Highlands Community Bank

2024 ANNUAL REPORT

2024 Annual Report

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Highlands Community Bank

Dear Shareholders,

As we reflect on 2024, the Board of Directors and management acknowledge the challenges Highlands Community Bank ("the Bank") faced while continuing the commitment to serving the community with the utmost dedication. The Bank's earnings were down compared to the previous year, driven by a combination of factors including a compressed margin environment and certain one-time expenses. Despite these hurdles, we remain optimistic about the path forward and the strategic steps being taken to ensure a brighter future for the Bank and our stakeholders.

Financial Performance in 2024

The past year presented a challenging economic environment, characterized by rising interest rates, increased competition, and shifting customer behaviors. These factors contributed to margin compression, affecting the Bank's core profitability. In addition, the Bank incurred some one-time expenses related to regulatory compliance adjustments and restructuring efforts to streamline operations. While these costs were necessary for the Bank's long-term health, they temporarily impacted the Bank's financial results.

However, we view these challenges as opportunities for growth. We are focused on managing our costs and optimizing our operational efficiencies to navigate this environment. Despite the difficulties, the Board of Directors and management remain committed to the mission of providing personalized banking services to our local communities, and we are confident in our ability to improve operating results and build on the foundation we have established this year.

Technological Advancements in 2025

While 2024 posed challenges, the Bank is excited about the technological investments we are making in 2025 that will not only improve our financial position but also enhance the experience of our customers. One of our primary goals for the year is to implement several key upgrades to our digital banking platforms and core operating systems. These initiatives will allow the Bank to reduce operational costs, improve efficiency, and offer enhanced services to our customers.

One of the key upgrades we are introducing is a new online and mobile banking platform that will provide our customers with a more seamless, intuitive, and secure way to manage their accounts. In addition, we are investing in automated systems that will streamline routine processes, reducing administrative overhead and increasing the speed and accuracy of transactions. These improvements are expected to reduce our long-term operational expenses, while also enhancing our customer service offerings.

Looking to the Future

As the Bank moves forward into 2025, we are optimistic about the opportunities ahead. While 2024 tested us, it has also reinforced the importance of staying adaptable and forward-thinking in a rapidly changing financial landscape. The Board of Directors and management are confident that the strategic investments in technology, coupled with the focus on community-driven service, will position the Bank for growth and profitability in the years to come.

The Board of Directors and management remain committed to delivering value to you, our shareholders, and we thank you for your continued trust and support. We recognize the challenges of the past year, but we are determined to emerge from them stronger and more efficient, with a clear path toward sustainable, long-term success.

Thank you once again for your confidence in the Bank. We look forward to sharing the Bank's progress with you in the coming years.

Sincerely,

Robert E Hemsath

Robert E. Hemsath

President & CEO

Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets		
Cash and due from banks	$ 1,694,603	$ 1,599,294
Interest-bearing deposits with banks	2,739,000	889,000
Certificates of deposit	4,000,000	4,500,000
Cash and cash equivalents	8,433,603	6,988,294
Investment securities available for sale, at fair value	72,928,433	73,676,248
Investment securities held-to-maturity, at amortized cost, net of allowance for credit losses of $0 in 2024 and 2023. Fair value of $1,939,036 and $1,881,173 at December 31, 2024 and 2023, respectively	2,000,000	2,000,000
Restricted securities, at cost	450,550	308,900
Loans, net of allowance for credit losses of $1,423,133 in 2024 and $1,285,836 in 2023	100,480,251	106,136,043
Property and equipment, net	2,040,351	2,106,349
Bank owned life insurance	5,310,785	5,154,610
Other real estate owned, net	-	33,278
Accrued interest receivable	784,313	875,979
Other assets	2,973,299	2,172,259
Total assets	$ 195,401,585	$ 199,451,960
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	$ 40,779,938	$ 37,727,322
Interest-bearing deposits	136,262,497	144,054,263
Total deposits	177,042,435	181,781,585
Accrued interest payable	292,501	264,493
Other liabilities	667,135	474,615
Total liabilities	178,002,071	182,520,693
Commitments and contingencies		
Stockholders' equity		
Common stock, $2.50 par value; 10,000,000 shares authorized; 1,482,720 shares issued and outstanding at December 31, 2024 and 2023	3,706,800	3,706,800
Surplus	3,836,641	3,836,641
Retained earnings	15,626,390	15,460,760
Accumulated other comprehensive (loss)	(5,770,317)	(6,072,934)
Total stockholders' equity	17,399,514	16,931,267
Total liabilities and stockholders' equity	$ 195,401,585	$ 199,451,960

See Notes to Financial Statements

Statements of Income

For the years ended December 31, 2024 and 2023

	2024	2023
Interest income		
Loans and fees on loans	$ 6,753,871	$ 6,461,622
Investment securities, taxable	1,801,535	1,831,558
Investment securities, non-taxable	135,481	165,657
Deposits with banks	234,083	187,012
Total interest income	8,924,970	8,645,849
Interest expense		
Deposits	3,245,203	2,100,666
Federal funds purchased	34,960	41,758
Total interest expense	3,280,163	2,142,424
Net interest income	5,644,807	6,503,425
Provision for credit losses	500,839	528,135
Net interest income after provision for credit losses	5,143,968	5,975,290
Noninterest income		
Service charges on deposit accounts	271,387	278,824
Other service charges and fees	440,589	428,814
Other income	14,627	17,064
Income from bank owned life insurance	156,175	129,058
Gains (losses) on sales of investment securities available for sale	(2,842)	16,525
Total noninterest income	879,936	870,285
Noninterest expense		
Salaries and employee benefits	2,679,843	2,540,354
Data processing expense	1,125,140	1,159,940
Professional fees	458,923	255,858
Occupancy	183,111	165,861
Equipment	123,589	185,080
State assessments	218,356	237,910
Directors fees	130,200	136,250
Advertising	99,739	106,076
FDIC insurance premium	88,793	71,860
Other real estate owned loss (gain) and expense, net	23,655	(9,912)
Repossessed collateral expense	97,610	19,233
Other expense	657,258	670,879
Total noninterest expense	5,886,217	5,539,389
Net income before income taxes	137,687	1,306,186
Income tax (benefit) expense	(27,943)	208,840
Net income	$ 165,630	$ 1,097,346
Basic and diluted earnings per share	$ 0.11	$ 0.74
Dividends declared per share	$ -	$ 0.61
Weighted average common shares outstanding - basic and diluted	1,482,720	1,482,443

See Notes to Financial Statements

Statements of Comprehensive Income

For the years ended December 31, 2024 and 2023

	2024	2023
Net income	$ 165,630	$ 1,097,346
Other comprehensive income:		
Adjustments related to investment securities available for sale:		
Unrealized gains arising during the period	380,216	1,787,017
Tax effect	(79,845)	(375,274)
Reclassification of realized losses (gains) on sales of investment securities during the period	2,842	(16,525)
Tax related to realized losses (gains)	(596)	3,470
Total other comprehensive income	302,617	1,398,688
Total comprehensive income	$ 468,247	$ 2,496,034

See Notes to Financial Statements

Statements of Changes in Stockholders' Equity

For the years ended December 31, 2024 and 2023

	Common Stock				Accumulated Other Comprehensive	
	Shares	Amount	Surplus	Retained Earnings	Loss	Total
Balance, December 31, 2022	1,481,032	$ 3,702,580	$ 3,796,973	$ 15,343,523	$ (7,471,622)	$ 15,371,454
Net income	-	-	-	1,097,346	-	1,097,346
Other comprehensive income	-	-	-	-	1,398,688	1,398,688
Stock issued under stock award plan	1,688	4,220	39,668	-	-	43,888
Impact of adoption of ASU 2016-13	-	-	-	(75,650)	-	(75,650)
Cash dividends	-	-	-	(904,459)	-	(904,459)
Balance, December 31, 2023	1,482,720	$ 3,706,800	$ 3,836,641	$ 15,460,760	$ (6,072,934)	$ 16,931,267
Balance, December 31, 2023	1,482,720	$ 3,706,800	$ 3,836,641	$ 15,460,760	$ (6,072,934)	$ 16,931,267
Net income	-	-	-	165,630	-	165,630
Other comprehensive income	-	-	-	-	302,617	302,617
Balance, December 31, 2024	1,482,720	$ 3,706,800	$ 3,836,641	$ 15,626,390	$ (5,770,317)	$ 17,399,514

See Notes to Financial Statements

Statements of Cash Flows

For the years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Net income	$ 165,630	$ 1,097,346
Adjustments to reconcile net income		
to net cash provided by operations:		
Property and equipment depreciation and amortization	114,433	144,196
Provision for credit losses	500,839	528,135
Stock award expense	-	43,888
Deferred tax (benefit) expense	(46,602)	35,656
Net realized losses (gains) on sales of investment securities available for sale	2,842	(16,525)
Write-downs of other real estate owned	26,278	-
Gains on sales of other real estate owned	(2,623)	(9,912)
Accretion of discount on investment securities, net	(44,655)	(40,710)
Income from bank owned life insurance	(156,175)	(129,058)
Changes in assets and liabilities:		
Accrued interest receivable	91,666	6,605
Other assets	(780,062)	46,341
Accrued interest payable	28,008	151,275
Other liabilities	177,755	(85,057)
Net cash flows provided by operating activities	77,334	1,772,180
Cash flows from investing activities		
Purchases of investment securities available for sale	(9,255,493)	(1,457,309)
Sales, maturities, calls and paydowns of investment securities available for sale	10,428,179	6,392,181
Purchases of restricted equity securities	(141,650)	(1,300)
Purchases of property and equipment	(48,435)	(368,845)
Proceeds from sales of other real esate owned	9,623	154,326
Net decrease (increase) in loans	5,114,901	(4,908,511)
Net cash flows provided by (used in) investing activities	6,107,125	(189,458)
Cash flows from financing activities		
Net increase (decrease) in noninterest-bearing deposits	3,052,616	(910,495)
Net (decrease) in interest-bearing deposits	(7,791,766)	(1,798,733)
Dividends paid	-	(904,459)
Net cash flows (used in) financing activities	(4,739,150)	(3,613,687)
Net increase (decrease) in cash and cash equivalents	1,445,309	(2,030,965)
Cash and cash equivalents, beginning	6,988,294	9,019,259
Cash and cash equivalents, ending	$ 8,433,603	$ 6,988,294
Supplemental disclosure of cash flows information		
Interest paid	$ 3,252,155	$ 1,991,149
Income taxes paid	$ 29,604	$ 179,348
Supplemental disclosure of noncash activities		
Unrealized gains on investment securities available for sale, net	$ 383,058	$ 1,770,492
Transfer of foreclosed loans to other real estate owned	$ -	$ 16,366
Lease liabilities arising from obtaining right-of-use assets during the period	$ 54,817	$ -

