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BUILDING
CONNECTIONS.
EMPOWERING
COMMUNITIES.

LETTER TO OUR SHAREHOLDERS

At the beginning of 2024, **Community Heritage Financial, Inc.** (“CHF” or the “Company”) introduced a revised mission and vision for all brands, including Middletown Valley Bank (“MVB” or the “Bank”) and Mlend (the “Mortgage Company”), confirming our commitment to Advancing Financial Journeys and delivering Absolutely Exceptional Experiences for our customers, shareholders, and communities. Accordingly, this led to a theme of Building Connections and Empowering Communities as we navigated 2024 and as we look ahead to 2025 and beyond.

In response to the Company’s growth and as the needs of business customers have become more complex, it has become increasingly important to find strategic partners with broad reach and a local touch. In 2024, the Bank introduced a few financially beneficial partnerships, including wealth management services and a new merchant services processing partner.

The need for financial planning, wealth management, and trust services was a result of significant demand from both consumer and business customers. Finding the right organization to provide these offerings was crucial, as the CHF Leadership Team was not willing to compromise on the level of service our customers expect. McCaskill Financial, a Frederick, Maryland-based company, provides our customers with a knowledgeable and accomplished team that brings over 100 years of combined financial industry experience.

Another opportunity that presented itself was a partnership with a new merchant services processor. This was a much-needed update, as payment processing continues to evolve and expectations regarding speed of processing, fraud mitigation, compliance, and expense control for businesses becomes increasingly important. MVB partnered with USB Processing based in Towson, Maryland, to provide these services. Specializing in businesses of all sizes, as well as e-commerce and mobile processing, this new partnership helps support the growing needs of our customers.

The Mortgage Company also expanded third-party origination services. We are proud to have signed an agreement with our second third-party mortgage origination partner, who will get to work in 2025. The relationships with McCaskill, USB Payment Processing, and additional third-party mortgage originators all help to diversify our non-interest income stream and add increased stability to our income statement.

MVB’s newest retail branch opened in Frederick, Maryland in October 2024 and marked an exciting moment in our history. Despite being headquartered in Frederick County since 1908, Middletown Valley Bank had never operated a branch in the City of Frederick prior to opening the Market Street Branch. The move was a direct response to growing demand from customers in the Frederick area after opening a Business Development Office at the same location in March 2023. The Branch has also provided opportunities to evolve how we approach a new market, as we implemented new technology in the form of teller cash recyclers and developed an advisory board comprised of local business leaders and community advocates.

CHF’s subordinated debt offering was another notable event in 2024. The Company completed a private offering of \$12.1 million in aggregate principal amount of 6.75 percent Fixed-to-Floating Rate Subordinated Notes due 2034. Net proceeds from the offering, as well as other internal funds, were used to fully redeem \$15 million in aggregate principal amount of 5.75 percent Fixed-to-Floating Notes due 2029, the interest rate for which was scheduled to increase significantly with the transition to a floating rate.

CHF continues to be led by a strong leadership team and Board of Directors with a diverse set of skills and expertise. The Company welcomed two new members to the Board of Directors in 2024, Kelly Schulz and Jessica Green. Kelly possesses valuable experience in state government and technology and Jessica brings extensive experience in non-profit capital projects as the Executive Director of The Maryland Theatre.

“**LOOKING AHEAD
TO 2025 AND BEYOND**”

“ COMMITTED
TO BEING THE
**PREMIER FINANCIAL
INSTITUTION**
IN OUR COMMUNITY ”

As we look ahead to 2025, we remain committed to being the premier financial institution in our communities. The will to Advance Financial Journeys is only made possible by the tremendous support we receive from our shareholders, our employees, our customers, and our communities. We appreciate the opportunity to serve you, and we thank you for your continued loyalty and confidence.



Robert E. (BJ) Goetz, Jr.
President and Chief Executive Officer



James G. Pierne
Chairman of the Board

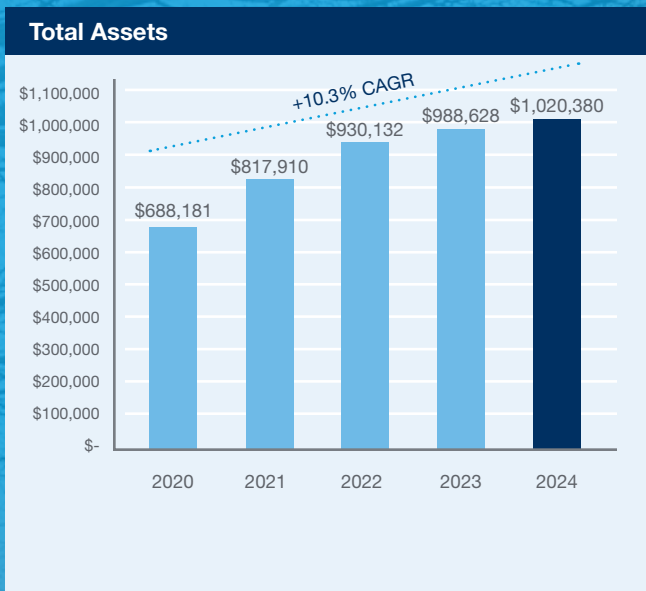


FINANCIAL HIGHLIGHTS

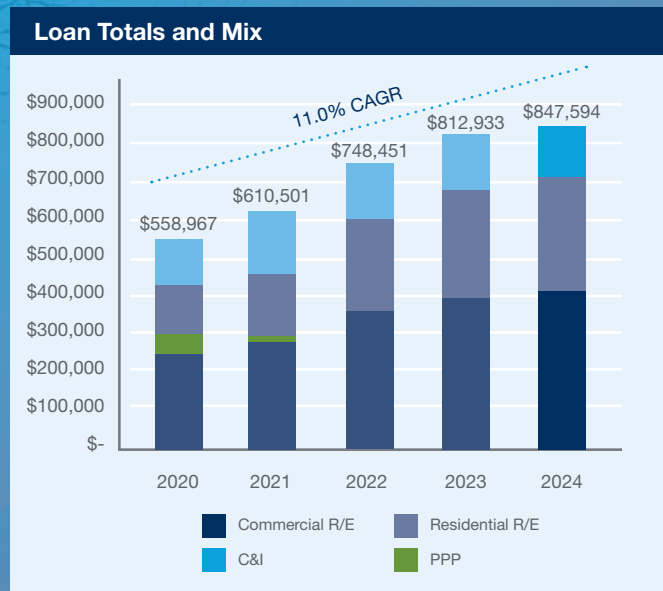
As of and for the years ended December 31 (dollars in thousands, except ratios and common share data)

	2024	2023	2022	2021	2020
Earnings Data (\$):					
Net interest income	30,688	26,119	27,459	24,174	19,641
Provision for credit losses	607	(747)	813	3,079	3,253
Non-interest income	3,590	3,263	3,929	7,010	8,265
Non-interest expense	24,845	24,448	21,257	19,899	18,946
Net income	6,628	4,295	6,856	6,015	4,127
Common Share Data (\$, except shares outstanding):					
Basic earnings per common share	2.27	1.48	2.85	2.67	1.83
Diluted earnings per common share	2.27	1.48	2.84	2.67	1.83
Dividends paid per common share	0.24	0.24	0.16	0.16	0.16
Book value per common share	27.07	24.46	23.10	25.30	23.52
Tangible book value per common share	26.50	23.90	22.53	24.56	22.79
Weighted average common shares outstanding	2,916,191	2,907,304	2,408,516	2,251,320	2,251,320
Selected Statistical Data (%):					
Net interest margin	2.92	2.76	3.21	3.32	3.16
Return on average assets	0.62	0.44	0.78	0.80	0.64
Return on average common equity	8.81	6.22	11.99	10.86	8.08
Efficiency ratio	72.48	83.21	67.72	63.81	67.89
Financial Condition Data (\$):					
Total assets	1,020,380	988,628	930,132	817,910	688,181
Loans	847,594	812,933	748,451	610,501	558,967
Allowance for credit losses	8,279	7,742	7,330	6,500	7,480
Securities	131,857	137,039	140,516	144,019	72,439
Deposits	908,007	879,007	841,826	738,914	600,199
Borrowings	15,000	18,000	N/A	1,887	8,558
Subordinated debt	12,041	14,933	14,843	14,753	14,664
Shareholders' equity	79,029	71,231	67,141	56,955	52,960
Non-performing assets (exclusive of TDRs prior to 2023)	1,526	1,823	1,728	2,091	1,007
Ratios (%):					
Loans to deposits	93.35	92.48	88.91	82.62	93.13
Allowance for loan credit losses to loans	0.98	0.95	0.98	1.06	1.34
Allowance for loan credit losses to loans (excl. PPP Loans)	N/A	N/A	N/A	1.09	1.47
Non-performing assets to loans plus OREO	0.18	0.22	0.23	0.34	0.18
Non-performing assets to total assets	0.15	0.18	0.19	0.26	0.15
Average shareholders' equity to average total assets	6.99	7.12	6.54	7.41	7.99
Tangible common equity to tangible common assets	7.60	7.05	7.05	6.77	7.47
Bank Only:					
Tier 1 capital to risk-weighted assets	12.12	12.02	12.22	11.33	N/A
Total risk-based capital	13.23	13.10	13.33	12.58	N/A
Tier 1 leveraged capital to total average assets	9.06	9.10	9.53	8.57	N/A
Community bank leverage ratio (CBLR)	N/A	N/A	N/A	N/A	9.11

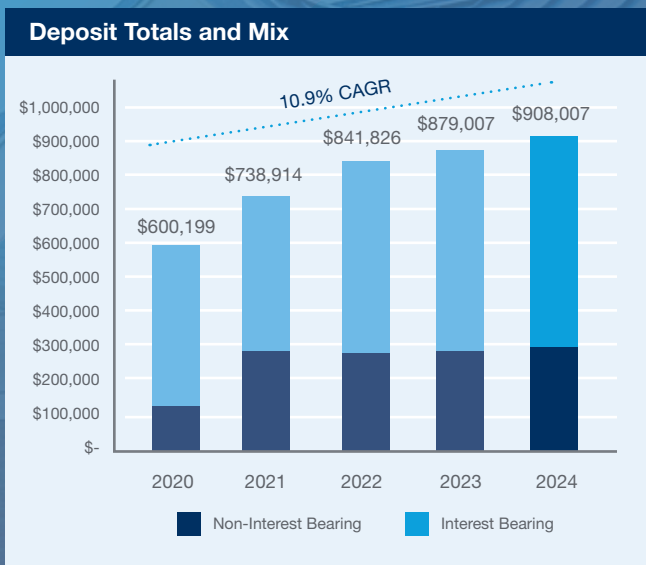
MANAGEMENT DISCUSSION AND ANALYSIS



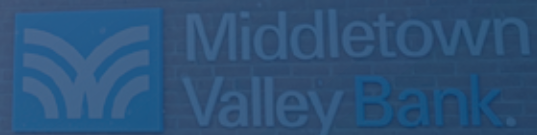
Assets totaled \$1.0 billion at December 31, 2024 representing growth of \$31.8 million or 3.2% year-over-year. Asset growth was driven by loan growth of \$34.7 million or 4.3%. Asset growth was funded by growth in deposits of \$29.0 million and in capital of \$7.8 million.



The loan portfolio totaled \$847.6 million at December 31, 2024 and was comprised of commercial real estate (CRE) of \$412.7 million (48.9% of total loans), residential real estate of \$296.2 million (35.1% of total loans), commercial & industrial loans of \$134.2 million (15.9% of total loans), consumer loans of \$1.0 million (less than 1% of total loans) and net deferred costs of \$3.5 million. During 2024, the residential real estate portfolio grew \$15.7 million, the CRE portfolio grew \$14.0 million and the commercial and industrial portfolio grew \$5.2 million.

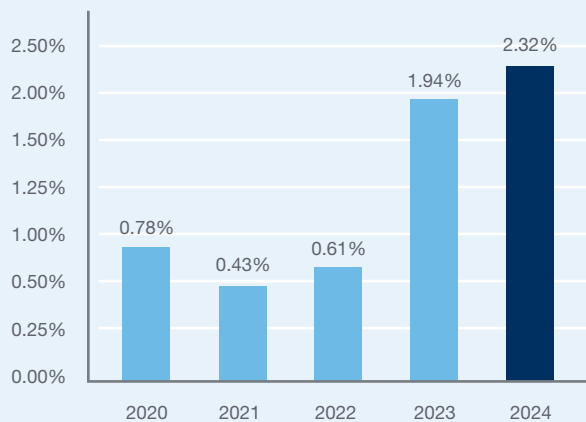


Deposits totaled \$908.0 million as of December 31, 2024, representing an increase of \$29.0 million year-over-year. Growth included \$40.7 million of interest bearing deposits sold immediately prior to December 31, 2023 and repurchased immediately following January 1, 2024. As of December 31, 2024, non-interest bearing deposits totaled \$251.4 million, or 27.7% of total deposits, compared to 29.6% as of the prior year end. The decline in non-interest bearing deposits as a percentage of total deposits reflected deposit migration to interest bearing deposit products given a higher interest rate environment in addition to funds utilization by existing deposit customers.



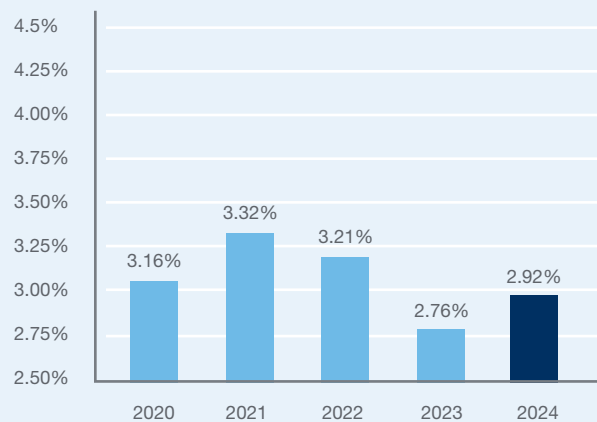


Cost of Total Deposits and Borrowings



The cost of total deposits and borrowings totaled 2.32% for 2024, a 38 basis point increase from 1.94% in 2023. The increase in the cost of total deposits and borrowings followed rate action by the Federal Reserve (FRB) to combat inflation. During the period from March 17, 2022 through July 26, 2023, the FRB increased the federal funds target rate eleven times and 525 basis points, creating an inverted yield curve and inciting depositor migration of excess liquidity to higher yielding, short-term deposit products. During the period September 18, 2024 through December 31, 2024, the FRB reduced the federal funds target rate three times and 100 basis points.

Net Interest Margin



The net interest margin (NIM) improved 16 basis points in 2024 compared to 2023, following a significant decline in 2023 compared to prior years as a result of the FRB's dramatic increase in rates to combat inflation. Improvement in the NIM during 2024 reflected a more stable interest rate environment with an increase in the yield on earning assets of 50 basis points and a lower rate of increase in the cost of total funds of 38 basis points.

