

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Washington, D.C. 20551

FORM 10 - Q

Quarterly Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 for the quarterly period ended September 30, 2024.

HIGHLANDS COMMUNITY BANK
(Exact name of the registrant as specified in its charter)

Virginia
(State of Incorporation)

54-2038135
(I.R.S. Employer Identification No.)

307 Thacker Avenue, P.O. Box 1059, Covington, Virginia 24426

(Address of principal executive offices)

(540) 962-2265
(Issuer's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:
None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input checked="" type="checkbox"/>
		Emerging growth company	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.
Yes

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

1,482,720 shares of common stock, \$2.50 par value per share (the "Common Stock"), issued and outstanding as of November 14, 2024.

Highlands Community Bank
Form 10-Q

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Highlands Community Bank

Balance Sheets

September 30, 2024 (Unaudited) and December 31, 2023

	September 30, 2024	December 31, 2023
Assets		
Cash and due from banks	\$ 1,644,821	\$ 1,599,294
Interest-bearing deposits with banks	7,861,000	889,000
Certificates of deposit	4,250,000	4,500,000
Cash and cash equivalents	13,755,821	6,988,294
Investment securities available for sale, at fair value	70,515,175	73,676,248
Investment securities held-to-maturity, at amortized cost, net of allowance for credit loss of \$0. Fair value of \$1,941,503 and \$1,881,173 at September 30, 2024 and December 31, 2023, respectively	2,000,000	2,000,000
Restricted equity securities, at cost	450,550	308,900
Loans, net of allowance for credit losses of \$1,392,897 at September 30, 2024 and \$1,285,836 at December 31, 2023	103,525,465	106,136,043
Property and equipment, net	2,036,689	2,106,349
Bank owned life insurance	5,270,828	5,154,610
Other real estate owned, net	7,000	33,278
Accrued interest receivable	772,998	875,979
Other assets	2,257,333	2,172,259
Total assets	<u>\$ 200,591,859</u>	<u>\$ 199,451,960</u>
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	\$ 39,572,803	\$ 37,727,322
Interest-bearing deposits	141,032,452	144,054,263
Total deposits	180,605,255	181,781,585
Accrued interest payable	323,957	264,493
Other liabilities	663,164	474,615
Total liabilities	<u>181,592,376</u>	<u>182,520,693</u>
Commitments and contingencies		
Stockholders' equity		
Common stock, \$2.50 par value; 10,000,000 shares authorized; 1,482,720 shares issued and outstanding at September 30, 2024 and December 31, 2023	3,706,800	3,706,800
Surplus	3,836,641	3,836,641
Retained earnings	15,607,829	15,460,760
Accumulated other comprehensive loss	(4,151,787)	(6,072,934)
Total stockholders' equity	<u>18,999,483</u>	<u>16,931,267</u>
Total liabilities and stockholders' equity	<u>\$ 200,591,859</u>	<u>\$ 199,451,960</u>

See Notes to Financial Statements

Highlands Community Bank

Statements of Income

Nine Months Ended September 30, 2024 and 2023 (Unaudited)

	Nine Months Ended September 30,	
	2024	2023
Interest income		
Loans and fees on loans	\$ 5,143,711	\$ 4,697,541
Investment securities, taxable	1,304,237	1,378,099
Investment securities, non-taxable	114,777	126,789
Deposits with banks	161,567	141,327
Total interest income	6,724,292	6,343,756
Interest expense		
Deposits	2,456,923	1,451,704
Federal funds purchased	33,821	37,082
Total interest expense	2,490,744	1,488,786
Net interest income	4,233,548	4,854,970
Provision for credit losses	449,560	370,874
Net interest income after provision for credit losses	3,783,988	4,484,096
Noninterest income		
Service charges on deposit accounts	200,016	212,975
Other service charges and fees	329,061	317,448
Income from bank owned life insurance	116,218	94,443
(Losses) gains on sales of investment securities available for sale	(2,928)	16,459
Other income	11,380	13,804
Total noninterest income	653,747	655,129
Noninterest expense		
Salaries and employee benefits	1,959,057	1,921,948
Data processing expense	836,092	880,387
Professional fees	300,393	187,271
Occupancy and equipment expense	223,943	235,493
State assessments	158,355	175,910
Repossessed collateral expense	100,137	22,233
Directors fees	97,500	102,045
Advertising	71,099	79,102
FDIC insurance premium	66,293	49,900
Other real estate loss (gain) and expense, net	26,278	(9,912)
Other expense	469,519	546,293
Total noninterest expense	4,308,666	4,190,670
Net income before income taxes	129,069	948,555
Income tax (benefit) expense	(18,000)	149,424
Net income	\$ 147,069	\$ 799,131
Basic and diluted earnings per share	\$ 0.10	\$ 0.54
Dividends declared per share	\$ -	\$ 0.61
Weighted average common shares outstanding - basic and diluted	1,482,720	1,482,170

See Notes to Financial Statements

Highlands Community Bank Statements of Income

Three Months Ended September 30, 2024 and 2023 (Unaudited)

	Three Months Ended September 30,	
	2024	2023
Interest income		
Loans and fees on loans	\$ 1,700,560	\$ 1,666,286
Investment securities, taxable	420,151	453,647
Investment securities, non-taxable	44,158	39,728
Deposits with banks	77,732	51,993
Total interest income	2,242,601	2,211,654
Interest expense		
Deposits	858,527	589,165
Federal funds purchased	69	2,448
Total interest expense	858,596	591,613
Net interest income	1,384,005	1,620,041
Provision for credit losses		
Net interest income after provision for credit losses	160,000	120,874
	1,224,005	1,499,167
Noninterest income		
Service charges on deposit accounts	71,088	66,355
Other service charges and fees	108,319	110,560
Income from bank owned life insurance	39,555	32,357
Loss on sales of investment securities available for sale	(3,414)	-
Other income	5,885	8,440
Total noninterest income	221,433	217,712
Noninterest expense		
Salaries and employee benefits	645,691	652,246
Data processing expense	277,911	330,888
Professional fees	98,835	73,189
Occupancy and equipment expense	73,080	74,566
State assessments	54,955	61,210
Repossessed collateral (income) expense, net	(3,476)	22,233
Directors fees	28,950	33,154
Advertising	15,497	24,789
FDIC insurance premium	22,500	21,960
Other expense	144,752	204,755
Total noninterest expense	1,358,695	1,498,990
Net income before income taxes	86,743	217,889
Income tax expense	2,995	17,093
Net income	\$ 83,748	\$ 200,796
Basic and diluted earnings per share	\$ 0.06	\$ 0.14
Weighted average common shares outstanding - basic and diluted	1,482,720	1,482,720

See Notes to Financial Statements

Highlands Community Bank
Statements of Comprehensive Income (Loss)
Nine and Three Months Ended September 30, 2024 and 2023 (Unaudited)

	Nine Months Ended September 30,	
	2024	2023
Net income	\$ 147,069	\$ 799,131
Other comprehensive income (loss):		
Adjustments related to investment securities available for sale:		
Unrealized gains (losses) arising during the period	2,428,903	(1,288,967)
Tax effect	(510,069)	270,684
Reclassification of realized losses (gains) on sales of investment securities during the period	2,928	(16,459)
Tax effect	(615)	3,454
Total other comprehensive income (loss)	1,921,147	(1,031,288)
Total comprehensive income (loss)	\$ 2,068,216	\$ (232,157)

	Three Months Ended September 30,	
	2024	2023
Net income	\$ 83,748	\$ 200,796
Other comprehensive income (loss):		
Adjustments related to investment securities available for sale:		
Unrealized gains (losses) arising during the period	2,547,475	(1,903,305)
Tax effect	(534,970)	399,695
Reclassification of realized losses on sales of investment securities during the period	(3,414)	-
Tax effect	717	-
Total other comprehensive income (loss)	2,009,808	(1,503,610)
Total comprehensive income (loss)	\$ 2,093,556	\$ (1,302,814)

