

**BANK OF OCEAN CITY**

**Ocean City, Maryland**

**FINANCIAL STATEMENTS**

**December 31, 2024**

## **C O N T E N T S**

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## **Independent Auditor's Report**

The Board of Directors and Stockholders  
Bank of Ocean City  
Ocean City, Maryland

### **Opinion**

We have audited the financial statements of Bank of Ocean City (the Bank), which comprises of the balance sheets as of December 31, 2024 and 2023, the related statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Bank 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 Bank and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

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

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

*Yount, Hyde & Barbour, P.C.*

Richmond, Virginia  
March 27, 2025

# BANK OF OCEAN CITY

## Balance Sheets

December 31, 2024 and 2023

<b>Assets</b>	<b>2024</b>	<b>2023</b>
Cash and due from banks	\$ 4,277,819	\$ 3,892,946
Interest-bearing deposits	39,867,804	4,080,188
Federal funds sold	7,804,828	1,098,114
Cash and cash equivalents	51,950,451	9,071,248
Certificates of deposit in other financial institutions	531,039	531,039
Restricted stock at cost	495,400	731,400
Investment securities available for sale, at fair value	12,762,111	13,009,102
Investment securities held to maturity, at amortized cost (approximate fair value of \$115,759,601 and \$154,659,368)	124,633,242	166,337,634
Loans, less allowance for credit losses of \$2,811,393 and \$2,759,830	445,292,678	409,778,692
Premises and equipment	9,196,905	9,484,815
Operating lease right-of-use asset	766,553	794,258
Bank owned life insurance	7,685,212	7,427,519
Accrued interest receivable	1,829,404	1,990,232
Deferred income taxes	1,417,312	1,348,114
Prepaid income taxes	-	294,776
Other assets	1,400,067	1,128,625
	<u>\$ 657,960,374</u>	<u>\$ 621,927,454</u>
<b>Liabilities and Stockholders' Equity</b>		
<b>Liabilities</b>		
Deposits		
Noninterest-bearing	\$ 175,101,203	\$ 189,197,357
Interest-bearing	414,362,456	364,747,393
Total deposits	589,463,659	553,944,750
Accrued interest payable	534,942	398,223
Dividend payable	663,546	613,780
Deferred compensation payable	361,679	420,842
Income taxes payable	16,220	-
Operating lease liability	799,891	808,545
Federal Home Loan Bank advances	-	5,000,000
Other liabilities	532,436	537,241
	<u>592,372,373</u>	<u>561,723,381</u>
<b>Stockholders' equity</b>		
Common stock, par value \$1 per share; authorized 2,000,000 shares; issued and outstanding 1,658,865 shares	1,658,865	1,658,865
Surplus	8,383,845	8,383,845
Undivided profits	57,605,750	52,282,191
Accumulated other comprehensive loss	(2,060,459)	(2,120,828)
	<u>65,588,001</u>	<u>60,204,073</u>
	<u>\$ 657,960,374</u>	<u>\$ 621,927,454</u>

See Notes to Financial Statements.

# BANK OF OCEAN CITY

## Statements of Income

For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Interest and dividend revenue</b>		
Loans, including fees	\$ 23,904,047	\$ 19,177,288
U.S. government agency securities	1,148,092	1,267,557
U.S. Treasury securities	194,988	1,138,266
State and municipal securities	198,257	201,174
Federal funds sold and interest-bearing deposits	1,665,765	763,017
Mortgage-backed securities	749,209	776,702
Equity securities	44,234	36,058
Total interest and dividend revenue	<u>27,904,592</u>	<u>23,360,062</u>
<b>Interest expense</b>		
Deposits	10,901,765	6,064,363
Borrowed funds	162,337	294,555
Total interest expense	<u>11,064,102</u>	<u>6,358,918</u>
Net interest income	16,840,490	17,001,144
<b>Provision for credit losses</b>	<u>15,200</u>	<u>349,700</u>
Net interest income after provision for credit losses	<u>16,825,290</u>	<u>16,651,444</u>
<b>Noninterest revenue</b>		
Service charges on deposit accounts	476,984	503,864
Card services	472,706	415,567
Gain on disposition of premises and equipment	125,587	-
Other revenue	579,294	278,274
Total noninterest revenue	<u>1,654,571</u>	<u>1,197,705</u>
<b>Noninterest expenses</b>		
Salaries	4,582,549	3,980,284
Employee benefits	1,135,980	1,011,373
Occupancy	685,011	606,624
Furniture and equipment	230,867	208,105
Data processing	1,303,660	1,103,000
Other operating	2,306,735	2,218,243
Total noninterest expenses	<u>10,244,802</u>	<u>9,127,629</u>
Income before income taxes	8,235,059	8,721,520
Income taxes	<u>1,916,181</u>	<u>2,062,152</u>
<b>Net income</b>	<u>\$ 6,318,878</u>	<u>\$ 6,659,368</u>
Earnings per common share	<u>\$ 3.81</u>	<u>\$ 4.01</u>

See Notes to Financial Statements.

# **BANK OF OCEAN CITY**

## **Statements of Comprehensive Income**

For the Years Ended December 31, 2024 and 2023

	<u><b>2024</b></u>	<u><b>2023</b></u>
<b>Net income</b>	<u>\$ 6,318,878</u>	<u>\$ 6,659,368</u>
<b>Other comprehensive income (loss)</b>		
Unrealized income (loss) on investment securities available for sale	83,288	(117,082)
Related income tax impact	<u>(22,919)</u>	<u>32,218</u>
Other comprehensive income (loss)	<u>60,369</u>	<u>(84,864)</u>
 Total comprehensive income	 <u><u>\$ 6,379,247</u></u>	 <u><u>\$ 6,574,504</u></u>

See Notes to Financial Statements.

# BANK OF OCEAN CITY

## Statements of Changes in Stockholders' Equity Years Ended December 31, 2024 and 2023

	Common Stock			Undivided	Accumulated Other Comprehensive	Total
	Shares	Par Value	Surplus	Profits	Loss	Stockholders' Equity
<b>Balance, December 31, 2022</b>	1,658,865	\$ 1,658,865	\$ 8,383,845	\$ 46,518,610	\$ (2,035,964)	\$ 54,525,356
Net income	--	--	--	6,659,368	--	6,659,368
Unrealized loss on investment securities available for sale, net of income taxes of \$32,218	--	--	--	--	(84,864)	(84,864)
Cash dividends, \$0.54 per share	--	--	--	(895,787)	--	(895,787)
<b>Balance, December 31, 2023</b>	1,658,865	1,658,865	8,383,845	52,282,191	(2,120,828)	60,204,073
Net income	--	--	--	6,318,878	--	6,318,878
Unrealized gain on investment securities available for sale, net of income taxes of \$(22,919)	--	--	--	--	60,369	60,369
Cash dividends, \$0.60 per share	--	--	--	(995,319)	--	(995,319)
<b>Balance, December 31, 2024</b>	1,658,865	1,658,865	8,383,845	57,605,750	(2,060,459)	65,588,001

See Notes to Financial Statements.



