New Valley Bank & Trust

Annual Report 2024


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Letter from the Chairman

Dear Fellow Shareholder,

We are pleased to provide you with the 2024 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 is navigating a unique and challenging economic environment. We are grateful for the continuity of our management team and staff, who are committed to continuously improving the operations of our bank. We are pleased to announce two new nominees to our board of directors, Eleanor Williams, the General Counsel of Cape Cod Five Cents Savings Bank, and Andrew Henshon, a Managing Director at The Pearson Companies. We look forward to the advice and wisdom that these two new directors will bring to New Valley.

In our 2023 Annual Report, we indicated that 2024 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 risk-based capital ratio of 10.59%. The bank ended the year with $332 million in assets, a decrease of $8 million from prior year end. Deposits declined by $3.2 million, and the loan portfolio grew by $20.7 million.

The bank incurred a loss in 2024, the first year we have missed on positive earnings since 2020. The loss of $1.5 million is detailed elsewhere in this report; it is driven by an addition to our allowance for credit losses of almost $2.6 million. Note that we added to the loan loss reserve to be conservative, and the actual amount of charge offs for 2024 was $346,000. The additions to the reserve boosted our overall allowance for credit losses to $5.1 million and includes a general reserve plus allowances for specific loans that are in a strained credit condition, including a reserve of roughly $900,000 against one specific loan. Our team is actively working to remediate the problem loans and bring down the level of non-accrual loans.

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 2025 and beyond.

To continue our growth in the future we will be commencing our third common stock offering later this year. Additional scale for our operations will help to reduce the percentage of overhead as a percentage of assets, and we believe it will help to make New Valley a higher performing bank in the coming years. We shall announce the details of the stock offering at a future date.

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 on May 23rd starting at 8:30 a.m. at our corporate headquarters located at One Monarch Place, Ste 215, Springfield, MA 01144.

Respectfully,

Frank P. Fitzgerald

Frank P. Fitzgerald

Board of Directors

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

Vice Chairman Rocco Falcone
President, Rocky's Hardware

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

Maureen Devine
Retired President, Strategic Information Resources

Sarah Maggi Morin
Chief of Staff, Tree House Brewing Company

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

Peter Martins
Owner Salema Management, Salmar Realty

Tim Lamotte
President, Northern Tree

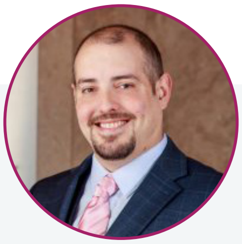
Jacob Waah
Owner, Victory Home Health Care

Andrew Henshon
Managing Director, The Pearson Companies

Eleanor P. Williams
EVP & General Counsel, The Cape Cod Five Cents Savings Bank

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

Management Team



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

Renee Messier
SVP, Cash Management &
Retail Banking

Elizabeth Beaudry
SVP, Chief Credit Officer

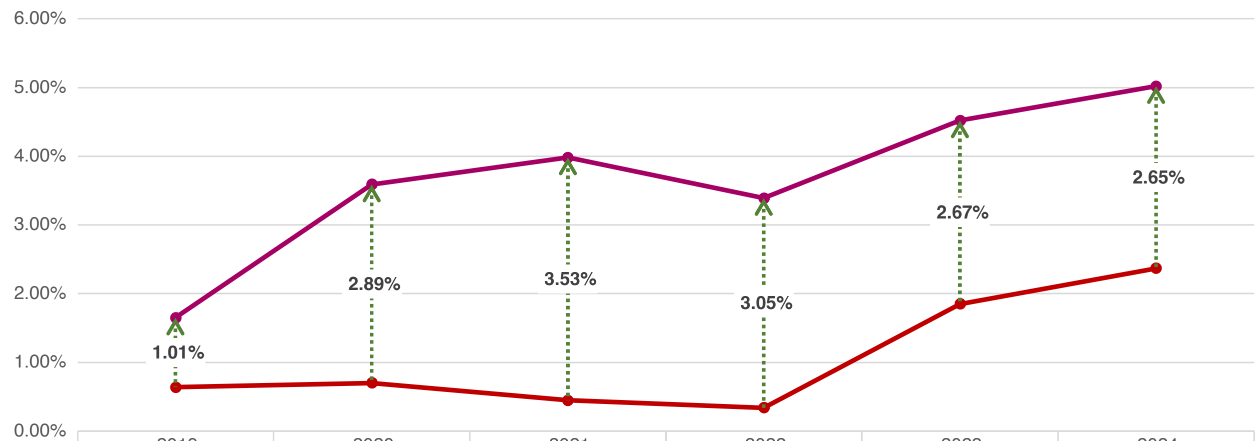
Jill Brody
SVP, Risk Management

Becky Elias
SVP, Chief Lending Officer

Jeannette Ramos
SVP, Operations & Technology

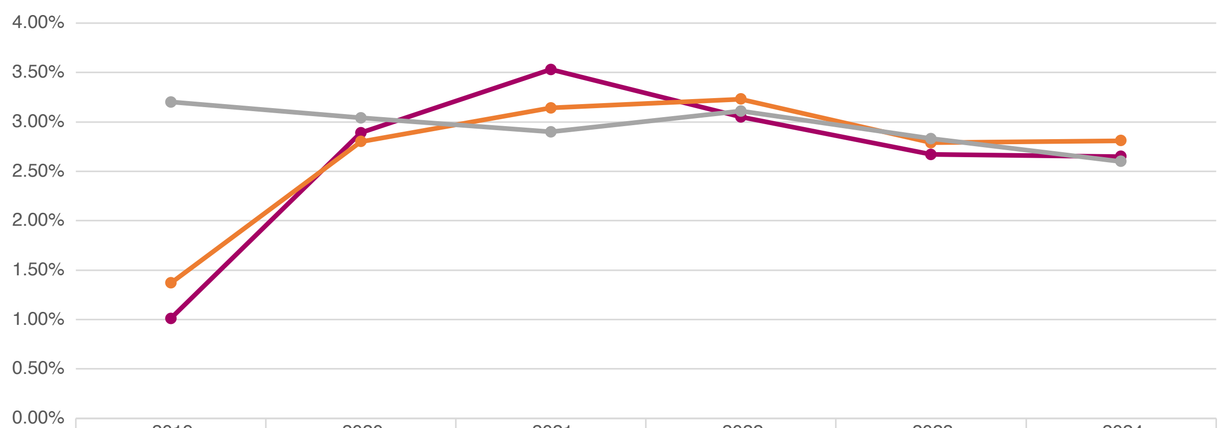
Net Interest Margin

Net Interest Margin — New Valley Bank & Trust



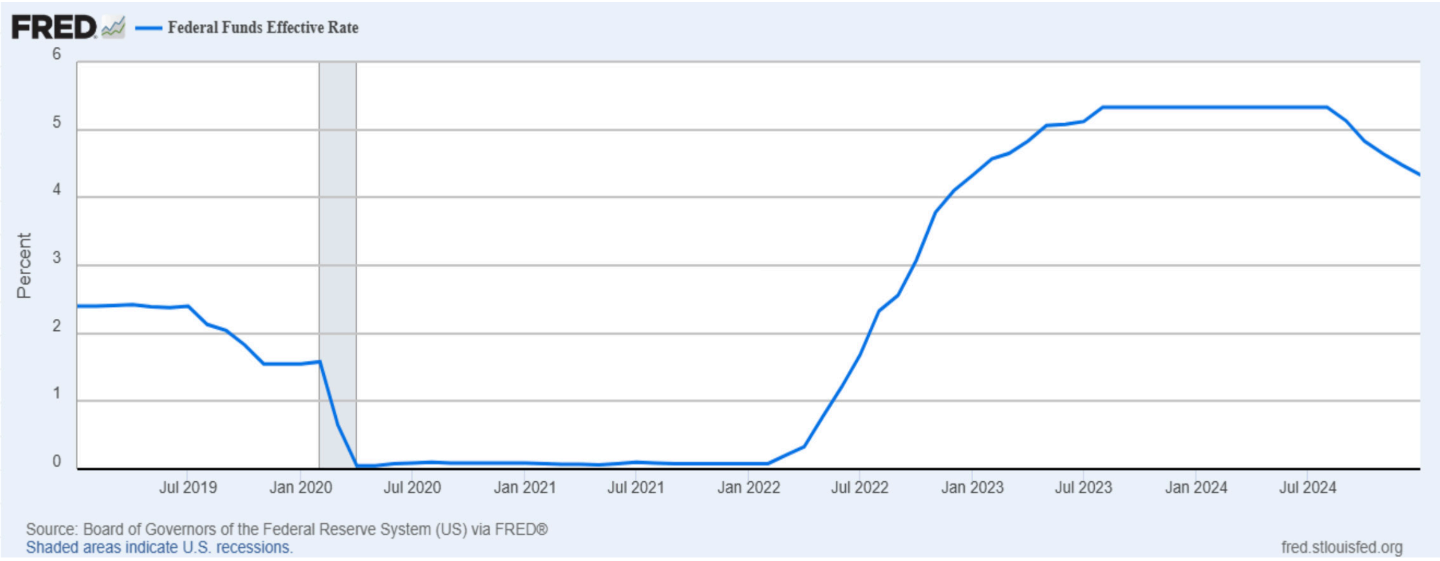
	2019	2020	2021	2022	2023	2024
Earning Asset Yield	1.65%	3.59%	3.98%	3.39%	4.52%	5.02%
All In Cost of Funds	0.64%	0.70%	0.45%	0.34%	1.85%	2.37%
Net Interest Margin	1.01%	2.89%	3.53%	3.05%	2.67%	2.65%

