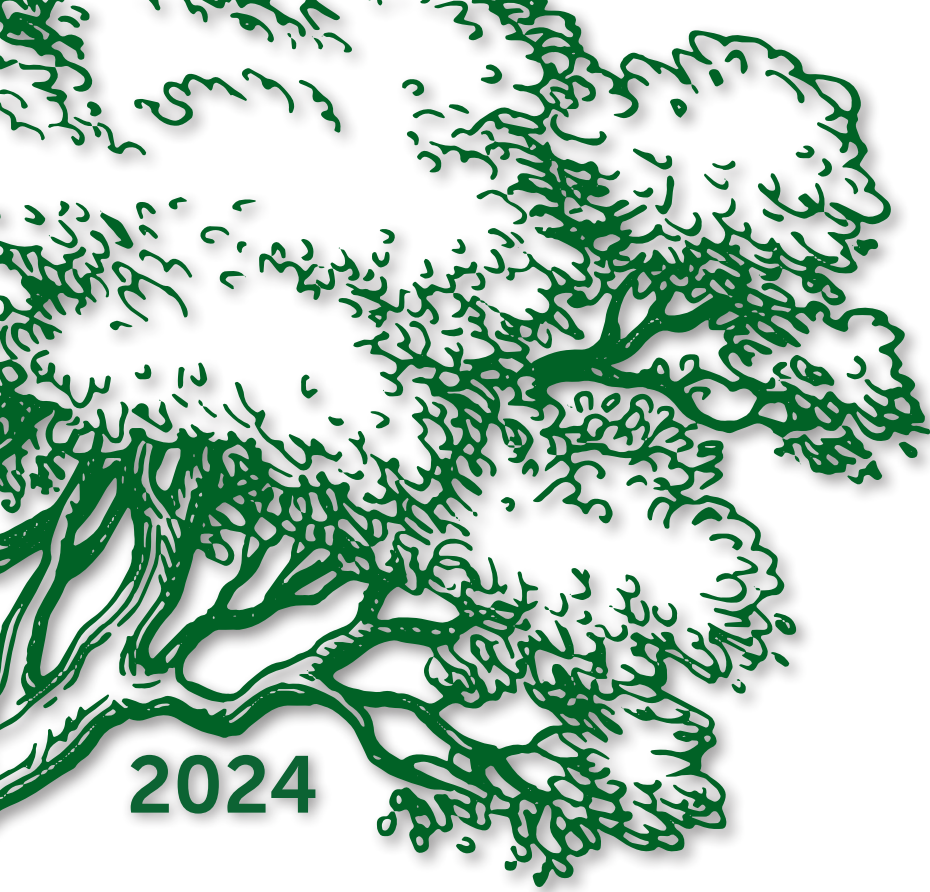




2024





OUR MISSION

Our mission is to operate a safe and sound financial institution, provide excellent customer experience, offer quality products and services, support our local communities, maintain a rewarding workplace for our employees and create top quartile value and return to our shareholders.

OUR VISION

Concierge Level Service. We strive to be an authentic, passionate, community-based financial services leader, providing exceptional experience at every customer interaction, and to amaze every customer, every time, by ethically meeting their financial needs at the time they need to be met.

VALUES

We demonstrate our values with a focus on:

- O** One team - dedicated to meeting the financial needs of our customers.
- A** Accountability - to our team, our community and our shareholders.
- K** Knowledge - to better ourselves, our customers and our communities.
- V** Value - by sharing our time, talent, and resources with others.
- I** Integrity - in making ethical decisions to drive our success.
- E** Excellence - in all that we do.
- W** Work/life balance - supporting our employees' development and personal enrichment.



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Oak View Bankshares, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Oak View Bankshares, Inc. and Subsidiary (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Yount, Hyde & Barton, P.C.

Winchester, Virginia
April 21, 2025

OAK VIEW BANKSHARES, INC.

Consolidated Balance Sheets

December 31, 2024 and 2023

(Dollars in thousands, except share data)	2024	2023
Assets		
Cash and due from banks	\$ 16,223	\$ 8,582
Federal funds sold	293	287
Interest-bearing deposits in other financial institutions	27,838	16,981
Securities held to maturity, net of allowance for credit losses of \$106 and \$106, respectively (fair value of \$9,362 and \$8,950, respectively)	10,406	10,414
Securities available for sale, at fair value	287,310	237,589
Restricted stock, at cost	3,887	3,816
Loans, net of allowance for credit losses of \$3,004 and \$2,793, respectively	317,947	301,259
Premises and equipment, net	12,306	6,781
Bank-owned life insurance	10,328	10,054
Accrued interest receivable	2,618	2,435
Deferred tax asset, net	1,147	1,295
Other assets	4,137	667
Total assets	\$ 694,440	\$ 600,160
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing	\$ 98,533	\$ 93,499
Savings, interest-bearing checking and money market accounts	198,031	166,101
Time deposits	292,211	214,634
Total deposits	\$ 588,775	\$ 474,234
Short-term borrowings	15,000	40,000
Long-term borrowings	34,900	34,900
Subordinated debt, net of unamortized issuance costs	13,767	13,734
Accrued expenses and other liabilities	3,721	4,624
Total liabilities	\$ 656,163	\$ 567,492
Shareholders' Equity		
Preferred stock, \$5.00 par value, 2,000,000 shares authorized; none issued and outstanding	\$ -	\$ -
Common stock, \$1.00 par value, 10,000,000 shares authorized; issued and outstanding: 2,927,175 and 2,956,157 shares, respectively	2,927	2,956
Additional paid-in capital	17,434	17,777
Retained earnings	20,429	14,923
Accumulated other comprehensive loss, net	(2,513)	(2,988)
Total shareholders' equity	\$ 38,277	\$ 32,668
Total liabilities and shareholders' equity	\$ 694,440	\$ 600,160

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Income
For the Years Ended December 31, 2024 and 2023

(Dollars in thousands, except share data)

	2024	2023
Interest and Dividend Income		
Interest and fees on loans	\$ 17,738	\$ 14,773
Interest on securities	16,542	13,071
Dividends on restricted stock	301	169
Interest on deposits in other financial institutions	1,571	684
Interest on federal funds sold	16	22
Total interest and dividend income	36,168	28,719
Interest Expense		
Interest on deposits	15,057	9,752
Interest on borrowings	2,411	2,248
Interest on subordinated debt	560	560
Total interest expense	18,028	12,560
Net interest income	18,140	16,159
Provision for credit losses	195	576
Net interest income after provision for credit losses	17,945	15,583
Noninterest Income		
Service charges on deposit accounts	102	134
Interchange fee income	791	735
Mortgage loan fee income	308	131
Bank-owned life insurance	274	256
Gains (losses) on sales of securities, net	487	(247)
Other income	131	137
Total noninterest income	2,093	1,146
Noninterest Expenses		
Salaries and employee benefits	7,150	6,761
Occupancy and equipment	771	703
Professional services	325	304
Data processing	1,614	1,454
Advertising and marketing	387	310
Regulatory assessments	457	493
Taxes, other	375	389
Other operating expenses	1,327	1,065
Total noninterest expenses	12,406	11,479
Net income before income tax expense	7,632	5,250
Income tax expense	1,535	1,037
Net income	\$ 6,097	\$ 4,213
Earnings per common share, basic and diluted	\$ 2.07	\$ 1.43
Weighted Average Common Shares Outstanding, basic	2,942,904	2,956,157
Weighted Average Common Shares Outstanding, diluted	2,942,904	2,956,157

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
(Dollars in thousands)		
Net Income	\$ 6,097	\$ 4,213
Other comprehensive income, net of tax:		
Gross unrealized (loss) gain on securities available for sale	(2,172)	2,098
Income tax expense (benefit)	456	(440)
	(1,716)	1,658
Gross unrealized gain on cash flow hedge	168	89
Income tax benefit	(35)	(19)
	133	70
Reclassification of losses (gains) related to hedged securities available for sale	3,092	(70)
Income tax (benefit) expense	(649)	15
	2,443	(55)
Reclassification of gains (losses) on sales of available for sale securities recognized in net income	(487)	247
Income tax expense (benefit)	102	(52)
	(385)	195
Total other comprehensive income, net of tax	475	1,868
Total comprehensive income	<u>\$ 6,572</u>	<u>\$ 6,081</u>

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2024 and 2023

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
(Dollars in thousands, except per share data)					
Balance at December 31, 2022	\$ 2,956	\$ 17,777	\$ 11,141	\$ (4,856)	\$ 27,018
Net income	-	-	4,213	-	4,213
Cumulative effect adjustment due to adoption of accounting standard	-	-	(135)	-	(135)
Other comprehensive income	-	-	-	1,868	1,868
Cash dividends (\$0.10 per share)	-	-	(296)	-	(296)
Balance at December 31, 2023	<u>\$ 2,956</u>	<u>\$ 17,777</u>	<u>\$ 14,923</u>	<u>\$ (2,988)</u>	<u>\$ 32,668</u>
Balance at December 31, 2023	2,956	17,777	14,923	(2,988)	32,668
Net income	-	-	6,097	-	6,097
Repurchase of common stock	(47)	(510)	-	-	(557)
Issuance of common stock for management compensation	18	167	-	-	185
Other comprehensive income	-	-	-	475	475
Cash dividends (\$0.20 per share)	-	-	(591)	-	(591)
Balance at December 31, 2024	<u>\$ 2,927</u>	<u>\$ 17,434</u>	<u>\$ 20,429</u>	<u>\$ (2,513)</u>	<u>\$ 38,277</u>