# BANK OF OCEAN CITY

## Statements of Cash Flows

For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Cash Flows from Operating Activities</b>		
Interest received	\$ 28,414,827	\$ 23,040,164
Fees and commissions received	1,271,292	992,801
Interest paid	(10,927,383)	(6,027,662)
Cash paid to suppliers and employees	(10,169,786)	(8,757,928)
Income taxes paid	(1,697,302)	(2,515,956)
Cash provided by operating activities	<u>6,891,648</u>	<u>6,731,419</u>
<b>Cash Flows from Investing Activities</b>		
Redemptions of certificates of deposit, net	- -	1,963,695
Proceeds from matured investment securities held to maturity	47,170,133	82,199,610
Proceeds from matured investment securities available for sale	1,289,762	1,199,761
Purchase of investment securities held to maturity	(5,789,930)	(34,415,124)
Purchase of investment securities available for sale	(984,701)	- -
Redemptions (purchase) of restricted stock, net	236,000	(358,600)
Loans made, net of principal repayments	(35,529,186)	(58,093,687)
Disposal (purchases) of premises, equipment, and software	22,121	(890,849)
Cash provided by (used in) investing activities	<u>6,414,199</u>	<u>(8,395,194)</u>
<b>Cash Flows from Financing Activities</b>		
Net increase (decrease) in :		
Time deposits	35,233,058	63,542,058
Other deposits	285,851	(73,344,043)
(Repayment of) proceed from FHLB advances	(5,000,000)	5,000,000
Dividends paid	(945,553)	(862,610)
Cash provided by (used in) financing activities	<u>29,573,356</u>	<u>(5,664,595)</u>
Net increase (decrease) in cash and cash equivalents	42,879,203	(7,328,370)
<b>Cash and cash equivalents at beginning of year</b>	<u>9,071,248</u>	<u>16,399,618</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 51,950,451</u>	<u>\$ 9,071,248</u>

See Notes to Financial Statements.

# BANK OF OCEAN CITY

## Statements of Cash Flows (Continued)

For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Reconciliation of Net Income to Net Cash</b>		
<b>Provided by Operating Activities</b>		
Net income	\$ 6,318,878	\$ 6,659,368
<b>Adjustments to Reconcile Net Income to Net</b>		
<b>Cash Provided by Operating Activities</b>		
Amortization (accretion) of investment		
premiums and discounts, net	349,408	(182,635)
Provision for credit losses	15,200	349,700
Depreciation and amortization	391,376	368,006
Gain on disposal of premises and equipment	(125,587)	-
Non-cash lease expense	19,050	14,287
Deferred income taxes	(92,117)	(113,907)
Decrease (increase) in		
Accrued interest receivable	160,828	(137,263)
Other assets and prepaid income taxes	23,334	(394,165)
Bank owned life insurance	(257,693)	(204,904)
Increase (decrease) in		
Accrued interest payable	136,719	331,256
Income taxes payable	16,220	(45,121)
Other liabilities and deferred		
compensation payable	<u>(63,968)</u>	<u>86,797</u>
 Cash provided by operating activities	 <u>\$ 6,891,648</u>	 <u>\$ 6,731,419</u>
 Supplemental Schedule of Noncash Activities:		
Lease liabilities arising from right-of-use assets	\$ -	\$ 808,545
Unrealized gain (loss) on securities available for sale	83,288	(117,082)

See Notes to Financial Statements.

# **BANK OF OCEAN CITY**

## **Notes to Financial Statements**

### **Note 1. Summary of Significant Accounting Policies**

The accounting and reporting policies reflected in the financial statements conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry. Management makes 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. These estimates and assumptions may affect the reported amounts of revenue and expenses during the reporting period. Actual results could differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses.

#### **Business**

Bank of Ocean City provides a full range of banking services to customers located primarily in Worcester County, Maryland, Sussex County, Delaware, and the surrounding areas.

#### **Cash and Cash Equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, money market funds, and federal funds sold. Generally, federal funds are purchased and sold for one-day periods.

#### **Certificates of Deposit in Other Financial Institutions**

Certificates of deposit in other financial institutions are carried at cost. As of December 31, 2024, these certificates of deposit all mature within one year.

#### **Restricted Stock**

Restricted stock includes the Bank's investment in Federal Home Loan Bank of Atlanta stock, in the amount of \$435,400 and \$671,400 as of December 31, 2024 and 2023, respectively. As a member of the Federal Home Loan Bank, the Bank is required to purchase stock based on its total assets. Additional stock is purchased and redeemed based on the outstanding Federal Home Loan Bank advances to the Bank. The stock is recorded at cost on the balance sheet. The remaining balance of restricted stock represents an investment in the common stock of a bankers' bank in the amount of \$60,000 as of December 31, 2024 and 2023.

#### **Investment Securities**

As securities are purchased, management determines if the securities should be classified as held to maturity or available for sale. Securities which management has the intent and ability to hold to maturity are recorded at amortized cost, which is cost adjusted for amortization of premiums and accretion of discounts to maturity. Available for sale securities are recorded at fair value with unrealized gains and losses included in stockholders' equity on an after-tax basis. Premiums are amortized and discounts are accreted using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through maturity. The Bank has elected to exclude accrued interest receivable from the amortized cost basis.

Gains and losses on disposal are determined using the specific-identification method.

## **Notes to Financial Statements**

For debt securities classified as available-for-sale, impairment is recognized in its entirety in net income if either (i) we intend to sell the security or (ii) it is more-likely-than-not that we will be required to sell the security before recovery of its amortized cost basis. If, however, the Bank does not intend to sell the security and it is not more-likely-than-not that the Bank will be required to sell the security before recovery, the Bank evaluates unrealized losses to determine whether a decline in fair value below amortized cost basis is a result of a credit loss, which occurs when the amortized cost basis of the security exceeds the present value of the cash flows expected to be collected from the security, or other factors such as changes in market interest rates. If a credit loss exists, an allowance for credit losses is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the security's amortized cost basis exceeds its fair value. Changes in the allowance for credit losses are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities available-for-sale not resulting from credit losses are recorded in other comprehensive income (loss). The Bank regularly reviews unrealized losses in its investments in securities and cash flows expected to be collected from impaired securities based on criteria including the extent to which market value is below amortized cost, the financial health of and specific prospects for the issuer, the Bank's intention with regard to holding the security to maturity and the likelihood that the Bank would be required to sell the security before recovery.

