Pioneer Bankshares, Inc.

2023 Annual Financial Report

INDEX

Market Data

The Common Stock of the Company trades on the OTC Bulletin Board under the symbol "PNBI" and transactions generally involve a small number of shares. The Company's transfer agent is Computershare, Inc. located at 480 Washington Boulevard, 29th Floor, in Jersey City, New Jersey, 07013. The following table shows actual trade prices during the year. Other transactions may have occurred which were not included in the table.

COMMON STOCK TRADE PRICES

2022	High	Low
First Quarter	$ 30.00	$ 28.98
Second Quarter	30.00	27.35
Third Quarter	27.35	26.10
Fourth Quarter	26.25	26.00

2023	High	Low
First Quarter	$ 27.25	$ 18.00
Second Quarter	27.25	19.65
Third Quarter	21.99	19.52
Fourth Quarter	22.52	19.50

The Company has declared dividends on its Common Stock as follows:

Declared Date	Record Date	Payment Date	Per Share Amount
2/17/22	3/17/22	3/31/22	$ .24
5/19/22	6/16/22	6/30/22	.24
8/18/22	9/15/22	9/30/22	.24
11/17/22	12/15/22	12/30/22	.25
Total for 2022			$ .97
2/16/23	3/16/23	3/31/23	$ .25
5/18/23	6/15/23	6/30/23	.25
8/17/23	9/15/23	9/29/23	.25
11/16/23	12/15/23	12/29/23	.25
Total for 2023			$ 1.00

The Company's ability to pay dividends is subject to certain restrictions imposed by the Federal Reserve and capital requirements of Federal and Virginia banking statutes and regulations. Additionally, the Company intends to follow a policy of retaining sufficient earnings in order to maintain the net worth and reserves of the Bank at adequate levels and to provide for the Company's growth and ability to compete in its market area.

FINANCIAL HIGHLIGHTS
(In thousands, except for per share information)

	2023	2022
Results of Operations		
Interest and dividend income	$ 14,081	$ 10,700
Interest expense	3,146	601
Net interest income	10,935	10,099
Provision for credit losses	823	(247)
Net interest income after provision for credit losses	10,112	10,346
Noninterest income	1,412	2,188
Noninterest expense	9,365	9,533
Income before income taxes	2,159	3,001
Income tax expense	263	434
Net Income	$ 1,896	$ 2,567
Financial Condition, At Year End		
Assets	$ 322,134	$ 293,295
Deposits	263,755	257,346
Loans, net of allowance for credit losses	237,444	205,698
Stockholders' equity	34,247	32,330
Per Share Data		
Net income per share, basic and diluted	$ 1.92	$ 2.57
Dividends per share	1.00	.97
Book value per share	34.55	32.22
Performance Ratios		
Return on average assets [1]	0.62%	0.86%
Return on average equity [1]	5.73%	7.81%
Dividend payout ratio	52.15%	37.83%
Average equity to average assets [1]	10.89%	11.06%

[1]Ratios are based on daily average balances

General Business Description

Pioneer Bankshares, Inc. (the “Company”), a Virginia one bank holding company headquartered in Stanley, Virginia, was incorporated under the laws of the Commonwealth of Virginia on November 4, 1983. The Company’s wholly-owned subsidiary, Pioneer Bank, Inc. (the “Bank”) was established as a national bank in 1909. The Bank converted from a national bank to a state chartered bank, effective April 1994, and changed its name to Pioneer Bank, effective April 1999.

Pioneer Bank’s main branch and corporate office are located in Stanley, Virginia, with other branch locations in Shenandoah, Luray, Harrisonburg, Ruckersville, and Charlottesville, Virginia. The Bank also operates a small Business Banking Center in Harrisonburg, VA. The Business Banking Center primarily services commercial loans for business clients. Additionally, the Bank operates a small finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and dealer auto lending.

Pioneer Bank also owns and operates two subsidiaries, one of which is Pioneer Financial Services, LLC. Income received from insurance services and non-banking investment services is handled through Pioneer Financial Services, LLC. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with foreclosed properties, as a means of minimizing the risk of liability to the Bank.

The assets of the Company consist primarily of all of the stock of the Bank, real estate holdings leased to the Bank, a portfolio of equity investment securities, and minimal cash accounts.

The Bank is engaged in the general commercial banking business, primarily serving the counties of Page, Greene, Rockingham, and Albemarle, Virginia. In addition, the close proximity and mobile nature of individuals and businesses in adjoining Virginia counties and nearby cities places these markets within the Bank’s targeted trade area. The Bank also anticipates serving some individuals and businesses from other areas, including, but not limited to, the counties surrounding Page County.

The Bank offers a full range of banking and related financial services focused primarily towards serving individual consumers, small to medium size commercial businesses, and the professional community. The Bank strives to serve the banking needs of its customers while developing personal, hometown relationships. The Bank’s Board of Directors and management believe that the marketing of customized banking services will enable the Bank to continue its position in the financial services marketplace.

The Bank provides individual consumers, professionals and small and medium size commercial businesses in its market area with responsive and technologically advanced banking services. These services include competitively priced loans that are based on deposit relationships, easy access to the Bank's decision-makers, and quick and innovative action necessary to meet a customer's banking needs. The Bank’s capitalization and lending limit enables it to satisfy the credit needs of a large portion of the targeted market segment. In the event there are customers whose loan requirements exceed the Bank’s lending limit, the Bank will seek to arrange such loans on a participation basis with other financial institutions or private investors. The Board of Directors and management believe the Bank’s present capitalization will support substantial growth in deposits and loans.

Independent Auditor's Report

To the Board of Directors and Stockholders
Pioneer Bankshares, Inc.
Stanley, Virginia

Opinion
We have audited the accompanying consolidated financial statements of Pioneer Bankshares, Inc. and its subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

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

Emphasis of Matter
As discussed in Note 1 to the financial statements, the Company changed its method of accounting for credit losses in 2023, due to the adoption of Accounting Standards Update 2016-13, *Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments*, including all related amendments. Our opinion is not modified with respect to this matter.

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

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

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the 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,

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 Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information Included in the Annual Report
Management is responsible for the other information included in the annual report. The other information comprises the market data, financial highlights, and general business description but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Yount, Hyde & Barbour, P.C.

Winchester, Virginia
April 3, 2024

PIONEER BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

(In Thousands, except share and per share data)

	2023	2022
ASSETS		
Cash and due from banks	$ 3,462	$ 3,998
Interest-bearing deposits in other banks	19,058	11,305
Federal funds sold	538	475
Securities available for sale, at fair value	51,321	62,241
Equity securities, at fair value	21	24
Restricted securities, at cost	1,406	413
Loans receivable, net of allowance for credit losses of $2,348 in 2023 and $2,117 in 2022	237,444	205,698
Bank premises and equipment, net	3,717	3,987
Accrued interest receivable	1,062	930
Other assets	4,105	4,224
Total Assets	$ 322,134	$ 293,295
LIABILITIES		
Deposits		
Noninterest bearing:	$ 89,678	$ 95,767
Interest bearing:		
Demand	50,124	62,517
Savings	47,003	46,268
Time deposits	76,950	52,794
Total Deposits	263,755	257,346
Accrued expenses and other liabilities	1,632	1,119
Borrowings	22,500	2,500
Total Liabilities	287,887	260,965
STOCKHOLDERS' EQUITY		
Common stock; $.50 par value, authorized 5,000,000 shares; outstanding – 991,198 and 1,003,392 shares in 2023 and 2022, respectively	496	502
Retained earnings	37,325	36,842
Accumulated other comprehensive loss	(3,574)	(5,014)
Total Stockholders' Equity	34,247	32,330
Total Liabilities and Stockholders' Equity	$ 322,134	$ 293,295

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands, except per share data)

	2023	2022
INTEREST AND DIVIDEND INCOME:		
Loans including fees	$ 12,451	$ 9,469
Interest on securities – taxable	735	893
Interest on securities – nontaxable	33	22
Deposits and federal funds sold	800	299
Dividends	62	17
Total Interest and Dividend Income	14,081	10,700
INTEREST EXPENSE:		
Deposits	2,439	509
Borrowings	707	92
Total Interest Expense	3,146	601
NET INTEREST INCOME	10,935	10,099
PROVISION FOR CREDIT LOSSES	823	(247)
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	10,112	10,346
NONINTEREST INCOME:		
Service charges on deposit accounts	1,288	1,302
Commission income	70	69
Other income	100	86
Change in fair value of equity securities	(3)	(312)
Gain on sale of other investment	93	1,442
Gain (loss) on sales and disposals of fixed assets	(136)	316
Loss on sale of securities available for sale	---	(715)
Total Noninterest Income	1,412	2,188
NONINTEREST EXPENSES:		
Salaries and employee benefits	4,753	4,769
Occupancy expenses	459	450
Equipment expenses	262	377
ATM expenses	545	511
Sales and franchise tax	88	172
Director compensation and fees	183	184
Electronic banking expenses	217	181
Hosted network and security monitoring expenses	180	197
Professional and audit fees	362	372
Data processing fees	533	583
Telephone	257	242
Amortization expenses of housing fund investments	234	334
Other expenses	1,292	1,161
Total Noninterest Expenses	9,365	9,533
INCOME BEFORE INCOME TAXES	2,159	3,001
INCOME TAX EXPENSE	263	434
NET INCOME	$ 1,896	$ 2,567
PER SHARE DATA:		
Net income, basic and diluted	$ 1.92	$ 2.57
Dividends	$ 1.00	$ 0.97

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands of Dollars)

	2023	2022
Net Income	$1,896	$2,567
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on securities available for sale:		
Unrealized holding gains (losses) arising during period, (net of tax of $(383) and $1,290 for 2023 and 2022, respectively)	1,440	(4,861)
Reclassification adjustments for losses included in net income (net of tax of $(150) for 2022)	---	565
Other comprehensive income (loss)	1,440	(4,296)
Comprehensive income (loss)	$3,336	$(1,729)

See Notes to Consolidated Financial Statements.