See Notes to Financial Statements

Highlands Community Bank
Statements of Changes in Stockholders' Equity
Nine and Three Months Ended September 30, 2024 and 2023 (Unaudited)

	Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount			Loss	
Balance, December 31, 2022	1,481,032	\$ 3,702,580	\$ 3,796,973	\$ 15,345,566	\$ (7,471,622)	\$ 15,373,497
Net income	-	-	-	799,131	-	799,131
Other comprehensive loss	-	-	-	-	(1,031,288)	(1,031,288)
Stock issued under stock award plan	1,688	4,220	39,668	-	-	43,888
Dividends declared	-	-	-	(904,459)	-	(904,459)
Impact of adoption of ASU 2016-13	-	-	-	(75,650)	-	(75,650)
Balance, September 30, 2023	<u>1,482,720</u>	<u>\$ 3,706,800</u>	<u>\$ 3,836,641</u>	<u>\$ 15,164,588</u>	<u>\$ (8,502,910)</u>	<u>\$ 14,205,119</u>

Balance, December 31, 2023	1,482,720	\$ 3,706,800	\$ 3,836,641	\$ 15,460,760	\$ (6,072,934)	\$ 16,931,267
Net income	-	-	-	147,069	-	147,069
Other comprehensive income	-	-	-	-	1,921,147	1,921,147
Balance, September 30, 2024	<u>1,482,720</u>	<u>\$ 3,706,800</u>	<u>\$ 3,836,641</u>	<u>\$ 15,607,829</u>	<u>\$ (4,151,787)</u>	<u>\$ 18,999,483</u>

	Common Stock		Surplus	Retained Earnings	Accumulated Other Comprehensive	Total
	Shares	Amount			Loss	
Balance, June 30, 2023	1,482,720	\$ 3,706,800	\$ 3,836,641	\$ 14,963,792	\$ (6,999,300)	\$ 15,507,933
Net income	-	-	-	200,796	-	200,796
Other comprehensive loss	-	-	-	-	(1,503,610)	(1,503,610)
Balance, September 30, 2023	<u>1,482,720</u>	<u>\$ 3,706,800</u>	<u>\$ 3,836,641</u>	<u>\$ 15,164,588</u>	<u>\$ (8,502,910)</u>	<u>\$ 14,205,119</u>

Balance, June 30, 2024	1,482,720	\$ 3,706,800	\$ 3,836,641	\$ 15,524,081	\$ (6,163,907)	\$ 16,903,615
Net income	-	-	-	83,748	-	83,748
Other comprehensive income	-	-	-	-	2,012,120	2,012,120
Balance, September 30, 2024	<u>1,482,720</u>	<u>\$ 3,706,800</u>	<u>\$ 3,836,641</u>	<u>\$ 15,607,829</u>	<u>\$ (4,151,787)</u>	<u>\$ 18,999,483</u>

See Notes to Financial Statements

Highlands Community Bank

Statements of Cash Flows

Nine Months Ended September 30, 2024 and 2023 (Unaudited)

	Nine Months Ended September 30,	
	2024	2023
Cash flows from operating activities		
Net income	\$ 147,069	\$ 799,131
Adjustments to reconcile net income to net cash provided by operations:		
Property and equipment depreciation and amortization	84,679	97,540
Provision for credit losses	449,560	370,874
Stock award expense	-	43,888
Net realized losses (gains) on sales of investment securities available for sale	2,928	(16,459)
Losses (gains) on sales and write-downs of other real estate owned	26,278	(9,912)
Accretion of premium on investment securities, net of amortization	(28,107)	(29,706)
Income from bank owned life insurance	(116,218)	(94,443)
Changes in assets and liabilities:		
Accrued interest receivable	102,981	(25,749)
Other assets	(595,758)	55,222
Accrued interest payable	59,464	110,742
Other liabilities	229,880	85
Net cash flows provided by operating activities	<u>362,756</u>	<u>1,301,213</u>
Cash flows from investing activities		
Purchases of investment securities available for sale	(3,254,246)	(1,457,309)
Sales, maturities and paydowns of investment securities available for sale	8,872,329	5,038,093
Purchases of restricted equity securities	(141,650)	(1,300)
Purchases of property and equipment	(15,019)	(376,344)
Proceeds from sales of other real estate owned	-	154,326
Net decrease (increase) in loans	2,119,687	(4,527,847)
Net cash flows provided by (used in) investing activities	<u>7,581,101</u>	<u>(1,170,381)</u>
Cash flows from financing activities		
Net increase (decrease) in noninterest-bearing deposits	1,845,481	(793,333)
Net (decrease) increase in interest-bearing deposits	(3,021,811)	694,446
Dividends paid	-	(904,459)
Net cash flows (used in) financing activities	<u>(1,176,330)</u>	<u>(1,003,346)</u>
Net increase (decrease) in cash and cash equivalents	6,767,527	(872,514)
Cash and cash equivalents, beginning	<u>6,988,294</u>	<u>9,019,259</u>
Cash and cash equivalents, ending	<u>\$ 13,755,821</u>	<u>\$ 8,146,745</u>
Supplemental disclosure of cash flow information		
Interest paid	\$ 2,431,280	\$ 1,378,044
Income taxes paid	\$ 20,000	\$ 179,348
Supplemental disclosure of noncash activities		
Unrealized gains (losses) on investment securities available for sale, net	\$ 2,431,831	\$ (1,305,428)
Transfers from loans to other real estate owned	\$ -	\$ 16,366

See Notes to Financial Statements

Highlands Community Bank
Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies***Organization***

Highlands Community Bank (the “Bank”) was organized and incorporated under the laws of the State of Virginia on May 21, 2001 and commenced operations on September 16, 2002. The Bank currently serves Alleghany County, Virginia, the City of Covington, Virginia, the Town of Clifton Forge, Virginia and surrounding areas. As a state chartered bank which is a member of the Federal Reserve System, the Bank is subject to regulation by the Virginia Bureau of Financial Institutions, the Federal Deposit Insurance Corporation and the Federal Reserve Board.

Basis of Presentation

The financial statements as of September 30, 2024 and for the three and nine month periods ended September 30, 2024 and 2023 included herein, have been prepared by the management of Highlands Community Bank, without audit, pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with United States Generally Accepted Accounting Principles (“GAAP”) for interim financial information. In the opinion of management, the information furnished in the interim financial statements reflects all adjustments necessary to present fairly the Bank’s financial position, results of operations and cash flows for such interim periods. Management believes that all interim period adjustments are of a normal recurring nature. These financial statements should be read in conjunction with the Bank’s audited financial statements and the notes thereto as of December 31, 2023, included in the Bank’s Form 10-K for the year ended December 31, 2023. Operating results for the three and nine months ended September 30, 2024 are not necessarily indicative of the results that may be expected for the year-ended December 31, 2024. The accounting and reporting policies of the Bank follow generally accepted accounting principles and general practices within the financial services industry. Certain items in the prior period financial statements have been reclassified to conform to the current presentation. The accounting and reporting policies of the Bank follow generally accepted accounting principles and general practices within the financial services industry.

Significant Accounting Policies and Estimates

Application of the principles of GAAP and practices within the banking industry requires management to make estimates, assumptions, and judgements that affect the amounts reported in the financial statements and accompanying notes. These estimates, assumptions, and judgements are based on information available as of the date of the financial statements, accordingly, as this information changes, the financial statements may reflect different estimates, assumptions, and judgements. Certain policies inherently rely more extensively on the use of estimates, assumptions, and judgements and as such may have a greater possibility of producing results that could be materially different than originally reported. Material estimates that are particularly susceptible to significant changes in the near term related to the determination of the allowance for credit losses.

The Bank’s significant accounting policies followed in the preparation of the unaudited consolidated financial statements are disclosed in Note 1 of the audited financial statements and notes for the year ended December 31, 2023 and are contained in the Bank’s 2023 Annual Report on Form 10-K. There have been no significant changes to the application of significant accounting policies since December 31, 2023.

Recently Adopted Accounting Standards

There were no accounting standards adopted that had a material impact on the Bank during the nine months ended September 30, 2024.