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

(Dollars in thousands)	2024	2023
Cash Flows from Operating Activities		
Net income	\$ 6,097	\$ 4,213
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Accretion of securities, net	(1,645)	(1,108)
Depreciation and amortization	293	249
Amortization of debt issuance costs	33	33
Provision for credit losses	195	576
(Gain) Loss on sales of available for sale securities, net	(487)	247
Deferred tax expense (benefit)	22	(47)
Share-based compensation expense	185	-
Income on bank-owned life insurance	(274)	(256)
Changes in assets and liabilities:		
Increase in accrued interest and other assets	(500)	(833)
(Decrease) in accrued expenses and other liabilities	(766)	(4,334)
Net cash provided by (used in) operating activities	<u>\$ 3,153</u>	<u>\$ (1,260)</u>
Cash Flows from Investing Activities		
(Increase) in interest-bearing deposits in other banks	\$ (10,857)	\$ (15,060)
(Increase) in federal funds sold	(6)	(287)
Purchases of available for sale securities	(157,258)	(131,053)
Proceeds from sales of available for sale securities	54,392	53,544
Proceeds from principal payments of securities	52,626	26,000
Purchases of restricted stock, net	(71)	(1,725)
Loan originations, net	(16,913)	(30,145)
Purchases of premises and equipment	(5,818)	(606)
Net cash (used in) investing activities	<u>\$ (83,905)</u>	<u>\$ (99,332)</u>
Cash Flows from Financing Activities		
Increase (decrease) in noninterest bearing, savings, interest-bearing checking and money market accounts	\$ 36,964	\$ (32,607)
Increase in time deposits	77,577	83,944
(Decrease) increase in short-term borrowings	(25,000)	19,394
Increase in long-term borrowings	-	30,000
Repurchase of common stock	(557)	-
Cash dividends paid on common stock	(591)	(296)
Net cash provided by financing activities	<u>\$ 88,393</u>	<u>\$ 100,435</u>
Net increase (decrease) in cash and cash equivalents	\$ 7,641	\$ (157)
Cash and cash equivalents, beginning	<u>8,582</u>	<u>8,739</u>
Cash and cash equivalents, ending	<u><u>\$ 16,223</u></u>	<u><u>\$ 8,582</u></u>
Supplemental Disclosures of Cash Flow Information		
Cash payments for interest	<u>\$ 18,787</u>	<u>\$ 10,544</u>
Cash payments for taxes	<u>\$ 1,520</u>	<u>\$ 1,320</u>
Supplemental Disclosures of Noncash Investing Activities		
Unrealized (loss) gain on securities available for sale, net of tax	<u>\$ (2,101)</u>	<u>\$ 1,853</u>
Unrealized gain on cash flow hedge, net of tax	<u>\$ 133</u>	<u>\$ 70</u>
Unrealized gain (loss) on fair value hedges, net of tax	<u>\$ 2,443</u>	<u>\$ (55)</u>

See Notes to Consolidated Financial Statements.

OAK VIEW BANKSHARES, INC.

Notes to Consolidated Financial Statements

Note 1. Summary of Significant Accounting Policies

Nature of Operations

Oak View Bankshares, Inc. (the “Company”) is a holding company headquartered in Warrenton, Virginia. The Company is the parent company of its wholly owned subsidiary, Oak View National Bank (the “Bank”). The Company provides banking services in the communities in and around Marshall, Warrenton, Culpeper, and Rappahannock, Virginia.

The Company was incorporated on May 27, 2021, by and at the direction of the board of directors of the Bank, for the sole purpose of acquiring the Bank and serving as the Bank’s parent bank holding company pursuant to a corporate reorganization transaction (the “Reorganization”). On May 27, 2021, the Bank and the Company entered into a Reorganization Agreement and Plan of Share Exchange pursuant to which each outstanding share of common stock of the Bank was automatically exchanged for one share of common stock of the Company. The Reorganization was approved by the Bank’s shareholders on August 17, 2021, and was completed on December 15, 2021. The Company’s stock is traded on the OTC Markets Group’s OTC Pink Market under the ticker symbol “OAKV”.

Principles of Consolidation

The consolidated financial statements include the accounts of Oak View Bankshares, Inc., and its wholly owned subsidiary, Oak View National Bank. All significant intercompany transactions have been eliminated in consolidation. The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America (GAAP) and to predominant practices within the banking industry.

Basis of Presentation

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 revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant changes in the near term relates to the determination of the allowance for credit losses on loans. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, which are necessary for a fair presentation of the results of operations in these financial statements, have been made.

Subsequent Events

On March 21, 2025, the Company completed a private placement offering to various accredited investors and issued 558,227 shares of the Company’s common stock. The private placement offering price was \$14.00, which resulted in \$7.8 million in gross proceeds to the Company.

Reclassifications

Certain reclassifications have been made to the prior period financial statements to conform to the current period presentation. Such reclassifications are considered immaterial and have no effect on net income, total assets or shareholders’ equity as previously reported.

Business Segments

The Company's financial results are aggregated into one reportable operating segment with revenue derived from the business of community banking. Through its community banking segment, the Company offers a full range of products and services through various delivery channels. The banking products and services include the acceptance of deposits in checking, savings, time and money market accounts; the origination and servicing of consumer, commercial, construction and real estate loans; and other services including safe deposit boxes and wire transfers. The community banking segment derives revenues mainly from interest income on loans to customers, investment securities held, and fees and income related to the services listed above.

The accounting policies of the community banking segment are the same as those described in the summary of significant accounting policies. The Company's Chief Executive Officer, President, Chief Financial Officer and Chief Operations Officer are responsible for the day-to-day management of the Company, including regularly reviewing the operating and financial performance of the Company on a consolidated basis.

The primary measure of financial performance is consolidated net income which is used to assess performance and make decisions about resource allocation. Net income is used to monitor budget versus actual results as well as comparing the previous year's results. Comparative analysis along with the monitoring of budget versus actual results are used in assessing the performance of the segment. The presentation of financial performance to management is consistent with amounts and financial statement lines shown in the Company's consolidated balance sheets and consolidated statements of income. The Company's significant expenses are segmented by category and amount in the consolidated statements of income to include all significant items including salaries and employee benefits, occupancy expense, data processing, professional service fees and other general operating expenses.

Cash, Cash Equivalents, and Cash Concentrations

The Bank maintains cash accounts in various correspondent banks. At December 31, 2024, and 2023 the total amount by which these deposits exceeded the federally insured limits was \$4.0 million and \$3.1 million, respectively.

For purposes of the statements of cash flows, cash and cash equivalents include cash on hand and amounts due from banks.

Interest-Bearing Deposits in Banks

Interest-bearing deposits in banks have various maturities of less than 12 months and are recorded at cost on the Company's consolidated balance sheets.

Securities

The Company has classified investments in debt securities as either held to maturity or available for sale, based on management's intent. The Company has no investments classified as trading. Purchase premiums are recognized in interest income using the effective interest rate method over the period from purchase to maturity or, for callable securities, the earliest call date, and purchase discounts are recognized in the same manner from purchase to maturity.

Held To Maturity (HTM)

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as HTM and recorded at amortized cost. The Company's HTM securities portfolio is comprised of corporate debt securities made up of subordinated debt of U.S. financial institutions and a U.S. Treasury bond. These securities are analyzed quarterly to determine the potential for credit losses on an individual security basis.

Available For Sale (AFS)

Debt securities not classified as HTM are classified as AFS and recorded at estimated fair value, with the unrealized gains and losses excluded from earnings and reported in other comprehensive income. These securities may be sold at any time based upon management's assessment of changes in economic or financial market conditions, interest rate or prepayment risks, liquidity considerations and other factors. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Restricted Stock

The Company's restricted stock portfolio consists of securities of the Federal Home Loan Bank of Atlanta ("FHLB"), the Federal Reserve Bank, Community Bankers Bank and Banker's Title. Because these securities do not have a readily available market, and they have no quoted market value they are recorded at cost on the Company's consolidated balance sheets.

Loans

The Company makes mortgage, commercial and consumer loans to customers. Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized costs. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. The Company has elected to exclude accrued interest receivable from the amortized cost basis. Interest on loans is accrued based on the unpaid principal balance outstanding.

The Company segments its loan portfolio into loans secured by real estate, commercial loans, and consumer loans. Loans secured by real estate are further divided into the following classes: construction, land development and other land loans, residential real estate, commercial real estate and home equity loans.

Risk factors evaluated include the economic environment's impact on each portfolio segment and the following specific risk factors:

- Construction and land development loans are granted for residential and commercial construction along with land. Risks are associated with the completion of the project, the value of the collateral, and the continued creditworthiness of the borrower.
- Residential real estate loans are loans collateralized with 1–4 family single family homes. This segment includes loans for consumer and investment purposes. Single family residential loans for consumer purposes have risks associated with the continued creditworthiness of the borrower and the value of the collateral. Single family residential loans for investment purposes have risks associated with the continued creditworthiness of the borrower, the value of the collateral, and either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral.
- Commercial real estate loans are loans secured by commercial property both owner and nonowner occupied. This segment includes owner-occupied and non-owner occupied commercial real estate loans. Owner-occupied commercial real estate loans have risks associated with the operations of the business occupying the property and the value of the collateral. Non-owner occupied commercial real estate loans have risk associated with either the net operating income generated from the lease of the real estate collateral or income generated from the sale of the collateral. Other risk factors include the creditworthiness of the sponsor and the value of the collateral.
- Home equity loans are loans granted based on equity on 1–4 family properties. Risks are associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- Commercial loans are secured and unsecured loans for working capital, expansion, and other business purposes. Risks are associated with the operations of the business and the value of the collateral, if any.
- Consumer loans are loans secured and unsecured to consumer customers. Risks are associated with the creditworthiness of the borrower and the value of the collateral, if any.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on the contractual terms of the loan. A loan is considered past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses

The allowance for credit losses on loans, the allowance for unfunded loan commitments, and the allowance for held to maturity debt securities is established through charges to earnings in the form of a provision for credit losses on the consolidated statements of income. The allowance incorporates forward-looking information and applies a reversion methodology beyond the reasonable and supportable forecast. The allowance is increased by a provision charged to operating expenses. Management evaluates the appropriateness of the allowance at least quarterly. This evaluation is inherently subjective as it requires material estimates that may be susceptible to significant change from period to period.