PIONEER BANKSHARES, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2023 AND 2022

(In Thousands of Dollars)

	Common Stock	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
BALANCE DECEMBER 31, 2021	$ 498	$ 35,045	$ (718)	$ 34,825
Net Income		2,567		2,567
Other comprehensive loss			(4,296)	(4,296)
Cash dividends		(971)		(971)
Stock issued for compensation	4	201		205
BALANCE DECEMBER 31, 2022	$ 502	$ 36,842	$ (5,014)	$ 32,330
Net Income		1,896		1,896
Cumulative change for adoption of new accounting standard (Note 1)		(130)		(130)
Other comprehensive income			1,440	1,440
Cash dividends		(989)		(989)
Retirement of common stock	(11)	(502)		(513)
Stock issued for compensation	5	208		213
BALANCE DECEMBER 31, 2023	$ 496	$ 37,325	$ (3,574)	$ 34,247

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,896	$ 2,567
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	823	(247)
Net amortization (accretion) on securities	66	(86)
Fair value adjustment on equity securities	3	312
Losses on sales of securities available for sale	---	715
Deferred income tax expense (benefit)	1	(63)
Depreciation	251	344
Amortization of low-income housing investments	234	334
Stock based compensation	213	205
Amortization of right-of-use asset	215	77
Gain on sale of other real estate owned	(9)	---
Loss (gain) on sales and disposals of premises & equipment, net	136	(316)
Net change in:		
Accrued interest receivable	(132)	(118)
Other assets	(526)	64
Accrued expenses and other liabilities	348	335
Net Cash Provided by Operating Activities	3,519	4,123
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net change in interest-bearing deposits in other banks	(7,753)	22,087
Net change in federal funds sold	(63)	1,962
Net change in restricted securities	(993)	(19)
Proceeds from calls, maturities and principal payments of securities available for sale	12,677	3,012
Proceeds from sales of securities available for sale	---	14,114
Purchase of securities available for sale	---	(23,660)
Proceeds from sales of equity securities	---	3,791
Net (increase) in loans	(32,842)	(28,771)
Proceeds on sale of bank premises and equipment	---	336
Proceeds from sale of other real estate owned	129	---
Purchase of bank premises and equipment	(117)	(69)
Net Cash (Used in) Investing Activities	(28,962)	(7,217)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in:		
Demand and savings deposits	(17,747)	(10,477)
Time deposits	24,156	15,492
Proceeds from borrowings	28,051	269
Curtailments of borrowings	(8,051)	(269)
Retirement of stock	(513)	---
Dividends paid	(989)	(971)
Net Cash Provided by Financing Activities	24,907	4,044
CASH AND CASH EQUIVALENTS		
Net (decrease) increase in cash and cash equivalents	(536)	950
Cash and cash equivalents, beginning of year	3,998	3,048
Cash and cash equivalents, end of year	$ 3,462	$ 3,998
Supplemental Disclosure of Cash Paid During the Year for:		
Interest	$ 2,516	$ 440
Income taxes	142	539
Supplemental Disclosure of non-cash activity:		
Unrealized gain (loss) on securities available for sale	$ 1,823	(5,436)
Transfers from loans to other real estate owned	120	---
Liabilities assumed to acquire right of use assets under operating leases	152	35

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting and reporting policies of Pioneer Bankshares, Inc. (“Company”), and its wholly-owned subsidiary Pioneer Bank (“Bank”), conform to accounting principles generally accepted in the United States of America and to accepted practice within the banking industry. A summary of significant accounting policies is as follows:

Consolidation Policy – The consolidated financial statements of the Company include the Bank as well as Pioneer Financial Services, LLC, and Pioneer Special Assets, LLC which are wholly-owned subsidiaries of the Bank. All significant inter-company balances and transactions have been eliminated.

Use of Estimates – In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses on loans.

Reclassifications – Certain reclassifications have been made to prior period balances to conform to the current year presentation. None were of a material nature and had no effect on prior year net income or stockholders’ equity.

Subsequent Events – In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through April 3, 2024, which is the date the financial statements were available to be issued.

Securities – Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities which the Company intends to hold for indefinite periods of time, including securities used as part of the Company’s asset/liability management strategy are classified as available for sale. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income (loss), net of tax. At December 31, 2023 and 2022, all debt securities were classified as available for sale. There were no transfers between classifications during the years ended December 31, 2023 and 2022.

Interest income includes amortization of purchase premiums and accretion of purchase discounts. Purchase premiums are recognized in interest income using the effective interest rate method over the period from purchase to maturity or, for callable securities, the earliest call date, and purchase discounts are recognized in the same manner from purchase to maturity.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Restricted equity securities are comprised primarily of Federal Home Loan Bank stock and Federal Reserve Bank stock. Restricted securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

Gains and losses on sales of securities are recorded on the trade date and determined using the specific identification method.

Impairment of debt securities occurs when the fair value of a security is less than its amortized cost. The Company has elected to exclude accrued interest receivable from the amortized cost basis. For debt securities available for sale, impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Company does not intend to sell the security and it is not more-likely-than-not that the Company will be required to sell the security before recovery, the Company evaluates unrealized losses to determine whether a decline in fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an allowance for credit losses is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the security’s amortized cost basis exceeds its fair value. Changes in the allowance for credit losses are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities available for sale not resulting from credit losses are recorded in other comprehensive income (loss).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The Company regularly reviews unrealized losses in its investments in available-for-sale debt securities and cash flows expected to be collected from impaired debt securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Company's intention with regard to holding the security to maturity and the likelihood that the Company would be required to sell the security before recovery.

Loans Receivable - Loans receivable are intended to be held until maturity and are reported at their outstanding principal balance net of any adjustments for charge-offs, unearned income, the allowance for credit losses, and deferred loan fees and costs. The Company has elected to exclude accrued interest receivable from the amortized cost basis of its loans held for investment. Interest on loans is recorded to interest income based on the contractual rate and the amount of outstanding principal on the loans. Interest income is generally not recognized on nonaccrual loans and payments received on such loans are applied as a reduction of the loan principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The Company classifies all loans as past due when the payment of principal and interest based upon contractual terms is 30 or more days delinquent.

The accrual of interest on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection for all loan classes. Commercial non-real estate classes are placed on nonaccrual status when it is probable that principal or interest is not fully collectible, or generally when principal or interest becomes 90 days past due, whichever occurs first. Real estate loans, which includes the residential, commercial, construction and land categories, are generally placed on nonaccrual status when principal and interest becomes 90 days past due. Consumer non-real estate loans, including personal automobile loans and all other individual loans are placed on nonaccrual status at varying intervals, based on the type of product, generally when principal and interest becomes between 90 days and 120 days past due. Revolving consumer credit card loans are not placed on nonaccrual but are generally charged-off if they reach 120 days past due, with unpaid fees and finance charges reversed against interest income. Consumer non-real estate loans are typically charged off between 90 and 120 days past due unless the loan is well secured and in the process of collection and are subject to mandatory charge-off at a specified delinquency date consistent with regulatory guidelines. In most cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. All other loan classes are generally charged off within the range of 90 to 180 days, unless there are specific or extenuating circumstances that warrant further collection or legal actions.

Interest accrued but not collected for loans that are placed on nonaccrual 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 and future payments are reasonably assured. Payments received on nonaccrual loans are applied as a reduction to the remaining principal balance as long as concern exists as to the ultimate collection of the principal. Loans are generally removed from nonaccrual status when the concern no longer exists as to the collectability of principal and interest and the borrower has been able to demonstrate a specific period of payment performance.

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Allowance for Credit Losses on Loans – The allowance for credit losses on loans is a valuation allowance which represents management's current estimate of expected credit losses over the terms of loans held for investment considering historical experience, current conditions, and reasonable and supportable forecasts relevant to the collectability of loans. The allowance is established through charges to earnings in the form of a provision for credit losses. The allowance is also increased by recoveries of amounts previously charged-off off and is reduced by charge-offs on loans. Loan charge-offs are recognized as the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral-dependent, when management believes that the collectability of the principal is unlikely. Full or partial charge-offs on collateral-dependent individually evaluated loans are generally recognized when the collateral is deemed to be insufficient to support the carrying value of the loan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

The allowance consists of reserves for loans which are collectively and individually evaluated for credit losses. Loans which share common risk characteristics are collectively evaluated. The collectively evaluated allowance for credit losses includes both quantitative and qualitative components. The quantitative component is determined using an average charge-off method developed using prior historical losses of the Company over an extended period of time. These loss rates are applied to the outstanding balances of loans over their estimated lives, which includes estimated prepayments. The Company adjusts the average charge-off rates within the quantitative calculations for reasonable and supportable forecasts over a period of one year, with immediate reversion to the average charge-off rate for periods beyond one year. Economic forecasting includes projections of the unemployment rate and GDP, which adjust loss rates using a statistical regression analysis. The qualitative component of the collectively evaluated allowance for credit losses is based on an assessment of available information relevant to assessing collectability that is not captured in the loss estimation process. Factors considered by management include economic conditions, concentrations of credit, depth of lending management, collateral valuations, legal and regulatory factors, loan volumes and trends, level and severity of past due and adversely classified loans, lending policies, procedures and underwriting criteria and other extraordinary conditions as necessary. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Loans that do not share common risk characteristics with other loans are evaluated individually and are not included in the collectively evaluated analysis. The allowance for credit losses on loans that are individually evaluated may be estimated based on their expected cash flows, or, in the case of loans for which repayment is expected substantially through the operation or sale of collateral when the borrower is experiencing financial difficulty, may be measured based on the fair value of the collateral or the fair value of collateral less estimated costs to sell the collateral.