Highlands Community Bank
Notes to Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies, continued

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.

In November 2024, the Financial Accounting Standards Board (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, in the notes to the financial statements, specific information about certain costs and expenses at each interim and annual reporting period. This includes disclosing 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. ASU 2024-03 is effective for public business entities for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Bank does not expect the adoption of ASU 2024-03 to have a material impact on its financial statements.

Note 2. Earnings Per Share

Basic earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share is similar to the computation of basic earnings per share except that the denominator is increased to include the number of additional common shares that would have been outstanding if dilutive potential common shares had been issued. The numerator is adjusted for any changes in income or loss that would result from the assumed conversion of those potential common shares. The Bank had no potentially dilutive instruments for the periods presented.

The following table details the computation of basic and diluted earnings per share for the nine and three-month periods ended September 30, 2024 and 2023.

	Nine Months Ended	
	September 30,	
	2024	2023
Net earnings available to common stockholders	\$ 147,069	\$ 799,131
Weighted average common shares outstanding	1,482,720	1,482,170
Basic and diluted earnings per share	\$.10	\$.54

	Three Months Ended	
	September 30,	
	2024	2023
Net earnings available to common stockholders	\$ 83,748	\$ 200,796
Weighted average common shares outstanding	1,482,720	1,482,720
Basic and diluted earnings per share	\$.06	\$.14

Highlands Community Bank

Notes to Financial Statements

Note 3. Investment Securities

Available For Sale

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost of investment securities available for sale and their approximate fair values at September 30, 2024 and December 31, 2023 are as follows:

	September 30, 2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	\$ 4,741,716	\$ -	\$ (354,718)	\$ 4,386,998
Government sponsored enterprises	19,532,284	4,710	(1,127,990)	18,409,004
State and municipal bonds	30,975,899	980	(2,437,018)	28,539,861
Mortgage-backed securities	11,273,467	-	(586,426)	10,687,041
Other debt securities	9,247,236	-	(754,965)	8,492,271
Total securities available for sale	<u>\$ 75,770,602</u>	<u>\$ 5,690</u>	<u>\$ (5,261,117)</u>	<u>\$ 70,515,175</u>

	December 31, 2023			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	\$ 4,741,857	\$ -	\$ (492,511)	\$ 4,249,346
Government sponsored enterprises	20,489,883	-	(1,775,644)	18,714,239
State and municipal bonds	33,639,027	5	(3,438,519)	30,200,513
Mortgage-backed securities	10,003,435	23,911	(824,565)	9,202,781
Other debt securities	12,489,304	1,502	(1,181,437)	11,309,369
Total securities available for sale	<u>\$ 81,363,506</u>	<u>\$ 25,418</u>	<u>\$ (7,712,676)</u>	<u>\$ 73,676,248</u>

Proceeds from sales, maturities, calls and paydowns of investment securities available for sale were \$8,872,329 and \$5,038,093 for the nine-month periods ended September 30, 2024 and 2023, respectively. The Bank had realized net losses of \$2,928 and realized net gains of \$16,459 during the nine-month periods ended September 30, 2024 and 2023, respectively.

Restricted securities consist of investments in the common stock of the Federal Reserve Bank, common stock of the Federal Home Loan Bank of Atlanta, and the common stock of Community Bankers Bank. The Federal Reserve Bank and the Federal Home Loan Bank require the purchase of its common stock as a condition of membership.

Highlands Community Bank

Notes to Financial Statements

Note 3. Investment Securities, continued

Available For Sale, continued

The following table details unrealized losses and related fair values in the Bank's investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2024 and December 31, 2023.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
September 30, 2024						
Securities available for sale:						
U.S. Treasuries	\$ -	\$ -	\$ 4,386,998	\$ 354,718	\$ 4,386,998	\$ 354,718
Government sponsored enterprises	-	-	17,188,458	1,127,990	17,188,458	1,127,990
State and municipal bonds	99,887	113	27,930,414	2,436,905	28,030,301	2,437,018
Mortgage-backed securities	3,225,088	11,070	7,461,953	575,356	10,687,041	586,426
Other debt securities	-	-	8,492,271	754,965	8,492,271	754,965
	<u>\$ 3,324,975</u>	<u>\$ 11,183</u>	<u>\$ 65,460,094</u>	<u>\$ 5,249,934</u>	<u>\$ 68,785,069</u>	<u>\$ 5,261,117</u>

December 31, 2023

Securities available for sale:

U.S. Treasuries	\$ -	\$ -	\$ 4,249,346	\$ 492,511	\$ 4,249,346	\$ 492,511
Government sponsored enterprises	458,574	14,961	18,255,664	1,760,683	18,714,238	1,775,644
State and municipal bonds	1,214,243	1,651	28,886,265	3,436,868	30,100,508	3,438,519
Mortgage-backed securities	611,860	15,329	7,620,043	809,236	8,231,903	824,565
Other debt securities	-	-	10,807,020	1,181,437	10,807,020	1,181,437
	<u>\$ 2,284,677</u>	<u>\$ 31,941</u>	<u>\$ 69,818,338</u>	<u>\$ 7,680,735</u>	<u>\$ 72,103,015</u>	<u>\$ 7,712,676</u>

The Bank evaluates securities available for sale that are in unrealized loss positions to determine whether the impairment is due to credit-related factors or noncredit-related factors. Consideration is given to the extent to which the fair value is less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Bank to retain its investment in the security for a period of time sufficient to allow for any anticipated recovery in fair value.

At September 30, 2024, the Bank had 159 securities with a fair value of \$68,785,068 in an unrealized loss position. Management does not have the intent to sell any of these securities and believes that it is more likely than not that the Bank will not have to sell any such securities before a recovery of cost. The contractual terms of the investments do not permit the issuers to settle the securities at a price less than the cost basis of the investments. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline. Accordingly, Management believes that the unrealized losses are due to noncredit-related factors, including changes in interest rates and other market conditions. No allowance for credit losses on securities available for sale was recorded as of September 30, 2024.

Highlands Community Bank
Notes to Financial Statements

Note 3. Investment Securities, continued

Available For Sale, continued

The scheduled maturities of securities available-for-sale at September 30, 2024 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Securities available for sale:		
Due in one year or less	\$ 4,561,935	\$ 4,511,095
Due in one year through five years	39,748,266	37,921,231
Due after five years through ten years	30,985,490	27,607,349
Due after ten years through fifteen years	474,911	475,500
Total securities available for sale	<u>\$ 75,770,602</u>	<u>\$ 70,515,175</u>

Investment securities with market values of \$4,928,172 and \$4,312,870 at September 30, 2024 and December 31, 2023, respectively were pledged as collateral on public deposits and for other banking purposes as required or permitted by law.

All available for sale securities were current with no securities past due or on nonaccrual as of September 30, 2024.

Accrued interest receivable on available for sale securities, included in accrued interest receivable on the Balance Sheets totaled \$400,118 and \$420,925 at September 30, 2024 and December 31, 2023, respectively.

Held To Maturity

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost of investment securities held to maturity and their approximate fair values at September 30, 2024 and December 31, 2023 are as follows:

	<u>September 30, 2024</u>			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Security held to maturity:				
Other debt security	\$ 2,000,000	\$ -	\$ (58,497)	\$ 1,941,503
Security held to maturity	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ (58,497)</u>	<u>\$ 1,941,503</u>

	<u>December 31, 2023</u>			
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>
Security held to maturity:				
Other debt security	\$ 2,000,000	\$ -	\$ (118,827)	\$ 1,881,173
Security held to maturity	<u>\$ 2,000,000</u>	<u>\$ -</u>	<u>\$ (118,827)</u>	<u>\$ 1,881,173</u>

Highlands Community Bank Notes to Financial Statements

Note 3. Investment Securities, continued

Held To Maturity, continued

The scheduled maturity of the security held-to-maturity at September 30, 2024 were as follows:

	<u>Amortized Cost</u>	<u>Fair Value</u>
Security held to maturity:		
Due in one year through five years	2,000,000	1,941,503
Total security held to maturity	<u>\$ 2,000,000</u>	<u>\$ 1,941,503</u>
Security held to maturity	<u>\$ 2,000,000</u>	<u>\$ 1,941,503</u>

The held to maturity security was current and not on nonaccrual as of September 30, 2024.