Net Interest Margin — Peer Group Comparisons per FDIC Call Reports



	2019	2020	2021	2022	2023	2024
New Valley Bank & Trust	1.01%	2.89%	3.53%	3.05%	2.67%	2.65%
2019 DeNovo Banks	1.37%	2.80%	3.14%	3.23%	2.79%	2.81%
MA Banks < $1 Billion	3.20%	3.04%	2.90%	3.11%	2.83%	2.60%

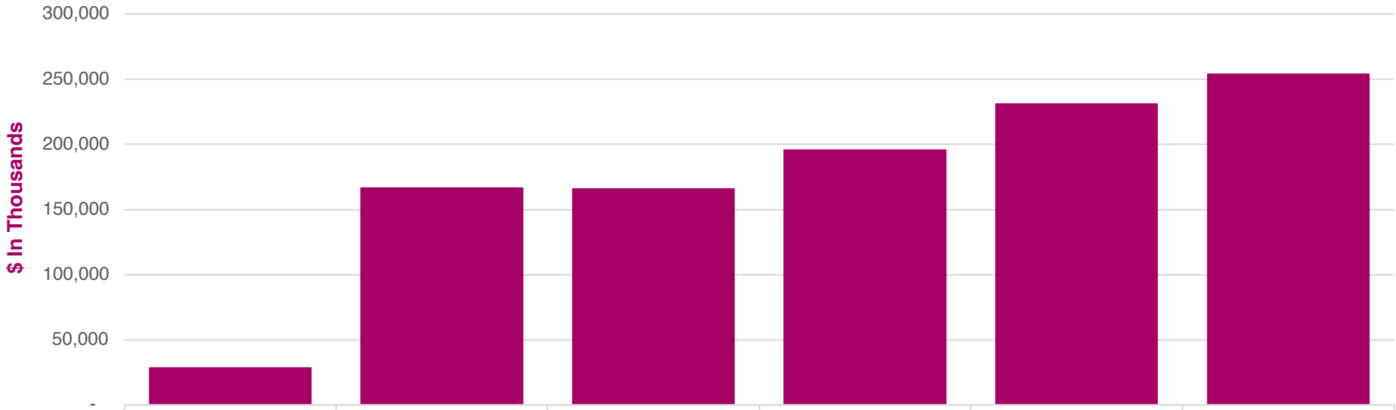
New Valley Bank & Trust | 2019 DeNovo Banks | MA Banks < $1 Billion



- Net interest margin decreased by 0.02% in 2024, primarily due to the full year impact of rapidly rising rates in 2023. The Bank saw increased pricing across its deposit portfolio, which is tied primarily to shorter term rates. While there was also improvement in asset pricing on variable rate cash and loan balances, the pace of deposit rate increases exceeded asset repricing marginally.
- The Federal Funds Effective Rate did begin to decline in September 2024, which will have a larger impact on 2025 financial results than in 2024.
- The Bank continues to strike a balance between competitive deposit pricing for customers and funding cost management to improve earnings. Our focus remains to grow core deposit relationships, increase wallet share, and to retain existing relationships with competitive pricing and exceptional customer service.
- The impact of rising interest rates is evident across the banking industry. The Bank utilizes two primary peer groups as benchmarks. The first is a peer group of all de novo banks established in 2019 and the second is all banks in Massachusetts with assets below $1 billion.
- All of these peer groups saw similar declines in Net Interest Margin due to rising funding costs.

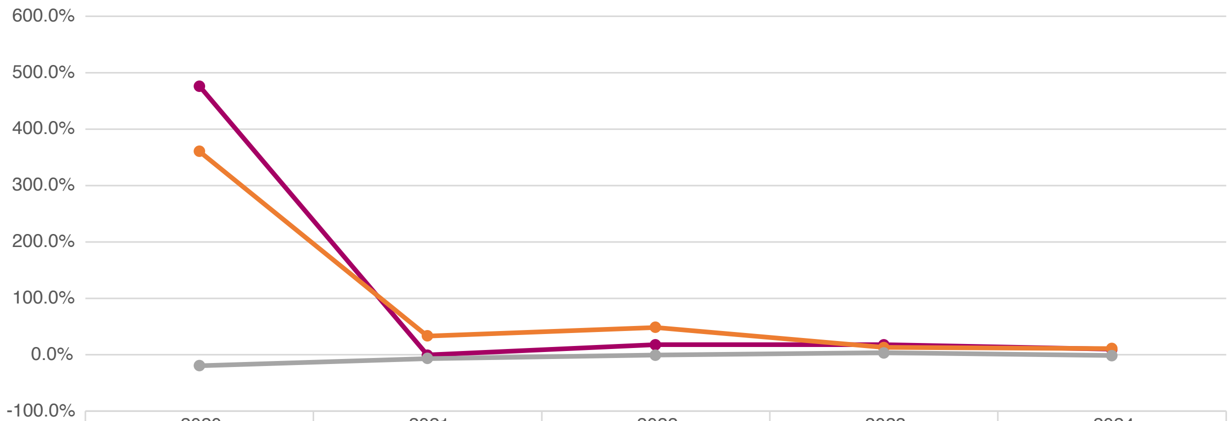
Annual Loan Growth

Annual Loan Growth — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Total Loans	28,961	166,953	166,430	196,177	231,520	254,551

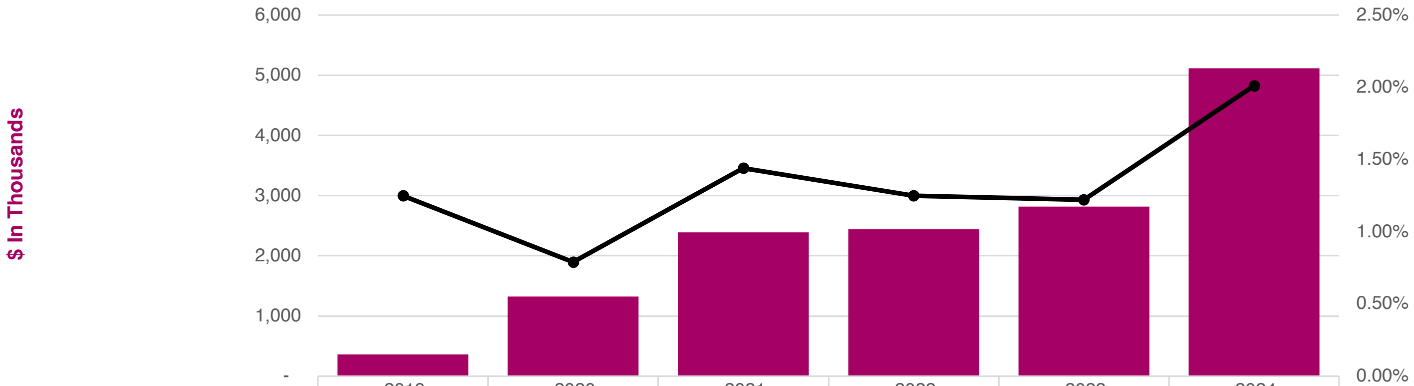
Annual Loan Growth (%) — Peer Group Comparisons per FDIC Call Reports



	2020	2021	2022	2023	2024
New Valley Bank & Trust	476.5%	-0.3%	17.9%	18.0%	9.9%
2019 DeNovo Banks	360.7%	33.5%	48.7%	13.2%	11.3%
MA Banks < $1 Billion	-19.1%	-6.6%	-0.6%	3.5%	-1.1%

