Bancorp 34, Inc.

Consolidated Financial Statements (As Restated)

For the Fiscal Years Ended December 31, 2022, and 2021

CONTENTS

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors
Bancorp 34, Inc.

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Bancorp 34, Inc. (the "Company") as of December 31, 2022 and 2021; the related consolidated statements of comprehensive income, changes in shareholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2022; and the related notes (collectively referred to as the "financial statements"). In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021 and the results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2022 in conformity with accounting principles generally accepted in the United States of America.

Correction of Errors

As discussed in Note 19 to the financial statements, the 2022 and 2021 financial statements have been restated to correct misstatements. The previously issued 2022 and 2021 financial statements, which have been restated, were audited by other auditors whose report dated April 7, 2023 on those financial statements was unqualified.

Basis for Opinion

The Company's management is responsible for these financial statements. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

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Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from both the December 31, 2022 and 2021 audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

The critical audit matter communicated below is a matter arising from both the December 31, 2022 and 2021 audit of the financial statements that was communicated or required to be communicated to the audit committee and that (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Loan Losses - Significant Qualitative Adjustments in Collectively Evaluated Reserves - Refer to Notes 1 and 3 to the Financial Statements

Critical Audit Matter Description

As described in Notes 1 and 3 to the consolidated financial statements, the general component of the allowance covers nonimpaired loans and has a quantitative component (historical loss) and a qualitative component (current risk factors). The current qualitative risk factors include consideration of the following: changes in lending policies and underwriting standards; changes in economic conditions; changes in nature and volume of loans; changes in the depth of lending staff; changes in the volume and severity of past due, nonaccrual and adversely classified loans; changes in the levels and trends of charge-offs and recoveries; changes in the quality of the loan review system; changes in concentrations of credit; and the effects of other external factors, such as competition and legal and regulatory requirements.

We identified the Company's qualitative adjustments to historical loss experience within the collectively evaluated reserve of the allowance for loan losses as a critical audit matter. Given the significant estimates and assumptions management makes to estimate these adjustments for collectively evaluated reserves, performing audit procedures to evaluate the reasonableness of management's estimates and assumptions required a high degree of auditor judgment.

How the Critical Audit Matter Was Addressed in the Audit

Our audit procedures related to the qualitative adjustments to historical loss experience within the collectively evaluated allowance included the following, among others:

- We obtained an understanding of management's process for determining the need for qualitative factor adjustments identifying appropriate factors and measuring the direction and magnitude of the adjustment.
- We evaluated the design of controls over the application of management's qualitative factor methodology in the estimate of collectively evaluated allowance.
- We evaluated management's rationale for determining qualitative adjustments were relevant and warranted for each loan segment and assessed the measurement of qualitative factor adjustments applied by management.
- Where applicable, we tested the accuracy and completeness of data used by management in the measurement of qualitative factor adjustments or vouched factors to relevant external data sources.
- We assessed changes in year-over-year qualitative factors against overall trends in credit quality within the Company and broader trends within the industry and local and national economies to evaluate reasonableness of management's qualitative factor adjustments.

Plante & Moran, PLLC

We have served as the Company's auditors since 2023.

Denver, Colorado
July 7, 2023

BANCORP 34, INC.
CONSOLIDATED BALANCE SHEETS (AS RESTATED)
(In thousands, except share data)

	As Restated December 31, 2022	As Restated December 31, 2021
ASSETS		
Cash and due from banks	$ 16,112	$ 7,231
Fed funds sold	835	8,270
Total cash and cash equivalents	16,947	15,501
Available for sale securities, at fair value	58,582	67,917
Held to maturity securities, at amortized cost	5,832	5,365
Loans held for investments	463,360	415,624
Allowance for loan losses	(4,778)	(5,328)
Loans held for investment, net	458,582	410,296
Premises and equipment, net	8,077	7,966
Operating lease right-of-use assets	2,067	426
Other investments	1,277	1,786
Accrued interest receivable	1,505	1,354
Deferred income tax asset, net	4,924	3,100
Bank owned life insurance	11,598	11,360
Prepaid and other assets	4,949	2,938
Total Assets	$ 574,340	$ 528,009
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits		
Demand deposits	$ 102,699	$ 100,118
Savings and NOW deposits	311,395	283,115
Time deposits	73,493	54,549
Total deposits	487,587	437,782
Federal Home Loan Bank advances	5,000	19,000
Subordinate debt, net of issuance costs	24,531	24,447
Escrows	179	201
Operating lease liabilities	2,153	468
Accrued interest and other liabilities	5,652	5,441
Total Liabilities	525,102	487,339
Stockholders' Equity:		
Preferred stock, $0.01 par value:		
Authorized – 50,000,000 shares		
Issued and outstanding – 521,849 and 0		
On December 31, 2022, and 2021, respectively	5	-
Common stock, $0.01 par value:		
Authorized – 100,000,000 shares		
Issued and outstanding – 3,032,606 and 2,523,398		
On December 31, 2022, and 2021, respectively	30	25
Additional paid-in capital	28,369	14,647
Retained earnings	29,013	28,383
Accumulated other comprehensive (loss) income, net	(6,773)	(920)
Unearned Employee Stock Ownership Plan (ESOP) shares	(1,406)	(1,465)
Total Stockholders' Equity	49,238	40,670
Total Liabilities and Stockholders' Equity	$ 574,340	$ 528,009

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (AS RESTATED)
(In thousands, except per share data)

	As Restated	
	Year Ended December 31,	
	2022	2021
Interest income:		
Interest and fees on loans	$ 21,818	$ 19,472
Interest on securities	1,650	1,355
Interest on other interest-earning assets	293	53
Total interest income	23,761	20,880
Interest expense:		
Interest on deposits	3,684	1,485
Interest on borrowings	1,630	677
Total interest expense	5,314	2,162
Net Interest Income	18,447	18,718
Provision for loan losses	2,420	500
Net Interest Income After Provision for Loan Losses	16,027	18,218
Non-interest income:		
Gain on sale of loans	-	240
Gain on sale of securities	-	202
Service charges and fees	391	324
Bank owned life insurance	357	359
Loss on disposal and impairment of fixed assets	(25)	(15)
Other	(59)	185
Total non-interest income	664	1,295
Non-interest expense:		
Salaries and employee benefits	9,210	8,341
Occupancy	1,292	1,325
Data processing fees	2,107	1,967
FDIC and other insurance expense	427	231
Professional fees	525	499
Advertising	89	112
Other	1,652	1,112
Total non-interest expense	15,302	13,587
Income before provision for income taxes	1,389	5,926
Provision for Income tax	59	1,291
Net Income	$ 1,330	$ 4,635
Other Comprehensive Income (Loss)		
Other comprehensive (loss)	$ (7,868)	$ (1,742)
Tax effect of other comprehensive (loss)	2,015	433
Other comprehensive income (loss), net of tax	$ (5,853)	$ (1,309)
Comprehensive Income (Loss)	$ (4,523)	$ 3,326
Earnings per common share – Basic	$ 0.56	$ 1.69
Earnings per common share – Diluted	$ 0.56	$ 1.69

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (AS RESTATED)
(In thousands, except number of shares and per share data)

As Restated	Common Shares	Series A Preferred Shares	Common Stock	Series A Preferred Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net	Unearned ESOP Shares	Total
Balance on December 31, 2020	**3,137,573**	**-**	**$ 31**	**$ -**	**$ 22,811**	**$ 24,325**	**$ 388**	**$ (1,522)**	**$ 46,033**
Net income for 2021	-	-	-	-	-	4,635	-	-	4,635
Other comprehensive loss on AFS Securities	-	-	-	-	-	-	(1,347)	-	(1,347)
Defined benefit plan	-	-	-	-	-	-	39	-	39
Restricted stock awards	2,500	-	-	-	-	-	-	-	-
Restricted stock forfeiture	(6,800)	-	-	-	-	-	-	-	-
Amortization of equity awards	-	-	-	-	329	-	-	57	386
Repurchase of common stock	(609,875)	-	(6)	-	(8,493)	-	-	-	(8,499)
Dividends paid – $0.20 per share	-	-	-	-	-	(577)	-	-	(577)
Balance on December 31, 2021	**2,523,398**	**-**	**$ 25**	**$ -**	**$ 14,647**	**$ 28,383**	**$ (920)**	**$ (1,465)**	**$ 40,670**
Net income for 2022	-	-	-	-	-	1,330	-	-	1,330
Other comprehensive loss on AFS Securities	-	-	-	-	-	-	(7,161)	-	(7,161)
Defined benefit plan	-	-	-	-	-	-	1,308	-	1,308
Restricted stock awards	9,500	-	-	-	-	-	-	-	-
Restricted stock forfeiture	(7,439)	-	-	-	-	-	-	-	-
Amortization of equity awards	-	-	-	-	292	-	-	59	351
Repurchase of common stock	(5,297)	-		-	(78)	-	-	-	(78)
Stock option exercise	1,036	-	-	-	-	-	-	-	-
Issuance of common stock, net of issuance cost	511,408	-	5	-	6,207	-	-	-	6,212
Issuance of Series A preferred stock	-	521,849	-	5	7,301	-	-	-	7,306
Dividends paid – $0.28 per share	-	-	-	-	-	(700)	-	-	(700)
Balance on December 31, 2022	**3,032,606**	**521,849**	**$ 30**	**$ 5**	**$ 28,369**	**$ 29,013**	**$ (6,773)**	**$ (1,406)**	**$ 49,238**

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

BANCORP 34, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS (AS RESTATED)
(In thousands)

