GRAND RIVER COMMERCE, INC.

FINANCIAL STATEMENTS

Year Ending

December 31, 2023

GRAND RIVER COMMERCE, INC.

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April 29, 2024

To Our Shareholders:

As we've noted in our quarterly reports, 2023 was an atypical year for Grand River Commerce, Inc. (the "Company") and Grand River Bank (the "Bank"). That was evident in full-year operating losses of $7.3 million and $6.4 million at the Company and the Bank, respectively. Virtually all of the losses were attributable to the inability of the Bank's nationwide mortgage subsidiary, Grand River Mortgage Company, LLC ("GRMC"), to achieve anticipated volumes and revenue. Excluding the effect of GRMC and strategic year-end discretionary expenses recognized in 2023, the Bank was nominally profitable.

Despite the losses, the Company and the Bank remain well-capitalized, with ample liquidity and pristine asset quality. Market conditions remain favorable, the Bank is well-regarded and there is continued strong demand for our brand of banking.

In our shareholder report at September 30, 2023, we acknowledged the continuing impact of GRMC and committed to take action to prevent meaningful losses from continuing into 2024. Accordingly, on October 31, 2023, the Board of Directors of the Bank instructed GRMC to proceed with an orderly wind-up of its operations. Furthermore, the Board directed Management to complete the operational phase of the wind-up by December 31, 2023. As required by U.S. generally accepted accounting principles, doing so contained the bulk of the associated expense within 2023. While 2023 losses were exacerbated, the Bank was well-positioned to enter 2024 free from the majority of the financial drag of GRMC. While some closure-related activities and corresponding expenses have inevitably bled into 2024, all previously-identified, significant closure costs are reflected in our 2023 performance.

As we move beyond GRMC, it's useful to consider the experience in context. In forming the subsidiary, the Bank's goals were realistic and worthwhile: Improve overall financial performance through revenue diversification, add correspondingly to shareholder value, provide resources to support the further growth of the Bank and create career opportunities to encourage the retention of deserving and talented team members.

Before committing to the subsidiary, the Board and Management conducted a lengthy and comprehensive evaluation, that included conservative modeling and a rigorous, multi-faceted risk assessment. In addition, an experienced mortgage executive with an impressive record of success in the national mortgage market was identified and hired. He, in turn, assembled a team of mortgage and banking professionals who were tasked with achieving our objectives for GRMC. Over an eight-month period, that team established a well-designed infrastructure, identified high-potential markets, became licensed to operate in multiple states, received government agency and private investor approvals for the sale of loans and recruited a team of experienced mortgage lenders.

Despite the best efforts of the GRMC team, the unprecedented and successive rate increases initiated in 2022 and 2023 to combat inflation had a significant adverse impact upon GRMC and other mortgage lenders across the country. Rates began their rapid ascent just as GRMC entered the mortgage lending market and triggered an immediate change in strategy. Implementing that strategic recalibration required additional regulatory approvals and further delayed the achievement of GRMC's stated objectives. Against that backdrop, it ultimately became impossible to achieve those objectives in an acceptable time frame. To a significant extent, GRMC became collateral damage in the war on inflation.

As reported in the message accompanying our third quarter 2023 earnings release, the Board prudently authorized the raising of additional capital, prior to year-end. The offering was undertaken to supplement already-strong capital levels and to ensure that adequate resources remained available to support the Bank's strategic objectives. Reflecting the confidence of the investment community in the strength of our franchise and our significant market opportunity, $7.65 million was contributed by fifteen institutional and individual investors, several of whom were Board members.

The Board remains committed to maintaining capital ratios that meet or exceed the regulatory definition of well-capitalized. As has been the case throughout its fifteen-year history, the Bank again met those requirements at December 31, 2023. During 2023, the Company incrementally injected $6.0 million of additional capital into the Bank.

Separate from GRMC, the Bank also felt the impact of rising interest rates, albeit to a significantly smaller degree. As reported in previous quarterly reports, higher interest rates increased our deposit costs, making our raw material more expensive. Simultaneously, the fixed-rate portion of our exceptionally strong loan portfolio added to the pressure upon our fundamental profitability indicator, our net interest margin. Many financial institutions across the region and the country experienced similar margin compression. Anticipating this condition, we began some time ago to shift our loan portfolio mix to prioritize variable pricing. This shift, coupled with careful management of our cost of funds, is expected, over time, to create measurable improvement in our margin.

Asset quality, long a hallmark of our Bank, remained superior throughout 2023. While the banking industry as a whole has posted favorable portfolio performance metrics in recent years, our Bank stands apart, with pristine asset quality over our entire 15-year history. In 2023, we once again experienced nominal delinquency that was well-managed. At year-end, we had two non-performing commercial relationships, one of which is well-secured, has always paid as agreed and poses virtually no risk of loss. The other non-performing classification was triggered by borrower dishonesty that was undetectable while it was occurring. To align the loan balance with the value of the remaining collateral, we charged off $115,000 and expect no further loss. This charge-off is only the second – and most significant – loan-related charge taken by the Bank since inception.

Reflecting our strong asset quality, our allowance for credit losses, including the portion of the allowance tied to unfunded commitments, stood at 1.08% at December 31, 2023, compared to 1.28% at year-end 2022. In addition, at year-end, we had an allowance for credit losses related to unfunded commitments recorded as an accrued liability in the amount of $352,000. As required of all financial institutions, we adopted ASU No. 2016-13, more commonly known as CECL, during 2023 and made corresponding adjustments to our allowance calculation methodology. The year-over-year decrease in the allowance ratio reflects the impact of the CECL methodology as well as shifts in loan portfolio composition.

At December 31, 2023, total assets of the Company stood at $549 million, an increase of $19.0 million, or 3.6%, when compared with year-end 2022. Growth was primarily attributable to expansion of our loan portfolio, which increased by $39 million, or 8.5%.

Non-interest income and non-interest expense were both distorted significantly by GRMC, diluting the value of comparisons to the prior year-end. From a purely statistical perspective, however, non-interest income increased $2.2 million, or 197%. While the increase was primarily attributable to the production of salable residential mortgage loans originated by GRMC, additional lift was provided by revenue from the Bank's local mortgage team and deposit account service charges.

Improvement in non-interest income was eclipsed by growth in non-interest expense, which increased by $7.8 million over the prior year. As noted earlier, the bulk of that increase resulted from GRMC operating expense and wind-up costs. With the wind-up of GRMC, those expenses have become non-recurring. We expect non-interest income and expense levels to normalize during 2024 and anticipate much more favorable postings in both categories throughout the year.

GRMC has had an undeniable adverse impact upon both the Bank and the Company. We believe, however, that it represents a manageable and temporary deviation from our otherwise-positive 15-year history. While the experience doesn't define us, it has motivated us to refocus on our core banking operation and, as quickly as possible, to resume our pre-GRMC trajectory of consistently-improving performance and value.

Our financial results are always available via the Investor Relations section of our website, www.grandriverbank.com. We encourage you to use this comprehensive resource to track performance and gain valuable information about your investment in our Company.

The past two years have been challenging, particularly for our shareholders. Always appreciative of your support, encouragement and perspective, we encourage you to stay the course as we move as quickly as possible through the recovery and restoration process. We believe that the Bank continues to occupy a uniquely attractive position in an exceptionally strong market and we're proud of our highly-skilled team of financial professionals. We look forward to taking full advantage of our many opportunities and to keeping you informed of our progress.

Sincerely,

Robert P. Bilotti
Chairman, President & CEO
Grand River Commerce, Inc.
(616) 929-1600
robert.bilotti@grandriverbank.com

Patrick K. Gill
CEO
Grand River Bank
(616) 929-1611
pat.gill@grandriverbank.com

D. Drew Ysseldyke
President
Grand River Bank
(616) 929-1615
drew.ysseldyke@grandriverbank.com

Kevin J. VanSingel
CFO
Grand River Commerce, Inc. & Grand River Bank
(616) 259-1301
kevin.vansingel@grandriverbank.com

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INDEPENDENT AUDITORS' REPORT

April 29, 2024

Board of Directors and Shareholders
Grand River Commerce, Inc.
Grandville, Michigan

Opinion

We have audited the accompanying consolidated financial statements of Grand River Commerce, Inc. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Grand River Commerce, Inc. as of December 31, 2023 and 2022, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

As described in Note 1 to the consolidated financial statements, in 2023 the Company adopted Accounting Standards Codification 326, *Financial Instruments - Credit Losses.* Our opinion is not modified with respect to this matter.

Discontinued Operations

As described in Notes 2 and 19 to the consolidated financial statements, the Company sustained significant losses from operations in 2023 and 2022. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Notes 2 and 19. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information included in the Annual Report

Management is responsible for the other information included in the Company's accompanying annual report. The other information comprises Management's Report but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Rehmann Robson LLC

GRAND RIVER COMMERCE, INC.