New Valley Bank & Trust   2019 DeNovo Banks   MA Banks < $1 Billion

Allowance for Credit Losses — New Valley Bank & Trust

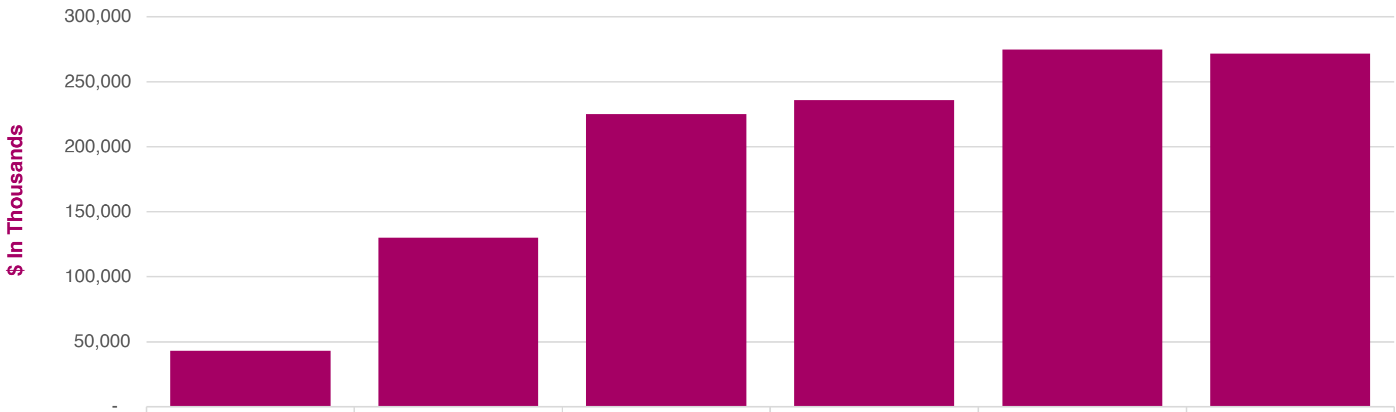


	2019	2020	2021	2022	2023	2024
Total Allowance for Credit Losses	361	1,325	2,390	2,446	2,820	5,120
Total ACL Coverage Ratio	1.25%	0.79%	1.44%	1.25%	1.22%	2.01%

- Gross loans grew $23 million or 9.9% in 2024. Commercial real estate balances grew by $21.3 million or 15.1% year over year. Commercial & industrial loan balances grew by $3.7 million or 5.2% year over year. This was offset by runoff of residential mortgage balances of $1.7 million or 8.8% and forgiveness of Paycheck Protection Program (PPP) loans of $0.3 million or 77.1%.
- Loan growth aligned with peer de novo banks overall while more established institutions actually saw declines in loans.
- The Bank did not purchase any loans in 2024, meaning that all growth was organic.
- Allowance for credit losses increased by $2.3 million year over year, primarily due to specific reserves of $1.6 million for loan relationships experiencing financial difficulty. The Bank is proactively setting aside these additional reserves as a conservative measure while aggressively pursuing resolution. The net charge off ratio for 2024 was 0.12%, which is reasonable compared to peer de novo banks and industry standards.
- Successful recovery on loans with specific reserves would enable the bank to return said reserves into earnings.

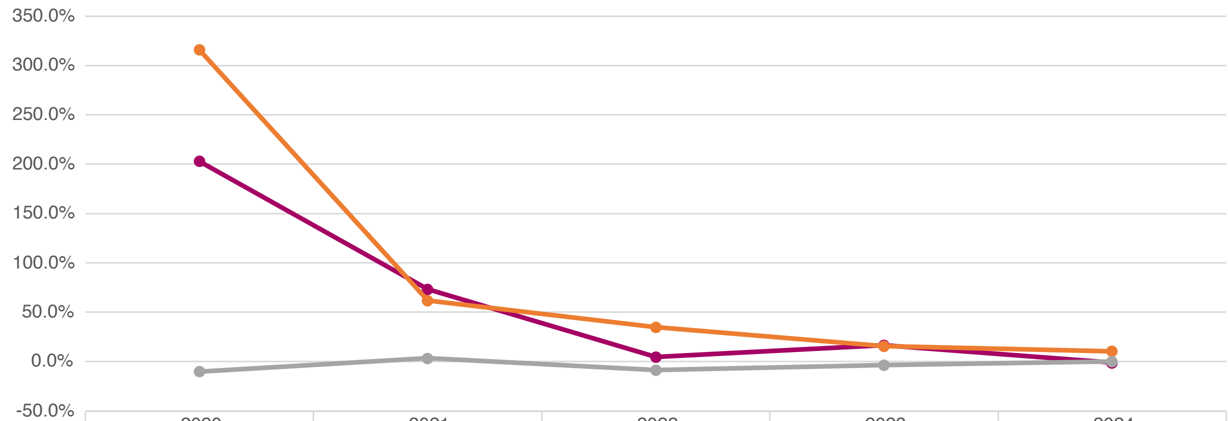
Annual Deposit Growth

Annual Deposit Growth — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Total Deposits	42,959	130,040	225,425	236,136	274,927	271,631

Annual Deposit Growth (%) — Peer Group Comparisons per FDIC Call Reports



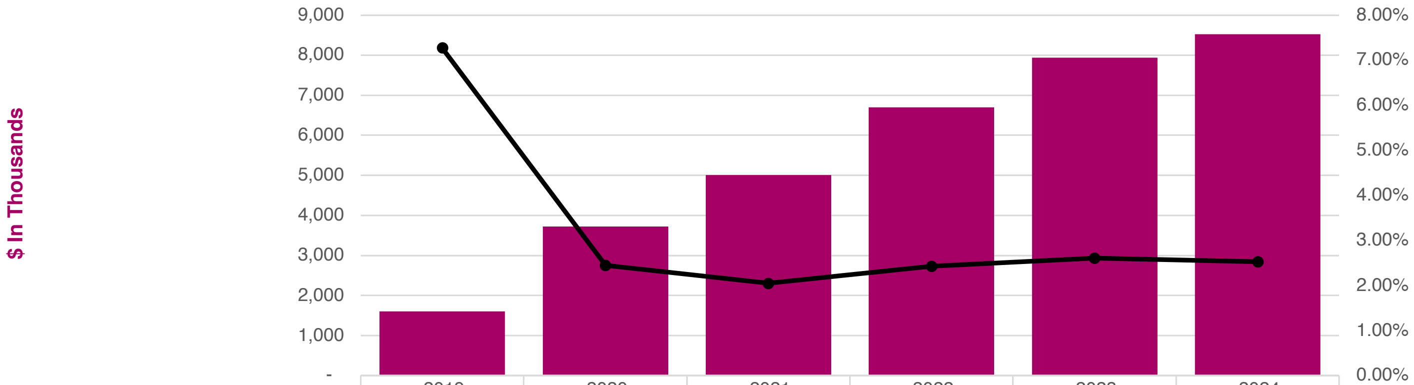
	2020	2021	2022	2023	2024
New Valley Bank & Trust	202.9%	73.4%	4.8%	16.5%	-1.3%
2019 DeNovo Banks	315.9%	61.8%	35.0%	15.5%	10.5%
MA Banks < $1 Billion	-10.2%	3.4%	-8.6%	-3.6%	0.2%

New Valley Bank & Trust 2019 DeNovo Banks MA Banks < $1 Billion

- Deposits declined by $3.3 million or 1.2% year over year. The primary driver of the decline was the timing of large outgoing deposit transactions occurring in the last week of 2024 which returned to the bank in the first week of 2025 for roughly $9 million. Deposits increased to $281.5 million as of January 31, 2025.
- As noted in the Net Interest Margin commentary, the bank has been selective about pricing on CD renewals for depositors without relationships. Additionally, many customers have been able to find higher rates in capital markets than would be available at banks.
- Deposit mix has shifted from short term CDs and checking into money market accounts as customers look to keep funds more liquid.
- Bank deposit growth has trailed peer de novo banks slightly but remains well above Massachusetts banks below $1 billion in assets.

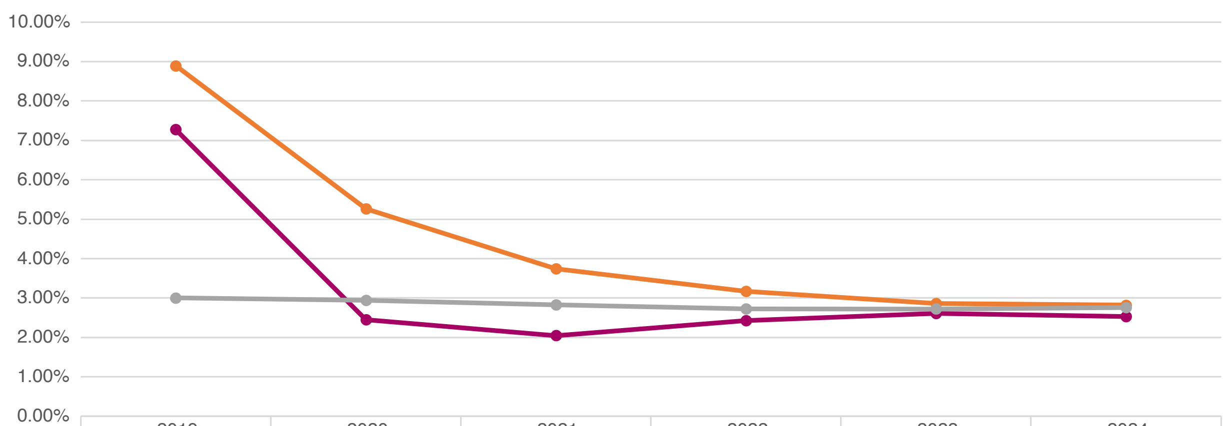
Non-Interest Expenses

Non-Interest Expense — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Total Non-Interest Expense	1,602	3,729	5,005	6,693	7,940	8,523
Non-Interest Expense / Average Assets	7.27%	2.45%	2.05%	2.43%	2.61%	2.53%