No allowance for credit losses is recorded on accrued interest receivable and as discussed under the heading *"Loans receivable"* above, amounts written off are reversed by an adjustment to interest income.

Transfers of Financial Assets –Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Bank Premises and Equipment – Land values are carried at cost. Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is charged to income over estimated useful lives ranging from 3 to 40 years, on a straight-line method.

Other Real Estate Owned- Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from other real estate owned. There were no properties held in other real estate owned or formal foreclosure proceedings in process as of December 31, 2023. There was one consumer real estate loan in process of foreclosure and no properties held in other real estate owned as of December 31, 2022.

Income Taxes – Amounts provided for income tax expense are based on income reported for financial statement purposes rather than amounts currently payable under income tax laws. Deferred income tax assets and liabilities are determined using the balance sheet method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax basis of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. There were no such liabilities recorded as of December 31, 2023 or December 31, 2022.

Interest and penalties associated with unrecognized tax benefits, if any, are classified as additional income taxes in the Company's Consolidated Statements of Income.

Financial Instruments – In the ordinary course of business, the Bank has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, commitments under credit-card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded.

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 other loans. Commitments to extend credit are generally made for a period of one year or less and interest rates are determined when funds are disbursed. Collateral and other security for the loans are determined on a case-by-case basis. Since some of the commitments are expected to expire without being drawn upon, the contract or notional amounts do not necessarily represent future cash requirements.

Cash Flow Reporting – For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Advertising Costs – The Company follows the policy of charging the production costs of advertising to expense as incurred. Advertising expense amounted to $34,000 and $58,000, for the years ended December 31, 2023 and 2022, respectively.

Earnings Per Share – Basic earnings per share represents income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect 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 Company, is any, are determined using the treasury stock method.

Stock Compensation –On an annual basis, the company pays two-thirds of its board of director fees and retainer fees in the form of stock compensation. Additionally, a portion of certain officers' bonuses are periodically paid with stock compensation. The fair market value of the Company's stock at the time of the stock issuance is used as the pricing factor to arrive at the appropriate number of shares issued.

There were no stock options or other unvested stock awards outstanding at December 31, 2023 and 2022.

Comprehensive Income – Comprehensive income consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale.

Bank Owned Life Insurance – The Company has purchased life insurance policies on certain individuals. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value. Cash surrender values are included in other assets on the Consolidated Balance Sheets.

Goodwill – Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, over the fair value of the net assets acquired. Acquired goodwill is tested for impairment at least annually or more frequently if events and circumstances exist that indicate an impairment test should be performed. The balance of goodwill was $360,000 at December 31, 2023 and 2022, and was included in other assets on the consolidated balance sheets. The results of management's evaluation of goodwill for impairment determined no impairment charges were required during the years ended December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Allowance for Credit Losses on Unfunded Commitments – The Company records a reserve, reported in accrued expenses and other liabilities on the Consolidated Balance Sheets, for expected credit losses on commitments to extend credit that are not unconditionally cancelable by the Company. The reserve for unfunded commitments is measured based on the principles utilized in estimating the allowance for credit losses on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses. The reserve totaled $13 thousand at December 31, 2023, and the provision for credit losses related to unfunded commitments was $5 thousand during the year ended December 31, 2023.

Recent Accounting Pronouncements– Recently Adopted – In June 2016, the FASB issued Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The ASU, as amended, requires a company to measure expected credit losses for financial assets carried at amortized cost based on historical experience, current conditions, and reasonable and supportable forecasts. Among other things, the ASU also amended the impairment model for available for sale securities and addressed purchased financial assets with deterioration. ASU 2016-13, as amended, was effective for the Company on January 1, 2023. The adjustment recorded at adoption, which consisted of an increase to the allowance for credit losses on loans and the establishment of a reserve for unfunded loan commitments, was $165 thousand. The adjustment, net of tax, recorded to stockholders' equity totaled $(130) thousand.

In March 2022, FASB issued ASU No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures." ASU 2022-02 addresses areas identified by the FASB as part of its post-implementation review of the credit losses standard (ASU 2016-13) that introduced the current expected credit losses model. The amendments eliminated the accounting guidance for troubled debt restructurings by creditors that have adopted the current expected credit losses model and enhanced the disclosure requirements relating to loan refinancings and restructurings for borrowers experiencing financial difficulty. In addition, the amendments required a public business entity to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in its vintage disclosures. ASU 2022-02 was effective for the Company on January 1, 2023. The amendments in this ASU were applied prospectively, except for the transition method related to the recognition and measurement of TDRs, which was applied using a modified retrospective transition method.

Pending Adoption – In December 2023, the Financial Accounting Standards Board (FASB) issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

NOTE 2 NATURE OF OPERATIONS:

The Company operates under a charter issued by the Commonwealth of Virginia and provides commercial banking services to its customers through its subsidiary bank. As a state chartered member bank, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions and the Board of Governors of the Federal Reserve Banking System. As of December 31, 2023, the Bank had six branch locations available to customers with 3 being located in Page County, 1 in Greene County, 1 in Rockingham County, and 1 in Albemarle County. The Bank also operates two separate subsidiaries, one being known as Pioneer Financial Services, LLC, which offers a variety of consumer investment and insurance services. The second subsidiary owned by Pioneer Bank is Pioneer Special Assets, LLC, which is generally used in conjunction with certain foreclosed properties. The Bank also operates a small Business Banking Center in Harrisonburg, VA. The Business Banking Center primarily services commercial loans for business clients. Additionally, the Bank operates a small consumer loan finance company known as Valley Finance Services, a Division of Pioneer Bank, which specializes in consumer and dealer auto lending.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3 CASH AND DUE FROM BANKS:

Prior to March 2020, The Federal Reserve Bank required banks to maintain reserves at specified levels. Effective March 26, 2020, the reserve requirement was reduced to zero percent. The Bank also maintains required deposit relationships with 3 separate correspondent banks in accordance with their separate and individual Fed Funds Credit Line Agreements. The amount on deposit with these correspondent banks was $748,000 and $741,000, as of December 31, 2023 and 2022, respectively.

NOTE 4 DEPOSITS IN AND FEDERAL FUNDS SOLD TO BANKS:

The Bank had cash deposited in and federal funds sold to other banks exceeding federally insured limits totaling approximately $1.3 million and $771,000 thousand at December 31, 2023 and 2022, respectively. Management has established acceptable risk tolerances relating to uninsured deposits in other banks and diversifies these funds in accordance with policy guidelines.

NOTE 5 INVESTMENT SECURITIES:

On January 1, 2023, the Company adopted ASC 326, which made changes to accounting for available for sale debt securities whereby credit losses should be presented as an allowance, rather than as a write-down when management does not intend to sell and does not believe that it is more likely than not they will be required to sell a security prior to its maturity. Should the Company classify debt securities as held-to-maturity in future periods, ASC 326 would also require the Company to measure expected credit losses using a methodology that requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. All securities information presented as of December 31, 2023, is in accordance with ASC 326. All securities information presented as of December 31, 2022, or a prior date is presented in accordance with previously applicable GAAP.

The amortized cost and fair value of securities available for sale at December 31, 2023 and 2022 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2023				
Available for Sale				
U.S. treasury securities	$ 5,187	$ ---	$ (221)	$ 4,966
Mortgage-backed securities	1,839	---	(261)	1,578
Agency securities	29,989	---	(2,681)	27,308
State and municipals	15,079	28	(941)	14,166
Corporate securities	3,750	---	(447)	3,303
	$ 55,844	$ 28	$ (4,551)	$ 51,321

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(In Thousands)			
December 31, 2022				
Available for Sale				
U.S. treasury securities	$ 15,214	$ ---	$ (544)	$ 14,670
Mortgage-backed securities	2,088	---	(296)	1,792
Agency securities	29,986	---	(3,631)	26,355
State and municipals	17,549	---	(1,492)	16,057
Corporate securities	3,750	---	(383)	3,367
	$ 68,587	$ ---	$ (6,346)	$ 62,241

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

Realized gains and losses on available for sale securities are summarized below:

	2023	2022
	(In Thousands)	
Gains	$ ---	$ ---
Losses	---	(715)
Net (Losses)	$ ---	$ (715)

There were no sales of securities available for sale during the year ended December 31, 2023. Proceeds on the sale of securities available for sale during 2022 totaled $14.1 million.

Equity securities consisted of investments in common stock of certain community banking institutions at December 31, 2023 and 2022. The following table presents information on the change in the fair value of equity securities that was recognized in earnings during the years ended December 31, 2023 and 2022, as well as the portion of those balances which relate to equity securities still held at December 31, 2023 and 2022.