The Bank measures expected credit losses on held-to-maturity securities. The held-to-maturity investment portfolio consists of U.S. Treasury securities, Government Sponsored Agency securities, and agency mortgage backed securities that are backed by the full faith and credit of the Federal Government and implied to carry no risk. The state and municipal securities owned by the Bank are general obligation bonds, highly rated by major agencies and have a long history of no credit losses.

### **Loans and Allowance for Credit Losses**

Loans are stated at face value less the allowance for credit losses. Interest on loans is accrued based on the principal amounts outstanding. A loan's past due status is based on the contractual due date of the most delinquent payment due. The accrual of interest is discontinued when any portion of the principal or interest is 90 days past due and collateral is insufficient to discharge the debt in full. If collection of principal is evaluated as doubtful, all payments are applied to principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

The allowance for credit losses (ACL) represents an estimate of the expected credit losses in the Bank held for investment loan portfolio as of the valuation date. Accounting Standards Codification ("ASC") 326 replaced the incurred loss allowance model that recognized losses when it became probable that a credit loss had been incurred, with a requirement to recognize lifetime expected credit losses immediately when a financial asset is originated or purchased. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the held for investment loan portfolio. Loans, or portions thereof, are charged off against the allowance for credit losses when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The adoption of CECL did not result in a significant change to any other credit risk management and monitoring processes, including identification of past due or delinquent borrowers, nonaccrual practices or charge-off policy.

## **Notes to Financial Statements**

In accordance with ASC 326, the Bank has segmented its loan portfolio based on similar risk characteristics which included Call Report Codes. Loans that do not share risk characteristics are evaluated on an individual basis. The Bank designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Bank designates as having higher risk and loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required. The ACL may be zero if the fair value of the collateral at the measurement date exceeds amortized cost basis of the financial asset.

The ACL represents an amount which, in management's judgement, reflects the lifetime expected losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current conditions, reasonable and supportable forecasts for future economic conditions and prepayment experience. The allowance is measured and recorded upon the initial recognition of a financial asset.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using the WARM or Weighted Average Remaining Maturity methodology. In accordance with ASC 326, the Bank has segmented its loan portfolio based on call report classifications. The Bank primarily utilizes the Federal Open Market Committee (FOMC) projections and local unemployment rates for its reasonable and supportable forecasting of current expected credit losses. To further adjust the ACL for expected losses not already included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: lending policies and procedures; economic trends and business conditions; loan concentrations; regulatory changes; seasonality; competition; and other qualitative adjustment factors as deemed necessary.

### **Premises and Equipment**

Land is recorded at cost. Premises and equipment are recorded at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Expenditures for maintenance, repairs, and minor replacements are charged to operating expenses as incurred.

### **Bank owned life insurance**

The Bank owns life insurance policies through two carriers on officers of the Bank. The policies are recorded at their cash surrender values. Increases in cash surrender value are reported in noninterest revenue.

### **Reserve for Unfunded Commitments**

The reserve for unfunded commitments is established through a provision for unfunded commitments charged to provision for credit losses. The reserve is calculated by utilizing the same factor as the allowance for credit losses. The reserve is an amount that management believes will be adequate to absorb expected losses on unfunded commitments (off-balance

## **Notes to Financial Statements**

sheet financial instruments) that may become uncollectible in the future. The reserve for unfunded commitments is included in other liabilities on the Bank's Balance Sheet.

### **Income Taxes**

The provision for income taxes includes taxes payable for the current year and deferred income taxes. Deferred income taxes are provided to account for temporary differences between financial and taxable income. Deferred tax assets and liabilities are determined based on the difference between the financial statement and tax bases of assets and liabilities, using enacted tax rates in effect for the year in which the differences are expected to reverse.

### **Reclassification**

Certain amounts in the financial statements of prior years have been reclassified to conform with the current classifications. Reclassifications had no effect on prior year's net income or stockholders' equity.

### **Recent Accounting Pronouncements**

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

### **Subsequent Events**

The Bank has evaluated subsequent events through March 27, 2025, the date these financial statements were available to be issued. No significant subsequent events were identified that would affect the presentation of the financial statements.

#### **Note 2. Cash and Due From Banks**

The Bank normally carries balances with other banks that exceed the federally insured limit. The balance carried in excess of the limit, including unsecured federal funds sold to the same banks, was approximately \$7,864,755 for 2024 and \$1,266,112 for 2023.

Deposits held in noninterest-bearing transaction accounts are aggregated with any interest-bearing deposits the owner may hold in the same ownership category. The combined total is insured up to \$250,000.

## Notes to Financial Statements

Banks are required to carry noninterest-bearing cash reserves at specified percentages of deposit balances. The Bank's normal amount of cash on hand and on deposit with other banks is sufficient to satisfy the reserve requirements.

### Note 3. Earnings Per Common Share

Earnings per common share are determined by dividing net income by the average number of shares outstanding. There were 1,658,865 average shares outstanding during the years ended December 31, 2024 and 2023, respectively. There are no dilutive shares.

### Note 4. Investment Securities

Investment securities are summarized as follows:

<b>December 31, 2024</b>				
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<b>Available for sale</b>				
Mortgage-backed securities	\$ 14,603,909	\$ --	\$ (2,789,918)	\$ 11,813,991
State and municipal	1,000,900	--	(52,780)	948,120
	<u>\$ 15,604,809</u>	<u>\$ --</u>	<u>\$ (2,842,698)</u>	<u>\$ 12,762,111</u>
<b>Held to maturity</b>				
U.S. Treasury	\$ 12,451,605	\$ --	\$ (373,401)	\$ 12,078,204
U.S. government agency	69,543,714	--	(2,815,153)	66,728,561
State and municipal	11,479,147	--	(1,324,713)	10,154,434
Mortgage-backed securities	31,158,776	--	(4,360,374)	26,798,402
	<u>\$ 124,633,242</u>	<u>\$ --</u>	<u>\$ (8,873,641)</u>	<u>\$ 115,759,601</u>
<b>December 31, 2023</b>				
	<b>Amortized Cost</b>	<b>Unrealized Gains</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>
<b>Available for sale</b>				
Mortgage-backed securities	\$ 14,933,626	\$ --	\$ (2,842,734)	\$ 12,090,892
State and municipal	1,001,462	--	(83,252)	918,210
	<u>\$ 15,935,088</u>	<u>\$ --</u>	<u>\$ (2,925,986)</u>	<u>\$ 13,009,102</u>
<b>Held to maturity</b>				
U.S. Treasury	\$ 35,914,689	\$ --	\$ (877,612)	\$ 35,037,077
U.S. government agency	84,930,658	--	(5,048,296)	79,882,362
State and municipal	11,661,978	9,095	(1,046,252)	10,624,821
Mortgage-backed securities	33,830,309	--	(4,715,201)	29,115,108
	<u>\$ 166,337,634</u>	<u>\$ 9,095</u>	<u>\$ (11,687,361)</u>	<u>\$ 154,659,368</u>

## Notes to Financial Statements

Investment securities with unrealized losses for continuous periods of less than 12 months and 12 months or longer are as follows:

December 31, 2024						
Continuous Periods of Unrealized Losses						
Less than 12 Months		12 Months or Longer		Total		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
<b>Available for sale</b>						
Mortgage-backed securities	\$ 932,308	\$ 10,767	\$ 10,881,683	\$ 2,779,151	\$ 11,813,991	\$ 2,789,918
State and municipal	--	--	948,120	52,780	948,120	52,780
	<u>\$ 932,308</u>	<u>\$ 10,767</u>	<u>\$ 11,829,803</u>	<u>\$ 2,831,931</u>	<u>\$ 12,762,111</u>	<u>\$ 2,842,698</u>
<b>Held to maturity</b>						
U.S. Treasury	\$ --	\$ --	\$ 12,078,204	\$ 373,401	\$ 12,078,204	\$ 373,401
U.S. government agency	3,998,940	1,060	62,729,621	2,814,093	66,728,561	2,815,153
State and municipal	--	--	10,154,434	1,324,713	10,154,434	1,324,713
Mortgage-backed securities	1,503,208	5,847	25,295,194	4,354,527	26,798,402	4,360,374
	<u>\$ 5,502,148</u>	<u>\$ 6,907</u>	<u>\$ 110,257,453</u>	<u>\$ 8,866,734</u>	<u>\$ 115,759,601</u>	<u>\$ 8,873,641</u>
December 31, 2023						
Continuous Periods of Unrealized Losses						
Less than 12 Months		12 Months or Longer		Total		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
<b>Available for sale</b>						
Mortgage-backed securities	\$ --	\$ --	\$ 12,090,892	\$ 2,842,734	\$ 12,090,892	\$ 2,842,734
State and municipal	--	--	918,210	83,252	918,210	83,252
	<u>\$ --</u>	<u>\$ --</u>	<u>\$ 13,009,102</u>	<u>\$ 2,925,986</u>	<u>\$ 13,009,102</u>	<u>\$ 2,925,986</u>
<b>Held to maturity</b>						
U.S. Treasury	\$ 4,989,889	\$ 7,870	\$ 30,047,188	\$ 869,742	\$ 35,037,077	\$ 877,612
U.S. government agency	--	--	79,882,362	5,048,296	79,882,362	5,048,296
State and municipal	1,210,658	3,928	8,522,685	1,042,324	9,733,343	1,046,252
Mortgage-backed securities	--	--	29,115,108	4,715,201	29,115,108	4,715,201
	<u>\$ 6,200,547</u>	<u>\$ 11,798</u>	<u>\$ 147,567,343</u>	<u>\$ 11,675,563</u>	<u>\$ 153,767,890</u>	<u>\$ 11,687,361</u>

The Bank has evaluated available-for-sale securities in an unrealized loss position for credit related impairment at December 31, 2024 and December 31, 2023 and concluded no impairment existed based on a combination of factors, which included: (1) the securities are of high credit quality, (2) unrealized losses are primarily the result of market volatility and increases in market interest rates, (3) issuers continue to make timely principal and interest payments, and (4) the Bank does not intend to sell any of the investments and the accounting standard of "more likely than not" has not been met for the Bank to be required to sell any of the investments before recovery of its amortized cost basis. As such, there was no allowance for credit losses on available-for-sale securities at December 31, 2024 or 2023.

Management has also evaluated the held-to-maturity portfolio. Management has the ability and intent to hold these investments until maturity. The decline in fair value is the result of changes in interest rates, not a deterioration of the credit standing of the issuers. The Bank determined that no allowance for credit losses was required on the Bank's held-to-maturity investment portfolio as of December 31, 2024 or 2023. The held-to-maturity investment portfolio consists of U.S. Treasury securities, Government Sponsored Agency securities, and agency mortgage backed securities that are backed by the full faith and credit of the Federal



## Notes to Financial Statements

Government and implied to carry no risk. The state and municipal securities owned by the Bank are general obligation bonds, highly rated by major agencies and have a long history of no credit losses.

The primary indicators of credit quality for the Bank's held-to-maturity portfolio are security type and credit rating, which is influenced by a number of factors including obligor cash flow, geography, seniority, and others. The Bank's held-to-maturity securities with credit risk were comprised of state and municipal bonds and had a credit rating of AA or better as of December 31, 2024.

Contractual maturities and the amount of pledged securities are shown below. Actual maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities are due in monthly installments.

<b>December 31, 2024</b>				
	<b>Available for Sale</b>		<b>Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Maturing				
Within one year	\$       --	\$       --	\$ 23,328,145	\$ 23,130,595
Over one to five years	1,000,900	948,120	59,303,409	56,292,703
Over five to ten years	--	--	7,153,519	6,490,285
Over ten years	--	--	3,689,393	3,047,616
Mortgage-backed securities	14,603,909	11,813,991	31,158,776	26,798,402
	<u>\$ 15,604,809</u>	<u>\$ 12,762,111</u>	<u>\$ 124,633,242</u>	<u>\$ 115,759,601</u>
Pledged securities			<u>\$ 79,177,274</u>	<u>\$ 75,892,275</u>

<b>December 31, 2023</b>				
	<b>Available for Sale</b>		<b>Held to Maturity</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>
Maturing				
Within one year	\$       --	\$       --	\$ 42,794,735	\$ 42,252,160
Over one to five years	1,001,462	918,210	78,714,016	73,302,274
Over five to ten years	--	--	6,388,480	5,931,811
Over ten years	--	--	4,610,094	4,058,015
Mortgage-backed securities	14,933,626	12,090,892	33,830,309	29,115,108
	<u>\$ 15,935,088</u>	<u>\$ 13,009,102</u>	<u>\$ 166,337,634</u>	<u>\$ 154,659,368</u>
Pledged securities			<u>\$ 106,847,941</u>	<u>\$ 101,190,650</u>

Investments are pledged as of December 31, 2024 and 2023, as collateral for government deposits and Federal Reserve Bank borrowings.