	As Restated Year ended December 31, 2022	As Restated Year ended December 31, 2021
Cash Flows from Operating Activities		
Net income	$ 1,330	$ 4,635
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	489	472
Stock dividends on financial institution stock	(47)	(7)
Amortization of premiums and discounts on securities, net	349	377
Amortization of equity awards	351	386
Amortization of core deposit intangible	-	98
Gain on sale of loans	-	(240)
Proceeds from sale of loans	5,002	2,639
Gain on sale of securities	-	(202)
Provisions for loan losses	2,420	500
Fixed asset impairments	-	40
Net appreciation on bank-owned life insurance	(238)	(249)
Deferred income tax expense (benefit)	191	(554)
Changes in operating assets and liabilities		
Accrued interest receivable	(151)	304
Prepaid and other assets	(148)	(1,575)
Accrued interest and other liability	213	562
Net cash from operating activities	9,761	7,186
Cash Flows from Investing Activities		
Proceeds from calls, sales, or principal payments on available-for-sale securities	7,475	17,236
Purchases of available-for-sale securities	(8,060)	(38,165)
Proceeds from calls, sales, or principal payments on held-to-maturity securities	-	-
Purchases of held-to-maturity securities	(500)	-
Net (purchase) redemptions of stock in financial institutions	556	(454)
Net change in loans held for investment	(55,709)	(64,450)
Proceeds from disposals of premises and equipment	84	33
Purchases of premises and equipment	(684)	(207)
Net cash from investing activities	(56,838)	(86,007)
Cash Flows from Financing Activities		
Net change in deposits	49,805	67,032
Net change in escrows	(22)	(67)
Proceeds from Federal Home Loan Bank advances	712,500	76,001
Repayments of Federal Home Loan Bank advances	(726,500)	(76,001)
Proceeds from subordinated debt issuance, net of costs	-	24,447
Common stock repurchases	(78)	(8,499)
Common stock issuance, net	6,212	-
Preferred stock issuance, net	7,306	-
Payment of dividends	(700)	(577)
Net cash from financing activities	48,523	82,336
Net Change in Cash and Cash Equivalents	1,446	3,515
Cash and cash equivalents, beginning of period	15,501	11,986
Cash and Cash Equivalents, end of period	$ 16,947	$ 15,501
Supplemental Disclosures		
Interest on deposits and borrowings paid	$ 5,181	$ 2,229
Income taxes paid	$ 998	$ 1,986
Loans transferred to loans held for sale	$ -	$ 2,399
Operating lease assets recorded	$ 2,128	$ -
Operating lease liabilities recorded	$ 2,128	$ -

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

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

Bancorp 34, Inc. ("Bancorp 34" or the "Company") is a Maryland corporation organized in 2016 to be the successor to Alamogordo Financial Corp ("AFC"), a savings and loan holding company, upon completion of the October 2016 second-step conversion of Bank 34 (the "Bank") from the two-tier mutual holding company structure to the stock holding company structure. Bancorp 34 owns 100% of the Bank.

The Bank provides a variety of banking services to individuals and businesses through its full-service branches in Scottsdale, Arizona as well as Alamogordo and Las Cruces, New Mexico.

Basis of Presentation – The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). These financial statements have been restated to correct errors for the years ended December 31, 2022, and December 31, 2021. Please refer to Note 19 for additional information regarding the restatements.

Basis of Consolidation – The Consolidated Financial Statements include the accounts of Bancorp 34 and the Bank. All significant intercompany accounts and transactions have been eliminated.

Reclassifications – Certain reclassifications have been made to prior period's financial information to conform to the current period presentation. Reclassifications had no effect on Equity or Net Income.

Use of Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Significant estimates include, but are not limited to, allowance for loan losses and fair value of investment securities.

Subsequent Events - Subsequent events have been evaluated through the date The Consolidated Financial Statements were issued.

Cash and Cash Equivalents – Cash and cash equivalents include cash, due from banks, and federal funds sold. Generally, the Company considers all highly-liquid instruments with original maturities of three months or less to be cash equivalents. In monitoring credit risk associated with deposits in other banks, the Bank periodically evaluates the stability of the correspondent financial institutions. Banks may be required to maintain reserve funds in cash or on deposit with the Federal Reserve Bank. No reserves were required at December 31, 2022, or December 31, 2021.

Securities – If management has the intent and the Company has the ability at the time of purchase to hold securities until maturity, they are classified as held-to-maturity and carried at amortized historical cost. Securities to be held for an undeterminable period of time and not intended to be held until maturity are classified as available-for-sale and carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss, net of tax. Securities classified as available-for-sale include securities that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in interest rates, prepayment risk, and other factors. Management determines the appropriate classification of securities at the time of purchase but may reassess the classification.

Net purchase premiums and discounts on securities are recognized in interest income using the level yield method over the estimated life of the security. Premiums are amortized to the earliest call date. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method. Securities are written down to fair value and reflected as a loss

Loans Held for Sale – Loans held for sale includes one- to four-family residential real estate loans, and periodically, a portion of Small Business Administration ("SBA") or United States Department of Agriculture (USDA) loans the Bank intends to sell. They are carried at fair value. Gains and losses on the sale of mortgage loans are recognized upon sale and are determined by the difference between the sales proceeds and carrying value of the loans. Net unrealized losses, if any, are recorded as a valuation allowance and charged to operations. There were no loans held for sale at December 31, 2022, or 2021.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Held for Investment, Net – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances reduced by any charge-offs and net of any deferred fees or costs. Loans are considered past due or delinquent based on the contractual terms in the loan agreement and how recently repayments have been received. Interest income is recognized based upon principal amounts outstanding. The accrual of interest is discontinued at the time the loan is 90 days past due or when, in the opinion of management, there is doubt about the ability of the borrower to pay interest or principal, unless the credit is well secured and in process of collection. Interest previously accrued but uncollected on such loans is reversed and charged against current income. Subsequent interest collected on such loans is credited to loan principal if, in the opinion of management, collectability of principal is doubtful; otherwise, the interest collected is recognized as income and resumption of interest accruals may occur. Loans are charged-off as uncollectible when, in the opinion of management, collectability of principal is improbable. Personal loans are typically charged off when no later than 180 days past due.

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 allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb probable credit losses inherent in the loan portfolio. The allowance consists of specific and general components. Allowances for impaired loans are generally determined based on collateral values or the present value of estimated cash flows and make up the specific component of the reserve. Because of uncertainties associated with regional economic conditions, collateral values, and future cash flows on impaired loans, it is reasonably possible that management's estimate of probable credit losses inherent in the loan portfolio and the related allowance may change materially in the near-term. The general component of the allowance covers non-impaired loans and has a quantitative component (historical loss) and a qualitative component (current risk factors). The current qualitative risk factors include consideration of the following: changes in lending policies and underwriting standards; changes in economic conditions; changes in nature and volume of loans; changes in the depth of lending staff; changes in the volume and severity of past due, non-accrual and adversely classified loans; changes in the levels and trends of charge offs and recoveries; changes in the quality of the loan review system; changes in concentrations of credit; and, the effects of other external factors such as competition and legal and regulatory requirements. The allowance is increased by a provision for loan losses, which is charged to expense and reduced by charge-offs, net of recoveries.

Premises and Equipment – Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are computed using the straight-line method in amounts sufficient to relate the cost of depreciable assets to operations over the estimated useful lives of the assets which range from three to seven years for equipment and fifteen to forty years for leasehold improvements and buildings. Maintenance and repairs that do not extend the useful lives of premises and equipment are charged to expense as incurred.

Leases – Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Other Investments – The Bank has investments in The Independent Bankers Bank (TIB), Pacific Coast Bankers' Bancshares (PCBB) and the Federal Home Loan Bank (FHLB) of Dallas. The Bank is a member of FHLB system. The Bank is required to maintain minimum levels of FHLB stock-based on various factors, including the amount of borrowings outstanding, mortgage assets, and the Bank's total assets. Financial institution stock is carried at cost, is classified as a restricted security, and is periodically evaluated for impairment based on ultimate recovery. The carrying value of financial institution stocks at December 31, 2022, and 2021, was $963,000 and $1,786,000, respectively. Cash and stock dividends are recorded in Other Income in the Consolidated Statement of Comprehensive Income.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The Company invested in the Castle Creek Launchpad Fund I, LP in April 2022. The Company has committed to fund up to $2 million over a 4-year funding period. As of December 31, 2022, the investment totals $315,000. Given that the fund has limited seasoning from a time and investment dollar perspective, the investment in the fund is being carried at cost.

Transfers of Financial Assets – Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Bank Owned Life Insurance (BOLI) – The Bank holds BOLI representing life insurance on the lives of certain current and former officers and directors of the Bank purchased in order to help offset the costs of the Bank's benefit expenses. BOLI is carried on our consolidated balance sheets at the net cash surrender value of the policies and increases in the net cash surrender value are recorded in noninterest income in the consolidated statements of comprehensive income (loss) as bank owned life insurance income.

Other Real Estate Owned – Other real estate owned is comprised of properties acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure. These properties are initially recorded at fair value, less estimated cost to sell at the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed by management; other real estate owned is carried at the lower of the carrying amount or fair value, less the estimated cost to sell. Expenses, gains and losses on disposition, and reductions in carrying value are reported as non-interest expense. There was no other real estate owned as of December 31, 2022 or 2021.

Fair Value Measurements – Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. A three-level fair value hierarchy prioritizes the inputs used to measure fair value:

> **Level 1 –** Quoted prices in active markets for identical assets or liabilities; includes certain U.S. Treasury and other U.S. Government agency debt that is highly-liquid and is actively traded in over-the-counter markets.
>
> **Level 2 –** Inputs that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
>
> **Level 3 –** Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Escrow Accounts – Funds collected from loan customers for insurance, real estate taxes and other purposes are maintained in escrow accounts and carried as a liability in the Consolidated Balance Sheets. These funds are periodically remitted to the appropriate entities to satisfy those claims.

Financial Instruments with Off-Balance-Sheet Risk – In the ordinary course of business, the Bank enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

instruments are recorded in The Consolidated Financial Statements when they are funded or related fees are incurred or received. The credit risk associated with these instruments is evaluated using the same methodology as for loans held for investment.

Advertising Cost – The Bank conducts direct and non-direct response advertising and purchases prospective customer lists from various sources. These costs are expensed as incurred. Advertising costs from continuing operations for the years ended December 31, 2022, and 2021 were $89,000 and $112,000, respectively.