Non-Interest Expense % of Average Assets — Peer Group Comparisons per FDIC Call Reports



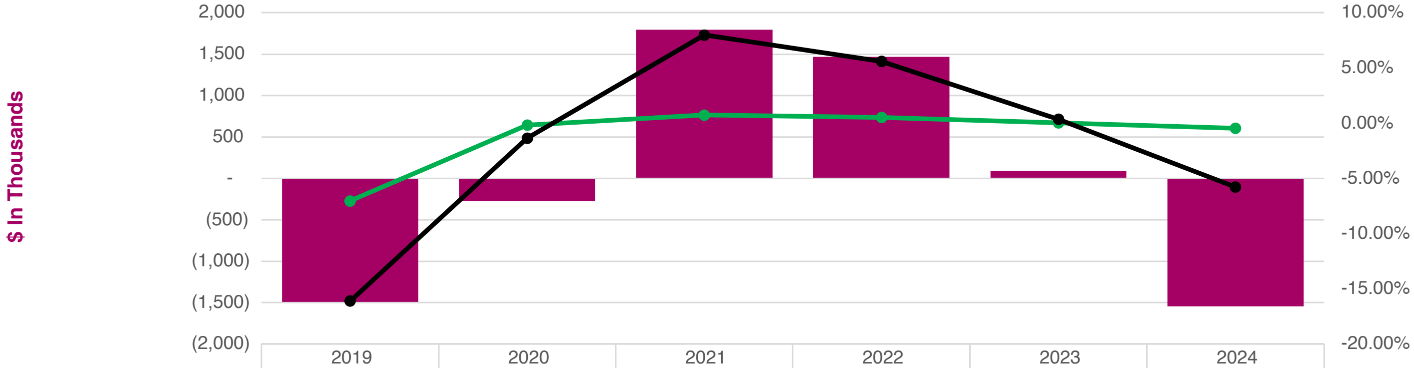
	2019	2020	2021	2022	2023	2024
New Valley Bank & Trust	7.27%	2.45%	2.05%	2.43%	2.61%	2.53%
2019 DeNovo Banks	8.89%	5.26%	3.74%	3.17%	2.86%	2.82%
MA Banks < $1 Billion	3.00%	2.94%	2.83%	2.73%	2.72%	2.76%

New Valley Bank & Trust 2019 DeNovo Banks MA Banks < $1 Billion

- Non-interest expense increased by $583,000 or 7.3% in 2024. The majority of the increase was from salaries & benefits, which increased $325,000 or 7.1%. This increase was driven by the full year impact of new hires in 2023 and 2024 to support ongoing growth and operational requirements.
- Non-interest expense represents 2.53% of total average assets, and the Bank has consistently maintained expense levels below that of both peer groups.
- The Bank remains committed to managing expense growth in line with profitability. Additional expenses are contingent upon improved net interest margin or to support growth targets laid out in strategic planning.

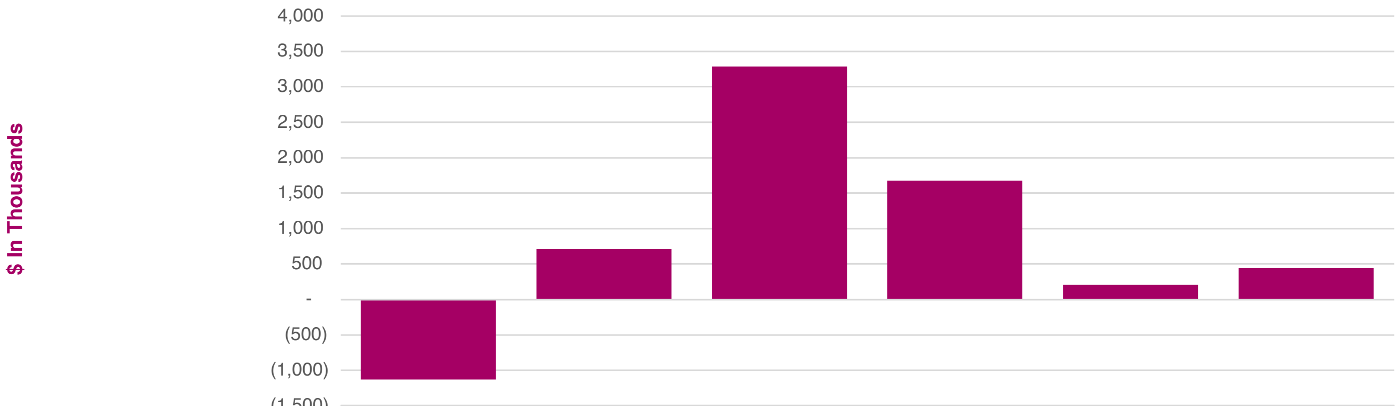
Net Income (Loss)

Net Income (Loss) — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Net Income (Loss)	(1,492)	(273)	1,797	1,466	94	(1,543)
Return on Average Assets	-7.04%	-0.18%	0.74%	0.53%	0.03%	-0.46%
Return on Average Equity	-16.10%	-1.35%	7.99%	5.58%	0.35%	-5.79%

Pre-Tax Pre-Provision Net Income (Loss) — Peer Group Comparisons per FDIC Call Reports

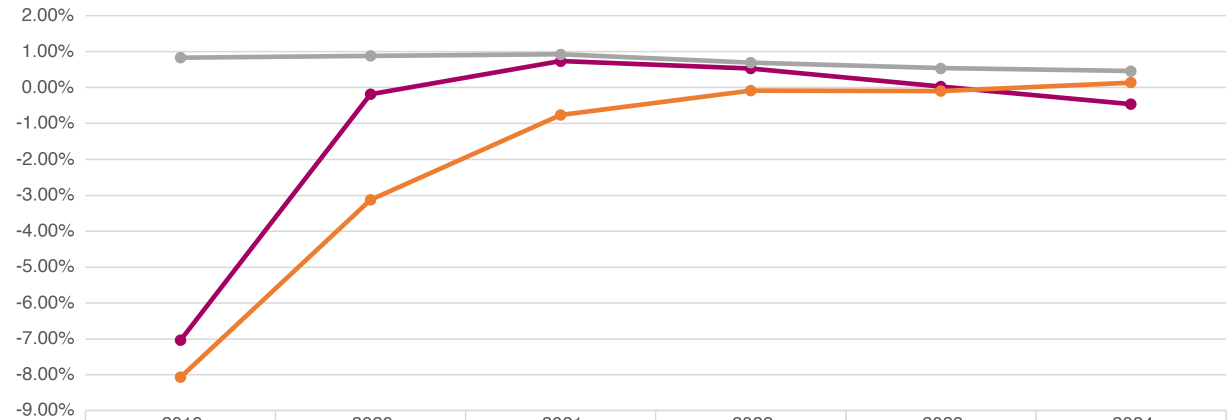


	2019	2020	2021	2022	2023	2024
Pre-Tax Pre-Provision Net Income (Loss)	(1,132)	712	3,288	1,676	208	441

- Net loss for 2024 was $1.5 million, a decrease of $1.6 million year over year. This was driven primarily by increased provision for credit losses of $2.6 million to fund specific loan loss reserves. Core earnings before tax and credit loss provisions were $441,000, an increase of $233,000 or 112% year over year.
- The Bank is prioritizing resolution of accounts experiencing financial difficulty and has already successfully recovered some of these reserves in Q1 2025.
- Core earnings are projected to improve in 2025 as short term rates have begun to decline, and the bank is able to reprice deposits and borrowings.