Consolidated Balance Sheets

(Dollars in thousands)

	December 31	
Assets	**2023**	**2022**
Cash and cash equivalents		
Cash and due from banks	$ 21,981	$ 46,181
Federal funds sold	-	648
Total cash and cash equivalents	**21,981**	**46,829**
Investment securities, available-for-sale	13,882	15,036
Restricted investments	3,157	1,788
Mortgage loans held for sale	1,255	265
Total loans	500,540	461,290
Less allowance for credit losses	5,412	5,928
Net loans	**495,128**	**455,362**
Premises and equipment (net)	1,709	2,060
Deferred income tax asset (net)	4,047	2,191
Interest receivable and other assets	4,568	4,107
Discontinued operations (Notes 2 and 19)	3,349	2,612
Total assets	**$ 549,076**	**$ 530,250**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 96,004	$ 124,421
Interest-bearing	362,272	337,253
Total deposits	458,276	461,674
Interest payable and other liabilities	4,329	2,682
Other debt	34,500	14,500
Subordinated debt		
(net of issuance costs of $534 and $205 at December 31, 2023 and 2022)	15,366	8,045
Discontinued operations (Notes 2 and 19)	977	510
Total liabilities	**513,448**	**487,411**
Shareholders' equity		
Common stock		
$0.01 par value, authorized 10,000,000 shares; issued and outstanding		
7,039,280 shares in 2023 and 7,026,423 shares in 2022	70	70
Additional paid-in capital	40,992	41,156
Accumulated (deficit)/surplus	(3,478)	3,822
Accumulated other comprehensive loss	(1,956)	(2,209)
Total shareholders' equity	**35,628**	**42,839**
Total liabilities and shareholders' equity	**$ 549,076**	**$ 530,250**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Operations

(Dollars in thousands)

	Year Ended December 31	
	2023	2022
Interest income		
Loans, including fees	$ 24,049	$ 17,596
Securities	462	392
Federal funds sold and other income	1,227	1,079
Total interest income	**25,738**	**19,067**
Interest expense		
Deposits	11,569	3,450
Borrowings	1,841	633
Total interest expense	**13,410**	**4,083**
Net interest income	**12,328**	**14,984**
Credit loss (reversal)/expense	(49)	1,062
Net interest income, after credit loss reversal/(expense)	**12,377**	**13,922**
Noninterest income		
Service charges and other fees	50	40
Gain on sale of mortgage loans	546	647
Other	281	237
Total noninterest income	**877**	**924**
Noninterest expenses		
Salaries and benefits	9,715	8,624
Occupancy and equipment	1,106	1,170
Data processing and IT support	432	368
Software	939	616
Professional services	729	749
Insurance	604	407
Other	1,229	1,177
Total noninterest expenses	**14,754**	**13,111**
Net (loss)/income before income tax (benefit)/expense	(1,500)	1,735
Income tax (benefit)/expense	(287)	322
Net (loss)/income from continuing operations	**(1,213)**	**1,413**
Loss from discontinued operations	(7,739)	(4,543)
Income tax benefit	(1,652)	(956)
Net loss from discontinued operations	**(6,087)**	**(3,587)**
Net loss	**$ (7,300)**	**$ (2,174)**
Basic (loss)/earnings per common share		
(Loss)/earnings from continuing operations	$ (0.17)	$ 0.20
Loss from discontinued operations	(0.86)	(0.52)
Net loss	**$ (1.04)**	**$ (0.31)**
Diluted (loss)/earnings per common share		
(Loss)/earnings from continuing operations	$ (0.16)	$ 0.20
Loss from discontinued operations	(0.78)	(0.51)
Net loss	**$ (0.94)**	**$ (0.31)**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Comprehensive Loss

(Dollars in thousands)

	Year Ended December 31	
	2023	**2022**
Net loss	$ (7,300)	$ (2,174)
Unrealized gain/(loss) on investment securities arising during the year	322	(2,647)
Income tax (expense)/benefit related to other comprehensive gain/(loss)	(69)	557
Other comprehensive income/(loss)	253	(2,090)
Comprehensive loss	**$ (7,047)**	**$ (4,264)**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Shareholders' Equity
(Dollars in thousands)

	Common Stock	Additional Paid-in-Capital-Common Stock	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, January 1, 2022	**$ 68**	**$ 39,492**	**$ 5,996**	**$ (119)**	**$ 45,437**
Warrants exercised 238,229 shares @ $5.30 per share	2	1,260	-	-	1,262
Options exercised 5,000 shares @ $5.30 per share	-	26	-	-	26
Share-based compensation expense	-	378	-	-	378
Comprehensive loss	-	-	(2,174)	(2,090)	(4,264)
Balances, December 31, 2022	**70**	**41,156**	**3,822**	**(2,209)**	**42,839**
Share-based compensation expense	-	(164)	-	-	(164)
Comprehensive loss	-	-	(7,300)	253	(7,047)
Balances, December 31, 2023	**$ 70**	**$ 40,992**	**$ (3,478)**	**$ (1,956)**	**$ 35,628**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Cash Flows

(Dollars in thousands)

	Year Ended December 31	
	2023	2022
Cash flows from operating activities		
Net loss	$ (7,300)	$ (2,174)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities		
Share-based compensation	(164)	378
(Reversal of) provision for credit losses	(49)	1,062
Net amortization of investment securities	38	40
Originations of loans held for sale	(97,643)	(26,237)
Proceeds from loan sales	96,730	27,514
Net gain on sale of loans	(3,080)	(696)
Depreciation and amortization	473	529
Non-cash lease expense	413	37
Impairment of productive assets	257	-
Deferred income tax benefit	(1,925)	(633)
Amortization of debt issuance costs	70	26
Net change in		
Interest receivable and other assets	(426)	(779)
Interest payable and other liabilities	1,277	(502)
Operating lease obligations	450	54
Net cash used in operating activities	**(10,879)**	**(1,381)**
Cash flows from investing activities		
Activity in available-for-sale securities		
Maturities and pre-payments	1,438	1,878
Purchase of securities	-	(1,500)
Loan principal originations, net	(39,365)	(79,081)
Purchase of Federal Home Loan Bank stock	(1,189)	-
Purchase of Federal Reserve Bank restricted stock	(180)	(300)
Purchase of productive assets	(3)	(666)
Net cash used in investing activities	**(39,299)**	**(79,669)**
Cash flows provided by financing activities		
Acceptances and withdrawals of deposits, net	(3,363)	33,818
Federal Home Loan Bank borrowings	30,000	10,000
Repayments of Federal Home Loan Bank borrowings	(10,000)	-
Issuance of subordinated debt (net of issuance costs)	7,251	-
Proceeds from exercise of warrants and options	-	1,288
Net cash provided by financing activities	**23,888**	**45,106**
Net decrease in cash and cash equivalents	(26,290)	(35,944)
Cash and cash equivalents at beginning of year	48,379	84,323
Cash and cash equivalents at end of year	**$ 22,089**	**$ 48,379**
Supplemental cashs flow information		
Cash paid for interest	$ 12,716	$ 3,883

Cash flows from Grand River Mortgage Company's (GRMC) discontinued operations are included in the above presentation. Operating cash outflows for GRMC totaled $9.5 million while investing activities used $14,000 in 2023. Operating cash outflows for GRMC totaled $2.5 million while investing activities used $452,000 in 2022.

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

Notes to Consolidated Financial Statements

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grand River Commerce, Inc. ("GRCI") was incorporated under the laws of the State of Michigan on August 15, 2006, to organize a Bank in Michigan. Upon receiving regulatory approvals to commence business in April 2009, GRCI chartered Grand River Bank as a de novo Bank, (the "Bank"). The Bank is a wholly-owned subsidiary of GRCI (the "Company"). In late 2021, Grand River Mortgage Company, LLC ("GRMC"), was formed as a wholly owned subsidiary of the Bank.

GRMC, a direct to consumer national mortgage lender, offered a variety of lending products including purchase, cash out and re-finance. All loans originated by GRMC were intended for sale on the secondary market. In the 4th quarter of 2023, the Board of directors voted to discontinue operations of GRMC. As of December 31, 2023 GRMC's active sales operations were shut down. Only loans that were in the pipeline at that date were funded and sold. As of the release of these financial statements, one loan, with an approximate principal balance of $119,000 remained available for sale. See Note 2 - Discontinued Operations for additional detail regarding GRMC.

The Bank is a full-service commercial bank headquartered in Grandville, Michigan, serving the communities of Grandville, Grand Rapids and the surrounding areas in Kent and Ottawa counties in Michigan, offering a broad range of commercial and consumer banking services to businesses, professionals, and local residents who are particularly responsive to the style of service which the Bank provides.

The Bank is chartered by the State of Michigan and is a member of the Federal Deposit Insurance Corporation ("FDIC") and the Federal Reserve. The Bank is subject to the regulations and supervision of the Federal Reserve as well as state regulators and undergoes periodic examinations by these regulatory authorities while still maintaining insurance governed by the FDIC. GRCI is also subject to regulations of the Federal Reserve Board governing bank holding companies. In addition, GRMC was subject to certain other state regulatory authorities specific to the consumer lending line of business in the states where GRMC was required to be licensed.

Active competition, principally from other commercial banks, savings banks, credit unions, and mortgage companies exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the industries which comprise a significant portion of the local economic environment which currently include medical, manufacturing, automotive and professional services.

Concentration Risks

The Bank’s primary deposit products are interest and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial and consumer loans. The majority of the Bank’s loan portfolio is comprised of commercial real estate and commercial and industrial loans. Commercial real estate loans represented 73% and 75% of total loans at December 31, 2023 and 2022, respectively, while commercial and industrial loans represent 8% and 9% of total loans at December 31, 2023 and 2022, respectively. While the Bank has a concentration in loans collateralized by real estate, management believes that the Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

Principles of Consolidation

The consolidated financial statements include the accounts of GRCI, the Bank and GRMC (collectively, the “Company”). All significant intercompany accounts and transactions have been eliminated in consolidation. When the term "Bank" is used throughout these statements it is inclusive of GRMC as applicable.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and the reported amounts of income and expenses during the year. Actual results could differ from those estimates and assumptions.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for expected credit losses (in place for years ending 2023 and beyond) and allowance for loan losses (in place for years ending 2022 and prior), and for the valuation of deferred tax assets. In connection with the determination of these allowances, management obtains independent appraisals for significant properties and evaluates the events which could impact the realization of deferred tax assets.

Significant estimates include obligations associated with share-based compensation related arrangements. The Company estimated the fair value of share-based compensation awards using the Black-Scholes option pricing model. Rights to this share-based compensation were forfeited in 2023. Further detail is available in Note 13.

Summary of Significant Accounting Policies

Accounting policies used in the preparation by management of these consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The principles which materially affect the determination of the consolidated financial position and results of operations of the Company are summarized below.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold, all of which mature within ninety days. Generally, federal funds are sold for a one-day period. Deposit accounts are maintained in various financial institutions which generally exceed FDIC insured limits. Management does not believe the Company is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

Fair Value

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value accounting hierarchy is as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets which the Company can participate.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and include inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 3.

Investment Securities

Debt securities classified as Available-For-Sale (AFS) consist of those securities which might be sold prior to maturity due to changes in interest rates, prepayment risks, yield and availability of alternative investments, liquidity needs or other factors. Securities classified as AFS are reported at fair value and the related unrealized gain or loss is reported in other comprehensive income (loss), net of tax.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Premiums on callable debt securities are amortized to their earliest call date. Gains or losses on the sale of debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

Allowance for Credit Losses - Available for Sale Securities (AFS)

In estimating the allowance for credit losses on AFS debt securities in an unrealized loss position, management first determines whether they intend to sell or if it is more likely than not that the Company will be required to sell the security before recovery of the amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income with an Allowance for Credit Losses (ACL). For securities AFS with unrealized losses not meeting these criteria, management evaluates whether any decline in fair value is due to credit losses or other factors. In making this assessment, management considers any changes to the rating of the security by rating agencies and adverse conditions specifically related to the issuer of the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security.