Employee Stock Ownership Plan (ESOP) – The Bank sponsors an internally leveraged ESOP. The cost of shares issued to the ESOP but not yet released is shown as unearned employee stock ownership plan (ESOP) shares, an element of stockholders' equity in our consolidated balance sheets. As shares are committed to be released, compensation expense is recorded equal to the market price of the shares, and the shares become outstanding for purposes of earnings per share calculations. To the extent that the fair value of ESOP shares committed differs from the cost of such shares, the difference is charged or credited to additional paid-in capital in stockholders' equity.

Cash dividends on unallocated ESOP shares may be used to make payments on the ESOP loan and may be allocated to participant accounts in proportion to their account balances. Cash dividends paid on allocated shares are recorded as a reduction of retained earnings and, at the direction of the employer may be: a) credited directly to participant accounts in proportion to their account balances, or b) distributed directly to participants (outside the plan) in proportion to their account balances, or c) used to make payments on the ESOP loan requiring the release of shares with at least a similar fair market value be allocated to participant accounts. In addition, participants have the right to receive an immediate distribution of their vested cash dividends paid on shares of common stock credited to their accounts.

Other Stock-Based Compensation – The Company has stock-based compensation plans which provide for the award of various benefits to Directors and employees, including restricted stock and options to purchase stock. Each restricted stock award is separated into vesting tranches and compensation expense is recognized based on the fair value at the date of grant for each tranche on a straight-line basis over the vesting period reduced for estimated forfeitures. Cash dividends on unvested restricted shares are charged to compensation expense. The fair value of stock option awards granted is estimated using the Black-Scholes-Merton option pricing model using inputs including the option exercise price and risk-free rate of return, and assumptions for expected dividend yield, expected stock price volatility and the expected life of the awards. The closing market price of the Company's stock on the date of grant is the exercise price for the stock options and the estimated fair value of the restricted stock awards. Expense is recognized over the required service period, defined as the vesting period. For awards with graded vesting, expense is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize expense net of actual forfeitures.

Income Taxes – Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized. Accrued interest and penalties associated with uncertain tax positions are recognized as part of the income tax provision. The Company has no uncertain tax provisions.

Employee Retention Credit – The Company qualified for identified refunds based upon federal laws that allow an eligible employer to obtain a refundable employment tax credit under Section 2301 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), as amended by Taxpayer Certainty and Disaster Tax Relief Act of 2020 (Relief Act), enacted December 27, 2020, the American Rescue Plan Act of 2021 (ARP Act), enacted March 11, 2021, and the Infrastructure Investment and Jobs Act (Infrastructure Act), enacted November 15, 2021, if they experienced a significant decline in gross receipts or more than a nominal portion of its business operations are impacted by a governmental order. The company recorded a net benefit of $547,000 which offset salary and benefit expenses in 2022. An additional $254,000 is held as deferred income and included in the Accrued interest and other liabilities section of the balance sheet, given its uncertain nature and will be held as such until the five-year statute of limitations has elapsed.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Comprehensive Income (Loss) – Comprehensive income (loss) consists of net income (loss), net unrealized gains and losses on securities available-for-sale (net of taxes), and accumulated other comprehensive income related to the Bank 34 Defined Benefit Retirement Plan (AOCI related to Bank 34 DB Plan), net of taxes. The table below shows a summary of each item as well as its contribution to total comprehensive income (loss).

As Restated

Components of Accumulated Other Comprehensive Income (Loss)	December 31, 2022	December 31, 2021
Available-for-sale investments unrealized gain (loss)	$ (9,090)	$ 512
Tax effect	2,317	(124)
Net available-for-sale investments unrealized gain (loss)	(6,773)	388
AOCI related to Bank 34 DB Plan	-	(1,735)
Tax effect	-	427
Net AOCI related to Bank 34 DB Plan	-	(1,307)
Combined AOCI	(9,090)	(1,222)
Tax Effect	2,317	302
Total	$ (6,773)	$ (920)

Earnings per Common Share - Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. ESOP shares are considered outstanding for this calculation unless unearned. Maryland corporate law does not provide for treasury shares; therefore, shares repurchased are removed from issued and outstanding immediately and would not be considered outstanding. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation. Diluted earnings per common share include the dilutive effect of additional potential common shares issuable under stock options. Earnings per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements. The two-class method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared (or accumulated) and participation rights in undistributed earnings as if all such earnings had been distributed during the period.

Recent Accounting Guidance That Has Not Yet Been Adopted - The following new accounting standards have yet to be adopted by the Company but may have an impact on financial statements once implemented.

ASU 2022-02, Financial Instruments – Credit Losses (Topic 326) – Troubled Debt Restructurings and Vintage Disclosures

Description - This Update eliminates the recognition and measurement guidance for troubled debt restructurings ("TDRs") by creditors in ASC 310-40. This Update also enhances disclosure requirements for certain loan restructurings by creditors when a borrower is experiencing financial difficulty. Specifically, rather than applying the recognition and measurement guidance for TDRs, an entity will apply the loan refinancing and restructuring guidance to determine whether a modification or other form of restructuring results in a new loan or a continuation of an existing loan. Additionally, the amendments in this ASU require a public business entity to disclose current-period gross write-offs by year of origination for financing receivables and net investments in leases in the existing vintage disclosures.

Date of Adoption - The amendments in this Update are effective for entities that have adopted the amendments in Update 2016-13 for fiscal years beginning after December 15, 2022.

Effect on the Consolidated Financial Statements - The adoption of this standard is expected to have a material effect on the Company's financial statements.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 1 – NATURE OF OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(ASU) 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments

Description - The FASB issued Topic 326 to replace the incurred loss model for loans and other financial assets with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in certain leases recognized by a lessor. In addition, the amendments in Topic 326 require credit losses on available-for-sale to be presented as a valuation allowance rather than as a direct write-down on.

Date of Adoption - The standard will be effective for all entities, including SEC filers identified as smaller reporting companies, and nonpublic business entities for fiscal years beginning after December 15, 2022.

Effect on the Consolidated Financial Statements - The adoption of this standard is expected to have an impact on the Company's operating results as the additional reserves required by the expected loss model will be adjusted through equity at adoption. The adjustment will have a material impact on the company's financial statements with an expected increase in overall reserves.

NOTE 2 – SECURITIES

Available-for-sale and held-to-maturity securities have been classified in the consolidated balance sheets according to management's intent on December 31, 2022, and 2021. The amortized cost of such securities and their approximate fair values were as follows:

Available-for-sale, December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$ 39,709	$ -	$ (5,177)	$ 34,532
U.S. Treasuries	3,083	-	(366)	2,717
U.S. Government Agencies	396	-	(26)	370
Municipal Obligations	23,500	-	(3,349)	20,151
Corporate debt	1,000	-	(188)	812
Total	$ 67,688	$ -	$ (9,106)	$ 58,582

Held-to-maturity, December 31, 2022	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Corporate debt	$ 5,832	$ 9	$ (409)	$ 5,432
Total	$ 5,832	$ 9	$ (409)	$ 5,432

Available-for-sale, December 31, 2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Mortgage-backed securities	$ 39,165	$ 469	$ (380)	$ 39,254
U.S. Treasuries	3,097	0	(46)	3,051
U.S. Government Agencies	590	4	(2)	592
Municipal Obligations	23,575	593	(133)	24,035
Corporate debt	1,000	0	(16)	985
Total	$ 67,427	$ 1,066	$ (577)	$ 67,917

In August 2021, corporate debt with a fair market value of $6.2 million was transferred from available-for-sale to held-to-maturity. The difference between amortized cost and fair market value of those securities at transfer date is insignificant and will be amortized out of accumulated other comprehensive income over the 5-year period to first call date of those securities.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – SECURITIES (CONTINUED)

Held-to-maturity, December 31, 2021	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Corporate debt	5,365	8	0	5,373
Total	$ 5,365	$ 8	$ 0	$ 5,373

Securities with unrealized losses on December 31, 2022, and 2021, that have not been recognized in income are as follows (in thousands):

Available-for-sale, December 31, 2022	**Continued Unrealized Loss for Less than 12 Months**		**Continued Unrealized Loss for 12 Months or More**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Mortgage-backed securities	$ 21,377	$ (2,080)	$ 13,155	$ (3,097)	$ 34,532	$ (5,177)
U.S. Treasuries	-	-	2,717	(366)	2,717	(366)
U.S. Government Agencies	171	(10)	199	(16)	370	(26)
Municipal Obligations	12,547	(1,698)	7,104	(1,651)	19,651	(3,349)
Corporate debt	-	-	812	(188)	812	(188)
Total temporarily impaired	$ 34,095	$ (3,788)	$ 23,987	$ (5,318)	$ 58,082	$ (9,106)

Available-for-sale, December 31, 2021	**Continued Unrealized Loss for Less than 12 Months**		**Continued Unrealized Loss for 12 Months or More**		**Total**	
Description of Securities	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
Mortgage-backed securities	$ 18,410	$ (380)	$ -	$ -	$ 18,410	$ (380)
U.S. Treasuries	3,051	(46)	-	-	3,051	(46)
U.S. Government Agencies	315	(2)	-	-	315	(2)
Municipal Obligations	8,653	(133)	-	-	8,653	(133)
Corporate debt	983	(16)	-	-	983	(16)
Total temporarily impaired	$ 31,412	$ (577)	$ -	$ -	$ 31,412	$ (577)

Unrealized losses have not been recognized through the income statement, as management believes the issuers are of sound credit quality, management has no intent to sell the securities, the Company can hold the securities to maturity, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date. There were 109 and 49 securities in an unrealized loss position as of December 31, 2022, and December 31, 2021, respectively. Of the securities in an unrealized loss position as of December 31, 2022, approximately 49% were backed by a government agency.