Accrued interest receivable on the held to maturity security, included in accrued interest receivable on the Balance Sheets totaled \$23,000 and \$21,750 at September 30, 2024 and December 31, 2023, respectively.

The Bank had one corporate debt security held to maturity as of September 30, 2024 which was a subordinated note with another financial institution. Management individually monitors the financial condition of the institution on a quarterly basis to determine the credit risk. There have been no late payments to date. Changes in the allowance for credit loss are recorded as provision for credit losses in the Consolidated Statements of Income. The Bank has no allowance for credit losses recorded on the held-to-maturity security as of September 30, 2024.

Note 4. Allowance for Credit Losses

Activity in the allowance for credit losses and loans by portfolio segment for the period ended September 30, 2024 and 2023 and December 31, 2023 are as follows (in thousands):

	Commercial & Industrial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction	Consumer	Home Equity	Multifamily	Residential	Total
September 30, 2024									
Allowance for credit losses:									
Beginning balance: December 31, 2023	\$ 239	\$ 145	\$ 11	\$ 7	\$ 451	\$ 66	\$ 17	\$ -	\$ 1,286
Charge-offs	(348)	(27)	-	-	-	(168)	-	-	(543)
Recoveries	61	66	-	-	-	32	-	-	159
Provision (recovery)	257	(56)	6	2	128	3	-	28	491
Ending balance: September 30, 2024	<u>\$ 209</u>	<u>\$ 128</u>	<u>\$ 17</u>	<u>\$ 9</u>	<u>\$ 579</u>	<u>\$ 53</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 1,393</u>
Ending balance: individually evaluated	<u>\$ -</u>	<u>\$ 30</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 30</u>
Ending balance: collectively evaluated	<u>\$ 209</u>	<u>\$ 98</u>	<u>\$ 17</u>	<u>\$ 9</u>	<u>\$ 579</u>	<u>\$ 53</u>	<u>\$ 20</u>	<u>\$ -</u>	<u>\$ 1,363</u>
Loans receivable:									
Ending balance: September 30, 2024	<u>\$ 17,242</u>	<u>\$ 13,332</u>	<u>\$ 12,799</u>	<u>\$ 11,315</u>	<u>\$ 6,372</u>	<u>\$ 5,701</u>	<u>\$ 2,612</u>	<u>\$ 523</u>	<u>\$ 35,022</u>
Ending balance: individually evaluated	<u>\$ -</u>	<u>\$ 313</u>	<u>\$ -</u>	<u>\$ 275</u>	<u>\$ -</u>	<u>\$ 296</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 768</u>
Ending balance: collectively evaluated	<u>\$ 17,242</u>	<u>\$ 13,019</u>	<u>\$ 12,799</u>	<u>\$ 11,040</u>	<u>\$ 6,372</u>	<u>\$ 5,405</u>	<u>\$ 2,612</u>	<u>\$ 523</u>	<u>\$ 34,254</u>

Highlands Community Bank Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

	Automobile	Commercial & Industrial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction	Consumer	Home Equity	Multifamily	Residential	Total
September 30, 2023										
Allowance for credit losses:										
Beginning balance: December 31, 2022	\$ 257	\$ 131	\$ 18	\$ 10	\$ 321	\$ 101	\$ 15	\$ -	\$ 297	\$ 1,150
Adoption of ASU 2016-13	18	12	1	1	24	7	1	-	20	84
Charge-offs	(293)	(43)	-	-	-	(92)	-	-	-	(428)
Recoveries	34	-	-	-	-	46	-	-	1	81
Provision (recovery)	212	39	(8)	(4)	84	13	1	-	24	361
Ending balance: September 30, 2023	\$ 228	\$ 139	\$ 11	\$ 7	\$ 429	\$ 75	\$ 17	\$ -	\$ 342	\$ 1,248
Ending balance: individually evaluated	\$ -	\$ 35	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 35
Ending balance: collectively evaluated	\$ 228	\$ 104	\$ 11	\$ 7	\$ 429	\$ 75	\$ 17	\$ -	\$ 342	\$ 1,213
Loans receivable:										
Ending balance: September 30, 2023	\$ 17,867	\$ 13,479	\$ 11,404	\$ 12,371	\$ 7,351	\$ 6,835	\$ 2,597	\$ 560	\$ 34,654	\$ 107,118
Ending balance: individually evaluated	\$ -	\$ 351	\$ -	\$ 314	\$ -	\$ 296	\$ -	\$ -	\$ 629	\$ 1,590
Ending balance: collectively evaluated	\$ 17,867	\$ 13,128	\$ 11,404	\$ 12,057	\$ 7,351	\$ 6,539	\$ 2,597	\$ 560	\$ 34,025	\$ 105,528
December 31, 2023										
Allowance for credit losses:										
Beginning balance: December 31, 2022	\$ 257	\$ 131	\$ 18	\$ 10	\$ 321	\$ 101	\$ 15	\$ -	\$ 297	\$ 1,150
Adoption of ASU 2016-13	18	12	1	1	24	7	1	-	20	84
Charge-offs	(380)	(43)	-	-	-	(109)	-	-	(1)	(533)
Recoveries	45	-	-	-	-	64	-	-	1	110
Provision (recovery)	299	45	(8)	(4)	106	3	1	-	33	475
Ending balance: December 31, 2023	\$ 239	\$ 145	\$ 11	\$ 7	\$ 451	\$ 66	\$ 17	\$ -	\$ 350	\$ 1,286
Ending balance: individually evaluated	\$ -	\$ 34	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34
Ending balance: collectively evaluated	\$ 239	\$ 111	\$ 11	\$ 7	\$ 451	\$ 66	\$ 17	\$ -	\$ 350	\$ 1,252
Loans receivable:										
Ending balance: December 31, 2023	\$ 18,991	\$ 14,224	\$ 11,089	\$ 12,132	\$ 6,490	\$ 6,193	\$ 2,493	\$ 551	\$ 35,259	\$ 107,422
Ending balance: individually evaluated	\$ -	\$ 348	\$ -	\$ 306	\$ -	\$ 296	\$ -	\$ -	\$ 741	\$ 1,691
Ending balance: collectively evaluated	\$ 18,991	\$ 13,876	\$ 11,089	\$ 11,826	\$ 6,490	\$ 5,897	\$ 2,493	\$ 551	\$ 34,518	\$ 105,731

Highlands Community Bank

Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

The following table presents the amortized cost basis of collateral dependent loans by loan pool, which are individually evaluated to determine expected credit losses, and the related ACLL allocated to those (in thousands):

	September 30, 2024			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial and industrial	\$ 70	\$ 219	\$ 289	\$ 6
Commercial real estate, owner occupied	275	-	275	-
Residential	768	-	768	-
Consumer	-	296	296	-
	December 31, 2023			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial and industrial	\$ 88	\$ 260	\$ 348	\$ 9
Commercial real estate, owner occupied	306	-	306	-
Residential	741	-	741	-
Consumer	-	296	296	-

Credit Quality Indicators

The Bank has established a standard risk grading (also referred to as loan grade) system to assist management and lenders in their analysis and supervision of the loan portfolio. Loan officers assign a grade to each credit at its inception; this grade is changed as required thereafter based on the borrower's financial condition, payment performance, and other material information. The Bank uses the following definitions for risk ratings:

Pass	Loans that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.
Special Mention	Borrowers currently posing a higher than normal risk. Loans are protected, but have potentially developing weaknesses, which could include stale credit or some degree of difficulty in servicing debt, increased leverage, marginal profitability or interim unprofitability, etc. indicative of a possible transition in financial condition. Risk concern has heightened, but concern has not escalated to a point where reclassification of the asset to impaired is warranted. Loans graded Special Mention are also considered pass.
Substandard	Relationships which have one or more well defined credit weaknesses, impairing collectability and necessitating workout. Factors might include: inadequate repayment capacity; severe erosion of equity; likely reliance on collateral for repayment, which may be questionable; guarantors with limited resources; obvious deterioration in financial condition/adverse trends; possibility of loss or protracted workout exists if immediate corrective action is not taken.
Doubtful	Relationship displays many of the same weaknesses as a substandard; however, those risk factors are more dominant. Collectability is severely jeopardized and loss potential is extreme; however, there are sufficiently compelling reasons which may positively impact the collectability to warrant deferral of a loss classification until outcome is determined.
Loss	Asset has been determined to have such little value/collectability likelihood that continuing to carry the asset is not justified even though some future recovery potential may exist.