If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Changes in the ACL are recorded as provisions for (or reversal of) credit loss expense. Losses are charged against the allowance when the collectability of a debt security AFS is confirmed or when either of the criteria regarding intent or requirement to sell is met. Any impairment that has not been recorded through an ACL is recognized in other comprehensive income (loss), net of income taxes. At December 31, 2023 and at adoption of CECL on January 1, 2023, there was no ACL related to AFS debt securities. Accrued interest receivable on AFS debt securities totaled $56,000 at December 31, 2023 and was excluded from the estimate of expected credit losses.

For periods prior to January 1, 2023, management evaluated securities for other-than-temporary impairment ("OTTI") at least on a quarterly basis, and more frequently when economic or market conditions warranted such an evaluation. In determining OTTI, management considered many factors, including: (1) the length of time and the extent to which the fair value had been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity had the intent to sell the debt security or more likely than not would be required to sell the debt security before its anticipated recovery. The assessment of whether an other-than-temporary decline exists involved a high degree of subjectivity and judgment and was based on the information available to management at a point in time. Management determined that no OTTI charges were necessary during 2022.

Restricted Investments

Restricted investments include stock issued by the Federal Reserve Bank of Chicago (FRB) as well as stock issued by the Federal Home Loan Bank (FHLB). Holdings of FRB stock are $1,315,500 and $1,135,500 as of December 31, 2023 and 2022 respectively. Holdings of FHLB stock are $1,841,300 and $652,500 as December 31, 2023 and 2022 respectively. These nonmarketable equity securities are recorded at cost as they do not have a readily determinable fair value as ownership is restricted and lacks a market.

Mortgage Loans Held for Sale

Mortgage loans originated and held for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Estimated fair value is determined using forward commitments to sell loans to permanent investors, or current market rates for loans of similar quality and type. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to earnings. Discounts or premiums on loans held for sale are deferred until the related loan is sold. Loans held for sale are sold with servicing rights released.

Loans are considered sold when the Bank surrenders control over the transferred assets to the purchaser, with standard representations and warranties. At such time, the loan is removed from the Bank's loan portfolio and a gain or loss is recorded on the sale. Gains and losses on loan sales are determined based on the difference between the carrying value of the assets sold, the estimated fair value of any assets or liabilities that are newly created as a result of the transaction and the proceeds from the sale.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for credit losses, and unamortized premiums or discounts on purchased loans. Interest is credited to income on a daily basis based upon the principal amount outstanding. Management estimates that direct costs incurred in originating loans classified as held-to-maturity approximate the origination fees generated on these loans. Therefore, net deferred loan origination fees on loans classified as held-to-maturity are not included on the consolidated balance sheets.

Interest income on all classes of loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful, typically 90 days past due, unless the credit is well secured or is in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans, loans past due 90 days still on accrual, and troubled loan modifications are considered in nonperforming status for purposes of credit quality evaluation and are individually evaluated for impairment.

All interest accrued but not received for loans placed on nonaccrual in the current year is reversed against interest income. Interest accrued but not received for loans placed on nonaccrual due from prior years is charged against the allowance for credit losses. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Allowance for Credit Losses (ACL)

The allowance for credit losses (ACL) is a valuation account that is deducted from the loan portfolios' amortized cost basis to present the net amount expected to be collected on loans. The allowance is increased by the provision for credit losses and recoveries, and decreased by charge-offs of loans. Management believes the allowance balance to be adequate based on known and inherent risks in the portfolio, past loan loss experience, information about specific borrower situations and estimated collateral values, current and forecasted economic conditions and other relevant factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Management continues its collection efforts on previously charged-off balances and applies recoveries as additions to the allowance. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The allowance is measured on a collective pool basis when similar risk characteristics exist. Pools are determined based on federal call code. The Weighted Average Remaining Maturity (WARM) method is used for all loan pools. This approach projects an estimated future remaining life of the portfolio based on historical exit events within each given pool. Given the Bank's limited loss history, a loss rate computed based on actual loss history from a peer group of similar sized financial institutions is used. This loss rate is then applied to the pool's balance based on the estimated remaining life of the pool. Determination of the lookback period for peer data is subjective. Management evaluates this lookback timeframe to ensure that it is reasonable and supportable. Additionally, the allowance for credit losses calculation includes subjective adjustments to the historical loss factors for qualitative risk considerations that are likely to cause estimated losses to differ from historical experience as described below.

The allowance established for specific loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan's expected future cash flows, the loan's estimated market value, or the estimated fair value of the underlying collateral. These loans are excluded from the collective pools mentioned above. Troubled Loan Modifications and Troubled Debt Restructurings (2022 and before) are separately identified for impairment disclosures.

The unallocated portion of the allowance relates to expected losses that are not otherwise evaluated in the collective pools or loans specifically evaluated. The qualitative factors associated with the unallocated allowance are subjective and require a high degree of management judgment. These factors include the inherent imprecision in mathematical models and credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging or incomplete data.

A number of qualitative factors are considered including changes in lending policies, economic conditions, portfolio dynamics, credit quality trends, collateral valuation trends, external factors and other considerations. During each reporting period, management considers the need make adjustments to these factors that may cause expected losses to differ from those experienced in the historical loss periods.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments, when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

Accrued interest receivable for loans is included as part of a separate line item on the Consolidated Balance Sheet and totaled $1.4 million at December 31, 2023. Management elected not to measure an allowance for accrued interest receivable and instead elected to reverse accrued interest income on loans that are placed on nonaccrual status. Management believes this policy results in the timely reversal of uncollectible interest.

The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments:

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Current and projected cash flows are reviewed to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory and may incorporate a personal guarantee. In limited circumstances, loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Bank's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Bank's exposure to adverse economic events that affect any single industry. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. As a general rule, the Bank avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Bank also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

In addition, management monitors the level of owner-occupied commercial real estate loans versus non-owner occupied loans. The outstanding principal balance of the Bank's commercial real estate loans were collateralized by the following categories at December 31:

	2023	2022
Owner occupied properties	38.5%	35.1%
Non-owner occupied properties	43.0	39.3
Multifamily properties	7.1	7.8
1-4 family residential properties	6.7	6.9
Other properties	4.7	10.9
Total	**100.0%**	**100.0%**

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Bank may originate from time to time, the Bank generally requires the borrower to have had an existing relationship with the Bank and have a proven record of success. Commercial real estate construction and land development ("Construction") loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

The Bank monitors and manages consumer loan risk through its policies and procedures. These policies and procedures are developed and modified, as needed, by management. The majority of this portfolio is made up of residential real estate loans. As such, underwriting standards are heavily influenced by statutory requirements, which include, but are not limited to, generally conservative loan-to-value percentages, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Bank has implemented an independent loan review that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management, the Audit Committee, and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

Although management believes the allowance to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, reasonable and supportable forecasts, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators periodically review the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Bank transfers of financial assets are generally limited to commercial loan participations sold to other banks and residential mortgage loans sold in the secondary market.

In 2023, the Bank and GRMC sold to unrelated third parties residential mortgage loans with proceeds of $22.3 million and $74.4 million respectively. In 2022, the Bank and GRMC sold $25.3 and $2.2 million of residential mortgage loans to unrelated third parties respectively. In 2023, gains on these sales totaled $546,000 for the Bank and $2.5 million for GRMC. In 2022, gains on these sales totaled $648,000 for the Bank and $48,000 for GRMC. There is no substantive continuing involvement related to these loans.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets, a component of other noninterest expense. As of December 31, 2023 and 2022, the Company had no foreclosed real estate properties or properties in the process of foreclosure.

Premises and Equipment

Equipment is carried at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the estimated useful lives of the assets, which range generally from 3 to 8 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

Share-Based Compensation

The cost of employee services or certain performance metrics received in exchange for awards of equity instruments are recognized based on the grant-date fair value of those awards. An expense equal to the fair value of the awards over the requisite service period of the awards is recognized in the consolidated statements of operations.

The Company estimates the per share fair value of option grants and stock only appreciation rights (SOSARs) on the date of grant using the Black-Scholes pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets. The per share fair value of options and SOSARs is highly sensitive to changes in assumptions. The use of different assumptions or different option pricing models could result in materially different per share fair values of options.

The Company estimated the fair value of restricted stock awards and performance based restricted stock units (PRSUs) based upon the quoted market price of the common stock on the date of grant.

Rights to SOSAR's and PRSU's granted in 2021 were forfeited in 2023. Associated expenses reported in prior periods were reversed in 2023. As of December 31, 2023, there were no remaining SOSAR or PRSU compensation plans in place for the Company. See Notes 2 and 13 for additional details.

Mortgage Banking Derivatives
Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and mandatory and best efforts sales commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to the hedge the change in interest rates resulting from its commitments to fund loans, the Bank enters into forward commitments for the future delivery of mortgage loans when the interest rate locks are entered into. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are include in net gain on sales of residential mortgage loans included in the Consolidated Statements of Operations and is not material.

Income Taxes
Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus, or minus the change during the period in deferred tax assets and liabilities.

Revenue Recognition
Revenues are recognized as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The primary source of revenue is interest income from the Bank’s loans and investment securities. Noninterest revenue is also earned from various banking services offered by the Bank.

Interest Income: The Company’s largest source of revenue is interest income which is primarily recognized on an accrual basis based on contractual terms written into loans and investment contracts.

Noninterest Income: The Company derives the majority of its noninterest revenue from: (1) gains related to mortgage loan sales, (2) service charges for deposit related services (3) commissions on interest rate swap contracts, and (4) debit and credit card interchange income. Most of these services are transaction based and revenue is recognized as the related service is provided.

Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net loss. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component of the equity section in the consolidated balance sheets. Such items, along with net loss, are components of accumulated other comprehensive loss.

Off-Balance Sheet Credit Related Financial Instruments

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customers’ financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments.