The proceeds from the sale of securities and the associated gains and losses are listed below (in thousands):

	2022	**2021**
Proceeds	$ -	$ 4,626
Gross gains	-	202
Gross losses	-	-

The amortized cost and fair value of the investment securities portfolio are shown by contractual maturity. Contractual maturities of debt securities at year-end 2022 were as follows (in thousands):

Available-for-sale	**Amortized Cost**	**Fair Value**
Due in one year or less	$ 500	$ 500
Due from one to five years	4,958	4,597
Due from five to ten years	28,336	24,413
Due after ten years	33,894	29,072
Total	$ 67,688	$ 58,582

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 2 – SECURITIES (CONTINUED)

Held-to-maturity	Amortized Cost	Fair Value
Due in one year or less	$ -	$ -
Due from one to five years	-	-
Due from five to ten years	5,832	5,432
Due after ten years	-	-
Total	$ 5,832	$ 5,432

Expected maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities pledged at December 31, 2022, and December 31, 2021, had a carrying amount of $8,193,000 and $16,418,000, respectively.

The Company had no investment in securities of issuers outside of the United States as of December 31, 2022, or 2021.

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (AS RESTATED)

Loans at year-end were as follows (in thousands):

	2022
Commercial real estate	$ 400,136
1-4 Family residential real estate	14,195
Commercial	49,248
Consumer and other	1,151
Gross Loans	464,730
Unamortized loan fees	(1,370)
Loans held for investment	463,360
Less allowance for loan losses	(4,778)
Loans, net	$ 458,582

	2021
Commercial real estate	$ 351,337
1-4 Family residential real estate	16,746
Commercial	47,490
Consumer and other	1,454
Gross Loans	417,027
Unamortized loan fees	(1,403)
Loans held for investment	415,624
Less allowance for loan losses	(5,328)
Loans, net	$ 410,296

At December 31, 2022, and 2021, commercial real estate loans include construction loans of $40.0 million and $36.9 million, respectively.

At December 31, 2022, and 2021, the commercial loan balances above included $47,000 and $1,606,000 in Paycheck Protection Program loans, all of which were guaranteed by the Small Business Administration. No other material financial statement impacts from the Covid-19 pandemic remained at the end of 2022.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (AS RESTATED) (CONTINUED)

The following is an analysis of the allowance for loan loss activity, listed by portfolio segment. Information is based on impairment method as of, and for the years ended, December 31, 2022, and 2021, (in thousands):

	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial	Consumer and other	Total
Balance on December 31, 2021	$ 4,466	$ 190	$ 647	$ 25	$ 5,328
Provision (credit) for loan losses	(1,198)	(13)	3,639	(8)	2,420
Loans charged off	-	(72)	(2,905)	-	(2,977)
Recoveries	-	7	-	-	7
Balance on December 31, 2022	$ 3,268	$ 112	$ 1,381	$ 17	$ 4,778

	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial and Industrial	Consumer and other	Total
Balance on December 31, 2020	$ 4,051	$ 299	$ 426	$ 44	$ 4,820
Provision (credit) for loan losses	415	(117)	221	(19)	500
Loans charged off	-	-	-	-	-
Recoveries	-	8	-	-	8
Balance on December 31, 2021	$ 4,466	$ 190	$ 647	$ 25	$ 5,328

December 31, 2022	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses					
Ending balance individually evaluated for impairment	$ -	$ -	$ 99	$ -	$ 99
Ending balance collectively evaluated for impairment	3,268	112	1,282	17	4,679
Total	$ 3,268	$ 112	$ 1,381	$ 17	$ 4,778
Gross Loans					
Ending balance individually evaluated for impairment	$ 1,591	$ 719	$ 1,641	$ -	$ 3,951
Ending balance collectively evaluated for impairment	398,545	13,476	47,607	1,151	460,779
Total	$ 400,136	$ 14,195	$ 49,248	$ 1,151	$ 464,730

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (AS RESTATED) (CONTINUED)

December 31, 2021	Commercial Real Estate	1-4 Family Residential Real Estate	Commercial	Consumer	Total
Allowance for Loan Losses					
Ending balance individually evaluated for impairment	$ -	$ -	$ 210	$ -	$ 210
Ending balance collectively evaluated for impairment	4,466	190	437	25	5,118
Total	$ 4,466	$ 190	$ 647	$ 25	$ 5,328
Gross Loans					
Ending balance individually evaluated for impairment	$ -	$ 162	$ 4,240	$ -	$ 4,402
Ending balance collectively evaluated for impairment	351,337	16,584	43,250	1,454	412,625
Total	$ 351,337	$ 16,746	$ 47,490	$ 1,454	$ 417,027

The following table presents the aging of the recorded investment in past due and nonaccrual loans, as of December 31, 2022, and 2021. It is shown by class of loans (in thousands):

December 31, 2022	Loans Past Due Accruing Interest						
	30-59 Days	60-89 Days	Over 90 Days	Total	Loans on Non-Accrual	Loans Not Past Due or Non-Accrual	Total
Commercial Real Estate	$ 512	$ 960	$ -	$ 1,472	$ 1,591	$ 397,073	$ 400,136
1-4 Family Residential RE	536	-	-	536	659	13,000	14,195
Commercial and Industrial	313	427	292	1,032	1,641	46,575	49,248
Consumer	-	-	-	-	-	1,151	1,151
Total	$ 1,361	$ 1,387	$ 292	$ 3,040	$ 3,891	$ 457,799	$ 464,730

December 31, 2021	Loans Past Due Accruing Interest						
	30-59 Days	60-89 Days	Over 90 Days	Total	Loans on Non-Accrual	Loans Not Past Due or Non-Accrual	Total
Commercial Real Estate	$ 2,192	$ -	$ -	$ 2,192	$ -	$ 349,145	$ 351,337
1-4 Family Residential RE	95	653	143	891	98	15,757	16,746
Commercial and Industrial	-	-	-	-	4,240	43,250	47,490
Consumer	12	-	-	12	-	1,442	1,454
Total	$ 2,299	$ 653	$ 143	$ 3,095	$ 4,338	$ 409,594	$ 417,027

Non-accrual loan balances guaranteed by the SBA are $99,000, or 1.5%, and $110,000, or 2.5%, of the nonaccrual loan balances at December 31, 2022, and December 31, 2021, respectively.

Credit Quality Indicators:
The following table represents the credit exposure by internally assigned grades at December 31, 2022, and 2021. This grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements in accordance with the loan terms. The Bank's internal credit risk grading system is based on management's experiences with similarly graded loans. Credit risk grades are reassessed each quarter based on any

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (AS RESTATED) (CONTINUED)

recent developments potentially impacting the creditworthiness of the borrower, as well as other external statistics and factors, which may affect the risk characteristics of the respective loan. The Company uses the following definitions for risk ratings:

Pass: Strong credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Potential weaknesses that deserve management's close attention. Borrower and guarantor's capacity to meet all financial obligations is marginally adequate or deteriorating.

Substandard: Inadequately protected by the paying capacity of the Borrower and/or collateral pledged. The borrower or guarantor is unwilling or unable to meet loan terms or loan covenants for the foreseeable future.

Doubtful: All the weakness inherent in one classified as substandard with the added characteristic that those weaknesses in place make the collection or liquidation in full, on the basis of current conditions, highly questionable and improbable.

Loss – Considered uncollectible or no longer a bankable asset. This classification does not mean that the asset has no recoverable value. In fact, a certain salvage value is inherent in these loans. Nevertheless, it is not practical or desirable to defer writing off a portion or whole of a perceived asset even though partial recovery may be collected in the future.

As of December 31, 2022, and 2021, based on the most recent analysis performed, the risk category of loans by class of loans was as follows (in thousands):

December 31, 2022	Pass	Special Mention	Substandard	Doubtful	Not Risk Rated	Total
Commercial Real Estate	$ 394,577	$ 3,685	$ 1,874	$ -	$ -	$ 400,136
1-4 Family Residential RE	13,536	-	659	-	-	14,195
Commercial and Industrial	47,154	378	1,716	-	-	49,248
Consumer	1,151	-	-	-	-	1,151
Total	$ 456,418	$ 4,063	$ 4,249	$ -	$ -	$ 464,730

December 31, 2021	Pass	Special Mention	Substandard	Doubtful	Not Risk Rated	Total
Commercial Real Estate	$ 349,137	$ 1,866	$ 334	$ -	$ -	$ 351,337
1-4 Family Residential RE	16,322	326	98	-	-	16,746
Commercial and Industrial	43,146	-	4,344	-	-	47,490
Consumer	1,454	-	-	-	-	1,454
Total	$ 410,059	$ 2,192	$ 4,776	$ -	$ -	$ 417,027

Impaired Loans: The following tables include the recorded investment and unpaid principal balances, net of charge-offs for impaired loans with the associated allowance amount, if applicable. Management determined the allocated allowance based on the present value of expected future cash flows, discounted at the loan's effective interest rate, except when the remaining source of repayment for the loan is the operation or liquidation of the collateral. In those cases, the current fair value of the collateral, less selling costs was used to determine the allocated allowance recorded.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 3 – LOANS AND ALLOWANCE FOR LOAN LOSSES (AS RESTATED) (CONTINUED)

December 31, 2022	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial Real Estate	$ 1,591	$ 1,591	$ -	$ 1,464
1-4 Family Residential RE	719	719	-	739
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
With an allowance recorded:				
Commercial Real Estate	-	-	-	-
1-4 Family Residential RE	-	-	-	-
Commercial and Industrial	4,546	1,641	99	4,333
Consumer	-	-	-	-
Total	$ 6,856	$ 3,951	$ 99	$ 6,536

December 31, 2021	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**
With no related allowance recorded:				
Commercial Real Estate	$ -	$ -	$ -	$ -
1-4 Family Residential RE	162	162	-	162
Commercial and Industrial	-	-	-	-
Consumer	-	-	-	-
With an allowance recorded:				
Commercial Real Estate	-	-	-	-
1-4 Family Residential RE	-	-	-	-
Commercial and Industrial	4,240	4,240	210	4,319
Consumer	-	-	-	-
Total	$ 4,402	$ 4,402	$ 210	$ 4,481

Troubled Debt Restructurings: Restructured loans are considered "troubled debt restructurings" if due to the borrower's financial difficulties, the Bank has granted a concession that they would not otherwise consider. This may include a transfer of real estate or other assets from the borrower, a modification of loan terms, rates, or a combination of the two. All troubled debt restructurings placed on nonaccrual status must show no less than six months of repayment performance by the borrower in accordance with contractual terms to return to accrual status. Once a loan has been identified as a troubled debt restructuring, it will continue to be reported as such until the loan is paid in full.

