to its employees, officers and directors. The exercise price for each option will be established at the discretion of the Bank's Board of Directors (the "Board") but may not be less than the fair market value of the stock on the grant date. The term of each option will be fixed by the Board and may not exceed ten years from the date of grant. Options and restricted stock awards will generally vest over five years unless otherwise determined by the Board. Vesting may be accelerated upon a change in control, as defined in the Plan. No restricted stock awards were granted in 2023 or 2022.

Stock Options

The calculated value of each stock option grant is estimated on the date of grant using the Black- Scholes option-pricing model with the following weighted-average assumptions:

	December 31,	
	2023	2022
	(In thousands)	
Expected term	7 years	7 years
Expected volatility	30.23% - 35.76%	28.41% - 29.22%
Risk-free interest rate	3.84% - 4.56%	1.81% - 4.14%
Expected dividends	- %	- %

The expected term is estimated by management using the vesting term and term of the option. The expected volatility is based on NASDAQ exchange historical volatility. The risk-free interest rate for periods consistent with the expected term of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The dividend yield is zero as the Bank has not paid dividends to date and has declared no dividends as of December 31, 2023.

A summary of option activity under the Plan as of December 31, 2023, and changes during the year then ended, is presented below:

Options	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (In Years)	Aggregate Intrinsic Value
Outstanding, at beginning of year	1,850	$ 1,008		
Granted	175	1,150		
Forfeited	200	1,000		
Outstanding and unvested at end of year	1,825	$ 1,023	7.2	$ -

The weighted-average grant-date fair value of options granted during the years ended December 31, 2023 and 2022 were $318 and $261, respectively. No options were exercised or expired during the years ended December 31, 2023 or 2022. 200 options were forfeited during the year ended December 31, 2023 and no options were forfeited during the year ended December 31, 2022. Net share-based compensation expense was $53,000 and $86,000 for the years ended December 31, 2023 and 2022, respectively. Share-based compensation expense for the year ended December 31, 2023 was net of forfeited option expense of $35,000. Unrecognized share-based compensation related to non-vested options amounted to $210,000 at December 31, 2023 and is expected to be recognized over a period of 5 years.

Common Stock Warrants

The Bank adopted the Common Stock Warrant Plan (the "Warrant Plan"), whereby warrants for 3,109 shares were granted to original investors in New Valley Founders, LLC (see Note 1). The warrants allow holders, for a period of ten years after the effective date (May 30, 2019) of the warrants, to purchase 3,109 shares of Bank common stock for $1,000 per share. Warrants do not entitle holders to voting rights or dividends. The purchase price per share of common stock was allocated to the common stock and warrants based on relative fair value. The calculated value of the warrants was $779,000 which was recorded through additional paid-in capital. The calculated value of the warrants was estimated using the Black-Scholes option pricing model with the same assumptions disclosed in the Stock Options section of this footnote.

401(k) Plan

The Bank has a 401(k) Plan in which substantially all employees participate. Employees may contribute a portion of their compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 4.0% of an employee's compensation contributed to the Plan. Matching contributions immediately vest. For the years ended December 31, 2023 and 2022 expense attributable to the Plan amounted to $124,000 and $103,000, respectively.

16. FAIR VALUES OF ASSETS AND LIABILITIES

Determination of Fair Value

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

The following methods and assumptions were used by the Bank in estimating fair value disclosures:

<u>Securities available for sale</u> - All fair value measurements are obtained from a third-party pricing service and are not adjusted by management. Securities measured at fair value in Level 2 are based on pricing models that consider standard input factors such as observable market data, benchmark yields, interest rate volatilities, broker/dealer quotes, credit spreads and new issue data.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

Assets measured at fair value on a recurring basis are summarized below:

	Level 1	Level 2	Level 3	Total Fair Value
		(In thousands)		
December 31, 2023:				
Securities available for sale	$ -	$ 28,658	$ -	$ 28,658
December 31, 2022:				
Securities available for sale	$ -	$ 31,972	$ -	$ 31,972

No liabilities were measured at fair value on a recurring basis at December 31, 2023 and 2022.

The Bank may also be required, from time to time, to measure certain other assets on a non-recurring basis in accordance with generally accepted accounting principles. These adjustments to fair value usually result from application of lower-of-cost-or-market accounting or write-downs of individual assets. The Bank does not measure any liabilities or collateral dependent individually evaluated loans at fair value on a non-recurring basis at December 31, 2023. The following table summarizes the fair value hierarchy used to determine each adjustment and the carrying value of the related individual assets as of December 31, 2022:

	Level 1	Level 2	Level 3
		(In thousands)	
December 31, 2022:			
Impaired loans	$ -	$ -	$ 898

17. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 20, 2024, which is the date the consolidated financial statements were available to be issued. There were no subsequent events that require adjustment to or disclosure in the consolidated financial statements.

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