Return on Average Assets

Return on Average Assets — New Valley Bank & Trust

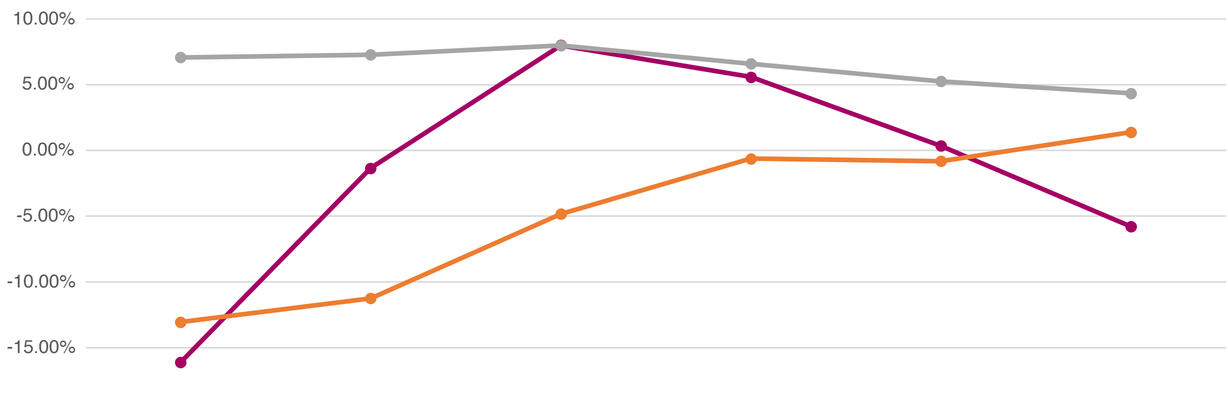


	2019	2020	2021	2022	2023	2024
New Valley Bank & Trust	-7.04%	-0.18%	0.74%	0.53%	0.03%	-0.46%
2019 DeNovo Banks	-8.07%	-3.13%	-0.76%	-0.08%	-0.09%	0.14%
MA Banks < $1 Billion	0.84%	0.89%	0.93%	0.70%	0.54%	0.46%

New Valley Bank & Trust 2019 DeNovo Banks MA Banks < $1 Billion

- Return on average assets and return on average equity overall have trended above peer de novo banks with the exception of 2024.
- This reflects the impact of credit loss reserves established during the year.

Return on Average Equity

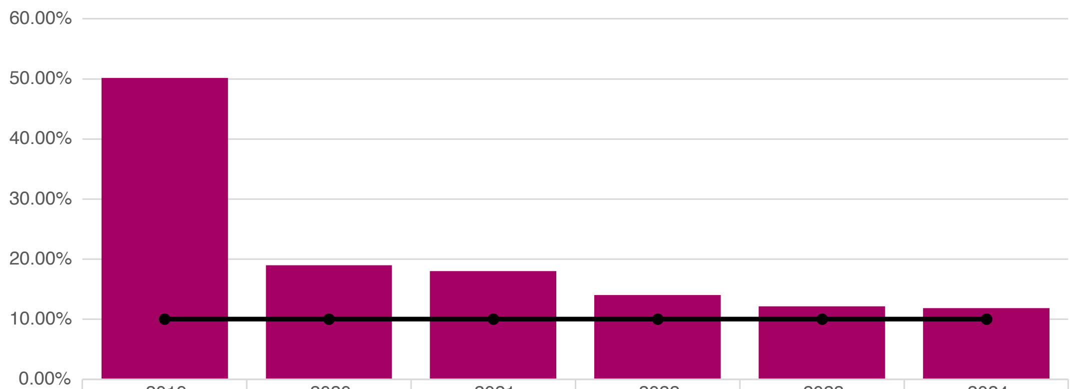


	2019	2020	2021	2022	2023	2024
New Valley Bank & Trust	-16.10%	-1.35%	7.99%	5.58%	0.35%	-5.79%
2019 DeNovo Banks	-13.05%	-11.23%	-4.82%	-0.63%	-0.81%	1.39%
MA Banks < $1 Billion	7.06%	7.28%	7.97%	6.58%	5.26%	4.33%

New Valley Bank & Trust   2019 DeNovo Banks   MA Banks < $1 Billion

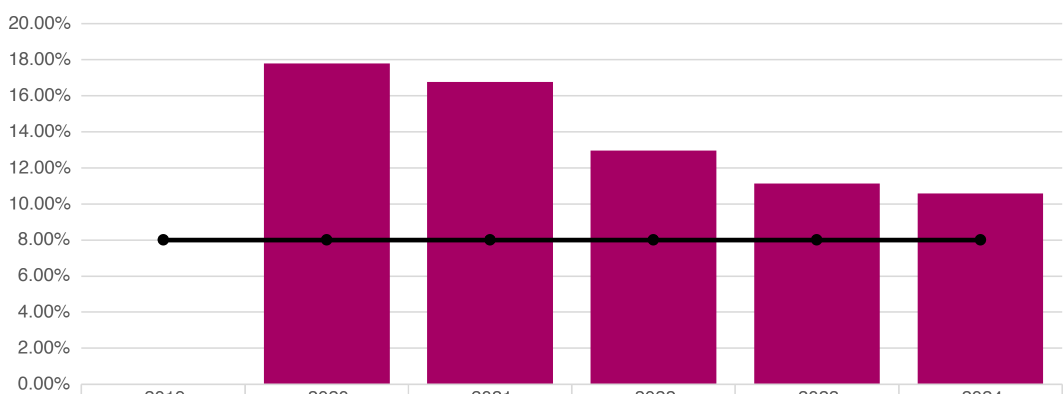
Risk-Based Capital Ratios

Total Risk-Based Capital Ratios — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Total Risk-Based Capital Ratio	50.19%	18.97%	18.01%	13.99%	12.17%	11.85%
FDIC Minimum Total Risk-Based Capital Ratio	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%

Tier 1 Risk-Based Capital Ratios — New Valley Bank & Trust



	2019	2020	2021	2022	2023	2024
Tier 1 Risk-Based Capital Ratio		17.79%	16.76%	12.96%	11.14%	10.59%
FDIC Minimum Tier 1 Risk-Based Capital Ratio	8.00%	8.00%	8.00%	8.00%	8.00%	8.00%

- The Bank remains well capitalized with a total risk-based capital ratio of 11.85% and a total tier 1 risk-based capital ratio of 10.59%.
- The Bank plans to raise additional capital in late 2025 to support continued growth and to achieve an asset size of roughly $500 million.

New Valley Bank & Trust and Subsidiary

Consolidated Financial Statements

Years Ended December 31, 2024 and 2023

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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, 2024 and 2023, the related consolidated statements of net income (losss), 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, 2024 and 2023, 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.

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 19, 2025

New Valley Bank & Trust and Subsidiary

Consolidated Balance Sheets

December 31, 2024 and 2023

	2024	2023
	(In thousands)	
Assets		
Cash and due from banks	$ 9,407	$ 10,940
Federal funds sold	875	27,198
Restricted cash	-	1,554
Cash and cash equivalents	10,282	39,692
Interest-bearing deposits in banks	585	1,747
Securities available for sale, at fair value	29,317	28,658
Securities held to maturity, respectively (fair value of $19,858 in 2024 and $20,893 in 2023)	21,432	21,390
Federal Home Loan Bank stock, at cost	1,127	1,216
Loans, net of allowance for credit losses of $5,120 in 2024 and $2,820 in 2023	249,431	228,700
Bank-owned life insurance	4,356	4,218
Deferred tax asset	2,195	1,550
Premises and equipment, net	1,144	1,389
Other assets	4,618	3,919
	$ 324,487	$ 332,479
Liabilities and Stockholders' Equity		
Deposits:		
Noninterest-bearing	$ 23,756	$ 25,205
Interest-bearing	247,875	249,722
Total deposits	271,631	274,927
Long-term debt	24,000	27,000
Accrued expenses and other liabilities	2,376	2,862
Total liabilities	298,007	304,789
Commitments and contingencies (Notes 6, 11, 12, and 13)		
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	28,065	27,982
Retained deficit	(2,002)	(459)
Accumulated other comprehensive loss	(2,570)	(2,820)
Total stockholders' equity	26,480	27,690
	$ 324,487	$ 332,479

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

New Valley Bank & Trust and Subsidiary

Consolidated Statements of Net Income (Loss)

Years Ended December 31, 2024 and 2023

	2024	2023
	(In thousands, except per share data)	
Interest and dividend income:		
Loans, including fees	$ 12,806	$ 10,275
Debt securities	1,459	1,314
Interest-bearing deposits and other	238	202
Federal funds sold	1,262	1,058
Total interest income	15,765	12,849
Interest expense:		
Deposits	6,399	4,373
Long-term debt	1,047	893
Total interest expense	7,446	5,266
Net interest income	8,319	7,583
Provision for credit losses	2,589	60
Net interest income, after provision for credit losses	5,730	7,523
Non-interest income		
Customer service fees	467	430
Loan servicing fees, net	40	40
Bank - owned life insurance income	138	96
Total non-interest income	645	566
Operating expenses:		
Salaries and employee benefits	4,883	4,558
Occupancy and equipment	825	848
Data processing	725	698
Advertising	100	87
Professional	420	348
Other general and administrative	1,570	1,403
Total non-interest expenses	8,523	7,942
Income/(loss) before income taxes	(2,148)	147
Provision (benefit) for income taxes	(605)	53
Net income (loss)	$ (1,543)	$ 94
Income (loss) per common share		
Basic and diluted gain per share	$ (51.66)	$ 3.15
Weighted average basic and diluted shares outstanding	29,868	29,868

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, 2024 and 2023

	2024	2023
	(In thousands)	
Net income (loss)	$ (1,543)	$ 94
Other comprehensive income (loss):		
Unrealized holding gains on securities available for sale	118	644
Reclassification adjustment for accretion of net unrealized losses transferred from available for sale to held to maturity	257	390
Tax effects	(125)	(218)
Net unrealized gains	250	816
Comprehensive income (loss)	$ (1,293)	$ 910