WORKING FOR OUR COMMUNITIES IN 2024

221

Supported over 220 organizations and families

3,279

Employees gave over 3,270 hours to local non-profit organizations

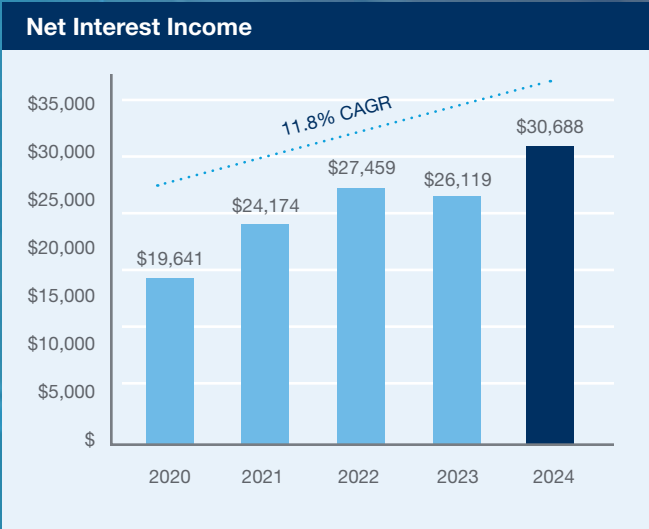
\$3.77M

Funded over \$3.7 million in community development loans

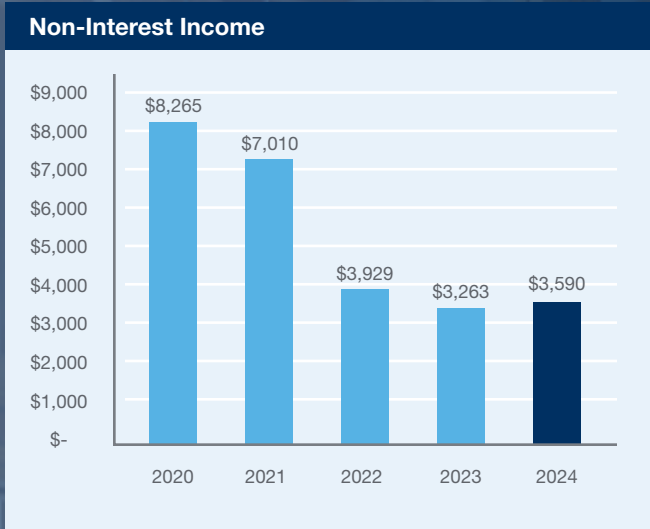
87%

Over 85% of the Company's team members donated their time & talents

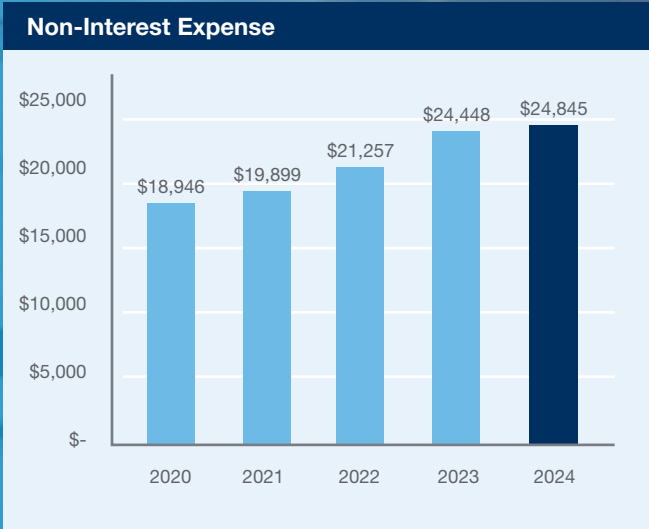




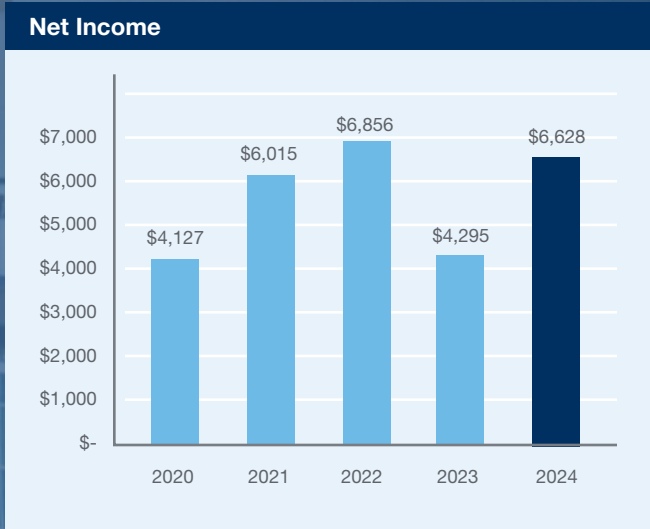
Interest income increased \$10.2 million compared to 2023 with a higher yield on earnings assets, but was offset by an increase in interest expense of \$5.6 million as deposit rates moved closer to the Federal Reserve's short-term rate target and depositors migrated excess liquidity to higher yielding products.



Non-interest income increased \$327 thousand compared to 2023. Increases in mortgage banking revenue of \$345 thousand, service charges on deposits of \$202 thousand and earnings on bank-owned life insurance of \$153 thousand, offset by a pretax loss of \$442 thousand on the sale of \$8.1 million of investment securities, contributed to the increase in non-interest income. The sale of investment securities reflected the opportunity to reposition approximately 6% of the investment portfolio with higher yields in 2025 and beyond.



Non-interest expense increased \$397 thousand in 2024 compared to 2023. Increases in legal and professional fees of \$248 thousand and FDIC insurance cost of \$168 thousand contributed to the increase. Non-interest expense as a percentage of average assets decreased from 2.5% in 2023 to 2.3% in 2024.



Net income for 2024 was \$6.6 million, an increase of \$2.3 million or 54.3% compared to 2023. Net interest income increased \$4.6 million and non-interest income increased \$327 thousand compared to 2023. Increases in non-interest expense of \$397 thousand and the provision for credit losses of \$1.4 million during 2024 compared to 2023 partially offset the positive movement in operating income, resulting in a net increase in income before taxes of \$3.1 million.

BUSINESS IN OUR COMMUNITY

MERITUS HEALTH

Meritus Health, formerly the Washington County Hospital, has a long and distinguished history of providing healthcare to patients in western Maryland. Beginning in 1904, the former M.P. Moller residence was the site of the first hospital with 10 beds, 12 physicians, and six staff members. During the first year of operation, 106 patients were admitted to the hospital. The hospital's longtime home on Antietam Street began with 46 beds and grew to 397 beds by 1989. In 2010, the Meritus Medical Center opened and replaced the Washington County Hospital on the campus of Robinwood Medical Center.

Today, Meritus is the largest healthcare provider in western Maryland and serves more than 200,000 residents in the local region. The organization has over 4,000 employees, 500 medical staff members, and 250 volunteers. Meritus Medical Center is a modern hospital with 327 private rooms, allowing patients to receive care without moving around the building.

One of the most exciting new projects in the tristate area is the Meritus School of Osteopathic Medicine (MSOM), which will accept its inaugural class in the fall of 2025. The medical school represents a significant step forward in addressing the physician shortage both locally and throughout the country, which threatens the accessibility and quality of care in many communities. By training the next generation of osteopathic physicians, MSOM

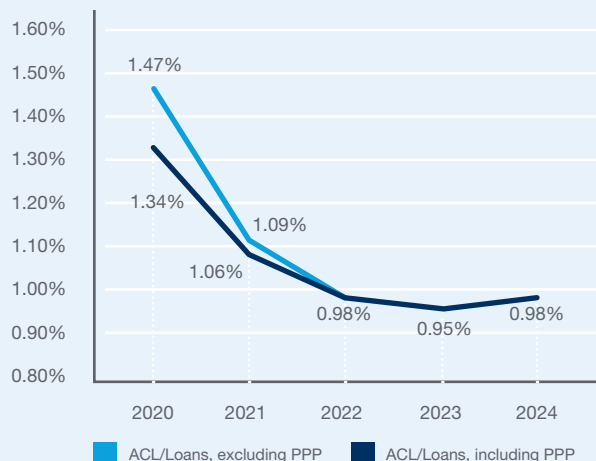
is poised to make a lasting impact on the health and wellbeing of communities locally and nationwide.

Meritus is also working diligently to address mental health needs in Washington County and the surrounding areas. The organization recently formalized its affiliation with Brook Lane, a local leader in mental health services over the last 76 years. The organizations believe they will be able to have a larger impact by joining forces and working together, especially after working closely together in the past on a Community Needs Assessment.

Middletown Valley Bank is proud to support Meritus Health as an annual Roundtable member. Geordie Newman, Executive Director of the Meritus Healthcare Foundation, adds, "Middletown Valley Bank has demonstrated unwavering support for Meritus Health, particularly in the establishment of the Meritus School of Osteopathic Medicine. This partnership reflects an alignment of values between the two organizations, emphasizing collaboration, accountability, and the cultivation of meaningful relationships to better serve the community. By supporting MSOM, MVB has played a pivotal role ensuring that future healthcare professionals are prepared to meet the evolving needs of the community. We look forward to continuing our relationship with MVB as we work together to improve our community."

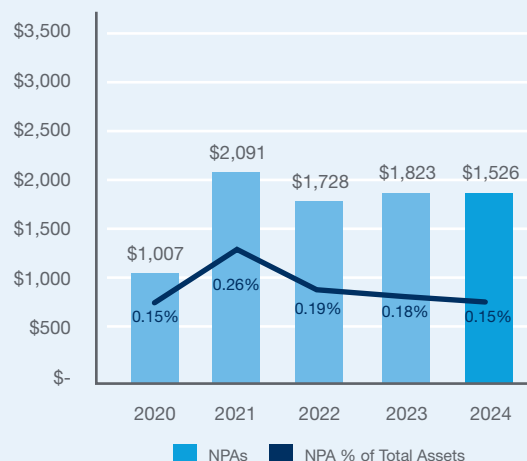


Allowance for Credit Losses to Loans



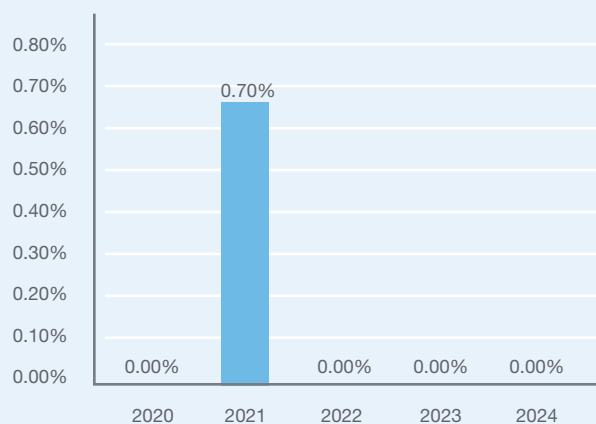
The allowance for credit losses increased 3 basis points as of December 31, 2024 compared to December 31, 2023. The modest increase reflected late year uncertainty with regard to inflation and interest rates, and the potential influence of such on economic conditions, including unemployment.

Non-Performing Assets



Non-performing assets continued a positive trend as overall asset quality remained strong with zero loans past due 30 days or more as of December 31, 2024 and zero percent net charge-offs (measured as a percentage of average loans).

Net Charge-Offs/Average Loans



In 2021, due to an isolated COVID related loan charge-off totaling \$4.6 million, net charge-off to average loans was 0.70%. The Bank entered into a forbearance agreement related to the charge-off and recorded a \$540 thousand recovery in 2021.



NONPROFITS IN OUR COMMUNITY

BOYS & GIRLS CLUB OF FREDERICK COUNTY AND BOYS & GIRLS CLUB OF WASHINGTON COUNTY

Boys & Girls Clubs across America provide after-school options for families who work and may not have a safe place for their children to go when the school day ends, specializing in after-school and summer programming, academic support, and mentoring to youth. Timika Thrasher, CEO of Boys & Girls Club of Frederick County, states, “We provide that support for families that need us the most so they can go to work and know their child is safe and will be cared for.”

Boys & Girls Club of Frederick County began serving the local community in 2002. Today, the Club offers programming at two Frederick locations and one Brunswick location, serving elementary-aged students at their building on Madison Street and middle school-aged students at Burck Street and Brunswick Middle School. The organization is passionate about community support and collaboration, which pairs well with Middletown Valley Bank’s approach in the communities we serve. Thrasher adds, “Since arriving to the downtown Frederick area, Middletown Valley Bank has been a staple in the community. MVB has supported the Boys & Girls Club of Frederick County in several fundraising initiatives and has also volunteered at those events to specifically show community support and collaboration.”

Boys & Girls Club of Washington County started in Hagerstown in 1941 as a place for young men to box and play sports. Over the past five years, the organization has expanded beyond its traditional footprint of four sites, adding a small site in Cumberland and two additional school sites in Hagerstown. However, the Club’s most exciting project is the teardown and rebuild of its main clubhouse on Pennsylvania Avenue in Hagerstown. The 24,000-square foot building is expected to be completed in the first half of 2025 and will offer Club members and staff a state-of-the-art facility.

The Washington County community has stepped up in a big way to make the new clubhouse possible, and the Bank is proud to be one of the many supporters who helped turn this dream into reality. Addie Nardi, CEO of the Boys & Girls Club of Washington County, states, “Middletown Valley Bank has been an amazing supporter of the Club. From sponsoring events to investing in our building project, to even donating supplies to our members, we are so grateful for the support of this true community bank.”

CUSTOMER & ADVISORY BOARD MEMBER **WILLIAM “BERT” ANDERSON**

Bert Anderson was raised in Marble Falls, Texas, a small town west of Austin known for ranching and farming. Upon graduating from Southwest Texas State College in 1960, he was commissioned as an officer in the U.S. Navy. After eight years on active duty, including a three-year tour in Edzell, Scotland, he left the Navy as a Lieutenant Commander to start a wholesale business importing antique British furniture. The business, Antique Imports, opened in Ellicott City, Maryland in 1968.

Antique Imports outgrew its space in Ellicott City by 1973, at which point Bert relocated the business to East Street in Frederick to a building that had previously housed the Frederick Trading Company. A local community bank made the relocation possible, as well as the purchase of the Shab Row properties across the street. Throughout its 40 years of business, Antique Imports imported hundreds of Sealand containers filled with British antique furniture and drove countless visitors to downtown Frederick.

Despite the success of Antique Imports, Bert has not limited himself to the antiques business. In 1977, he began revitalizing the first two blocks on North East Street from an aging industrial and residential area to a thriving downtown office and retail district. He went on to acquire the Everedy Company property in 1984 and revitalized the property. The Monocacy Valley Cannery project followed in 2006. Today, this former 19th century iconic building is home to a variety of financial service businesses located at the principal gateway into

downtown Frederick. Each of these projects were made possible by the support of visionary community banks.

Throughout Bert's time in Frederick, he has remained heavily involved in the local community. He has served on the boards of three local community banks, was one of the founders and the second chairman of Blue Ridge Bank, and has served on several other boards, including Frederick Memorial Hospital, the Rotary Club of Frederick, and the Community Foundation of Frederick County. He was also one of the organizers of the Greater Frederick Development Corporation, now known as the Downtown Frederick Partnership. Additionally, Bert served on the Frederick City Carroll Creek Commission for over 20 years and the Frederick City Historic District Commission for over five years.

Bert holds community banks in high esteem, and MVB is fortunate to have him as a member of our Frederick Advisory Board. He states, “My experience across the board with MVB has been very satisfying. As a stockholder and customer, I find that Middletown Valley Bank exemplifies the qualities of leadership, vision, local knowledge, and customer support that best demonstrate why community banks are so important to the economic vitality of local communities. Small businesspeople like me have an easier time communicating our needs with bankers who have deep roots in the community they serve, and MVB has a keen understanding of the importance of relationship-based banking. I find it satisfying to know that local deposits are more likely to be recycled here in Frederick County, thereby benefiting local businesses and homeowners.”