See Notes to Financial Statements

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 December 31, 2024 have been prepared by the management of Highlands Community Bank pursuant to the rules and regulations of the Securities and Exchange Commission and in accordance with United States Generally Accepted Accounting Principles (“GAAP”). 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. These reclassifications had no effect on the Bank’s net income or stockholders’ equity. Subsequent events have been considered through the issuance date. The following summarizes significant accounting policies.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses.

Substantially all of the Bank’s loan portfolio consists of loans in its market area. Accordingly, the ultimate collectability of a substantial portion of the Bank’s loan portfolio are susceptible to changes in local market conditions. The regional economy is diverse, but influenced by the manufacturing and retirement segments and to an extent by the tourism and agricultural segments.

Cash and Cash Equivalents

For the purpose of presentation in the statement of cash flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions “cash and due from banks”, “interest-bearing deposits”, and “certificates of deposits with banks”.

Trading Activities

The Bank does not hold securities for short-term resale and, therefore, does not maintain a trading securities portfolio.

Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading, are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

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

Securities, continued

For debt securities available-for-sale ("AFS"), 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 ("ACL") is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the specific security's amortized cost basis exceeds its fair value.

Changes in the ACL 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 AFS not resulting from credit losses are recorded in other comprehensive income. 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.

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The Bank has no equity securities. Restricted securities are carried at cost and are periodically evaluated for impairment based on the ultimate recovery of par value. The entirety of any impairment on equity securities is recognized in earnings.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their adjusted outstanding principal amount. Adjustments include charge-offs, the allowance for credit losses and deferred fees.

Loan origination fees are deferred and recognized as an adjustment of the yield of the related loan.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized according to the cost recovery method. When facts and circumstances indicate the borrower has regained the ability to meet required payments the loan is returned to accrual status. Previously lost interest during non-accrual is deferred and recognized over the remaining life of the loan. Past due status of loans is based on contractual terms. The loan portfolio is comprised of the following classes, along with the applicable risk characteristics:

- Residential real estate construction loans carry risks that the home will not be finished according to schedule, will not be finished according to the budget and the value of the collateral, at any point in time, may be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor may be unable to finish the construction project as planned because of financial pressure unrelated to the project.
- Residential real estate loans carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.
- Commercial real estate loans carry risks associated with the successful operation of a business or a real estate project, in addition to other risks associated with the ownership of real estate, because the repayment of these loans may be dependent upon the profitability and cash flows of the business or project.
- Commercial, industrial and agricultural loans carry risks associated with the successful operation of a business. Typically, repayment is dependent on the cash flow of the business, and is secured by business assets, such as accounts receivable, equipment, and inventory. There is risk associated with the value of the collateral which may depreciate over time and cannot be appraised with as much precision.

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

Loans Receivable, continued

- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral (e.g., rapidly depreciating assets such as automobiles), or lack thereof. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

Allowance for Credit Losses – Held-to-Maturity Securities

The Bank had one corporate debt security held to maturity as of December 31, 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 December 31, 2024. Accrued interest receivable totaled $23,000 and $21,750 as of December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

Allowance for Credit Losses – Available For Sale Securities

The Bank evaluates securities available for sale that are in an unrealized loss position on the reporting date. Securities are analyzed to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit-related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an Allowance for Credit Losses ("ACL") on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be subsequently reversed if conditions change. If the Bank intends to sell an impaired security, or more likely than not will be required to sell such a security, before recovering its amortized cost basis, the entire impairment amount must be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis would be adjusted to fair value, there would be no ACL in this situation.

In evaluating impairment, the Bank considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors. If the Bank determines a credit impairment exists, the ACL on securities available for sale would be established through a provision for credit losses on securities available for sale in the Statements of Income. If management believes it has confirmed that the loss on a security is uncollectible, or when either of the criteria regarding intent or requirement to sell is met, the loss is charged against the ACL.

Accrued interest receivable totaled $359,926 and $420,925 as of December 31, 2024 and 2025, respectively, and is excluded from the estimate of credit losses.

Allowance for Credit Losses – Loans ("ACLL")

The Bank estimates the ACLL based on amortized cost basis, which is the amount at which the loan is originated, adjusted for net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Bank has policies in place to reverse accrued interest in a timely manner. Therefore, the Bank has made policy election to exclude accrued interest from the measurement of the ACLL. Intrinsic to the Bank's policy on estimating the ACLL are policies regarding loan pools, nonaccruals, past due status, collateral valuation, charge-offs and risk ratings.

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

Allowance for Credit Losses – Loans ("ACLL"), continued

The Bank measures expected credit losses on loans on a collective (pool) basis, when the loans share similar risk characteristics, such as collateral type and intended use, repayment source, and (if applicable) the borrower's business model. The Bank has identified the following pools of loans with similar risk characteristics for measuring expected credit losses:

Automobile	Consumer
Commercial and industrial	Home equity
Commercial real estate, non-owner occupied	Multifamily
Commercial real estate, owner occupied	Residential
Construction	

The Bank's methodologies for estimating the ACLL consider available relevant information including historical losses. An expected loss is calculated using loan balance and probability of default ("PD") and loss given default ("LGD") rates.

The Bank uses a lifetime probability of default and loss given default ("PD/LGD") Model which is a model that uses PD and LGD rates recognized over the life of loans in a pool historically. PD and LGD rates are calculated by age of the loans in the segment. Default is defined as full or partial charge-off, nonaccrual status or past due 90 days or more. PDs for each pool are calculated using the Bank's historical data to ensure a full economic cycle is reflected in the estimate.

The results of the expected loss calculations are modified by allocations for qualitative factors to account for changes in variables that may affect credit risk. The Bank considers and allocates for changes in lending policies, management experience, economic conditions, loans past due, competitive, legal and regulatory environments and other factors. Loans that do not share risk characteristics are evaluated on an individual basis. The fair value of individually evaluated loans is measured using the fair value of collateral ("collateral method") or the discounted cash flow ("DCF").

The collateral method is applied to individually evaluated loans for which foreclosure is probable. The collateral method is also applied to individually evaluated loans when borrowers are experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral ("collateral dependent"). When repayment is expected to be from the operation of the collateral, the ACLL is calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. When repayment is expected to be from the sale of the collateral, the ACLL is calculated based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs. The ACLL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan. The DCF method is applied to individually evaluated loans that do not meet the criteria for collateral method measurement.

Expected credit losses are reflected in the ACLL through a charge to provision for credit loss. When the Bank deems all or a portion of a loan to be uncollectible the appropriate amount is written off against the ACLL. The Bank applies judgement to determine when a financial asset is deemed uncollectible; however, generally speaking, an asset will be considered uncollectible no later than when all efforts at collection have been exhausted. Subsequent recoveries, if any, are credited to the ACLL when received.

Stock Compensation Plans

The Bank recognizes compensation cost related to share-based payment transactions. Generally accepted accounting principles requires entities to measure the cost of employee services received in exchange for stock based on the grant-date fair value of the award.

Compensation cost has been measured using the fair value of an award on the grant date and is recognized over the service period, which is usually the vesting period.

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

Advertising Expense

The Bank expenses advertising costs as they are incurred. Advertising expense for the years ended December 31, 2024 and 2023 was $99,739 and $106,076, respectively.

Property and Equipment

Land is carried at cost. Bank premises and furniture and equipment are carried at cost, less accumulated depreciation and amortization computed principally by the straight-line method over the following estimated useful lives:

	Years
Buildings and improvements	10-40
Furniture and equipment	5-10
Software	3-5

Leasehold improvements are carried at cost and depreciated over the shorter of the life of the lease or the useful life of the improvements.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other real estate owned loss (gain) and expense, net.

As of December 31, 2024 the Bank had no other real estate owned. The Bank had one residential real estate loan totaling $34,744 in the process of foreclosure as of December 31, 2024.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Income Taxes

Provision for income taxes is based on amounts reported in the statements of income (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income tax liability relating to unrealized gains (or the deferred tax asset in the case of unrealized losses) on investment securities available for sale is recorded in other assets. Such unrealized gains or losses is recorded as an adjustment to equity in the financial statements and not included in income determination until realized. Accordingly, the resulting deferred income tax liability or asset is also recorded as an adjustment to equity.

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

Income Taxes, continued

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50% likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with a tax position taken that exceeds the amount measured as described above would be reflected as a liability for unrecognized tax benefits in the accompanying balance sheet along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Management is not aware of any material uncertain tax positions and no liability has been recognized at December 31, 2024 or 2023. Interest and penalties associated with unrecognized tax benefits would be classified as additional interest expense or other expense, respectively, in the statements of income.