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, 2024 and 2023

	Shares of Common Stock	Common Stock	Additional Paid-In Capital	Retained Deficit	Accumulated Other Comprehensive Income (Loss)	Total
			(In thousands)			
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 (loss)	-	-	-	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
Comprehensive income (loss)	-	-	-	(1,543)	250	(1,293)
Share based compensation - stock options	-	-	83	-	-	83
Balance at December 31, 2024	29,868	$ 2,987	$ 28,065	$ (2,002)	$ (2,570)	$ 26,480

(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, 2024 and 2023

	2024	2023
	(In thousands)	
Cash flows from operating activities:		
Net income (loss)	$ (1,543)	$ 94
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	2,300	60
Amortization of deferred loan (fees)/costs, net	(151)	135
Accretion of deferred PPP loan fees	-	(2)
Net amortization of premiums on securities	282	376
Depreciation and amortization of premises and equipment	268	286
Increase in cash surrender value of bank-owned life insurance	(138)	(95)
Share based compensation expense	83	53
Deferred income tax expense/(benefit)	(770)	3
Net change in:		
Other assets and liabilities, net	(1,185)	(517)
Net cash used by operating activities	(854)	393
Cash flows from investing activities:		
Net change in interest-bearing deposits in banks	1,162	302
Activity in securities available for sale:		
Sales	-	295
Purchases	(32,456)	(50,383)
Maturities and prepayments	31,848	54,011
Redemption (purchase) of Federal Home Loan Stock	89	(889)
Loan purchases	-	(3,647)
Loan principal originations, net	(22,880)	(31,780)
Additions to premises and equipment, net	(23)	(133)
Net cash provided by investing activities	(22,260)	(32,224)
Cash flows from financing activities:		
Net increase (decrease) in deposits	(3,296)	38,791
Proceeds from issuance of long-term debt	-	54,300
Repayment of long-term debt	(3,000)	(32,300)
Net cash used by financing activities	(6,296)	60,791
Net change in cash and cash equivalents	(29,410)	28,960
Cash and cash equivalents at beginning of period	39,692	10,732
Cash and cash equivalents at end of period	$ 10,282	$ 39,692
Supplementary information:		
Interest paid on deposits and borrowed funds	$ 7,572	$ 5,266
Income taxes paid, net	(281)	53

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 ("GAAP") 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

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. The Bank maintains cash balances in excess of federally insured limits.

Interest-bearing Deposits in Banks

Interest-bearing deposits in banks mature within one year and are carried at cost.

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 and discounts 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 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 (loss), 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 Current Expected Credit Loss (“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, 2024 and 2023, 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

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 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 nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Bank believes the collection of interest is doubtful. The Bank has concluded that this policy results in the timely reversal of uncollectible interest.

Accrued interest receivable of $1,227,000 and $1,123,000 as of December 31, 2024 and 2023, respectively, 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 (loss). 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, 2024, the allowance for credit losses 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 (loss) and are not subject to income taxes.

Derivative Financial Instruments

Derivative financial instruments are recognized as assets on the consolidated balance sheet, measured at fair value and recorded in loans.

Interest Rate Swap Agreements

For asset/liability management purposes, the Bank uses interest rate swap agreements to hedge various exposures or to modify interest rate characteristics of various balance sheet accounts. Interest rate swaps are contracts in which a series of interest rate flows are exchanged over a prescribed period. The notional amount on which the interest payments are based is not exchanged. These swap agreements are derivative instruments and generally convert a portion of the Bank's fixed-rate loans to a variable rate (fair value hedge).

The gain (loss) on a derivative designated and qualifying as a fair value hedging instrument, as well as the offsetting gain or loss on the hedged item attributable to the risk being hedged, is recognized currently in earnings in the same accounting period.

The Bank records basis adjustments to the amortized cost of the hedged asset or liability due to the changes in fair value related to the hedged risk, except for basis adjustments related to active portfolio layer method hedges which are maintained at a portfolio level and not allocated to the individual assets in the portfolio.

Interest rate derivative financial instruments receive hedge accounting treatment only if they are designated as a hedge and are expected to be, and are, effective in substantially reducing interest rate risk arising from the assets and liabilities identified as exposing the Bank to risk. Those derivative financial instruments that do not meet specified hedging criteria would be recorded at fair value with changes in fair value recorded in income.

Cash flows resulting from the derivative financial instruments that are accounted for as hedges of assets and liabilities are classified in the cash flow statement in the same category as the cash flows of the items being hedged.

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 the Bank's 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 the leases do not provide an implicit rate, the bank uses 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. The bank uses the implicit rate when readily determinable. The operating lease ROU asset is net of lease incentives. The bank 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 Accounting Standard Codification ("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 (loss). 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:

	2024	2023
Net gain (loss) applicable to common stock (in thousands)	$ (1,543)	$ 94
Average number of common shares outstanding used to calculate basic and diluted gain per share	29,868	29,868
Basic and diluted gain (loss) per share	$ (51.66)	$ 3.15

Options for 1,950 shares and warrants for 3,109 shares were not included in the computation of diluted loss per share for the years ended December 31, 2024 and 2023, 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 (loss). 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, 2024	December 31, 2023
	(in thousands)	
Securities:		
Net unrealized holding losses on securities available for sale	$ (1,824)	$ (1,942)
Unamortized losses on securities transferred from available for sale to held to maturity	(1,296)	(1,553)
Tax effect	550	675
Net of tax effect	$ 2,570	$ 2,820

Recently Adopted Pronouncements

In March 2022, the Financial Accounting Standards Board ("FASB") issued ASU 2022-01, Derivatives and Hedging (Topic 815): Fair Value Hedging—Portfolio Layer Method. This Update allows for nonprepayable financial assets to also be included in a closed portfolio hedged using the portfolio layer method. The expanded scope permits an entity to apply the same portfolio hedging method to both prepayable and nonprepayable financial assets resulting in more consistent accounting for similar hedges. All amendments in this ASU are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The Bank adopted ASU 2022-01 effective January 1, 2024, on a prospective basis. The adoption of ASU 2022-01 did not have a material impact on the Bank's consolidated financial statements for the year ended December 31, 2024. See Note 14 for additional information.

In December 2022, the FASB issued ASU 2022-06, Reference Rate Reform (Topic 848) - Deferral of the Sunset Date of Topic 848. The amendments in this update defer the sunset date of Topic 848 from December 31, 2022, to December 31, 2024, after which entities will no longer be permitted to apply the relief in Topic 848. The Bank expects to apply the amendments prospectively for applicable loan and other contracts within the effective period of ASU 2022-06. As of December 31, 2024, the Bank no longer has any loans with rates tied to LIBOR.

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, Income Taxes—Improvements to Income Tax Disclosures (Topic 740), which requires entities to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold. On an annual basis, entities must disclose: (1) the amount of income taxes paid, net of refunds, disaggregated by federal, state, and foreign; and (2) the amount of income taxes paid, net of refunds, disaggregated by individual jurisdictions in which income taxes paid, net of refunds received, for amounts equal to or greater than 5% of total income taxes paid. Further, the amendments also require entities to disclose: (1) income or loss from continued operations before income tax expense (or benefit) disaggregated between domestic and foreign sources; and (2) income or loss from continued operations disaggregated by federal, state, and foreign sources. This ASU, as amended, is effective for the Bank in fiscal years beginning after December 15, 2025, and is not expected to have a material impact on the Bank's consolidated financial statements.

2. RESTRICTIONS ON CASH AND AMOUNTS DUE FROM BANKS

Restricted cash of $1,554,000 at December 31, 2023 was pledged allocated for customer-letters-of-credit at a correspondent bank. There is no restricted cash reported as of December 31, 2024.

3. 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, 2024:				
Securities available for sale:				
U.S. government and federal agency	$ 10,469	$ 1	$ (107)	$ 10,363
U.S. government-sponsored residential mortgage-backed securities	5,274	-	(885)	4,389
U.S. government guaranteed residential mortgage-backed securities	2,948	-	(244)	2,704
U.S. government-sponsored commercial mortgage-backed securities	4,607	1	(250)	4,358
State and municipal	3,368	-	(364)	3,004
Corporate	4,475	26	(2)	4,499
Total securities available for sale	$ 31,141	$ 28	$ (1,852)	$ 29,317
Securities Held to Maturity:				
U.S. government and federal agency	$ 7,869	$ -	$ (425)	7,444
State and municipal	8,063	-	(390)	7,673
Corporate	5,500	-	(759)	4,741
Total securities held to maturity	$ 21,432	$ -	$ (1,574)	$ 19,858
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

At December 31, 2024 and 2023, securities with a fair value of $37,787,000 and $40,937,000, 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, 2024 follows:

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Carrying Value	Fair Value
	(In thousands)		(In thousands)	
Within one year	$ 5,948	$ 5,950	$ -	$ -
After 1 year through 5 years	7,252	7,077	7,869	7,444
After 5 years through 10 years	1,739	1,732	5,999	5,191
Over 10 years	10,928	10,169	7,564	7,223
	25,867	24,928	21,432	19,858
Mortgage-backed securities	5,274	4,389	-	-
	$ 31,141	$ 29,317	$ 21,432	$ 19,858

For the year ended December 31, 2023, proceeds from sales of securities available for sale amounted to $295,000. There were no recognized gross reclased gains or losses. There were no sales of securities available for sales of December 31, 2024.