“ MY EXPERIENCE ACROSS THE BOARD WITH MVB HAS BEEN VERY SATISFYING

Bert Anderson
Customer and Board Member

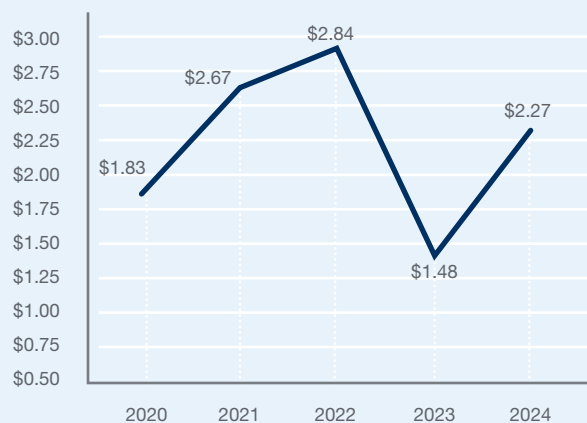


Book Value



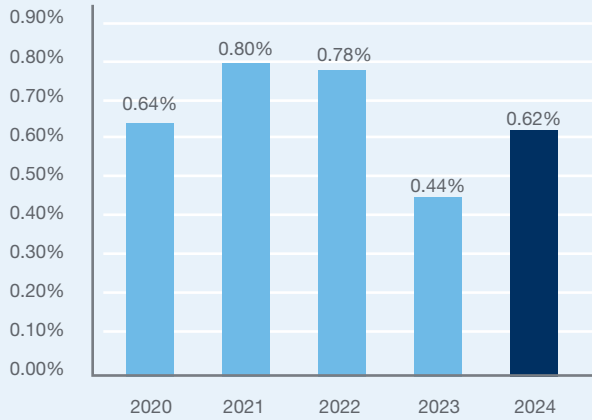
Book value per share increased \$2.61 or 10.7% per share and tangible book value increased \$2.60 or 10.9% per share in 2024. Tangible book value per share excludes goodwill of \$1.7 million related to the Mlend acquisition in 2019. The increase in common share value results from earnings, net of dividends, and a decrease in the accumulated other comprehensive loss of \$1.6 million.

Diluted Earnings per Share



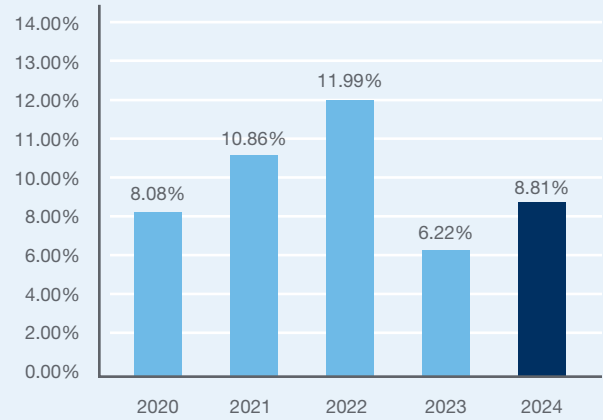
Net income per diluted share increased \$0.79, or 53.4%. The increase was driven by improved earnings.

Return on Average Assets



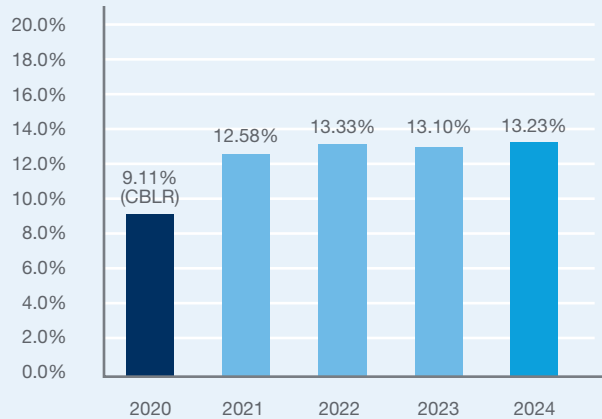
Return on Average Assets (ROA) improved in 2024 compared to 2023, as net income increased from \$4.3 million to \$6.6 million. Improvement in net income was largely driven by expansion of the net interest margin from 2.76% in 2023 to 2.92% in 2024. While still below the 2022 net interest margin of 3.21%, progress was made as the yield on earning assets increased at a faster pace than the cost of total deposits and borrowings.

Return on Average Equity



Like ROA, Return on Average Equity (ROE) improved in 2024 compared to 2023 with improvement in net income.

Total Risk-Based Capital (Bank Only)



During 2022, the Company added \$12.2 million in capital through an underwritten common stock offering of 649,526 shares, \$11.0 million of which was allocated to the Bank to support continued asset growth. As of September 2021, the Bank reverted back to Basel III from the Community Bank Leverage Ratio (CBLR), which was implemented for the year 2020. Under Basel III, the minimum requirement for total risk-based capital to be considered well capitalized is 8.0%. The Bank was well capitalized for all periods reflected above.



INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Shareholders
Community Heritage Financial, Inc.

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

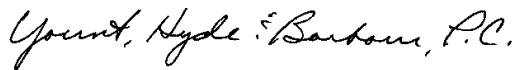
- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining,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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the shareholder letter and selected financial data but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.



Roanoke, Virginia
March 26, 2025

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
As of December 31, 2024 and 2023

	2024	2023
Assets		
Cash and due from banks	\$ 16,510,418	\$ 16,664,061
Securities available-for-sale, at fair value	40,481,911	40,927,086
Securities held-to-maturity (fair value of \$81,256,535 and \$88,006,352 at December 31, 2024 and 2023, respectively)	91,374,820	96,111,626
Less allowance for credit losses	102,896	103,949
Securities held-to-maturity, net	91,271,924	96,007,677
Restricted equity securities	1,404,700	1,363,600
Loans	847,593,970	812,932,872
Less allowance for credit losses	8,279,404	7,742,297
Loans, net	839,314,566	805,190,575
Loans held for sale	5,106,956	1,651,118
Premises and equipment, net	5,688,187	6,329,832
Right-of-use assets	1,911,836	2,380,555
Accrued interest receivable	3,152,505	2,972,952
Deferred tax assets	4,558,255	4,766,376
Bank-owned life insurance	7,411,319	7,172,917
Goodwill	1,656,507	1,656,507
Other assets	1,910,648	1,544,870
Total Assets	\$ 1,020,379,732	\$ 988,628,126
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Non-interest-bearing demand	\$ 251,431,084	\$ 260,204,859
Interest-bearing	656,575,635	618,801,940
Total Deposits	908,006,719	879,006,799
Subordinated debt, net of amortized issuance cost	12,040,695	14,932,727
Other borrowings	15,000,000	18,000,000
Lease liabilities	1,984,920	2,450,133
Accrued interest payable	485,160	458,540
Other liabilities	3,833,329	2,548,826
Total Liabilities	941,350,823	917,397,025
Shareholders' Equity		
Preferred stock, par value \$.01; shares authorized 1,000,000; no shares issued and outstanding	-	-
Common stock, par value \$.01; shares authorized 10,000,000; shares issued and outstanding at December 31, 2024 and 2023, 2,919,797 and 2,911,670, respectively	29,198	29,117
Additional paid in capital	41,331,966	41,096,972
Retained earnings	44,597,524	38,669,620
Accumulated other comprehensive loss	(6,929,779)	(8,564,608)
Total Shareholders' Equity	79,028,909	71,231,101
Total Liabilities and Shareholders' Equity	\$ 1,020,379,732	\$ 988,628,126

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME
For the Years Ended December 31, 2024 and 2023

	2024	2023
Interest Income		
Loans, including fees	\$ 46,776,805	\$ 39,596,735
Securities	3,129,403	3,103,282
Federal funds sold and other bank deposits	3,806,739	807,936
Total interest income	53,712,947	43,507,953
Interest Expense		
Deposits	19,542,461	15,510,740
Borrowed funds	2,557,988	925,582
Subordinated debt	924,082	952,197
Total interest expense	23,024,531	17,388,519
Net interest income	30,688,416	26,119,434
Provision for credit losses	606,718	(747,330)
Net interest income after provision for credit losses	30,081,698	26,866,764
Non-interest income		
Mortgage banking	1,505,158	1,160,542
Card and merchant services	1,151,964	1,100,214
Service charges on deposits	989,366	786,938
Earnings on bank-owned life insurance	350,752	197,694
Gain on sale of premises and equipment, net	-	16,849
Losses on sale of securities available-for-sale	(442,493)	-
Other non-interest income	35,320	807
Total non-interest income	3,590,067	3,263,044
Non-interest expense		
Salaries and employee benefits	14,194,102	14,133,013
Occupancy and equipment	3,541,539	3,598,439
Data and item processing	2,564,688	2,860,788
Legal and professional fees	1,176,792	928,984
FDIC premiums	807,442	639,080
Advertising	306,194	301,300
Other	2,254,691	1,986,239
Total non-interest expense	24,845,448	24,447,843
Income before taxes	8,826,317	5,681,965
Income tax expense	2,198,505	1,386,803
Net Income	\$ 6,627,812	\$ 4,295,162
Basic earnings per common share	\$2.27	\$1.48
Diluted earnings per common share	\$2.27	\$1.48

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net Income	\$ 6,627,812	\$ 4,295,162
Other comprehensive income:		
Unrealized holding gains on securities available-for-sale, net of tax of \$443,499 and \$47,697, respectively	1,168,049	125,620
Reclassification adjustment for losses on securities available-for-sale included in net income, net of tax of \$121,774	(320,719)	-
Amortization of unrealized holding losses from the transfer of available-for-sale securities to held-to-maturity, net of tax of \$299,007 and \$310,297, respectively	787,499	817,237
Other comprehensive income, net of tax	<u>1,634,829</u>	<u>942,857</u>
Comprehensive income	<u>\$ 8,262,641</u>	<u>\$ 5,238,019</u>

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
For the Years Ended December 31, 2024 and 2023

	Common Stock	Additional Paid in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	\$ 29,060	\$ 40,861,802	\$ 35,757,761	\$ (9,507,465)	\$ 67,141,158
Adoption of ASU 2016-13	-	-	(685,528)	-	(685,528)
Net Income	-	-	4,295,162	-	4,295,162
Other comprehensive income	-	-	-	942,857	942,857
Stock based compensation expense	-	277,785	-	-	277,785
Restricted stock vested and common shares issued (8,373 shares less 2,676 shares surrendered)	57	(42,615)	-	-	(42,558)
Cash dividends (\$0.24 per share)	-	-	(697,775)	-	(697,775)
Balance, December 31, 2023	\$ 29,117	\$ 41,096,972	\$ 38,669,620	\$ (8,564,608)	\$ 71,231,101
Net Income	-	-	6,627,812	-	6,627,812
Other comprehensive income	-	-	-	1,634,829	1,634,829
Stock based compensation expense	-	295,125	-	-	295,125
Restricted stock vested and common shares issued (11,488 shares less 3,361 shares surrendered)	81	(60,131)	-	-	(60,050)
Cash dividends (\$0.24 per share)	-	-	(699,908)	-	(699,908)
Balance, December 31, 2024	\$ <u>29,198</u>	\$ <u>41,331,966</u>	\$ <u>44,597,524</u>	\$ <u>(6,929,779)</u>	\$ <u>79,028,909</u>

See Notes to the Consolidated Financial Statements

COMMUNITY HERITAGE FINANCIAL, INC. and SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash Flows from Operating Activities		
Net Income	\$ 6,627,812	\$ 4,295,162
Adjustments to reconcile net income to cash provided by operating activities:		
Depreciation and amortization of premises and equipment	935,129	952,231
Amortization of premiums and discounts on investment securities, net	540,070	583,834
Amortization of debt issuance cost	69,207	89,697
Amortization of right-of-use assets	481,612	486,944
Provision for credit losses	606,718	(747,330)
Gain on sales of mortgage loans held for sale	(877,855)	(263,708)
Originations of mortgage loans held for sale	(84,859,954)	(79,010,981)
Proceeds from sales of mortgage loans held for sale	82,281,971	82,349,066
Earnings on bank-owned life insurance	(350,752)	(197,694)
Gain on sale of premises and equipment	-	(16,849)
Write-down of long-lived premises and equipment	-	100,798
Losses on sale of securities available-for-sale	442,493	-
Stock-based compensation expense	295,125	277,785
Deferred tax (benefit) expense	(412,608)	413,194
Increase in accrued interest receivable	(179,553)	(356,073)
(Increase) decrease in other assets	(378,674)	161,122
Increase in accrued interest payable	26,620	221,916
Increase (decrease) in other liabilities	782,035	(839,534)
Net cash provided by operating activities	6,029,396	8,499,580
Cash Flows from Investing Activities		
Purchases of securities	(9,450,325)	(4,030,950)
Proceeds from maturities, repayments and calls of securities	8,282,672	8,225,134
Proceeds from the sale of securities	7,622,632	-
Purchases of restricted equity securities, net	(41,100)	(957,200)
Net increase in loans	(34,694,507)	(64,490,331)
Purchases of premises and equipment	(310,284)	(334,380)
Proceeds from the sale of premises and equipment	16,800	21,900
Purchases of bank-owned life insurance	(158,163)	(158,165)
Proceeds received on bank-owned life insurance	270,513	-
Net cash used in investing activities	(28,461,762)	(61,723,992)
Cash Flows from Financing Activities		
Net decrease in non-interest-bearing demand deposits	(8,773,775)	(16,624,350)
Net increase in interest-bearing deposits	37,773,695	53,859,949
Net (decrease) increase of other borrowings	(3,000,000)	18,000,000
Redemption of subordinated debt	(15,000,000)	-
Proceeds from issuance of subordinated debt, net of issuance costs	12,038,761	-
Cash dividends paid	(699,908)	(697,775)
Net settlement of restricted stock units	(60,050)	(42,558)
Net cash provided by financing activities	22,278,723	54,495,266
Net (decrease) increase in cash and cash equivalents	(153,643)	1,270,854
Cash and cash equivalents, beginning balance	16,664,061	15,393,207
Cash and cash equivalents, ending balance	\$ 16,510,418	\$ 16,664,061
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest	\$ 22,928,704	\$ 17,076,906
Income taxes	\$ 1,926,295	\$ 1,570,341
Supplemental Disclosure of Noncash Investing and Financing Activities		
Unrealized gains on securities available-for-sale	\$ 1,169,055	\$ 173,317
Amortization of unrealized holding losses on securities transferred to held-to-maturity	\$ 1,086,506	\$ 1,127,534
Reduction in right-of-use assets from termination of lease liabilities	\$ -	\$ (437,437)
Lease liabilities arising from right-of-use assets	\$ -	\$ 460,780

See Notes to the Consolidated Financial Statements

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations:

Community Heritage Financial, Inc. (“CMHF” or the “Company” on a consolidated basis and collectively), is the parent company and sole shareholder of Middletown Valley Bank (the “Bank”). CMHF was established in November 2018 under the laws of the State of Maryland to serve as the holding company for the Bank. Establishment of the holding company occurred after an affirmative vote by shareholders and receipt of regulatory approval. Upon formation of the holding company, the Company’s reorganization was completed through a one-for-one share exchange in which the Bank’s shareholders received one share of CMHF’s common stock with a par value of \$0.01 in exchange for each share of their \$1 par value common stock of the Bank. CMHF is regulated under the Bank Holding Company Act of 1956, as amended, and is subject to regulation, supervision, and examination by the Federal Reserve Board.