There were no sales of investment securities in 2024 or 2023.

## Notes to Financial Statements

### Note 5. Loans and Allowance for Credit Losses

Major classifications of loans are as follows:

	<u>2024</u>	<u>2023</u>
Real estate		
Residential	\$ 125,253,661	\$ 110,778,910
Commercial	238,652,029	214,691,069
Construction, land development, and land	59,014,382	62,208,909
Commercial	24,334,832	23,782,806
Consumer	<u>849,167</u>	<u>1,076,828</u>
	448,104,071	412,538,522
Allowance for credit losses	<u>2,811,393</u>	<u>2,759,830</u>
Loans, net	<u><u>\$445,292,678</u></u>	<u><u>\$409,778,692</u></u>

Transactions in the allowance for credit losses for the years ended December 31, 2024 and 2023, were as follows:

	<u>December 31, 2024</u>				
	<b>Beginning Balance</b>	<b>Provision for Credit Losses</b>	<b>Charge Offs</b>	<b>Recoveries</b>	<b>Ending Balance</b>
Real estate					
Residential	\$ 532,776	\$ 244,805	\$ --	\$ --	\$ 777,581
Commercial	1,633,996	88,050	--	3,000	1,725,046
Construction, land development, and land	492,463	(260,835)	--	--	231,628
Commercial	77,966	(27,151)	(7,100)	2,210	45,925
Consumer	22,799	5,568	(22,546)	2,000	7,820
Unallocated	<u>(170)</u>	<u>23,563</u>	<u>--</u>	<u>--</u>	<u>23,393</u>
	<u><u>\$ 2,759,830</u></u>	<u><u>\$ 74,000</u></u>	<u><u>\$(29,646)</u></u>	<u><u>\$ 7,210</u></u>	<u><u>\$2,811,393</u></u>

## Notes to Financial Statements

### December 31, 2023

	<b>Beginning</b>	<b>Provision</b>	<b>Charge</b>		<b>Ending</b>
	<b>Balance</b>	<b>for Credit</b>	<b>Offs</b>	<b>Recoveries</b>	<b>Balance</b>
		<b>Losses</b>			
Real estate					
Residential	\$ 690,054	\$(157,278)	\$ --	\$ --	\$ 532,776
Commercial	1,421,306	209,090	--	3,600	1,633,996
Construction, land					
development, and land	320,077	172,386	--	--	492,463
Commercial	156,065	(86,499)	--	8,400	77,966
Consumer	3,323	43,478	(27,789)	3,787	22,799
Unallocated	(193)	23	--	--	(170)
	<u>\$ 2,590,632</u>	<u>\$ 181,200</u>	<u>\$(27,789)</u>	<u>\$ 15,787</u>	<u>\$ 2,759,830</u>

The following tables are a summary of the Bank's non-accrual loans by major categories as of December 31, 2024 and 2023:

### December 31, 2024

	<b>Nonaccrual Loans</b>	<b>Nonaccrual Loans</b>	<b>Total</b>
	<b>with No Allowance</b>	<b>with Allowance</b>	<b>Nonaccrual</b>
	<b>for Credit Losses</b>	<b>for Credit Losses</b>	<b>Loans</b>
Real estate			
Residential	\$ --	\$ --	\$ --
Commercial	--	--	--
Construction, land			
development, and land	--	--	--
Commercial	--	--	--
Consumer	1,150	--	1,150
	<u>\$ 1,150</u>	<u>\$ --</u>	<u>\$ 1,150</u>

### December 31, 2023

	<b>Nonaccrual Loans</b>	<b>Nonaccrual Loans</b>	<b>Total</b>
	<b>with No Allowance</b>	<b>with Allowance</b>	<b>Nonaccrual</b>
	<b>for Credit Losses</b>	<b>for Credit Losses</b>	<b>Loans</b>
Real estate			
Residential	\$ --	\$ --	\$ --
Commercial	--	--	--
Construction, land			
development, and land	--	--	--
Commercial	--	--	--
Consumer	2,191	--	2,191
	<u>\$ 2,191</u>	<u>\$ --</u>	<u>\$ 2,191</u>

## Notes to Financial Statements

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024:

	<b>Collateral Type</b>
	<b>Real Estate</b>
Real estate	
Residential	\$           --
Commercial	5,382,574
Construction, land development, and land	--
Commercial	--
Consumer	--
	<u>\$       5,382,574</u>

There were no collateral dependent loans as of December 31, 2023.

The Bank was not committed to advance any funds in connection with individually evaluated loans at December 31, 2024 or 2023.

Past due loans, segregated by age and class of loans, as of December 31, 2024 and 2023 were as follows:

	<b>December 31, 2024</b>								
	<b>Loans 30-59 Days Past Due</b>	<b>Loans 60-89 Days Past Due</b>	<b>Loans 90 or More Days Past Due</b>	<b>Total Past Due Loans</b>	<b>Current Loans</b>	<b>Total Loans</b>	<b>Accruing Loans 90 or More Days Past Due</b>	<b>Nonaccrual Loans</b>	<b>Nonaccrual Interest Not Accrued</b>
Real estate									
Residential	\$ 813,394	\$ --	\$ --	\$ 813,394	\$124,440,267	\$125,253,661	\$ --	\$ --	\$ --
Commercial	2,992,142	188,141	2,202,291	5,382,574	233,269,455	238,652,029	2,202,291	--	--
Construction, land development, and land	68,499	--	--	68,499	58,945,883	59,014,382	--	--	--
Commercial	104,339	--	--	104,339	24,230,493	24,334,832	--	--	--
Consumer	4,114	--	--	4,114	845,053	849,167	--	1,150	451
	<u>\$ 3,982,488</u>	<u>\$ 188,141</u>	<u>\$ 2,202,291</u>	<u>\$ 6,372,920</u>	<u>\$ 441,731,151</u>	<u>\$ 448,104,071</u>	<u>\$ 2,202,291</u>	<u>\$ 1,150</u>	<u>\$ 451</u>