Information pertaining to securities with gross unrealized losses at December 31, 2024 and 2023, 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, 2024:						
Securities available for sale:						
U.S. government and federal agency	$ 28	$ 6,516	$ 79	$ 3,113	$ 107	$ 9,629
U.S. government-sponsored residential mortgage-backed securities	-	-	885	4,389	885	4,389
U.S. government guaranteed residential mortgage-backed securities	-	-	244	2,705	244	2,705
U.S. government-sponsored commercial mortgage-backed securities	16	1,647	234	2,528	250	4,175
State and municipal	-	-	364	3,004	364	3,004
Corporate	1	521	1	195	2	716
Total securities available for sale	$ 45	$ 8,684	$ 1,807	$ 15,934	$ 1,852	$ 24,618
Securities held to maturity:						
U.S. government and federal agency	$ -	$ -	$ 425	$ 7,444	$ 425	$ 7,444
State and municipal	-	-	390	7,673	390	7,673
Corporate	759	4,741	-	-	759	4,741
Total securities held to maturity	$ 759	$ 4,741	$ 815	$ 15,117	$ 1,574	$ 19,858

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

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, 2024, sixty-nine securities have unrealized losses with aggregate depreciation of 6.5% 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 requires reserves at December 31, 2024.

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 requires reserve at December 31, 2024.

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, 2024.

Allowance for Credit Losses – Securities Held to Maturity

Held to maturity securities which are issued by the U.S. 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, 2024 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, 2024			
Securities Held To Maturity	AAA/AA/A	BBB/BB/B	Unrated	Total
	(In thousands)			
U.S. Government and federal agency	$ 7,869	$ -	$ -	$ 7,869
State and municipal	8,063	-	-	8,063
Corporate	-	500	5,000	5,500
Total securities held to maturity	$ 15,932	$ 500	$ 5,000	$ 21,432

As of December 31, 2024, 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, 2024, 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.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

A summary of the balances of loans follows:

	December 31,	
	2024	2023
	(In thousands)	
1-4 family residential real estate	$ 17,150	$ 18,808
Commercial real estate	162,659	141,307
Commercial	73,988	70,309
PPP	90	393
Consumer	7	3
Total loans	253,894	230,820
Allowance for credit losses	(5,120)	(2,820)
Deferred loan costs, net	657	700
Loans, net	$ 249,431	$ 228,700

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, 2024 and 2023, the Bank was servicing loans for participants aggregating $21,741,000 and $42,458,000, respectively.

During the year ended December 31, 2023, the Bank purchased 1-4 family residential real estate loans aggregating $1,600,000 and commercial real estate loans aggregating $2,047,000. There were no such purchases for the year ended December 31, 2024. As of December 31, 2024 and 2023, the outstanding balances of purchased 1-4 family residential real estate, commercial real estate loans, and commercial and industrial loans were $31,442,000 and $33,124,000, respectively.

At December 31 2024 and 2023, loans with a fair value of $48,481,000 and $50,766,000, 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, 2024 and 2023 and allocation of the allowance to loan segments, excluding PPP loans, as of December 31, 2024 and 2023 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, 2022	$ 120	$ 329	$ 971	$ 940	$ -	$ 86	$ 2,446
Cumulative effect of change in accounting principle	(10)	197	378	(181)	-	(118)	266
Provisions for (reversals of) 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
Provisions for (reversals of) for credit losses	(12)	106	954	1,541	-	-	2,589
Loans charged-off	-	-	-	(346)	-	-	(346)
Recoveries of loans previously charged-off	-	-	-	57	-	-	57
Balance at December 31, 2024	$ 90	$ 620	$ 2,004	$ 2,406	$ -	$ -	$ 5,120

There were no ACL required for off-balance sheet credit exposure as of December 31, 2024 and 2023.

The increase in the allowance for credit losses in 2024 reflected incremental allowance related to loan growth, specific allowance for credit losses on individually evaluated loans, additional qualitative factors related to level and trend of non-accrual loans, increase in commercial loan charge-offs.

The following is a summary of past due and non-accrual loans at December 31, 2024 and December 31, 2023:

	December 31, 2024				
	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	$ 1,244	$ 4,009	$ 237	$ 5,490	$ 3,566
Commercial	976	251	2,733	3,960	3,604
Total	$ 2,220	$ 4,260	$ 2,970	$ 9,450	$ 7,170

	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

As of December 31, 2023, the Bank had PPP loans of $12,000 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:

	December 31, 2024		
	Non-accrual loans with Allowance for Credit Loss	Non-accrual loans without Allowance Credit Loss	Total loans on Non-accrual
		(In thousands)	
Commercial real estate	$ 3,566	$ -	$ 3,566
Commercial	3,537	67	3,604
Total	$ 7,103	$ 67	$ 7,170

	December 31, 2023		
	Non-accrual loans with Allowance for Credit Loss	Non-accrual loans without Allowance Credit Loss	Total loans on Non-accrual
		(In thousands)	
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 years ended December 31, 2024 and 2023 (in thousands):

	2024	2023
	Total Accrued Interest Reversed	Total Accrued Interest Reversed
	(In thousands)	(In thousands)
Commercial real estate	$ 189	$ -
Commercial	311	25
	$ 500	$ 25

The Bank did not recognize any of interest income on non-accrual loans during the years ended December 31, 2024 and 2023, respectively.

Collateral-Dependent Loans

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. Expected credit losses for collateral-dependent loans are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. The following table presents the amortized cost basis of individually analyzed collateral-dependent loans by loan portfolio segment:

	December 31, 2024	
	Type of Collateral	
	Real Estate	Other
	(In thousands)	
Commercial real estate	$ 3,785	$ -
Commercial	897	699
Total	$ 4,682	$ 699

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, 2024 or 2023. During the year ended December 31, 2024 and 2023, 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, 2024 or 2023.

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, 2024 and 2023:

	December 31, 2024		December 31, 2023	
	Commercial Real Estate	Commercial	Commercial Real Estate	Commercial
	(In thousands)			
Loans rated 1-5	$ 153,275	$ 61,348	$ 139,559	$ 66,877
Loans rated 6	2,185	5,748	400	1,903
Loans rated 7	7,199	6,892	1,348	1,518
Loans rated 8	-	-	-	11
	$ 162,659	$ 73,988	$ 141,307	$ 70,309

5. PREMISES AND EQUIPMENT

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

	December 31, 2024	December 31, 2023	Estimated Useful Life
	(In thousands)		
Furniture, fixtures and equipment	$ 935	$ 909	3-5 years
Leasehold improvements	1,365	1,364	5-10 years
Assets in process	3	7	N/A
	2,303	2,280	
Less accumulated depreciation and amortization	(1,159)	(891)	
	$ 1,144	$ 1,389	

Depreciation and amortization expense for the years ended December 31, 2024 and 2023 amounted to $268,000 and $286,000, respectively.

6. 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, 2024 and 2023 is as follows:

	December 31, 2024	December 31, 2023
	(In thousands)	
Operating lease cost	$ 400	$ 392

Supplemental cash flow and other information related to leases as of and for the year ended December 31, 2024 and 2023 is as follows (dollars in thousands):

	2024	2023
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 400	$ 386
Weighted-average remaining lease term in years for operating leases	5.9	6.8
Weighted-average discount rate for operating leases	2.9%	2.8%

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

	Operating
2025	$ 391
2026	360
2027	337
2028	339
2029	339
Thereafter	339
Total undiscounted cash flows	2,105
Less: present value discount	(172)
Total lease liabilities	$ 1,933

7. DEPOSITS

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

	December 31, 2024	December 31, 2023
	(In thousands)	
NOW and demand	$ 86,744	$ 91,500
Money market deposits	92,069	76,222
Regular savings and other	5,200	7,745
Total non-certificate accounts	184,013	175,467
Term certificates less than $250,000	25,960	27,499
Term certificates of $250,000 or more	61,658	71,961
Total certificate accounts	87,618	99,460
Total deposits	$ 271,631	$ 274,927

A summary of certificate accounts by maturity at December 31, 2024 (in thousands) is as follows:

2025	$ 62,043
2026	5,659
2027	6,064
2028	994
2029	4,524
Thereafter	8,334
	$ 87,618

8. SHORT-TERM BORROWINGS

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, 2024 and 2023, there were no amounts outstanding.

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, 2024 and 2023, there were no amounts outstanding.

