

July 8, 2024

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Regarding: Bank performance

Dear Michele:

Attached please find our audited financial statements for the years ended December 31, 2023 and 2022. The results represent the ongoing financial strength and stability of your Bank through what has, and continues to be, a challenging economic environment.

As you know, the Bank opened for business in August of 2017. For the majority of de novo banks, it can take years before the institution is able to generate a monthly profit, yet alone an annual profit. Winter Park National Bank was first profitable on an annual basis in 2018, its first full year in business, and it has been profitable ever since. On a tax-affected basis, the bank has generated a return on average equity to our shareholders of over 19% the past two years. We have been able to achieve these results with solid balance sheet growth, with a watchful eye on operating expenses.

Loan growth, and the credit quality of the loan portfolio, are critical to any banks success. For Winter Park National Bank, our loan growth has been robust for an institution our size, and it has been achieved while being true to our conservative credit culture. The Bank's credit quality is very strong, as evidenced in the loan footnotes in our audited financial statements. The Bank also maintains a conservative loan to deposit ratio, keeping ample liquidity on the balance sheet.

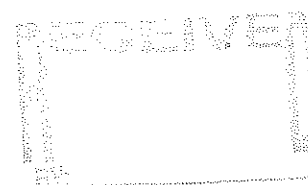
An important measure of a bank's financial strength is the sufficiency of its capital. Winter Park National Bank continues to meet all regulatory requirements for a "well-capitalized" bank, levels we have exceeded since our inception.

We greatly appreciate your business and continued trust in the Bank. After you have had the opportunity to review our financial statements, please let me know if you have any questions.

Sincerely,

A handwritten signature in black ink, appearing to read "David R. Dotherow", with a long horizontal flourish extending to the right.

David R. Dotherow  
Chief Executive Officer





**WINTER PARK NATIONAL BANK**  
**FINANCIAL STATEMENTS**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

**WINTER PARK NATIONAL BANK  
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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders  
of Winter Park National Bank

### Opinion

We have audited the accompanying financial statements of Winter Park National Bank, which comprise the statements of financial condition as of December 31, 2023 and 2022, and the related statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

To the Board of Directors and Shareholders  
of Winter Park National Bank

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Winter Park National Bank's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Winter Park National Bank's ability to continue as a going concern for a reasonable period of time.

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



Orlando, Florida  
April 15, 2024

**WINTER PARK NATIONAL BANK  
BALANCE SHEETS  
DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>ASSETS</b>		
Cash and Due from Financial Institutions	\$ 7,121,216	\$ 4,147,451
Interest-Bearing Deposits in Banks	70,083,612	44,169,936
Cash and Cash Equivalents	77,204,828	48,317,387
Securities - Available for Sale, at Fair Value	90,581,568	107,808,010
Securities - Held to Maturity, at Amortized Cost	154,764,322	161,847,366
Restricted Stock, at Cost	2,429,550	2,344,000
Loans, Net	430,028,255	377,329,485
Premises and Equipment, Net	2,266,690	2,353,911
Accrued Interest Receivable	2,032,724	1,859,209
Cash Value of Life Insurance	6,988,077	6,815,420
Split Dollar Loan Arrangements Receivables	2,930,091	2,906,862
Other Assets	1,198,564	2,403,216
Total Assets	\$ 770,424,669	\$ 713,984,866
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>LIABILITIES</b>		
Deposits:		
Noninterest-Bearing Demand Deposits	\$ 191,866,320	\$ 204,986,066
Interest-Bearing Demand Deposits	75,567,109	120,257,427
Money Market and Savings Deposits	387,868,941	335,661,513
Time Deposits	12,897,457	6,722,433
Total Deposits	668,199,827	667,627,439
Repurchase Agreements	5,851,404	4,931,364
Advances and Other Borrowings	50,000,000	-
Accrued Interest Payable	1,578,587	8,591
Other Liabilities	2,293,666	1,907,879
Total Liabilities	727,923,484	674,475,273
<b>STOCKHOLDERS' EQUITY</b>		
Common Stock, \$5 Par Value, 10,000,000 Shares Authorized; 4,442,954 and 4,396,845 Issued and Outstanding in 2023 and 2022, Respectively	22,214,770	21,984,225
Additional Paid-In Capital	23,918,828	23,422,027
Retained Earnings	6,890,112	6,151,099
Accumulated Other Comprehensive Income (Loss)	(10,522,525)	(12,047,758)
Total Stockholders' Equity	42,501,185	39,509,593
Total Liabilities and Stockholders' Equity	\$ 770,424,669	\$ 713,984,866

See accompanying Notes to Financial Statements.

**WINTER PARK NATIONAL BANK  
STATEMENTS OF INCOME  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>INTEREST AND DIVIDEND INCOME</b>		
Loans, Including Fees	\$ 21,585,931	\$ 15,533,015
Investment Securities	5,870,777	5,644,344
Other	4,325,320	1,294,256
Total Interest and Dividend Income	31,782,028	22,471,615
<b>INTEREST EXPENSE</b>		
Deposits	11,848,957	3,140,850
Borrowings and Repurchase Agreements	1,630,626	462,996
Total Interest Expense	13,479,583	3,603,846
<b>NET INTEREST INCOME</b>	18,302,445	18,867,769
<b>PROVISION FOR CREDIT LOSSES</b>	632,529	550,000
<b>NET INTEREST INCOME, AFTER PROVISION FOR CREDIT LOSSES</b>	17,669,916	18,317,769
<b>NONINTEREST INCOME</b>		
Customer Service Fees	385,272	335,202
Net Loss on Available for Sale Securities	-	(583,422)
Other	172,657	165,267
Total Noninterest Income	557,929	(82,953)
<b>NONINTEREST EXPENSES</b>		
Compensation and Employee Benefits	5,036,102	4,832,177
Occupancy and Equipment	605,613	576,056
Regulatory Assessments	735,136	661,239
Professional Fees	207,210	177,543
Data Processing and Information Technology	882,158	735,936
Other	914,467	751,731
Total Noninterest Expenses	8,380,686	7,734,682
<b>NET INCOME</b>	\$ 9,847,159	\$ 10,500,134

See accompanying Notes to Financial Statements.

**WINTER PARK NATIONAL BANK**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>NET INCOME</b>	<b>\$ 9,847,159</b>	<b>\$ 10,500,134</b>
Other Comprehensive Income (Loss):		
Unrealized Gains (Losses) on Available for Sale Securities	1,615,770	(10,987,514)
Reclassification Adjustment for Losses Realized in Income	-	141,189
Net Amortization of Unrealized Losses Related to Transferred Securities	(90,537)	(399,422)
Total Other Comprehensive Income (Loss)	<u>1,525,233</u>	<u>(11,245,747)</u>
Total Comprehensive Income (Loss)	<u>\$ 11,372,392</u>	<u>\$ (745,613)</u>

*See accompanying Notes to Financial Statements.*

**WINTER PARK NATIONAL BANK**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**YEARS ENDED DECEMBER 31, 2023 AND 2022**

	Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
	Shares	Par Value				
<b>BALANCE – DECEMBER 31, 2021</b>	4,320,960	\$ 21,604,800	\$ 22,793,898	\$ 2,188,655	\$ (802,011)	\$ 45,785,342
Net Income	-	-	-	10,500,134	-	10,500,134
Other Comprehensive Income (Loss)	-	-	-	-	(11,245,747)	(11,245,747)
Cash Dividends Declared	-	-	-	(6,537,690)	-	(6,537,690)
Contribution of Shares to ESOP	10,910	54,550	95,463	-	-	150,013
Stock-Based Compensation Cost	-	-	207,791	-	-	207,791
Exercise of Stock Options	64,975	324,875	324,875	-	-	649,750
<b>BALANCE – DECEMBER 31, 2022</b>	4,396,845	21,984,225	23,422,027	6,151,099	(12,047,758)	39,509,593
Cumulative Change in Accounting Principle - ASC 326 (Note 1)	-	-	-	(248,000)	-	(248,000)
Net Income	-	-	-	9,847,159	-	9,847,159
Other Comprehensive Income (Loss)	-	-	-	-	1,525,233	1,525,233
Contribution of Shares to ESOP	13,334	66,670	133,340	-	-	200,010
Cash Dividends Declared	-	-	-	(8,860,146)	-	(8,860,146)
Stock-Based Compensation Cost	-	-	111,836	-	-	111,836
Exercise of Stock Options	32,775	163,875	251,625	-	-	415,500
<b>BALANCE – DECEMBER 31, 2023</b>	4,442,954	\$ 22,214,770	\$ 23,918,828	\$ 6,890,112	\$ (10,522,525)	\$ 42,501,185

See accompanying Notes to Financial Statements.