Highlands Community Bank

Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

The following table details the amortized cost of the classes of loans by credit quality indicator and year of origination as of September 30, 2024 (in thousands).

	Term Loans					Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
September 30, 2024	2020	2021	2022	2023	2024				
Automobile									
Pass	\$ 1,121	\$ 2,015	\$ 2,697	\$ 6,596	\$ 4,458	\$ 217	\$ -		
Substandard	9	-	17	-	-	5	-		
Doubtful	22	49	13	-	-	23	-		
Total	\$ 1,152	\$ 2,064	\$ 2,727	\$ 6,596	\$ 4,458	\$ 245	\$ -	\$ -	\$ 17,242
Current-period gross writeoffs	\$ 26	\$ 54	\$ 126	\$ 118	\$ -	\$ 24			
Commercial and industrial									
Pass	\$ 818	\$ 1,129	\$ 2,588	\$ 3,822	\$ 2,790	\$ 733	\$ 1,203		
Substandard	-	-	24	155	-	70	-		
Total	\$ 818	\$ 1,129	\$ 2,612	\$ 3,977	\$ 2,790	\$ 803	\$ 1,203	\$ -	\$ 13,332
Current-period gross writeoffs	\$ -	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 22		
Commercial real estate, non-owner occupied									
Pass	\$ 2,389	\$ 1,622	\$ 5,424	\$ 1,397	\$ 489	\$ 1,478	\$ -		
Total	\$ 2,389	\$ 1,622	\$ 5,424	\$ 1,397	\$ 489	\$ 1,478	\$ -	\$ -	\$ 12,799
Commercial real estate, owner occupied									
Pass	\$ 548	\$ 2,967	\$ 590	\$ 473	\$ 291	\$ 6,219	\$ 1		
Substandard	-	-	-	-	-	226	-		
Total	\$ 548	\$ 2,967	\$ 590	\$ 473	\$ 291	\$ 6,445	\$ 1	\$ -	\$ 11,315
Construction									
Pass	\$ -	\$ 1,036	\$ 3,576	\$ 686	\$ 968	\$ 106	\$ -		
Total	\$ -	\$ 1,036	\$ 3,576	\$ 686	\$ 968	\$ 106	\$ -	\$ -	\$ 6,372
Consumer									
Pass	\$ 133	\$ 215	\$ 1,078	\$ 1,918	\$ 1,603	\$ 22	\$ 709		
Substandard	-	14	2	-	-	-	-		
Doubtful	-	-	-	3	4	-	-		
Total	\$ 133	\$ 229	\$ 1,080	\$ 1,921	\$ 1,607	\$ 22	\$ 709	\$ -	\$ 5,701
Current-period gross writeoffs	\$ -	\$ 1	\$ 97	\$ 64	\$ 6	\$ -			
Home equity									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,612		
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,612	\$ -	\$ 2,612
Multifamily									
Pass	\$ -	\$ -	\$ 523	\$ -	\$ -	\$ -	\$ -		
Total	\$ -	\$ -	\$ 523	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 523
Residential									
Pass	\$ 5,050	\$ 4,481	\$ 5,697	\$ 5,182	\$ 3,030	\$ 11,015	\$ -		
Substandard	71	61	-	-	-	284	-		
Doubtful	39	-	-	-	-	112	-		
Total	\$ 5,160	\$ 4,542	\$ 5,697	\$ 5,182	\$ 3,030	\$ 11,411	\$ -	\$ -	\$ 35,022
Total	\$ 10,200	\$ 13,589	\$ 22,229	\$ 20,232	\$ 13,633	\$ 20,510	\$ 4,525	\$ -	\$ 104,918

Highlands Community Bank

Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

The following table details the amortized cost of the classes of loans by credit quality indicator and year of origination as of December 31, 2023 (in thousands).

	Term Loans					Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
	Amortized Cost Basis by Origination Year								
December 31, 2023	2019	2020	2021	2022	2023				
Automobile									
Pass	\$ 434	\$ 1,984	\$ 3,205	\$ 4,069	\$ 9,026	\$ 81	\$ -		
Substandard	9	18	-	6	-	-	-		
Doubtful	50	20	58	31	-	-	-		
Total	\$ 493	\$ 2,022	\$ 3,263	\$ 4,106	\$ 9,026	\$ 81	\$ -		\$ 18,991
Current-period gross writeoffs	\$ 5	\$ 65	\$ 89	\$ 157	\$ 34	\$ 30			
Commercial and industrial									
Pass	\$ 655	\$ 1,339	\$ 1,538	\$ 3,568	\$ 5,293	\$ 252	\$ 1,440		
Substandard	-	26	-	25	-	76	-		
Doubtful	-	-	-	-	-	-	12		
Total	\$ 655	\$ 1,365	\$ 1,538	\$ 3,593	\$ 5,293	\$ 328	\$ 1,452		\$ 14,224
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43		
Commercial real estate, non-owner occupied									
Pass	\$ 268	\$ 2,575	\$ 1,702	\$ 3,569	\$ 1,459	\$ 1,516	\$ -		
Total	\$ 268	\$ 2,575	\$ 1,702	\$ 3,569	\$ 1,459	\$ 1,516	\$ -		\$ 11,089
Commercial real estate, owner occupied									
Pass	\$ 1,197	\$ 587	\$ 3,060	\$ 608	\$ 482	\$ 5,831	\$ 113		
Substandard	-	-	-	-	-	254	-		
Total	\$ 1,197	\$ 587	\$ 3,060	\$ 608	\$ 482	\$ 6,085	\$ 113		\$ 12,132
Construction									
Pass	\$ 16	\$ -	\$ 1,093	\$ 3,809	\$ 1,440	\$ 132	\$ -		
Total	\$ 16	\$ -	\$ 1,093	\$ 3,809	\$ 1,440	\$ 132	\$ -		\$ 6,490
Consumer									
Pass	\$ 75	\$ 239	\$ 404	\$ 1,710	\$ 3,086	\$ 5	\$ 656		
Substandard	-	-	18	-	-	-	-		
Total	\$ 75	\$ 239	\$ 422	\$ 1,710	\$ 3,086	\$ 5	\$ 656		\$ 6,193
Current-period gross writeoffs	\$ -	\$ 17	\$ -	\$ 66	\$ 26	\$ -			
Home equity									
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,493		
Total	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,493		\$ 2,493
Multifamily									
Pass	\$ -	\$ -	\$ -	\$ 551	\$ -	\$ -	\$ -		
Total	\$ -	\$ -	\$ -	\$ 551	\$ -	\$ -	\$ -		\$ 551
Residential									
Pass	\$ 3,072	\$ 5,489	\$ 4,871	\$ 6,411	\$ 5,588	\$ 9,368	\$ -		
Substandard	32	81	66	-	-	219	-		
Doubtful	-	38	-	-	-	24	-		
Total	\$ 3,104	\$ 5,608	\$ 4,937	\$ 6,411	\$ 5,588	\$ 9,611	\$ -		\$ 35,259
Current-period gross writeoffs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1			
Total	\$ 5,808	\$ 12,396	\$ 16,015	\$ 24,357	\$ 26,374	\$ 17,758	\$ 4,714		\$ 107,422

Highlands Community Bank

Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

The following represents by class, an aging analysis of the Bank's accruing and non-accruing loans as of September 30, 2024 and December 31, 2023 (in thousands).