The Company also considers expected credit losses associated with loan commitments. Any allowance for off-balance sheet credit exposures is reported as an other liability on the Consolidated Balance Sheet and is increased or decreased via the credit loss expense line item on the Consolidated Statement of Operations. The calculation includes consideration of the likelihood that funding will occur and forecasted credit losses on commitments expected to be funded over their estimated lives. The allowance is calculated using the same methodology, inputs and assumptions as the funded portion of loans at the pool level applied to the amount of commitments expected to be funded.

Net (Loss)/Income per Share

Basic and diluted net (loss)/income per share have been computed by dividing net/(loss) income by the weighted-average number of common shares outstanding for the year. Weighted-average common shares outstanding in 2023 totaled 7,038,301 and in 2022 totaled 6,962,466. Common stock equivalents consisting of Common Stock Options and Convertible Debt as described in Notes 8 and 13 are considered dilutive and therefore included for 2023 and 2022.

Reclassifications

Certain amounts as reported in the 2022 consolidated financial statements have been reclassified to conform to the 2023 presentation.

Recently Adopted Accounting Standards

FASB issued ASU No. 2016-13, as amended, *Financial Instruments—Credit Losses (Topic 326: Measurement of Credit Losses on Financial Instruments)* . This ASU, commonly referred to as Current Expected Credit Loss ("CECL"), provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates.

The new guidance eliminates the probable initial recognition threshold and, instead, reflects an entity's current estimate of all expected credit losses. The new guidance broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually to include forecasted information, as well as past events and current conditions. There is no specified method for measuring expected credit losses, and an entity is allowed to apply methods that reasonably reflect its expectations of the credit loss estimate. Although an entity may still use its current systems and methods for recording the allowance for credit losses, under the new rules, the inputs used to record the allowance for credit losses generally will need to change to appropriately reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts.

This standard was adopted on January 1, 2023 using the modified retrospective method and Weighted Average Remaining Maturity (WARM) methodology for all loans measured at amortized cost and for off-balance sheet credit exposures. Results for reporting periods beginning January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with the probable incurred loss method. The transition adjustment of the CECL adoption to the Consolidated Balance Sheet on January 1, 2023 is summarized as follows (dollars in thousands):

	As reported under ASC 326	Pre-ASC 326 Adoption	Impact of ASC 326 Adoption
Assets:			
Allowance for credit losses on loans			
Commercial and industrial	$ 191	$ 441	$ (250)
Commercial real estate	4,186	4,433	(247)
Consumer	788	1,053	(265)
Unallocated	15	1	14
Allowance for credit losses on loans	$ 5,180	$ 5,928	$ (748)
Liabilities:			
Allowance for credit losses on off balance sheet credit exposures	$ 748	$ -	$ 748

The transition adjustment of the CECL adoption included a decrease in the allowance for credit losses of $748,000 and the recording of an allowance for unfunded commitments of $748,000, resulting in no adjustment to the retained earnings account to reflect the cumulative effect of adopting CECL on the Consolidated Balance Sheet.

FASB issued ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. This standard eliminated the previous accounting guidance for Troubled Debt Restructurings (TDRs) and added additional disclosure requirements for gross charge-offs by year of origination. It also prescribes guidance for reporting modifications of loans to borrowers experiencing financial difficulty. There were no loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023 that involved interest rate reduction, principal forgiveness, other than significant payment delay, or other than insignificant term extension. During the year ended December 31, 2023, there were no defaults of loans that had been modified in the 12 months prior to default. As of December 31, 2023, there were no commitments to lend additional funds to borrowers who were both experiencing financial difficulty and had received a modification of loan terms. There is one loan that remains outstanding as of December 31, 2023 that was modified prior to the adoption of ASU 2022-02.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2023, the most recent balance sheet presented herein, through April 29, 2024, the date these consolidated financial statements were available to be issued.

No significant events or transactions were identified except as disclosed in Notes 2, 8, and 16.

2. DISCONTINUED OPERATIONS (INCLUDING SUBSEQUENT EVENTS, SEE ALSO NOTE 19.)

In the fourth quarter of 2021, the Company approved the formation of Grand River Mortgage Company, LLC ("GRMC"). GRMC was formed for the purpose of establishing a direct-to-consumer residential mortgage origination operation with a national footprint. It was structured as a wholly-owned subsidiary of the Bank.

Although operating losses were expected during the start-up phase, GRMC proved unable to achieve projected profitability and incurred persistent losses. The underperformance was primarily attributable to the rapid rise in market interest rates triggered by the Federal Reserve, which significantly slowed loan demand, production and associated revenue. In the third quarter of 2023, the Company raised additional capital through a subordinated convertible debt offering to support GRMC, enhance the Bank's capital to support ongoing growth, and for general corporate purposes. That offering is described in detail in Note 8. Revisions to the GRMC business plan and significant cost reduction measures did not result in sufficient performance improvement. Acknowledging that the ongoing impact of GRMC was not sustainable, the Board of Directors, in the fourth quarter of 2023, approved the winding down of GRMC's operations.

GRMC operations were largely wound down during the fourth quarter of 2023. Nominal staff was retained into 2024 for the purposes of liquidating the loan pipeline and other tasks necessary for an orderly shutdown. There were no one time employee termination benefits recognized in 2023. No one time employee termination benefits are expected in 2024. As a result of the losses and eventual discontinuance of operations, the equity-based compensation awards for Stock-Only Appreciation Rights ("SOSARs") and Performance-Based Restricted Stock Units ("PRSUs") issued to the former President of GRMC were forfeited. SOSARs and PRSUs are discussed further in Note 13. Management has reviewed all contractual obligations of GRMC and no material contingencies have been identified except for certain vendor contracts. The shutdown of GRMC is expected to be completed sometime in 2024 and is anticipated to have minimal impact on the operations of the Bank and the Company in 2024 and subsequent reporting periods.

All of GRMC's loans held for sale as of December 31, 2023 were sold in 2024. Two additional loans that had interest rate lock commitments in 2023, but had not yet funded, were funded and sold in 2024. Mortgage interest and fees and gain on sale of loans was not material.

With its closure, GRMC vacated properties it occupied. Two of these properties had right of use lease assets and liabilities which were disposed of in 2023. This disposal resulted in a net gain of $31,000. GRMC's premises and equipment were evaluated for impairment and written down to their estimated values. This action resulted in $102,000 of impairment expense in 2023. Its software assets were evaluated for impairment. This evaluation resulted in all remaining software assets being written off in 2023 and an associated one time charge of $155,000. GRMC's prepaid assets were evaluated and written down resulting in additional expense of $62,000 in 2023. The PRSU's and SOSAR's were forfeited in 2023, resulting in reversal of prior period expenses totaling $230,000. Expenses were accrued for outstanding commitments that management was aware of as of December 31, 2023.

As of the date of these financial statements, GRMC has no ongoing business operations and the Company has no continuing involvement with GRMC. The ultimate disposition of GRMC as a legal entity is still being evaluated.

The carrying amounts of major classes of assets and liabilities included as part of discontinued operations at December 31 are summarized as follows (dollars in thousands):

	2023	2022
Assets		
Cash and due from banks	$ 108	$ 1,550
Mortgage loans held for sale	3,170	167
Premises and equipment (net)	36	412
Interest receivable and other assets	35	483
Total assets of discontinued operations	**$ 3,349**	**$ 2,612**
Liabilities		
Escrow funds	$ 38	$ 3
Interest payable and other liabilities	939	507
Total liabilities of discontinued operations	**$ 977**	**$ 510**

Intercompany accounts that are eliminated in the process of consolidation are excluded from this presentation. Principally, these items include intercompany loans from the Bank to GRMC to fund mortgages held for sale and working capital. As of December 31, 2023 and December 31, 2022 intercompany loan balances totaled $4.2 million and $161,000 respectively.

The major classes of income and expenses of GRMC included in discontinued operations for the year ended December 31 are summarized as follows (dollars in thousands):

	2023	2022
Interest income		
Loans, including fees	$ 732	$ 4
Noninterest income		
Mortgage banking income	2,488	210
Total income	**3,220**	**214**
Noninterest expenses		
Salaries and benefits	5,547	3,306
Occupancy and equipment	855	137
Professional services	971	326
Software	294	135
Loan processing	1,275	44
Advertising	2,003	433
Other	14	376
Total noninterest expenses	**10,959**	**4,757**
Net loss before income tax benefit	(7,739)	(4,543)
Income tax benefit	1,652	956
Net loss on discontinued operations	**$ (6,087)**	**$ (3,587)**

Intercompany accounts that are eliminated in the process of consolidation are excluded from this income statement presentation. Principally, interest expense for intercompany loans from the Bank to GRMC to fund mortgages held for sale and working capital. Interest expense on these loans totaled $126,000 in 2023 and $8,000 in 2022.

3. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities and mortgage banking derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, foreclosed assets, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write down of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities

Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are unavailable, fair values are based on quoted market prices of comparable instruments or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. As such, all investment securities are classified as Level 2.

Impaired Loans

The fair value of impaired loans is measured in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies the impaired loan as nonrecurring Level 3.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Recorded at Fair Value on a Recurring Basis

As of December 31, 2023 and 2022, there were $13.9 million and $15.0 million, respectively, of marketable securities recorded in Level 2 of the fair value hierarchy and measured at fair value on a recurring basis.

At December 31, 2023 and 2022 the fair value of interest rate lock commitments was not significant.

Assets Recorded at Fair Value on a Nonrecurring Basis

As of both December 31, 2023 and December 31, 2022 there was no other real estate owned in which to measure at fair value on a nonrecurring basis.