	For the Years Ended December 31, 2023	2022
	(in thousands)	
Net (losses) gains recognized during the year on equity securities	$ (3)	$ (312)
Net (gains) losses recognized on equity securities sold	---	310
Net unrealized (losses) gains recognized on equity securities still held at the balance sheet date	$ (3)	$ (2)

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

	Securities Available for Sale Amortized Cost	Fair Value
	(In Thousands)	
Due within one year	$ 9,087	$ 8,744
Due after one year through five years	38,583	35,329
Due five years through ten years	5,515	4,812
Due after ten years	2,659	2,436
	$ 55,844	$ 51,321

Securities available for sale with an amortized cost of $31.1 million and fair value of $28.5 million at December 31, 2023, were pledged for contingency borrowings purposes, to secure public deposits and for other purposes required by law. There were none pledged at December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

As of December 31, 2023 there were 36 securities available for sale that had unrealized losses. The Company concluded a credit loss did not exist in its securities portfolio at December 31, 2023, and no impairment loss was recognized based on the facts that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Company intends to hold these investments in debt securities to maturity and it is more-likely-than-not that the Company will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Company's agency securities and mortgage-backed securities were issued either by U.S. government agencies or U.S. government-sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments. The schedule of unrealized losses by category and length of time that each individual security had been in a continuous loss position at December 31, 2023 was as follows (in thousands):

		Corporate Securities	Mortgaged Backed Securities	Agency Securities	State and Municipal Securities	US Treasury Securities	Total
Less than 12 Months	Fair Value	$644	$ ---	$---	$---	$---	$644
	Unrealized Losses	(106)	---	---	---	---	(106)
12 or more Months	Fair Value	2,659	1,578	27,308	13,068	4,966	49,579
	Unrealized Losses	(341)	(261)	(2,681)	(941)	(221)	(4,445)
Total	Fair Value	3,303	1,578	27,308	13,068	4,966	50,223
	Unrealized Losses	(447)	(261)	(2,681)	(941)	(221)	(4,551)

As of December 31, 2022, there were 41 securities available for sale that had unrealized losses. The schedule of unrealized losses by category and length of time that each individual security had been in a continuous loss position at December 31, 2022 was as follows (in thousands):

		Corporate Securities	Mortgaged Backed Securities	Agency Securities	State and Municipal Securities	US Treasury Securities	Total
Less than 12 Months	Fair Value	$2,721	$ 332	$---	$1,870	$9,868	$14,791
	Unrealized Losses	(279)	(17)	---	(12)	(172)	(480)
12 or more Months	Fair Value	646	1,459	26,355	14,187	4,803	47,450
	Unrealized Losses	(104)	(279)	(3,631)	(1,481)	(372)	(5,867)
Total	Fair Value	3,367	1,791	26,355	16,057	14,671	62,241
	Unrealized Losses	(383)	(296)	(3,631)	(1,492)	(544)	(6,346)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5 INVESTMENT SECURITIES: (Continued):

The Bank also holds additional investments in the Federal Home Loan Bank of Atlanta ("FHLB") in the form of FHLB stock, which is a membership requirement. Loan advances from FHLB are subject to additional stock purchase requirements, which are generally redeemed as outstanding loan balances are repaid, subject to FHLB's quarterly excess capital evaluation process. FHLB evaluates the excess capital stock of its members on a quarterly basis to determine stock repurchase activities. Additionally, the FHLB generally pays quarterly dividends on the outstanding stock investment of each of its members.

FHLB stock is generally viewed as a long-term investment and is considered to be a restricted security, which is carried at cost, because there is no market for the stock other than FHLB or other member institutions. As of December 31, 2023 and 2022 the Bank's investment in FHLB stock totaled approximately $1.28 million and $288,000, respectively, and was included in restricted securities on the consolidated balance sheets.

Management's evaluation of FHLB stock for possible impairment is based on the ultimate recoverability of par value rather than recognizing temporary declines in value. Management's evaluation of FHLB stock as of December 31, 2023 and 2022 did not consider this investment to be impaired, and therefore, no impairment has been recognized.

NOTE 6 LOANS:

Loans are stated at their face amount, net of deferred loan fees, and are classified as follows:

	December 31, 2023	December 31, 2022
	(In Thousands)	
Real estate loans		
Construction & land loans	$ 10,721	$ 7,479
Residential equity lines of credit	2,933	2,419
Residential 1-4 family	76,539	72,413
Residential second mortgages 1 - 4 family	3,054	2,012
Residential multifamily	5,736	5,886
Commercial agricultural loans	3,630	3,639
Commercial municipal loans	266	302
Commercial owner & non-owner occupied	83,192	69,407
Total real estate loans	186,071	163,557
Commercial non real estate loans	17,456	19,992
Loans to nondepository financial institutions	7,212	---
Consumer non real estate loans		
Personal installments	28,444	23,734
Credit cards	609	532
Total consumer installment loans	29,053	24,266
Gross loans (1)	239,792	207,815
Less allowance for credit losses	(2,348)	(2,117)
Net loans receivable	$ 237,444	$ 205,698

(1)Gross loans are presented net of deferred loan fees and discounts of $398,000 and $265,000, respectively for December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The Bank grants commercial, real estate and consumer installment loans to its customers. Collateral requirements for loans are determined on a case-by-case basis depending upon the purpose of the loan and the financial condition of the borrower. The ultimate collectability of the Bank's loan portfolio and the ability to realize the value of any underlying collateral, if needed, are influenced by the economic conditions of its market service area.

The Bank's loan portfolio is concentrated in real estate loans, including those secured by residential consumer properties and small business commercial properties. Residential real estate loans, including equity lines of credit, residential 1 – 4 family first and second mortgages, and multifamily loans totaled $88.3 million as of December 31, 2023, as compared to $82.7 million at December 31, 2022. Small business commercial real estate loans, including commercial construction and land loans, agricultural/farm loans, and other business properties totaled $96.9 million as of December 31, 2023, as compared to $80.7 million at December 31, 2022. Management has established specific lending criteria relating to real estate loans as a means of assessing risk in the portfolio.

Deposit account overdrafts which were classified as loans totaled $49,000 and $55,000 as of December 31, 2023 and 2022, respectively.

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2023 (in thousands):

Past Due Loans by Class	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Total Current	Total Loans
Construction & Land						
Residential	$ ---	$ ---	$ ---	$ ---	$ 917	$ 917
Commercial	---	---	---	---	2,840	2,840
Other – Land only	---	---	---	---	6,964	6,964
Residential Real Estate						
Equity Lines of Credit	---	---	---	---	2,933	2,933
1-4 Family Residences	729	264	99	1,092	78,501	79,593
Multifamily Dwellings	---	---	---	---	5,736	5,736
Loans to Nondepository Financial Institutions	---	---	---	---	7,212	7,212
Commercial Real Estate						
Owner & non-owner occupied	---	---	---	---	83,192	83,192
Agricultural / Farm	---	---	---	---	3,630	3,630
Municipals	---	---	---	---	266	266
Commercial – Non Real Estate						
Agricultural	---	---	---	---	389	389
Industrial	---	---	---	---	15,777	15,777
Municipals	---	---	---	---	1,290	1,290
Consumer – Non Real Estate						
Credit Cards	1	6	1	8	601	609
Automobile	484	214	11	709	21,760	22,469
Other personal	34	9	---	43	5,932	5,975
Totals Gross Loans	$ 1,248	$ 493	$ 111	$ 1,852	$ 237,940	$ 239,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table reflects the amounts of outstanding delinquencies by loan class as of December 31, 2022 (in thousands):

Past Due Loans by Class	30-59 Days	60-89 Days	90 Days or More	Total Past Due	Total Current	Total Loans
Construction & Land						
Residential	$ ---	$ ---	$ ---	$ ---	$ 177	$ 177
Commercial	---	---	---	---	3,273	3,273
Other – Land only	---	---	---	---	4,029	4,029
Residential Real Estate						
Equity Lines of Credit	---	---	---	---	2,419	2,419
1-4 Family Residences	1,888	182	77	2,147	72,278	74,425
Multifamily Dwellings	---	---	---	---	5,886	5,886
Commercial Real Estate						
Owner & non-owner occupied	1,478	---	---	1,478	67,929	69,407
Agricultural / Farm	---	---	79	79	3,560	3,639
Municipals	---	---	---	---	302	302
Commercial – Non Real Estate						
Agricultural	---	---	---	---	425	425
Industrial	---	---	---	---	16,446	16,446
Municipals	---	---	---	---	3,121	3,121
Consumer – Non Real Estate						
Credit Cards	1	---	---	1	531	532
Automobile	517	69	16	602	19,069	19,671
Other personal	36	1	---	37	4,026	4,063
Totals Gross Loans	$ 3,920	$ 252	$ 172	$ 4,344	$ 203,471	$ 207,815

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2023 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual with No Allowance for Credit Losses	Total Nonaccrual Loans	Interest Income Recognized
Residential Real Estate				
1-4 Family Residences	$ 99	$ 6	$ 6	$ ---
Consumer – Non Real Estate				
Credit Cards	1	---	---	---
Automobile	11	---	---	
Totals Gross Loans	$ 111	$ 6	$ 6	$ ---

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Loans past due greater than 90 days and still accruing interest at December 31, 2023 and 2022 totaled $111,000 and $16,000, respectively. Management continually monitors past due accounts and places these accounts in nonaccrual status if the payment plans are not adhered to. Nonaccrual loans with no allowance for credit losses amounted to $6,000 and $12,000, at December 31, 2023 and 2022, respectively. As of December 31, 2023 there were no loans on nonaccrual with an allowance for credit losses. The nonaccrual loans with no allowance at December 31, 2023 and 2022 consisted primarily of real estate loans, which were in the process of collection.

The loan portfolio is comprised of various categories or segments, each of which have certain risk characteristics that are evaluated at the time of loan origination and periodically thereafter. Construction loans carry risks associated with whether or not the project will be completed according to schedule and within its original budget, as well as valuation risk associated with the overall value of the collateral upon completion. Residential real estate loans carry risks associated with continued credit-worthiness and financial stability of the borrower, as well as potential valuation changes relating to collateral. Commercial real estate loans carry risks associated with the continued operations of the business, as well as sufficient cash flow and profitability to service the debt. Additionally, commercial real estate loans are subject to risks associated with potential collateral valuation changes.