Middletown Valley Bank began serving customers in 1908 and is headquartered in Middletown, Maryland. The Bank is a Maryland chartered bank subject to regulation, supervision, and examination by the Maryland Office of Commissioner of Financial Regulation and the Federal Deposit Insurance Corporation (“FDIC”). The Bank’s deposits are insured by the FDIC up to \$250,000 per depositor.

The Bank is an independent and community-oriented financial institution offering a full range of retail and commercial banking services to individuals and businesses in its market area. Its primary deposit products are demand, savings, and time deposits, and its primary lending products are real estate mortgages, commercial business loans and installment loans. Services are primarily provided to customers located in Frederick County and Washington County, Maryland, as well as the surrounding communities through the Bank’s network of eight branch locations as follows:

- Middletown, Maryland
- Jefferson, Maryland
- Myersville, Maryland
- Boonsboro, Maryland
- Frederick, Maryland
- Hagerstown, Maryland (2), and
- Waynesboro, Pennsylvania

Middletown Valley Bank is the parent company and sole shareholder of Millennium Financial Group, Inc. (“Mlend”). Mlend is a full-service residential mortgage company, headquartered in Middletown, Maryland with an additional lending office located in Oakland, Maryland. Mlend is licensed in Maryland, Pennsylvania, Virginia, West Virginia and the District of Columbia and offers a full range of residential mortgage products to homebuyers for home purchases, refinancing and construction. Programs include but are not limited to conventional, USDA, VA, FHA, and Maryland Mortgage Program loans.

Basis of Presentation:

The accounting and reporting policies of the Company conform to generally accepted accounting principles in the United States of America (“GAAP”) and to general practices of the banking and mortgage industries.

The consolidated financial statements include the accounts of the Company and all wholly owned subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation. In preparing consolidated financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to meaningful change in the near term relate to the determination of the allowance for credit losses and valuation of goodwill.

Reclassifications of certain previously reported amounts, if needed, have been made to conform to current period presentation. No such reclassifications were significant.

A summary of the more significant accounting policies followed in the preparation of the consolidated financial statements are disclosed in Note 1.

Adoption of New Accounting Standards:

ASU 2022-03: On January 1, 2024, the Company adopted Accounting Standards Update (ASU) No. 2022-03, "Fair Value Measurement (Topic 820): Fair Value Measurement of Equity Securities Subject to Contractual Sale Restrictions." ASU 2022-03 clarifies that a contractual restriction on the sale of an equity security is not considered part of the unit of account of the equity security and, therefore, is not considered in measuring fair value. Adoption of the ASU did not materially impact the Company's consolidated financial statements.

ASU 2023-01: On January 1, 2024, the Company adopted ASU 2023-01, "Leases (Topic 842): Common Control Arrangements." These amendments require entities to amortize leasehold improvements associated with common control leases over the useful life to the common control group. The Company adopted the ASU prospectively and adoption of the ASU did not materially impact the Company's consolidated financial statements.

ASU 2023-07: On January 1, 2024, the Company adopted 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. Adoption of the ASU did not materially impact the Company's consolidated financial statements.

ASU 2016-13: On January 1, 2023, the Company adopted Accounting Standards Update (ASU) No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" (Account Standards Codification (ASC) 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts. CECL generally applies to financial assets measured at amortized cost, including loan receivables, held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented as the amount expected to be collected by use of an allowance for credit losses.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses ("ACL") for loans of \$867,404, which is presented as a reduction to net loans outstanding, and a decrease in the ACL on unfunded commitments of \$76,150, which is recorded within other liabilities. The Company recorded an ACL for held-to-maturity securities of \$154,563, which is presented as a reduction to held-to-maturity securities outstanding. The Company recorded a net decrease to retained earnings of \$685,528 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded.

The Company adopted ASC 326 using the prospective transition approach for purchase credit deteriorated ("PCD") assets that were previously classified as purchase credit impaired ("PCI") under ASC 310-30. As of January 1, 2023 and December 31, 2023 and 2024, the Company had no loans classified as PCD.

The Company adopted ASC 326 using the prospective transition approach for debt securities for which other-than-temporary impairment had been recognized prior to January 1, 2023. As of December 31, 2022, the Company did not have any other-than-temporary impaired investment securities. Therefore, upon adoption of ASC 326, the Company determined that an allowance for credit losses on available-for-sale securities was not required.

The Company elected not to measure an ACL for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

The following table illustrates the impact of ASU 2016-13 upon adoption:

	December 31, 2022	January 1, 2023	January 1, 2023
	Pre-CECL Adoption	Impact of CECL Adoption	Post-CECL Adoption
Assets:			
Securities held-to-maturity	\$ 101,005,393	\$ -	\$ 101,005,393
Allowance for credit losses	-	154,563	154,563
Securities held-to-maturity, net	<u>\$ 101,005,393</u>	<u>\$ (154,563)</u>	<u>\$ 100,850,830</u>
Loans, gross	\$ 748,450,525	\$ -	\$ 748,450,525
Allowance for credit losses:			
Commercial real estate	3,272,369	(188,296)	3,084,073
Residential real estate	2,473,645	445,104	2,918,749
Commercial	1,550,572	587,588	2,138,160
Consumer	33,850	23,008	56,858
Allowance for credit losses	<u>7,330,436</u>	<u>867,404</u>	<u>8,197,840</u>
Loans, net	<u>\$ 741,120,089</u>	<u>\$ (867,404)</u>	<u>\$ 740,252,685</u>
Deferred tax assets, net	<u>\$ 5,277,275</u>	<u>\$ 260,289</u>	<u>\$ 5,537,564</u>
Liabilities and Shareholders' Equity:			
Reserve for off-balance sheet exposures	<u>\$ 776,520</u>	<u>\$ (76,150)</u>	<u>\$ 700,370</u>
Shareholders' equity	<u>\$ 67,141,158</u>	<u>\$ (685,528)</u>	<u>\$ 66,455,630</u>

Business Segments:

In addition to retail and commercial banking services offered to individuals and businesses, common to most community-oriented financial institutions, the Company operates a mortgage banking business segment. The mortgage banking segment engages primarily in the origination of residential mortgages for sale into the secondary market, unlike other deposit and loan activities conducted by the Company which are done for investment purposes. As of and for the years ended December 31, 2024 and 2023, the mortgage banking segment did not meet the prescribed quantitative thresholds for separate disclosure.

Presentation of Cash Flows:

For the purposes of reporting cash flows, the Company considers cash and cash equivalents as those amounts that are highly liquid instruments with an original maturity of three months or less. They are included in "Cash and due from banks" in the Consolidated Balance Sheets.

Securities:

Investments in debt securities are classified as either held-to-maturity ("HTM"), available-for-sale ("AFS"), or trading. Currently, the Company holds AFS and HTM securities. FHLB stock is classified as restricted and carried at cost. AFS securities are carried at fair value, with unrealized gains and losses that have not been recorded through an allowance for credit losses excluded from earnings and reported in "Accumulated other comprehensive loss" in the Consolidated Balance Sheets. HTM securities are carried at amortized cost, net of an ACL. Purchase premiums and discounts are recognized in interest income using the interest method over the term or first call date, if applicable, of the securities.

Allowance for Credit Losses - Held-to-Maturity Securities

The Company estimates expected credit losses on HTM securities on an individual basis based on a Probability of Default/Loss Given Default ("PD/LGD") methodology primarily using security-level credit ratings. The primary indicators of credit quality for the Company's HTM portfolio are security type and credit ratings, which are influenced by several factors including obligor cash flow, geography, seniority, among other factors. The Company's HTM securities with credit risk are municipal bonds and corporate debt securities. All other HTM securities are covered by the explicit or implied guarantee of the United States government or one of its agencies.

Changes in the ACL are recorded in "Provision for credit losses" in the Consolidated Statements of Income. As of December 31, 2024 and 2023, the ACL for HTM securities was \$102,896 and \$103,949, respectively.

Accrued interest receivable on HTM securities totaled \$387,457 and \$394,561 as of December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

Allowance for Credit Losses – Available-for-Sale Securities

Management evaluates AFS securities in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings.

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

Changes in the ACL are recorded in “Provision for credit losses” in the Consolidated Statements of Income. Losses are charged against the ACL when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. As of December 31, 2024, there was no ACL related to the AFS securities portfolio.

Accrued interest receivable on AFS securities totaled \$288,408 and \$267,718 as of December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

For restricted equity securities, impairment is based on the ultimate recovery of par value. The impairment of a restricted equity security results in a write-down included in the Consolidated Statements of Income. No impairment was recorded in 2024 or 2023.

Gains or losses on the disposition of AFS securities or restricted equity securities are based on the net proceeds and the adjusted carrying amount of the securities, using the specific identification method.

Loans:

Loans are reported at their recorded investment, which is the principal amount outstanding, as adjusted for net deferred fees or cost of loan originations. The balance of the ACL for loans is netted against the recorded investment in loans on the balance sheet. Interest income is accrued on the unpaid principal balance. Loan origination fees and certain direct origination costs are deferred and recognized as an adjustment of the yield on the related loans using the interest method. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on all classes of loans is discontinued either when reasonable doubt exists as to the full, timely collection of interest or principal in accordance with the loan’s contractual terms, or when a loan becomes contractually past due by ninety days or more with respect to principal or interest. All interest accrued but not collected for loans placed on nonaccrual or charged off is reversed against interest income. Income on such loans is then recognized only to the extent that cash is received and where the future collection of loan principal is probable. Accruals are resumed on loans only when they are brought fully current with respect to interest and principal and when, in the judgment of management, the loan is estimated to be fully collectible as to both principal and interest. Loans are considered past due when the borrower is not current with their payments in accordance with the contractual terms of their loan agreement.

Management segments the loan portfolio based on risk characteristics into the following loan classes: commercial real estate, residential real estate, commercial, and consumer loans. Characteristics associated with each loan class are detailed below:

- Loans secured by commercial real estate, including residential construction and land development, carry risks associated with the success of the business and the ability to generate a positive cash flow sufficient to service debts. Real estate security diminishes risks only to the extent that a market exists for the subject collateral.
- Residential real estate loans, including home equity loans and excluding construction of primary or secondary residences, carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- Commercial loans not secured by real estate carry risks associated with the successful operation of a business, and the repayments of these loans depend on the profitability and cash flows of the business. Additional risk relates to the value of collateral, if any, where depreciation occurs, and the valuation is less precise.
- Consumer loans carry risks associated with the continued creditworthiness of the borrower and the value of the collateral, such as automobiles, which may depreciate more rapidly than other assets. In addition, these loans may be unsecured. Consumer loans are more likely than real estate loans to be immediately affected in an adverse manner by job loss, divorce, illness, or personal bankruptcy.

Loans Held for Sale:

The Company engages in the sale of residential mortgages, with originations initiated through the Bank and Mlend. Loans originated and intended for sale in the secondary market (“Loans held for sale”) are carried at the lower of cost or market on an individual basis. Gains and losses on loans sold (sales proceeds minus carrying value) are recorded in “Mortgage banking” income in the Consolidated Statements of Income. Direct loan origination costs and fees are deferred at origination of the loan and are recognized as mortgage banking income upon the sale of the loan. The servicing of loans held for sale is not retained once the sale is complete.

Loan Modifications:

Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal forgiveness, payment forbearance and other actions intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

Loan Modifications exclude modifications with insignificant payment delays. The following factors are used when determining if a modification has an insignificant payment delay: (i) the amount of the restructured payments subject to the delay is insignificant relative to the unpaid principal or collateral value of the debt and will result in an insignificant shortfall in the contractual amount due, and (ii) the delay in timing of the restructured payment period is insignificant relative to the frequency of payments due under the debt, the debt’s original contractual maturity or the debt’s original expected duration.

The ACL incorporates an estimate of lifetime expected credit losses and is recorded upon asset origination or acquisition. The starting point for the calculation of the ACL is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulties. Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the ACL, a change to the ACL is not recorded upon loan modification. When principal forgiveness is provided, the amount is deemed uncollectible and the amortized cost basis of the asset is reduced, resulting in a corresponding adjustment to the ACL.

During 2020 and prior to the adoption of ASU 2016-13 and ASU 2022-02, the Bank approved payment deferrals for customers experiencing hardships related to COVID-19. These deferrals were for no more than six months in duration and for loans that were not more than 30 days past due as of December 31, 2019. However, payment deferrals for three loans included in the COVID-19 deferral program were deferred until maturity. These loans were not considered troubled debt restructurings based on the relief provisions of the Coronavirus Aid, Relief and Economic Security (“CARES”) Act and later interagency regulatory guidance, nor are these loans included as loan modifications as of December 31, 2024 or 2023. As of December 31, 2024 and 2023, the principal balance of the three loans totaled \$1,751,852 and \$2,353,859, respectively.

Allowance for Credit Losses for Loans:

The ACL for loans represents an amount which, in management’s judgment, is adequate to absorb the lifetime expected losses that may be sustained on outstanding loans at the balance sheet date based on the evaluation of the size and current risk characteristics of the loan portfolio, past events, current economic conditions, reasonable and supportable forecasts of future economic conditions, and payment experience. The ACL for loans is measured and recorded upon the initial recognition of a financial asset. The ACL for loans is reduced by charge-offs, net of recoveries of previous losses, and is increased or decreased by a provision for (recovery of) credit losses, which is recorded in the Consolidated Statements of Income. The ACL for loans is determined for two distinct categories of loans: (i) loans evaluated collectively, and (ii) loans evaluated individually for credit losses.

Loans Evaluated Collectively: The Company is utilizing a discounted cash flow model to estimate its current expected credit losses. For the purposes of calculating its quantitative reserves, the Company has segmented its loan portfolio based on loans which share similar risk characteristics. Within the quantitative portion of the calculation, the Company utilizes at least one or a combination of loss drivers, which may include unemployment rates, home price indices, and/or gross domestic product (“GDP”), to adjust its loss rates over a reasonable and supportable forecast period of two quarters. A straight-line reversion technique is used for the following four quarters, at which time the Company reverts to historical averages. To further adjust the ACL for expected losses not already included within the quantitative component of the calculation, the Company may consider qualitative factors, including but not limited to: variability in the economic forecast, changes in volume and severity of adversely classified loans, changes in concentrations of credit, changes in the nature and volume of the loan segments, factors related to credit administration, and other idiosyncratic risks not embedded in the data used in the model.

Loans Evaluated Individually: Loans that do not share risk characteristics with loans evaluated collectively are evaluated on an individual basis. The Company designates all loans on nonaccrual status and loans risk rated Substandard or worse to be evaluated individually. The ACL for loans that are evaluated individually may be determined based on their expected cash flows. In the case of loans for which repayment is expected substantially through the sale of collateral, the Company has adopted the practical expedient to measure the ACL based on the fair value of collateral. The ACL is calculated based on the shortfall between the fair value of the loan’s collateral, adjusted for liquidation costs/discounts, and the loan’s amortized cost. If the loan’s amortized cost exceeds the fair value of the collateral, an ACL is required.

Reserves for Off-balance Sheet Credit Exposures

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

The Company adjusts the reserve for off-balance sheet credit exposures (“Reserve for OBS”), excluding commitments to extend credit that are unconditionally cancelable, through a provision for (recovery of) credit losses, which is recorded in the Consolidated Statements of Income. The Reserve for OBS is estimated by loan segment at each balance sheet date under the current expected credit losses model using the same methodology as the loan portfolio, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The Reserve for OBS is included in “Other liabilities” in the Consolidated Balance Sheets and totaled \$488,468 as of December 31, 2024 and \$451,213 as of December 31, 2023.