Basic and Diluted 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 at December 31, 2024 or 2023.

Comprehensive Income

Comprehensive income reflects the change in the Bank's equity arising from transactions and events other than investments by and distributions to stockholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense, primarily unrealized gains and losses on investment securities available for sale.

Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under home equity arrangements, commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

The Bank estimates expected credit losses, unless the obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is included in other liabilities on the balance sheets and adjusted through provision for credit losses. The estimates include consideration of the likelihood that funding will occur. The Bank applies the loan segmentation practices and CECL methodology utilized for the loan portfolio to its unfunded commitments.

Fair Value of Financial Instruments

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

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

Fair Value of Financial Instruments, continued

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

Bank Owned Life Insurance

The Bank has purchased life insurance policies on certain employees. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value.

Revenue Recognition

Accounting Standards Codification Topic 606 (“ASC 606”), “Revenue from Contracts with Customers,” creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize gains or losses from the transfer of nonfinancial assets such as other real estate. The majority of the Bank’s revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606. The Bank’s services that fall within the scope of ASC 606 are presented in non-interest income in the statements of income and are recognized as revenue when the Bank satisfies its obligation to the customer.

ASC 606 is applicable to noninterest revenue streams such as service charges on deposit accounts and other services charges and fees. These primary noninterest revenue streams within the scope of ASC 606 are discussed below.

Service Charges on Deposit Accounts
Service charges on deposit accounts consist of monthly service fees, overdraft and nonsufficient funds fees, and other deposit account related fees. The Bank's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts. Overdraft and nonsufficient funds fees and other deposit account related fees are transactional based, and therefore, the Bank’s performance obligation is satisfied, and related revenue recognized, at a point in time.

Other Service Charges and Fees
Other service charges and fees primarily consists of ATM fees. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. ATM fees are transactional based, and therefore, the Bank's performance obligation is satisfied, and related revenue recognized, at a point in time. ATM fees represented $411,511 and $413,901 for the years ended December 31, 2024 and 2023, respectively. Other account related service charges include transaction-based charges for wire transfers and other services. The Bank’s performance obligations for wire transfer and other service charges are largely satisfied, and the related revenue recognized, upon completion of the service. Payment is typically received immediately or in the following month.

Segment Reporting

The Bank adopted Accounting Standards Update 2023-07 “*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures”* on January 1, 2024. The Bank has determined that all of its banking divisions meet the aggregation criteria of ASC 280, *Segment Reporting*, as its current operating model is structured whereby all product offerings are managed through similar processes and platforms that are collectively reviewed by the Bank’s Chief Executive Officer, who has been identified as the chief operating decision maker (“CODM”).

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

Segment Reporting, continued

The CODM regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as is net income reported in the Bank's statements of income and other comprehensive income. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Bank's statements of income and other comprehensive income.

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.

Recently Adopted Accounting Standards

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

Note 2. Restrictions on Cash

The Bank is typically required to maintain a reserve against its deposits in accordance with Regulation D of the Federal Reserve Act. At December 31, 2024 and 2023, there was no minimum reserve requirement as a result of a rule adopted by the Federal Reserve in March 2020 eliminating the reserve requirement.

Note 3. Investment Securities

Debt securities have been classified in the balance sheets according to management's intent. The amortized cost, estimated fair value and unrealized gains and losses of investment securities are as follows:

	2024			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Securities available for sale:				
U.S. Treasuries	$ 4,741,665	$ -	$ (448,315)	$ 4,293,350
Government sponsored enterprises	19,546,055	-	(1,592,680)	17,953,375
State and municipal bonds	29,897,687	-	(3,309,488)	26,588,199
Mortgage-backed securities	16,800,768	-	(1,000,750)	15,800,018
Other debt securities	9,246,458	-	(952,967)	8,293,491
Total securities available for sale	$ 80,232,633	$ -	$ (7,304,200)	$ 72,928,433
Securities held to maturity:				
Other debt securities	$ 2,000,000	$ -	$ (60,964)	$ 1,939,036
Total securities held to maturity	$ 2,000,000	$ -	$ (60,964)	$ 1,939,036
Total securities	$ 82,232,633	$ -	$ (7,365,164)	$ 74,867,469

	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	$ 81,363,506	$ 25,418	$ (7,712,676)	$ 73,676,248
Securities held to maturity:				
Other debt securities	$ 2,000,000	$ -	$ (118,827)	$ 1,881,173
Total securities held to maturity	$ 2,000,000	$ -	$ (118,827)	$ 1,881,173
Total securities	$ 83,363,506	$ 25,418	$ (7,831,503)	$ 75,557,421

Total proceeds from the sales, maturities, calls and paydowns amounted to $10,428,179 and $6,392,181 in 2024 and 2023, respectively. The Bank had realized losses of $2,842 and realized gains of $16,525 for the years ended December 31, 2024 and 2023, respectively.

The Bank's investment in Federal Reserve Bank stock totaled $226,350 and $226,300 at December 31, 2024 and December 31, 2023. Federal Reserve Bank stock is generally viewed as a long-term investment and as a restricted investment security, which is carried at cost, because there is no market for the stock other than the Federal Reserve Bank and member institutions. Therefore, when evaluating Federal Reserve Bank stock for impairment, its value is based on the ultimate recoverability of the par value rather than by recognizing temporary declines in value. The Bank does not consider this investment to be impaired at December 31, 2024 and no impairment has been recognized. Federal Reserve Bank stock is included in a separate line item on the balance sheet (Restricted securities, at cost) and is not part of the Bank's investment securities portfolio. The Bank's restricted securities also include an investment in Community Bankers Bank totaling $82,600 at both December 31, 2024 and 2023, which is carried at cost as well as Federal Home Loan Bank of Atlanta stock totaling $141,600 which was purchased in 2024, which is carried at cost.

Note 3. Investment Securities, continued

The following table details unrealized losses and related fair values in the Bank's available for sale investment portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 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
December 31, 2024						
U.S. Treasuries	$ -	$ -	$ 4,293,350	$ 448,315	$ 4,293,350	$ 448,315
Government sponsored enterprises	1,159,886	56,669	16,793,489	1,536,011	17,953,375	1,592,680
State and municipal bonds	495,596	11,799	26,092,603	3,297,689	26,588,199	3,309,488
Mortgage-backed securities	8,905,225	180,384	6,894,793	820,366	15,800,018	1,000,750
Other debt securities	-	-	8,293,491	952,967	8,293,491	952,967
	$ 10,560,707	$ 248,852	$ 62,367,726	$ 7,055,348	$ 72,928,433	$ 7,304,200
December 31, 2023						
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
	$ 2,284,677	$ 31,941	$ 69,818,338	$ 7,680,735	$ 72,103,015	$ 7,712,676

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 December 31, 2024, the Bank had 164 securities with a fair value of $72,928,433 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 December 31, 2024.

Note 3. Investment Securities, continued

The scheduled maturities of securities available for sale as of December 31, 2024 were as follows:

	Amortized Cost	Fair Value
Due in one year or less	$ 3,997,784	$ 3,951,234
Due in one year through five years	42,934,402	40,186,413
Due after five years through ten years	32,825,068	28,346,730
Due after ten years through fifteen years	475,379	444,056
	$ 80,232,633	$ 72,928,433

The Bank also owned one security with an amortized cost of $2,000,000 and fair value of $1,939,036 classified as held-to-maturity as of December 31, 2024. The security has a maturity in one year through five years.

Expected maturities may differ from contractual maturities if borrowers have the right to call or repay obligations with or without prepayment penalties.

Investment securities with market values of $5,174,414 and $4,312,870 at December 31, 2024 and 2023, respectively were pledged as collateral on public deposits and for other banking purposes as required or permitted by law.

Note 4. Property and Equipment

Components of Property and Equipment

Components of property and equipment and total accumulated depreciation at December 31, 2024 and 2023 are as follows:

	2024	2023
Land	$ 301,652	$ 301,652
Buildings and improvements	2,487,515	2,487,515
Furniture and equipment	1,649,370	1,600,935
Property and equipment, total	4,438,537	4,390,102
Less accumulated depreciation	(2,398,186)	(2,283,753)
Property and equipment, net	$ 2,040,351	$ 2,106,349

Depreciation expense was $114,433 and $144,197 during 2024 and 2023, respectively.

Note 5. Leases

The Bank records its leases in accordance with ASC 842. The right-of-use asset and lease liability are included in other assets and other liabilities, respectively, on the Balance Sheets. Lease liabilities represent the Bank's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Bank's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Bank's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

Note 5. Leases, continued

The Bank's long-term lease agreement is classified as an operating lease and was renewed during the current year. This lease offers the option to extend the lease term and the Bank has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably assured of being exercised. The lease agreement does not provide for residual value guarantees and has no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following tables present information about the Bank's lease:

	December 31, 2024	December 31, 2023
Lease liabilities	$ 50,072	$ 6,063
Right-of-use assets	$ 50,072	$ 6,063
Weighted average remaining lease term	4.58 years	0.67 years
Weighted average discount rate	4.25%	2.78%

Lease cost	For the Year Ended December 31, 2024	For the Year Ended December 31, 2023
Operating lease cost	$ 10,320	$ 9,120
Variable lease cost	-	-
Short-term lease cost	-	-
Total lease cost	$ 10,320	$ 9,120
Cash paid for amounts included in the measurements of lease liabilities	$ 10,320	$ 9,120

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

Lease payments due	December 31, 2024
Twelve months ending December 31, 2025	$ 12,000
Twelve months ending December 31, 2026	12,000
Twelve months ending December 31, 2027	12,000
Twelve months ending December 31, 2028	12,000
Twelve months ending December 31, 2029	7,000
Total undiscounted cash flows	$ 55,000
Discount	(4,928)
Lease liabilities	$ 50,072

Note 6. Loans Receivable

The major components of loans in the balance sheets at December 31, 2024 and 2023 are as follows (in thousands):

	2024	2023
Automobile	$ 15,566	$ 18,991
Commercial and industrial	16,057	14,224
Commercial real estate, non-owner occupied	10,459	11,089
Commercial real estate, owner occupied	11,155	12,132
Construction	6,036	6,490
Consumer	4,610	6,193
Home equity	2,752	2,493
Multifamily	513	551
Residential	34,755	35,259
	101,903	107,422

The above loan totals include deferred loan fees of $128,947 and $132,357 as of December 31, 2024 and 2023, respectively.