Management may adjust its assumptions to account for differences between expected and actual losses from period to period. The variability of management's assumptions could alter the level of the allowance for credit losses and may have a material impact on the Company's future results of operations and financial condition. The loss estimation models and methods used to determine the allowance for credit losses are continually refined and enhanced.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses on loans represents management's estimate of lifetime credit losses as of the balance sheet date. The allowance for credit losses on loans is estimated by management using relevant available information, from both internal and external sources, related to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for loans for each using the Weighted Average Remaining Maturity (WARM) methodology.

The Company has elected to use the WARM methodology that uses an average loss rate and applies it to future expected outstanding balances of each pool. WARM determines look-back periods by using historical periods, that represents the approximation for projecting future credit loss trends. The Company calculates the WARM of its portfolio using prepayment assumptions and derives its quantitative loss rates by measuring the Company's loss rates over historical periods which are expected to be similar to the estimated life of the loans using data derived primarily from the Company's loss experience. To aggregate the portfolio with similar risk characteristics, the Company has elected to use the FFIEC Call Report data for loan segmentation.

Additionally, the allowance for credit losses on loans includes adjustments for qualitative factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for changes in general market, economic and business conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances; the value of underlying collateral; changes in lending policies and underwriting standards; concentrations of credit risk, if any; and the results of internal loan reviews and examinations by bank regulatory agencies pertaining to the allowance for credit losses.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. The Company had no individually evaluated loans at December 31, 2024, and 2023.

Allowance for Credit Losses for Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for unfunded commitments, reported in other liabilities, for expected credit losses on commitments to extend credit that are not unconditionally cancelable by the Company. The reserve for unfunded commitments is measured based on the principles utilized in estimating the allowance for credit losses on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses.

Allowance for Credit Losses for Held to Maturity Securities

The Company's allowance for credit losses for HTM securities is deducted from the amortized cost basis of the HTM portfolio, with the losses recorded on the consolidated statements of income within the provision for credit losses. Expected credit losses on the Company's corporate debt securities, which are made up of subordinated debt of U.S. financial institutions, is measured based on the financial strength of each financial institution. The Company uses a database of current and historical financial trends as a basis for this analysis. The Company's investment in a U.S. Treasury bond, which is a direct obligation issued by the United States government, is not evaluated, as there is no evidence supporting the establishment of credit losses.

Allowance for Credit Losses for Available for Sale Securities

The Company evaluates the fair value and credit quality of its AFS securities portfolio on a quarterly basis. If the Company has the intent to sell the security, or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized costs, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit losses expense. Losses are charged against the allowance for credit losses when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirements to sell are met. At December 31, 2024, and 2023, there was no allowance for credit losses related to the AFS securities portfolio.

Loan Modifications to Borrowers Experiencing Financial Difficulties

Occasionally, the Company modifies loans to borrowers in financial distress. Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize economic loss and to avoid foreclosure or repossession of the collateral. In cases where borrowers were granted new terms that provided for a reduction of either interest or principal, impairment is measured on the restructuring as noted above for individually evaluated loans. The Company did not modify any loans to borrowers experiencing financial difficulty during the years ended December 31, 2024, and 2023.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets have been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (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 Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Premises and Equipment

Land is carried at cost. Furniture, equipment, and software are carried at cost less accumulated depreciation and amortization computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 39 years, or the expected terms of the leases, if shorter. Maintenance and repairs are charged to the expense as incurred and major improvements are capitalized. Upon sale or retirement of depreciable properties, the cost and related accumulated depreciation are netted against proceeds, and any resulting gain or loss is included in income.

Income Taxes

The Company determines deferred income tax assets and liabilities based on temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Income tax expense includes taxes on income or loss that are taxable in the period and changes during the period in deferred tax assets and liabilities. The effects of changes in tax law are recognized in income tax expense in the period in which the changes are enacted.

The benefit of a tax position is recognized in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more likely than not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. Interest and penalties associated with the unrecognized tax benefits are recognized as a component of income tax expense.

Bank Owned Life Insurance

The Company has life insurance policies for certain executives and other officers. The Company receives the cash surrender value of each policy upon its termination or benefits are payable upon the death of the insured. These policies are recorded in the consolidated balance sheets at their net cash surrender value. Changes in net cash surrender value are recognized in noninterest income in the consolidated statements of income. Adjustments to cash surrender value and death benefits received, if recognized as income, are currently tax-exempt.

Other Real Estate Owned (OREO)

Assets acquired through, or in lieu of, foreclosure are held for sale and are initially recorded at fair value, less estimated costs to sell at the date of foreclosure. Physical possession of residential real estate securing consumer mortgage loans occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or similar legal agreement. After foreclosure, management periodically performs valuations of the foreclosed assets based on updated appraisals, general market conditions, recent sales of similar properties, length of time the properties have been held, and the ability and intention regarding continued ownership of the properties. The Company may incur additional write-downs of foreclosed assets to fair value less estimated costs to sell if valuations indicate a further deterioration in market conditions. Revenue and expenses from operations and changes in the property valuations are included in other noninterest expenses and improvements are capitalized. The Company records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Company finances the sale of OREO to the buyer, the Company assesses whether the buyer is committed to perform the obligations under the contract and whether collectability of the transaction price is probable. In determining the gain/loss on the sale, the Company adjusts the transaction price and the related gain/loss on sale if a significant financing component is present.

As of December 31, 2024, and 2023 the Company had no properties classified as OREO. There were no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process as of December 31, 2024, and 2023.

Advertising Costs

The Company follows the policy of charging the costs of advertising to expenses as incurred.

Earnings Per Common Share

Basic earnings per common share represent income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. For the years ended December 31, 2024, and 2023 there were no dilutive potential common shares outstanding.

Derivative Financial Instruments

The Company recognizes derivative financial instruments at fair value as either other assets or other liabilities in the consolidated balance sheets. The Company's derivative financial instruments are comprised of interest rate swaps that qualify and are designated as cash flow or fair value hedges. Gains or losses on the Company's cash flow hedges are reported as a component of other comprehensive income (loss), net of deferred income taxes, and reclassified into earnings during the same period(s) during which the hedged transactions affect earnings. The Company's derivative financial instruments are described more fully in Note 11.

Revenue Recognition

Most of the Company's revenues are associated with financial instruments, including interest income from loans and securities. The Company's noninterest income includes service charges on deposit accounts, other service charges and fees and interchange fee income. Substantially all the Company's revenue is generated from contracts with customers. Noninterest income streams are discussed below.

Service Charges on Deposit Accounts

The Company earns fees from its deposit customers for overdraft and account maintenance services. Overdraft fees are recognized when the overdraft occurs. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation.

Other Service Charges and Fees

Includes fees from customers for transaction-based services, such as safe deposit box, ATM, stop payment and wire transfer fees. In each case, these service charges and fees are recognized in income at the time or within the same period that the Company's performance obligation is satisfied.

Interchange Income

Interchange fees are earned from debit and credit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Adoption of New Accounting Standards in 2024

In November 2023, the FASB issued ASU 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." The amendments in this ASU are intended to improve reportable segment disclosure requirements primarily through enhanced disclosures about significant segment expenses. This ASU requires disclosure of significant segment expenses that are regularly provided to management, amounts for other segment items by reportable segment and a description of its composition, all annual disclosures required by FASB ASU Topic 280 in interim periods as well, and the title and position of management and how management uses the reported measures. Additionally, this ASU requires that at least one of the reported segment profit and loss measures should be the measure that is most consistent with the measurement principles used in a company's consolidated financial statements. Lastly, this ASU requires public business entities with a single reportable segment to provide all disclosures required by these amendments in this ASU and all existing segment disclosures in Topic 280. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied retrospectively. The Company does not expect the adoption of this ASU to have a material impact on the Company's consolidated financial statements.

Recent Accounting Pronouncements

In November 2024, the FASB issued ASU 2024-03, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses." ASU 2024-03 requires public companies to disclose specific information about certain costs and expenses, which include amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date", which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026. Early adoption of ASU 2024-03 is permitted. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Company does not expect the adoption of ASU 2024-03 to have a material impact on its consolidated financial statements.

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

Note 2. Securities

The Company invests in a variety of debt securities, principally obligations of the U.S. government and federal agencies, mortgage-backed securities, asset-backed securities and corporations. As of December 31, 2024, and December 31, 2023, all debt securities were classified as held to maturity (“HTM”) or available for sale (“AFS”).