9. LONG-TERM DEBT

Federal Home Loan Bank Advances

Long-term FHLB Advances at December 31, 2024 and 2023 consists of the following:

	Amount		Weighted Average Rate	
	2024	2023	2024	2023
	(In thousands)		(In thousands)	
Fixed rate advances maturing:				
2026	$ 1,000	$ 1,000	4.2%	4.2%
2027	4,000	4,000	4.4	4.4
2028*	19,000	22,000	4.0	4.0
Total advances	$ 24,000	$ 27,000	4.0%	4.0%

*2023 includes advances called 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,	
	2024	2023
	(In thousands)	
Current tax provision:		
Federal	$ 127	$ 46
State	38	4
	165	50
Deferred tax provision (benefit):		
Federal	(515)	(4)
State	(255)	7
	(770)	3
	$ (605)	$ 53

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

	December 31,	
	2024	2023
	(In thousands)	
Statutory federal income tax provision (benefit), at 21%	$ (450)	$ 31
Increase (decrease) resulting from:		
State taxes	(171)	8
Bank-owned life insurance	(29)	(20)
Other, net	45	34
Total tax provision (benefit)	$ (605)	$ 53

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

	December 31, 2024	December 31, 2023
	(In thousands)	
Organization and start-up costs	$ 354	$ 392
Allowance for credit losses	1,520	793
Deferred fees	(185)	(197)
Depreciation and amortization	(189)	(208)
Unrealized loss on securities available for sale, net of valuation allowance	186	239
Unrealized loss on securities held to maturity, net	364	436
Interest on non-accrual loans	79	11
Other, net	66	84
Net deferred tax asset	$ 2,195	$ 1,550

As December 31, 2024 and 2023, the Bank has a valuation allowance impacting other comprehensive income of $256,600 and $241,000, 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, 2024 and 2023, 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, 2024 and 2023. The Bank is currently open to audit under the applicable statutes of limitation by the Internal Revenue Service for the years ended December 31, 2021 through 2024. The years open to examination by taxing authorities vary by jurisdiction; no years prior to 2021 are open.

11. OFF-BALANCE SHEET ACTIVITIES

Credit Related Financial Instruments

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. As of December 31, 2024, the allowance for credit losses for off-balance sheet credit losses was deemed immaterial.

At December 31, 2024 and 2023, the following financial instruments were outstanding whose contract amounts represent credit risk:

	December 31,	
	2024	2023
	(In thousands)	
Commitments to grant loans	$ 1,241	$ 600
Unadvanced funds on lines-of-credit	40,590	49,049
Unadvanced funds on construction loans	8,648	2,435
Unadvanced funds on real estate loans	1,950	8,457
Commercial letter of credit	1,632	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.

12. ON-BALANCE SHEET DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Derivative Financial Instruments

The Bank has stand-alone derivative financial instruments in the form of interest rate swap agreements, which derives its value from underlying interest rates. The transactions involve both credit and market risk. The notional amount is amounts on which calculations, payments, and the value of the derivative are based. Notional amount do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, is reflected on the Bank's consolidated balance sheet as other assets and other liabilities.

The Bank is exposed to credit-related losses in the event of nonperformance by the counterparties to these agreements.

The Bank controls the credit risk of its financial contracts through credit approvals, limits and monitoring procedures, and does not expect any counterparties to fail their obligations.

Derivative instruments are generally either negotiated OTC contracts or standardized contracts executed on a recognized exchange. Negotiated OTC derivative contracts are generally entered into between two counterparties that negotiate specific agreement terms, including the underlying instrument, amount, exercise prices and maturity.

Interest Rate Risk Management - Fair Value Hedging Instruments

The Bank originates fixed- and variable-rate loans. Fixed-rate loans expose the Bank to variability in their fair value due to changes in the level of interest rates. Management believes that it is prudent to limit the variability in the fair value of a portion of its fixed-rate loan portfolio. It is the Bank's objective to hedge the change in fair value of fixed-rate loans at coverage levels that are appropriate, given anticipated or existing interest rate levels and other market considerations, as well as the relationship of change in this asset to other assets of the Bank. To meet this objective, the Bank utilizes interest rate swaps as an asset/liability management strategy to hedge the change in value of the loans due to changes in expected interest rate assumptions. Although the Bank hedges the change in value of its fixed-rate loans, its hedge coverage ratio does not equate to 100%. The Bank believes it is economically prudent to keep hedge coverage ratios at acceptable risk levels, which may vary depending on current and expected interest rate movement.

During 2024, the Bank entered into a fair value hedge on stated amounts of closed portfolios of residential and commercial real estate loans using the portfolio layer method.

At December 31, 2024, the information pertaining to outstanding interest rate swap agreements used to hedge fixed-rate loans is as follows:

	December 31, 2024 (Dollars in thousands)
Notional amount	$ 10,000
Weighted average pay rate	4.09%
Weighted average receive rate	4.33%
Weighted average maturity in years	3.4
Unrealized loss relating to interest rate swaps	(25)

The table below presents the carrying amount of hedged items and cumulative fair value hedging basis adjustments for loans at December 31, 2024 that were designated under the portfolio layer method. There were no fair value hedges using the portfolio layer method outstanding at December 31, 2023.

	December 31, 2024		
Balance Sheet Location	Carrying Amount	Hedge Accounting Basis Adjustment	Hedged Portfolio Layer
		(Dollars in thousands)	
Loans	$ 38,001	$ 29	$ 10,000

The Bank has recorded $49,000 of interest income which is recorded in loans, including fees on the statement of net income (loss) as of December 31, 2024.

These agreements provide for the Company to receive payments at a variable-rate determined by a specified index (one month SOFR compounded) in exchange for making payments at a fixed-rate.

The company includes the gain or loss on the hedged items (that is, fixed-rate loans) in the same line item—interest income—as the offsetting loss or gain on the related interest rate swaps.

Collateral Requirements

To reduce credit risk related to the use of derivative instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Company's credit evaluation of the customer. Similarly, counterparties might deem it necessary to obtain collateral from the Bank based on their exposure to the derivative transaction.

As of December 31, 2024, the Bank has posted collateral to counterparties totaling $265,000. This amount is included within interest bearing deposits in banks on the consolidated balance sheet.

13. 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 Company's consolidated financial statements.

14. 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, 2024, 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, 2024, 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, 2024:						
Total capital						
(to risk-weighted assets)	$32,499	11.9%	$21,937	8.0%	$27,422	10.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	29,051	10.6	12,340	4.5	17,824	6.5
Tier 1 capital						
(to risk-weighted assets)	29,051	10.6	16,453	6.0	21,937	8.0
Tier 1 leverage ratio						
(to average assets)	29,051	8.6	13,458	4.0	26,916	8.0
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

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 2024 or 2023.

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,	
	2024	2023
	(In thousands)	
Expected term	7 years	7 years
Expected volatility	30.75% - 30.75%	30.23% - 35.76%
Risk-free interest rate	4.28% - 4.28%	3.84% - 4.56%
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, 2024.

A summary of option activity under the Plan as of December 31, 2024, 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	1,825	$ 1,023		
Granted	125	1,150		
Outstanding and unvested at end of year	1,950	$ 1,031	1.5	$ (144)

The weighted-average grant-date fair value of options granted during the years ended December 31, 2024 and 2023 were $315 and $318, respectively. No options were exercised or expired during the years ended December 31, 2024 or 2023. No options were forfeited during the year ended December 31, 2024 and 200 options were forfeited during the year ended December 31, 2023. Net share-based compensation expense was $83,000 and $53,000 for the years ended December 31, 2024 and 2023, 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 $162,000 at December 31, 2024 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, 2024 and 2023 expense attributable to the Plan amounted to $138,000 and $124,000, respectively.

16. 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, 2024 and 2023, 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, 2024 or 2023.

17. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Bank has granted loans to directors, executive officers and their affiliates amounting to $5,022,000 and $7,001,000 at December 31, 2024 and 2023, respectively.

Deposits from directors, executive officers and their affiliates held by the Bank at December 31, 2024 and 2023 amounted to $33,404,000 and $19,710,000, respectively.

18. 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:

Securities available for sale - 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.

Interest rate swap agreements - The fair values of interest rate swap agreements are based on a valuation model that uses primarily observable inputs, such as benchmark yield curves and interest rates and also include the value associated with counterparty credit risk.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

	December 31, 2024			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities available for sale	$ -	$ 29,317	$ -	$ 29,317
Interest rate swap agreements	-	1	-	1
Total assets	$ -	$ 29,318	$ -	$ 29,318
Liabilities				
Interest rate swap agreements	$ -	$ 26	$ -	$ 26
Total liabilities	$ -	$ 26	$ -	$ 26

	December 31, 2023			
	Level 1	Level 2	Level 3	Total Fair Value
	(In thousands)			
Assets				
Securities available for sale	$ -	$ 29,658	$ -	$ 29,658
Total assets	$ -	$ 29,658	$ -	$ 29,658

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, 2024 or December 31, 2023.

19. SUBSEQUENT EVENTS

Management has evaluated subsequent events through March 19, 2025, 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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