In the normal course of business, the Company may modify a loan for a credit worthy borrower where the modified loan is not considered a troubled debt restructuring. In these cases, the modified terms are consistent with loan terms available to credit worthy borrowers and within normal loan pricing. The modifications to such loans are done according to existing underwriting standards which include review of historical financial statements, including current interim information if available, an analysis of the causes of the borrower's decline in performance, and projections intended to assess repayment ability going forward.

There was one troubled debt restructuring with a principal balance of $60,000 and $65,000 at December 31, 2022, and December 31, 2021, respectively.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 4 – PREMISES AND EQUIPMENT, NET

Components of premises and equipment, net included in the consolidated balance sheets at December 31, were as follows:

	2022	2021
Land and improvements	$ 2,170	$ 2,241
Buildings and improvements	12,439	12,146
Furniture and equipment	1,776	1,994
Total cost	16,385	16,381
Accumulated depreciation and amortization	(8,308)	(8,415)
Net book value	$ 8,077	$ 7,966

Depreciation and amortization expense was $489,000 and $472,000 for the years ended December 31, 2022, and 2021, respectively. Two Alamogordo ATM properties were sold for $50,000 in 2022. The Peoria branch was closed December 31, 2022, which resulted in the acceleration of rent expense totaling $43,000 and a loss on the disposal of fixed assets of $3,000.

NOTE 5 – TIME DEPOSITS

Following are maturities of time deposits at December 31, 2022, and 2021:

Maturity	2022	2021
One year or less	$ 50,025	$ 40,180
Over one through three years	21,627	12,892
Over three through five years	1,841	1,477
Totals	$ 73,493	$ 54,549

On December 31, 2022, and 2021, the Bank had $23.4 million and $13.0 million, respectively, in time deposits of $250,000 or more. On December 31, 2022, and 2021, $19.8 million and $10.9 million, respectively, of such time deposits mature within one year.

NOTE 6 – BORROWINGS

The Bank has established a borrowing line with the FHLB of Dallas. As of December 31, 2022, the Bank had one outstanding advance totaling $5.0 million carrying an interest rate of 1.40% with a maturity date in 2023. As of December 31, 2022, loans and securities with a carrying value of $203.8 million were pledged to secure FHLB advances, with remaining availability of $198.1 million at year end. At December 31, 2021, FHLB borrowings totaled $19.0 million carrying interest rates from 0.14% to 1.40%. As of December 31, 2021, loans and securities with a carrying value of $183.8 million were pledged to secure FHLB advances, with remaining availability of $163.0 million at year end.

On June 29, 2021, the Company completed a private placement of $25.0 million of 10 year, fixed-to-floating rate subordinated notes. The subordinated notes will initially bear interest at 4.00% per annum for five years, floating at Three-Month SOFR plus 328 basis points quarterly thereafter. The ten-year notes mature on July 15, 2031, and are callable at the Company's option after five years. The subordinated notes are presented net of remaining origination fees of $469,000 at December 31, 2022.

The following are maturities of outstanding borrowings as of December 31, 2022:

Maturity	
One year or less	$ 5,000
Over one through three years	0
Over three through five years	0
Over five through ten years	24,531
Totals	$ 29,531

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 7 – FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

In the normal course of business, the Bank has outstanding commitments to extend credit and standby letters of credit which are not included in the accompanying consolidated financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making commitments as it does for instruments that are included in the consolidated balance sheets.

Financial instruments whose contract amounts represent off-balance-sheet credit risk are as follows as of December 31:

	2022	2021
Commitments to extend credit	$ 23,202	$ 39,807
Unused lines of credit	18,706	18,672
Totals	$ 41,908	$ 58,479

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 creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation Collateral held varies by and may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third-party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

NOTE 8 – LEASES

The Bank has noncancelable operating leases that expire over the next seven years that require the payment of base lease amounts and executory costs such as taxes, maintenance, and insurance. At year-end 2022, the bank had one active operating lease. Rental expenses for leases was $516,000 and $578,000 for the years ended December 31, 2022, and 2021 respectively.

Approximate future minimum rental commitments under noncancelable leases are:

2023	$ 205
2024	354
2025	360
2026	366
2027	372
2028	377
2029	383
2030	161
Total minimum lease payments	2,578
Amounts representing interest (present value discount)	(425)
Operating lease liabilities (present value of minimum lease payments)	$ 2,153

Weighted-average remaining term (in years)	7.3
Weighted-average discount rate	4.70%

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – EMPLOYEE RETIREMENT BENEFIT PLANS (AS RESTATED)

Profit Sharing Plan: The Company has established a profit-sharing 401(k) type salary reduction plan (Plan) for all employees that meet the necessary eligibility requirements and participants are fully vested after six years of service. For Company matching contributions made for plan years prior to 2014, annual Company contributions were at the discretion of the Board of Directors. From 2014 through 2019, the Company adopted a Safe Harbor matching contribution provision, whereby it agreed to match 100% of participant's contributions up to the first 3% of salary and 50% of the next 2%, for a total maximum Company matching contribution of 4% of participant salary, as defined by the Plan. The Safe Harbor matching contribution was guaranteed. The Company elected not to adopt a safe harbor matching contribution for 2021 or 2022.

Employee Stock Ownership Plan: The ESOP covers substantially all employees that meet certain age and service requirements. Under the plan, annual retirement expense is generally defined as a percentage of employee compensation, net of forfeitures from employees who have terminated employment.

In October 2016, the ESOP borrowed $1.5 million from the Company to purchase 150,358 shares of common stock from the Company at $10 per share. Bancorp 34 accepted a $1.8 million note from the ESOP secured by all unallocated shares in the plan with a 30-year repayment term. The principal balance includes $1.5 million used to purchase stock in 2016 and $266,000 used to pay off already outstanding ESOP loans used to purchase shares in 2012 and 2014. Principal and interest payments on the note are made every December 31 and the interest rate on the loan adjusts annually on January 1st to the prime rate of interest as published in the Wall Street Journal. The Bank makes at least annual discretionary contributions to the ESOP and the ESOP uses all funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation for that plan year. At the discretion of the employer, participants may receive the shares, cash, or a combination of stock and cash at the end of employment.

Since the Bank is the primary source of repayment on ESOP loans, the Bank records the note payable and an equal contra-equity account on its balance sheet and interest expense and ESOP benefit plan expense on its statement of comprehensive income equal to the annual loan payments. As inter-company borrowings, all bank-recorded balance sheet items, Bancorp 34 interest income and Bank 34 interest expense on the ESOP loan are eliminated in consolidation. Bancorp 34 consolidated financial statements include a contra-equity account with a balance equal to the purchase price of all unallocated shares in the ESOP.

Shares held by the ESOP on December 31, 2022, and 2021, were as follows:

	2022	2021
Allocated shares	44,476	40,764
Unallocated shares	145,597	151,666
Total ESOP shares	190,073	192,430

The fair value of unallocated shares held by the ESOP is $1,966,000 and $2,090,000 at December 31, 2022, and 2021, respectively. ESOP expense was $338,000 and $74,000 for the years ended December 31, 2022, and 2021, respectively.

Bank 34 Employees DB Retirement Plan: Effective April 1, 2020, the Company withdrew from the Pentegra DB Plan and established the Bank 34 Employee Defined Benefit Retirement Plan ("Bank DB Plan"). On June 2, 2020, all assets and liabilities were transferred from the Pentegra DB Plan to the newly established Bank DB Plan. The Bank DB Plan is a funded noncontributory defined benefit pension plan covering 49 current and former employees. Similar to its predecessor plan, benefits available under the Bank DB Plan are frozen. The plan provides defined benefits based on years of service and final average salary. The Company uses December 31 as the measurement date for this plan. The initial plan year was April 1, 2020, through December 31, 2020. The fair value of plan assets and accumulated benefit obligation on the April 1, 2020, Bank DB Plan adoption date were $2,392,000 and $3,951,000, respectively. Accumulated other comprehensive income at December 31, 2020, included $1,346,000 which represented $1,807,000 prior service cost related to this plan net of $461,000 estimated tax benefits.

During the year ended December 31, 2021, the Company purchased annuity contracts that resulted in partial settlement of the plan and recorded expense of $479,000. At December 31, 2021, the fair value of Bank DB Plan

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 9 – EMPLOYEE RETIREMENT BENEFIT PLANS (AS RESTATED) (CONTINUED)

assets were $894,000, determined by significant observable inputs (Level 2), representing 84% of the $1,063,000 accumulated benefit obligation. The defined obligation at December 31, 2021, of $169,000 is included in Accrued Interest and Other Liabilities on the Consolidated Balance Sheet. The unrecognized actuarial and prior service costs totaling $1,308,000, net of tax, are included in Accumulated Other Comprehensive Income in the Stockholders Equity portion of the Consolidated Balance Sheet.

During the year ended December 31, 2022, the Company extinguished the Bank DB Plan and recorded expense of $1,750,000. At December 31, 2022, there were no plan assets or liabilities included in the Consolidated Balance Sheet. Contributions to the plan totaled $30,000 and $0 in 2022 and 2021, respectively.