Commercial non-real estate loans, including those in the industrial and agricultural categories, carry similar risks to the commercial real estate loans, as they are dependent upon the continued successful business operations and cash flow. Commercial non-real estate loans also carry a risk associated with collateral being more difficult to assess. Consumer loans carry risks associated with the continued credit-worthiness and financial stability of the borrower, as well as potential for rapid depreciation or reduced value of the collateral, especially in automobile lending.

Loans to nondepository financial institutions include loans made by the Bank through its participation in the Northpointe Bank Mortgage Participation Program ("Northpointe MPP"). The Northpointe MPP provides interim financing to 1-4 family mortgage originators who originate loans for sale in the secondary market. These loans carry risks associated with the successful delivery of the mortgage loans by the originators to their secondary market investors; however, sale commitments are in place at origination which limit these risks. The maximum amount of loans that could be funded at any time through the Northpointe MPP as of December 31, 2023, was $15 million. The outstanding balance of loans can fluctuate significantly due to the timing of funding and repayments, which varies based on mortgage origination volumes.

Management has developed an internal loan risk rating system as part of its credit analysis process which serves as the credit quality indicator for loans in the portfolio. Non-retail loans (i.e. all loans, excluding loans to consumers for home mortgages or other consumer purposes) are assigned an appropriate risk rating at the time of origination based on specific assessment factors relating to the borrower's ability to meet contractual obligations under the loan agreement. This process includes reviewing borrowers' financial information, historical payment experience, credit documentation, public information, and other information specific to each borrower. Loan rating assessments also include consideration of business cash flow and debt obligations. Risk ratings are generally reviewed on an annual basis for credit relationships with total credit exposure of $1 million or more, or at any point management becomes aware of information affecting the borrower's ability to fulfill their obligations. Management utilizes both internal and external loan review processes as a means of monitoring the appropriateness of risk ratings across the loan portfolio. Retail credits are assigned a pass rating at the time of their origination. Updates to risk ratings assigned to retail credits are made primarily on the basis of the payment activity.

The Bank's internal rating system includes multiple ratings considered to be indicative of pass rated credits, as well as several non-pass or classified ratings consisting of special mention, substandard, doubtful, and loss. Pass credits generally consist of loans secured by cash or cash equivalents and loans to borrowers with a strong cash flow ratio, stable financial net worth and above average sources of liquidity to meet financial obligations and may also include loans to borrowers that may have minor, yet manageable, weaknesses related to the stability of cash flow and repayment sources and may require periodic monitoring. Special mention credits are loans that have identified weaknesses or adverse trends in the borrower's financial position that could potentially impact the Bank's credit position at some future date if not monitored closely. Substandard credits are those loans that have been identified as having a well-defined, specific, or major weakness in the primary cash flow sources or upon which significant reliance is being placed on secondary sources of repayment due to the borrower's financial difficulties. Potential for losses related to substandard credits is evaluated on a regular basis with specific allocations being made as needed, as well as other corrective actions necessary to protect the institution. Loans categorized as doubtful also have well defined weaknesses with the added characteristic of the likelihood that collection of payment in full is highly questionable or perhaps improbable.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Loans classified as loss are considered to be totally uncollectible or of such little value that their continuance on the Bank's books as an asset is not warranted. Retail credits 90 or more days past due are generally classified as substandard, with residential real estate loans being evaluated for individual impairment on a case by case basis as they become delinquent or are identified as a potential problem credit. The following table presents term loans amortized cost basis by origination year as of December 31, 2023 (in thousands):

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Total Loans
	2023	2022	2021	Prior		
Residential Construction & Land Loans						
Pass	$ 877	$ 40	$ ---	$ ---	$ ---	$ 917
Total	$ 877	$ 40	$ ---	$ ---	$ ---	$ 917
Commercial Construction & Land Loans						
Pass	$ ---	$ 2,840	$ ---	$ ---	$ ---	$ 2,840
Total	$ ---	$ 2,840	$ ---	$ ---	$ ---	$ 2,840
Land Only						
Pass	$ 3,342	$ 1,135	$ 1,829	$ 658	$ ---	$ 6,964
Total	$ 3,342	$ 1,135	$ 1,829	$ 658	$ ---	$ 6,964
Equity Lines of Credit						
Pass	$ ---	$ ---	$ ---	$ ---	$ 2,933	$ 2,933
Total	$ ---	$ ---	$ ---	$ ---	$ 2,933	$ 2,933
1-4 Family Residence						
Pass	$ 14,112	$ 19,243	$ 12,351	$ 32,659	$ 111	$ 78,476
Special Mention	76	241	---	73	---	390
Substandard	28	---	68	631	---	727
Total	$ 14,216	$ 19,484	$12,419	$ 33,363	$ 111	$ 79,593
Multifamily Dwellings						
Pass	$ 5	$ 2,901	$ 695	$ 1,574	$ 561	$ 5,736
Total	$ 5	$ 2,901	$ 695	$ 1,574	$ 561	$ 5,736
Loans to nondepository financial institutions						
Pass	$ ---	$ ---	$ ---	$ ---	$ 7,212	$ 7,212
Total	$ ---	$ ---	$ ---	$ ---	$ 7,212	$ 7,212
Commercial Real Estate						
Pass	$ 21,992	$ 14,419	$ 7,224	$ 34,683	$ 901	$ 79,219
Special Mention	681	1,317	---	661	---	2,659
Substandard	---	---	---	1,314	---	1,314
Total	$ 22,673	$ 15,736	$ 7,224	$ 36,658	$ 901	$ 83,192
Agricultural/Farm Loans						
Pass	$ 1,263	$ 275	$ 317	$ 1,534	$ 29	$ 3,418
Substandard	---	---	---	212	---	212
Total	$ 1,263	$ 275	$ 317	$ 1,746	$ 29	$ 3,630
Municipals						
Pass	$ ---	$ ---	$ ---	$ 266	$ ---	$ 266
Total	$ ---	$ ---	$ ---	$ 266	$ ---	$ 266

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

	Term Loans Amortized Cost Basis by Origination Year				Revolving Loans Amortized	
	2023	2022	2021	Prior	Cost Basis	Total Loans
Agricultural – Non Real Estate						
Pass	$ 74	$ 109	$ 34	$ 9	$163	$ 389
Total	$ 74	$ 109	$ 34	$ 9	$ 163	$ 389
Commercial – Non Real Estate						
Pass	$ 4,408	$ 2,386	$ 1,769	$ 3,357	$ 1,285	$ 13,205
Special Mention	$ 262	$ 2,310	$ ---	$ ---	$ ---	$ 2,572
Total	$ 4,670	$ 4,696	$ 1,769	$ 3,357	$ 1,285	$ 15,777
Municipals – Non Real Estate						
Pass	$ ---	$ 671	$ 239	$ 380	$ ---	$ 1,290
Total	$ ---	$ 671	$ 239	$ 380	$ ---	$ 1,290
Credit Cards						
Pass	$---	$ ---	$ ---	$ ---	$ 601	$ 601
Special Mention	---	---	---	---	7	7
Substandard	---	---	---	--	1	1
Total	$ ---	$ ---	$ ---	$ ---	$609	$ 609
Automobile						
Pass	$ 10,926	$ 6,102	$ 3,230	$ 2,150	$ ---	$ 22,408
Substandard	$ 2	$ 8	$ 25	$ 26	$ ---	$ 61
Total	$ 10,928	$ 6,110	$ 3,255	$ 2,176	$---	$ 22,469
Other Personal Loans						
Pass	$ 2,940	$ 1,934	$ 698	$ 403	$ ---	$ 5,975
Total	$ 2,940	$ 1,934	$ 698	$ 403	$ ---	$ 5,975
Totals:						
Pass	$59,939	$ 52,055	$ 28,386	$77,673	$ 13,796	$ 231,849
Special Mention	1,019	3,868	---	734	7	5,628
Substandard	30	8	93	2,183	1	2,315
Total	$ 60,988	$ 55,931	$ 28,479	$80,590	$ 13,804	$ 239,792

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

The following table details the current period charge-offs by year of origination for the year ended December 31, 2023 (in thousands).

	2023	2022	2021	Prior	Revolving Loans	Total Loans
Land Only	$ ---	$ ---	$ ---	$ 4	$ ---	$ 4
1-4 Family Residence	---	---	---	5	---	5
Credit Cards	---	---	---	---	3	3
Automobile	---	89	90	78	---	257
Other Personal Loans	745	13	4	3	---	765
Total	$ 745	$ 102	$ 94	$ 90	$ 3	$ 1,034

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Type of Collateral			
	Residential Real Estate	Commercial Real Estate	Automobiles	Total
Residential Real Estate				
1-4 Family Residences	$ 824	$ ---	$ ---	$824
Commercial Real Estate				
Owner Occupied	---	1,762	---	1,762
Consumer – Non Real Estate				
Automobile Loans	---	---	11	11
Totals	$ 824	$ 1,762	$11	$2,597

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Modified Loans for Borrowers Experiencing Financial Difficulty

The Company's subsidiary Bank occasionally modifies loans to borrowers that may be experiencing financial difficulties by providing principal forgiveness, term extensions, interest rate reductions, or other-than-significant payment delays. The effect of most modifications is included in the allowance for credit losses due to the measurement methodologies used in its estimate, and the allowance is typically not adjusted upon modification. In cases of principal forgiveness, the amount forgiven is charged against the allowance for credit losses. In some cases, multiple types of modifications may be provided on one loan and when multiple types of modifications occur within the same period, the combination of modification is reported separately.