**WINTER PARK NATIONAL BANK  
STATEMENTS OF CASH FLOWS  
YEARS ENDED DECEMBER 31, 2023 AND 2022**

	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Income	\$ 9,847,159	\$ 10,500,134
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Provision for Credit Losses	632,529	550,000
Depreciation and Amortization	179,592	178,703
Net Amortization of Securities, Available for Sale	298,512	956,495
Net Amortization of Securities, Held To Maturity	15,246	353,124
Noncash Stock Compensation Expense	111,836	207,791
Realized Loss on Sales of Available for Sale Securities	-	583,422
Net Change in:		
Accrued Interest Receivable	(173,515)	(335,234)
Cash Surrender Value of Life Insurance	(172,657)	(165,267)
Split Dollar Loan Arrangements Receivable	(23,229)	88,503
Accrued Interest Payable	1,569,996	6,677
Other Assets	1,204,652	(640,701)
Other Liabilities	126,258	(184,221)
Net Cash Provided by Operating Activities	13,616,379	12,099,426
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Securities Available for Sale	(29,874,299)	(105,777,898)
Proceeds from Calls and Maturities of Securities Available for Sale	32,000,000	9,660,000
Proceeds from Sales of Securities Available for Sale	-	28,033,074
Proceeds from Paydowns of Securities Available for Sale	16,417,999	9,473,566
Proceeds from Paydowns of Securities Held to Maturity	6,977,262	20,110,148
Net Increase in Restricted Securities	(85,550)	(20,950)
Net Increase in Loans	(53,319,771)	(78,086,587)
Purchases of Premises and Equipment	(92,371)	(570,761)
Net Cash Used by Investing Activities	(27,976,730)	(117,179,408)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Net Decrease in Demand, Money Market, and Savings Deposits	(5,602,636)	(56,502,642)
Net Increase in Time Deposits	6,175,024	1,397,359
Net Increase (Decrease) in Repurchase Agreements	920,040	(23,158,926)
Contribution of Shares to ESOP	200,010	150,013
Proceeds from Advances and Other Borrowings	50,000,000	-
Cash Dividends Paid on Common Stock	(8,860,146)	(6,537,690)
Proceeds from Exercise of Stock Options	415,500	649,750
Net Cash Provided (Used) by Financing Activities	43,247,792	(84,002,136)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	28,887,441	(189,082,118)
Cash and Cash Equivalents - Beginning of Year	48,317,387	237,399,505
<b>CASH AND CASH EQUIVALENTS - END OF YEAR</b>	\$ 77,204,828	\$ 48,317,387
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION</b>		
Interest Paid on Deposits and Borrowed Funds	\$ 11,909,587	\$ 3,597,169
Cumulative Change in Accounting Principal - ASC 326	\$ 248,000	\$ -

See accompanying Notes to Financial Statements.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations**

Winter Park National Bank (the Bank) is a nationally chartered, commercial banking institution with its deposits insured up to the applicable limits by the Federal Deposit Insurance Corporation (FDIC). The Bank offers a variety of financial services to individual and commercial customers through its headquarters in Winter Park, Florida and a branch location on Longwood, Florida.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the classification and valuation of securities, determination of the allowance for credit losses, and fair values of financial instruments.

**Concentrations of Credit Risk**

Most of the Bank's activities are with customers located within the Orange and Seminole Counties, Florida. Note 2 discusses the types of securities that the Bank invests in. Note 3 discusses the types of lending that the Bank engages in. The Bank is exposed to credit risk from a regional economic standpoint because significant concentrations of its borrowers work or reside within a geographical area. However, the loan portfolio is well diversified, and the Bank does not have any significant concentrations of credit risk except for residential and commercial real estate loans.

**Cash and Cash Equivalents**

For purposes of the balance sheets and statements of cash flows, cash and cash equivalents include cash and balances due from financial institutions and interest-bearing deposits in banks.

The Bank maintains cash in deposit accounts at financial institutions approved by the board of directors. Accumulated deposits at these institutions, at times, may exceed federally insured limits. Cash flows from loans and deposits are reported net.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Securities**

Debt securities are classified as held to maturity when the Bank has the positive intent and ability to hold the securities to maturity and are carried at amortized cost. Debt securities not classified as held to maturity are classified as available for sale. Securities available for sale are carried at fair value with unrealized gains and losses reported in other comprehensive income (loss). Realized gains and losses on securities available for sale are included in other noninterest income and, when applicable, are reported as a reclassification adjustment in other comprehensive income (loss). Gains and losses on sales of securities are determined using the specific identification method on the trade date. The amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the period to maturity date. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

Effective January 1, 2023, with the adoption of ASC 326, for available for sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of these criteria are met, the security's amortized costs basis is written down to fair value through income. If these criteria are not met, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized costs, any changes in the underlying credit rating of the security, and adverse conditions specifically related to the security, among other factors. If it is determined 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 allowance for credit losses is recorded, which is limited by the amount that the fair value is less than the amortized costs basis. Any impairment that has not been recorded through an allowance for credit losses is recognized as a component of other comprehensive income. Changes in the allowance for credit losses are recorded as a provision for credit loss. Prior to the adoption of ASC 326, the Bank used an other than temporary impairment model.

Effective January 1, 2023, with the adoption of ASC 326, for held to maturity debt securities, management measures expected credit losses on a collective basis by major security type. Prior to the adoption of ASC 326, the Bank used an other than temporary impairment model.

**Restricted Stock, at Cost**

The Bank is a member of the Federal Home Loan Bank of Atlanta (FHLB) and the Federal Reserve Bank (FRB). Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. It also consists of stock in First National Bankers Bankshares, Inc. Restricted stock is carried at cost and periodically evaluated for impairment. Because this stock is viewed as long term investment, impairment is based on ultimate recovery at par value. Both cash and stock dividends are reported as income.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loans**

The Bank grants real estate, commercial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by real estate loans in Orange and Seminole Counties, Florida. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses on loans, any deferred fees or costs on originated loans, and premiums or discounts on purchased loans.

Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and recognized as an adjustment of the related loan yield using the interest method, or the straight-line method for lines of credit.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 180 days past due. Past due status is based on 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is generally reversed against interest income and amortization of related deferred loan fees or costs is suspended. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. The cash-basis is used when a determination has been made that the principal and interest of the loan is collectible. If collectability of the principal and interest is in doubt, payments are applied to loan principal. The determination of ultimate collectibility is supported by a current, well documented credit evaluation of the borrower's financial condition and prospects for repayment, including consideration of the borrower's sustained historical repayment performance and other relevant factors. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, the borrower has demonstrated a period of sustained performance, and future payments are reasonably assured. A sustained period of repayment performance generally would be a minimum of six months.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Loans (Continued)**

The Bank maintains multiple loan portfolio segments. These portfolio segments and their risk characteristics are described as follows:

**Commercial and Industrial:** Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

**Commercial Real Estate:** Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments, except land and construction loans. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

**Real Estate Construction:** Real estate construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and timeline. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

**Residential Real Estate:** The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate, and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

**Consumer and Other:** The consumer and other loan portfolio is usually comprised of smaller balance loans. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

**Loans (Continued)**

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectibility of the portfolio. 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 five major categories, defined as follows:

**Pass:** Loans in this classification are considered to have an acceptable level of risk. Management does not believe the Bank will incur losses in these loans.