Overdrafts totaling $39,443 and $38,848 at December 31, 2024 and 2023, respectively, were reclassified from deposits to loans.

Note 7. Allowance for Credit Losses

The allocation of the allowance for credit losses by loan components (in thousands) at December 31, 2024 and 2023 is as follows:

	Automobile	Commercial & Industrial	Commercial Real Estate Non-Owner Occupied	Commercial Real Estate Owner Occupied	Construction	Consumer	Home Equity	Multifamily	Residential	Total
2024										
Allowance for credit losses:										
Beginning balance: December 31, 2023	$ 239	$ 145	$ 11	$ 7	$ 451	$ 66	$ 17	$ -	$ 350	$ 1,286
Charge-offs	(362)	(52)	-	-	-	(181)	-	-	-	(595)
Recoveries	83	67	-	-	-	41	-	-	-	191
Provision	210	18	7	2	130	153	1	-	20	541
Ending balance: December 31, 2024	$ 170	$ 178	$ 18	$ 9	$ 581	$ 79	$ 18	$ -	$ 370	$ 1,423
Ending balance: individually evaluated	$ -	$ 115	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 115
Ending balance: collectively evaluated	$ 170	$ 63	$ 18	$ 9	$ 581	$ 79	$ 18	$ -	$ 370	$ 1,308
Loans receivable:										
Ending balance: December 31, 2024	$ 15,566	$ 16,057	$ 10,459	$ 11,155	$ 6,036	$ 4,610	$ 2,752	$ 513	$ 34,755	$ 101,903
Ending balance: individually evaluated	$ -	$ 338	$ -	$ 268	$ -	$ -	$ -	$ -	$ 738	$ 1,344
Ending balance: collectively evaluated	$ 15,566	$ 15,719	$ 10,459	$ 10,887	$ 6,036	$ 4,610	$ 2,752	$ 513	$ 34,017	$ 100,559

Note 7. 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
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	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

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):

	December 31, 2024			
	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Loans	Allowance for Credit Losses - Loans
Commercial and industrial	$ 69	$ 246	$ 315	$ 92
Commercial real estate, owner occupied	268	-	268	-
Residential	738	-	738	-

	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	$ 34
Commercial real estate, owner occupied	306	-	306	-
Residential	741	-	741	-
Consumer	296	-	296	-

Note 7. Allowance for Credit Losses, continued

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 individually evaluated 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.

Note 7. 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, 2024 and 2023 (in thousands).

	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	
	2020	2021	2022	2023	2024	Prior			Total
December 31, 2024									
Automobile									
Pass	$ 815	$ 1,569	$ 2,153	$ 5,919	$ 4,515	$ 140	$ -		
Substandard	100	151	98	54	-	27	-		
Doubtful	1	20	-	-	-	4	-		
Total	**$ 916**	**$ 1,740**	**$ 2,251**	**$ 5,973**	**$ 4,515**	**$ 171**	**$ -**	**$ -**	**$ 15,566**
Current-period gross writeoffs	**$ 31**	**$ 67**	**$ 131**	**$ 113**	**$ -**	**$ 20**			
Commercial and industrial									
Pass	$ 712	$ 906	$ 5,074	$ 3,075	$ 4,464	$ 686	$ 547		
Substandard	11	64	53	206	38	69	152		
Total	**$ 723**	**$ 970**	**$ 5,127**	**$ 3,281**	**$ 4,502**	**$ 755**	**$ 699**	**$ -**	**$ 16,057**
Current-period gross writeoffs	**$ -**	**$ 5**	**$ -**	**$ -**	**$ 16**	**$ 5**	**$ 26**		
Commercial real estate, non-owner occupied									
Pass	$ 2,289	$ 1,599	$ 3,002	$ 1,386	$ 845	$ 1,338	$ -		
Total	**$ 2,289**	**$ 1,599**	**$ 3,002**	**$ 1,386**	**$ 845**	**$ 1,338**	**$ -**	**$ -**	**$ 10,459**
Commercial real estate, owner occupied									
Pass	$ 386	$ 2,935	$ 585	$ 471	$ 413	$ 5,753	$ 5		
Substandard	152	-	-	-	-	455	-		
Total	**$ 538**	**$ 2,935**	**$ 585**	**$ 471**	**$ 413**	**$ 6,208**	**$ 5**	**$ -**	**$ 11,155**
Construction									
Pass	$ -	$ 1,020	$ 3,553	$ 91	$ 1,279	$ 93	$ -		
Total	**$ -**	**$ 1,020**	**$ 3,553**	**$ 91**	**$ 1,279**	**$ 93**	**$ -**	**$ -**	**$ 6,036**
Consumer									
Pass	$ 81	$ 166	$ 590	$ 1,419	$ 1,660	$ 11	$ 588		
Substandard	-	20	9	17	24	-	25		
Total	**$ 81**	**$ 186**	**$ 599**	**$ 1,436**	**$ 1,684**	**$ 11**	**$ 613**	**$ -**	**$ 4,610**
Current-period gross writeoffs	**$ 1**	**$ -**	**$ 26**	**$ 149**	**$ 5**	**$ -**			
Home equity									
Pass	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,700		
Substandard	-	-	-	-	-	-	52		
Total	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 2,752**	**$ -**	**$ 2,752**
Multifamily									
Pass	$ -	$ -	$ 513	$ -	$ -	$ -	$ -		
Total	**$ -**	**$ -**	**$ 513**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ 513**
Residential									
Pass	$ 4,831	$ 4,252	$ 5,313	$ 5,602	$ 3,313	$ 10,253	$ -		
Substandard	274	60	35	26	-	796	-		
Total	**$ 5,105**	**$ 4,312**	**$ 5,348**	**$ 5,628**	**$ 3,313**	**$ 11,049**	**$ -**	**$ -**	**$ 34,755**
Total	**$ 9,652**	**$ 12,762**	**$ 20,978**	**$ 18,266**	**$ 16,551**	**$ 19,625**	**$ 4,069**	**$ -**	**$ 101,903**

Note 7. Allowance for Credit Losses, continued

	Term Loans Amortized Cost Basis by Origination Year 2019	2020	2021	2022	2023	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term Loans Amortized Cost Basis	Total
December 31, 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**

Note 7. Allowance for Credit Losses, continued

The following represents by class, an aging analysis of the Bank's accruing and non-accruing loans as of December 31, 2024 and 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
December 31, 2024						
Automobile	$ 379	$ 15	$ 394	$ 15,172	$ 15,566	$ -
Commercial and industrial	606	28	634	15,423	16,057	-
Commercial real estate, non-owner occupied	10	-	10	10,449	10,459	-
Commercial real estate, owner occupied	285	-	285	10,870	11,155	-
Construction	-	-	-	6,036	6,036	-
Consumer	162	-	162	4,448	4,610	-
Home equity	70	25	95	2,657	2,752	25
Multifamily	-	-	-	513	513	-
Residential	620	53	673	34,082	34,755	-
Total	$ 2,132	$ 121	$ 2,253	$ 99,650	$ 101,903	$ 25

	30-89 Days Past Due	90 Days Plus Past Due	Total Past Due	Current	Total Loans Receivable	Recorded Investment > 90 Days and Accruing
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 December 31, 2024 and 2023 are as follows:

	December 31, 2024 Nonaccrual Loans		
	With No Allowance	With An Allowance	Total
Automobile	$ 139	$ -	$ 139
Commercial and industrial	221	117	338
Commercial real estate, owner occupied	220	-	220
Consumer	15	-	15
Home Equity	24	-	24
Residential	439	-	439
Total	$ 1,058	$ 117	$ 1,175

Note 7. Allowance for Credit Losses, continued

Nonaccrual Loans (in thousands), continued

	December 31, 2023 Nonaccrual Loans		
	With No Allowance	With An Allowance	Total
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

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 years ended December 31, 2024 and 2023. There were no loans to borrowers experiencing financial difficulty during year ended December 31, 2024 and were modified in the twelve months prior to default.

ACL on Unfunded Commitments

The following table presents the balance and activity in the ACL for unfunded commitments for year ended December 31, 2024 and 2023:

	Allowance for Credit Losses on Unfunded Commitments Year Ended December 31, 2024
Balance, December 31, 2023	$ 65
Provision for credit losses	(40)
Balance, December 31, 2024	$ 25

	Allowance for Credit Losses on Unfunded Commitments Year Ended December 31, 2023
Balance, December 31, 2022	$ -
Adoption of ASU 2016-13	11
Provision for credit losses	54
Balance, December 31, 2023	$ 65

Note 8. Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2024 and 2023 was $20.8 million and $13.3 million, respectively. At December 31, 2024 the scheduled maturities of time deposits are as follows:

2025	$ 54,520,040
2026	12,931,893
2027	6,916,309
2028	2,107,169
2029	1,136,041
	$ 77,611,452

Included in time deposits are deposits acquired through a third party ("brokered deposits") totaling $9,211,000 and $9,075,000 at December 31, 2024 and December 31, 2023, respectively.