The following tables summarize the amortized cost, gross unrealized gains and losses, fair value and allowance for credit losses of AFS and HTM debt securities at December 31, 2024, and December 31, 2023 (dollars in thousands):

2024					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Allowance for Credit Losses
Securities available for sale:					
U.S. Treasury securities	\$ 68,864	\$ -	\$ (2,430)	\$ 66,434	\$ -
U.S. government agencies	1,759	6	-	1,765	-
Asset-backed securities	69,538	424	(67)	69,895	-
Mortgage-backed securities:					
Agency	28,567	5	(575)	27,997	-
Nonagency	122,031	469	(1,281)	121,219	-
Total	<u>\$ 290,759</u>	<u>\$ 904</u>	<u>\$ (4,353)</u>	<u>\$ 287,310</u>	<u>\$ -</u>
Securities held to maturity:					
U.S. Treasury securities	\$ 1,012	\$ -	\$ (56)	\$ 956	\$ -
Corporate debt securities	9,500	-	(1,094)	8,406	(106)
Total	<u>\$ 10,512</u>	<u>\$ -</u>	<u>\$ (1,150)</u>	<u>\$ 9,362</u>	<u>\$ (106)</u>
2023					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value	Allowance for Credit Losses
Securities available for sale:					
U.S. Treasury securities	\$ 20,055	\$ -	\$ (2,325)	\$ 17,730	\$ -
U.S. government agencies	10,243	374	-	10,617	-
Asset-backed securities	89,842	219	(538)	89,523	-
Mortgage-backed securities:					
Agency	36,963	-	(1,055)	35,908	-
Nonagency	84,286	488	(965)	83,809	-
Total	<u>\$ 241,389</u>	<u>\$ 1,081</u>	<u>\$ (4,883)</u>	<u>\$ 237,587</u>	<u>\$ -</u>
Securities held to maturity:					
U.S. Treasury securities	\$ 1,020	\$ -	\$ (82)	\$ 938	\$ -
Corporate debt securities	9,500	-	(1,488)	8,012	(106)
Total	<u>\$ 10,520</u>	<u>\$ -</u>	<u>\$ (1,570)</u>	<u>\$ 8,950</u>	<u>\$ (106)</u>

The amortized cost and estimated fair value of securities at December 31, 2024, by the earlier of contractual maturity or expected maturity are shown below (dollars in thousands). Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations without penalties.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Less than one year	\$ 29,896	\$ 29,854	\$ -	\$ -
One to five years	138,689	137,208	1,262	1,202
Five to ten years	68,445	67,321	9,250	8,160
Over ten years	53,729	52,927	-	-
	<u>\$ 290,759</u>	<u>\$ 287,310</u>	<u>\$ 10,512</u>	<u>\$ 9,362</u>

The following table presents the gross realized gains and losses on the sales of AFS debt securities as well as the proceeds from the sales and principal paydowns for the years ended December 31, 2024, and 2023 (dollars in thousands). There were no gross realized gains and losses on the sales of HTM debt securities for the years ended December 31, 2024, and 2023.

	2024	2023
Realized gains and losses from sales of AFS securities:		
Gross realized gains from sales of AFS securities	\$ 530	\$ 552
Gross realized losses from sales of AFS securities	(43)	(799)
Net realized losses from sales of AFS securities	<u>\$ 487</u>	<u>\$ (247)</u>
Proceeds from sales of securities	<u>\$ 54,392</u>	<u>\$ 53,544</u>
Proceeds from principal paydowns of securities	<u>\$ 52,626</u>	<u>\$ 26,000</u>

The following tables provide information on unrealized losses on AFS debt securities that have been in an unrealized loss position for less than twelve months and twelve months or more, for which an allowance for credit losses has not been recorded as of December 31, 2024, and 2023 (dollars in thousands):

	2024					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Available for Sale						
U.S. Treasury securities	\$ 48,523	\$ (637)	\$ 17,911	\$ (1,793)	\$ 66,434	\$ (2,430)
Asset-backed securities	5,170	(23)	9,050	(44)	14,220	(67)
Mortgage-backed securities:						
Agency	-	-	22,504	(575)	22,504	(575)
Nonagency	23,385	(515)	12,197	(766)	35,582	(1,281)
Total	<u>\$ 77,078</u>	<u>\$ (1,175)</u>	<u>\$ 61,662</u>	<u>\$ (3,178)</u>	<u>\$ 138,740</u>	<u>\$ (4,353)</u>
	2023					
	Less than 12 months		12 Months or More		Total	
	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)	Fair Value	Gross Unrealized (Losses)
Available for Sale						
U.S. Treasury securities	\$ -	\$ -	\$ 17,730	\$ (2,325)	\$ 17,730	\$ (2,325)
Asset-backed securities	53,552	(327)	2,799	(67)	56,351	(394)
Mortgage-backed securities:						
Agency	5,132	(29)	30,776	(1,025)	35,908	(1,055)
Nonagency	28,629	(228)	21,741	(881)	50,370	(1,109)
Total	<u>\$ 87,313</u>	<u>\$ (584)</u>	<u>\$ 73,046</u>	<u>\$ (4,299)</u>	<u>\$ 160,359</u>	<u>\$ (4,883)</u>

Unrealized losses on 42 AFS debt securities in the tables above represent temporary fluctuations resulting from changes in interest rates and market conditions. Unrealized losses in the AFS portfolio are accounted for as an adjustment, net of taxes, to other comprehensive income in shareholders' equity. The Company does not believe the securities presented above are impaired due to reasons of credit quality, as substantially all debt securities are rated above investment grade, and all are paying principal and interest according to their contractual terms. The Company does not intend to sell, nor is it more likely than not that it will be required to sell, securities in a loss position prior to recovery of their cost, and therefore, management believes the unrealized losses detailed above do not require an allowance for credit losses relating to these securities to be recognized.

The following discussion provides additional information on the securities that are reflected in the table above:

- U.S. Treasury securities – Total of 9 bonds
These securities are backed by the full faith and credit of the U.S. government and therefore not considered to be impaired.
- Asset-Backed Securities – Total of 5 bonds
One bond represents the senior tranche of a pool of unguaranteed portions of loans made to small businesses through the Small Business Administration (SBA) 7(a) program. The underlying collateral of this pool is first and second liens on the small businesses. The senior tranche receives principal payments first and losses last and has a built-in credit enhancement of 20%+, which the Company believes is sufficient protection against losses given relatively harsh stress case scenarios. Subordinate tranches absorb losses and do not receive principal until the senior tranche is paid in full.

One bond in this category is made up of student loan backed investments under the Federal Family Education Loan Program (FFELP). These loans are generally 97% insured by the Federal Government. The investments have investment grade ratings by credible rating agencies.

- Mortgage-Backed Securities – Total of 11 Agency and 17 Nonagency
The unrealized losses on 11 bonds represent government-sponsored entities and agencies as well as mortgage-backed securities and collateralized mortgage obligations, which are all either issued by a direct governmental entity or a government-sponsored entity, have no historical evidence supporting expected credit losses.

The unrealized losses associated with 20 private-label mortgage-backed securities are primarily driven by higher projected collateral losses, wider credit spreads and changes in interest rates. The Company evaluated credit impairment using an economic cash flow model which resulted in no impairment. Management continuously monitors the mortgage-backed securities portfolio for potential permanent impairment. Analytical tools used include robust credit risk analysis.

Allowance for Credit Losses – AFS Securities

Management evaluates debt securities to determine whether the unrealized loss is due to credit-related factors or non-credit related factors. This analysis occurs on a quarterly basis. Consideration is given to the extent to which fair value is less than cost, whether the debt securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, industry analysts' reports, and correlations between fair value changes and interest rate changes among instruments that are not credit sensitive. If the assessment reveals that a credit loss exists, the present value of the expected cash flows of the security is compared to the amortized cost basis of the security. If the present value of future cash flows expected to be collected is less than the amortized cost, an allowance for the credit loss is recorded. The loss is limited by the amount that the amortized cost exceeds fair value.

As of December 31, 2024, and 2023, the Company did not intend to sell any of the AFS debt securities, did not expect to be required to sell these debt securities, and expected to recover the entire amortized cost basis of all the debt securities. Based on the issuers' credit quality, the investment grade of the bonds, and payment status of principal and interest according to the contractual terms, management believes the unrealized losses detailed above are related to fluctuations in market conditions, primarily interest rates, and is not reflective of the deterioration in credit, and therefore an allowance for credit losses relating to these securities was not recognized.

Accrued interest receivable on AFS securities totaled \$1.3 million and \$1.1 million as of December 31, 2024, and December 31, 2023, respectively, and is included in accrued interest receivable on the consolidated balance sheets. The Company did not record any write-offs of accrued interest income on AFS securities for the years ended December 31, 2024, or 2023. No securities held by the Company were delinquent on contractual payments as of December 31, 2024, or 2023, nor were any such securities placed on nonaccrual status during the periods then ended.

Allowance for Credit Losses – HTM Securities

The Company evaluates the credit risk of its HTM debt securities on a quarterly basis. The HTM portfolio includes one debt security issued by the U.S. Treasury and 23 corporate debt securities. The U.S. Treasury debt security is a direct governmental obligation and has no historical evidence supporting expected credit losses; therefore, the Company has estimated no losses and will monitor this assumption in the future for any economical or governmental policies that could affect this assumption. The corporate debt securities are comprised of subordinated debt issuances of 23 U.S. financial institutions. The Company estimates expected credit losses on HTM debt securities using an instrument-level process which measures the financial strength of each financial institution based on information obtained from independent databases of current and historical financial trends as a basis for this analysis. Based on management's evaluation of these securities, there was no provision for credit losses recorded as of December 31, 2024, and \$38 thousand was recorded for 5 of these issuances as of December 31, 2023, based on financial metrics of each of these individual institutions.