Impaired loans as of December 31, 2023 and 2022, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1.6 million and $1.2 million, respectively, recorded in level 2 of the fair value hierarchy resulting in a specific allocation to the allowance for loan losses of $60,000 and $0 for 2023 and 2022, respectively.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Company's consolidated balance sheets are as follows as of December 31 (dollars in thousands):

		Fair Value Measurement at December 31, 2023 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 21,981	$ 21,981	$ -	$ -	$ 21,981
Restricted investments	3,157	-	3,157	-	3,157
Loans held for sale	1,255	-	1,255	-	1,255
Net loans	495,128	-	-	455,201	455,201
Interest receivable	1,554	-	1,554	-	1,554
Financial liabilities					
Noninterest-bearing deposits	$ 96,004	$ 96,004	$ -	$ -	$ 96,004
Interest-bearing deposits	362,272	-	342,922	-	342,922
Federal Home Loan Bank advances	34,500	-	34,600	-	34,600
Subordinated debt - callable	8,071	-	7,161	-	7,161
Subordinated debt - convertible	7,295	-	-	7,295	7,295
Interest payable	953	-	953	-	953

	Carrying Amount	Fair Value Measurement at December 31, 2022 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 46,829	$ 46,829	$ -	$ -	$ 46,829
Restricted investments	1,788	-	1,788	-	1,788
Loans held for sale	265	-	265	-	265
Net loans	455,362	-	-	424,655	424,655
Interest receivable	1,273	-	1,273	-	1,273
Financial liabilities					
Noninterest-bearing deposits	$ 124,421	$ 124,421	$ -	$ -	$ 124,421
Interest-bearing deposits	337,253	-	328,722	-	328,722
Federal Home Loan Bank advances	14,500	-	14,394	-	14,394
Subordinated debt - callable	8,045	-	8,347	-	8,347
Interest payable	259	-	259	-	259

The estimated fair values of financial instruments disclosed above as of December 31, 2023 and 2022 follow the guidance in ASU No. 2016-01 which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity and marketability factors.

4. INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale debt securities, including gross unrealized gains and losses, are summarized as follows as of December 31 (dollars in thousands):

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 9,674	$ -	$ 1,456	$ 8,219
Small business administration program securities	4,288	-	700	3,587
Municipal securities	1,896	-	190	1,706
Corporate securities	500	-	130	370
Total	$ 16,358	$ -	$ 2,476	$ 13,882

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 10,755	$ -	$ 1,709	$ 9,046
Small business administration program securities	4,659	-	746	3,913
Municipal securities	1,920	-	255	1,665
Corporate securities	500	-	88	412
Total	$ 17,834	$ -	$ 2,798	$ 15,036

All securities are held as available-for-sale. The amortized cost and fair value of securities grouped by contractual maturity at December 31, 2023, are summarized as follows:

	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Securities with Variable Periodic Payments	Total
Mortgage-backed securities	$ -	$ -	$ -	$ 9,674	$ 9,674
Small business administration program securites	-	-	-	4,288	4,288
Municipal securities	-	-	1,896	-	1,896
Corporate securities	-	-	500	-	500
Total amortized cost	$ -	$ -	$ 2,396	$ 13,962	$ 16,358
Fair value	$ -	$ -	$ 2,076	$ 11,806	$ 13,882

There were no sales of investment securities in 2023 or 2022.

As of December 31, 2023 and 2022, there were no pledged securities.

As of December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses, not recognized in income, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31 are as follows (dollars in thousands):

	Less than 12 Months		Over 12 Months		Total	
2023	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities	$ -	$ -	$ 8,219	$ 1,456	$ 8,219	$ 1,456
Small business administration program securities	-	-	3,587	700	3,587	700
Municipal securities	-	-	1,706	190	1,706	190
Corporate securities	-	-	370	130	370	130
Total	$ -	$ -	$ 13,882	$ 2,476	$ 13,882	$ 2,476

	Less than 12 Months		Over 12 Months		Total	
2022	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities	$ 3,012	$ 345	$ 6,034	$ 1,364	$ 9,046	$ 1,709
Small business administration program securities	1,586	323	2,327	423	3,913	746
Municipal securities	544	57	1,121	198	1,665	255
Corporate securities	412	88	-	-	412	88
Total	$ 5,554	$ 813	$ 9,482	$ 1,985	$ 15,036	$ 2,798

As of December 31, 2023 and December 31, 2022, all individual marketable securities held by the Company were in an unrealized loss position.

As of December 31, 2023 no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not expect any credit losses on these portfolios, does not intend to sell the securities, and it is likely that management will not be required to sell the securities prior to their anticipated recovery. The decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely payments on the securities. The fair value is expected to recover as the securities approach maturity. Furthermore, management does not have the intent to sell any of these securities and it is more likely than not that the Company will not have to sell any such securities before a recovery of cost.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The components of the outstanding loan balances are summarized as follows at December 31 (dollars in thousands):

	2023	2022
Commercial and industrial	$ 41,098	$ 39,400
Commercial real estate		
Commercial	346,115	304,837
Construction and land development	19,510	38,878
Total commercial real estate	365,625	343,715
Consumer		
Residential and other	87,316	73,026
Construction	6,501	5,149
Total consumer	93,817	78,175
Gross loans	500,540	461,290
Allowance for credit losses	5,412	5,928
Total loans, net	**$ 495,128**	**$ 455,362**

The following table presents the activity in the allowance for credit losses by portfolio segment under the CECL methodology for the year ended December 31, 2023.

2023	Commercial and Industrial	Commercial Real Estate	Consumer	Unallocated	Total
Balance at beginning of year, prior to adoption of ASC 326	$ 441	$ 4,433	$ 1,053	$ 1	$ 5,928
Impact of adopting ASC 326	(250)	(247)	(265)	14	(748)
Loans charged-off	(115)	-	-	-	(115)
Recoveries	-	-	-	-	-
Provision for credit losses	322	(45)	85	(15)	347
Balance at end of year	$ 398	$ 4,141	$ 873	$ -	$ 5,412

The following table presents the balance in the allowance for loan losses and the balance in loans by portfolio segment based on the impairment method used for the year ended December 31, 2022.

2022	Commercial and Industrial	Commercial Real Estate	Consumer	Unallocated	Total
Allowance for loan losses:					
Balance at beginning of year	$ 409	$ 3,748	$ 644	$ 65	$ 4,866
Loans charged-off	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	32	685	409	(64)	1,062
Balance at end of year	$ 441	$ 4,433	$ 1,053	$ 1	$ 5,928
Allowance for loan losses:					
Individually evaluated for impairment	$ -	$ -	$ 98	$ -	$ 98
Collectively evaluated for impairment	441	4,433	955	1	5,830
Total allowance for loan losses	$ 441	$ 4,433	$ 1,053	$ 1	$ 5,928
Loans:					
Individually evaluated for impairment	$ 966	$ 1,244	$ 476		$ 2,686
Collectively evaluated for impairment	38,434	342,471	77,699		458,604
Total loans	**$ 39,400**	**$ 343,715**	**$ 78,175**		**$ 461,290**

The Bank categorizes commercial loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually by classifying the loans as to credit risk.

These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into nine major categories, defined as follows:

- **Pass.** Meets the qualities of the definition of loan grades 1-5 listed below.
  - **Prime Rating-1**. Borrower demonstrates exceptional credit fundamentals, including stable and predictable profit margins and cash flows, strong liquidity and a conservative balance sheet with superior asset quality. Historic and projected performance indicates that borrower is able to meet obligations under almost any economic circumstance.
  - **High Quality-2.** Borrower consistently and internally generates sufficient cash flow to fund debt service. Management has successful experience with this company or with similar business activities in a similar market. Current and projected trends are positive and superior. Management breadth and depth indicates high degree of stability.
  - **Average Quality-3.** Balance sheet is comprised of good capital base, acceptable leverage, and liquidity. Ratios are at or slightly above peers. Operation generates sufficient cash to fund debt service and some working assets or capital expansion. Loans have excellent collateral with standard advance rates. Current trends are positive or stable.

- **Acceptable Quality-4.** Borrower generates sufficient cash flow to fund debt service, but most working assets and all capital expansion needs are funded by other sources. Borrower is able to meet interest payments but could not term out evergreen credit lines in a reasonable period of time. Earnings may be trending down; a loss may be shown indicating some volatility in earnings. However, management is acceptable and long-term trends are positive or neutral. Borrower may be able to obtain similar financing from other institutions.

- **Watch-5.** Borrowers may exhibit declining earnings, strained cash flow, increasing leverage, and/or weakening market position. They generally have limited additional debt capacity, modest coverage, and/or weakness in asset quality. Loans may be currently performing as agreed but could be adversely affected by factors such as deteriorating economic conditions, operating problems, pending litigation, or declining value of collateral. Management may be of good character, but weak. Borrower may have some limited ability to obtain similar financing with comparable or somewhat worse terms at other lending institutions.

- **Special Mention-6.** Loans classified as special mention have a potential for weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date.

- **Substandard-7.** Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

- **Doubtful-8.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- **Loss-9.** Loans are considered uncollectible and of little or no value as a Bank asset. Such loans are charged off when classified as loss.

Notes to Consolidated Financial Statements

Credit Quality Indicators

Based on the most recent analysis performed, the risk category of commercial loans by class of loans is as follows:

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023						
Commercial and Industrial:						
Risk Rating						
Pass	$ 8,899	$ 6,436	$ 6,508	$ 2,671	$ 16,102	$ 40,616
Special Mention	14	-	-	-	-	14
Substandard	-	418	-	-	50	468
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 8,913**	**$ 6,854**	**$ 6,508**	**$ 2,671**	**$ 16,152**	**$ 41,098**
Current period gross write-offs	$ 65	$ -	$ -	$ -	$ 50	**$ 115**
Commercial Real Estate - Commercial:						
Risk Rating						
Pass	$ 48,629	$ 90,985	$ 95,058	$ 107,814	$ 2,456	$ 344,942
Special Mention	-	-	1,173	-	-	1,173
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 48,629**	**$ 90,985**	**$ 96,231**	**$ 107,814**	**$ 2,456**	**$ 346,115**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**
Commercial Real Estate - Construction and Land Development:						
Risk Rating						
Pass	$ 11,645	$ 3,853	$ 1,375	$ 135	$ 2,502	$ 19,510
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 11,645**	**$ 3,853**	**$ 1,375**	**$ 135**	**$ 2,502**	**$ 19,510**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**

For consumer loans, a loan is considered performing if loan payments are timely. The following table presents the recorded investment in consumer loans based on payment activity and class as of December 31, 2023 (dollars in thousands).