Accrued Interest Receivable

The Company elected to exclude the accrued interest from the amortized cost basis in its determination of the ACL for loans and to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable for loans totaled \$2,476,640 as of December 31, 2024 and \$2,262,236 as of December 31, 2023, and is included in “Accrued interest receivable” in the Consolidated Balance Sheets.

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: (i) the assets have been isolated from the Bank – put presumptively beyond reach of the transferor and its creditors, even in bankruptcy or other receivership, (ii) 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 (iii) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Other Real Estate Owned:

Properties acquired by foreclosure, or deed in lieu of foreclosure are initially recorded at fair value less cost to sell and subsequently at the lower of the initially recorded amount and capitalized costs or estimated fair value less cost to sell. Costs of carrying the real estate are charged to expense. As of December 31, 2024, and 2023, the Bank had no other real estate owned. As of December 31, 2024, and 2023, the Bank had no consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process.

Premises and Equipment:

Land is carried at cost. Premises and equipment, including construction of major capital additions, are stated at cost less accumulated depreciation. Depreciation is calculated on a straight-line basis. The estimated useful lives for computing depreciation on premises and equipment range from 3 to 50 years in each of these categories. Maintenance and repairs are charged to operating expenses as incurred.

Bank-Owned Life Insurance:

The Bank owns life insurance policies on certain key executives and other officers. 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. Any increase in the cash surrender value is recorded in "Earnings on bank-owned life insurance" in the Consolidated Statements of Income. In the event of the death of an individual covered by these policies, the death benefit received in excess of the cash surrender value would also be recorded as earnings on bank-owned life insurance. A death benefit of \$138,122 was recorded in 2024. No death benefit was recorded in 2023.

Equity-Based Compensation:

Compensation cost is recognized for equity awards issued to employees, based on the fair value of these awards at the date of grant using an observable market price. The Company classifies stock awards as equity. Compensation cost is recognized over the required service period on a straight-line basis. The Company's accounting policy is to recognize forfeitures as they occur.

Earnings Per Common Share:

Basic earnings per common share ("EPS") represent income available to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated by assuming dilution of common shares and adjusting net income for compensation cost attributable to the equity-based compensation plan. Basic average shares outstanding for the years ending December 31, 2024 and 2023 were 2,916,191 and 2,907,304, respectively. Diluted average shares outstanding were 2,924,791 and 2,907,304 for the years ended December 31, 2024 and 2023, respectively. Basic earnings per common share were \$2.27 and \$1.48 for the years ended December 31, 2024 and 2023, respectively. Diluted earnings per common share were \$2.27 and \$1.48 for the years ended December 31, 2024 and December 31, 2023, respectively.

Income Taxes:

Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences, operating loss carryforwards, and tax credit carryforwards. Deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are differences between the reported amounts of assets and liabilities and their tax basis. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

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 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 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits, if any, in the accompanying balance sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recorded in "Income tax expense" in the Consolidated Statements of Income. As of December 31, 2024, and 2023, there was no liability recorded for unrecognized tax benefits.

Advertising Costs:

The Company accounts for its advertising costs as a charge to operations as the costs are incurred. Advertising costs were \$306,194 and \$301,300 for the years ended December 31, 2024 and 2023, respectively.

Comprehensive Income (Loss):

While accounting principles require that recognized revenue, expenses, gains, and losses be included in net income, certain changes in assets and liabilities, such as unrealized gains and losses on the AFS security portfolio, are reported as a separate component of Shareholders' Equity in the Consolidated Balance Sheets. Such items, along with net income, are components of other comprehensive income (loss). All the Company's other comprehensive income (loss) relates to unrealized gains and losses on the AFS securities portfolio for the years ended December 31, 2024 and December 31, 2023.

Restrictions on Retained Earnings:

Certain banking regulations may limit the Bank's ability to pay dividends to the Company from retained earnings.

Goodwill and Other Intangible Assets:

Goodwill arises from business combinations and is determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but evaluated for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performs an annual goodwill impairment assessment, which is conducted in the fourth quarter. As of December 31, 2024, and 2023 there were no impairment charges to goodwill based on the annual assessment. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimated residual values. There were no intangible assets as of December 31, 2024 and 2023, nor any intangible amortization expense in 2024 and 2023.

Recent Accounting Pronouncements:

In November 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-03, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses." ASU 2024-03 requires public companies to disclose, in the notes to the financial statements, specific information about certain costs and expenses at each interim and annual reporting period. This includes disclosing amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, "Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date", which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of ASU 2024-03 is permitted. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Company does not expect the adoption of ASU 2024-03 to have a material impact on its consolidated financial statements.

In March 2024, the Financial Accounting Standards Board (FASB) issued ASU 2024-01, "Compensation – Stock Compensation (Topic 718): Scope Application of Profits Interest and Similar Awards". This ASU provides an illustrative example intended to demonstrate how entities that account for profits interest and similar awards would determine whether a profits interest award should be accounted for in accordance with Topic 718. This ASU is effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. Early adoption is permitted. If an entity adopts the amendments in an interim period, it must adopt them as of the beginning of the annual period that includes that interim period. Transition can be done either retrospectively or prospectively. The Company does not expect the adoption of ASU 2024-01 to have a material impact on its consolidated financial statements.

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 Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

Note 2. Investment Securities

In December 2024, the Company sold AFS securities with a book value of \$8,065,125, recognizing gross losses totaling \$442,493. The Company recognized no gross gains or gross losses on sales of securities in 2023.

The following tables present the amortized cost and the estimated fair value of debt securities (with gross unrealized gains and losses), and the related ACL as of December 31, 2024 and 2023:

As of December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Available-for-Sale:					
U.S. Government Agency	\$ 3,979,720	\$ 60	\$ (364,840)	\$ 3,614,940	\$ -
Mortgage-Backed	19,683,866	2,680	(1,038,712)	18,647,834	-
Municipal	6,442,423	4	(371,553)	6,070,874	-
Corporate	12,919,561	35,709	(807,007)	12,148,263	-
Total AFS	43,025,570	38,453	(2,582,112)	40,481,911	-
Securities Held-to-Maturity:					
U.S. Government Agency	1,952,869	-	(123,789)	1,829,080	-
Mortgage-Backed	53,917,355	2,310	(6,785,520)	47,134,145	-
Municipal	28,623,004	-	(2,885,932)	25,737,072	(1,745)
Corporate	6,881,592	-	(325,354)	6,556,238	(101,151)
Total HTM	91,374,820	2,310	(10,120,595)	81,256,535	(102,896)
Total Securities:					
U.S. Government Agency	5,932,589	60	(488,629)	5,444,020	-
Mortgage-Backed	73,601,221	4,990	(7,824,232)	65,781,979	-
Municipal	35,065,427	4	(3,257,485)	31,807,946	(1,745)
Corporate	19,801,153	35,709	(1,132,361)	18,704,501	(101,151)
Total	\$ 134,400,390	\$ 40,763	\$ (12,702,707)	\$ 121,738,446	\$ (102,896)

As of December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value	Allowance for Credit Losses
Securities Available-for-Sale:					
U.S. Government Agency	\$ 3,497,829	\$ -	\$ (466,684)	\$ 3,031,145	\$ -
Mortgage-Backed	16,507,803	7,420	(1,109,204)	15,406,019	-
Municipal	7,277,495	3,593	(403,477)	6,877,611	-
Corporate	17,356,673	30,494	(1,774,856)	15,612,311	-
Total AFS	44,639,800	41,507	(3,754,221)	40,927,086	-
Securities Held-to-Maturity:					
U.S. Government Agency	1,924,760	-	(132,110)	1,792,650	-
Mortgage-Backed	58,748,163	1,139	(5,514,879)	53,234,423	-
Municipal	28,630,015	-	(2,090,302)	26,539,713	(2,371)
Corporate	6,808,688	-	(369,122)	6,439,566	(101,578)
Total HTM	96,111,626	1,139	(8,106,413)	88,006,352	(103,949)
Total Securities:					
U.S. Government Agency	5,422,589	-	(598,794)	4,823,795	-
Mortgage-Backed	75,255,966	8,559	(6,624,083)	68,640,442	-
Municipal	35,907,510	3,593	(2,493,779)	33,417,324	(2,371)
Corporate	24,165,361	30,494	(2,143,978)	22,051,877	(101,578)
Total	\$ 140,751,426	\$ 42,646	\$ (11,860,634)	\$ 128,933,438	\$ (103,949)

Securities with an estimated fair value of \$78,518,141 and \$69,250,813 as of December 31, 2024 and 2023 respectively, were pledged to secure public funds and for other purposes as required or permitted by law.

The amortized cost and estimated fair value of debt securities as of December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities as borrowers may have the right to call or prepay obligations with or without call or prepayment penalties:

	Securities Available-for-Sale		Securities Held-to-Maturity		Total Securities	
	Amortized Cost	Estimated Fair	Amortized Cost	Estimated Fair	Amortized Cost	Estimated Fair
		Value		Value		Value
As of December 31, 2024						
Due one year or less	\$ 1,400,805	\$ 1,397,047	\$ -	\$ -	\$ 1,400,805	\$ 1,397,047
Due after one year through five years	2,345,259	2,313,354	8,854,439	8,560,965	11,199,698	10,874,319
Due after five years through ten years	20,855,712	19,293,872	11,878,975	10,858,316	32,734,687	30,152,188
Due after ten years	18,423,794	17,477,638	70,641,406	61,837,254	89,065,200	79,314,892
	<u>\$ 43,025,570</u>	<u>\$ 40,481,911</u>	<u>\$ 91,374,820</u>	<u>\$ 81,256,535</u>	<u>\$ 134,400,390</u>	<u>\$ 121,738,446</u>

The following tables present debt securities with gross unrealized losses and estimated fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2024 and 2023:

	No. of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Estimated Fair	Gross	Estimated Fair	Gross	Estimated Fair	Gross
		Value	Unrealized	Value	Unrealized	Value	Unrealized
As of December 31, 2024							
Securities Available-for-Sale:							
U.S. Government Agency	2	\$ 992,370	\$ (1,133)	\$ 2,122,509	\$ (363,707)	\$ 3,114,879	\$ (364,840)
Mortgage-Backed	19	6,996,766	(103,280)	8,771,506	(935,432)	15,768,272	(1,038,712)
Municipal	10	1,789,216	(82,195)	3,741,435	(289,358)	5,530,651	(371,553)
Corporate	17	-	-	10,196,153	(807,007)	10,196,153	(807,007)
Total AFS	48	9,778,352	(186,608)	24,831,603	(2,395,504)	34,609,955	(2,582,112)
Securities Held-to-Maturity:							
U.S. Government Agency	2	-	-	1,829,080	(123,789)	1,829,080	(123,789)
Mortgage-Backed	54	-	-	46,953,212	(6,785,520)	46,953,212	(6,785,520)
Municipal	41	-	-	25,737,072	(2,885,932)	25,737,072	(2,885,932)
Corporate	9	-	-	6,556,238	(325,354)	6,556,238	(325,354)
Total HTM	106	-	-	81,075,602	(10,120,595)	81,075,602	(10,120,595)
Total Securities:							
U.S. Government Agency	4	992,370	(1,133)	3,951,589	(487,496)	4,943,959	(488,629)
Mortgage-Backed	73	6,996,766	(103,280)	55,724,718	(7,720,952)	62,721,484	(7,824,232)
Municipal	51	1,789,216	(82,195)	29,478,507	(3,175,290)	31,267,723	(3,257,485)
Corporate	26	-	-	16,752,391	(1,132,361)	16,752,391	(1,132,361)
Total	154	\$ 9,778,352	\$ (186,608)	\$ 105,907,205	\$ (12,516,099)	\$ 115,685,557	\$ (12,702,707)

	No. of Securities	Less than Twelve Months		Twelve Months or Greater		Total	
		Estimated Fair	Gross	Estimated Fair	Gross	Estimated Fair	Gross
		Value	Unrealized	Value	Unrealized	Value	Unrealized
As of December 31, 2023							
Securities Available-for-Sale:							
U.S. Government Agency	2	\$ -	\$ -	\$ 3,031,145	\$ (466,684)	\$ 3,031,145	\$ (466,684)
Mortgage-Backed	13	1,789,250	(8,748)	11,801,020	(1,100,456)	13,590,270	(1,109,204)
Municipal	12	-	-	6,363,059	(403,477)	6,363,059	(403,477)
Corporate	22	224,938	(32,599)	14,221,864	(1,742,257)	14,446,802	(1,774,856)
Total AFS	49	2,014,188	(41,347)	35,417,088	(3,712,874)	37,431,276	(3,754,221)
Securities Held-to-Maturity:							
U.S. Government Agency	2	-	-	1,792,650	(132,110)	1,792,650	(132,110)
Mortgage-Backed	59	-	-	53,116,342	(5,514,879)	53,116,342	(5,514,879)
Municipal	41	1,807,158	(46,742)	24,732,555	(2,043,560)	26,539,713	(2,090,302)
Corporate	9	-	-	6,439,566	(369,122)	6,439,566	(369,122)
Total HTM	111	1,807,158	(46,742)	86,081,113	(8,059,671)	87,888,271	(8,106,413)
Total Securities:							
U.S. Government Agency	4	-	-	4,823,795	(598,794)	4,823,795	(598,794)
Mortgage-Backed	72	1,789,250	(8,748)	64,917,362	(6,615,335)	66,706,612	(6,624,083)
Municipal	53	1,807,158	(46,742)	31,095,614	(2,447,037)	32,902,772	(2,493,779)
Corporate	31	224,938	(32,599)	20,661,430	(2,111,379)	20,886,368	(2,143,978)
Total	160	\$ 3,821,346	\$ (88,089)	\$ 121,498,201	\$ (11,772,545)	\$ 125,319,547	\$ (11,860,634)

Management evaluates securities for impairment at least quarterly, and more frequently when economic or market concerns warrant such evaluation. As of December 31, 2024 the Bank had 140 securities with fair values totaling \$105,907,205 that had been in an unrealized loss position for twelve consecutive months or longer. The unrealized losses on securities were reflective of interest rate fluctuations and were not a reflection of credit deterioration. Because the Bank does not intend to sell these investments and it is more likely than not that the Bank will not be required to sell these investments before recovery of the amortized cost basis, which may be at maturity, the Bank does not consider these investments to be impaired due to credit deterioration as of December 31, 2024 and no ACL has been recorded.