The following table presents the amortized cost of HTM debt securities as of December 31, 2024, and December 31, 2023, by security type and credit rating (dollars in thousands):

	U.S. Treasury Securities	Corporate Debt Securities	Total
As of December 31, 2024			
Aaa	\$ 1,012	\$ -	\$ 1,012
Ba1	-	500	500
Not rated	-	9,000	9,000
	<u>\$ 1,012</u>	<u>\$ 9,500</u>	<u>\$ 10,512</u>
As of December 31, 2023			
Aaa	\$ 1,020	\$ -	\$ 1,020
Baa3	-	500	500
Not rated	-	9,000	9,000
	<u>\$ 1,020</u>	<u>\$ 9,500</u>	<u>\$ 10,520</u>

The accrued interest receivable on HTM securities totaled \$99 thousand and \$113 thousand as of December 31, 2024, and 2023, respectively, and is included in accrued interest receivable on the consolidated balance sheets. The Company did not record any write-offs of accrued interest receivable on HTM securities during either the years ended December 31, 2024, or 2023. No HTM securities held by the Company were delinquent on contractual payments as of either December 31, 2024, or 2023, nor were any such securities placed on nonaccrual status during the periods then ended.

Securities with an aggregate fair value of \$235.6 million and \$33.6 million on December 31, 2024, and 2023, were pledged as security for municipal deposits and lines of credit that provide liquidity to the Company.

Note 3. Loans

The Company's loans are recorded at their face amount, net of deferred fees and costs, and consist of the segments of loans included in the table below (dollars in thousands). The Company has elected to exclude accrued interest receivable, totaling \$1.0 million and \$970 thousand on December 31, 2024, and 2023 from the recorded investment in loans.

	2024	2023
Loans Secured by Real Estate:		
Construction and land development	\$ 23,475	\$ 25,310
Residential real estate	136,665	136,480
Commercial real estate	107,770	95,202
Home equity loans	20,753	18,027
Total	288,663	275,019
Commercial	27,386	24,392
Consumer	4,422	4,359
Loans, gross	\$ 320,471	\$ 303,770
Less:		
Allowance for credit losses	3,004	2,793
Deferred costs, net	(480)	(282)
Loans, net	\$ 317,947	\$ 301,259

Overdrawn deposit accounts totaling \$22 thousand and \$6 thousand as of December 31, 2024, and 2023, respectively, were reclassified from deposits and were included in the consumer loan category.

The following table shows the aging of the Company's loan portfolio at December 31, 2024, and 2023 (dollars in thousands). There were no nonaccrual loans as of December 31, 2024, and 2023.

	30-59 Days Past Due	60-89 Days Past Due	90+ Days Past Due	Current	Total Loans	90+ Days Past Due and Accruing
December 31, 2024						
Real estate mortgage	\$ -	\$ 32	\$ 17	\$ 288,614	\$ 288,663	\$ -
Commercial	-	-	-	27,386	27,386	-
Consumer	-	14	-	4,408	4,422	-
Total	\$ -	\$ 46	\$ 17	\$ 320,408	\$ 320,471	\$ -
December 31, 2023						
Real estate mortgage	\$ -	\$ -	\$ -	\$ 275,019	\$ 275,019	\$ -
Commercial	-	-	-	24,392	24,392	-
Consumer	-	-	-	4,359	4,359	-
Total	\$ -	\$ -	\$ -	\$ 303,770	\$ 303,770	\$ -

The characteristics of the Company's risk classification ratings are as follows:

- Pass rated loans include all loans which are acceptable quality or better. Borrowers in this category have acceptable financial conditions with demonstrated repayment ability.
- Special mention loans have the potential for developing weaknesses that deserve extra attention. If the developing weakness is uncorrected or not mitigated, there may be deterioration in the ability of the borrower to repay.
- Substandard loans have a well-defined weakness and there is a possibility that future loss could be sustained if such weakness is not corrected.
- Doubtful loans have all the weaknesses inherent in loans classified Substandard, plus the added characteristic that the weaknesses make collection or liquidation in full highly questionable and improbable.
- Loss represents a classification for loans which are considered uncollectable and are in the process of being charged off.

The following table represents the credit quality of loans by class as of December 31, 2024, and 2023 (dollars in thousands):

December 31, 2024	Term Loans Recorded by Origination Year					Revolving Loans Recorded Balance	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	Prior			
Real estate mortgage:								
Pass	\$ 41,857	\$ 39,451	\$ 46,069	\$ 44,675	\$ 78,591	\$ 32,645	\$ -	\$ 283,288
Special Mention	-	-	-	-	419	-	-	419
Substandard	-	2,113	-	-	2,843	-	-	4,956
Total	\$ 41,857	\$ 41,564	\$ 46,069	\$ 44,675	\$ 81,853	\$ 32,645	\$ -	\$ 288,663
Commercial:								
Pass	\$ 9,420	\$ 4,362	\$ 3,167	\$ 7,279	\$ 3,158	\$ -	\$ -	\$ 27,386
Total	\$ 9,420	\$ 4,362	\$ 3,167	\$ 7,279	\$ 3,158	\$ -	\$ -	\$ 27,386
Consumer:								
Pass	\$ 1,592	\$ 747	\$ 1,341	\$ 55	\$ 687	\$ -	\$ -	\$ 4,422
Total	\$ 1,592	\$ 747	\$ 1,341	\$ 55	\$ 687	\$ -	\$ -	\$ 4,422
Current period gross charge-offs	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 21

December 31, 2023	Term Loans Recorded by Origination Year				Revolving Loans Recorded Balance	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
Real estate mortgage:							
Pass	\$ 49,766	\$ 53,882	\$ 53,056	\$ 90,233	\$ 24,084	\$ -	\$ 271,021
Special Mention	-	-	-	924	-	-	924
Substandard	-	-	-	3,074	-	-	3,074
Total	\$ 49,766	\$ 53,882	\$ 53,056	\$ 94,231	\$ 24,084	\$ -	\$ 275,019
Commercial:							
Pass	\$ 6,358	\$ 4,180	\$ 5,911	\$ 3,571	\$ 4,372	\$ -	\$ 24,392
Total	\$ 6,358	\$ 4,180	\$ 5,911	\$ 3,571	\$ 4,372	\$ -	\$ 24,392
Consumer:							
Pass	\$ 2,037	\$ 1,199	\$ 132	\$ 991	\$ -	\$ -	\$ 4,359
Total	\$ 2,037	\$ 1,199	\$ 132	\$ 991	\$ -	\$ -	\$ 4,359
Current period gross charge-offs	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3

Note 4. Allowance for Credit Losses

The following table shows the allowance for credit losses activity by loan segment for the year ended December 31, 2024, and 2023 (dollars in thousands).

	Real Estate Mortgage	Commercial	Consumer	Total
Allowance for Credit Losses on Loans:				
Balance, December 31, 2023	\$ 2,646	\$ 131	\$ 16	\$ 2,793
Provision for credit losses	168	31	26	225
Loans charged-off	-	-	(21)	(21)
Recoveries	-	-	8	8
Balance, December 31, 2024	\$ 2,814	\$ 162	\$ 29	\$ 3,004
	Real Estate Mortgage	Commercial	Consumer	Total
Allowance for Credit Losses on Loans:				
Balance, December 31, 2022	\$ 2,144	\$ 148	\$ 15	\$ 2,307
Impact of adopting ASC 326	17	14	13	44
Provision for credit losses	485	(31)	(9)	445
Loans charged-off	-	-	(3)	(3)
Recoveries	-	-	-	-
Balance, December 31, 2023	\$ 2,646	\$ 131	\$ 16	\$ 2,793

There was no activity impacting the allowance for credit losses for HTM securities during the year ended December 31, 2024. The following table shows the activity in the allowance for credit losses for HTM securities for the year ended December 31, 2023 (dollars in thousands).

	U.S. Treasury Securities	Corporate Debt Securities	Total
Allowance for Credit Losses for HTM Securities			
Balance, December 31, 2022	\$ -	\$ -	\$ -
Impact of adopting ASC 326	-	68	68
Provision for credit losses	-	38	38
Write-offs	-	-	-
Recoveries	-	-	-
Balance, December 31, 2023	<u>\$ -</u>	<u>\$ 106</u>	<u>\$ 106</u>

The following table shows the allowance for credit losses for unfunded commitments December 31, 2024, and 2023 (dollars in thousands).

Allowance for Credit Losses for Unfunded Commitments:	2024	2023
Beginning Balance	\$ 153	\$ -
Impact of adopting ASC 326	-	60
(Recovery of) provision for credit losses	(30)	93
Write-offs	-	-
Recoveries	-	-
Ending Balance	<u>\$ 123</u>	<u>\$ 153</u>

The following table presents a breakdown of the provision for credit losses as of December 31, 2024, and 2023 (dollars in thousands):

	2024	2023
Provision for credit losses:		
Provision for loans	\$ 225	\$ 445
Provision for HTM securities	-	38
Provision for unfunded commitments	(30)	93
Total	<u>\$ 195</u>	<u>\$ 576</u>

Note 5. Premises and Equipment

A summary of the cost and accumulated depreciation of premises and equipment as of December 31, 2024, and 2023 follows (dollars in thousands):

	2024	2023
Land	\$ 3,696	\$ 3,546
Building and improvements	8,810	3,761
Furniture, fixtures and equipment	2,818	2,213
Software	89	89
	<u>\$ 15,413</u>	<u>\$ 9,609</u>
Less accumulated depreciation	3,107	2,828
	<u>\$ 12,306</u>	<u>\$ 6,781</u>

For the years ended December 31, 2024, and 2023, depreciation expenses were \$293 thousand and \$249 thousand, respectively.

Total rent expenses on property and equipment for the years ended December 31, 2024, and 2023 totaled \$38 thousand and \$52 thousand, respectively.