Note 9. Borrowings

Lines of credit

The Bank has established an unsecured Line of Credit for $6,500,000 with First National Bankers' Bank in Birmingham, Alabama and an unsecured Line of Credit for $3,000,000 with Community Bankers Bank in Richmond, Virginia. Funds were advanced once for each line during 2024 for testing purposes. No balance was outstanding at December 31, 2024 and 2023. The lender may withdraw these lines at their discretion. In addition, the Bank had a collateralized borrowing capacity of $18,0622,280 with the Federal Home Loan Bank of Atlanta as of December 31, 2024.

Note 10. Fair Value of Financial Instruments

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.

The Bank groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine 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 December 31, 2024 and 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, and accrued interest payable. For short-term financial assets such as cash and cash equivalents, federal funds sold/purchased and accrued interest, 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.

			Fair Value Measurements		
(dollars in thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024					
Financial Instruments - Assets					
Loans, net of allowance for credit losses	$ 100,480	$ 97,918	$ -	$ -	$ 97,918
Investment securities available for sale	72,928	72,928	-	72,928	-
Investment securities held-to-maturity	2,000	1,939	-	-	1,939
Financial Instruments – Liabilities					
Deposits	$ 177,042	$ 176,663	$ -	$ 176,663	$ -

Note 10. Fair Value of Financial Instruments, continued

Fair Value of Financial Instruments, continued

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	$ 181,801	$ -	$ 181,801	$ -

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. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value on a non-recurring and recurring basis.

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, Treasury securities, municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets.

Collateral Dependent Loans with an Allowance for Credit Losses

Loans for which repayment is substantially expected to be provided through the operation or sale of collateral are considered collateral dependent, and are valued based on the estimated fair value of the collateral, less estimated costs to sell at the reporting date, where applicable. Accordingly, collateral dependent loans are classified within Level 3 of the fair value hierarchy.

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 credit losses. Subsequent fair value adjustments are recorded in the period incurred and included in other real estate owned loss (gain) and expense, net on the Statements of Income.

Note 10. Fair Value of Financial Instruments, continued

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.

	Total	Level 1	Level 2	Level 3
December 31, 2024				
U.S. Treasuries	$ 4,293,350	$ -	$ 4,293,350	$ -
Government sponsored enterprises	17,953,375	-	17,953,375	-
State and municipal bonds	26,588,199	-	26,588,199	-
Mortgage-backed securities	15,800,018	-	15,800,018	-
Other debt securities	8,293,491	-	8,293,491	-
Investment securities available for sale	72,928,433	-	72,928,433	-
Total assets at fair value	$ 72,928,433	$ -	$ 72,928,433	$ -
December 31, 2023				
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	73,676,248	-	73,676,248	-
Total assets at fair value	$ 73,676,248	$ -	$ 73,676,248	$ -

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

Assets and Liabilities Measured 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.

December 31, 2023	Total	Level 1	Level 2	Level 3
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 December 31, 2024 and 2023.

Note 10. Fair Value of Financial Instruments, continued

Level 3 Valuation Techniques

For Level 3 assets measured at fair value on a recurring or non-recurring basis as of December 31, 2023, the valuation techniques and the significant unobservable inputs used in the fair value measurements are as follows:

	Fair Value at December 31, 2023	Valuation Technique	Significant Unobservable Inputs	Range (Weighted Average)
Collateral Dependent Loans				
Commercial and industrial	58,100	Appraised Value	Discounts on appraisals	24%-94%(68%)
			Selling costs	6%
Other Real Estate Owned	33,278	Discounted Appraised Value	Discount on appraisal	18%
			Selling costs	6%

Note 11. Benefit Plans

Defined Contribution Plan

The Bank has adopted a profit-sharing plan pursuant to Section 401(k) of the Internal Revenue Code. The plan covers substantially all employees who have completed 3 months of service. Participants may contribute a percentage of compensation, subject to a maximum allowed under the Code. The Bank makes non-discretionary contributions of up to 3% of eligible employee's compensation. In addition, the Bank may make additional contributions at the discretion of the Board of Directors. The Bank's contributions were $44,403 and $46,699 for the years ended December 31, 2024 and 2023, respectively.

Stock Awards Plan

During 2005, the Board of Directors adopted a Stock Awards Plan. Under terms of the plan 200,000 shares of the Bank's common stock may be issued in the form of stock awards to employees as additional compensation and to members of the Board of Directors in lieu of director's fees. Awards vest immediately when the common stock is issued and the fair value associated with the stock is expensed at time of issuance. Sales of stock issued as a result of the stock award are governed by the securities laws concerning unregistered securities. As of December 31, 2024, 23,646 shares had been issued under the plan, leaving 176,354 shares ungranted. The stock award expense as a result of the grant was $43,888 during 2023 while there was no stock award expense in 2024.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense (all federal) are as follows for the years ended December 31:

	2024	2023
Current	$ 18,659	$ 173,184
Deferred tax (benefit) expense	(46,602)	35,656
Income tax (benefit) expense	$ (27,943)	$ 208,840

Note 12. Income Taxes, continued

Rate Reconciliation

A reconciliation of expected income tax expense computed at the statutory federal income tax rate to income tax expense included in the statements of income is as follows for the years ended December 31:

	2024	2023
Tax at statutory federal rate	$ 28,914	$ 274,299
Tax exempt interest, net of disallowed portion	(25,124)	(33,442)
Other	(31,733)	(32,017)
Income tax (benefit) expense	$ (27,943)	$ 208,840

Deferred Income Tax Analysis

The significant components of net deferred tax assets (all federal) at December 31, 2024 and 2023 are summarized as follows:

	2024	2023
Deferred tax assets		
Allowance for credit losses	$ 223,928	$ 193,500
Allowance for credit losses on off-balance sheet	5,272	13,683
Deferred loan fees	27,079	27,795
Core deposit intangible	3,001	2,628
Lease liability	10,515	1,273
Interest on nonaccrual loans	55,736	18,323
Unrealized loss on securities available for sale	1,533,882	1,614,324
Deferred tax asset	1,859,413	1,871,526
Deferred tax liabilities		
Accretion on bond discount	$ (90,922)	$ (69,883)
Depreciation	(47,009)	(55,771)
Goodwill	(1,374)	(1,166)
Right-of-use asset	(10,515)	(1,273)
Deferred tax liability	(149,820)	(128,093)
Net deferred tax asset	$ 1,709,593	$ 1,743,433

Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2024, management believes it will fully realize 100% of the Bank's deferred tax asset. The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Bank's policy is to classify any interest or penalties recognized as interest expense or noninterest expense, respectively. Years ended December 31, 2021 through December 31, 2024 remain open for audit for all major jurisdictions.

Note 13. Commitments and Contingencies

Loss Contingencies

Loss contingencies, including claims and legal action arisiing in the ordinary course of business are recorded as liabilities when the likelihood of loss is probably and reasonable estimated. Management does not believe there are any such matter that will have a material effect on the financial statements.

Financial Instruments with Off-Balance Sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amount recognized in the balance sheets. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance sheet instruments. A summary of the Bank's commitments at December 31, 2024 and 2023 is as follows (in thousands):

	2024	2023
Commitments to extend credit	$ 9,193	$ 18,100
Standby letters of credit	20	757
	$ 9,213	$ 18,857

Financial Instruments with Off-Balance Sheet Risk, continued

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Bank deems necessary.

Concentrations of Credit Risk

Substantially all of the Bank's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 6. The distribution of commitments to extend credit approximates the distribution of loans outstanding.

The Bank from time to time has cash and cash equivalents on deposit with financial institutions which exceed federally insured limits. As of December 31, 2024, cash balances in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC) were $3,174.

Note 14. Regulatory Restrictions

Dividends

The Bank, as a Virginia banking corporation, may pay dividends only out of its retained earnings. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such a limitation is in the public interest and is necessary to ensure financial soundness of the bank.

Capital Requirements

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing the regulatory capital. Management believes as of December 31, 2024, the Bank met all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration is required. At year end 2024 and 2023, the most recent regulatory notifications categorize the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The community bank leverage ratio minimum requirement is 9%. An eligible banking organization is provided a two-quarter grace period to correct a ratio that falls below this required amount, provided that the bank maintains a leverage ratio greater than 8%.

An eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2024, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Note 14. Regulatory Restrictions, continued

Capital Requirements, continued

The Bank's actual capital amounts and ratios are also presented in the table (in thousands).

	Actual			Minimum		
		Amount	Ratio		Amount	Ratio
December 31, 2024						
Tier I Capital to Average Assets	$	23,145	11.27%	$	17,905	9.00%
December 31, 2023						
Tier I Capital to Average Assets	$	22,975	11.00%	$	18,790	9.00%

Note 15. Transactions with Related Parties

The Bank has entered into transactions with its directors, significant shareholders and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Aggregate loan transactions with related parties were as follows:

	2024	2023
Balance, beginning	$ 5,475,397	$ 5,152,705
New loans and advances	2,597,643	2,049,974
Repayments and other reductions	(3,868,458)	(1,727,282)
Balance, ending	$ 4,204,582	$ 5,475,397

Deposit with related parties were $5,743,782 and $4,169,067 at December 31, 2024 and 2023, respectively. There are no other related party relationships.