**Special Mention:** Loans classified as special mention have a potential weakness that deserves management's close attention and, if left uncorrected, could result in the weakening of the borrowers' ability to repay the Bank in the future.

**Substandard:** Loans in this classification are not adequately covered by the net worth and/or current repayment capacity of the borrowers or by the collateral if on a secured basis. Such loans are noted to have a defined weakness that could jeopardize the ultimate liquidation of the debt and are believed to possess a reasonable likelihood of causing loss to the Bank if the weaknesses are not remedied.

**Doubtful:** Loans classified as doubtful have all of the weaknesses inherent in those loans classified as substandard, in addition to added characteristics that such weaknesses make the collection of the debt in full, on the basis of currently existing facts and conditions, highly unlikely.

**Loss:** Loans classified as loss are considered uncollectible and charged off immediately.

**Allowance for Credit Losses on Loans**

Effective, January 1, 2023, the allowance for credit losses on loans is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected. The allowance for credit losses on loans is adjusted through the provision for credit losses to the amount of amortized cost basis not expected to be collected at the balance sheet date. Loan losses are charged off against the allowance for credit losses on loans when the Bank determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance for credit losses on loans.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Credit Losses on Loans (Continued)**

The measurement of expected credit losses encompasses information about historical events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, or delinquencies, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

Expected credit losses are estimated on a collective basis for groups of loans that share similar risk characteristics. Factors that may be considered in aggregating loans for this purpose include but are not necessarily limited to, product or collateral type, geography, and internal risk ratings. For loans that do not share similar risk characteristics with other loans such as collateral dependent loans, expected credit losses are estimated on an individual basis.

Expected credit losses are estimated over the contractual terms of the loans, adjusted for expected prepayments. The contractual term excludes expected extensions, renewals, and modifications unless 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.

The allowance for credit losses on loans estimate incorporates a reasonable and supportable economic forecast through the use of externally developed macroeconomic scenarios applied in the model. The model includes both current and forecasted unemployment rates. The length of the reasonable and supportable forecast period is evaluated at each reporting period and adjusted if deemed necessary. Currently, the Bank uses a two year reasonable and supportable forecast period in estimating the allowance for credit losses on loans. After the reasonable and supportable forecast period, the models effectively revert to long-term mean loss on a straight-line basis over 12 months.

Loans are charged off against the allowance for credit losses on loans in the period in which they are deemed uncollectible, and recoveries are credited to the allowance for credit losses on loans when received. Expected recoveries on loans previously charged off and expected to be charged-off are included in the allowance for credit losses on loans estimate. Once loans are downgraded to substandard, an assessment of collateral value is made; any outstanding loan balance in excess of fair value less cost to sell is charged off at no later than 180 days delinquency. Additionally, any outstanding balance in excess of fair value of collateral less cost to sell is charged off when the asset is foreclosed by the Bank. Commercial and other consumer loans are charged off when, in management's judgment, they are considered to be uncollectible.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Credit Losses on Loans (Continued)**

The weighted average remaining maturity (WARM) method is used for all loan pools. The WARM method considers an estimate of expected credit losses over the remaining life of the financial assets and uses average annual charge-off rates to estimate the allowance for credit losses. For amortizing assets, the remaining contractual life is adjusted by the expected scheduled payments and prepayments. The average annual charge-off rate is applied to the amortization-adjusted remaining life to determine the unadjusted lifetime historical charge-off rate.

To estimate a Current Expected Credit Loss (CECL) loss rate for the pool, management first identifies the loan losses recognized between the pool date and the reporting date for the pool and determines which loan losses were related to loans outstanding at the pool date. The loss rate method then divides the loan losses recognized on loans outstanding as of the pool date by the outstanding loan balance as of the pool date.

The Bank is a relatively new Bank and in the absence of any loss history, Management has selected a custom peer group of local community banks in the Orlando Metropolitan Statistical Area to use as a proxy for loan loss history by loan type. Management has reviewed this peer group, noting they are all community banks in the target demographic market with similar lending practices and loan portfolio mix to the Bank.

Qualitative reserves reflect management's overall estimate of the extent to which current expected credit losses on collectively evaluated loans will differ from historical loss experience. The analysis takes into consideration other analytics performed within the organization, such as enterprise and concentration management, along with other credit-related analytics as deemed appropriate. Management attempts to quantify qualitative reserves whenever possible. The CECL methodology applied focuses on evaluation of qualitative and environmental factors, including but not limited to: (1) evaluation of facts and issues related to specific loans; (2) management's ongoing review and grading of the loan portfolio; (3) consideration of historical loan loss and delinquency experience on each portfolio segment; (4) trends in past due and nonperforming loans; (5) the risk characteristics of the various loan segments; (6) changes in the size and character of the loan portfolio; (7) concentrations of loans; (8) existing economic conditions; (9) the fair value of underlying collateral; and (10) other qualitative and quantitative factors which could affect expected credit losses.

The Bank's CECL estimate applies a forecast that incorporates macroeconomic trends and other environmental factors. Management utilized national, regional and local leading economic indexes, as well as management judgment, as the basis for the forecast period. The historical loss rate was utilized as the base rate, and qualitative adjustments were utilized to reflect the forecast and other relevant factors.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Allowance for Credit Losses on Loans (Continued)**

The Bank establishes a specific reserve for individually evaluated loans which do not share similar risk characteristics with the loans evaluated using a collective or pooled basis. These individually evaluated loans are removed from the pooling approach discussed above for the quantitative baseline and include non-accrual loans and other loans as deemed appropriate by management.

Although management believes the allowance for credit losses on loans to be adequate, ultimate losses may vary from its estimates. At least quarterly, the board of directors reviews the adequacy of the allowance for credit losses on loans, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors.

Prior to the adoption of ASC 326, the Bank used an incurred loss model to measure an allowance for loan losses.

**Off-Balance-Sheet Credit Related Financial Instruments**

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements and standby letters of credit. Such financial instruments are recorded when they are funded. Expected credit losses related to off-balance sheet credit exposures are estimated over the contractual period for which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. Expected credit losses are estimated using similar methodologies employed to estimate expected credit losses on loans, taking into consideration the likelihood and extent of additional amounts expected to be funded over the terms of the commitments. The liability for credit losses on off-balance sheet credit exposures is presented within other liabilities on the balance sheets. Adjustments to the liability are included in the provision for credit losses.

**Transfers of Financial Assets and Participating Interests**

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (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.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Transfers of Financial Assets and Participating Interests (Continued)**

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

**Premises and Equipment**

Land is carried at cost. Other premises and equipment are carried at cost, net of accumulated depreciation. Depreciation is computed on the straight-line method based principally on the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

**Bank Owned Life Insurance**

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value, or the amount that can be realized, if lower.

**Advertising Costs**

Advertising costs are expensed as incurred.

**Income Taxes**

The Bank, with the consent of its stockholders, has elected to be taxed under sections of federal and state income tax laws which provide that, in lieu of Bank income taxes, the stockholders separately account for their pro rata shares of the Bank's items of income, deductions, losses, and credits.

The Bank files consolidated federal income tax returns and is not subject to federal income tax examinations or state examinations for taxable years prior to 2020.

The Bank follows the guidance for accounting for uncertainty in income taxes. The Bank can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. The Bank recognizes both interest and penalties as components of other operating expenses.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Comprehensive Income**

Recognized revenue, expenses, gains, and losses are included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the equity section of the balance sheets, such items, along with net income, are components of comprehensive income. Reclassifications from accumulated other comprehensive income (loss) for securities – available for sale are recorded through net gain (loss) on sale of securities on the statements of income.