  

	<b>December 31, 2023</b>								
	<b>Loans 30-59 Days Past Due</b>	<b>Loans 60-89 Days Past Due</b>	<b>Loans 90 or More Days Past Due</b>	<b>Total Past Due Loans</b>	<b>Current Loans</b>	<b>Total Loans</b>	<b>Accruing Loans 90 or More Days Past Due</b>	<b>Nonaccrual Loans</b>	<b>Nonaccrual Interest Not Accrued</b>
Real estate									
Residential	\$ 386,509	\$ --	\$ 237,024	\$ 623,533	\$110,155,377	\$110,778,910	\$ 237,024	\$ --	\$ --
Commercial	1,364,693	--	--	1,364,693	213,326,376	214,691,069	--	--	--
Construction, land development, and land	177,771	--	--	177,771	62,031,138	62,208,909	--	--	--
Commercial	273,918	7,000	--	280,918	23,501,888	23,782,806	--	--	--
Consumer	3,518	--	853	4,371	1,072,457	1,076,828	853	2,191	139
	<u>\$ 2,206,409</u>	<u>\$ 7,000</u>	<u>\$ 237,877</u>	<u>\$ 2,451,286</u>	<u>\$ 410,087,236</u>	<u>\$ 412,538,522</u>	<u>\$ 237,877</u>	<u>\$ 2,191</u>	<u>\$ 139</u>

## **Notes to Financial Statements**

### **Credit Quality Indicators**

As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management tracks certain credit quality indicators including trends related to the risk grade of loans, the level of classified loans, net charge-offs, nonperforming loans, and the general economic conditions in the Bank's market.

The Bank utilizes a risk grading matrix to assign a risk grade to each of its loans. A description of the general characteristics of loans characterized as watch list or classified is as follows:

#### **Pass/Watch**

Loans graded as Pass/Watch are secured by generally acceptable assets which reflect above-average risk. The loans warrant closer scrutiny by management than is routine, due to circumstances affecting the borrower, the borrower's industry, or the overall economic environment. Borrowers may reflect weaknesses such as inconsistent or weak earnings, break even or moderately deficit cash flow, thin liquidity, minimal capacity to increase leverage, or volatile market fundamentals or other industry risks. Such loans are typically secured by acceptable collateral, at or near appropriate margins, with realizable liquidation values.

#### **Special Mention**

A special mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Borrowers may exhibit poor liquidity and leverage positions resulting from generally negative cash flow or negative trends in earnings. Access to alternative financing may be limited to finance companies for business borrowers and may be unavailable for commercial real estate borrowers.

#### **Substandard**

A substandard loan is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard loans have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Borrowers may exhibit recent or unexpected unprofitable operations, an inadequate debt service coverage ratio, or marginal liquidity and capitalization. These loans require more intense supervision by Bank management.

#### **Doubtful**

A doubtful loan has all the weaknesses inherent as a substandard loan with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

## Notes to Financial Statements

The following tables present the December 31, 2024 and 2023, balances of loans by risk grade.

	December 31, 2024				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate					
Residential	\$ 125,010,721	\$ - -	\$ 242,940	\$ - -	\$ 125,253,661
Commercial	233,269,455	- -	5,382,574	- -	238,652,029
Construction, land development, and land	58,945,883	- -	68,499	- -	59,014,382
Commercial	24,274,392	- -	60,440	- -	24,334,832
Consumer	848,200	- -	967	- -	849,167
	<u>\$ 442,348,651</u>	<u>\$ - -</u>	<u>\$ 5,755,420</u>	<u>\$ - -</u>	<u>\$ 448,104,071</u>

	December 31, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total Loans
Real estate					
Residential	\$ 110,291,014	\$ - -	\$ 487,896	\$ - -	\$ 110,778,910
Commercial	214,691,069	- -	- -	- -	214,691,069
Construction, land development, and land	62,138,700	- -	70,209	- -	62,208,909
Commercial	23,702,905	- -	79,901	- -	23,782,806
Consumer	1,073,784	- -	3,044	- -	1,076,828
	<u>\$ 411,897,472</u>	<u>\$ - -</u>	<u>\$ 641,050</u>	<u>\$ - -</u>	<u>\$ 412,538,522</u>

From time to time, the Bank may modify certain loans to borrowers who are experiencing financial difficulty. In some cases, these modifications may result in new loans. Loan modifications to borrowers experiencing financial difficulty may be in the form of a principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension or a combination thereof, among other things. There were no such modifications during the year-ended December 31, 2024.

There were no loans secured by 1-4 family residential properties in the process of foreclosure at December 31, 2024 or 2023.

The Bank lends to customers located primarily in the Delmarva region. Although the loan portfolio is diversified, its performance will be influenced by the economy of the region.

## Notes to Financial Statements

### Note 6. Credit Commitments

The following credit commitments are outstanding as of December 31:

	<u>2024</u>	<u>2023</u>
Mortgage and other loan commitments	\$ 25,272,200	\$ 16,844,925
Construction loans	37,387,701	17,316,185
Lines of credit	<u>12,630,193</u>	<u>37,491,019</u>
	<u>\$ 75,290,094</u>	<u>\$ 71,652,129</u>
 Standby letters of credit	 <u>\$ 2,422,299</u>	 <u>\$ 1,711,317</u>

Loan commitments and lines of credit are agreements to lend to a customer as long as there is no violation of any condition to the contract. Loan commitments generally have fixed interest at current market rates, fixed expiration dates, and may require payment of a fee. Construction loan commitments represent funding the Bank will provide to borrowers as the related project progresses. The construction loans generally have fixed rates. Lines of credit generally have variable interest rates. Such lines do not represent future cash requirements because it is unlikely that all customers will draw upon their lines in full at any time. Letters of credit are commitments issued to guarantee the performance of a customer to a third party.

Loan commitments, lines of credit, and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank's exposure to credit loss in the event of nonperformance by the borrower is represented by the contract amount of the commitment. As part of implementing ASU 2016-13 on January 1, 2023, the Bank created an allowance for credit losses on off-balance sheet items related to these financial instruments with off-balance sheet risk, which is reported as a liability on the Bank's Balance Sheet. The liability excludes commitments for which the Bank can, at any time and for any reason, cancel its commitment to lend, as unconditionally cancellable commitments do not require an allowance. The allowance for credit losses on off-balance sheet items was \$109,700 and \$168,500 as of December 31, 2024 and 2023, respectively, which are included in Other Liabilities on the Bank's Balance Sheet.