Note 16. Subsequent Events

The Bank evaluates subsequent events that have occurred after the balance sheet date but before the financial statements are issued. There are two types of subsequent events: (1) recognized, or those that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements, and (2) non-recognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. The Bank evaluated subsequent events through March 21, 2025.

The Bank did not identify any subsequent events that required adjustment to or disclosure in the Financial Statements, other than on February 27, 2025, the Bank sold certain lower-yielding available-for-sale securities with a total par value of $8.0 million, resulting in a non-recurring, after-tax loss of $71,756. The sale of the available-for-sale securities will not impact book-value-per-share as the after-tax loss of $71,756 is reflected in accumulated other comprehensive loss as of December 31, 2024. The Banks believes that the restructuring will positively impact long-term profitability.

Report of Independent Registered Public Accounting Firm

To the Stockholders and the Board of Directors of Highlands Community Bank

Opinion on the Financial Statements
We have audited the accompanying balance sheets of Highlands Community Bank (the Bank) 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 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 conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion
These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on the Bank's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Bank in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Bank is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters
The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of this critical audit matter does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Collectively Evaluated Loans

Description of the Matter
As further described in Note 1 (Organization and Summary of Significant Accounting Policies) to the financial statements, the allowance for credit losses on loans (ACL) is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information relevant to assessing collectability over the loans' contractual terms. Loans which share common risk characteristics are pooled and collectively evaluated by the Bank using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Bank's ACL related to collectively evaluated loans represented $1,308,110 of the total recorded ACL of $1,423,133 million as of December 31, 2024. The collectively evaluated ACL consists of quantitative and qualitative components.

The quantitative component consists of loss estimates derived from a Lifetime Probability of Default (PD)/Loss Given Default (LGD) Model which is a model that uses PD and LGD rates recognized over the life of loans in a pool historically and uses those rates to forecast defaults and losses as the loans go through their lifecycle. The PD and LGD rates are calculated by age of the loans in the segment. These estimates consider large amounts of data in tabulating significant inputs to the calculations, including default, and loss given default, and require complex calculations as well as management judgment in the selection of appropriate inputs. In addition to the quantitative component, the collectively evaluated ACL also includes a qualitative component which aggregates management's assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management exercised significant judgment when estimating the ACL on collectively evaluated loans. We identified the estimation of the collectively evaluated ACL as a critical audit matter as auditing the collectively evaluated ACL involved especially complex and subjective auditor judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the Bank's process for determining its ACL on collectively evaluated loans, including the underlying methodology and significant inputs to the calculation.
- Substantively testing management's process for measuring the collectively evaluated ACL, including:
  - Evaluating the conceptual soundness of the methodology for determining the collectively evaluated ACL.
  - Testing significant inputs to the calculation, including the probability of default, loss given default, surviving periods, and charge-offs and the data on which those were based.
  - Evaluating the pool of collectively evaluated loans for completeness.
  - Evaluating management's determination of the qualitative adjustments, including evaluating data on which the qualitative adjustments were based as well as the relative magnitude of the adjustments.
  - Testing the mathematical accuracy of the ACL for collectively evaluated loans, including calculation of the underlying quantitative component as well as application of qualitative factors to the collectively evaluated loan balances.

Yount, Hyde & Barbour, P.C.

We have served as the Bank's auditor since 2016.

Winchester, Virginia
March 21, 2025

Management's Discussion and Analysis of Financial Condition and Results of Operations

To accurately understand the change in Highlands Community Bank's (the "Bank") financial statements, the following information is provided. The Bank commenced operations on September 16, 2002. The Bank currently serves Alleghany County, Virginia, the City of Covington, Virginia, the Town of Clifton Forge, Virginia, Bath County, 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, Federal Reserve Board, and the Federal Deposit Insurance Corporation.

The bank acquired a branch from Carter Bank & Trust in Mitchelltown, Virginia in May 2018.

This commentary provides an overview of the Bank's financial condition, changes in financial condition and results of operations for 2024 and 2023. The following discussion should assist readers in the analysis of the accompanying financial statements. The discussion should be read in conjunction with the material presented in the financial statements and notes to the financial statements.

Critical Accounting Policies

The Bank's financial statements are prepared in accordance with GAAP. The financial information contained within our statements is, to a significant extent, based on measures of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value obtained when earning income, recognizing an expense, recovering an asset or relieving a liability. Although the economics of the Bank's transactions may not change, the timing of events that would impact the transactions could change.

Critical accounting policies are most important to the portrayal of the Bank's financial condition or results of operations and require management's most difficult, subjective, and complex judgments about matters that are inherently uncertain. If conditions occur that differ from our assumptions, depending upon the severity of such differences, the Bank's financial condition or results of operations may be materially impacted. The Bank has designated the allowance for credit losses is a critical accounting estimate. The Bank evaluates its critical accounting estimates and assumptions on an ongoing basis and updates them as needed. Please refer to Note 1 of Notes to Financial Statements for information on these and other accounting policies.

Summary of Results of Operations

Net Income

The Bank had net income for the year ended December 31, 2024 of $165,630 compared to net income of $1,097,346 for the year ended December 31, 2023, a decrease of $931,716. The decrease was primarily the result of net interest income after provision for credit losses being $831,322 less, year over year, as an increase in yields on loans, investments and deposits with banks was more than offset by the Bank's increased cost of funds. Additionally, an increase of $139,489 in salaries and employee benefits and a $203,065 increase in professional fees contributed to net income being down from the previous year.

Return on average assets was 0.08% and return on average stockholders' equity was 0.91% in 2024. Basic and diluted earnings per share were $0.11 and $0.74 for 2024 and 2023, respectively.

Summary of Results of Operations, continued

Net Interest Income

The principal source of earnings for the Bank is net interest income, including changes in mix and volume of earning assets and interest-bearing liabilities, market interest rates and economic and competitive factors. As such, net interest income represents the gross profit from the Bank's lending, investment and funding activities.

A large number of variables interact to effect net interest income. Included are variables such as changes in mix and volume of earning assets and interest-bearing liabilities, market interest rates and the statutory Federal tax rate. It is management's ongoing policy to maximize net interest income through the development of balance sheet and pricing strategies while maintaining appropriate risk levels as set by the Board of Directors.

The Bank's net interest income totaled $5,644,807 and $6,503,425 for 2024 and 2023, respectively, representing an decrease of $858,618 or 13.2% in 2024. This decrease was the result of rising deposit costs.

Noninterest Income and Expenses

Noninterest income increased from $870,285 to $879,936, an increase of $9,651 or 1.1% from 2023 to 2024. This was mostly due to an increase of $27,117 in income from bank owned life insurance. This increase was partially offset by a decrease in gains on sales of investment securities of $19,367.

Noninterest expenses increased to $5,886,217 in 2024 from $5,539,389 in 2023, an increase of $346,828 or 6.3%. Salaries and employee benefits increased $139,489, or 5.5%, from the previous year which was mostly a result of budgeted salary increases. Professional fees increased $203,065 or 17.5% as a result of the Bank engaging an outside firm for executive recruitment as well as increased legal expenses relating to potential deregistration. In addition, repossessed collateral expense experienced a $78,377 increase resulting from losses on the sales of repossessed vehicles.

Income Taxes

The Bank recorded a tax benefit of $27,943 during 2024, compared to a provision for income taxes of $208,840 for 2023. The Bank's effective tax rates were (20.3%) and 16.0% for 2024 and 2023, respectively. The tax benefit during 2024 is the result of lower pre-tax income while the portion of non-taxable income remained relatively unchanged.

Summary of Statements of Financial Condition

Assets

At December 31, 2024, the Bank had total assets of $195.4 million, representing a decrease of $4.1 million or 2.0% over the December 31, 2023 balance of $199.5 million.

Summary of Statements of Financial Condition, continued

Loans

The net loan portfolio totaled $100.5 million and $106.1 million for 2024 and 2023, respectively, representing a decrease of $5.7 million or 5.3%. Consistent with its focus on providing community based financial services, the Bank generally does not make loans outside its principal market regions. By policy it does not originate or purchase leveraged loans or loans to foreign entities or individuals.

Provision and Allowance for Credit Losses

The provision for credit losses is a charge against earnings necessary to maintain the allowance for credit losses at a level consistent with management's evaluation of the credit quality and risk of the loan portfolio. The Bank maintains an allowance which management believes represents an accurate estimate of expected losses inherent in the Bank's loan portfolio. To achieve this goal, the provision for credit losses must be sufficient to cover loans charged off, loans identified as individually evaluated and the expected losses that exist in the portfolio. Refer to Note 1 for further discussion and details on the allowance for credit losses methodology.

From the Bank's inception, management and the Board have endeavored to provide for an adequate allowance. The 2024 provision for credit losses was $540,891 as the allowance increased to $1,423,133 at December 31, 2024 as compared to $1,285,836 at December 31, 2023. There was a provision for credit losses of $473,866 in 2023. Management and the Board of Directors believe that the allowance at year-end was adequate relative to the current levels of risk in the portfolio. The allowance for credit losses as a percentage of gross loans was 1.40% and 1.20% at December 31, 2024 and 2023, respectively.

The collectively evaluated reserve component of the allowance for credit losses slightly decreased in 2024 as compared to December 31, 2023 as a result of a decrease in loans outstanding. This was off-set by an increase in individually evaluated reserves as a result of one commercial relationship being fully reserved. A number of changes internally within top management and loan staff, along with a slight uptick in the unemployment rate during 2024, resulted in an increase in the qualitative reserve.

The Bank had individually evaluated loans of $1.3 million at December 31, 2024. This was 1.28% of gross loans outstanding, as compared to $1.1 million and 1.06% of gross loans outstanding in 2023. The level of individually evaluated loans was the result of problem loan scenarios encountered during the normal course of business. The Bank actively monitors its loan portfolio for the early recognition of individually evaluated loans.