**Stock Compensation Plans**

Stock compensation accounting guidance requires that the compensation cost relating to share-based payment transactions be recognized in financial statements. The cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employee's service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate fair value of stock options.

**Fair Value Measurements**

The Bank categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

*Level 1* – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Bank has the ability to access.

*Level 2* – Inputs that 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. Fair values for these instruments are estimated using pricing models, quoted prices of securities with similar characteristics, or discounted cash flows.

*Level 3* – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity.

WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Fair Value Measurements (Continued)**

Subsequent to initial recognition, the Bank may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

Professional standards allow entities the irrevocable option to elect to measure certain financial instruments and other items at fair value for the initial and subsequent measurement on an instrument-by-instrument basis. The Bank adopted the policy to value certain financial instruments at fair value.

**Revenue from Contracts with Customers**

The Bank recognizes revenue from contracts with customers in accordance with ASC 606 – *Revenue From Contracts with Customers*. The Bank has elected to use the following optional exemptions that are permitted under the ASC 606, which have been applied consistently to all contracts within all reporting periods presented:

- The Bank recognizes the incremental cost of obtaining a contract as an expense, when incurred, if the amortization period of the asset that the Bank would have recognized is one year or less.
- For performance obligations satisfied over time, if the Bank has a right to consideration from a member in an amount that corresponds directly with the value to the member of the Bank's performance completed to date, the Bank will generally recognize revenue in the amount to which the Bank has a right to invoice.
- The Bank does not generally disclose information about its remaining performance obligations for those performance obligations that have an original expected duration of one year or less, or where the Bank recognizes revenue in the amount to which the Bank has a right to invoice.

ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. The Bank's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Bank satisfies its obligation to the customer. Significant components of noninterest income considered to be within the scope of ASC 606 are discussed below.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Revenue from Contracts with Customers (Continued)**

*Customer Service Fees*

The Bank earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of the month representing the period over which the performance obligation is satisfied. Nonsufficient funds fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

*Interchange Income, Net of Rewards Costs*

When customers use their debit cards to pay merchants for goods or services, the Bank retains a fee from the funds collected from the related deposit or loan account and transfers the remaining funds to the payment network for remittance to the merchant. The performance obligation to the merchant is satisfied and the fee is recognized at the point in time when the funds are collected and transferred to the payment network.

The Bank does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2023 and 2022, the Bank did not have any significant contract balances or any contract acquisition costs.

**Leases**

ASC 842, "Leases", (ASC 842) requires a lessee to recognize a right-of-use (ROU) asset and a related lease liability for all leases with a term greater than 12 months on its balance sheet regardless of whether the lease is classified as financing or operating.

The Bank determines if an arrangement is a lease at inception. Operating leases are included in other assets and other liabilities in the balance sheet.

ROU assets represent the Bank's right to use an underlying asset for the lease term and lease liabilities represent the Bank's obligation to make lease payments arising from the lease. ROU assets and lease liabilities are recognized at the lease commencement date based on the present value of lease payments over the lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the Bank will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Accounting Pronouncements**

On January 1, 2023, the Bank adopted ASU 2016-03, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended (ASC 326), which replaces the incurred loss methodology with an expected loss methodology that is referred to as the CECL methodology. The measurement of expected credit losses under CECL is applicable to financial assets measured at amortized cost, including loan receivables and held to maturity securities. It also applies to off-balance sheet credit exposures such as loan commitments and standby letters of credit. In addition, changes were made to the accounting for available for sale securities, which requires credit losses to be presented as an allowance rather than as a direct write-down of the available for sale securities when management does not intend to sell or believes that it is more likely than not that they will not be required to sell.

The Bank adopted the standard using the modified retrospective method for all financial assets measured at amortized cost and for off-balance sheet credit exposures. Results for annual periods beginning after January 1, 2023 are presented under the new CECL model while prior reporting periods continue to be reported in accordance with previously applicable GAAP. The Bank recorded a net decrease to retained earnings in the amount of \$248,000 as of January 1, 2023 representing the cumulative effect of adopting this standard. The adjustment includes adjustment to the allowance for credit losses related to loans of \$18,000 and adjustment to the allowance for credit losses for off-balance sheet exposure of \$230,000.

On March 31, 2022, FASB issued ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the troubled debt restructuring (TDR), accounting model for creditors that have adopted Topic 326, *Financial Instruments – Credit Losses*. In addition, on a prospective basis, entities will be subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. Upon adoption of this guidance, the Bank no longer establishes a specific reserve for modifications made on or after January 1, 2023 to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective loan segment in the allowance for credit losses on loans. The Bank has adopted ASU 2022-02 effective on January 1, 2023. The adoption of this standard did not have a material effect on the Bank's operating results or financial condition.

**Reclassifications**

Certain prior period amounts have been reclassified to conform to the current period presentation.

**Subsequent Events**

In preparing these financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through April 15, 2024, the date the financial statements were available to be issued.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 2 SECURITIES**

The amortized cost of securities available for sale and held to maturity and their fair values, with gross unrealized gains and losses as of December 31, 2023 and 2022 are as follows:

Securities Available for Sale	2023			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>Debt Securities:</b>				
U.S. Government and Federal Agency	\$ 11,000,000	\$ -	\$ (61,540)	\$ 10,938,460
SBA Pools	7,325,717	9,496	(60,453)	7,274,760
Corporate	1,000,000	-	(20,510)	979,490
Municipals	30,514,797	-	(3,962,495)	26,552,302
Collateralized Mortgage Obligations	4,045,914	-	(639,735)	3,406,179
<b>Mortgage-Backed:</b>				
Residential	16,273,957	10,796	(2,078,747)	14,206,006
Commercial	30,171,261	-	(2,946,890)	27,224,371
<b>Total Securities Available for Sale</b>	<b>\$ 100,331,646</b>	<b>\$ 20,292</b>	<b>\$ (9,770,370)</b>	<b>\$ 90,581,568</b>

Securities Held to Maturity	2023			Fair Value
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	
<b>U.S. Government and Federal</b>				
Agency	\$ 27,435,160	\$ -	\$ (4,863,525)	\$ 22,571,635
SBA Pools	22,322,294	-	(2,905,827)	19,416,467
<b>Non-Agency Mortgage-Backed Securities</b>	<b>105,006,868</b>	<b>-</b>	<b>(17,264,130)</b>	<b>87,742,738</b>
<b>Total Securities Held to Maturity</b>	<b>\$ 154,764,322</b>	<b>\$ -</b>	<b>\$ (25,033,482)</b>	<b>\$ 129,730,840</b>



**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 2 SECURITIES (CONTINUED)**

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

	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>Available for Sale Securities Maturing in:</u>		
One Year or Less	\$ 3,077,316	\$ 3,006,299
After One Year Through Five Years	15,117,036	14,738,290
After Five Years Through Ten Years	21,592,388	18,705,552
After Ten Years	14,099,688	12,701,050
Subtotal	<u>53,886,428</u>	<u>49,151,191</u>
Mortgage-Backed Securities	46,445,218	41,430,377
Total	<u>\$ 100,331,646</u>	<u>\$ 90,581,568</u>
	<u>Amortized Cost</u>	<u>Fair Value</u>
<u>Held to Maturity Securities Maturing in:</u>		
One Year or Less	\$ -	\$ -
After One Year Through Five Years	6,261,642	5,738,167
After Five Years Through Ten Years	23,605,306	19,835,692
After Ten Years	19,890,506	16,414,243
Subtotal	<u>49,757,454</u>	<u>41,988,102</u>
Mortgage-Backed Securities	105,006,868	87,742,738
Total	<u>\$ 154,764,322</u>	<u>\$ 129,730,840</u>

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

Securities with a carrying value of \$153,754,782 and \$125,688,444 were pledged at December 31, 2023 and 2022, respectively, to secure public deposits, repurchase agreements, FRB and FHLB advances, and for other purposes required or permitted by law.