Credit Quality Indicators and Allowance for Credit Losses – Held-to-Maturity Securities

The Company monitors the credit quality of HTM securities using credit ratings provided by Moody's and S&P. The Company monitors the credit ratings quarterly. The amortized cost of HTM securities as of December 31, 2024 and 2023, aggregated by credit quality indicators, is as follows:

As of December 31, 2024	U.S.				Total
	Government Agency	Mortgage-Backed	Municipal	Corporate	
Aaa / AAA	\$ -	\$ -	\$ 5,381,047	\$ -	\$ 5,381,047
Aa / AA	1,952,869	-	23,241,957	1,958,422	27,153,248
A	-	-	-	2,117,654	2,117,654
Baa / BBB	-	-	-	1,917,939	1,917,939
Not rated	-	-	-	887,577	887,577
U.S. Agencies/Sponsored Agencies	-	53,917,355	-	-	53,917,355
Total	\$ 1,952,869	\$ 53,917,355	\$ 28,623,004	\$ 6,881,592	\$ 91,374,820

As of December 31, 2023	U.S.				Total
	Government Agency	Mortgage-Backed	Municipal	Corporate	
Aaa / AAA	\$ -	\$ -	\$ 6,720,107	\$ -	\$ 6,720,107
Aa / AA	1,924,760	-	21,909,908	1,943,310	25,777,978
A	-	-	-	3,013,892	3,013,892
Baa / BBB	-	-	-	1,851,486	1,851,486
Not rated	-	-	-	-	-
U.S. Agencies/Sponsored Agencies	-	58,748,163	-	-	58,748,163
Total	\$ 1,924,760	\$ 58,748,163	\$ 28,630,015	\$ 6,808,688	\$ 96,111,626

The following table summarizes the change in the allowance for credit losses for HTM securities for the years ended December 31, 2024 and 2023:

As of and for the year ended December 31, 2024	U.S.				Total
	Government Agency	Mortgage-Backed	Municipal	Corporate	
Beginning balance	\$ -	\$ -	\$ 2,371	\$ 101,578	\$ 103,949
Provision for credit losses	-	-	(626)	(427)	(1,053)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Ending balance	\$ -	\$ -	\$ 1,745	\$ 101,151	\$ 102,896

As of and for the year ended December 31, 2023	U.S.				Total
	Government Agency	Mortgage-Backed	Municipal	Corporate	
Beginning balance	\$ -	\$ -	\$ -	\$ -	\$ -
Impact of CECL adoption	-	-	841	153,722	154,563
Provision for credit losses	-	-	1,530	(52,144)	(50,614)
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Ending balance	\$ -	\$ -	\$ 2,371	\$ 101,578	\$ 103,949

As of December 31, 2024, there were no HTM securities past due 30-days or more as to principal or interest payments nor were any HTM securities classified as nonaccrual.

The following tables summarize the ACL for loans by individually evaluated and collectively evaluated loans and by loan class as of December 31, 2024 and 2023:

As of December 31, 2024	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	\$ -	\$ -	\$ 49,715	\$ -	\$ 49,715
Collectively evaluated	3,066,573	3,714,028	1,395,875	53,213	8,229,689
Total	<u>\$ 3,066,573</u>	<u>\$ 3,714,028</u>	<u>\$ 1,445,590</u>	<u>\$ 53,213</u>	<u>\$ 8,279,404</u>

As of December 31, 2023	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	\$ -	\$ -	\$ 73,748	\$ 20,000	\$ 93,748
Collectively evaluated	3,014,164	3,151,172	1,445,430	37,783	7,648,549
Total	<u>\$ 3,014,164</u>	<u>\$ 3,151,172</u>	<u>\$ 1,519,178</u>	<u>\$ 57,783</u>	<u>\$ 7,742,297</u>

The following tables summarize the loan portfolio by individually evaluated and collectively evaluated loans and by loan class as of December 31, 2024 and 2023:

As of December 31, 2024	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	\$ -	\$ 1,163,197	\$ 49,715	\$ -	\$ 1,212,912
Collectively evaluated	412,693,703	295,033,143	134,115,238	1,036,859	842,878,943
Total	<u>\$ 412,693,703</u>	<u>\$ 296,196,340</u>	<u>\$ 134,164,953</u>	<u>\$ 1,036,859</u>	<u>\$ 844,091,855</u>

As of December 31, 2023	Commercial Real Estate	Residential Real Estate	Commercial	Consumer	Total
Individually evaluated	\$ 303,992	\$ 1,256,644	\$ 73,748	\$ 20,000	\$ 1,654,384
Collectively evaluated	398,436,802	279,267,193	128,859,665	1,183,039	807,746,699
Total	<u>\$ 398,740,794</u>	<u>\$ 280,523,837</u>	<u>\$ 128,933,413</u>	<u>\$ 1,203,039</u>	<u>\$ 809,401,083</u>

Individually evaluated loans include collateral dependent loans. A loan is considered collateral dependent when, based on management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral. The fair value of the collateral supporting a collateral dependent loan is evaluated based on a current appraisal. The underlying collateral may vary based on loan type.

The following tables present individually evaluated collateral dependent loans by loan class and collateral type as of December 31, 2024 and 2023:

As of December 31, 2024	Real Estate Secured	Non-Real Estate Secured	Total Collateral Dependent Loans	ACL Recorded on Collateral Dependent Loans
Commercial real estate:				
Construction and land development	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-
Other	-	-	-	-
Residential real estate	1,163,197	-	1,163,197	-
Commercial	-	49,715	49,715	49,715
Consumer	-	-	-	-
Total	<u>\$ 1,163,197</u>	<u>\$ 49,715</u>	<u>\$ 1,212,912</u>	<u>\$ 49,715</u>

As of December 31, 2023	Real Estate Secured	Non-Real Estate Secured	Total Collateral Dependent Loans	ACL Recorded on Collateral Dependent Loans
Commercial Real Estate:				
Construction and land development	\$ -	\$ -	\$ -	\$ -
Multifamily	-	-	-	-
Other	303,992	-	303,992	-
Residential Real Estate	1,256,644	-	1,256,644	-
Commercial	-	73,748	73,748	73,748
Consumer	-	-	-	-
Total	<u>\$ 1,560,636</u>	<u>\$ 73,748</u>	<u>\$ 1,634,384</u>	<u>\$ 73,748</u>

Credit Quality

Management evaluates the credit quality of all loans based on an internal grading system that estimates the capability of the borrower to repay the contractual terms of their loan agreement as scheduled or at all. The Bank's internal risk grading is based on experiences with similarly graded loans. The migration of loans through the various internal risk categories is a significant component of the ACL methodology under the CECL and incurred loss models. Assigning risk ratings involves judgement. Risk ratings may change based on latest information obtained and the ongoing monitoring procedures performed by loan officers, credit staff or third-party loan review consultants engaged by the Bank. The Bank uses the following definitions for risk ratings:

- Pass – these loans do not currently pose undue credit risk and can range from highest quality to average quality.
- Special Mention – these loans have a heightened credit risk, but not to the point of justifying a classification of Substandard. Loans in this category are currently acceptable but are nevertheless potentially weak.
- Substandard or Worse – these loans are inadequately protected by the paying capacity and current financial strength of the borrower. There exists a well-defined weakness or weaknesses that jeopardize the repayment of the debt.

The following tables present designated internal risk categories and gross charge-offs by loan class and by origination year, as of December 31, 2024 and 2023:

	December 31, 2024						Revolving Loans	Revolving Loans Converted to Term Loans	Total
	Term Loans - by Origination Year					Prior			
	2024	2023	2022	2021	2020				
Commercial real estate:									
Construction and land development:									
Pass	\$ 18,955,627	\$ 9,520,081	\$ 7,664,815	\$ 6,732,634	\$ 1,175,611	\$ 4,473,971	\$ 5,524,726	\$ -	\$ 54,047,465
Special Mention	1,312,957	4,184,263	216,521	-	-	-	-	-	5,713,741
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	20,268,584	13,704,344	7,881,336	6,732,634	1,175,611	4,473,971	5,524,726	-	59,761,206
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Multifamily:									
Pass	472,069	3,170,598	14,088,530	466,293	3,657,003	3,331,005	-	-	25,185,498
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	472,069	3,170,598	14,088,530	466,293	3,657,003	3,331,005	-	-	25,185,498
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Other:									
Pass	31,254,904	29,997,221	64,204,274	54,967,355	37,528,969	97,654,210	3,985,303	-	319,592,236
Special Mention	6,243,025	-	-	-	1,261,738	-	650,000	-	8,154,763
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	37,497,929	29,997,221	64,204,274	54,967,355	38,790,707	97,654,210	4,635,303	-	327,746,999
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Residential real estate:									
Pass	23,368,879	49,559,762	92,578,030	48,218,218	16,288,109	30,550,089	32,723,639	833,173	294,119,899
Special Mention	-	-	115,212	-	-	1,835,996	125,233	-	2,076,441
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	23,368,879	49,559,762	92,693,242	48,218,218	16,288,109	32,386,085	32,848,872	833,173	296,196,340
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Commercial:									
Pass	27,261,950	14,275,962	13,239,653	10,451,929	11,964,834	15,005,425	36,219,951	-	128,419,704
Special Mention	-	-	1,673,141	258,193	-	-	3,762,318	-	5,693,652
Substandard or Worse	-	-	-	26,902	1,882	-	22,813	-	51,597
Total	27,261,950	14,275,962	14,912,794	10,737,024	11,966,716	15,005,425	40,005,082	-	134,164,953
Current period gross charge-offs	-	-	-	-	(2,120)	(26,704)	-	-	(28,824)
Consumer:									
Pass	342,931	295,689	23,674	19,906	274	8,542	345,843	-	1,036,859
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	342,931	295,689	23,674	19,906	274	8,542	345,843	-	1,036,859
Current period gross charge-offs	-	-	(10,000)	-	-	(8,270)	-	-	(18,270)
Total:									
Pass	\$ 101,656,360	\$ 106,819,313	\$ 191,798,976	\$ 120,856,335	\$ 70,614,800	\$ 151,023,242	\$ 78,799,462	\$ 833,173	\$ 822,401,661
Special Mention	7,555,982	4,184,263	2,004,874	258,193	1,261,738	1,835,996	4,537,551	-	21,638,597
Substandard or Worse	-	-	-	26,902	1,882	-	22,813	-	51,597
Total	\$ 109,212,342	\$ 111,003,576	\$ 193,803,850	\$ 121,141,430	\$ 71,878,420	\$ 152,859,238	\$ 83,359,826	\$ 833,173	\$ 844,091,855
Current period gross charge-offs	\$ -	\$ -	\$ (10,000)	\$ -	\$ (2,120)	\$ (34,974)	\$ -	\$ -	\$ (47,094)

December 31, 2023

	Term Loans - by Origination Year						Revolving Loans	Revolving Loans Converted to Term Loans	Total
	2023	2022	2021	2020	2019	Prior			
Commercial real estate:									
Construction and land development:									
Pass	\$ 21,357,373	\$ 27,058,172	\$ 19,275,714	\$ 4,499,574	\$ 2,745,033	\$ 9,001,984	\$ 5,587,378	\$ -	\$ 89,525,228
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	<u>21,357,373</u>	<u>27,058,172</u>	<u>19,275,714</u>	<u>4,499,574</u>	<u>2,745,033</u>	<u>9,001,984</u>	<u>5,587,378</u>	<u>-</u>	<u>89,525,228</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Multifamily:									
Pass	400,000	12,709,392	1,132,117	4,057,004	332,685	3,153,755	-	-	21,784,953
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	<u>400,000</u>	<u>12,709,392</u>	<u>1,132,117</u>	<u>4,057,004</u>	<u>332,685</u>	<u>3,153,755</u>	<u>-</u>	<u>-</u>	<u>21,784,953</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Other:									
Pass	29,092,696	59,467,906	48,979,923	37,751,052	30,963,029	77,372,707	3,499,308	-	287,126,621
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	257,962	46,030	-	303,992
Total	<u>29,092,696</u>	<u>59,467,906</u>	<u>48,979,923</u>	<u>37,751,052</u>	<u>30,963,029</u>	<u>77,630,669</u>	<u>3,545,338</u>	<u>-</u>	<u>287,430,613</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Residential real estate:									
Pass	43,187,863	96,477,656	54,140,102	18,049,366	7,138,390	28,804,163	26,331,424	3,887,034	278,015,998
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	2,442,062	65,777	-	2,507,839
Total	<u>43,187,863</u>	<u>96,477,656</u>	<u>54,140,102</u>	<u>18,049,366</u>	<u>7,138,390</u>	<u>31,246,225</u>	<u>26,397,201</u>	<u>3,887,034</u>	<u>280,523,837</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Commercial:									
Pass	18,676,725	25,934,264	13,493,623	14,327,011	11,295,321	9,419,438	35,710,813	17,470	128,874,665
Special Mention	-	-	34,055	-	-	-	24,693	-	58,748
Substandard or Worse	-	-	-	-	-	-	-	-	-
Total	<u>18,676,725</u>	<u>25,934,264</u>	<u>13,527,678</u>	<u>14,327,011</u>	<u>11,295,321</u>	<u>9,419,438</u>	<u>35,735,506</u>	<u>17,470</u>	<u>128,933,413</u>
Current period gross charge-offs	-	-	-	-	(19,984)	-	-	-	(19,984)
Consumer:									
Pass	620,024	110,578	31,982	9,781	25,878	4,138	380,658	-	1,183,039
Special Mention	-	-	-	-	-	-	-	-	-
Substandard or Worse	-	-	-	-	-	-	20,000	-	20,000
Total	<u>620,024</u>	<u>110,578</u>	<u>31,982</u>	<u>9,781</u>	<u>25,878</u>	<u>4,138</u>	<u>400,658</u>	<u>-</u>	<u>1,203,039</u>
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Total:									
Pass	\$ 113,334,681	\$ 221,757,968	\$ 137,053,461	\$ 78,693,788	\$ 52,500,336	\$ 127,756,185	\$ 71,509,581	\$ 3,904,504	\$ 806,510,504
Special Mention	-	-	34,055	-	-	-	24,693	-	58,748
Substandard or Worse	-	-	-	-	-	2,700,024	131,807	-	2,831,831
Total	<u>\$ 113,334,681</u>	<u>\$ 221,757,968</u>	<u>\$ 137,087,516</u>	<u>\$ 78,693,788</u>	<u>\$ 52,500,336</u>	<u>\$ 130,456,209</u>	<u>\$ 71,666,081</u>	<u>\$ 3,904,504</u>	<u>\$ 809,401,083</u>
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ (19,984)	\$ -	\$ -	\$ -	\$ (19,984)

The following tables reflect past due and nonaccrual loans as of December 31, 2024 and 2023:

	Accruing and:						Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due	Nonaccrual Loans	Current Loans		
As of December 31, 2024							
Commercial real estate:							
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 59,761,206	\$ 59,761,206	
Multifamily	-	-	-	-	25,185,498	25,185,498	
Other	-	-	-	-	327,746,999	327,746,999	
Residential real estate	-	-	-	1,474,161	294,722,179	296,196,340	
Commercial	-	-	-	51,597	134,113,356	134,164,953	
Consumer	-	-	-	-	1,036,859	1,036,859	
Total gross loans	\$ -	\$ -	\$ -	\$ 1,525,758	\$ 842,566,097	\$ 844,091,855	

As of December 31, 2023	Accruing and:			Nonaccrual Loans	Current Loans	Total Loans
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days Past Due			
Commercial real estate:						
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 89,525,228	\$ 89,525,228
Multifamily	-	-	-	-	21,784,953	21,784,953
Other	-	-	-	303,992	287,126,621	287,430,613
Residential real estate	177,773	-	-	1,499,220	278,846,844	280,523,837
Commercial	-	-	-	-	128,933,413	128,933,413
Consumer	-	-	-	20,000	1,183,039	1,203,039
Total gross loans	\$ <u>177,773</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>1,823,212</u>	\$ <u>807,400,098</u>	\$ <u>809,401,083</u>

The following tables summarize nonaccrual loans by loan class as of December 31, 2024 and 2023:

As of December 31, 2024	Nonaccrual Loans		
	With No Allowance	With an Allowance	Total
Commercial Real Estate:			
Construction and land development	\$ -	\$ -	\$ -
Multifamily	-	-	-
Other	-	-	-
Residential real estate	1,474,161	-	1,474,161
Commercial	1,882	49,715	51,597
Consumer	-	-	-
Total gross loans	\$ <u>1,476,043</u>	\$ <u>49,715</u>	\$ <u>1,525,758</u>

As of December 31, 2023	Nonaccrual Loans		
	With No Allowance	With an Allowance	Total
Commercial Real Estate:			
Construction and land development	\$ -	\$ -	\$ -
Multifamily	-	-	-
Other	303,992	-	303,992
Residential real estate	1,256,644	242,576	1,499,220
Commercial	-	-	-
Consumer	-	20,000	20,000
Total gross loans	\$ <u>1,560,636</u>	\$ <u>262,576</u>	\$ <u>1,823,212</u>

The following is a summary of loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2024:

	Amortized Cost	% of Total Class Receivable	Modification Type	Financial Effect
Residential real estate	120,558	0.04%	Term extension and interest rate reduction	Added 15 years to the life of the single loan and reduced the interest rate from 6.00% to 4.13%.
Total	\$ <u>120,558</u>			

As of December 31, 2024, the modified loan was current and in compliance with payment terms. There were no loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2023.