During 2023, the Bank identified one loan in the commercial owner & non-owner occupied real estate category that was modified and considered to be an other-than-insignificant payment delay. The amortized cost value of this loan as of December 31, 2023, was $448,000, which represents 0.54% of the total commercial real estate category. This loan modification had a term extension of approximately 5.5 years, which resulted in payment reductions of approximately $23,400 annually. There were no payment defaults during the year ended December 31, 2023, for this modified loan account and the loan was not past due at year-end, December 31, 2023.

The Bank closely monitors the payment status and performance of modified loans to understand the effectiveness of its modification efforts. Upon the determination that all or a portion of a modified loan becomes uncollectible, that amount is charged against the allowance for credit losses.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Prior to the adoption of ASC 326

The following table reflects the detailed breakdown of impaired loans with and without a recorded allowance by loan class as of and for the year ended December 31, 2022 (in thousands):

Impaired Loans with a Recorded Allowance December 31, 2022	Recorded Investment	Unpaid Principal	Related Allowance	Average Recorded Investment	Interest Income Recognized
Residential Real Estate					
1-4 Family Residences	$ 1,099	$ 1,099	$ 87	$ 985	$ 58
Consumer					
Automobile Loans	16	16	12	9	1
Totals	$ 1,115	$ 1,115	$ 99	$ 994	$ 59

Impaired Loans without a Recorded Allowance December 31, 2022	Recorded Investment	Unpaid Principal	Average Recorded Investment	Interest Income Recognized
Construction & Land Loans				
Other – Land Only	$ 8	$ 8	$ 10	$ 2
Residential Real Estate				
Equity Lines of Credit	59	59	60	---
1-4 Family Residences	2,501	2,501	2,435	100
Commercial Real Estate				
Owner Occupied	1,834	1,834	1,099	140
Agricultural Loans	313	313	331	20
Totals	$ 4,715	$ 4,715	$3,935	$ 262

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6 LOANS: (continued)

Prior to the adoption of ASC 326

The following table represents loans 90 days delinquent and still accruing interest and loans in a nonaccrual status as of December 31, 2022 by loan class (in thousands):

	90 days past due & still accruing interest	Nonaccrual Loans
Residential Real Estate		
1-4 Family Residences	$ ---	$ 465
Commercial Real Estate		
Agricultural / Farm loans	---	79
Consumer – Non Real Estate		
Automobile loans	16	---
Totals Gross Loans	$ 16	$ 544

The following tables represent summaries of the Bank's loan portfolio by class and credit quality indicator as of December 31, 2022 (in thousands):

	Pass	Special Mention	Substandard	Doubtful	Loss	Total Loans
Construction & Land Loans						
Residential	$ 177	$ ---	$ ---	$ ---	$ ---	$ 177
Commercial	3,273	---	---	---	---	3,273
Other – Land only	4,021	---	8	---	---	4,029
Residential Real Estate						
Equity Lines of Credit	2,419	---	---	---	---	2,419
1-4 Family Residences	72,192	76	2,157	---	---	74,425
Multifamily Dwellings	5,886	---	---	---	---	5,886
Commercial Real Estate						
Owner & non-owner occupied	66,772	1,296	1,339	---	---	69,407
Agricultural / Farm loans	2,760	566	313	---	---	3,639
Municipals	302	---	---	---	---	302
Commercial – Non Real Estate						
Agricultural	425	---	---	---	---	425
Industrial	16,446	---	---	---	---	16,446
Municipals	3,121	---	---	---	---	3,121
Consumer – Non Real Estate						
Credit Cards	532	---	---	---	---	532
Automobile loans	19,597	---	74	---	---	19,671
Other personal loans	4,060	---	3	---	---	4,063
Totals Gross Loans	$201,983	$1,938	$ 3,894	$ ---	$ ---	$ 207,815

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7: ALLOWANCE FOR CREDIT LOSSES ON LOANS (ACL):

The summary table below includes the balance of the ACL by segment as of December 31, 2023, as well as a roll-forward representation of the activity that occurred in the ACL during the year ended December 31, 2023 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Total
ACL ending balance 12/31/2022	$ 52	$ 775	$ 744	$ 158	$ 388	$ 2,117
Adoption of CECL adjustment	(42)	(107)	(75)	18	363	157
Charge-offs	(4)	(5)	---	---	(1,025)	(1,034)
Recoveries	---	---	4	---	286	290
Provision	21	(35)	(77)	27	882	818
ACL ending balance 12/31/2023	$ 27	$ 628	$ 596	$ 203	$ 894	$ 2,348

Prior to the adoption of ASC 326

The summary table below includes the allowance (ALLL) allocations and total loans evaluated both individually and collectively for impairment as of December 31, 2022, as well as a roll-forward representation of the activity that occurred in the ALLL for the year ended December 31, 2022 (in thousands):

	Construction & Land Loans	Residential Real Estate	Commercial Real Estate	Commercial Non-Real Estate	Consumer Non-Real Estate	Total
ALLL ending balance 12/31/2021	$ 77	$ 828	$ 757	$ 132	$ 536	$ 2,330
Charge-offs	---	---	---	---	(287)	(287)
Recoveries	---	---	12	---	310	322
Provision	(25)	(53)	(25)	26	(171)	(248)
ALLL ending balance 12/31/2022	$ 52	$ 775	$ 744	$ 158	$ 388	$ 2,117
Evaluated individually for impairment	--	87	---	---	12	99
Evaluated collectively for impairment	52	688	744	158	376	2,018
Total gross loans 12/31/2022	$ 7,479	$ 82,730	$ 73,348	$ 19,992	$ 24,266	$ 207,815
Evaluated individually for impairment	8	3,659	2,147	---	16	5,830
Evaluated collectively for impairment	7,471	79,071	71,201	19,992	24,250	201,985

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8 BANK PREMISES and EQUIPMENT:

Bank premises, equipment and computer software included in the financial statements at December 31, 2023 and 2022 are as follows:

	2023	2022
	(In Thousands)	
Land	$ 1,491	$ 1,627
Land improvements and buildings	5,850	5,851
Furniture and equipment	4,710	4,676
Computer software	1,606	1,618
	13,657	13,772
Less accumulated depreciation	9,940	9,785
Net	$ 3,717	$ 3,987

Depreciation and amortization related to bank premises, equipment and software included in operating expense was $251,000 and $344,000 for December 31, 2023 and 2022, respectively.

NOTE 9 LEASES:

The Company leases an office property and may, from time to time, lease equipment used in its operations in the normal course of business. Leases greater than 12 months in duration are recorded in the consolidated balance sheets at the lease commencement date and are classified as either operating or finance leases based on the Company's assessment of the underlying agreement.

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

The Company currently has two long-term leases; a branch location in Charlottesville, Virginia, and a commercial loan office in Harrisonburg, Virginia. Both leases are reflected in the tables below. There are no options to renew included in either lease agreement. This lease agreement also does not provide for a residual value guarantee and has no restrictions or covenants that would impact dividends or require incurring additional financial obligations. The right-of-use asset and lease liability are included in other assets and accrued expenses and other liabilities, respectively, in the Consolidated Balance Sheets.

The following tables present information about the Company's operating leases:

(Dollars in thousands)	December 31, 2023	December 31, 2022
Lease Liability	$ 118	$ 56
Right-of-use asset	$ 118	$ 55
Weighted average remaining lease term	15.3 months	7.6 months
Weighted average discount rate	4.53%	3.11%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9 LEASES: (continued)

	For the Years Ended	
(Dollars in thousands)	December 31, 2023	December 31, 2022
Cash paid for amounts included in lease liabilities	$ 94	$ 81
Operating lease cost	$ 94	$ 81

A maturity analysis of operating lease liability and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

For the years ending December 31	Lease Payments Due (in thousands)
2024	$ 88
2025	34
Total undiscounted cash flows	$ 122
Discount	(4)
Lease liability	$ 118

NOTE 10 DEPOSITS:

The Bank's total deposit portfolio consists primarily of demand checking accounts, savings accounts and time deposit accounts. Total deposits were $263.8 million and $257.3 million as of December 31, 2023 and 2022, respectively. Customer time deposit balances that met or exceeded the $250,000 FDIC insurance limit totaled $30.1 million and $24.3 million as of December 31, 2023 and 2022, respectively. At December 31, 2023, time deposit scheduled maturities (in thousands) were as follows:

2024		$ 70,328
2025		4,003
2026		662
2027		1,467
2028		245
2029 & Beyond		245
	Total	$ 76,950

The Bank had two customers with large deposit balances exceeding 5% of total deposits as of December 31, 2023. The total deposit balances for these customers as of December 31, 2023 were $41.9 million or 15.9% of total deposits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11 BORROWINGS:

The Bank has a line of credit with the Federal Home Loan Bank of Atlanta upon which credit advances can be made up to 40% of total Bank assets, subject to certain eligibility requirements. The total credit availability as of December 31, 2023 was $94.7 million, with outstanding advances and letter of credit balances totaling $30.0 million. The net remaining availability as of December 31, 2023 was $64.7 million, subject to collateral requirements. Outstanding FHLB advances at December 31, 2023 consisted of three fixed rate advances in the amount of $22.5 million with a weighted interest rate of 3.89%. Additionally, the Bank had a letter of credit in the amount of $7.5 million which was pledged to secure public deposits. The $22.5 million advances require quarterly interest payments with the full amount of principal due at maturity in 2028. FHLB advances bear interest at a fixed or floating rate depending on the terms and maturity of each advance and numerous renewal options are available. At December 31, 2023, the Bank had $53.2 million of first lien 1-4 family residential mortgages, commercial real estate, multi-family and home equity line of credit loans pledged as collateral with $23.2 million in unused credit availability. On certain fixed rate advances, the FHLB may convert the advance to an indexed floating rate at some set point in time for the remainder of the term. If the advance converts to a floating rate, the Bank may repay all or part of the advance without a prepayment penalty. At December 31, 2022, the Bank had total outstanding advances of $2.5 million and a letter of credit of $7.0 million.