Sales of securities available for sale were as follows for the years ended December 31:

	<u>2023</u>	<u>2022</u>
Proceeds from Sale	\$ -	\$ 28,033,074
Gross Realized Losses	-	583,422

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 2 SECURITIES (CONTINUED)**

Gross unrealized losses on securities available for sale and held to maturity and the fair value of the related securities, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, were as follows:

<u>December 31, 2023</u>	Less than 12 Months		Over 12 Months		Total Gross Total Fair Value	Total Gross Unrealized Losses
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<u>Securities Available for Sale</u>						
Debt Securities:						
U.S. Government and						
Federal Agency	\$ -	\$ -	\$ 10,938,460	\$ (61,540)	\$ 10,938,460	\$ (61,540)
SBA Pools	3,171,079	(37,449)	3,050,717	(23,004)	6,221,796	(60,453)
Corporate	-	-	979,490	(20,510)	979,490	(20,510)
Municipals	-	-	26,552,302	(3,962,495)	26,552,302	(3,962,495)
Collateralized Mortgage						
Obligations	-	-	3,406,179	(639,735)	3,406,179	(639,735)
Mortgage-Backed:						
Residential	-	-	13,033,698	(2,078,747)	13,033,698	(2,078,747)
Commercial	-	-	27,224,371	(2,946,890)	27,224,371	(2,946,890)
Total Securities Available for Sale	<u>\$ 3,171,079</u>	<u>\$ (37,449)</u>	<u>\$ 85,185,217</u>	<u>\$ (9,732,921)</u>	<u>\$ 88,356,296</u>	<u>\$ (9,770,370)</u>
<u>Securities Held to Maturity</u>						
U.S. Government and						
Federal Agency	\$ -	\$ -	\$ 22,571,635	\$ (4,863,525)	\$ 22,571,635	\$ (4,863,525)
SBA Pools	-	-	19,416,467	(2,905,827)	19,416,467	(2,905,827)
Non-Agency						
Mortgage-Backed Securities	-	-	87,742,738	(17,264,130)	87,742,738	(17,264,130)
Total Securities Held to Maturity	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,730,840</u>	<u>\$ (25,033,482)</u>	<u>\$ 129,730,840</u>	<u>\$ (25,033,482)</u>

**WINTER PARK NATIONAL BANK**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2023 AND 2022**

**NOTE 2 SECURITIES (CONTINUED)**

<u>December 31, 2022</u>	Less than 12 Months		Over 12 Months		Total Gross Unrealized Losses	Total Fair Value
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses		
<b>Securities Available for Sale</b>						
<b>Debt Securities:</b>						
U.S. Government and						
Federal Agency	\$ 10,823,100	\$ (176,900)	\$ -	\$ -	\$ (176,900)	\$ 10,823,100
SBA Pools	5,708,029	(33,913)	-	-	(33,913)	5,708,029
Corporate	967,030	(32,970)	-	-	(32,970)	967,030
Municipals	7,931,645	(808,238)	19,603,531	(4,407,954)	(5,216,192)	27,535,176
Collateralized Mortgage						
Obligations	1,270,700	(175,360)	2,586,648	(488,186)	(663,546)	3,857,348
Mortgage-Backed:						
Residential	5,908,679	(368,175)	9,686,733	(2,002,763)	(2,370,938)	15,595,412
Commercial	39,785,545	(2,894,000)	-	-	(2,894,000)	39,785,545
Total Securities Available for Sale	<u>\$ 72,394,728</u>	<u>\$ (4,489,556)</u>	<u>\$ 31,876,913</u>	<u>\$ (6,898,903)</u>	<u>\$ (11,388,459)</u>	<u>\$ 104,271,641</u>
<b>Securities Held to Maturity</b>						
U.S. Government and						
Federal Agency	\$ -	\$ -	\$ 21,509,330	\$ (5,660,231)	\$ (5,660,231)	\$ 21,509,330
SBA Pools	3,081,079	(309,706)	19,181,175	(3,063,996)	(3,373,702)	22,262,254
Non-Agency						
Mortgage-Backed						
Securities	3,367,325	(239,591)	88,810,761	(16,624,172)	(16,863,763)	92,178,086
Total Securities Held to Maturity	<u>\$ 6,448,404</u>	<u>\$ (549,297)</u>	<u>\$ 129,501,266</u>	<u>\$ (25,348,399)</u>	<u>\$ (25,897,696)</u>	<u>\$ 135,949,670</u>

The Bank does not believe that the available for sale securities that were in an unrealized loss position as of December 31, 2023, which were comprised of 153 individual securities, represent a credit loss impairment. The gross unrealized loss positions were primarily related to U.S. government agencies, collateralized mortgage obligations, and mortgage-backed securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealized loss position, and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 2 SECURITIES (CONTINUED)**

All of the Bank's held to maturity securities are issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. government and have a long history of zero credit loss. Therefore, the Bank did not record an allowance for credit losses for these securities as of December 31, 2023.

In general, investments are exposed to various risks, such as interest rate, credit and overall market volatility risk. Due to the level of risk associated with certain investments, it is reasonably possible that changes in the values of the investments will occur in the near term and that such changes could be material.

**NOTE 3 LOANS**

Loans are summarized as follows:

	<u>2023</u>	<u>2022</u>
Commercial and Industrial	\$ 79,322,852	\$ 74,744,301
Commercial Real Estate	179,523,877	136,273,675
Real Estate Construction	41,722,377	60,903,019
Residential Real Estate	133,810,006	110,123,004
Consumer and Other	1,611,811	343,477
Total	<u>435,990,923</u>	<u>382,387,476</u>
Allowance for Credit Losses on Loans	(5,175,052)	(4,554,052)
Net Deferred Loan Fees	(787,616)	(503,939)
Loans, Net	<u>\$ 430,028,255</u>	<u>\$ 377,329,485</u>

The Bank elected to exclude accrued interest receivable from the amortized cost basis of loans. As of December 31, 2023 and 2022, accrued interest receivable for loans totaled \$1,132,213 and \$912,029, respectively, and is included in accrued interest receivable on the balance sheets.

A summary of the activity in the allowance for credit losses on loans and loan losses for the years ended December 31, 2023 and 2022, respectively, are as follows. The Bank adopted CECL as of January 1, 2023. The prior year amounts presented are calculated under the prior accounting standard.

<u>December 31, 2023</u>	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>Real Estate Construction</u>	<u>Residential Real Estate</u>	<u>Consumer and Other</u>	<u>Total</u>
Allowance for Credit Losses:						
Balance at Beginning of Year	\$ 899,086	\$ 1,661,098	\$ 783,394	\$ 1,208,612	\$ 1,862	\$ 4,554,052
Adoption of CECL	3,554	6,566	3,096	4,777	7	18,000
Provision for Credit Losses	(261,122)	706,162	(442,883)	590,465	10,378	603,000
Loans Charged-Off	-	-	-	-	-	-
Recoveries of Loans Previously Charged-Off	-	-	-	-	-	-
Balance at End of Year	<u>\$ 641,518</u>	<u>\$ 2,373,826</u>	<u>\$ 343,607</u>	<u>\$ 1,803,854</u>	<u>\$ 12,247</u>	<u>\$ 5,175,052</u>

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 3 LOANS (CONTINUED)**

<u>December 31, 2022</u>	<u>Commercial and Industrial</u>	<u>Commercial Real Estate</u>	<u>Real Estate Construction</u>	<u>Residential Real Estate</u>	<u>Consumer and Other</u>	<u>Total</u>
Allowance for Loan Losses:						
Balance at Beginning of Year	\$ 1,103,438	\$ 1,218,668	\$ 555,881	\$ 1,123,226	\$ 2,839	\$ 4,004,052
Provision for Loan Losses	(204,352)	442,430	227,513	85,386	(977)	550,000
Loans Charged-Off	-	-	-	-	-	-
Recoveries of Loans Previously Charged-Off	-	-	-	-	-	-
Balance at End of Year	<u>\$ 899,086</u>	<u>\$ 1,661,098</u>	<u>\$ 783,394</u>	<u>\$ 1,208,612</u>	<u>\$ 1,862</u>	<u>\$ 4,554,052</u>

In addition to the allowance for credit losses on loans above, the Bank has established an allowance for credit losses on unfunded commitments, classified in other liabilities on the balance sheets. This allowance is maintained at a level that management believes is sufficient to absorb losses arising from unfunded loan commitments and is determined based on a methodology similar to the methodology for determining the allowance for credit losses on loans. The allowance for credit losses on unfunded commitments as of December 31, 2023 was \$259,529.