Note 4. Premises and Equipment

The components of premises and equipment as of December 31, 2024 and 2023 are as follows:

	2024	2023
Premises and land	\$ 7,714,386	\$ 7,699,943
Leasehold improvements	1,708,455	1,698,454
Furniture and fixtures	945,497	946,947
Equipment and software	3,886,262	3,664,950
Total Cost	\$ 14,254,600	\$ 14,010,294
Accumulated depreciation	(8,566,413)	(7,680,462)
Total premises and equipment, net	\$ <u>5,688,187</u>	\$ <u>6,329,832</u>

Depreciation expense amounted to \$935,129 and \$952,231 during the years ended December 31, 2024 and 2023, respectively.

Note 5: Leases

The right-of-use assets and lease liabilities detailed below include five locations occupied by the Bank and one location occupied by Mlend as of December 31, 2024 and five locations occupied by the Bank and two locations occupied by Mlend as of December 31, 2023. During the fourth quarter 2024, a lease associated with a Mlend location was terminated without penalty. During the first quarter of 2023, a lease associated with a Mlend location was terminated with an early termination fee of \$150,000 paid. Short-term leases, including those with initial terms of 12 months or less, are not included in these balances. Lease payments for short-term leases are recognized as lease expense on a straight-line basis over the lease term, or for variable lease payments, in the period in which the obligation was incurred.

Lease liabilities represent the Company'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 Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company'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.

The Company's long-term lease agreements are classified as operating leases. Certain of these leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liabilities to the extent the options are reasonably certain of being exercised. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations.

The following table presents information about the Company's leases as of and for the years ended December 31, 2024 and 2023:

	2024	2023
Lease liabilities	\$ 1,984,920	\$ 2,450,133
Right-of-use assets	\$ 1,911,836	\$ 2,380,555
Weighted average remaining lease term	5.9 years	6.4 years
Weighted average discount rate	3.55 %	3.50 %
Operating lease cost	\$ 557,840	\$ 571,610
Short-term lease cost	2,748	2,072
Total Lease cost	\$ <u>560,588</u>	\$ <u>573,682</u>
Cash paid for amounts included in the measurement of lease liabilities	\$ <u>571,561</u>	\$ <u>718,664</u>

A maturity analysis of the Company's operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities as of December 31, 2024, is as follows:

<u>Lease payments due in:</u>	
2025	\$ 477,888
2026	349,833
2027	349,166
2028	355,134
2029	219,122
Thereafter	<u>417,291</u>
Total undiscounted cash flow	2,168,434
Discount	<u>(183,514)</u>
Lease liability	<u>\$ 1,984,920</u>

Note 6. Goodwill and Other Intangibles

Goodwill was recorded with CMHF's acquisition of Mlend in 2019. Goodwill associated with the transaction totaled \$1,656,507 as of December 31, 2024 and 2023. The Company had no other intangible assets as of December 31, 2024 and 2023.

Note 7. Deposits

The components of deposits as of December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Non-interest bearing deposits	\$ 251,431,084	\$ 260,204,859
Interest-bearing deposits		
NOW accounts	194,682,425	164,536,186
Money market accounts	240,320,055	248,898,935
Savings accounts	69,979,571	78,176,442
Time deposit accounts	<u>151,593,584</u>	<u>127,190,377</u>
Total interest-bearing deposits	<u>656,575,635</u>	<u>618,801,940</u>
Total deposits	<u>\$ 908,006,719</u>	<u>\$ 879,006,799</u>

The following is a schedule of the future maturities of time deposits during each year presented as of December 31, 2024:

<u>Maturing in:</u>	
2025	\$ 130,194,517
2026	9,167,236
2027	11,108,586
2028	658,128
2029	<u>465,117</u>
	<u>\$ 151,593,584</u>

Time deposits in denominations of \$250,000 or more amounted to \$53,563,228 and \$43,905,587 as of December 31, 2024 and 2023, respectively. Included in NOW accounts as of December 31, 2024 and 2023 were insured cash sweep deposits in the amount of \$180,373,372 and \$150,843,308, respectively. Brokered deposits included in time deposit accounts totaled \$10,000,000 as of December 31, 2024 and 2023.

Note 8. Borrowings

Borrowings as of December 31, 2024 and 2023, and the related maximum amounts outstanding at the end of any month in each of the two years presented were as follows:

	2024		2023		Maximum Outstanding			
					2024	2023		
Federal Home Loan Bank advances	\$	15,000,000	\$	15,000,000	\$	15,000,000	\$	30,000,000
Federal Reserve - Bank Term Funding Program		-		-		50,000,000		40,000,000
Other borrowings:								
Unsecured lines of credit		-		3,000,000		-		3,000,000
	\$	<u>15,000,000</u>	\$	<u>18,000,000</u>				

The Federal Home Loan Bank (“FHLB”) advances consisted of the following: two, 4-year term loans as of December 31, 2024: (i) \$10,000,000 advanced on April 28, 2023 with an interest rate of 3.95% and (ii) \$5,000,000 advanced on May 18, 2023 with an interest rate of 4.05%. As of December 31, 2024, the Company had additional borrowing capacity of \$194,018,531 with the FHLB, without the pledge of additional collateral. Collateral pledged to the FHLB consists of commercial real estate loans, commercial loans and residential mortgage loans.

In addition, the Company had access to \$57,291,953 in short-term (generally up to 90 days) borrowing capacity from the Federal Reserve Discount Window based on current collateral pledged consisting of investment securities, with no amount outstanding as of December 31, 2024. Also, as of December 31, 2024, the Company had \$15,500,000 of additional availability under unsecured lines of credit with interest rates equal to the prevailing federal funds rate plus a spread and a \$1,000,000 letter of credit with other financial institutions for contingency funding use.

Note 9. Subordinated Debt

The Company issued 10-year private placement subordinated fixed-to-floating rate debt for \$15 million with a 5.75% fixed rate during the initial 5-year period in October 2019 (the “2019 Notes”) to multiple investors in the form of Subordinated Note Purchase Agreements. The Company issued 10-year private placement subordinated fixed-to-floating rate debt for \$12.1 million in October 2024 (the “2024 Notes”) and used the net proceeds, in addition to available cash, to redeem the 2019 Notes in full. The 2024 Notes bear a fixed rate of 6.75% for 5 years and will bear a floating rate equal to three-month SOFR plus 300 basis points during the remaining 5 years thereafter. The notes are structured to qualify as Tier 2 capital and are carried at the principal amount, less unamortized issuance costs. The initial debt issuance costs totaled \$61,239. As of December 31, 2024, the unamortized issuance costs totaled \$59,305.

Note 10. Derivatives

The Company maintains and accounts for derivatives, in the form of interest-rate lock commitments (“IRLCs”), in accordance with the FASB guidance on accounting for derivative instruments and hedging activities. Gains and losses on IRLCs related to the mortgage loan pipeline are recognized in “Mortgage banking” income in the Company’s Consolidated Statements of Income. IRLCs on mortgage loans that are intended to be sold in the secondary market are considered derivatives. The Company is exposed to price risk from the time a mortgage loan closes until the time the loan is sold. The period between issuance of a loan commitment and closing and sale of the loan generally ranges from 14 days to 60 days with a limited number of IRLCs of up to 90 days. As of December 31, 2024 and 2023, the derivative assets and liabilities were included in “Other assets” and “Other liabilities” on the Company’s Consolidated Balance Sheets, respectively. The net fair value gains (losses) on interest rate lock contracts for the years ended December 31, 2024 and 2023 were (\$5,425) and \$7,420, respectively.

Information pertaining to the notional amounts and fair values of the Company’s derivative financial instruments as of December 31, 2024 and 2023 are as follows:

	2024		2023	
	Notional Amount	Estimated Fair Value	Notional Amount	Estimated Fair Value
Asset - IRLCs	\$ 2,462,327	\$ 27,645	\$ 2,382,200	\$ 33,070

Note 11. Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amount and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

As of December 31, 2024 and 2023, the most recent notification from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain the minimum ratios as set forth in the following tables.

Management believes, as of December 31, 2024 and 2023 the Bank met all applicable capital adequacy requirements. The actual and required capital amounts and ratios as of December 31, 2024 and 2023 are presented below:

As of December 31, 2024	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	\$ 105,123,770	13.23%	\$ 63,550,632	8.00%	\$ 79,438,291	10.00%
Tier 1 capital (to risk weighted assets)	\$ 96,253,001	12.12%	\$ 47,662,974	6.00%	\$ 63,550,632	8.00%
Common equity tier 1 capital (to risk weighted assets)	\$ 96,253,001	12.12%	\$ 35,747,231	4.50%	\$ 51,634,889	6.50%
Tier 1 leverage (to average assets)	\$ 96,253,001	9.06%	\$ 42,493,191	4.00%	\$ 53,116,489	5.00%

As of December 31, 2023	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total capital (to risk weighted assets)	\$ 100,771,992	13.10%	\$ 61,558,869	8.00%	\$ 76,948,586	10.00%
Tier 1 capital (to risk weighted assets)	\$ 92,474,533	12.02%	\$ 46,169,152	6.00%	\$ 61,558,869	8.00%
Common equity tier 1 capital (to risk weighted assets)	\$ 92,474,533	12.02%	\$ 34,626,864	4.50%	\$ 50,016,581	6.50%
Tier 1 leverage (to average assets)	\$ 92,474,533	9.10%	\$ 40,646,851	4.00%	\$ 50,808,564	5.00%

As a FHA-approved mortgagee, Mlend must maintain a minimum adjusted net worth of \$1,000,000 plus 1% of the total volume in excess of \$25,000,000 of FHA single family mortgages originated, underwritten, serviced, and/or purchased during the prior fiscal year, up to a maximum required adjusted net worth of \$2,200,000. Mlend must also maintain liquid assets of at least 20% of its required adjusted net worth. Adjusted net worth is defined as shareholders' equity, less certain unacceptable assets. As of December 31, 2024 and 2023, Mlend met these requirements.

Note 12. Income Taxes

The Company files income tax returns in the U.S. federal jurisdiction and the state of Maryland. With few exceptions, the Company is no longer subject to U.S. federal and state income tax examination by tax authorities for years prior to 2021.

The following table reflects the provision for income taxes charged to operations for the years ending December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Current tax expense	\$ 2,611,113	\$ 973,609
Deferred tax (benefit) expense	<u>(412,608)</u>	<u>413,194</u>
Total income tax	<u>\$ 2,198,505</u>	<u>\$ 1,386,803</u>

A reconciliation of the federal statutory income tax rate on pre-tax income to the provision for income taxes was as follows for the years ending December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Federal tax statutory rate	21%	21%
Federal tax at statutory rate	\$ 1,853,527	\$ 1,193,213
Increase (decrease) resulting from the following:		
State income taxes, net of federal tax benefit	528,507	333,495
Tax-exempt interest income	(209,143)	(207,675)
Bank-owned life insurance income	(73,658)	(41,516)
Non-deductible interest expense	29,628	24,764
Other non-deductible expenses	30,665	35,389
Other, net	<u>38,979</u>	<u>49,133</u>
Total income tax expense	<u>\$ 2,198,505</u>	<u>\$ 1,386,803</u>

The tax effects of temporary differences that give rise to significant portions of deferred tax assets and deferred tax liabilities as of December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Deferred Tax Assets:		
Allowance for loan credit losses	\$ 2,278,492	\$ 2,130,680
Allowance for HTM securities credit losses	28,317	28,607
Lease liabilities	546,250	674,276
Supplemental benefits expense	121,295	130,721
Deferred compensation liability	289,082	187,042
Allowance for off-balance sheet credit exposures	134,427	124,174
Unrealized loss on securities	2,631,174	3,251,904
Non-accrual interest	148,737	113,642
Other	<u>98,281</u>	<u>69,990</u>
Total deferred tax asset	6,276,055	6,711,036
Deferred Tax Liabilities		
Right of use assets	(526,138)	(655,129)
Deferred loan costs, net	(963,782)	(977,064)
Depreciation	<u>(227,880)</u>	<u>(312,467)</u>
Total deferred tax liabilities	(1,717,800)	(1,944,660)
Net deferred tax assets	<u>\$ 4,558,255</u>	<u>\$ 4,766,376</u>

Note 13. Earnings Per Common Share (EPS)

Basic EPS excludes dilution and is computed by dividing net income available to common shareholders by the weighted-average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the entity. The basic and diluted earnings per share calculations for the years ended December 31, 2024 and 2023 are as follows:

	2024		2023	
Numerator:				
Net income available to shareholders	\$	6,627,812	\$	4,295,162
Basic EPS weighted average shares outstanding		2,916,191		2,907,304
Effect of dilutive securities:				
Incrementable shares attributable to restricted stock units		8,600		-
Diluted EPS weighted-average shares		2,924,791		2,907,304
Basic earnings per common share	\$	2.27	\$	1.48
Diluted earnings per common share	\$	2.27	\$	1.48

Note 14. Common Stock

On October 16, 2020, shareholders voted and approved an increase in the total authorized capital stock of the Company from 5,000,000 shares to 11,000,000 shares, designated as 10,000,000 shares of common stock and 1,000,000 shares of preferred stock. As of December 31, 2024 and 2023, there were 2,919,797 and 2,911,670 shares of common stock outstanding, respectively. As of December 31, 2024, there were 7,080,203 shares of common stock and 1,000,000 shares of preferred stock available to be issued.

On February 11, 2021, the Company's Human Capital Management Committee approved the details of the Community Heritage Financial, Inc. Equity Incentive Plan (the "Plan"), which was approved by shareholders on October 16, 2020. The Plan allows the Company to grant stock options, stock appreciation rights, restricted or unrestricted stock, restricted stock units, phantom stock, performance awards, other stock-based awards, or any combination of the foregoing to certain officers and employees of the Company and its subsidiaries. The aggregate number of shares of common stock issuable pursuant to all awards under the plan is limited to 500,000 shares. Since inception through December 31, 2024, the Company has awarded only restricted stock units under the plan totaling 67,386 shares, with 18,951 shares of common stock having been issued upon vesting, net of 8,384 shares surrendered for the payment of taxes.

Share-Based Compensation

Restricted stock units are an award of units that correspond in number and value to a specified number of shares of Company stock which the recipient receives according to a vesting plan and distribution schedule after achieving required performance milestones or upon remaining with the employer for a particular length of time. Each restricted stock unit that vests entitles the recipient to receive one share of common stock on a specified issuance date.