Deferred Compensation and Director's Fee Plans: A deferred compensation plan covers all senior officers and a deferred director's fee plan covers all directors. Under these plans, the company pays each participant that elects to defer, or their beneficiary, the amount deferred plus interest over a pre-selected period up to 10 years, beginning with the participant's termination of service. A liability is accrued monthly for the deferred amount plus interest earned. The interest rate on deferred balances is determined annually on January 1st at the greater of Wall Street Journal Prime or 5%, and was 5% for the years ended December 31, 2022, and 2021. Interest expense for the deferred plans was $97,000 and $95,000, for the years ended December 31, 2022, and 2021, respectively. Deferred plan liabilities, included in accrued interest and other liabilities on the consolidated balance sheet, were $1,949,000 and $1,946,000, as of December 31, 2022, and 2021, respectively.

NOTE 10 – BOARD OF DIRECTORS' RETIREMENT POLICY

The Board previously had a deferred compensation policy (Policy) to compensate Board members for their service to the Company. The retirement date for directors was the later of the last month in which they reached age 70 or completion of their term if they were elected to the Board during the annual meeting resulting in service beyond age 70. Upon retirement, Board members receive deferred compensation for the remainder of their life up to a maximum of $2,000 per month. Board members vested in the Policy based on service as follows: zero to four years of service (20%), five years of service (40%), six years of service (60%), seven years of service (80%) and eight years of service (100%). On September 21, 2011, the Board rescinded this retirement policy for current directors.

The total liability for the combined policies and agreements was $256,000 and $245,000 at December 31, 2022, and 2021, respectively.

NOTE 11 – INCOME TAXES (AS RESTATED)

Income tax provision consists of the following (in thousands):

	2022	2021
Current		
Federal	$ 23	$ 1,468
State	(227)	379
Deferred benefit	262	(555)
Total income tax provision	$ 58	$ 1,291

Income tax expense from continuing operations differs from the amounts computed by applying the federal income tax rate of 21% in 2022 and 2021, to earnings before federal income tax expense. These differences are primarily caused by state income taxes, net of federal tax benefit, income that is not taxable for federal and state income tax purposes, expenses that are not deductible for tax purposes and tax adjustments related to prior federal income tax returns.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 11 – INCOME TAXES (AS RESTATED) (CONTINUED)

Income tax provision calculated at the statutory federal income tax rate of 21% for 2022 and 2021, differs from actual income tax provision as follows (in thousands):

	2022	2021
Income tax at statutory rate	$ 292	$ 1,287
Benefit from permanent differences:		
Earnings on life insurance assets	(50)	(65)
State income taxes, net of Federal tax benefit	(116)	78
Other items, net	(67)	(9)
Totals	$ 59	$ 1,291

Deferred tax assets and liabilities consist of the following at December 31 (in thousands):

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 1,191	$ 1,314
Net operating loss carryforwards	582	683
Deferred compensation	549	1,011
Accrued bonus	318	333
Lease liability	536	115
Unrealized losses on AFS securities	2,317	-
Other, net	292	242
Total deferred tax assets	5,785	3,698
Deferred tax liabilities:		
Unrealized gains on AFS securities	-	(127)
Loan origination costs	(196)	(240)
Depreciation	(515)	(100)
Right-of-use asset	(139)	(105)
FHLB stock dividends	(11)	(26)
Total deferred tax liabilities	(861)	(598)
Net deferred tax assets included in other assets	$ 4,924	$ 3,100

A valuation allowance for deferred tax assets is recorded when it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income and tax planning strategies which will create taxable income during the periods in which those temporary differences become deductible. Management considered the scheduled reversal of deferred tax liabilities, projected future taxable income, net operating loss carry-back potential, and tax planning strategies in making this assessment. Based upon the Company's assessment of all available evidence, management determined it was more likely than not that the net deferred tax asset would be realized at December 31, 2022.

At December 31, 2022, the Company had federal operating loss carry-forwards of approximately $2.8 million, all of which are subject to Internal Revenue Code ("IRC") Section 382 limitations, which limit the annual use of acquired losses to $250,000 per year, and begin to expire in 2028. At December 31, 2022, the Company has recorded deferred tax assets of $582,000 related to the Federal net operating loss carry-forwards.

It is the Company's policy to provide for uncertain tax positions and the related interest and penalties based upon management's assessment of whether a tax benefit is more likely than not to be sustained upon examination by tax authorities. As of December 31, 2022, and 2021, there were no material uncertain tax positions related to federal and state income tax matters. The Company does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next 12 months.

The Company files consolidated U.S. federal and various state income/franchise tax returns. The Company is no longer subject to examination by U.S. federal taxing authorities for years before 2019 and is no longer subject to examination by state taxing authorities for years before 2016. Our federal and state tax returns have not been audited for the past seven years.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 12 – REGULATORY MATTERS (AS RESTATED)

Bank 34 is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total risk-based capital and Tier 1 capital to risk-weighted assets, and Tier 1 capital to adjusted total assets. Management believes, as of December 31, 2022, and 2021, the Bank meets all capital adequacy requirements to which it is subject.

Banks are also subject to certain restrictions on the dollar amount of dividends that they may declare without prior regulatory approval.

As of December 31, 2022, the Bank was categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank has to maintain minimum total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as disclosed in the table below. There are no conditions or events that management believes have changed the Bank's prompt corrective action category. The Bank has not opted into the Community Bank Leverage Ratio ("CBLR") and therefore is required to continue calculating and reporting risk-based capital ratios.

The Bank's actual and required capital amounts and ratios are as follows (in thousands):

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022						
Total Capital to risk-weighted assets:	$ 64,942	13.57%	$ 38,286	8%	$ 47,857	10%
Tier 1 (Core) Capital to risk weighted assets:	$ 60,163	12.57%	$ 28,717	6%	$ 38,290	8%
Common Tier 1 Capital to risk weighted assets (CET1):	$ 60,163	12.57%	$ 21,538	4.50%	$ 31,111	6.50%
Tier 1 (Core) Capital to average assets:	$ 60,163	10.34%	$ 23,274	4%	$ 29,092	5%

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Total Capital to risk-weighted assets:	$ 62,978	14.35%	$ 35,110	8%	$ 43,887	10%
Tier 1 (Core) Capital to risk weighted assets:	$ 57,650	13.13%	$ 26,344	6%	$ 35,126	8%
Common Tier 1 Capital to risk weighted assets (CET1):	$ 57,650	13.13%	$ 19,578	4.50%	$ 28,540	6.50%
Tier 1 (Core) Capital to average assets:	$ 57,650	11.14%	$ 20,700	4%	$ 25,875	5%

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 13 – RELATED-PARTY TRANSACTIONS

The Bank periodically enters into transactions with its executive officers, directors, significant stockholders, and their affiliates (related parties). Transactions with such related parties included:

	2022	2021
Fees and bonuses paid to directors during the period	$ 231	$ 255
Deposits from related parties held by the bank at the end of period	4,568	4,284

There were no loans to related parties in 2022 or 2021.

NOTE 14 – STOCK-BASED COMPENSATION

Stock-based expense for the years ended December 31, 2022, and 2021, was $213,000 and $278,000, respectively.

The Company accounts for forfeitures when they occur by reversing any previously accrued compensation expense on forfeited options in accordance with ASC 718, *Compensation – Stock Compensation.*

On November 17, 2017, the stockholders approved the adoption of the 2017 Equity Incentive Plan ("2017 Plan"). The 2017 Plan provides for the grant of a maximum of 263,127 shares of the Company's common stock of which up to 187,948 shares of common stock may be granted for stock options and 75,179 shares of common stock may be issued as restricted stock to Directors and employees of the Company. Stock options and restricted stock awards currently issued under the 2017 Plan vest at 20% per year beginning on the first anniversary of date of grant and the options expire seven years after the grant date.

On May 25, 2022, the stockholders approved the adoption of the 2022 Equity Incentive Plan ("2022 Plan"). The 2022 Plan provides for the grant of a maximum of 252,340 shares of the Company's common stock of which up to 168,227 shares of common stock may be issued as restricted stock and 84,113 shares of common stock may be granted for stock options to Directors and employees of the Company. The Board of Director's compensation committee specifies the vesting schedules for the restricted stock and options. Option expiration dates are flexible as well but cannot exceed ten years from the grant date. No restricted stock or stock options have been granted under the 2022 plan.

The stock option plans allow for net settlement of vested options. In a net settlement, the Company, at the direction of the optionee, net settles the options by issuing new shares to the optionee with a value, at the current per share trading price, equal to the total in-the-money or intrinsic value of the options less any necessary tax withholdings on the disqualifying disposition of Incentive Stock Options. The optionee is granted newly issued shares and a small amount of cash in lieu of partial shares. There was one net settlement in 2022 and none in 2021.

In 2022, 15,000 stock options were granted and 9,500 shares of restricted stock were issued under the 2017 plan. In 2021, 6,500 stock options and 2,500 shares of restricted stock were issued. Stock option grant-date fair values for 2022 and 2021 were computed using the Black Scholes Merton options pricing model with the following weighted-average inputs and assumptions:

	2022	2021
Grant date stock price and exercise price	$ 15.80	$ 12.19
Dividend yield	2.48%	1.64%
Expected stock price volatility	23.59%	33.89%
Risk-free interest rate	2.17%	0.96%
Expected option life in years	6	6
Total weighted-average fair value of options granted	$ 3.00	$ 3.40

Historical data is used to estimate expected volatility and the term of options expected to be outstanding and takes into account that options are not transferable. The risk-free interest rate is based on the U.S. Treasury yield curve for the expected term in effect at the date of grant.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 14 – STOCK-BASED COMPENSATION (CONTINUED)

A summary of stock option activity in 2022 is presented below (Intrinsic Value in 000s):

	Shares Subject to Options	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at beginning of year	163,600	$ 13.94	3.6 years	118
Granted	15,000	15.80		
Exercised	(13,200)	14.90		
Forfeited or expired	(21,380)	13.81		
Outstanding at end of year	144,020	$ 14.07	2.8 years	$ 95
Exercisable at year-end	118,020	$ 14.45	2.2 years	$ 39

Information related to stock option exercises during each year is as follows (in 000s):

	2022	2021
Intrinsic value of options exercised	$ 17	$ -
Cash received from options exercised	$ -	$ -
Tax benefit realized from options exercised	$ 15	$ -

A summary of restricted stock activity for the year ended December 31, 2022, is presented below:

	Shares	Weighted-Average Grant Date Fair Value	Average Remaining Contractual Term
Non-vested on January 1, 2022	12,774	$ 14.02	2.0 years
Granted	9,500	14.92	
Vested	(8,335)	14.75	
Forfeited	(7,439)	13.13	
Non-vested on December 31, 2022	6,500	$ 14.89	4.1 years

As of December 31, 2022, there was $70,000 and $80,000 of total unrecognized equity-based expense related to unvested stock options and restricted stock awards, respectively, granted under the 2017 Equity Incentive Plan that is expected to be recognized over the next 5 years as follows (in 000s):

Year	
2023	$ 41
2024	41
2025	38
2026	26
2027	4
Totals	$ 150

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – FAIR VALUE INFORMATION (AS RESTATED)

The following table presents information about assets and liabilities measured at fair value on a recurring and non-recurring basis and indicates the fair value hierarchy of the valuation techniques utilized to determine such fair values as of December 31.