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
Consumer Residential and Other:						
Performing	$ 10,479	$ 23,629	$ 23,076	$ 21,303	$ 8,829	$ 87,316
Non-Performing	-	-	-	-	-	-
Total	**$ 10,479**	**$ 23,629**	**$ 23,076**	**$ 21,303**	**$ 8,829**	**$ 87,316**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**
Consumer Construction:						
Performing	$ 2,806	$ 2,124	$ 409	$ 79	$ 1,083	$ 6,501
Non-Performing	-	-	-	-	-	-
Total	**$ 2,806**	**$ 2,124**	**$ 409**	**$ 79**	**$ 1,083**	**$ 6,501**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2022 (dollars in thousands):

2022	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction and Land Development	Total
Risk rating definitions				
Pass	$ 39,400	$ 303,593	$ 38,878	$ 381,871
Special mention	-	1,244	-	1,244
Substandard	-	-	-	-
Doubtful	-	-	-	-
Loss	-	-	-	-
				-
Total	**$ 39,400**	**$ 304,837**	**$ 38,878**	**$ 383,115**

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. A loan is considered performing if loan payments are timely. The following table presents the recorded investment in consumer loans based on payment activity as of December 31 (dollars in thousands):

2022	Consumer Residential and Other	Consumer Construction	Total
Performing	$ 73,026	$ 5,149	$ 78,175
Nonperforming	-	-	-
Total	**$ 73,026**	**$ 5,149**	**$ 78,175**

As of December 31, 2023, the Bank had a total recorded investment of $468,000 in nonaccrual loans. There were no recorded investments in nonaccrual loans as of December 31, 2022. There were no loans past due over 90 days still on accrual as of December 31, 2023 and 2022.

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable the Bank would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans included loans on non-accrual status and accruing troubled debt restructurings. When determining if the Bank would be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, management considered the borrower's capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations and an evaluation of secondary sources of repayment, such as guarantor support and collateral value.

If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis. As of December 31, 2022, $1.2 million of loans were classified as impaired with no related allowance for loan losses.

The following table presents the aging of the recorded investments in past due loans by class as of December (dollars in thousands):

2023	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction and Land Development	Consumer Residential and Other	Consumer Construction	Total Loans
30-60 days past due	$ 423	$ -	$ -	$ -	$ -	$ 423
61-90 days past due	482	-	-	-	-	482
Greater than 90 days	-	-	-	-	-	-
Total past due	905	-	-	-	-	905
Current	40,193	346,115	19,510	87,316	6,501	499,635
Total loans	**$ 41,098**	**$ 346,115**	**$ 19,510**	**$ 87,316**	**$ 6,501**	**$ 500,540**

2022	Commercial and Industrial	Commercial Real Estate	Commercial Real Estate Construction and Land Development	Consumer Residential and Other	Consumer Construction	Total Loans
30-60 days past due	$ 50	$ -	$ -	$ -	$ -	$ 50
61-90 days past due	-	-	-	-	-	-
Greater than 90 days	-	-	-	-	-	-
Total past due	50	-	-	-	-	50
Current	39,350	304,837	38,878	73,026	5,149	461,240
Total loans	**$ 39,400**	**$ 304,837**	**$ 38,878**	**$ 73,026**	**$ 5,149**	**$ 461,290**

There were no TDR's that defaulted during 2023 or 2022. No loans were designated as Troubled Loan Modifications (TLM) in 2023.

Notes to Consolidated Financial Statements

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31 (dollars in thousands):

	2023	2022
Leasehold improvements	$ 1,658	$ 1,656
Furniture, fixtures and equipment	2,666	2,679
Accumulated depreciation/amortization	(2,615)	(2,275)
Premises and equipment, net	**$ 1,709**	**$ 2,060**

Depreciation and amortization expense for continuing operations was $401,000 and $488,000 for 2023 and 2022, respectively.

7. DEPOSITS

The components of the outstanding deposit balances are as follows as of December 31 (dollars in thousands):

	2023	2022
Noninterest-bearing		
Demand	$ 96,004	$ 124,421
Interest-bearing		
Checking	36,372	51,457
Savings	176,830	182,184
Time, $250,000 and under	109,507	58,868
Time, over $250,000	39,563	44,744
Total deposits	**$ 458,276**	**$ 461,674**

Scheduled maturities of time deposits for each of the years succeeding December 31, 2023, are as follows (dollars in thousands):

Year	Amount
2024	$ 107,828
2025	5,030
2026	16,039
2027	18,365
2028	1,808
Total	**$ 149,070**

8. BORROWED FUNDS *(Including Subsequent Event)*

Federal Funds Borrowed Lines

As of December 31, 2023 and December 31, 2022, the Bank had available $19 million and $23 million in unsecured Federal Funds Purchased lines of credit with correspondent banks. No amounts were outstanding on these lines for either period.

Federal Reserve Bank Borrowings

The Bank pledges eligible agricultural and commercial and industrial loans to secure a borrowing arrangement with the Federal Reserve Bank of Chicago. Capacity totaled $8.2 million and $10.9 million as of December 31, 2023 and 2022 respectively with no balance outstanding during either period.

Federal Home Loan Bank of Indianapolis

The Bank pledges eligible real estate loans to secure a borrowing arrangement with the Federal Home Loan Bank of Indianapolis. Borrowing capacity totaled $107.8 million and $84.3 million as of December 31, 2023 and 2022 respectively. As of December 31, 2023, the Bank had six outstanding advances supported by this collateral totaling $34.5 million. As of December 31, 2022, the Bank had three outstanding advances totaling $14.5 million. Further detail of the advances outstanding as of December 31 is as follows (dollars in thousands):

	2023		2022	
Maturity Year	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2023	$ -	0.00%	$ 10,000	4.39%
2024	17,000	4.81%	4,500	2.83%
2025	-	0.00%	-	0.00%
2026	10,000	4.15%	-	0.00%
2027	7,500	4.82%	-	0.00%
Total	**$ 34,500**	**4.62%**	**$ 14,500**	**3.91%**

As of the date of these financial statements, all advances with 2024 maturities have matured. These maturities were replaced with a series of short term borrowings, of which, only one remains outstanding in the amount of $5 million, having a rate of 5.57% that matures May 3, 2024.

Subordinated Debt - Callable and Convertible

Subordinated Debt - Callable

In October 2020, the Company issued $8.25 million of subordinated debt with an outstanding balance, net of unamortized issuance cost, of $8.07 million and $8.05 million at December 31, 2023 and 2022, respectively. The interest rate is fixed at 5.50%, payable semi-annually on June 30th and December 31st of each year, beginning on December 31, 2020, until December 31, 2025, at which time it converts to the 3-month Secured Overnight Financing Rate (SOFR) plus 5.38% (rate would be 10.71% based on December 31, 2023 3-month SOFR and 9.96% based on December 31, 2022 3-month SOFR), with interest payable quarterly in arrears on March 31st, June 30th, September 30th, and December 31st of each year. Final maturity is December 2030, however, in accordance with the terms of the Notes the Company has the option to call the debt at par following the fifth anniversary. This debt is carried on the Consolidated Balance Sheets net of issuance costs, which are amortized over the life of the instrument. As of December 31, 2023 and 2022, the unamortized cost balances were $179,000 and $205,000 respectively.

The Company incurred approximately $263,000 of debt issuance costs relating to the issuance of the Notes, which were recorded as a reduction to the Notes on the Consolidated Balance Sheets. The debt issuance costs are being amortized and recognized as additional interest expense over the expected life of the Notes using the effective interest rate method. The Company determined the expected life of the debt is equal to the 10-year term of the Note. The effective interest rate on the Notes in 2023 and 2022 was 5.81%.

Non-Convertible Notes payable consisted of the following at December 31 (dollars in thousands):

	2023	2022
Principal amount of Notes	$ 8,250	$ 8,250
Unamortized debt issuance costs	(179)	(205)
Net carrying amount	**$ 8,071**	**$ 8,045**

Interest expense incurred in connection with Non-Convertible Notes consisted of the following at December 31 (dollars in thousands):

	2023	2022
Coupon interest	$ 454	$ 454
Amortization of debt issuance costs	26	26
Total interest expense on Notes	**$ 480**	**$ 480**

On December 31, 2030 the gross principal balance of $8.25 million is due on the Company's Non-Convertible Note.

Convertible Debt

In September 2023, the Company issued $7.65 million of convertible subordinated debt. The interest rate is fixed at 9.00%, payable quarterly in arrears on January 1st, April 1st, July 1st, and October 1st of each year, beginning on October 1, 2023. The debt will mature on September 1, 2026, unless it is repurchased, redeemed, or converted earlier in accordance with the terms of the Notes. The Notes comprise the Company's senior, unsecured obligations and are (i) equal in right of payment with the Company's existing and future senior, unsecured indebtedness;(ii) senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company's subsidiaries.

At any time before the maturity date, the Company has the option to prepay the debt and holders of the Notes may convert the debt to common stock at a conversion rate of 70% of the prior quarter end's tangible book value. As of December 31, 2023, the conversion equates to approximately 2.1 million shares of the Company's common stock or 187.9699 shares of the Company's common stock per $1,000 principal amount of the Notes. This equates to a conversion price of approximately $3.72 per share of the Company's common stock. These shares are included in the diluted earnings per share calculation.

The debt automatically converts to common stock at maturity. The maturity conversion rate is also 70% of the prior quarter end's tangible book value. This debt is carried on the Consolidated Balance Sheet net of issuance costs, which are amortized over the life of the instrument. As of December 31, 2023, the outstanding balance was $7.65 million and the unamortized debt issuance costs were $355,000. Interest expense of $230,000 was incurred in 2023.

The Notes contain customary terms and events of default. If an event of default arising out of certain events of bankruptcy, insolvency, or reorganization involving the Company or a significant subsidiary (as set forth in the Indenture) occurs with respect to the Company, the principal amount of the Notes and accrued and unpaid interest, if any, will automatically become immediately due and payable. If any other event of default (as defined in the Indenture) occurs and is continuing, either the Trustee or the holders of not less than two-thirds of the principal amount of and all accrued but unpaid interest on all the outstanding Notes may declare the principal amount of the Notes to be due and payable immediately by notice to the Company. There were no events of default at December 31, 2023.

The Notes are accounted for in accordance with ASC 470-20, *Debt—Debt with Conversion and Other Options (“ASC 470-20”)* and ASC 815-40, *Derivatives and Hedging—Contracts in Entity's Own Equity* (“ASC 815-40”). Under ASC 815-40, to qualify for equity classification (or nonbifurcation, if embedded), the instrument (or embedded feature) must be both (1) indexed to the issuer’s stock and (2) meet the requirements of the equity classification guidance. Based upon the Company's analysis, it was determined the Notes do contain embedded features indexed to its own stock, but do not meet the requirements for bifurcation, and therefore do not need to be separately accounted for as an equity component. Accordingly, the proceeds received from the issuance of the convertible debt were recorded as a liability on the Consolidated Balance Sheet.