## Notes to Financial Statements

### Note 7. Premises and Equipment

A summary of premises and equipment and the related depreciation is as follows:

	<u>Estimated Useful Lives</u>	<u>2024</u>	<u>2023</u>
Land		\$ 4,050,592	\$ 4,075,773
Buildings and improvements	5 - 40 years	7,527,597	7,553,152
Furniture and equipment	3 - 20 years	<u>2,297,669</u>	<u>2,349,371</u>
		13,875,858	13,978,296
Accumulated depreciation		<u>4,678,953</u>	<u>4,493,481</u>
Net premises and equipment		<u>\$ 9,196,905</u>	<u>\$ 9,484,815</u>
Depreciation expense		<u>\$ 391,376</u>	<u>\$ 368,006</u>

### Note 8. Lease Commitments

The Bank leases the land on which one of the Bank's branch facilities resides. The lease is classified as an operating lease. There are options to extend the lease term beyond the initial term of 20 years, however, the Bank has not included any extensions in its calculations of the lease liabilities.

The following table presents information about the Bank's lease as of December 31, 2024:

#### Balance Sheet

##### Operating Lease Amounts

Right-of-use asset	\$ 766,553
Lease liability	\$ 799,891

#### Income Statement

Operating lease cost classified as occupancy	\$ 67,050
--	-----------

Weighted average remaining lease term (years)	18.25
Weighted average discount rate	0.41%



## Notes to Financial Statements

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

<u>Period</u>	
2025	48,000
2026	52,500
2027	54,000
2028	54,000
2029 and thereafter	<u>1,048,500</u>
Total undiscounted cash flows	1,257,000
Discount	<u>(457,109)</u>
Lease liabilities	\$ 799,891

### Note 9. Interest-Bearing Deposits

Major classifications of interest-bearing deposits are as follows:

	<u>2024</u>	<u>2023</u>
Money market	\$ 166,570,108	\$ 144,749,014
Savings and interest checking	84,583,593	92,091,468
Certificates of deposit, \$250,000 or more	46,678,223	37,566,080
Other time deposits	<u>116,530,532</u>	<u>90,340,831</u>
	<u>\$414,362,456</u>	<u>\$364,747,393</u>

Maturities of time deposits are as follows:

	<u>2024</u>	<u>2023</u>
Within one year	\$ 152,669,029	\$ 117,765,514
One year to within two years	4,636,577	3,405,008
Two years to within three years	3,777,196	1,626,664
Three years to within four years	1,233,999	3,754,484
Four years to within five years	891,954	1,355,241
Greater than five years	<u>- -</u>	<u>- -</u>
Total	<u>\$ 163,208,755</u>	<u>\$ 127,906,911</u>

### Note 10. Available Lines of Credit

The Bank has available lines of credit of \$27,500,000 in overnight federal funds from other banks. The Bank also has access to certificate of deposit funding through a financial network. The funding is limited to 15% of the Bank's assets, or approximately \$98,694,150 as of December 31, 2024.

## Notes to Financial Statements

As of December 31, 2024, the Bank has pledged investment securities to the Federal Reserve Bank of Richmond to provide a borrowing capacity totaling approximately \$4,740,978 under its discount window program.

The Bank also has borrowing capability with the Federal Home Loan Bank (FHLB) which is secured by select bonds in the investment portfolio and portions of the residential and commercial portfolio. Total par value of investments pledged as of December 31, 2024 was \$40,000,000. Total lendable collateral available under this line as of December 31, 2024 was \$186,956,371 of which there was no outstanding balance. All borrowings are overnight or short term.

### Note 11. Related-Party Transactions

In the normal course of banking business, loans are made to executive officers and directors of the Bank. The terms of these transactions are substantially the same as the terms provided to other borrowers entering into similar loan transactions. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than normal credit risk.

A summary of these loans is as follows:

	<u>2024</u>	<u>2023</u>
Balance at beginning of year	\$ 6,608,770	\$ 5,218,748
New loans	2,734,600	1,654,477
Principal payments	<u>(2,611,956)</u>	<u>(264,455)</u>
Balance at end of year	<u>\$ 6,731,414</u>	<u>\$ 6,608,770</u>

Deposits from executive officers and directors and their related interests were \$ 14,622,763 as of December 31, 2024 and \$16,021,885 as of December 31, 2023.

## Notes to Financial Statements

### Note 12. Other Operating Expenses

Other operating expenses consist of the following:

	<u>2024</u>	<u>2023</u>
Professional fees	\$ 411,542	\$ 306,580
FDIC insurance	382,857	358,109
Communications	286,617	258,325
Director fees	216,090	229,596
Software amortization and licenses	141,352	105,347
Charitable contributions	100,166	123,994
Supplies	94,064	103,772
Postage and freight	93,920	77,749
Insurance	91,622	85,689
Dues and subscriptions	87,589	74,913
Advertising	62,928	47,984
Armored car and courier	46,943	38,757
Education	45,275	70,762
Correspondent bank fees	40,338	37,496
Loan processing fees	12,445	22,450
Other	192,987	276,720
	<u>\$ 2,306,735</u>	<u>\$ 2,218,243</u>

### Note 13. Retirement Plans

The Bank has a nonqualified retirement plan for a retired executive. The plan specified an annual salary deferral of \$70,099 through retirement, plus interest of 6% annually on the balance deferred. The expense related to the plan was \$23,836 and \$25,932 for the years ended December 31, 2024 and 2023, respectively.

The Bank has a 401(k) plan, which covers essentially all employees. The Bank matches participant contributions up to 6% of eligible compensation, plus an additional 1% of eligible compensation for contributing participants. The contributions to the Plan were \$217,705 and \$205,441 for the years ended December 31, 2024 and 2023, respectively.