	30-89 Days Past Due	90 Days Plus Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
September 30, 2024						
Automobile	\$ 343	\$ 131	\$ 474	\$ 16,768	\$ 17,242	\$ -
Commercial and industrial	350	222	572	12,760	13,332	-
Commercial real estate, non-owner occupied	-	-	-	12,799	12,799	-
Commercial real estate, owner occupied	407	226	633	10,682	11,315	-
Construction	-	-	-	6,372	6,372	-
Consumer	131	31	162	5,539	5,701	11
Home equity	84	46	130	2,482	2,612	46
Multifamily	-	-	-	523	523	-
Residential	588	486	1,074	33,948	35,022	-
Total	\$ 1,903	\$ 1,142	\$ 3,045	\$ 101,873	\$ 104,918	\$ 57
December 31, 2023						
Automobile	\$ 853	\$ 373	\$ 1,226	\$ 17,765	\$ 18,991	\$ 101
Commercial and industrial	266	319	585	13,639	14,224	129
Commercial real estate, non-owner occupied	-	-	-	11,089	11,089	-
Commercial real estate, owner occupied	-	254	254	11,878	12,132	-
Construction	-	-	-	6,490	6,490	-
Consumer	110	51	161	6,032	6,193	25
Home equity	85	19	104	2,389	2,493	19
Multifamily	-	-	-	551	551	-
Residential	930	398	1,328	33,931	35,259	17
Total	\$ 2,244	\$ 1,414	\$ 3,658	\$ 103,764	\$ 107,422	\$ 291

Nonaccrual Loans (in thousands)

Nonaccrual loans as of September 30, 2024 and December 31, 2023 are as follows:

	Nonaccrual Loans		
	With No Allowance	With An Allowance	Total
September 30, 2024			
Automobile	\$ 131	\$ -	\$ 131
Commercial and industrial	222	-	222
Commercial real estate, owner occupied	226	-	226
Consumer	20	-	20
Residential	486	-	486
Total	\$ 1,085	\$ -	\$ 1,085
December 31, 2023			
Automobile	\$ 272	\$ -	\$ 272
Commercial and industrial	189	-	189
Commercial real estate, owner occupied	254	-	254
Consumer	26	-	26
Residential	382	-	382
Total	\$ 1,123	\$ -	\$ 1,123

Highlands Community Bank

Notes to Financial Statements

Note 4. Allowance for Credit Losses, continued

Loan Modifications to Borrowers Experiencing Financial Difficulty

As part of the Bank's loan modification program to borrowers experiencing financial difficulty, the Bank may provide concessions to minimize the economic loss and improve long-term loan performance and collectability. The Bank did not make any loan modifications to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2024 and 2023. There were no loans to borrowers experiencing financial difficulty during the three and nine months ended September 30, 2024 and were modified in the twelve months prior default.

ACL on Unfunded Commitments

The following table presents the balance and activity in the ACL for unfunded commitments for the three and nine months ended September 30, 2024 and 2023 (in thousands):

	Nine Months Ended September 30, 2024
Balance, December 31, 2023	\$ 65
Provision for (recovery of) credit losses	(41)
Balance, September 30, 2024	\$ 24
	Nine Months Ended September 30, 2023
Balance, December 31, 2022	\$ -
Adoption of ASU 2016-13	11
Provision for credit losses	10
Balance, September 30, 2023	\$ 21
	Three Months Ended September 30, 2024
Balance, June 30, 2024	\$ 45
Provision for (recovery of) credit losses	(21)
Balance, September 30, 2024	\$ 24
	Three Months Ended September 30, 2023
Balance, June 30, 2023	\$ 13
Provision for credit losses	8
Balance, September 30, 2023	\$ 21

Note 5. Fair Value

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as collateral dependent loans held for investment and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange such as the New York Stock Exchange that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 securities include mortgage-backed securities issued by government sponsored entities, municipal bonds, treasury securities and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Highlands Community Bank
Notes to Financial Statements

Note 5. Fair Value, continued

Collateral Dependent Loans with an Allowance for Credit Loss

In accordance with ASC 326, we may determine that an individual loan exhibits unique risk characteristics which differentiate it from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the allowance for credit losses are determined by analyzing the borrower's ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower's industry, among other things. A loan is considered to be collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral. We reevaluate the fair value of collateral supporting collateral dependent loans on a quarterly basis. The fair value of real estate collateral supporting collateral dependent loans is evaluated by appraisal services using a methodology that is consistent with the Uniform Standards of Professional Appraisal Practice.

Other Real Estate Owned

Foreclosed assets are initially measured at fair value less cost to sell, establishing a new cost basis, based on an appraisal conducted by an independent, licensed appraiser outside of the Bank. If the collateral value is significantly adjusted due to differences in the comparable properties, or is discounted by the Bank because of marketability, then the fair value is considered Level 3. Foreclosed assets are measured at fair value on a nonrecurring basis. Any initial fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other real estate loss (gain) and expense, net on the Statements of Income.

Assets and Liabilities Recorded at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets and liabilities measured at fair value on a recurring basis.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>September 30, 2024</u>				
U.S. Treasuries	\$ 4,386,998	\$ -	\$ 4,386,998	\$ -
Government sponsored enterprises	18,409,004	-	18,409,004	-
State and municipal bonds	28,539,861	-	28,539,861	-
Mortgage-backed securities	10,687,041	-	10,687,041	-
Other debt securities	8,492,271	-	8,492,271	-
Investment securities available for sale	<u>70,515,175</u>	<u>-</u>	<u>70,515,175</u>	<u>-</u>
Total assets at fair value	<u>\$ 70,515,175</u>	<u>\$ -</u>	<u>\$ 70,515,175</u>	<u>\$ -</u>
<u>December 31, 2023</u>				
U.S. Treasuries	\$ 4,249,346	\$ -	\$ 4,249,346	\$ -
Government sponsored enterprises	18,714,239	-	18,714,239	-
State and municipal bonds	30,200,513	-	30,200,513	-
Mortgage-backed securities	9,202,781	-	9,202,781	-
Other debt securities	11,309,369	-	11,309,369	-
Investment securities available for sale	<u>73,676,248</u>	<u>-</u>	<u>73,676,248</u>	<u>-</u>
Total assets at fair value	<u>\$ 73,676,248</u>	<u>\$ -</u>	<u>\$ 73,676,248</u>	<u>\$ -</u>

There were no liabilities measured at fair value on a recurring basis at September 30, 2024 and December 31, 2023.

Highlands Community Bank
Notes to Financial Statements

Note 5. Fair Value, continued

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required from time to time, to measure certain assets at fair value on a nonrecurring basis in accordance with U. S generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the tables below.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>September 30, 2024</u>				
Collateral dependent loans, net	\$ 58,100	\$ -	\$ -	\$ 58,100
Other real estate owned, net	7,000	-	-	7,000
<u>December 31, 2023</u>				
Collateral dependent loans, net	\$ 58,100	\$ -	\$ -	\$ 58,100
Other real estate owned, net	33,278	-	-	33,278

There were no liabilities measured at fair value on a nonrecurring basis at September 30, 2024 and December 31, 2023.

Level 3 Valuation Techniques

For Level 3 assets measured at fair value on a nonrecurring basis as of September 30, 2024 and December 31, 2023, the valuation technique and the significant unobservable inputs used in the fair value measurements were as follows:

	<u>Fair Value at September 30, 2024</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Collateral Dependent Loans				
Commercial and industrial	58,100	Appraised Value	Discounts on appraisals Selling costs	24%(24%) 6%
Other Real Estate Owned	7,000	Discounted Appraised Value	Discount on appraisal Selling costs	18% 6%
	<u>Fair Value at December 31, 2023</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Inputs</u>	<u>Range (Weighted Average)</u>
Collateral Dependent Loans				
Commercial and industrial	\$ 58,100	Appraised Value	Discounts on appraisals Selling costs	24%(24%) 6%
Other Real Estate Owned	33,278	Appraised Value	Discount on appraisal Selling costs	18% 6%

Highlands Community Bank

Notes to Financial Statements

Note 5. Fair Value, continued

Fair Value of Financial Instruments

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal and most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. U.S. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. U.S. GAAP also established a fair value hierarchy which prioritize the valuation inputs into three broad levels.