Loan chargeoffs totaled $595,348 in 2024 and $532,759 in 2023. The Bank had recoveries of $191,753 thousand in 2024 and $109,652 in 2023.

Summary of Statements of Financial Condition, continued

Securities and Federal Funds Sold

At year-end 2024, investment securities available for sale totaled $72.9 million compared to $73.7 million as of December 31, 2023, a decrease of $0.7 million or 1.0%. In addition, the Bank has $2 million of subordinated debt which is classified as held-to-maturity. There were no federal funds sold as of December 31, 2024 and 2023.

Deposits

Deposits totaled $177.0 million and $181.8 million at December 31, 2024 and 2023, respectively, representing a decrease of $4.7 million or 2.6%. Non-interest bearing accounts increased $3.1 million to $40.8 million, or 8.1%. Interest-bearing accounts decreased from $144.1 million to $136.3 million, or 5.4%.

Stockholders' Equity

Future growth and expansion of the Bank is dictated by its capital base. The adequacy of the Bank's capital is reviewed by management on an ongoing basis with reference to the size, composition and quality of the Bank's asset and liability levels and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that assures an adequate level to support anticipated asset growth and absorb potential losses. The Bank significantly exceeds all minimum regulatory capital requirements.

During 2024, equity increased to $17.4 million. The Bank had net income of $165,630. This, along with a net decrease of $302,617 in unrealized gains and losses on the Bank's available for sale investment portfolio, resulted in a net increase in equity of $468,247. Management believes the Bank has sufficient capital to fund its operations on an ongoing basis.

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 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 46% and 44% at December 31, 2024 and 2023, respectively. 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. The Bank has no material commitments for long-term debt or for capital expenditures.

Off-Balance Sheet Arrangements

The Bank enters into certain off-balance sheet arrangements in the normal course of business to meet the financing needs of its customers. These off-balance sheet arrangements include commitments to extend credit, standby letters of credit and financial guarantees which would impact the Bank's liquidity and capital resources to the extent customers accept and or use these commitments. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. With the exception of these off-balance sheet arrangements, the Bank has no off-balance sheet arrangements that have or are reasonably likely to have a current or future effect on the Bank's financial condition, changes in financial condition, revenues or expenses, results of operations, liquidity, capital expenditures, or capital resources, that is material to investors. For further information, see Note 13 to the Financial Statements.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Statistical Disclosures

The following tables provide additional information for the years ended December 31, 2024 and 2023.

Table 1. Average Balances and Interest Rates

Years ended December 31, (In thousands)	**2024**			**2023**		
	Average Balance	**Interest Income/ Expense**	**Yield/ Cost**	**Average Balance**	**Interest Income/ Expense**	**Yield/ Cost**
Assets:						
Interest-earning assets:						
Deposits in other banks	$ 6,957	$ 234	3.36%	$ 6,402	$ 187	2.92%
Taxable investment securities	67,705	1,802	2.66%	67,857	1,831	2.70%
Nontaxable investment securities [5]	6,456	135	2.09%	7,979	166	2.08%
Loans [3], [4]	108,009	6,754	6.25%	104,824	6,462	6.16%
Total interest-earning assets	189,127	8,925	4.72%	187,062	8,646	4.62%
Noninterest-earning assets:						
Cash and due from banks	1,578			1,676		
Premises and equipment	2,065			2,088		
Other assets	8,359			8,501		
Allowance for credit losses	(1,314)			(1,266)		
Total assets	$ 199,815			$ 198,061		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Interest checking	$ 17,160	73	0.43%	$ 19,928	74	0.37%
Savings deposits	43,059	158	0.37%	52,717	224	0.42%
Time deposits	24,339	693	2.85%	25,410	491	1.93%
Large denomination deposits[6]	58,401	2,321	3.97%	45,262	1,312	2.90%
Federal funds purchased	551	35	6.35%	673	42	6.24%
Total interest-bearing liabilities	143,510	3,280	2.29%	143,990	2,143	1.49%
Noninterest-bearing liabilities:						
Demand deposits	38,240			37,911		
Other liabilities	829			872		
Total liabilities	182,579			182,773		
Stockholders' equity	17,236			15,288		
Total liabilities and stockholders' equity	$ 199,815			$ 198,061		
Net interest earnings		$ 5,645			$ 6,503	
Net interest spread [1]			2.43%			3.13%
Net interest margin [2]			2.98%			3.48%

[1] Net interest spread is the difference between the average interest rate received on earning assets and the average interest rate paid for interest-bearing liabilities.
[2] Net interest margin is calculated by dividing net interest earnings by total average earning assets.
[3] Average loan balances include nonaccrual loans.
[4] Interest income includes deferred loan fees.
[5] Non taxable investment security yields are not calculated on a tax-equivalent basis.
[6] Large denomination deposits include time deposits $100,000 or greater.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 2. Rate/Volume Variance Analysis

	2024 Compared to 2023			2023 Compared to 2022		
		Increase (Decrease) Due To			Increase (Decrease) Due To	
	Total	Rate	Volume	Total	Rate	Volume
December 31, (In thousands)						
Interest-earning assets						
Deposits in other banks	$ 47	$ 30	$ 17	$ 21	$ 42	$ (21)
Taxable investment securities	(29)	(25)	(4)	165	174	(9)
Nontaxable investment securities	(31)	1	(32)	(27)	(6)	(21)
Loans	292	94	198	594	384	210
Total	279	100	179	753	594	159
Interest-earning liabilities						
Interest checking	(1)	10	(11)	2	3	(1)
Savings deposits	(66)	(28)	(38)	34	54	(20)
Time deposits	202	222	(20)	163	182	(19)
Large denomination deposits	1,009	566	443	816	656	160
Federal funds purchased	(7)	1	(8)	24	10	14
Total	1,137	771	366	1,039	905	134
Net interest income	$ (858)	$ (671)	$ (187)	$ (286)	$ (311)	$ 25

Table 3. Average Asset Mix

December 31, (In thousands)	2024		2023	
	Average Balance	%	Average Balance	%
Interest-earning assets				
Deposits in other banks	$ 6,957	3.48%	$ 6,402	3.23%
Taxable investment securities	67,705	33.89	67,857	34.26
Nontaxable investment securities	6,456	3.23	7,979	4.03
Loans	108,009	54.05	104,824	52.93
Total interest-earning assets	189,127	94.65	187,062	94.45
Noninterest-earning assets				
Cash and due from banks	1,578	0.79	1,676	0.85
Premises and equipment	2,065	1.03	2,088	1.05
Other assets	8,359	4.18	8,501	4.29
Allowance for credit losses	(1,314)	(0.65)	(1,266)	(0.64)
Total assets	$ 199,815	100%	$ 198,061	100%

Management's Discussion and Analysis of Financial Condition and Results of Operations

Table 4. Loan Mix and Maturity Schedule

		Due in One Year Or Less		After One Year Through Five Years		After Five Years Through Ten Years		After Ten Years Through Fifteen Years		After Fifteen Years		Total
December 31, 2024 (In Thousands)												
Automobile	$	247	$	10,283	$	5,037	$	-	$	-	$	15,567
Commercial and industrial		2,922		8,587		1,301		42		-		12,852
Commercial real estate non-owner occupied		5		2,632		4,112		3,800		3,224		13,773
Commercial real estate owner occupied		261		1,946		1,612		2,967		4,231		11,017
Construction		610		66		2,712		889		1,730		6,007
Consumer		1,571		3,040		25		-		-		4,636
Home equity		154		258		436		1,903		-		2,751
Multifamily		-		-		-		513		-		513
Residential		961		937		3,752		8,460		20,677		34,787
Total	$	6,731	$	27,749	$	18,987	$	18,574	$	29,862	$	101,903
Loans with fixed interest rates:												
Automobile	$	247	$	10,283	$	5,037	$	-	$	-	$	15,567
Commercial and industrial		2,293		8,587		1,301		-		-		12,181
Commercial real estate non-owner occupied		5		2,462		3,175		929		150		6,721
Commercial real estate owner occupied		232		13		192		-		1,958		2,395
Construction		610		66		2,487		(295)		295		3,163
Consumer		931		3,040		(6)		-		-		3,965
Home equity		-		-		-		-		-		-
Multifamily		-		-		-		513		-		513
Residential		944		(58)		55		-		1,253		2,194
Total	$	5,262	$	24,393	$	12,241	$	1,147	$	3,656	$	46,699
Loans with floating interest rates:												
Automobile	$	-	$	-	$	-	$	-	$	-	$	-
Commercial and industrial		629		-		-		42		-		671
Commercial real estate non-owner occupied		-		170		937		2,871		3,074		7,052
Commercial real estate owner occupied		29		1,933		1,420		2,967		2,273		8,622
Construction		-		-		225		1,184		1,435		2,844
Consumer		640		-		31		-		-		671
Home equity		154		258		436		1,903		-		2,751
Multifamily		-		-		-		-		-		-
Residential		17		995		3,697		8,460		19,424		32,593
Total	$	1,469	$	3,356	$	6,746	$	17,427	$	26,206	$	55,204