Note 6. Related Party Transactions

Executive officers, directors and their affiliates had loans outstanding of \$2.8 million and \$2.4 million on December 31, 2024, and 2023, respectively, which included unfunded commitments of \$435 thousand and \$393 thousand, respectively. During the year ended December 31, 2024, total principal additions and repayments were \$746 thousand and \$759 thousand, respectively. Related party deposits were \$1.2 million and \$2.3 million at December 31, 2024, and 2023, respectively. These transactions occurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with unrelated persons.

Note 7. Time Deposits

The following table presents scheduled maturities of time deposits at December 31, 2024 (dollars in thousands):

2025	\$	196,411
2026		17,926
2027		30,291
2028		10,721
2029		35,225
Thereafter		1,637
	\$	<u>292,211</u>

The Company obtains certain deposits through the efforts of third-party brokers. At December 31, 2024, and 2023, brokered deposits totaled \$83.1 million, and \$30.7 million, respectively, and were included in time deposits on the consolidated balance sheets. The aggregate amounts of time deposits in denominations of \$250 thousand or more were \$59.6 million and \$54.6 million at December 31, 2024, and 2023, respectively.

Note 8. BorrowingsFederal Home Loan Bank (“FHLB”)

The Company had a credit line available with the FHLB totaling \$202.9 million at December 31, 2024. The Company had advances outstanding of \$49.9 million as of December 31, 2024, and 2023. These advances were secured by a blanket floating lien on real estate mortgage loans secured by 1-to-4 family residential properties. Total lendable collateral value under the blanket lien was \$66.5 million and \$64.6 million as of December 31, 2024, and 2023, respectively. The contractual maturities at December 31, 2024, of FHLB advances were as follows (dollars in thousands):

	Balance	Rate
2025	\$ 15,000	4.57%
2026	4,900	1.85%
2028	30,000	4.16%
Total	<u>\$ 49,900</u>	<u>4.05%</u>

Federal Reserve Bank (“FRB”)

The Company has a credit facility with the FRB secured by a blanket floating lien on commercial real estate mortgage loans, commercial loans, and certain qualifying securities. No amounts were outstanding at December 31, 2024, and 2023. The lendable collateral value under the blanket lien amounted to approximately \$109.1 million and \$133.2 million as of December 31, 2024, and 2023, respectively. Availability on the facility was \$89.1 million and \$109.3 million at December 31, 2024, and 2023, respectively.

Advances under the Bank Term Funding Program (“BTFP”) with the FRB provided eligible depository institutions an additional source of liquidity. Advances matured within a one-year term and were priced at the one-year overnight index swap rate plus 10 basis points, which was fixed for the term on the advance date. Advances could be repaid at any time without penalty. The Company had no outstanding balances under the BTFP at December 31, 2024. As of December 31, 2023, the Company’s outstanding balances under the BTFP totaled \$25 million, with an interest rate of 4.70%, maturing May 2024, and fully collateralized by eligible collateral as defined by the program. The BTFP plan expired in March 2024 and the Company repaid its advance under the BTFP at its maturity.

Other Borrowings

The Company had unsecured federal fund lines available with correspondent banks totaling \$15.5 million at December 31, 2024, and 2023. There were no amounts outstanding under these lines at December 31, 2024, and 2023.

Note 9. Subordinated Debt

On February 25, 2022, the Company issued \$14.0 million fixed-to-floating rate subordinated notes, net of issuance costs of \$328 thousand, in a private placement transaction to various accredited investors. The notes have a maturity date of March 1, 2032, and have an annual fixed interest rate of 4.00% until March 1, 2027. Thereafter, the notes will have a floating interest rate based on three-month secured overnight financing rate ("SOFR") plus 227 basis points from and including March 1, 2027, to the maturity date or any early redemption date. Interest will be paid semi-annually, in arrears, on March 1 and September 1 of each year during the time that the notes remain outstanding through the fixed interest rate period or earlier redemption date. Interest will be paid quarterly, in arrears, on March 1, June 1, September 1 and December 1 throughout the floating interest rate period or earlier redemption date.

Note 10. Income Taxes

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2024, and 2023 are presented below (dollars in thousands):

	2024	2023
Deferred Tax Assets:		
Allowance for credit losses on loans	\$ 623	\$ 577
Unrealized losses on available for sale securities	1,357	798
Organizational and start-up expenses	-	9
Accrued vacation	83	62
Allowance for credit losses for unfunded commitments	26	32
Allowance for credit losses for held to maturity securities	22	22
	2,111	1,500
Deferred Tax Liabilities:		
Depreciation	174	142
Unrealized gains on interest rate swaps	689	4
Deferred loan costs, net	101	59
	964	205
Net deferred tax assets	\$ 1,147	\$ 1,295

The provision for income taxes charged to operations for the years ended December 31, 2024, and 2023, consists of the following (dollars in thousands):

	2024	2023
Current tax expense	\$ 1,513	\$ 1,084
Deferred tax expense (benefit)	22	(47)
	\$ 1,535	\$ 1,037

	2024	2023
Tax at statutory federal rate	\$ 1,603	\$ 1,103
Tax exempt interest income	(21)	(22)
Cash surrender value of life insurance	(58)	(54)
Other	11	10
Income tax expense	\$ 1,535	\$ 1,037

The Company, in general, is no longer subject to examination by tax authorities for federal purposes for the tax years prior to 2021.

Note 11. Derivative Financial Instruments

The Company utilizes interest rate swap agreements as part of its asset liability management strategy to help manage its interest rate risk position. The notional amounts of the interest rate swaps do not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. The Company does not use derivatives for trading or speculative purposes.

Cash flow hedge

For transactions in which we are hedging the variability of cash flows related to a variable-rate asset, liability, or a forecasted transaction, changes in the fair value of the derivative instrument are reported in accumulated other comprehensive income (loss). The gains and losses on the derivative instrument, which are reported in comprehensive income, are reclassified to earnings in the periods in which earnings are impacted by the variability of cash flows of the hedged item.

On January 12, 2023, the Company entered into an interest rate swap, designated as a cash flow hedge, to hedge the interest rate risk associated with the Company's future interest payments on \$15.0 million of future variability in its cash flows for future interest payments attributable to changes in the SOFR rate for forecasted payments on SOFR base funding or replacement funding as defined by the hedging document through 2028. This hedging instrument is a 3.390% pay fixed interest rate swap indexed to SOFR. The Company uses the regression method to assess hedge effectiveness.

Fair Value hedges

Derivatives are designated as fair value hedges when they are used to manage exposure to changes in fair value of certain financial assets, referred to as the hedged items, which fluctuate in value because of movements in interest rates. Fair value hedges include interest rate swap agreements on fixed rate AFS securities.

On August 1, 2024, the Company entered into five interest rate swaps, designated as fair value hedges, to hedge the interest rate risk associated with the changes in fair value of \$48.5 million of the Company's fixed rate U.S. Treasury bonds for changes in SOFR of the fixed rate bond from August 2, 2024, to May 15, 2044. The SOFR interest rate risk component of the fixed rate bonds is equal to 3.647%. A fair value basis adjustment associated with available for sale fixed rate bonds initially results in an adjustment to accumulated other comprehensive income ("AOCI"). For available for sale securities subject to fair value hedge accounting, the changes in the fair value of the fixed rate bonds related to the hedged risk are then reclassified from AOCI to current earnings offsetting the fair value measurement change of the interest rate swap, which is also recorded in current earnings. The Company uses the shortcut method to assess hedge effectiveness.

On February 3, 2023, the Company entered into two interest rate swaps, designated as fair value hedges, to hedge the interest rate risk associated with the changes in fair value of \$20 million of the Company's fixed rate U.S. Treasury bonds for changes in SOFR of the fixed rate bond from February 7, 2023, to July 31, 2028. The SOFR interest rate risk component of the fixed rate bond is equal to 3.490% and 3.483%. A fair value basis adjustment associated with available for sale fixed rate bonds initially results in an adjustment to AOCI. For available for sale securities subject to fair value hedge accounting, the changes in the fair value of the fixed rate bonds related to the hedged risk are then reclassified from AOCI to current earnings offsetting the fair value measurement change of the interest rate swap, which is also recorded in current earnings. The Company uses the shortcut method to assess hedge effectiveness.

On July 12, 2023, the Company entered into an interest rate swap, designated as a fair value hedge, to hedge the risk of changes in the fair value of \$8.7 million of fixed rate mortgages in the closed portfolio, as designated by the agreement, for changes in the SOFR benchmark interest rate component of the mortgages from July 14, 2023, to July 14, 2032. The benchmark SOFR interest rate risk component of the mortgages is equal to 3.919%. A fair value basis adjustment associated with AFS mortgages initially results in an adjustment to accumulated other comprehensive income. For available for sale securities subject to fair value hedge accounting, the changes in the fair value of the mortgages related to the hedged risk are then reclassified from AOCI to current earnings offsetting the fair value measurement change of the interest rate swap, which is also recorded in current earnings. The Company uses the long-haul method to assess hedge effectiveness.

The following table presents the notional and fair values of the derivative agreements for December 31, 2024, and 2023 (dollars in thousands).

	2024			2023		
	Notional or Contractual Amount ⁽¹⁾	Derivative ⁽²⁾		Notional or Contractual Amount ⁽¹⁾	Derivative ⁽²⁾	
		Assets	Liabilities		Assets	Liabilities
Derivatives designated as accounting hedge:						
Interest rate swaps:						
Cash flow hedge	\$ 15,000	\$ 257	-	\$ 15,000	\$ 89	-
Fair value hedges:						
Securities	68,500	3,010	-	20,000	40	-
AFS Mortgages	7,065	16	-	8,374	-	108
Total		<u>\$ 3,283</u>	<u>\$ -</u>		<u>\$ 129</u>	<u>\$ 108</u>

⁽¹⁾ Notional amounts are not recorded on the Company's Consolidated Balance Sheets and are generally used only as a basis on which interest and other payments are determined.