Fair Value Hierarchy

The Bank groups assets and liabilities at fair value, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine the fair value. These levels are:

- Level 1 Valuation is based upon quoted prices for identical instruments traded in active markets.
- Level 2 Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.
- Level 3 Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments as of September 30, 2024 and December 31, 2023. These tables exclude financial instruments for which the carrying amount approximates fair value, including cash and cash equivalents, bank owned life insurance, restricted securities, accrued interest receivable, federal funds purchased and sold and accrued interest payable. For short-term financial assets such as cash and cash equivalents, and federal funds sold/purchased, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

<i>(dollars in thousands)</i>	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2024					
Financial Instruments - Assets					
Loans, net of allowance for credit losses	\$ 103,525	\$ 100,118	\$ -	\$ -	\$ 100,118
Investment securities available-for-sale	\$ 70,515	\$ 70,515	\$ -	\$ 70,515	\$ -
Investment securities held-to-maturity	2,000	1,942	-	-	1,942
Financial Instruments – Liabilities					
Deposits	\$ 180,605	\$ 180,326	\$ -	\$ 180,326	\$ -
December 31, 2023					
Financial Instruments - Assets					
Loans, net of allowance for credit losses	\$ 106,136	\$ 102,233	\$ -	\$ -	\$ 102,233
Investment securities available for sale	73,676	73,676	-	73,676	-
Investment securities held-to-maturity	2,000	1,881	-	-	1,881
Financial Instruments – Liabilities					
Deposits	\$ 181,782	\$ 180,906	\$ -	\$ 180,906	\$ -

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Critical Accounting Policies

Management believes policies with respect to the methodology for the determination of the allowance for credit losses involves a higher degree of complexity and require management to make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions, or estimates could cause reported results to differ materially. These critical policies and their application are periodically reviewed with the Audit Committee and the Board of Directors. Please refer to the Bank's 2023 Form 10-K, Note 1 and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations on these and other accounting policies.

Risks and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different basis, than its interest-earning assets. Credit risk is the risk of default on the Bank's loan portfolio that results from borrowers' inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Bank.

The Bank is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Bank also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Comparison of Financial Condition at September 30, 2024 and December 31, 2023

At September 30, 2024, the Bank had total assets of approximately \$200.6 million compared to \$199.5 million at December 31, 2023. Total assets increased \$1.1 million, or 0.6% since year-end 2023. At September 30, 2024, assets were comprised principally of loans and investment securities. Net loans decreased \$2.6 million, or 2.5%, to \$103.5 million at September 30, 2024. Cash and cash equivalents increased approximately \$6.8 million. Investment securities available for sale decreased \$3.2 million, or 4.3%.

The Bank's liabilities at September 30, 2024 and December 31, 2023 were \$181.6 million and \$182.5 million, respectively. These liabilities consisted almost entirely of deposits for both periods. Noninterest-bearing deposits increased \$1.8 million, or 4.9% to \$39.6 million. Interest-bearing deposits decreased \$3.0 million or 2.1%, to \$141.0 million. Interest-bearing deposits included \$9 million in brokered certificates of deposit as of September 30, 2024 and December 31, 2023.

At September 30, 2024 and December 31, 2023, the Bank had stockholders' equity of approximately \$19.0 million and \$16.9 million, respectively. Stockholders' equity was affected by the Bank's income of \$147,069 along with an increase in the market value of investment securities available for sale of \$1.9 million, net of tax.

At September 30, 2024, the Bank was in compliance with all regulatory capital requirements. The Bank's community bank leverage ratio was 11.61% and 11.60% at September 30, 2024 and December 31, 2023, respectively.

ITEM 2. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Non-performing Assets

Non-performing assets consist of loans past-due 90 days or more that still accrue interest, non-accrual loans and other real estate owned. Those assets were as follows on September 30, 2024 and December 31, 2023 (in thousands).

	<u>September 30, 2024</u>	<u>December 31, 2023</u>
Loans past due 90 days or more and still accruing interest	\$ 57	\$ 291
Non-accrual loans	1,085	1,123
Other real estate owned	7	33
Total non-performing assets	<u>\$ 1,149</u>	<u>\$ 1,447</u>
Non-performing assets to total loans outstanding	<u>1.10%</u>	<u>1.35%</u>

Other real estate owned decreased as the Bank wrote down the value of the one property in other real estate owned in the first quarter of 2024. In addition, the Bank currently has three 1-4 family residential properties in the process of foreclosure as of September 30, 2024 with a combined balance of \$77,991.

Liquidity

The objective of the Bank’s liquidity management policy includes providing adequate funds to meet the needs of depositors and borrowers at all times, as well as providing funds to meet the basic needs for ongoing operations, to allow funding of longer-term investment opportunities and to meet regulatory requirements. Sufficient assets are maintained on a short-term basis to meet the liquidity demands anticipated by management. The most immediate and efficient source of liquidity are short-term investments, which include federal funds sold and securities maturing within one year. The Bank also has credit facilities of \$9.5 million available as a source of liquidity.

The liquidity ratio (the level of liquid assets divided by total deposits plus short-term liabilities) was 47% and 43% at September 30, 2024 and 2023, respectively and 44% at December 31, 2023. Management believes that the Bank has sufficient liquidity on a short-term basis to meet any funding needs it may have, and expects that its long-term liquidity needs can be achieved through deposit growth, however there can be no assurance that such growth will develop.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Allowance for Credit Losses

The allowance for credit losses is increased by charges to income through the provision for credit losses and decreased by charge-offs, net of recoveries. Management's periodic evaluation of the adequacy of the allowance is based on the Bank's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral, and current and future economic conditions. An analysis of the changes in the allowance for credit losses for the nine-month periods ended September 30, 2024 and 2023 and twelve-months ended December 31, 2023 is as follows:

	<u>September 30, 2024</u>	<u>September 30, 2023</u>	<u>December 31, 2023</u>
<i>Balance, beginning of year</i>	\$ 1,285,835	\$ 1,150,202	\$ 1,150,202
Impact of adoption of ASU 2016-13	-	84,426	84,426
Loans charged off	(543,505)	(428,207)	(532,759)
Recoveries	159,676	81,078	109,653
Total	<u>(383,829)</u>	<u>(262,703)</u>	<u>(338,680)</u>
Provision for credit losses	490,891	360,889	474,313
<i>Balance, end of period</i>	<u>\$ 1,392,897</u>	<u>\$ 1,248,388</u>	<u>\$ 1,285,835</u>
Percentage of Gross Loans	<u>1.33%</u>	<u>1.17%</u>	<u>1.20%</u>

During the first nine months of 2024, the quantitative component of the collectively evaluated portion of the allowance for credit losses increased as compared to December 31, 2023 as a result of increased loan chargeoffs. Additionally, the commercial construction portfolio experienced a considerable increase related to one loan which resulted in an increase to the expected losses in the construction portfolio. Management also decided to increase qualitative factors relating to the experience of lending staff which caused a significant increase in the qualitative reserve. This change was in response to the loss of the Vice President of Loans along with the Collections Specialist. The Bank's asset quality remained stable during the first nine months of 2024. The Bank's allowance for credit losses as a percentage of loans is 1.33% as of September 30, 2024 compared to 1.20% at December 31, 2023.

Results of Operations for the Nine Months Ended September 30, 2024 and 2023

The Bank had net income of \$147,069, or \$0.10 per share, during the nine months ended September 30, 2024 as compared to net income of \$799,131 or \$0.54 per share, for the nine months ended September 30, 2023.