The Bank also has available unsecured credit lines with other correspondent banks totaling $21.0 million, which can be used for short-term liquidity purposes, if necessary. Any funds borrowed on these credit lines are required to be repaid within 7 to 30 business days. The interest rate on such borrowings is set in accordance with the then current daily market rate. As of December 31, 2023 and 2022, there were no outstanding borrowings against these credit facilities.

NOTE 12 DIVIDEND LIMITATION ON SUBSIDIARY BANK:

A principal source of funds of the Company is dividend transfers paid by the Bank. The amount of dividends the Bank may pay to the Company is regulated by the Federal Reserve. As of December 31, 2023, the maximum amount of dividends the Bank could pay to the Company was $6.2 million or 18.19% of the consolidated net assets, without requesting permission from the Federal Reserve Bank. There are additional regulatory guidelines, which establishes further limitations for banks based on quarterly earnings.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAXES:

The Company files income tax returns in the U.S. federal jurisdiction and the states of Virginia, West Virginia and North Carolina. With few exceptions, the Company is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for years prior to 2020. The components of income tax expense are as follows:

	2023	2022
	(In Thousands)	
Current income tax expense	$ 262	$ 497
Deferred income tax expense (benefit)	1	(63)
Income Tax Expense	$ 263	$ 434

The reasons for the differences between income tax expense and the amount computed by applying the statutory federal income tax rate are as follows:

	2023	2022
	(In Thousands)	
Income taxes computed at the applicable federal income tax rate	$ 453	$ 630
Increase (decrease) resulting from:		
Tax-exempt income and dividends	(20)	(11)
Low income housing investments	(186)	(219)
Other	16	34
Income Tax Expense	$ 263	$ 434

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13 INCOME TAXES: (continued)

At December 31, net deferred tax assets, included in other assets in the Consolidated Balance Sheets were comprised of the following:

	2023	2022
	(In Thousands)	
Deferred Tax Assets:		
Allowance for credit losses on loans	$ 425	$ 351
Lease liability	25	12
Nonaccrual interest	5	111
Securities available for sale	950	1,333
Deferred loan fees	84	55
Other	3	1
Total	$ 1,492	$1,863
Deferred Tax Liabilities:		
Depreciation	$ 51	$ 70
Right-of-use asset	25	12
Cash surrender value of life insurance	56	54
Goodwill	76	76
Equity securities	--	1
Other	28	45
Total	$ 236	$ 258
Net Deferred Tax Assets	$ 1,256	$ 1,605

NOTE 14 REGULATORY MATTERS:

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 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 assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The quantitative measures established by regulation ensure capital adequacy and require the Bank to maintain minimum amounts and ratios as set forth in the table below. In conjunction with the minimum capital requirements, the Bank is also required to maintain a capital conservation buffer which is intended to absorb losses during periods of financial and economic stress. Failure to maintain the minimum ratios, inclusive of the buffer, will result in restrictions on capital distributions and other payments. This buffer was 2.5% for all periods presented and is applicable for all ratios with the exception of the tier 1 leverage ratio. Management believes, as of December 31, 2023 and 2022, the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2023, the most recent notification from the Bank's primary federal regulator 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, Tier I risk-based, Common Equity Tier I, and Tier I leverage ratios as set forth in the table. The Bank's actual capital amounts and ratios are also presented in the following table:

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14 REGULATORY MATTERS: (continued)

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(in thousands)			
As of December 31, 2023:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	$ 37,028	15.65%	$ 18,926	≥ 8.0%	$ 23,657	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 34,763	14.69%	$ 14,194	≥ 6.0%	$ 18,926	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 34,763	14.69%	$ 10,646	≥ 4.5%	$ 15,377	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	$ 34,763	10.97%	$ 12,671	≥ 4.0%	$ 15,839	≥ 5.0%
As of December 31, 2022:						
Total Capital to Risk Weighted Assets:						
Pioneer Bank	$ 34,921	16.7%	$ 16,712	≥ 8.0%	$ 20,890	≥10.0%
Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 32,804	15.7%	$ 12,534	≥ 6.0%	$ 16,712	≥ 8.0%
Common Equity Tier I Capital to Risk Weighted Assets:						
Pioneer Bank	$ 32,804	15.7%	$ 9,401	≥ 4.5%	$ 13,579	≥ 6.5%
Tier I Capital to Average Assets:						
Pioneer Bank	$ 32,804	11.1%	$ 11,866	≥ 4.0%	$ 14,833	≥ 5.0%

NOTE 15 EARNINGS PER SHARE:

The following shows the weighted average number of shares used in computing earnings per share for the years ended December 31, 2023 and 2022.

	2023		2022	
	Weighted Average Shares	Per Share Amount	Weighted Average Shares	Per Share Amount
Basic and diluted earnings per share	988,963	$1.92	1,000,457	$ 2.57

There were no potentially dilutive securities outstanding during the years ended December 31, 2023 and 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16 OFF-BALANCE SHEET COMMITMENTS:

The contract or notional amount of financial instruments with off-balance sheet risks are as follows:

	December 31,	
	2023	2022
	(In Thousands)	
Unfunded lines of credit (commercial and personal)	$ 13,843	$ 14,973
Loan commitments and letters of credit (commercial and personal)	17,200	18,731
Credit card unused credit limits	1,929	1,963

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, 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. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the counter-party.

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit generally are un-collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments for which collateral is deemed necessary.

NOTE 17 TRANSACTIONS WITH RELATED PARTIES:

During the year, executive officers and directors (and companies controlled by them) were customers of and had transactions with the Company in the normal course of business. These transactions were made on substantially the same terms as those prevailing for other customers and did not involve any abnormal risk. Deposit account balances of executive officers, directors and their related interests totaled $28.7 million as of December 31, 2023 and $18.2 million for the year ended December 31, 2022. Loan transactions, including all extensions of credit to such related parties are shown in the following schedule:

	2023	2022
	(In Thousands)	
Total loans, beginning of year	$ 3,349	$ 3,329
New loans	1,231	107
Effect of change in composition of related parties	---	400
Payments	(16)	(487)
Total loans, end of year	$ 4,564	$ 3,349

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS:

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price (exit price) that would be received to sell an asset or paid to transfer the liability in the principal or most advantageous market for the asset or the liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company'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 fair value guidance provides a consistent definition of fair value, which focuses on exit price in the principal or most advantageous market for the asset or the liability and in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs.

In accordance with this guidance, the Company groups financial assets and financial liabilities generally measured at fair value into three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value.

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

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

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

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

Securities available for sale: Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices in active markets, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

Equity securities: Equity securities are recorded at fair value on a recurring basis. Fair values for equity securities are based upon quoted market prices for identical securities in active markets (Level 1) or quoted prices for identical securities in markets not deemed to be active due to the volume of shares transferred and frequency of trades (Level 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
NOTE 18 FAIR VALUE MEASUREMENTS (continued):

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

		Fair Value Measurements Using:		
Description	Balances Outstanding (In Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2023				
U.S. treasury securities	$ 4,966	$ ---	$ 4,966	$ ---
Mortgage-backed Securities	1,578	---	1,578	---
Agency securities	27,308	---	27,308	---
State & Municipals	14,166	---	14,166	---
Corporate securities	3,303	---	3,303	---
Total Available –for-sale securities	$ 51,321	$ ---	$ 51,321	$ ---
Equity Securities	$ 21	$ 13	$ 8	$ ---
As of December 31, 2022				
U.S. treasury securities	$ 14,670	$ ---	$ 14,670	$ ---
Mortgage-backed Securities	1,792	---	1,792	---
Agency securities	26,355	---	26,355	---
State & Municipals	16,057	---	16,057	---
Corporate securities	3,367	---	3,367	---
Total Available –for-sale securities	$ 62,241	$ ---	$ 62,241	$ ---
Equity Securities	$ 24	$ 16	$ 8	$ ---

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

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

Individually Evaluated Collateral-Dependent Loans: The estimated fair value of individually evaluated collateral-dependent loans is based on the value of the underlying collateral or the value of the underlying collateral, less estimated costs to sell, as appropriate. Collateral is generally real estate; however, collateral may include vehicles, equipment, inventory, accounts receivable, and/or other business assets. The value of real estate collateral is generally determined using a market valuation approach based on a full appraisal conducted by an independent, licensed appraiser or in certain circumstances for smaller properties, internal evaluations, tax assessments or other market value estimates. Estimates of selling costs, where applicable, are derived from the Company's prior experience in selling similar properties. The values of collateral other than real estate may also be based on an appraisal, market quotations, aging schedules, or other sources. Collateral-dependent individually evaluated loans are classified within Level 3 of the fair value hierarchy. Any fair value adjustments are recorded in the period incurred as a provision for credit losses on the Consolidated Statements of Income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) are measured at fair market value less selling expenses. Fair value of OREO properties held are generally based on current appraisal values, as previously defined above. There were no properties held in OREO at December 31, 2023 and 2022.

The following table summarizes the Company's assets that were measured at fair value on a nonrecurring basis during the period.

		Carrying values		
Description of Assets:	Balances Outstanding (In Thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2023				
Individually evaluated collateral-dependent loans	$ 42	$ ---	$ ---	$ 42
As of December 31, 2022				
Individually evaluated collateral-dependent loans	$ 1,016	$ ---	$ ---	$ 1,016

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2023 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) [1]
Assets				
Individually evaluated collateral-dependent loans	$ 42	Discounted appraised value or recent tax assessment values	Selling costs and discounts for age of the valuation and/or lack of marketability	44%

[1] Weighted based on the relative fair values of the instruments.