The Company incurred approximately $398,000 of debt issuance costs relating to the issuance of the Convertible Notes, which were recorded as a reduction to the Notes on the consolidated balance sheet. The debt issuance costs are being amortized and recognized as additional interest expense over the expected life of the Notes using the effective interest rate method. The Company determined the expected life of the debt is equal to the three-year term of the Notes. The effective interest rate on the Notes is 10.74%.

Convertible Notes payable consisted of the following at December 31 (dollars in thousands):

	2023
Principal amount of Notes	$ 7,650
Unamortized debt issuance costs	(355)
Net carrying amount	**$ 7,295**

The estimated fair value (level 3) of the notes was $7.65 million as of December 31, 2023.

Interest expense incurred in connection with Convertible Notes consisted of the following at December 31 (dollars in thousands):

	2023
Coupon interest	$ 230
Amortization of debt issuance costs	44
Total interest expense on Notes	**$ 274**

9. FEDERAL INCOME TAXES

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. A valuation allowance is established when necessary to reduce the deferred tax assets to the amount expected to be realized.

Income tax expense is the tax payable or refundable for the period plus, or minus the change during the period in deferred tax assets and liabilities.

The provisions for income taxes from continuing operations are comprised of the following (dollars in thousands):

	2023	2022
Currently payable	$ -	$ -
Deferred (benefit) expense	(287)	322
Income taxes	**$ (287)**	**$ 322**

Reconciliation of federal income taxes at statutory rate (21% for 2023 and 2022) to effective rate for the year end December 31 is as follows (dollars in thousands):

	2023	2022
Income tax provision at statutory rate	$ (315)	$ 364
Other	28	(42)
Federal income taxes	**$ (287)**	**$ 322**

Significant components of the deferred income tax assets and liabilities presented on the Consolidated Balance Sheets are comprised of the following amounts as of December 31:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 1,182	$ 1,205
Start-up costs	-	33
Non-employee stock option plan	51	48
Unrealized loss on securities available-for-sale	520	589
Net operating losses	2,252	369
Other	150	150
Total deferred tax assets	**4,155**	**2,394**
Deferred tax liabilities		
Depreciation	(108)	(203)
Net deferred tax asset	**$ 4,047**	**$ 2,191**

Management has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in these consolidated financial statements based on evaluations performed for 2020 through 2023, the years which remain subject to examination by major tax jurisdictions as of December 31, 2023. Management does not expect to generate significant unrecognized tax benefits in the next twelve months. Interest and/or penalties related to income tax matters are reported in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2023 and 2022, and is not aware of claims for such amounts by federal income tax authorities.

Due to losses associated with GRMC, the net operating loss portion of the deferred tax asset has increased. Management has evaluated the levels of the overall deferred tax asset and does not believe a valuation allowance is necessary at this time.

10. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such credit extensions aggregated approximately $2.4 million and $3.6 million at December 31, 2023 and 2022 respectively.

Deposits

Deposits of directors, executive officers and their affiliates were approximately $4.5 million and $4.1 million at December 31, 2023 and 2022, respectively.

11. OFF-BALANCE SHEET ACTIVITIES

To meet the financing needs of its customers, the Bank is party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments are comprised of unused lines of credit, overdraft lines and loan commitments. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the Consolidated Balance Sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Risk to credit loss exists, up to the face amounts of these instruments, although material losses are not anticipated.

The contractual amount of financial instruments with off-balance sheet risk was as follows as of December 31 (dollars in thousands):

	2023		2022	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unfunded commitments under lines of credit and overdraft lines	$ 13,669	$ 99,850	$ 32,318	$ 96,126
Commitments to fund loans	11,143	8,189	9,850	5,194
Total	**$ 24,812**	**$ 108,039**	**$ 42,168**	**$ 101,320**

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments may expire without being drawn upon. These lines of credit may not be drawn upon to the total extent to which the Bank is committed.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

The following table presents the balance and activity for the allowance for credit losses for unfunded commitments in 2023 (dollars in thousands):

Balance, December 31, 2022	$ -
Adoption of ASC 326	748
Credit loss reversal	(396)
Balance, December 31, 2023	$ 352

12. LEASES

Lessee Arrangements

The Company enters into leases in the normal course of business. Existing leases have remaining terms ranging from 1 to 7 years and do not include residual value guarantees or covenants.

Leases are classified as operating or financing leases at the lease commencement date. Lease expense for 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.

The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's Consolidated Balance Sheets.

Notes to Consolidated Financial Statements

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The following table summarizes information related such leases during the year ended December 31. (dollars in thousands):

	2023	2022
Cash paid for amounts included in the measurements of lease obligations:		
Operating cash flows from operating leases:	$ 473	$ 468
Right-of-use assets obtained in exchange for new operating lease obligations net of (disposals)	452	165
Operating lease weighted average remaining lease term (years)	6.8	8.0
Operating lease weighted average discount rate	1.69%	1.56%

Right-of-use assets tied to operating leases were $2.1 million as of December 31, 2023 and December 31, 2022. Right-of-use liabilities tied to operating leases were $2.2 million as of December 31, 2023 and $2.1 million as of December 31, 2022. These amounts are included with interest and other assets receivables and interest payable and other liabilities on the Consolidated Balance Sheets. Total lease expense for the years ended 2023 and 2022 was $486,000, and $471,000, respectively. These amounts included $472,000 and $312,000 of amortization expense for operating leases in 2023 and 2022, respectively. The Company had no financing leases as of December 31, 2023 or 2022.

GRMC had a right-of-use asset and liability of $149,000 and $156,000 respectively as of December 31, 2022 and entered into new lease agreements throughout 2023.

GRMC terminated these agreements in connection with ceasing operations in December 2023. As a result, right-of-use assets and liabilities were disposed of in 2023 reducing right-of-use assets and liabilities by $125,000 and $132,000 respectively net of amortization.

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2023 are as follows (dollars in thousands):

Year	Operating Leases
2024	$ 464
2025	443
2026	278
2027	278
2028	278
Thereafter	556
Total undiscounted lease payments	2,297
Less imputed interest	117
Net lease liabilities	2,180

13. SHARE BASED COMPENSATION

On June 23, 2009, the Board of Directors of the Company approved the adoption of the Grand River Commerce, Inc. 2009 Stock Incentive Plan (the "2009 Plan") which provides for the reservation of 200,000 authorized shares of the Company's common stock, $0.01 par value per share, for issuance upon the exercise of certain common stock options, that may be issued pursuant to the terms of the 2009 Plan. The 2009 Plan was approved and adopted by our shareholders at our 2010 Annual Meeting. Effective March 1, 2017, the 2009 Plan was amended in part to add restricted stock as a type of award under the Plan. The plan expired on April 30, 2019, and as such no new awards can be granted under this plan.

Common Stock Options

During the second quarter of 2009, the Company awarded and issued options for the purchase of 100,000 shares of Company common stock. During 2013 and 2012, the Company awarded 500 and 35,000 common shares for additional employee options, respectively, to acquire 500 and 35,000 shares respectively, under the 2009 Plan. All such options expired ten years from date of original grant. Employee options had a 5 year vesting period and Director options had a 3 year vesting period.

The agreements were modified on December 30, 2016. The common stock option exercise price was modified from $10.00 to $5.30 for Director and Employee options resulting in compensation expense of $108,000 in 2016 and associated $12,000 of deferred income tax benefit. In addition, employee options were reset with a new 10-year term.

The total stock options outstanding at December 31, 2023 and 2022 under the 2009 plan totaled 50,000 and 60,000 respectively. No stock options were exercised in 2023 and 5,000 shares were exercised in 2022.

The cost of employee services received in exchange for equity awards, including stock options, is measured based on the grant date fair value of the awards. The cost is recognized as compensation expense over the vesting period of the awards. Management estimates the fair value of all stock options on each grant date and the modified date, using the Black-Scholes option pricing model.

The Company uses expected data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of grant and modification of the option.

A summary of option activity under the expired 2009 Plan is presented below for the year ended December 31:

	2023		2022	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	60,000	$ 5.30	65,000	$ 5.30
Granted	-	-	-	-
Exercised	-	-	(5,000)	5.30
Expired or cancelled	(10,000)	5.30	-	-
Outstanding at December 31, including those modified	**50,000**	**$ 5.30**	**60,000**	**$ 5.30**

There are 50,000 common stock options able to be exercised at December 31, 2023 and 60,000 as of December 31, 2022. No further options have been granted since 2013. As of December 31, 2023 and 2022, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under this Plan.

Restricted Stock Awards

In February 2021, the Company formalized a new restricted stock plan (the “2020 Plan”) to replace the 2009 Plan, which had expired. The 2020 Plan provides for the reservation of 650,000 authorized shares of the Company's common stock, $0.01 par value per share. Unless terminated earlier, the 2020 Plan expires in February 2031. Under the provisions of the plan, the Company cannot be obligated to "cash settle" any of the restricted stock awards through redemption.

During 2023 and 2022, a total of 15,000 and 21,436 shares, respectively, were granted under this plan. A total of 12,115 and 14,796 vested in 2023 and 2022 respectively from these and prior year grants. A total of 9,969 shares remain unvested and will fully vest over the next three years. The fair value of restricted stock awards is estimated by the market price of the Company's common stock at the date of grant. Total compensation expense of $64,000 and $143,000 was recognized in 2023 and 2022, respectively, for these restricted stock awards. During the period the shares are not vested, the participant may not sell, assign, transfer, pledge, or otherwise encumber the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Unvested shares are immediately forfeited when the employment of a grantee is terminated and immediately become vested upon a change of control or the death or disability of the participant. There was $46,000 of total unrecognized compensation cost related to nonvested restricted stock awards granted on the plan. These costs will be recognized through 2025.