Unless otherwise specified, the restricted stock awards are subject to a 4-year vesting schedule in one fourth per year vesting, with the first one-fourth vesting occurring one year from the grant date. The recipient does not have any stockholder rights, including voting, dividend, or liquidation rights, with respect to the shares underlying awarded restricted stock units until vesting has occurred and the recipient becomes the record holder of those shares. The unvested restricted stock units will vest on the established schedule provided the recipient remains employed by the Company on the future vesting dates.

A summary of the activity for the Company's restricted stock units ("RSUs") for the years ended December 31, 2024 and 2023, is presented in the following table:

	2024		2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Unvested, beginning of year	28,540	\$ 19.77	22,488	\$ 21.89
Granted	30,500	17.88	16,924	18.10
Vested	(8,989)	20.25	(10,872)	21.11
Forfeited	-	-	-	-
Unvested, end of year	<u>50,051</u>	\$ 18.53	<u>28,540</u>	\$ 19.77

The following table summarizes RSUs converted to common shares during the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Shares vested	8,989	10,872
Shares vested in 2023 and released in 2024	<u>2,499</u>	<u>(2,499)</u>
Shares released for issuance	11,488	8,373
Shares withheld for taxes	<u>(3,361)</u>	<u>(2,676)</u>
Shares issued	<u><u>8,127</u></u>	<u><u>5,697</u></u>

Compensation expense related to RSUs recognized for the year ended December 31, 2024 and December 31, 2023 was \$295,125 and \$277,785, respectively.

Note 15. Commitments and Contingencies

The Company is subject to legal proceedings which are incidental to the ordinary course of business. In the opinion of the management of the Company, there are no material pending legal proceedings to which the Company is a party to, or which involve any of its property.

Note 16. Financial Instruments with Off-Balance-Sheet Risk

The Company, primarily through the Bank, is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financial needs of its customers and to reduce its own exposure to fluctuations in interest rates. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk more than the amount recognized in the balance sheet. The contract amounts of those instruments reflect the extent of involvement the Bank has in certain classes of financial instruments.

The Company'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 and financial guarantees written is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The contract amounts of these financial instruments as of December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 233,050,000	\$ 209,484,000
Standby letters of credit and financial guarantees written	\$ 5,477,972	\$ 4,617,183

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

Standby letters of credit and financial guarantees written are conditional commitments issued by the Company 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 similar to that involved in extending loans to customers. The Company holds collateral supporting those commitments when deemed necessary by management.

As of December 31, 2024 and 2023, the Company, primarily through Mlend, had interest rate lock commitments to originate mortgage loans totaling \$2,462,327 and \$2,382,200, respectively. The Company enters corresponding commitments with third-party investors to sell each of these loans that close on a best-efforts basis.

Note 17. Concentrations of Credit Risk

The Company extends credit for real estate construction, land development, commercial and residential loans, to customers throughout its market area. Although the Company has a diversified loan portfolio, a substantial portion of its customers' ability to honor their contracts is dependent upon the real estate economic sector. As of December 31, 2024 and 2023, the commercial and residential loan classes totaled \$708,890,043, or 84% of total gross loans, and \$679,264,631 or 84% of total gross loans, respectively.

The Company has concentrations of deposits with other financial institutions. As of December 31, 2024 and 2023, there was \$1,084,528 and \$1,083,648, respectively of cash balances on deposit in excess of FDIC insurance levels.

Note 18. Related Party Transactions

The Company has, and may be expected to have in the future, banking transactions in the ordinary course of business with its executive officers, directors, principal stockholders, their immediate families, and affiliated companies (collectively referred to as "Related Parties"). These transactions are executed on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other customers.

The following schedule presents the activity of loans with the Company's Related Parties for the years ended December 31, 2024 and 2023:

	2024	2023
Beginning balance	\$ 12,756,364	\$ 11,580,538
Effect of changes in the composition of related parties	-	(185,991)
Advances	6,832,508	6,028,526
Principal payments	(7,535,933)	(4,666,709)
Ending balance	<u>\$ 12,052,939</u>	<u>\$ 12,756,364</u>

The aggregate balance of deposits of executive officers, directors, and their related interests was \$45,071,826 and \$37,894,672 as of December 31, 2024 and 2023, respectively.

During both 2024 and 2023, Mlend leased its Oakland, Maryland location from an entity owned by a member of executive management. The related lease liability included in total lease liabilities disclosed in Note 5. "Leases" was \$53,463 and \$64,170 as of December 31, 2024 and 2023, respectively.

Through February 28, 2023, Mlend leased its Middletown, Maryland location from an entity owned by a member of executive management. The early termination of the lease resulted in a termination penalty of \$150,000 paid by the Company to the executive officer.

Note 19. Profit Sharing Plans

The Company has a deferred compensation profit sharing plan and trust (the "401k Plan") for all employees of the Bank and Mlend who are 18 years of age or older and who have completed 90 days of employment. The 401k Plan permits eligible participants to contribute the maximum percentage allowable by law. At its discretion, the Company may make matching and/or profit-sharing plan contributions. The Company made discretionary contributions of \$281,464 and \$278,745 to the plan during the years ended December 31, 2024 and 2023, respectively.

Note 20. Other Benefit Plans

The Company adopted a defined benefit SERP for certain Executive Officers and former Executive Officers. The defined benefit SERP on the Executive Officers includes a vesting schedule. The supplemental benefit expense was \$15,747 and \$41,762 for the years ended December 31, 2024 and 2023, respectively. The related liability balance as of December 31, 2024 and 2023 was \$440,751 and \$475,004, respectively. Benefits paid totaled \$50,000 during 2024 and 2023. The plans are unfunded; however, life insurance has been acquired on the life of the employees in amounts sufficient to help meet the costs of the obligations.

In 2018, the Company established a nonqualified deferred compensation plan which allows certain key employees to defer a portion of their compensation and provides for supplemental retirement benefits. Plan participation began in 2019. The plan

is unfunded and employee deferrals accumulate gains and losses based on certain deemed investment options. The Company may also, at its discretion, make matching contributions to participant accounts. All such contributions vest over a three-year period from the end of the year in which the contributions are made. The net deferred compensation liability recorded in other liabilities on the Consolidated Balance Sheets was \$1,050,443 and \$808,494 as of December 31, 2024 and 2023, respectively. The Company purchased bank-owned life insurance to economically offset changes in the nonqualified deferred compensation liability.

Note 21. Fair Value Measurements

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the “Fair Value Measurements and Disclosures” topic of FASB ASC-820, the fair value of an instrument is the price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market and in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company’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 the instrument. GAAP requires that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Company groups its assets and liabilities measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The three levels of the fair value hierarchy based on these two types of inputs are as follows:

Level 1 – Valuation is based on quoted prices in active markets for identical assets and liabilities.

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets and liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

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

Securities portfolio: AFS Securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). HTM securities are carried at amortized cost. If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that consider observable market data (Level 2).

Interest rate lock commitments: The Company recognizes interest rate lock commitments at fair value based on the price of the underlying loans obtained from an investor for loans that will be delivered on a best-efforts basis while taking into consideration the probability (pull-through) that the rate lock commitments will close (Level 3). The pull-through rate is considered a Level 3 input which as of December 31, 2024, ranged from 50% to 90%, with a weighted average of 86.7% based on the relative fair values of these assets.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used are as follows as of December 31, 2024 and 2023:

As of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
U.S. Government Agency	\$ -	\$ 3,614,940	\$ -	\$ 3,614,940
Mortgage Backed	-	18,647,834	-	18,647,834
Municipal	-	6,070,874	-	6,070,874
Corporate	-	12,148,263	-	12,148,263
Interest rate lock commitments	-	-	28,372	28,372
Total assets measured on a recurring basis	\$ -	\$ 40,481,911	\$ 28,372	\$ 40,510,283
Liabilities:				
Other Liabilities:				
Interest rate lock commitments	\$ -	\$ -	\$ 727	\$ 727
Total liabilities measured in a recurring basis	\$ -	\$ -	\$ 727	\$ 727

As of December 31, 2022	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Assets:				
Securities available-for-sale:				
U.S. Government Agency	\$ -	\$ 3,031,145	\$ -	\$ 3,031,145
Mortgage Backed	-	15,406,019	-	15,406,019
Municipal	-	6,877,611	-	6,877,611
Corporate	-	15,612,311	-	15,612,311
Interest rate lock commitments	-	-	33,070	33,070
Total assets measured on a recurring basis	\$ -	\$ 40,927,086	\$ 33,070	\$ 40,960,156

Certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following describes the valuation techniques used by the Company to measure certain assets recorded at fair value on a nonrecurring basis in the financial statements:

Loans Held for Sale: Loans held for sale are carried at the lower of cost or estimated fair value. These loans currently consist of one-to-four family residential loans originated for sale in the secondary market. Fair value is based on the price secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). As such, the Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale as of December 31, 2024 and 2023.

Individually Evaluated Collateral Dependent Loans: Collateral dependent loans are individually evaluated if, based on management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. The measurement of loss associated with individually evaluated collateral dependent loans can be based on either the observable market price of the loan or the fair value of the collateral. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. Most of the Company's loan collateral is real estate. The value of real estate collateral is determined utilizing a market valuation approach based on an appraisal, of one year or less, conducted by an independent, licensed appraiser using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the property is more than one year old and not solely based on observable market comparable structures or management determines the fair value of the collateral is further impaired below the appraised value, then a Level 3 valuation is considered

to measure the fair value. The value of business equipment is based upon an outside appraisal, of one year or less, if deemed significant, or the net book value on the applicable business's financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3).

These loans are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred and included in "Provision for (recovery of) credit losses" on the Company's Consolidated Statements of Income. None of these loans were carried at fair value as of December 31, 2024 and 2023.

Other Real Estate Owned: OREO is measured at fair value in the same manner as described for impaired loans. Any initial fair value adjustment is charged against the ACL. Subsequent fair value adjustments are recorded in the period incurred and included in non-interest expense on the Consolidated Statements of Income. The Company had no other real estate owned as of December 31, 2024 and 2023, and no fair value adjustments were recorded in either year.

The Bank had no non-recurring assets measured with fair values as of December 31, 2024 and 2023.

FASB ASC 825, Financials Instruments, requires disclosure about fair value of financial instruments, including those financial assets and financial liabilities that are not required to be measured and reported at fair value on a recurring or nonrecurring basis. ASC 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company. The carrying amounts and estimated fair values of the Company's financial instruments are presented in the following table as of December 31, 2024 and 2023:

	Level in Fair Value Hierarchy	2024		2023	
		Carrying Value	Fair Value	Carrying Value	Fair Value
Financial assets:					
Cash and due from banks	Level 1	\$ 16,510,418	\$ 16,510,418	\$ 16,664,061	\$ 16,664,061
FHLB stock	Level 1	1,404,700	1,404,700	1,363,600	1,363,600
Securities available-for-sale	Level 2	40,481,911	40,481,911	40,927,086	40,927,086
Securities held-to-maturity, net	Level 2	91,271,924	81,153,639	96,007,677	87,902,403
Loans held for sale	Level 2	5,106,956	5,106,956	1,651,118	1,651,118
Loans, net	Level 3	839,314,566	800,264,552	805,190,575	756,078,786
Accrued interest receivable	Level 2	3,152,505	3,152,505	2,972,952	2,972,952
Bank-owned life insurance	Level 2	7,411,319	7,411,319	7,172,917	7,172,917
Interest rate lock commitments	Level 3	28,372	28,372	33,070	33,070
Financial liabilities:					
Time deposits	Level 3	\$ 151,593,584	\$ 150,688,000	\$ 127,190,377	\$ 125,190,944
Other deposits	Level 2	756,413,135	756,413,135	751,816,422	751,816,422
Accrued interest payable	Level 2	485,160	485,160	458,540	458,540
Subordinated debt, net	Level 3	12,040,695	11,547,795	14,932,727	14,550,000
Other borrowings	Level 3	15,000,000	14,882,000	18,000,000	17,895,000
Interest rate lock commitments	Level 3	727	727	-	-

Note 22. Other Non-interest Expenses

The following table describes the significant components of other non-interest expenses included in the Consolidated Statements of Income for the years ended December 31, 2024 and 2023:

	2024	2023
ATM and check card expenses	\$ 647,065	\$ 622,425
Public Relations and charitable contributions	470,667	384,387
Dues and subscriptions	172,121	146,243
Director fees	170,150	144,050
Training	164,547	154,111
Travel and entertainment	136,354	115,549
Postage and courier	107,509	96,201
Other miscellaneous operating expenses	386,278	323,273
Total other non-interest expenses	\$ <u>2,254,691</u>	\$ <u>1,986,239</u>

Note 23. Revenue from Contracts with Customers

Substantially all the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within non-interest income. Certain other in-scope items such as losses on OREO, if any, are recorded in non-interest expense. The recognition of interest income and certain sources of non-interest income (e.g. gains on security transactions, bank-owned life insurance income, gains on loans held for sale, etc.) are governed by other areas of U.S. GAAP and are out-of-scope of ASC 606. Significant revenue streams that are within the scope of ASC 606 and included in non-interest income are discussed in the following paragraphs.

Service Charges on Deposit Accounts: A sizable portion of noninterest income is derived from short-term contracts associated with services provided for deposit account holders. These revenue streams are principally comprised of overdrawn account charges, account maintenance charges, ATM fees, and monthly account fees. The Bank's performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

VISA Check Card Income: The Bank earns interchange fees from debit cardholder transactions conducted through the VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Gains and Losses on the Sale of Other Real Estate Owned: The Company records a gain or loss from the sale of other real estate owned ("OREO") when control of the property transfers to the buyer, generally at the time a deed is executed. The Company will finance the sale of OREO and recognize a gain or loss only if the buyer is committed to perform their obligations under the contract and collectability is probable. During the years ended December 31, 2024 and 2023, the Company had no gains or losses associated with the sale of OREO.

The following table describes the in-scope and out-of-scope noninterest income elements related to ASC Topic 606 for the years ended December 31, 2024 and 2023:

	2024	2023
In-scope of ASC topic 606:		
Service charges on deposit accounts:		
Monthly service and other activity charges	\$ 899,107	\$ 699,250
ATM fees	90,259	87,688
VISA check card income	1,041,784	979,410
Other operating income	145,500	138,459
Total non-interest income within the scope of ASC-606	2,176,650	1,904,807
Out-of-scope of ASC 606 ⁽¹⁾	1,413,417	1,358,237
	\$ 3,590,067	\$ 3,263,044

⁽¹⁾ Includes bank-owned life insurance, gain on sale of loans, other mortgage banking income, and gain/loss on sale of securities.

Contract Balances: The Company's in-scope non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Company satisfied its performance obligation and revenue is recognized. The Company does not typically enter long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2024 and 2023, the Company did not have any significant contract balances.

Note 24. Subsequent Events

The Company 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: (i) 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 (ii) 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. Subsequent events have been considered through March 26, 2025, the date financial statements were available to be issued.



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J. Michael Hill

Executive Vice President & Chief Risk Officer

John A. Scaldara, Jr.

Executive Vice President & Chief Financial Officer

Ryan Lampton

Executive Vice President & President of Commercial Banking

Dawn Lowe

Executive Vice President & Chief Talent and Culture Officer

Jerry Merrick

Executive Vice President & President of Mortgage Lending (Mlend)

Brenda McComas

Executive Vice President & Chief Operating Officer

Dustin Watson

Executive Vice President & Chief Credit Officer

Cody Hill

Senior Vice President & Director of Retail Banking

Michelle Lease

Corporate Secretary

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