The provision for credit losses is determined by the Bank as the amount to be added to the allowance for credit losses for various types of financial instruments including loans, investment securities, and unfunded commitments after net charge-offs have been deducted to bring the allowance for credit losses to a level that, in management's judgment, is necessary to absorb expected credit losses over the lives of the respective financial instruments. The components of the provision for credit losses included in the statements of income for the years ended December 31 are as follows:

	<u>2023</u>	<u>2022</u>
Loans	\$ 603,000	\$ 550,000
Unfunded Commitments	29,529	-
Total Provision for Credit Losses	<u>\$ 632,529</u>	<u>\$ 550,000</u>

A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. For collateral dependent loans, expected credit losses are based on the estimated fair value of the collateral at the balance sheet date, with consideration for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. As of December 31, 2023, there were no loans considered to be collateral dependent.

Collateral dependent commercial real estate loans, both owner occupied, and non-owner occupied are valued by independent external appraisals. These external appraisals are prepared using the sales comparison approach and income approach valuation techniques. Estimated fair values are reduced to account for sales commissions, broker fees, unpaid property taxes and additional selling expenses to arrive at an estimated net realizable value. Management may make subsequent unobservable adjustments to the collateral dependent loan appraisals. Collateral dependent loans other than commercial real estate are not considered material.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 3 LOANS (CONTINUED)**

The allowance for loan losses for loans evaluated individually and collectively for impairment by collateral class as of the year ended December 31, 2022 is as follows:

<u>December 31, 2022</u>	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Residential Real Estate	Consumer and Other	Total
Allowance for Loan Losses: Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: Collectively Evaluated for Impairment	\$ 899,086	\$ 1,661,098	\$ 783,394	\$ 1,208,612	\$ 1,862	\$ 4,554,052
Loans: Ending Balance: Individually Evaluated for Impairment	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Ending Balance: Collectively Evaluated for Impairment	\$ 74,744,301	\$ 136,273,675	\$ 60,903,019	\$ 110,123,004	\$ 343,477	\$ 382,387,476

The following tables show the loans allocated by management's internal risk ratings:

<u>December 31, 2023</u>	Commercial Credit Risk Profile by Risk Rating			
	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Total
Risk Rating:				
Pass	\$ 75,974,781	\$ 178,701,702	\$ 33,734,973	\$ 288,411,456
Special Mention	3,348,071	822,175	4,800,000	8,970,246
Doubtful	-	-	-	-
Total	<u>\$ 79,322,852</u>	<u>\$ 179,523,877</u>	<u>\$ 38,534,973</u>	<u>\$ 297,381,702</u>

<u>December 31, 2022</u>	Commercial Credit Risk Profile by Risk Rating			
	Commercial and Industrial	Commercial Real Estate	Real Estate Construction	Total
Risk Rating:				
Pass	\$ 74,030,263	\$ 136,273,675	\$ 60,903,019	\$ 271,206,957
Special Mention	714,038	-	-	714,038
Doubtful	-	-	-	-
Total	<u>\$ 74,744,301</u>	<u>\$ 136,273,675</u>	<u>\$ 60,903,019</u>	<u>\$ 271,920,995</u>

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 3 LOANS (CONTINUED)**

The following tables show the homogeneous loans allocated by payment activity:

	Consumer Credit Risk Profile by Payment Activity			
	Real Estate Construction	Residential Real Estate	Consumer and Other	Total
<u>December 31, 2023</u>				
Payment Activity:				
Performing	\$ 3,187,404	\$ 133,810,006	\$ 1,611,811	\$ 138,609,221
Non-Performing	-	-	-	-
Total	<u>\$ 3,187,404</u>	<u>\$ 133,810,006</u>	<u>\$ 1,611,811</u>	<u>\$ 138,609,221</u>

	Consumer Credit Risk Profile by Payment Activity			
	Real Estate Construction	Residential Real Estate	Consumer and Other	Total
<u>December 31, 2022</u>				
Payment Activity:				
Performing	\$ -	\$ 110,123,004	\$ 343,477	\$ 110,466,481
Non-Performing	-	-	-	-
Total	<u>\$ -</u>	<u>\$ 110,123,004</u>	<u>\$ 343,477</u>	<u>\$ 110,466,481</u>

The following tables show the aging analysis of the loan portfolio by time past due:

	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due		Total Nonaccrual
			Total Loans	Total Loans	
<u>December 31, 2023</u>					
Commercial and Industrial	\$ 78,895,668	\$ 209,684	\$ 217,500	\$ -	\$ 79,322,852
Commercial Real Estate	179,523,877	-	-	-	179,523,877
Real Estate Construction	41,722,377	-	-	-	41,722,377
Residential Real Estate	133,810,006	-	-	-	133,810,006
Consumer and Other	1,611,811	-	-	-	1,611,811
Total	<u>\$ 435,563,739</u>	<u>\$ 209,684</u>	<u>\$ 217,500</u>	<u>\$ -</u>	<u>\$ 435,990,923</u>

	Accruing Interest				
	Current	30-89 Days Past Due	More Than 90 Days Past Due		Total Nonaccrual
			Total Loans	Total Loans	
<u>December 31, 2022</u>					
Commercial and Industrial	\$ 74,744,301	\$ -	\$ -	\$ -	\$ 74,744,301
Commercial Real Estate	136,273,675	-	-	-	136,273,675
Real Estate Construction	60,903,019	-	-	-	60,903,019
Residential Real Estate	110,123,004	-	-	-	110,123,004
Consumer and Other	343,477	-	-	-	343,477
Total	<u>\$ 382,387,476</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 382,387,476</u>

For the years ended December 31, 2023 and 2022, there were no nonaccrual loans and no interest forgone on nonaccrual loans. For the year ended December 31, 2022, there were no loans individually evaluated for impairment.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 3 LOANS (CONTINUED)**

Modifications to borrowers experiencing financial difficulty may include interest rate reductions, principal or interest forgiveness, forbearances, term extensions, and other actions intended to minimize economic loss and to avoid foreclosure or repossession of collateral. The Bank had no loan modifications in 2023 made to borrowers experiencing financial difficulty.

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

The Bank had no loan modifications during the year ended December 31, 2022 considered troubled debt restructurings.

**NOTE 4 PREMISES AND EQUIPMENT**

Components of premises and equipment as of December 31, 2023 and 2022 are as follows:

	2023	2022
Land	\$ 1,495,998	\$ 1,495,998
Buildings	441,173	432,498
Leasehold Improvements	437,598	437,598
Furniture and Fixtures	832,187	912,743
Total	3,206,956	3,278,837
Less: Accumulated Depreciation	(940,266)	(924,926)
Total Premises and Equipment	\$ 2,266,690	\$ 2,353,911

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to \$179,592 and \$178,703, respectively.