A summary of restricted stock activity under the 2020 Plan is presented below for the year ended December 31:

	2023		2022	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1	9,227	$ 7.00	2,587	$ 5.80
Granted	15,000	5.40	21,436	7.05
Vested	12,115	5.76	14,796	7.05
Forfeited	2,143	7.00	-	-
Nonvested at December 31	**9,969**	**$ 5.89**	**9,227**	**$ 7.00**

PRSUs and SOSARs

In November 2021, the Company executed an executive employment agreement which includes equity based compensation awards for Stock Only Appreciation Rights (“SOSARs”) and Performance based Restricted Stock Units (“PRSUs”). These awards were issued under the terms of the 2020 Plan. In accordance with ASC 718-10-25, the awards were classified as equity awards that settle in shares of the Company's common stock. The fair value of the awards was measured on the grant date. The fair value of the SOSARs was estimated using a Black Scholes model, and the value of the PRSU's was estimated using the stock price at the grant date multiplied by the units awarded. The cost of the awards was to be spread over the performance period defined in the agreement.

Under the terms of the SOSAR, the recipient received the right to receive payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the exercise price. This SOSAR award was set to vest in December 2026 and expire in December 2031. Under the terms of the PRSU agreement, vesting of the award was based on the achievement of cumulative financial performance metrics over a performance period, which began in November 2021 and was set to end in December 2026. Settlement in shares of the Company's stock may be deferred to December 2031 based on a one time election by the recipient. The recipient voluntarily forfeited rights to this award in July 2023, at which time, amounts previously expensed were reversed. For 2023, this resulted in a one-time adjustment of expense recognized from the award's inception. The total adjustment recognized in conjunction with the forfeiture totaled $230,000 in 2023.

A total of 100,000 SOSARs were awarded in 2021 with an average weighted exercise price of $7.23 each. These awards were forfeited in July 2023. A total of 125,000 PRSUs were awarded in 2021 and were forfeited in July 2023. Total compensation expense recognized in 2023 and 2022 for the SOSARs was ($38,000) and $35,000, respectively, and expense for the PRSUs was ($192,000) and $178,000, respectively.

	2023		2022	
SOSARs	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at January 1	100,000	$ 7.23	100,000	$ 7.23
Granted	-	-	-	-
Exercised	-	-	-	-
Canceled / forfeited	100,000	7.23	-	-
Outstanding at December 31	-	$ -	100,000	$ 7.23

	2023		2022	
PRSUs	Shares	Weighted Average Price at Grant Date	Shares	Weighted Average Price at Grant Date
Outstanding at January 1	125,000	$ 7.23	125,000	$ 7.23
Granted	-	-	-	-
Forfeited	125,000	7.23	-	-
Shares delivered	-	-	-	-
Outstanding at December 31	-	$ -	125,000	$ 7.23

14. COMMON STOCK PURCHASE WARRANTS

The cost of equity instruments are measured based on the grant-date fair value of the award (with limited exceptions). The Company estimates the fair value of all common stock purchase warrants on each grant date, using an appropriate valuation approach based on the Black-Scholes option pricing model.

In recognition of the substantial financial risks undertaken by the members of the Company's organizing group, the Company granted 305,300 common stock purchase warrants to such organizers. These warrants were originally exercisable at a price of $10.00 per share, the initial offering price, and were to be exercised within ten years from the date that the Bank opened for business. The warrants vested immediately. In connection with the issuance of these warrants in 2009, the Company determined a share-based payment value, using the Black Scholes option-pricing model, of $479,000. This amount was charged entirely to the additional paid in capital of the 2009 common stock offering. No additional warrants have been issued since 2009.

On December 30, 2016, the exercise price of the warrants was modified from $10.00 to $5.30. The resulting increase in the incremental fair value of the modified awards was recognized as an adjustment to paid in capital of $303,000, using the Black Scholes option-pricing model. The warrants are fully vested and were required to be exercised by April 30, 2019. On February 26, 2019, the Company modified the expiration date to require exercise within 3.2 years. The resulting increase in the incremental fair value of the modified awards was recognized as an adjustment to paid in capital of $417,021, using the Black Scholes option-pricing model.

The fair value of each warrant issued was estimated on the February 26, 2019, date of grant, using the Black Scholes option pricing model with the following weighted average assumptions.

Dividend yield or expected dividends	0.00%
Risk free interest rate	2.44%
Expected life	3.2 years
Expected volatility	44.05%

All warrants expired in 2022. A total of 238,229 warrants were exercised in 2022, resulting in the issuance of 249,025 shares of common stock.

15. EARNINGS PER SHARE (dollars in thousands)

	2023	2022
Basic		
Continuing Operations		
Net (loss) income	$ (1,213)	$ 1,413
Discontinued Operations		
Net loss	$ (6,087)	$ (3,587)
Weighted average common shares outstanding	7,038,301	6,962,466
Continuing operations		
Basic (loss) earnings per common share	(0.17)	0.20
Discontinued operations		
Basic loss per common share	(0.86)	(0.52)
Basic loss per common share	$ (1.04)	$ (0.31)
Diluted		
Continuing Operations		
Net (loss) income	$ (1,213)	$ 1,413
Discontinued Operations		
Net loss	$ (6,087)	$ (3,587)
Weighted average common shares outstanding	7,038,301	6,962,466
Plus dilutive stock options	59,632	60,000
Plus dilutive convertible debt	678,468	-
Weighted average common share outstanding and potentially dilutive shares	7,776,401	7,022,466
Continuing operations		
Diluted (loss) earnings per common share	(0.16)	0.20
Discontinued operations		
Diluted loss per common share	(0.78)	(0.51)
Diluted loss per common share	$ (0.94)	$ (0.31)

There were no common stock options that were considered anti-dilutive to earnings per share as of December 31, 2023 or 2022.

16. MINIMUM REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON CAPITAL (Including Subsequent Event)

Banks and bank holding companies are subject to regulatory capital requirements administered by Federal banking agencies. Capital adequacy guidelines and, additionally for the Bank, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting policies. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications; well capitalized, adequately capitalized, undercapitalized and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, or worse, the Bank would be subject to further regulatory restrictions. The Company is currently restricted from paying dividends until such time it has sufficient retained earnings to do so without negatively affecting its ability to support the Bank.

Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts of ratios (set forth in the following table). Management believes, as of December 31, 2023 and 2022, that the Bank met all capital adequacy requirements to which they are subject.

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As of December 31, 2023 and 2022, the minimum capital conservation buffer required was 2.50%. The Bank had a capital conservation buffer of 2.55% as of December 31, 2023. The Bank has elected not to include the net unrealized gain or loss on available for sale securities in computing regulatory capital.

As of December 31, 2023 and 2022, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the following tables (dollars in thousands).

December 31, 2023	Actual		Minimum Capital Requirements Plus Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total capital to risk weighted assets	$ 50,605	10.55%	$ 50,357	10.50%	$ 47,960	10.00%
Common equity tier 1 capital to risk weighted assets	44,841	9.35	33,572	7.00	31,174	6.50
Tier 1 capital to risk weighted assets	44,841	9.35	40,766	8.50	38,368	8.00
Tier 1 capital to average assets	44,841	8.15	22,019	4.00	27,524	5.00

December 31, 2022	Actual		Minimum Capital Requirements Plus Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total capital to risk weighted assets	$ 52,886	11.08%	$ 50,130	10.50%	$ 47,743	10.00%
Common equity tier 1 capital to risk weighted assets	46,958	9.84	33,420	7.00	31,033	6.50
Tier 1 capital to risk weighted assets	46,958	9.84	40,581	8.50	38,194	8.00
Tier 1 capital to average assets	46,958	8.86	21,199	4.00	26,499	5.00

Consistent with its policy that bank holding companies should serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of prudence, Grand River Commerce, a bank holding company, generally should not maintain a rate of distributions to shareholders unless its available net income has been sufficient to fully fund the distributions, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition. In addition, the Company is subject to certain restrictions on the making of distributions as a result of the requirement that the Bank maintain an adequate level of capital as described above. As a Michigan company, the Company is restricted under the Michigan Business Company Act from paying dividends under certain conditions.

On March 27, 2024, Grand River Commerce downstreamed $3.0 million of additional capital to the Bank to further bolster its capital position.

17. CONTINGENCIES

Litigation

The Company is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

18. EMPLOYEE BENEFIT PLANS

The Company has a Safe Harbor 401(k) plan covering all employees. Contributions under the 401(k) plan are made by the employee with the Company contributing 100% of the employee deferral for the first 3% of compensation and 50% of the deferral for the next 2% of the employee's deferral within IRS limits. The cost of the plan amounted to approximately $323,000 and $255,000 for 2023 and 2022, respectively. These amounts include approximately $65,000 and $20,000 of expense related to discontinued operations for 2023 and 2022 respectively.

19. OPERATING MATTERS AND MANAGEMENT'S PLAN

The Company reported a net operating loss after income tax benefit of approximately $7.3 million in 2023 and $2.2 million in 2022. The net operating losses were primarily associated with GRMC's business activities, which totaled $6.1 million and $3.6 million in 2023 and 2022, respectively. Although losses were expected during the start-up phase, GRMC proved unable to achieve projected profitability and incurred persistent operating losses that exceeded Bank earnings. Management believes that, as a result of the plans detailed below, the Company currently has sufficient capital and other resources to meet its funding requirements over the next year from the date of issuance of these consolidated financial statements.

Non-interest expenses associated with the start-up of GRMC, the primary source for the losses, have largely been eliminated with the cessation of operations in the fourth quarter of 2023. Phasedown expenses were accrued for outstanding commitments that management was aware of as of December 31, 2023. The shutdown of GRMC is expected to be complete sometime in 2024 and additional expenses not already provided for are expected to be immaterial. Please see Note 2 for additional detail on discontinued operations.

The Bank, which is the primary earning engine for the Company, incurred a nominal loss in 2023 due to margin pressure caused by the historically unprecedented speed of market rate increases. The Bank has historically been profitable and is expected to be again in 2024 as assets continue to reprice higher and deposit rates stabilize. Additionally, non-interest expense increases for the Bank associated with the addition of GRMC, primarily software related, will remain elevated for much of 2024 but will reduce as contractual obligations expire.

To address the loss of Bank capital resulting from the net operating losses associated with GRMC, the Company issued subordinated convertible debt of approximately $7.65 million (see Note 8) in the third quarter of 2023. While the Bank has consistently remained “well capitalized” (see Note 16), Management believes that the actions taken to further strengthen the Bank’s capital position and to provide resources necessary for the Company to meet its obligations over the next year from the date of issuance of these consolidated financial statements, will enhance the Bank’s ability to continue to generate revenue.