As Restated **December 31, 2022**	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Fair Value**
Recurring:				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ -	$ 34,532	$ -	$ 34,532
U.S. Treasuries	-	2,717	-	2,717
U.S. Government Agencies	-	370	-	370
Municipal obligations	-	20,151	-	20,151
Corporate debt	-	812	-	812
Total available-for-sale:	$ -	$ 58,582	$ -	$ 58,582
Nonrecurring basis:				
Impaired loans	$ -	$ -	$ 3,951	$ 3,951

December 31, 2021	**Quoted Prices in Active Markets for Identical Assets Level 1**	**Significant Other Observable Inputs Level 2**	**Significant Unobservable Inputs Level 3**	**Fair Value**
Recurring:				
Assets:				
Securities available-for-sale:				
Mortgage-backed securities	$ -	$ 39,254	$ -	$ 39,254
U.S. Treasuries	-	3,051	-	3,051
U.S. Government Agencies	-	592	-	592
Municipal obligations	-	24,035	-	24,035
Corporate debt	-	985	-	985
Total available-for-sale:	$ -	$ 67,917	$ -	$ 67,917
Nonrecurring basis:				
Impaired loans	$ -	$ -	$ 4,402	$ 4,402

The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Bank does not know whether the fair values shown represent values at which the respective financial instruments could be sold individually or in the aggregate.

There were no transfers between levels of the fair value hierarchy during the years ended December 31, 2022, or 2021.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 15 – FAIR VALUES OF FINANCIAL INSTRUMENTS (CONTINUED)

The following table presents the significant unobservable inputs used in the fair value measurements for Level 3 financial assets measured on a non-recurring basis:

As Restated December 31, 2022	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
Impaired loans				
Commercial and Industrial	$ 1,641	Appraisal	Receivables Discount/Liquidation Discount	18-50%
Commercial Real Estate	1,591	Appraisal	Appraisal Discount/Estimated Selling Costs	18%
1-4 Family residential RE	719	Appraisal	Appraisal Discount/Estimated Selling Costs	0-18%
Total Impaired loans	$ 3,951			

December 31, 2021	Fair Value	Valuation Methodologies	Valuation Model	Unobservable Input Valuation
Impaired loans				
Commercial and Industrial	$ 4,240	Appraisal	Receivables Discount/Liquidation Discount	17-18%
1-4 Family residential RE	162	Appraisal	Appraisal Discount/Estimated Selling Costs	17-18%
Total Impaired loans	$ 4,402			

The estimated fair values of the Company's consolidated financial instruments at year-end are as follows (in thousands):

As Restated	Fair Value Hierarchy	2022 Carrying Amount	2022 Fair Value	2021 Carrying Amount	2021 Fair Value
Financial assets:					
Cash and due from banks	Level 1	$ 16,112	$ 16,112	$ 7,231	$ 7,231
Federal funds sold	Level 2	835	835	8,270	8,270
Securities available-for-sale	Level 2	58,582	58,582	67,916	67,916
Securities held-to-maturity	Level 2	5,832	5,432	5,365	5,365
Loans, net of allowance for loan losses	Level 3	458,582	419,251	410,296	413,964
Other investments	Level 2	1,277	1,277	1,786	1,786
Accrued interest receivable	Level 1	1,505	1,505	1,354	1,354
Financial liabilities:					
Deposits	Level 1	$ (414,094)	$ (364,675)	$ (383,233)	$ (377,284)
Time Deposits	Level 2	(73,493)	(71,932)	(54,549)	(54,769)
FHLB Advances	Level 2	(5,000)	(5,292)	(19,000)	(19,073)
Subordinated debentures	Level 3	(24,531)	(21,728)	(24,447)	(24,884)
Accrued interest payable	Level 1	(562)	(562)	(483)	(483)

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 16 – EARNINGS PER SHARE (AS RESTATED)

The two-class method is used in the calculation of basic and diluted earnings per share. Under the two-class method, earnings available to common Stockholders for the period are allocated between common Stockholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	Years ended December 31,	
As Restated	**2022**	**2021**
Basic:		
Net income (in 000s)	$ 1,330	$ 4,635
Less: Earnings allocated to participating securities (in 000s)	(11)	(37)
Net income allocated to common Stockholders (in 000s)	1,319	4,598
Weighted-average common shares outstanding including participating securities	2,529,436	2,889,138
Less: Average participating securities	(19,579)	(21,676)
Less: Average unallocated ESOP shares	(151,187)	(151,929)
Average Shares	2,358,670	2,715,533
Basic Earnings Per Common Share	$ 0.56	$ 1.69
Diluted:		
Net income allocated to common Stockholders (in 000s)	$ 1,319	$ 4,598
Weighted-average common shares outstanding for basic earnings per common share	2,358,670	2,715,533
Add: Dilutive effects of assumed exercises of stock options	8,356	5,589
Add: Dilutive effects of assumed exercises of warrants	4,451	-
Weighted-average shares and dilutive potential common shares	2,371,477	2,721,123
Diluted Earnings Per Common Share	$ 0.56	$ 1.69

Participating securities are restricted stock awards and preferred stock since they participate in common stock dividends. Stock options for 118,000 and 127,000 shares of common stock were not considered in computing diluted earnings per common share for 2022 and 2021, because they were antidilutive.

NOTE 17 – PRIVATE PLACEMENT OF COMMON AND PREFERRED STOCK

On December 30, 2022, the Company entered into Securities Purchase Agreements ("Agreement") with both Castle Creek Capital Fund VIII, L.P. ("Castle Creek") and Alliance Bernstein L.P. ("Alliance Bernstein"), pursuant to which the Company sold Castle Creek: (i) 299,580 shares of the Company's common stock, par value $0.01 per share, at a purchase price of $14.00 per share (the "Common Stock"); (ii) 521,849 shares of Series A convertible perpetual preferred stock, par value $0.01 per share, at a purchase price of $14.00 per share ("Series A Preferred Stock"); and sold Alliance Bernstein 181,734 shares of Common Stock, at a purchase price of $14.00 per share. The private placement transaction (the "Private Placement") resulted in gross proceeds of approximately $14 million. The Agreement contains significant representations, warranties, and covenants between the Company and each purchaser. In addition, 30,094 shares of Common Stock were issued as payment for a portion of the placement fees.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 17 – PRIVATE PLACEMENT OF COMMON AND PREFERRED STOCK (CONTINUED)

In conjunction with the Agreement, the Company issued warrants to Castle Creek to purchase up to 82,142 shares of Common Stock and Alliance Bernstein to purchase up to 18,173 shares of Common Stock at a price of $14.00. The approximate fair value of the warrants at the date of grant was not considered significant. The Warrants are exercisable at any time after December 30, 2022, and from time to time, in whole or in part, until December 30, 2029. However, the exercise of such Warrants remains subject to certain contractual provisions and a "cashless exercise" may be executed.

In total, the Company issued 511,408 shares of Common Stock, 521,849 shares of Series A Preferred Stock and 100,315 Warrants related to the Agreement. Cash received, net of issuance expenses, was $13.6 million. Issuance expenses include placement fees and due diligence costs of $447,000 and $79,000, respectively The Company will use the net proceeds to fund organic growth, transact on potential acquisition opportunities, enter complementary new business lines, and to enhance capital ratios.

On December 30, 2022, the Company filed Articles Supplementary with the Maryland Department of Assessments and Taxation to issue 1,100,000 shares of Series A Preferred Stock. Each share of the Series A Preferred Stock will be convertible on a one-for-one basis into either (i) Common Stock under certain circumstances, or (ii) non-voting common stock, par value $0.01 per share, subject to approval of the creation of such class of non-voting common stock by the Company's stockholders. Holders of the Series A Preferred Stock will be entitled to receive dividends if declared by the Company's Board of Directors, in the same per share amount as paid on the Common Stock. The Series A Preferred Stock will rank, as to payments of dividends and distribution of assets upon dissolution, liquidation or winding up of the Company, pari passu with the Common Stock pro rata. Holders of Series A Preferred Stock will have no voting rights except as may be required by law.

Pursuant to the terms of the Agreement, Castle Creek is entitled to have one representative appointed to the Company's Board of Directors for so long as Castle Creek, together with its respective affiliates, owns, in the aggregate, 4.9% or more of Common Stock outstanding.