## Notes to Financial Statements

### Note 14. Income Taxes

The components of income tax expense are as follows:

	<u>2024</u>	<u>2023</u>
Current		
Federal	\$ 1,604,126	\$ 1,716,362
State	<u>404,172</u>	<u>459,697</u>
	2,008,298	2,176,059
Deferred	<u>(92,117)</u>	<u>(113,907)</u>
	<u>\$ 1,916,181</u>	<u>\$ 2,062,152</u>

The components of the deferred tax expense (benefits) are as follows:

	<u>2024</u>	<u>2023</u>
Provision for (recovery of) credit losses	\$ (90,030)	\$ (154,273)
Lease	(5,242)	(3,932)
Depreciation	(13,126)	28,595
Nonqualified retirement plans	<u>16,281</u>	<u>15,703</u>
	<u>\$ (92,117)</u>	<u>\$ (113,907)</u>

The components of the net deferred tax asset are as follows:

	<u>2024</u>	<u>2023</u>
Deferred tax assets		
Allowance for credit losses	\$ 681,116	\$ 591,086
Lease Liability, net of right-of-use asset	9,174	3,932
Unrealized loss on investment securities available for sale	782,239	805,158
Nonqualified retirement plans	<u>99,525</u>	<u>115,806</u>
	<u>1,572,054</u>	<u>1,515,982</u>
Deferred tax liabilities		
Depreciation	<u>154,742</u>	<u>167,868</u>
	<u>154,742</u>	<u>167,868</u>
Net deferred tax asset	<u>\$ 1,417,312</u>	<u>\$ 1,348,114</u>

## Notes to Financial Statements

A reconciliation of the provision for income taxes from the statutory federal income tax rate to the effective income tax rates follows:

	<u>2024</u>	<u>2023</u>
Tax at statutory federal income tax rate	21.0%	21.0%
Tax effect of Tax-exempt income	(1.3)%	(1.1)%
State income tax, net of federal benefit	<u>3.7%</u>	<u>3.8%</u>
Income tax expense	<u>23.4%</u>	<u>23.7%</u>

The Bank does not have material uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2021.

### Note 15. Capital Standards

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 possible additional, discretionary actions by the regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Basel III Capital Rules became effective for the Bank on January 1, 2015 (subject to a phase-in period for certain provisions). Quantitative measures established by the Basel III Capital Rules to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1 capital, Tier 1 capital, and Total capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to adjusted quarterly average assets (as defined).

In connection with the adoption of the Basel III Capital Rules, the Bank elected to opt-out of the requirement to include accumulated other comprehensive income in Common Equity Tier 1 capital. Common Equity Tier 1 capital for the Bank is reduced by goodwill and other intangible assets, if any, net of associated deferred tax liabilities and subject to transition provisions.

Under the revised prompt corrective action requirements, as of January 1, 2015, insured depository institutions are required to meet the following in order to qualify as "well capitalized:" (1) a Common Equity Tier 1 risk-based capital ratio of 6.5%; (2) a Tier 1 risk-based capital ratio of 8%; (3) a total risk-based capital ratio of 10%; and (4) a Tier 1 leverage ratio of 5%.

## Notes to Financial Statements

The implementation of the capital conservation buffer began on January 1, 2016, at the 0.625% level and was phased in over a four-year period (increasing by that amount on each subsequent January 1, until it reached 2.5% on January 1, 2019). The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Bank.

The aforementioned capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets above the minimum but below the conservation buffer (or below the combined capital conservation buffer and countercyclical capital buffer, when the latter is applied) will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The following table presents actual and required capital ratios as of December 31, 2024 and 2023, for the Bank under the Basel III Capital Rules. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2024 and 2023, based on the phase-in provisions of the Basel III Capital Rules. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2024, the most recent notification from the FDIC has categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain ratios as set forth in the table. There have been no conditions or events since that notification that management believes have changed the Bank's category.

The FDIC, through formal or informal agreement, has the authority to require an institution to maintain higher capital ratios than those provided by statute, to be categorized as well capitalized under the regulatory framework for prompt corrective action.

	December 31, 2024					
	Actual		Minimum		To Be Well	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(in thousands)</i>					
Tier 1 leverage ratio	\$67,649	10.04%	\$26,963	4.00%	\$33,703	5.00%
Tier 1 capital (to risk-weighted assets)	\$67,649	14.24%	\$40,388	8.50%	\$38,012	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	\$67,649	14.24%	\$33,261	7.00%	\$30,885	6.50%
Total capital ratio (to risk-weighted assets)	\$70,570	14.85%	\$49,891	10.50%	\$47,516	10.00%

## Notes to Financial Statements

	December 31, 2023					
	Actual		Minimum		To Be Well	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	<i>(in thousands)</i>					
Tier 1 leverage ratio	\$ 62,325	9.74%	\$ 25,599	4.00%	\$ 31,998	5.00%
Tier 1 capital (to risk-weighted assets)	\$ 62,325	13.95%	\$ 37,973	8.50%	\$ 35,740	8.00%
Common equity tier 1 capital ratio (to risk-weighted assets)	\$ 62,325	13.95%	\$ 31,272	7.00%	\$ 29,039	6.50%
Total capital ratio (to risk-weighted assets)	\$ 65,252	14.61%	\$ 46,908	10.50%	\$ 44,675	10.00%

### Note 16. Fair Value Measurements

Generally accepted accounting principles define fair value, establish a framework for measuring fair value, expand disclosures about fair value, and establish a hierarchy for determining fair value measurement. The hierarchy includes three levels and is based upon the valuation techniques used to measure assets and liabilities. The three levels are as follows:

Level 1 – Inputs to the valuation method are quoted prices (unadjusted) for identical assets or liabilities in active markets;

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

Level 3 – Inputs to the valuation method are unobservable and significant to the fair value measurement.

#### Fair Value Measurements on a Recurring Basis

Investment securities available for sale are the only instruments that are measured at fair value on a recurring basis. The Bank has categorized its investment securities available for sale as follows as of December 31, 2024 and 2023:

	December 31, 2024			
	Total	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Mortgage-backed securities	\$ 11,813,991	\$ - -	\$ 11,813,991	\$ - -
State and municipal	948,120	- -	948,120	- -
	<u>\$ 12,762,111</u>	<u>\$ - -</u>	<u>\$ 12,762,111</u>	<u>\$ - -</u>

## Notes to Financial Statements

	<b>December 31, 2023</b>			
	<b>Total</b>	<b>Level 1 Inputs</b>	<b>Level 2 Inputs</b>	<b>Level 3 Inputs</b>
Mortgage-backed securities	\$ 12,090,892	\$ - -	\$ 12,090,892	\$ - -
State and municipal	918,210	- -	918,210	- -
	<u>\$ 13,009,102</u>	<u>\$ - -</u>	<u>\$ 13,009,102</u>	<u>\$ - -</u>

### **Fair Value Measurements on a Nonrecurring Basis**

Individually evaluated loans are generally measured based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties, or discounted cash flows based upon the expected proceeds. These assets are classified as Level 3 fair values since the market for collateral dependent loans is not active. As of December 31, 2024 and 2023, there were no recorded loan balances net of any specific valuation allowances.