⁽²⁾ Balances represent fair value of derivative financial instruments.

At December 31, 2024, and 2023, the Company was required to maintain \$3.7 million and \$500 thousand in cash collateral with a dealer counterparty for interest rate swap relationships.

Note 12. Financial Instruments with Off-Balance Sheet Risk

The Company is party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Company's exposure to credit loss is represented by the contractual amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance sheet instruments.

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

	2024	2023
Commitments to extend credit	\$ 12,508	\$ 15,957
Unfunded commitments under lines of credit	64,929	56,776
Commercial and standby letters of credit	3,214	3,112
	<u>\$ 80,651</u>	<u>\$ 75,845</u>

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

Unfunded commitments under commercial lines of credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Company is committed. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

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

Note 13. Capital Requirements

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

Management believes, as of December 31, 2024, and 2023, that the Bank met all capital adequacy requirements to which it was subject. As of December 31, 2024, the most recent notification from the Bank's primary federal regulator categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, Tier 1 risk-based, CET1 risk-based and Tier 1 leverage ratios, as set forth in the following tables. There are no conditions or events since these notifications that management believes have changed the Bank's category.

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends that may be paid at any date by the Bank is generally limited to the retained earnings of the Bank, while other measures of capital adequacy may also restrict the Bank's ability to declare dividends.

The Bank's actual capital amounts and ratios as of December 31, 2024, and 2023, as well as minimum capital requirements, are presented in the following tables:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
As of December 31, 2024:						
Total Capital (to Risk Weighted Assets)	\$ 57,616	16.56%	\$ 27,838	8.00%	\$ 34,798	10.00%
Tier 1 Capital (to Risk Weighted Assets)	\$ 54,383	15.63%	\$ 20,879	6.00%	\$ 27,838	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 54,383	15.63%	\$ 15,659	4.50%	\$ 22,619	6.50%
Tier 1 Capital (to Average Assets)	\$ 54,383	7.87%	\$ 27,645	4.00%	\$ 34,556	5.00%
	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(dollars in thousands)						
As of December 31, 2023:						
Total Capital (to Risk Weighted Assets)	\$ 51,779	16.16%	\$ 25,632	8.00%	\$ 32,041	10.00%
Tier 1 Capital (to Risk Weighted Assets)	\$ 48,727	15.21%	\$ 19,224	6.00%	\$ 25,632	8.00%
Common Equity Tier 1 Capital (to Risk Weighted Assets)	\$ 48,727	15.21%	\$ 14,418	4.50%	\$ 20,826	6.50%
Tier 1 Capital (to Average Assets)	\$ 48,727	8.22%	\$ 23,722	4.00%	\$ 29,652	5.00%

Note 14. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, fair value estimates may not be realized in an immediate settlement of the instrument.

Fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, financial assets and financial liabilities are generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

- Level 1 - Valuations based on quoted prices in active markets for identical assets and liabilities.
- Level 2 - Valuations based on quoted prices for identical assets or liabilities in markets that are not active, or quoted prices for similar assets or liabilities or for which all significant inputs are observable, either directly or indirectly.
- Level 3 - Valuations based on inputs that are unobservable and deemed significant to the overall fair value measurement, including situations where there is little, if any, market activity for the asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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

Securities available for sale

The Company primarily values its investment portfolio using Level 2 fair value measurements but may also use Level 1 or Level 3 measurements based on the composition of the portfolio. The Company has contracted with a third-party portfolio accounting service for the valuation of its securities portfolio. The vendors' primary source for security valuation is the Intercontinental Exchange (ICE). ICE provides opinions using model-based pricing techniques that are partially based on available market data, including prices for similar instruments in active markets and prices for identical assets in markets that are not active. ICE uses proprietary pricing models and pricing systems, mathematical tools, and judgment to determine an evaluated price for a security based upon market information regarding that security or securities with similar characteristics.

Derivatives

- **Fair value hedges**
The Company recognizes interest rate swaps at fair value. The Company has contracted with a third-party to provide valuations for these interest rate swaps using a discounted cash flow model. These interest rate swaps are classified as Level 2.
- **Cash flow hedge**
The Company recognizes its cash flow hedge at fair value. The Company has contracted with a third-party vendor to provide valuations for this cash flow hedge using a discounted cash flow model. This cash flow hedge is classified as Level 2.

The following table presents the balances of financial assets and liabilities measured at fair value on a recurring basis (dollars in thousands).

December 31, 2024		Fair Value Measurements		
	Balances	Level 1	Level 2	Level 3
Assets				
Available for sale securities:				
U.S. Treasury securities	\$ 66,434	\$ 66,434	\$ -	\$ -
U.S. government agencies	1,765	-	1,765	-
Asset-backed securities	69,895	-	69,895	-
Mortgage-backed securities:				
Agency	27,997	-	27,997	-
Nonagency	121,219	-	121,219	-
Total securities available for sale	287,310	66,434	220,876	-
Derivatives:				
Cash flow hedge	257	-	257	-
Fair value hedges	3,026	-	3,026	-
Total assets at fair value	\$ 290,593	\$ 66,434	\$ 224,159	\$ -
December 31, 2023				
	Balances	Level 1	Level 2	Level 3
Assets				
Available for sale securities:				
U.S. Treasury securities	\$ 17,730	\$ 17,730	\$ -	\$ -
U.S. government agencies	10,617	-	10,617	-
Asset-backed securities	89,523	-	89,523	-
Mortgage-backed securities:				
Agency	35,908	-	35,908	-
Nonagency	83,809	-	83,809	-
Total securities available for sale	237,587	17,730	219,857	-
Derivatives:				
Cash flow hedge	89	-	89	-
Fair value hedges	40	-	40	-
Total assets at fair value	\$ 237,716	\$ 17,730	\$ 219,986	\$ -
Liabilities				
Derivatives:				
Fair value hedges	\$ 108	\$ -	\$ 108	\$ -
Total liabilities at fair value	\$ 108	\$ -	\$ 108	\$ -

Assets Measured at Fair Value on a Non-recurring Basis

The Company may be required, from time to time, to measure and recognize certain assets at fair value on a nonrecurring basis. The following describes the valuation techniques and inputs used in determining the fair value of certain assets recorded at fair value on a nonrecurring basis in the financial statements.

Other Real Estate Owned (OREO)

The carrying amount of real estate owned by the Bank resulting from foreclosures is estimated at the lesser of cost or fair value of the real estate based on an observable market price or a current appraised value net of selling costs. If carried at market price based on appraised value using observable market data, it is recorded as nonrecurring Level 2. When an appraised value is not available or is not current, or management determines the fair value of the real estate is further impaired below the appraised value or there is no observable market price, the Bank records the real estate as nonrecurring Level 3. At December 31, 2024, and 2023 the Bank held no OREO.

The carrying amount and fair value of the Company's financial instruments as of December 31, 2024, and 2023 are as follows (dollars in thousands):

	Fair Value Measurements at December 31, 2024				
	Carrying Value	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	\$ 16,223	\$ 16,223	\$ -	\$ -	\$ 16,223
Federal funds sold	293	293	-	-	293
Interest-bearing deposits in banks	27,838	-	27,838	-	27,838
Securities held to maturity, net	10,406	956	8,406	-	9,362
Securities available for sale	287,310	66,434	220,876	-	287,310
Restricted stock	3,887	-	3,887	-	3,887
Loans, net	317,947	-	-	311,491	311,491
Derivatives:					
Cash flow hedges	257	-	257	-	257
Interest rate swaps	3,026	-	3,026	-	3,026
Bank owned life insurance	10,328	-	10,328	-	10,328
Accrued interest receivable	2,618	-	2,618	-	2,618
Total financial assets	<u>\$ 680,133</u>	<u>\$ 83,906</u>	<u>\$ 277,236</u>	<u>\$ 311,491</u>	<u>\$ 672,633</u>
Financial liabilities:					
Deposits	\$ 588,775	\$ -	\$ 588,751	\$ -	\$ 588,751
Short-term borrowings	15,000	-	15,019	-	15,019
Long-term borrowings	34,900	-	34,416	-	34,416
Subordinated debt	13,767	-	-	12,209	12,209
Accrued interest payable	1,767	-	1,767	-	1,767
Total financial liabilities	<u>\$ 654,209</u>	<u>\$ -</u>	<u>\$ 639,953</u>	<u>\$ 12,209</u>	<u>\$ 652,162</u>

Fair Value Measurements at December 31, 2023					
	Carrying Amount	Level 1	Level 2	Level 3	Fair Value
Financial assets:					
Cash and cash equivalents	\$ 8,582	\$ 8,582	\$ -	\$ -	\$ 8,582
Federal funds sold	287	287	-	-	287
Interest-bearing deposits in other financial institutions	16,981	-	16,981	-	16,981
Securities held to maturity, net	10,414	938	8,012	-	8,950
Securities available for sale	237,589	17,730	219,859	-	237,589
Restricted stock	3,816	-	3,816	-	3,816
Loans, net	301,259	-	-	289,444	289,444
Derivatives:					
Cash flow hedges	89	-	89	-	89
Interest rate swaps	40	-	40	-	40
Bank owned life insurance	10,054	-	10,054	-	10,054
Accrued interest receivable	2,435	-	2,435	-	2,435
Total financial assets	<u>\$ 591,546</u>	<u>\$ 27,537</u>	<u>\$ 261,286</u>	<u>\$ 289,444</u>	<u>\$ 578,267</u>
Financial liabilities:					
Deposits	\$ 474,234	\$ -	\$ 399,955	\$ -	\$ 399,955
Short-term borrowings	40,000	-	39,922	-	39,922
Long-term borrowings	34,900	-	34,605	-	34,605
Subordinated debt	13,734	-	-	11,539	11,539
Derivatives:					
Interest rate swaps	108	-	108	-	108
Accrued interest payable	2,343	-	2,343	-	2,343
Total financial liabilities	<u>\$ 565,319</u>	<u>\$ -</u>	<u>\$ 476,933</u>	<u>\$ 11,539</u>	<u>\$ 488,472</u>

The Company assumes interest rate risk (the risk that general interest rate levels will change) in the normal course of operations. As a result, the fair values of the Company's financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities to the extent believed necessary to balance minimizing interest rate risk and increasing net interest income in current market conditions. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors interest rates, maturities and repricing dates of assets and liabilities and attempts to manage interest rate risk by adjusting terms of new loans, deposits and borrowings and by investing in securities with terms that mitigate the Company's overall interest rate risk.