Net income decreased 81.6% primarily as a result of net interest income after provision for credit losses being \$700,108 less, year over year, as an increase in yields on loans, investments and deposits with banks was more than offset by the Bank's increasing of deposit rates. Additionally, an increase of \$77,904 in repossessed collateral expense impacted net income. Management was aggressive in the handling of delinquent auto loans during the first nine months of 2024 and expects to better minimize these losses in the future. The Bank also experienced a \$113,122 increase in professional fees relating to the hiring of a new President & CEO along with added legal expenses as the Bank engaged an outside legal firm to perform a thorough review of regulatory filings and examination assistance. There was also a \$37,109 increase in salaries and employee benefits representing a 1.93% increase year-over-year. Offsetting some of the increased expense was a decrease of \$44,295 and \$76,774 in data processing expense and other expense, respectively, as the Bank had experienced heightened costs in these categories in 2023 relating to the credit card and debit card rewards programs.

The provision for credit losses for the nine months ended September 30, 2024 was \$449,560 as compared to \$370,874 for the first nine months of 2023. This increase is primarily due to an increase in loans charged off. Management performs a quarterly calculation of the allowance for credit losses and determines the provision based on the calculation. As a result of the calculation for September 30, 2024, management has determined the amount of provision to be adequate for the nine months ended September 30, 2024. Additionally, the off-balance sheet reserve relating to unfunded commitments decreased by \$41,331 in the first three quarters of 2024 as a result of a decrease in the overall balance of unfunded commitments.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS, CONTINUED

Results of Operations for the Nine Months Ended September 30, 2024 and 2023, continued

Noninterest income totaled \$653,747 for the nine months ended September 30, 2024 as compared to \$655,129 for the comparable 2023 period. Decreases of \$12,959 and \$19,387 in service charges on deposit accounts and gains on sales of investment securities available for sale, respectively, were offset by increases of \$11,613 and \$21,775 in other service charges and fees and income from bank owned life insurance, respectively.

Noninterest expenses totaled \$4,308,666 for the nine months ended September 30, 2024 as compared to \$4,190,670 for the comparable 2023 period. The increase in noninterest expense was mostly due to increases in professional fees, salaries and employee benefits and repossessed collateral expense. The Bank also experienced a write-down on other real estate owned resulting in an increase of \$36,190 in other real estate owned related expense year-over-year.

The Bank recorded an income tax benefit of \$18,000 during the nine months ended September 30, 2024, compared to a provision for income taxes of \$149,424 for the nine months ended September 30, 2023. The tax benefit during the 2024 period is the result of an increase in expenses relative to income while the portion of non-taxable income remained relatively unchanged.

Results of Operations for the Three Months Ended September 30, 2024 and 2023

Net income for the three months ended September 30, 2024 was \$83,748 or \$0.06 per share compared to \$200,796 or \$0.14 per share for the three months ended September 30, 2023.

Net interest income after provision for credit losses decreased by \$275,162, or 18.4%, from \$1,499,167 for the third quarter of 2023 to \$1,224,005 for the third quarter of 2024. This was the result of an increase in interest expense of \$266,983 over the comparable period. The increased cost of funds was only partially offset by an increase in interest income of \$30,947.

The provision for credit losses for the three months ended September 30, 2024 was \$160,000 compared with \$120,874 for the three months ended September 30, 2023. While loans were down during the quarter of 2024, the level of chargeoffs resulted in a larger provision to replenish the allowance for credit losses.

For the three months ended September 30, 2024 and 2023, noninterest income was \$221,433 and \$217,712, respectively. A \$3,414 net decrease in gains and losses on sales of investment securities available for sale was offset by increases of \$4,733 and \$7,198 in service charges on deposit accounts and income from bank owned life insurance, respectively.

For the three months ended September 30, 2024 and 2023, noninterest expense was \$1,358,695 and \$1,498,990, respectively. The variance was primarily due to decreases of \$52,977 and \$25,709 in data processing expense and repossessed collateral expense, respectively. Other expense was also down \$60,003 over the 2023 third quarter. The decrease in data processing and other expense was the result of the Bank experiencing heightened costs in these categories in 2023 relating to the credit card and debit card rewards programs.

Income tax expense for the three months ended September 30, 2024 was \$2,995 compared to \$17,093 for the three months ended September 30, 2023. The income tax expense during the 2024 period is the result of an increase in expenses relative to income while the portion of non-taxable income remained relatively unchanged.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Under the filer category of “smaller reporting company”, as defined in Rule 12b-2 of the Exchange Act, the Bank is not required to provide information requested by Part I, Item 3 of its Form 10-Q.

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period to which this report relates, the Bank has carried out an evaluation, under the supervision and with the participation of the Bank’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures in accordance with Rule 13a-15(b) of the Securities Exchange Act of 1934 (the “Exchange Act”).

The design of any system of controls is based in part upon certain assumptions about the likelihood of future events. There are inherent limitations to the effectiveness of any system of disclosure controls and procedures, including the possibility of human error and the circumvention or overriding of the controls and procedures. Accordingly, there can be no assurance that any design will succeed in achieving its stated goal under every potential condition, regardless of how remote. While we have evaluated the operation of our disclosure controls and procedures and found them effective, there can be no assurance that they will succeed in every instance to achieve their objective.

Based on that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures are effective in enabling us to record, process, summarize and report effectively and in a timely manner the information required to be disclosed in reports we file under the Exchange Act. There have not been any changes in our internal control over financial reporting that occurred during the last quarter that has materially affected, or is reasonably likely to materially affect, internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

As of the date of this report, the Bank is not a defendant in any legal proceedings.

Item 1A. Risk Factors

Under the filer category of “smaller reporting company”, as defined in Rule 12b-2 of the Exchange Act, the Bank is not required to provide information requested by Part II, Item 1A of its Form 10-Q.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

- (a) Not applicable.
- (b) Not applicable.
- (c) Not applicable.

Item 3. Defaults Upon Senior Securities

Not applicable

Item 4. Mine Safety Disclosures

Not applicable

Item 5. Rule 10b5-1 Trading Plans

During the quarter ended September 30, 2024, no officer or director of the Bank adopted or terminated any contract, instruction, or written plan for the purchase or sale of securities of the Bank’s common stock that is intended to satisfy the affirmative defense conditions of Securities Exchange Act Rule 10b5-1(c) or any non-Rule 10b5-1 trading arrangement as defined in 17 CFR § 229.408(c).

Item 6. Exhibits

- 31.1 Certification of Chief Executive Officer (302 Certification).
- 31.2 Certification of Chief Financial Officer (302 Certification).
- 32 Certification pursuant to 18 U.S.C. Section 1350 (906 Certification).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

HIGHLANDS COMMUNITY BANK

Date: November 14, 2024

By: Robert E. Hemsath



Robert E. Hemsath
President and Chief Executive Officer

Date: November 14, 2024

By: Daniel C. Lawson



Daniel C. Lawson
Chief Financial Officer

CERTIFICATION

I, Robert E. Hemsath certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highlands Community Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15(f) and 15d 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record,
 - b) process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2024



Robert E. Hemsath
President and Chief Executive Officer

CERTIFICATION

I, Daniel C. Lawson certify that:

1. I have reviewed this quarterly report on Form 10-Q of Highlands Community Bank;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a 15(f) and 15d 15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 14, 2024



Daniel C. Lawson
Chief Financial Officer

**CERTIFICATION OF FINANCIAL REPORTS PURSUANT TO 18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

The undersigned hereby certifies that, to his/her knowledge, (i) the Form 10-Q filed by Highlands Community Bank (the "Registrant") for the quarter ended September 30, 2024, fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and (ii) the information contained in that report fairly presents, in all material respects, the financial condition and results of operations of the Registrant on the dates and for the periods presented therein.

HIGHLANDS COMMUNITY BANK

Date: November 14, 2024

By: Robert E. Hemsath



Robert E. Hemsath
President and Chief Executive Officer

Date: November 14, 2024

By: Daniel C. Lawson



Daniel C. Lawson
Chief Financial Officer