**NOTE 5 LEASES**

The Bank leases its main office under an operating lease with an unrelated party. The initial term of the lease expires in 2027. As of December 31, 2023 and 2022, right-of-use assets totaled \$653,918 and \$853,809, respectively, and lease liabilities totaled \$673,438 and \$866,544, respectively. The charge to operations under the lease was \$211,690 and \$209,991, respectively, in 2023 and 2022.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 5 LEASES (CONTINUED)**

The cost components of the Bank's operating leases were as follows for the year ending December 31:

	<u>2023</u>	<u>2022</u>
Operating Lease Cost	\$ 211,690	\$ 209,991
Total Lease Cost	<u>\$ 211,690</u>	<u>\$ 209,991</u>

The following table summarizes other information related to the Bank's operating leases for the year ending December 31:

	<u>2023</u>	<u>2022</u>
Cash Paid for Amounts Included in the Measurement of Lease Liabilities:		
Operating Cash Flows from Operating Leases	\$ 204,915	\$ 198,946
Initial Recognition of Right-of-Use Assets	\$ -	\$ 1,051,000
Initial Recognition of Lease Liabilities	\$ -	\$ (1,051,000)
Weighted-Average Remaining Lease Term - Operating Leases, in Years	3.17 Years	4.17 Years
Weighted-Average Discount Rate - Operating Leases	1.55%	1.55%

A maturity analysis of annual undiscounted cash flows for lease liabilities as of December 31, 2023, is as follows:

<u>Year Ending December 31,</u>	<u>Operating Lease</u>
2024	\$ 211,062
2025	217,394
2026	223,916
2027	37,501
2028	-
Thereafter	-
Total Lease Payments	<u>689,873</u>
Less: Present Value Discount	<u>(16,435)</u>
Present Value of Lease Liabilities	<u>\$ 673,438</u>

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 6 DEPOSITS**

Deposits at December 31, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Noninterest Bearing Demand Deposits	\$ 191,866,320	\$ 204,986,066
Interest Bearing Demand Deposits	75,567,109	120,257,427
Money Market and Savings Deposits	387,868,941	335,661,513
Certificates of Deposit Less than or Equal to \$250,000	5,010,487	6,082,000
Certificates of Deposit Greater than \$250,000	7,886,970	640,433
Total	<u>\$ 668,199,827</u>	<u>\$ 667,627,439</u>

At December 31, 2023, the scheduled maturities of certificates of deposit are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2024	\$ 11,916,170
2025	932,615
2026	20,000
2027	-
2028	28,672
Thereafter	-
Total	<u>\$ 12,897,457</u>

**NOTE 7 SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE**

Information pertaining to securities sold under agreements to repurchase as of December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Sweep Repurchase Agreements	\$ 5,851,404	\$ 4,931,364
Total	<u>\$ 5,851,404</u>	<u>\$ 4,931,364</u>
Weighted Average Rate	<u>0.37%</u>	<u>0.68%</u>
Securities Underlying the Agreements:		
Carrying Value	<u>\$ 17,276,303</u>	<u>\$ 45,843,172</u>
Fair Value	<u>\$ 14,528,307</u>	<u>\$ 39,297,063</u>

The securities underlying the agreements as of December 31, 2023 and 2022 were under the Bank's control in safekeeping at third-party financial institutions.

The sweep repurchase agreements generally mature within one to four days from the transaction date.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 8 ADVANCES AND OTHER BORROWINGS**

The Bank had access to borrow funds from the Federal Reserve Discount Window of approximately \$8,612,000 as of December 31, 2023. As of December 31, 2023 and 2022, the Bank had discount window advances outstanding of \$50,000,000 and \$0, respectively. These borrowings are secured by pledged securities with a carrying value of approximately \$59,101,000 as of December 31, 2023.

At December 31, 2023 and 2022, the Bank has unsecured federal funds lines of credit of \$19 million available from correspondent banks and a secured line of credit available from the FHLB for up to 25% of total assets (subject to the provision of acceptable collateral, currently \$57.4 million in credit availability). The Bank's usage of the federal funds lines of credit was minimal in 2023 and 2022. There was no balance outstanding against any of the Bank's lines of credit at December 31, 2023 and 2022.

**NOTE 9 RELATED PARTY TRANSACTIONS**

In the ordinary course of business, the Bank has granted loans to executive officers, directors, and their affiliates (related parties). Activity associated with loans made to related parties for the years ended December 31, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Balance at Beginning of Year	\$ 9,248,131	\$ 8,993,839
New Loans and Advances	-	1,090,000
Repayments, Including Loans Sold	<u>(1,114,638)</u>	<u>(835,708)</u>
Balance at End of Year	<u>\$ 8,133,493</u>	<u>\$ 9,248,131</u>

Deposits from related parties held by the Bank at December 31, 2023 and 2022 amounted to approximately \$9,852,807 and \$73,762,884, respectively.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 10 FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK**

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

At December 31, 2023 and 2022, the following financial instruments whose contract amount represents credit risk were approximately as follows:

	<u>2023</u>	<u>2022</u>
Unfunded Commitments Under Lines of Credit	\$ 132,375,834	\$ 103,502,810
Standby Letters of Credit	2,730,148	2,144,101
Total	<u>\$ 135,105,982</u>	<u>\$ 105,646,911</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income producing commercial properties.

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

The Bank was not required to perform on any financial guarantees and did not incur any losses on its commitments during the past two years.

**NOTE 11 LEGAL CONTINGENCIES**

The Bank may be subject to claims and lawsuits which may arise primarily in the ordinary course of business. It is the opinion of management, if such claims are made, that the disposition or ultimate resolution of the claims and lawsuits will not have a material adverse effect on the financial position of the Bank. In October 2023, the Bank was named as a defendant in a lawsuit regarding fraudulent activity by a client of the Bank. As of the report date, management believes this lawsuit is without merit and will not have a material adverse impact on the financial statements of the Bank.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 12 STOCK WARRANTS AND OPTIONS**

**Stock Options**

Under the Bank's Employee Stock Option Plan (the Plan), the Bank may grant options to its directors, officers, and employees for up to 800,000 shares of common stock. Both incentive stock options and non-qualified stock options may be granted under the Plan. The exercise price of each option equals the fair value of the Bank's stock on the date of grant and an option's maximum term is 10 years. Vesting periods are five and eight years from the date of grant. The Bank adopted the guidance in the recognition principle for stock compensation expense, which requires that compensation cost relating to share-based payment transactions be recognized in the financial statements with measurement based upon the fair value of the equity or liability instruments issued.

For the years ended December 31, 2023 and 2022, the Bank recognized \$111,836 and \$207,791, respectively, in compensation expense for stock options.

There were no options granted in 2023. The calculated value of each option granted in 2022 is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	<u>2022</u>
Dividend Yield	15.0%
Expected Life	7.5 Years
Expected Volatility	10.0%
Risk-Free Interest Rate	1.45%

**Stock Options (Continued)**

A summary of the status of the Bank's stock option plan as of December 31, 2023 and 2022 is presented below:

<u>Officer and Employee Options</u>	<u>2023</u>			<u>2022</u>	
	Shares	Weighted Average Exercise Price	Aggregate Intrinsic Value	Shares	Weighted Average Exercise Price
Outstanding at Beginning of Year	310,175	\$ 11.84		196,900	\$ 10.00
Granted	-	-		152,250	13.75
Exercised	(20,775)	12.06		(28,975)	10.00
Forfeited or Expired	-	-		(10,000)	10.00
Outstanding at End of Year	<u>289,400</u>	<u>\$ 11.83</u>	<u>\$ 555,648</u>	<u>310,175</u>	<u>\$ 11.84</u>
Options Exercisable at Year-End	<u>123,850</u>	<u>\$ 10.58</u>	<u>\$ 392,605</u>	<u>75,200</u>	<u>\$ 10.00</u>
Weighted Average Fair Value of Options Granted During the Year		<u>\$ -</u>			<u>\$ -</u>

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 13 EMPLOYEE BENEFITS (CONTINUED)**

**Split-Dollar Loan Arrangements**

In 2021, the Bank implemented supplemental retirement benefits for certain executives using split-dollar loan (SDL) arrangements. Under SDL, the Bank advanced premiums to the executives to acquire life insurance policies owned by the executives. This is treated as a loan under income tax regulations. The Bank will be fully repaid the loans and has secured collateral assignments of the policies to protect its interest in them. The life insurance policies are the sole source of repayment of the loans. At times the cash surrender value may be less than the loan balances. When there is a shortfall, generally accepted accounting principles requires the Bank to recognize the shortfall as a deferred compensation expense and adjust the receivable by the same amount. However, since there will be sufficient death proceeds to fully repay the loans upon an executive's death, any shortfall is temporary. At December 31, 2023 and 2022, the receivable recorded for the split-dollar loan arrangements amounted to approximately \$2,930,091 and \$2,906,862, respectively.