NOTE 18 – BANCORP 34, INC. (PARENT COMPANY ONLY) FINANCIAL INFORMATION (AS RESTATED)

Condensed financial statements of Bancorp 34, Inc. follow (in thousands):

Balance Sheets	**December 31, 2022**	**December 31, 2021**
Assets		
Cash and cash equivalents	$ 17,835	$ 5,964
Investment in subsidiary bank	54,073	57,413
ESOP note receivable	1,558	1,600
Prepaid and other assets	1,209	597
Total Assets	$ 74,675	$ 65,574
Liabilities and Stockholders' Equity		
Subordinated debt, net of issuance costs	24,531	24,447
Accounts payable and other liabilities	906	457
Stockholders' equity	49,238	40,670
Total Liabilities and Stockholders' Equity	$ 74,675	$ 65,574

Statements of Income	**Year ended December 31, 2022**	**Year ended December 31, 2021**
Interest income	52	53
Interest expense	(1,054)	(543)
Equity in income of subsidiary bank	2,162	5,053
Other expenses	(103)	(65)
	1,057	4,498
Provision (benefit) for income taxes	(273)	(137)
Net Income	$ 1,330	$ 4,635

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 18 – BANCORP 34, INC. PARENT COMPANY ONLY FINANCIAL INFORMATION (CONTINUED)

Statements of Cash Flows	**Year ended December 31, 2022**	**2021**
Operating Activities		
Net income	$ 1,330	$ 4,635
Adjustments to reconcile net income to net cash from operating activities:		
Amortization of subordinated debt issuance costs	84	-
Equity in (income) of subsidiary bank	(2,162)	(5,053)
Changes in prepaid and other assets	(612)	356
Changes in accrued interest and other liabilities	449	(2)
Net cash from operating activities	(911)	(64)
Investing Activities		
Principal collections on ESOP note receivable	42	40
Capital contribution to bank subsidiary	-	(10,000)
Net cash from investing activities	42	(9,960)
Financing Activities		
Proceeds from subordinated debt, net of issuance costs	-	24,447
Repurchase of common stock	(78)	(8,499)
Issuance of common stock, net	6,212	-
Issuance of preferred stock, net	7,306	-
Cash dividends paid	(700)	(577)
Net cash from financing activities	12,740	15,371
Net change in cash and cash equivalents	11,871	5,347
Beginning cash and cash equivalents	5,964	617
Ending cash and cash equivalents	$ 17,835	$ 5,964

NOTE 19 – RESTATED FINANCIAL STATEMENT ADJUSTMENTS

The Company has restated the financial statements due for the years ended December 31, 2022, and December 31, 2021 to correct errors in the previously issued financial statements for 2022 and 2021. The details around the most significant of these restatements is outlined below.

The $2.9 million charge-off noted in the subsequent events footnote of the original financial statements was pushed back to December 31, 2022, due to information that indicates the deterioration of the credit had occurred as of that date. In addition, $1.3 million of the general allowance allocation relating to Covid-19 was removed due to its limited impact on economic conditions at December 31, 2022. In aggregate, these restatements resulted in a decline in loan balances, a decline in the balance of the allowance for loan losses, an increase in provision for loan losses expense, and a decline in net income and retained earnings.

The timing of the expense recognition around the termination of the bank's defined benefit plan was restated, moving a portion of the plan expense out of 2021 and into 2022 to reflect the correct expense recognition based on the timeframe of the plan's termination. This restatement reduced salaries and employees' benefits expense in 2021 and increased net income and retained earnings as well as reduced accumulated other comprehensive income within stockholders' equity. In 2022, salaries and employees' benefits expenses increased and net income and retained earnings decreased.

As a result of these corrections of errors, the Company has restated the accompanying 2022 and 2021 financial statements.

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 – RESTATED FINANCIAL STATEMENT ADJUSTMENTS (CONTINUED)

The following is a summary of the impact of the restatement on the Company's December 31, 2022, consolidated balance sheet:

(000's)	December 31, 2022		
	As Previously Reported	Correction of Errors	As Restated
Loans held for investments	$ 466,265	$ (2,905)	$ 463,360
Allowance for Loan Losses	(6,043)	1,265	(4,778)
Loans held for investments, net	460,222	(1,640)	458,582
Deferred Income Tax Asset	5,211	(287)	4,924
Prepaid and other assets	4,238	710	4,948
Total Assets	575,556	(1,216)	574,340
Accrued interest and other liabilities	5,419	233	5,652
Total Liabilities	524,869	233	525,102
Retained earnings	30,462	(1,449)	29,013
Total Stockholders' Equity	50,687	(1,449)	49,238
Total Liabilities and Stockholders' Equity	575,556	(1,216)	574,340

The following is a summary of the impact of the restatement on the Company's December 31, 2022, consolidated statements of comprehensive income:

(000's except earnings per share information)	December 31, 2022		
	As Previously Reported	Correction of Errors	As Restated
Interest and fees on loans	$ 21,865	$ (47)	$ 21,818
Total interest income	23,808	(47)	23,761
Net interest income	18,494	(47)	18,447
Provision for loan losses	780	1,640	2,420
Net Interest Income After Provision for Loan Losses	17,714	(1,687)	16,027
Salaries and employee benefits	7,274	1,935	9,209
Total non-interest expense	13,367	1,935	15,302
Income before provision for income taxes	5,011	(3,623)	1,388
Provision for Income tax	996	(938)	58
Net Income	4,015	(2,685)	1,330
Other comprehensive (loss)	(9,603)	1,735	(7,868)
Tax effect of other comprehensive (loss)	2,442	(427)	2,015
Other comprehensive income (loss), net of tax	(7,161)	1,308	(5,853)
Comprehensive Income (Loss)	(3,146)	(1,377)	(4,523)
Earnings per common share – Basic	1.69	(1.13)	0.56
Earnings per common share – Diluted	1.68	(1.12)	0.56

The following is a summary of the impact of the restatement on the Company's December 31, 2022, consolidated statements of changes in stockholders' equity:

(000's)	As Previously Reported	Correction of Errors	As Restated
Balance on December 31, 2021	$ 40,742	$ (72)	$ 40,670
Net income for 2022	4,015	(2,685)	1,330
Defined benefit plan	-	1,308	1,308
Retained Earnings	30,462	(1,449)	29,013
Total Stockholders' Equity	50,687	(1,449)	49,238

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 – RESTATED FINANCIAL STATEMENT ADJUSTMENTS (CONTINUED)

The following is a summary of the impact of the restatement on the Company's December 31, 2022, consolidated statements of cash flows:

(000's)	December 31, 2022		
	As Previously Reported	Correction of Errors	As Restated
Net income	$ 4,015	$ (2,685)	$ 1,330
Provisions for loan losses	780	1,640	2,420
Deferred income tax expense	(24)	(167)	(191)
Prepaid and other assets	(1,172)	1,024	(148)
Accrued interest and other liability	407	(194))	213

The following is a summary of the impact of the restatement on the Company's December 31, 2021, consolidated balance sheet:

(000's)	December 31, 2021		
	As Previously Reported	Correction of Errors	As Restated
Deferred Income Tax Asset	$ 2,743	$ 357	$ 3,100
Total Assets	527,652	357	528,009
Accrued interest and other liabilities	5,012	429	5,441
Total Liabilities	486,910	429	487,339
Retained earnings	27,147	1,236	28,383
Accumulated other comprehensive (loss) income, net	388	(1,308)	(920)
Total Stockholders' Equity	40,742	(72)	40,670
Total Liabilities and Stockholders' Equity	527,652	357	528,009

The following is a summary of the impact of the restatement on the Company's December 31, 2021, consolidated statements of comprehensive income:

(000's except earnings per share information)	December 31, 2021		
	As Previously Reported	Correction of Errors	As Restated
Salaries and employee benefits	$ 9,545	(1,659)	8,341
Total non-interest expense	15,245	(1,658)	13,587
Income before provision for income taxes	4,268	1,658	5,926
Provision for Income tax	868	423	1,291
Net Income	3,400	1,235	4,635
Other comprehensive (loss)	(8)	(1,734)	(1,742)
Tax effect of other comprehensive (loss)	7	426	433
Other comprehensive income (loss), net of tax	(1)	(1,308)	(1,309)
Comprehensive Income (Loss)	3,399	(73)	3,326
Earnings per common share – Basic	1.24	0.45	1.69
Earnings per common share – Diluted	1.24	0.45	1.69

BANCORP 34, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

NOTE 19 – RESTATED FINANCIAL STATEMENT ADJUSTMENTS (CONTINUED)

The following is a summary of the impact of the restatement on the Company's December 31, 2021, consolidated statements of changes in stockholders' equity:

(000's)	December 31, 2021		
	As Previously Reported	Correction of Errors	As Restated
Net income for 2021	$ 3,400	$ 1,235	$ 4,635
Defined benefit plan	1,347	(1,308)	39
Retained earnings	27,147	1,236	28,383
Accumulated other comp. income (loss), net	388	(1,308)	(920)
Total Stockholders' Equity	40,742	(72)	40,670

The following is a summary of the impact of the restatement on the Company's December 31, 2021, consolidated statements of cash flows:

(000's)	December 31, 2021		
	As Previously Reported	Correction of Errors	As Restated
Net income	$ 3,400	$ 1,235	$ 4,635
Deferred income tax expense	(625)	71	(554)
Prepaid and other assets	160	(1,735)	(1,575)
Accrued interest and other liability	133	429	562

NOTE 20 – SUBSEQUENT EVENTS

Capital Raise: On January 27, 2023, the Company completed the second round of the capital raise through private placement. The terms of the raise were similar to the first round of the raise described in Note 17. Common shares issued totaled 848,089 (32,806 of which was issued as a portion of the payment for placement fees), non-voting preferred shares issued totaled 298,266, and warrants issued to purchase additional shares at $14.00 per share totaled 111,352. The warrants are exercisable in whole, or in part, anytime in the future until January 27, 2030. Cash received, net of issuance expense, totaled $15.0 million.

Definitive Agreement: The Company entered into a definitive merger agreement with CBOA Financial, Inc. on April 26, 2023. Under the terms of the agreement, CBOA Financial, Inc. shareholders will receive 0.24 shares of Bancorp 34, Inc. common stock for each share of CBOA Financial, Inc. common stock they own and the deal will have an aggregate deal value of approximately $28 million. Bancorp 34, Inc. shareholders will own approximately 65%, and CBOA Financial, Inc. shareholders will own approximately 35%, of the pro forma company. At March 31, 2023, CBOA Financial, Inc. had total assets of $372 million, total liabilities of $341 million, and total stockholders' equity of $31 million.