The following table displays quantitative information about Level 3 Fair Value Measurements for December 31, 2022 (dollars in thousands):

	Quantitative information about Level 3 Fair Value Measurements			
	Fair Value	Valuation Technique(s)	Unobservable Input	Range (Weighted Average) [1]
Assets				
Individually evaluated collateral-dependent loans	$ 1,016	Discounted appraised value or recent tax assessment values	Selling costs and discounts for age of the valuation and/or lack of marketability	35% - 38% (35%)

[1]Weighted based on the relative fair values of the instruments.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

FASB ASC 825, Financial Instruments, requires disclosure about fair value of financial statements, including those financial assets and financial liabilities that are not required to be measured at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts are presented in the following tables whether or not recognized on the Consolidated Balance Sheets at fair value.

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2023 are as follows:

		Fair Value Measurements at December 31, 2023 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Balance
Assets			(In thousands)		
Cash and cash equivalents	$3,462	$ 3,462	$ ---	$ ---	$3,462
Interest bearing deposits in other banks	19,058	18,908	---	150	19,058
Federal funds sold	538	538	---	---	538
Securities available for sale	51,321	---	51,321	---	51,321
Equity securities	21	13	8	---	21
Loans, net	237,445	---	---	233,138	233,138
Bank owned life insurance	490	---	490	---	490
Accrued interest receivable	1,062	---	1,062	---	1,062
Liabilities					
Non-interest bearing deposits	89,678	---	89,678	---	89,678
Interest bearing demand deposits	50,124	---	50,124	---	50,124
Savings deposits	47,003	---	47,003	---	47,003
Time deposits	76,950	---	---	78,118	78,118
Borrowings	22,500	---	20,131	---	20,131
Accrued interest payable	851	---	851	---	851

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 18 FAIR VALUE MEASUREMENTS (continued):

The carrying values and estimated fair values of the Company's financial instruments as of December 31, 2022 are as follows:

		Fair Value Measurements at December 31, 2022 using			
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value Balance
Assets		(In thousands)			
Cash and cash equivalents	$3,998	$ 3,998	$ ---	$ ---	$3,998
Interest bearing deposits in other banks	11,305	10,553	---	736	11,289
Federal funds sold	475	475	---	---	475
Securities available for sale	62,241	---	62,241	---	62,241
Equity securities	24	16	8	---	24
Loans, net	205,698	---	---	207,501	207,501
Bank owned life insurance	473	---	473	---	473
Accrued interest receivable	930	---	930	---	930
Liabilities					
Non-interest bearing deposits	95,767	---	95,767	---	95,767
Interest bearing demand deposits	62,517	---	62,517	---	62,517
Savings deposits	46,268	---	46,268	---	46,268
Time deposits	52,794	---	---	52,932	52,932
Borrowings	2,500	---	2,296	---	2,296
Accrued interest payable	221	---	221	---	221

NOTE 19 BENEFIT PLANS:

The Bank has a 401(k) Plan available to employees at least 18 years of age on the first day of the month following their start date. Employees may contribute compensation subject to certain limits based on federal tax laws. The Bank makes matching contributions up to 4% of an employee's eligible annual compensation, subject to employee contributions. The employer match calculation is 100% match on the first 3% employee contribution, then 50% match on the next 2%, up to 4% maximum. Additional amounts may be contributed, at the option of the Bank's Board of Directors. Prior to January 1, 2021, the Bank's contributions to the 401(k) Plan were in a Profit Sharing Plan. Contributions made on or after January 1, 2021 were in a Safe Harbor Plan. Employer contributions in the Profit Sharing Plan vest to the employee at 100% after six years of service. Employer contributions in the Safe Harbor Plan vest to the employee immediately. Total expense attributable to this 401(k) plan amounted to approximately $106,000 and $105,000 for years ending December 31, 2023 and 2022.

The Bank also provides a cafeteria insurance plan including medical, life, and long-term disability coverage for eligible employees. The net expense attributable to this insurance plan was approximately $385,000 and $346,000, for the years ending December 31, 2023 and 2022, respectively.

NOTE 20 LOW INCOME HOUSING TAX CREDIT INVESTMENTS:

The Bank has invested in seven separate housing equity funds at December 31, 2023. The general purpose of these funds is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The investments in these funds were recorded as other assets on the consolidated balance sheets and were $798,000 and $1.0 million at December 31, 2023 and 2022, respectively. The expected terms of these investments and the related tax benefits run through 2034. Tax credits and other tax benefits recognized as a component of income tax expense during the years ended December 31, 2023 and 2022 were $186,000 and $219,000 respectively, related to these investments. There are no additional capital calls included in other liabilities as of December 31, 2023 and 2022.

NOTE 21 REVENUE RECOGNITION:

Substantially all of the Company’s revenue from contracts with customers that is within the scope of ASC 606, “Revenue from Contracts with Customers” is reported within noninterest income. The recognition of interest income and certain sources of noninterest income (e.g. gains on sales of securities available for sale, change in fair value of equity securities, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in noninterest income are discussed in the following paragraphs.

Service Charges on Deposit Accounts

The majority of the company’s noninterest income is derived from short term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM and interchange fees, and fees for various services such as stop payments, wire transfers, and cashiers checks. The Company’s performance obligations on revenue generated from deposit accounts and other related services are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized. The company earns interchange fees from debit and credit cardholder transactions conducted through the Visa and MasterCard payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are generally recognized daily, concurrently with the transaction processing services provided to the cardholder.

Commission Income

Commissions are primarily received on the brokerage of investment and insurance services to customers. Brokerage fee commissions are earned when a financial instrument trade is completed or an insurance contract is signed. Revenue from these services is recognized monthly.

Gains and Losses on the Sale of Other Real Estate Owned

The Company records a gain or loss from the sale of other real estate owned (“OREO”) when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. There was $9 thousand in gains on the sale of other real estate owned included in other income on the Consolidated Statements of Income for the year ended December 31, 2023. There were no gains or losses on the sale of other real estate owned for the year ended December 31, 2022.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 21 REVENUE RECOGNITION (continued):

Noninterest income disaggregated by major source, for the years ended December 31, 2023 and 2022, consisted of the following:

Noninterest income (in thousands):	Years Ended December 31, 2023	Years Ended December 31, 2022
Service charges on deposit accounts [1]:		
Overdrawn account and nonsufficient funds charges	$ 346	$ 414
ATM fees	816	766
Monthly service charges	106	103
Other service charges	20	19
Commission income [1]	70	69
Gain on sale of other investment	93	1,442
(Loss) gain on sales and disposals of fixed assets [1]	(136)	316
Change in fair value of equity securities	(3)	(312)
Loss on sale of securities available for sale	---	(715)
Other operating income [2]	100	86
Total noninterest income	$ 1,412	$ 2,188

[1] Income within the scope of Topic 606.
[2] For the years ended December 31, 2023 and 2022, includes other income within the scope of Topic 606 amounting to $84 thousand and $69 thousand, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS:

BALANCE SHEETS

	December 31, 2023	December 31, 2022
	(In Thousands)	
ASSETS		
Cash and cash equivalents	$ 2,191	$ 3,711
Investment in subsidiary	31,451	28,150
Equity securities, at fair value	21	24
Bank premises and equipment, net	305	329
Other assets	287	123
Total Assets	$ 34,255	$ 32,337
LIABILITIES		
Accrued expenses and other liabilities	$ 8	$ 7
Total Liabilities	8	7
STOCKHOLDERS' EQUITY		
Common stock	496	502
Retained earnings	37,325	36,842
Accumulated other comprehensive loss	(3,574)	(5,014)
Total Stockholders' Equity	34,247	32,330
Total Liabilities and Stockholders' Equity	$ 34,255	$ 32,337

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF INCOME

	December 31, 2023	December 31, 2022
	(In Thousands)	
INCOME		
Dividends from subsidiary	$ ---	$ 550
Interest income	---	3
Dividend income	1	1
Change in fair value of equity securities	(3)	(312)
Rent income	82	82
Total Income	80	324
EXPENSES		
Compensation expense	91	78
Occupancy expenses	37	34
Other operating expenses	55	50
Total Expenses	183	162
Net (loss) income before income tax (benefit) and undistributed income of subsidiary	(103)	162
INCOME TAX (BENEFIT)	(8)	(47)
Net (loss) income before undistributed income of subsidiary	(95)	209
Undistributed income of subsidiary	1,991	2,358
NET INCOME	$ 1,896	$ 2,567

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 PARENT CORPORATION ONLY FINANCIAL STATEMENTS: (continued)

STATEMENTS OF CASH FLOWS

	December 31, 2023	2022
	(In Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,896	$ 2,567
Adjustments to reconcile net income to net cash (used in)provided by operating activities:		
Undistributed subsidiary income	(1,991)	(2,358)
Fair value adjustment on equity securities	3	312
Depreciation	24	24
Net change in:		
Other assets	49	268
Accrued expenses and other liabilities	1	(121)
Net Cash (Used In) Provided by Operating Activities	(18)	692
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities	---	3,791
Purchase of bank premises and equipment	---	(11)
Net Cash Provided by Investing Activities	---	3,780
CASH FLOWS FROM FINANCING ACTIVITIES:		
Retirement of stock	(513)	---
Dividends paid	(989)	(971)
Net Cash (Used in) Financing Activities	(1,502)	(971)
Net (Decrease) Increase in Cash and Cash Equivalents	(1,520)	3,501
Cash and Cash Equivalents, Beginning of Year	3,711	210
Cash and Cash Equivalents, End of Year	$ 2,191	$ 3,711