Table 5. Investment Securities

December 31, 2024	Amortized Cost									
	One Year or Less		After One Year Through Five Years		After Five Year Through Ten Years		After Ten Year Through Fifteen Years		Total	
	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield	Amount	Weighted Average Yield
Investment securities available for sale:										
U.S. Treasuries	$ 499,687	3.02%	$ 2,998,580	1.14%	$ 1,243,398	1.22%	$ -	-	$ 4,741,665	1.36%
Government sponsored enterprises	1,497,092	2.19%	11,037,549	1.94%	6,536,035	2.24%	475,379	4.14%	19,546,055	2.11%
State and municipal bonds	500,926	2.55%	12,192,914	2.38%	17,203,847	2.17%	-	-	29,897,687	2.26%
Mortgage-backed securities	-	-	12,189,673	3.55%	4,611,095	3.91%	-	-	16,800,768	3.65%
Other debt securities	1,500,081	3.47%	4,515,684	2.48%	3,230,693	1.88%	-	-	9,246,458	2.43%
Total	$ 3,997,786	2.82%	$ 42,934,400	2.52%	$ 32,825,068	2.36%	$ 475,379	4.14%	$ 80,232,633	2.48%
Investment securities held-to-maturity:										
Other debt securities	$ -	-	$ 2,000,000	3.56%	$ -	-	$ -	-	$ 2,000,000	3.56%
Total	$ -	-	$ 2,000,000	3.56%	$ -	-	$ -	-	$ 2,000,000	3.56%

Table 6. Deposit Mix

December 31, (In thousands)	2024		2023	
	Average Balance	%	Average Balance	%
Interest-bearing deposits:				
Interest checking	$ 17,160	9.5%	$ 19,928	11.0%
Savings deposits	43,059	23.8	52,717	29.1
Time deposits	24,339	13.4	25,410	14.0
Large denomination deposits	58,401	32.2	45,262	25.0
Total interest-bearing deposits	142,959	78.9	143,317	79.1
Noninterest-bearing deposits	38,240	21.1	37,911	20.9
Total deposits	$ 181,199	100%	$ 181,228	100%

The Bank had an estimated $28.0 million of uninsured deposits as of December 31, 2024.

Table 7. Large Denomination Deposits $250,000 and Over

Analysis of time deposits in excess of $250,000 at December 31, 2024:

Time remaining to maturity:	
Three months or less	$ 9,482,130
Over three months through six months	3,766,970
Over six months through twelve months	3,939,621
Over twelve months	3,610,656
Total time deposits in excess of $250,000	$ 20,799,377

Table 8. Credit Losses

Year ended December 31, 2024 (In thousands)

Balance at beginning of year	$ 1,286
Provision charged to expense	541
	1,827
Loans charged off:	
Automobile	(362)
Commercial and industrial	(52)
Consumer	(181)
Total chargeoffs	(595)
Recoveries of loans previously charged off:	
Automobile	83
Commercial and industrial	67
Consumer	41
Total recoveries	191
Net chargeoffs	(404)
Balance at end of year	$ 1,423
Total Allowance for Credit Losses to Total Loans	1.40%

Year ended December 31, 2023 (In thousands)

Balance at beginning of year	$ 1,150
Adoption of ASU 2016-13	85
Provision charged to expense	474
	1,709
Loans charged off:	
Automobile	(380)
Commercial and industrial	(43)
Consumer	(109)
Residential	(1)
Total chargeoffs	(533)
Recoveries of loans previously charged off:	
Automobile	45
Consumer	64
Residential	1
Total recoveries	110
Net chargeoffs	(423)
Balance at end of year	$ 1,286
Total Allowance for Credit Losses to Total Loans	1.20%

Table 9. Allocation of the Allowance for Credit Losses

December 31, 2024 (In thousands)

	Amount	%
Balance at end of period applicable to:		
Automobile	$ 15,566	15.3%
Commercial and industrial	16,057	15.8%
Commercial real estate, non-owner occupied	10,459	10.3%
Commercial real estate, owner occupied	11,155	10.9%
Construction	6,036	5.9%
Consumer	4,610	4.5%
Home equity	2,752	2.7%
Multifamily	513	0.5%
Residential	34,755	34.1%
	101,903	100.0%

December 31, 2023 (In thousands)

	Amount	%
Balance at end of period applicable to:		
Automobile	$ 18,991	17.7%
Commercial and industrial	14,224	13.3%
Commercial real estate, non-owner occupied	11,089	10.3%
Commercial real estate, owner occupied	12,132	11.3%
Construction	6,490	6.0%
Consumer	6,193	5.8%
Home equity	2,493	2.3%
Multifamily	551	0.5%
Residential	35,259	32.8%
	107,422	100.0%

(1) Represents the percentage of loans in each category.

Table 10. Nonaccrual Loans

December 31, 2024 (In thousands)

Automobile	$ 139
Commercial and industrial	336
Commercial real estate owner occupied	220
Consumer	15
Residential	463
Total nonaccrual loans	$ 1,173
Nonaccrual Loans to Total Loans	1.15%
Total Allowance for Credit Losses to Nonaccrual Loans	121.3%

December 31, 2023 (In thousands)

Automobile	$ 272
Commercial and industrial	189
Commercial real estate owner occupied	255
Consumer	26
Residential	382
Total nonaccrual loans	$ 1,124
Nonaccrual Loans to Total Loans	1.06%
Total Allowance for Credit Losses to Nonaccrual Loans	114.4%

Table 11. Loan Chargeoffs

	Net Charge-Offs	Average Balance	% of Average Balance
December 31, 2024 (In thousands)			
Automobile	$ 279	$ 17,832	1.56%
Commercial and industrial	(15)	13,971	-0.11%
Commercial real estate non-owner occupied	-	12,828	-
Commercial real estate owner occupied	-	11,945	-
Construction	-	6,449	-
Consumer	140	5,588	2.51%
Home equity	-	2,706	-
Multifamily	-	549	-
Residential	-	36,141	-
Total	$ 404	$ 108,009	0.37%
December 31, 2023 (In thousands)			
Automobile	$ 335	$ 18,255	1.84%
Commercial and industrial	43	13,567	0.32%
Commercial real estate non-owner occupied	-	11,415	-
Commercial real estate owner occupied	-	12,294	-
Construction	-	6,174	-
Consumer	45	6,397	0.70%
Home equity	-	2,437	-
Multifamily	-	276	-
Residential	-	34,009	-
Total	$ 423	$ 104,824	0.40%

Board of Directors

Ronald S. Bowers .... *Owner*
Alleghany Highlands Mechanical, Inc.

Debra Byer .... *Clerk of the Court*
Alleghany County

John S. Franson .... *President & Owner*
Alleghany Asphalt & Construction, Inc.

James N. Garcia .... *Former Owner*
Standard Printing & Office Supply, Inc.

Daniel C. Lawson .... *Chief Financial Officer*
Highlands Community Bank

Robert E. Hemsath .... *President & CEO*
Highlands Community Bank

Nicholas J. Moga .... *Chairman of the Board*
President - PCSS, LLC

Nolan R. Nicely, Jr. .... *Attorney*
Updike, Nicely & Crawford, PLC

David M. Oliver .... *President & Owner*
Oliver Distributing Company, Inc.

Michael H. Persinger .... *Vice President & Chief Financial Officer*
Dawn Warehousing, Inc. & Kemper Properties, LLC

Lisa Schoppmeyer .... *President*
Schoppmeyer Financial

Staff

Megan Angle .... *Teller*

Kaitlyne Baker .... *Customer Service*

Brittany Belcher .... *Customer Service*

Amy Boguess .... *Loan Administration*

Megan Cash .... *Teller*

Donna Craft .... *Branch Manager-Covington*

Kathy Dobson .... *Branch Manager-Clifton Forge*

Christian Filips .... *IT Administrator & Project Coordinator*

Joy D. Fridley .... *Vice President & Loan Administration Officer*

Tammy B. Graham .... *Assistant Cashier*

Jacob Grimes .... *Director of Human Resources*

Joy Hale .... *Loan Administration*

Robert Hemsath .... *President & CEO*

Monica Hemsath .... *Loan Administration*

Lexxi Jones .... *Teller*

Maddi Keyser .... *Teller*

Pamela Kincaid .... *Customer Service*

Skyylynn Lacks .... *Teller*

Daniel C. Lawson .... *Chief Financial Officer*

Ryan Lockhart .... *Loan Officer*

Nikki Lowry .... *Accounting & Operations Specialist*

Debra Martin .... *Teller*

Kristin Nicely .... *Compliance Officer*

Christina Roark .... *Loan Administration*

Kimberly Robertson .... *Teller*

Donna A. Rock .. *Assistant Vice President & Operations Officer*

Josh Roldan .... *Teller*

Susan Schoonover .... *Collections Specialist*

Melissa Shifflett .... *Operations Manager*

Sierra Snyder .... *Teller*

Gina Tingler .... *Loan Officer*

Billie Tolley .... *Loan Officer*

Braylin Whiting .... *Teller*

Stockholder Information

Annual Meeting

The annual meeting of stockholders will be held April 29, 2025 at 5:30pm in our lobby at our main office, 307 Thacker Avenue, Covington, Virginia 24426.

Requests for Information

Requests for information should be directed to Mr. Daniel C. Lawson, CFO, at Highlands Community Bank, Post Office Box 1059, Covington, Virginia, 24426; telephone (540) 962-2265.

Independent Registered Public Accounting Firm

Yount, Hyde & Barbour, P.C.
Certified Public Accountants
160 Exeter Drive, Suite 200
Winchester, VA 22604

Legal Counsel

Gentry Locke Rakes & Moore
Attorneys at Law
Post Office Box 40013
Roanoke, Virginia 24022

Federal Deposit Insurance Corporation

The Bank is a member of the FDIC. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

Highlands Community Bank
www.highlandscommunitybank.com

Member FDIC

307 Thacker Ave.
Covington, VA 24426
(540) 962-2265

1501 Main St.
Clifton Forge, VA 24422
(540) 862-2265

9008 Sam Snead Hwy.
Hot Springs, VA 24445
(540) 839-3568

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