**Stock Appreciation Rights Plan**

In 2022 the Bank implemented a Stock Appreciation Rights (SARs) Plan, which awards certain employees (Participants) the right to be paid compensation equivalent to an increase in the value per share of the Bank's common stock over an initial value, with the value per share to be determined by the Board in its sole discretion. The purpose of the Plan is to advance the interests of Winter Park National Bank and its shareholders by rewarding outstanding performance by Bank employees, providing additional incentives to such employees to act in the long-term best interests of the Bank, encouraging such employees to remain in the long-term employment of the Bank, and insuring that such employees share in the appreciation and the value of the Bank. During the first year after the SAR issue date, no portion of the SARs shall be vested. An amount equal to 20% of the number of SARs held by the Participant shall vest commencing on the first anniversary of the SAR issue date and an additional 20% on each succeeding anniversary thereafter until vested 100% on the fifth anniversary of the SAR issue date. If the Bank pays a cash distribution on the shares of Bank common stock to Bank shareholders, then an amount of cash equal to 20% of such cash distribution per share will be credited to the vested SARs in a Participant's account. All benefits to a Participant under the Plan will be paid in cash. In 2023, 10,000 additional SARs were awarded to Participants. The charge to operations in 2023 for anticipated payments under the plan was \$160,000. In 2022, 39,250 SARs were awarded to Participants. The charge to operations in 2022 for anticipated payments under the plan was \$53,000. The charge to operations is included in salaries and employee benefits in the statements of income, with the deferred compensation liability included in the caption other liabilities on the balance sheets.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 14 REGULATORY MATTERS**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's and the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank and the Bank to maintain minimum amounts and ratios of common equity, total, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes that the Bank met all capital adequacy requirements to which they are subject as of December 31, 2023 and 2022. In addition to these requirements, banking organizations must maintain a 2.5% capital conservation buffer consisting of common Tier I equity effective January 1, 2019.

As of December 31, 2023, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain minimum common equity risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table. There are no conditions or events since that notification which management believes have changed the Bank's category.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 14 REGULATORY MATTERS (CONTINUED)**

The Bank's actual capital amounts and ratios as of December 31, 2023 and 2022 are presented in the following table.

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2023						
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)	\$ 53,210,000	10.55%	\$ 22,703,000	4.50%	\$ 32,793,000	6.50%
Tier I Capital to Risk Weighted Assets	53,210,000	10.55%	30,270,000	6.00%	40,360,000	8.00%
Total Capital to Risk Weighted Assets	58,459,000	11.59%	40,360,000	8.00%	50,450,000	10.00%
Tier I Capital to Average Assets	53,210,000	6.70%	31,757,000	4.00%	39,696,000	5.00%
December 31, 2022						
Common Equity Tier 1 Capital to Risk Weighted Assets	\$ 51,557,000	10.82%	\$ 21,446,000	4.50%	\$ 30,977,000	6.50%
Tier I Capital to Risk Weighted Assets	51,557,000	10.82%	28,594,000	6.00%	38,125,000	8.00%
Total Capital to Risk Weighted Assets	56,111,000	11.77%	38,125,000	8.00%	47,656,000	10.00%
Tier I Capital to Average Assets	51,557,000	6.76%	30,494,000	4.00%	38,117,000	5.00%

The Bank is subject to certain restrictions on the amount of dividends that it may pay without prior regulatory approval. The Bank normally restricts dividends to a lesser amount.

**WINTER PARK NATIONAL BANK  
NOTES TO FINANCIAL STATEMENTS  
DECEMBER 31, 2023 AND 2022**

**NOTE 15 FAIR VALUE MEASUREMENTS**

**Recurring Basis**

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. For additional information on how the Bank measures fair value refer to Note 1 – Summary of Significant Accounting Principles to the financial statements. The following table presents the balances of the assets and liabilities measured at fair value on a recurring basis as of December 31, 2023 and 2022:

<u>December 31, 2023</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities Available for Sale:				
U.S. Government and Federal				
Agency	\$ -	\$ 10,938,460	\$ -	\$ 10,938,460
SBA Pools	-	7,274,760	-	7,274,760
Corporate	-	979,490	-	979,490
Municipals	-	26,552,302	-	26,552,302
Collateralized Mortgage				
Obligations	-	3,406,179	-	3,406,179
Mortgage-Backed:				
Residential	-	14,206,006	-	14,206,006
Commercial	-	27,224,371	-	27,224,371
Total Securities Available for Sale	<u>\$ -</u>	<u>\$ 90,581,568</u>	<u>\$ -</u>	<u>\$ 90,581,568</u>
<u>December 31, 2022</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Securities Available for Sale:				
U.S. Government and Federal				
Agency	\$ -	\$ 10,823,100	\$ -	\$ 10,823,100
SBA Pools	-	9,244,399	-	9,244,399
Corporate	-	967,030	-	967,030
Municipals	-	27,535,176	-	27,535,176
Collateralized Mortgage				
Obligations	-	3,857,348	-	3,857,348
Mortgage-Backed:				
Residential	-	15,595,412	-	15,595,412
Commercial	-	39,785,545	-	39,785,545
Total Securities Available for Sale	<u>\$ -</u>	<u>\$ 107,808,010</u>	<u>\$ -</u>	<u>\$ 107,808,010</u>

The following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy.

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**NOTE 15 FAIR VALUE MEASUREMENTS (CONTINUED)**

**Investment Securities**

When available, the Bank uses quoted market prices to determine the fair value of securities; such items are classified in Level 1 of the fair value hierarchy. For the Bank's securities for which quoted prices are not available for identical securities in an active market, the Bank determines fair value utilizing vendors who apply matrix pricing for similar bonds for which no price is observable or may compile prices from various sources. These models are primarily industry-standard models that consider various assumptions, including time value, yield curve, volatility factors, prepayment speeds, default rates, loss severity, current market, and contractual prices for the underlying financial instruments, as well as other relevant economic measures. Substantially all of these assumptions are observable in the marketplace, can be derived from observable data, or are supported by observable levels at which transactions are executed in the marketplace. Fair values from these models are verified, where possible, against quoted market prices for recent trading activity of assets with similar characteristics to the security being valued. Such methods are generally classified as Level 2. However, when prices from independent sources vary, cannot be obtained, or cannot be corroborated, a security is generally classified as Level 3.

**Nonrecurring Basis**

Certain assets are measured at fair value on a nonrecurring basis. These assets are not measured at fair value on an ongoing basis; however, they are subject to fair value adjustments in certain circumstances, such as when there is evidence of impairment or a change in the amount of previously recognized impairment.

The Bank had no net impairment losses related to nonrecurring fair value measurements of certain assets for the years ended December 31, 2023 and 2022.