Note 15. 401(K) Plan

The Bank has adopted a contributory 401(k) profit sharing plan which covers substantially all employees. Participating employees may elect to contribute up to the maximum percentage allowed by the Internal Revenue Service, as defined in the plan. The Bank contributes 3% of the employees' pay regardless of whether the employees contribute. The Bank also matches 100% of the employees' contribution, up to 4%. Therefore, in combination, the maximum that the Bank contributes is 7%. The amount charged to expense for this plan for the years ended December 31, 2024, and 2023 was \$409 thousand and \$398 thousand, respectively and is included in salaries and employee benefits in the consolidated statements of income.

Note 16. Other Noninterest Income

Other income for the years ended December 31, 2024, and 2023, in the consolidated statements of income include the following components (dollars in thousands):

	Years Ended December 31,	
	2024	2023
Wire fees	\$ 34	\$ 33
Credit card fee income	45	40
Safe deposit box rental	23	20
Rental income	12	23
Other noninterest income	17	21
Total other noninterest income	<u>\$ 131</u>	<u>\$ 137</u>

Note 17. Other Operating Expenses

Other operating expenses for the years ended December 31, 2024, and 2023, in the consolidated statements of income include the following components (dollars in thousands):

	Years Ended December 31,	
	2024	2023
Printing and office supplies	\$ 138	\$ 85
Telephone expense	90	76
Employee training expense	97	38
Customer development expense	74	65
Other loan expense	83	45
Postage	27	13
Insurance expense	76	68
Dues and memberships	68	60
Publications and subscriptions	41	44
Directors fees	242	180
Shareholder expense	68	77
Other operating expense	323	314
Total other operating expenses	<u>\$ 1,327</u>	<u>\$ 1,065</u>

Note 18. Accumulated Other Comprehensive Loss

The following table presents information on changes in accumulated other comprehensive loss, net of tax (dollars in thousands).

	Unrealized Gain (Loss) on Available for Sale Securities	Unrealized Gain on Cash Flow Hedge	Unrealized Gain (Loss) on Fair Value Hedges	Total
Balance, December 31, 2023	\$ (3,007)	\$ 89	\$ (70)	\$ (2,988)
Other comprehensive income (loss) before reclassification	(1,716)	133	2,443	860
Amounts reclassified from accumulated other comprehensive income (loss), net of tax \$102 thousand	(385)	-	-	(385)
Net current-period other comprehensive income (loss), net of tax of \$(126) thousand	(2,101)	133	2,443	475
Balance, December 31, 2024	<u>\$ (5,108)</u>	<u>\$ 222</u>	<u>\$ 2,373</u>	<u>\$ (2,513)</u>
Balance, December 31, 2022	\$ (4,856)	\$ -	\$ -	\$ (4,856)
Other comprehensive income (loss) before reclassification	1,654	89	(70)	1,673
Amounts reclassified from accumulated other comprehensive income (loss), net of tax of \$(52) thousand	195	-	-	195
Net current-period other comprehensive income (loss), net of tax of \$(445) thousand	1,849	89	(70)	1,868
Balance, December 31, 2023	<u>\$ (3,007)</u>	<u>\$ 89</u>	<u>\$ (70)</u>	<u>\$ (2,988)</u>

Note 19. Parent Company Only Financial Statements

Balance Sheet December 31, 2024 and 2023

	2024	2023
(Dollars in thousands, except per share data)		
Assets		
Cash	\$ 198	\$ 496
Investment in subsidiary	51,870	45,739
Other assets	520	350
Total assets	<u>\$ 52,588</u>	<u>\$ 46,585</u>
Liabilities and Shareholders' Equity		
Liabilities		
Subordinated debt, net of unamortized issuance costs	\$ 13,767	\$ 13,734
Other liabilities	544	183
Total liabilities	<u>\$ 14,311</u>	<u>\$ 13,917</u>
Shareholders' Equity		
Preferred stock, \$5.00 par value, 2,000,000 shares authorized, none issued and outstanding, respectively	\$ -	\$ -
Common stock, \$1.00 par value, 10,000,000 shares authorized; issued and outstanding: 2,927,175 and 2,956,157	2,927	2,956
Additional paid-in capital	17,434	17,777
Retained earnings	20,429	14,923
Accumulated other comprehensive loss, net	(2,513)	(2,988)
Total shareholders' equity	<u>\$ 38,277</u>	<u>\$ 32,668</u>
Total liabilities and shareholders' equity	<u>\$ 52,588</u>	<u>\$ 46,585</u>

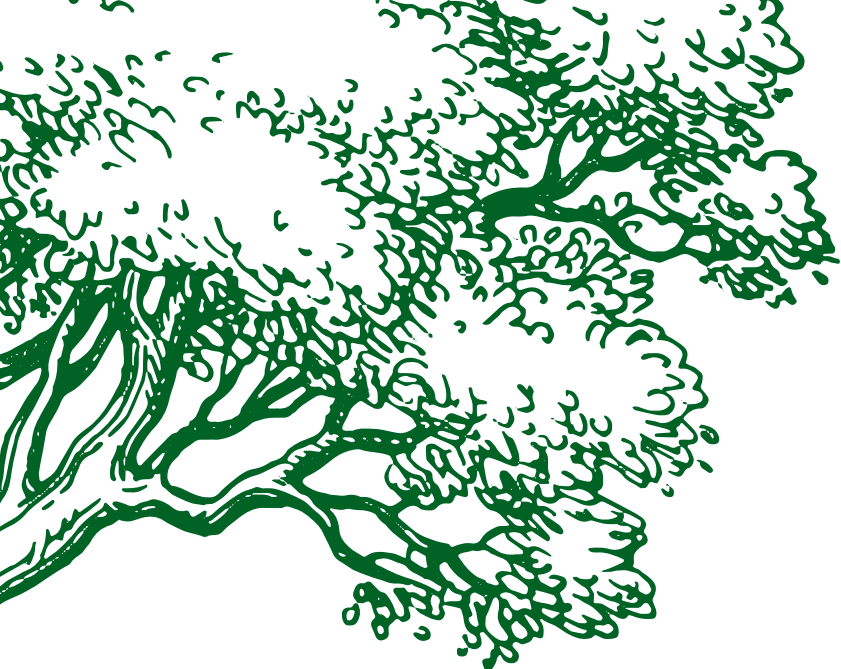
Statement of Income For the Years Ended December 31, 2024 and 2023

	2024	2023
(Dollars in thousands)		
Income		
Dividends from subsidiary	<u>\$ 1,100</u>	<u>\$ -</u>
Expense		
Interest on subordinated debt	\$ 560	\$ 560
Salaries and employee benefits	50	50
Professional services	10	2
Subordinated debt issuance costs	33	33
Other operating expenses	175	128
Total expenses	<u>828</u>	<u>773</u>
Income (loss) before income taxes and equity in undistributed earnings of subsidiary	272	(773)
Income tax benefit	(169)	(162)
Income (loss) before equity in undistributed earnings of subsidiary	\$ 441	\$ (611)
Equity in undistributed earnings of subsidiary	5,656	4,824
Net Income	<u>\$ 6,097</u>	<u>\$ 4,213</u>

Statement of Cash Flows
For the Years Ended December 31, 2024 and 2023

(Dollars in thousands)

	<u>2024</u>	<u>2023</u>
Cash Flows from Operating Activities		
Net income	\$ 6,097	\$ 4,213
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Equity in undistributed earnings of subsidiary	(5,656)	(4,824)
Amortization of subordinated debt issuance costs	33	33
Share-based compensation expense	185	-
Decrease (increase) in other assets	(170)	237
Increase in other liabilities	361	-
Net cash (used in) provided by operating activities	<u>\$ 850</u>	<u>\$ (341)</u>
Cash Flows from Investing Activities		
Capital contribution to the subsidiary	\$ -	\$ (3,656)
Net cash (used in) investing activities	<u>\$ -</u>	<u>\$ (3,656)</u>
Cash Flows from Financing Activities		
Cash dividends paid on common stock	\$ (591)	\$ (296)
Repurchase of common stock	(557)	-
Net cash used in financing activities	<u>\$ (1,148)</u>	<u>\$ (296)</u>
Net decrease in cash and cash equivalents	\$ (298)	\$ (4,293)
Cash and cash equivalents, beginning	496	4,789
Cash and cash equivalents, ending	<u>\$ 198</u>	<u>\$ 496</u>



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