

BEACON

HOLDING COMPANY

Charleston, SC

Annual Report

2024

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Independent Auditor's Report

The Board of Directors
Beacon Holding Company, Inc.
Mt. Pleasant, South Carolina

Opinion

We have audited the consolidated financial statements of Beacon Holding Company, Inc. (the Company), which comprise the consolidated statements of condition as of December 31, 2024 and 2023, the related consolidated statements of operations, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements, Continued

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 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.



Columbia, South Carolina
March 19, 2025

Beacon Holding Company, Inc. and Subsidiary
Consolidated Statements of Condition
As of December 31, 2024 and 2023

<i>(Amounts in Thousands, except share amounts)</i>	December 31,	
	<u>2024</u>	<u>2023</u>
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 1,167	\$ 5,438
Interest bearing deposits with other banks	<u>42,511</u>	<u>29,049</u>
Total cash and cash equivalents	43,678	34,487
Time deposits with other banks	750	1,250
Securities available for sale	26,736	30,896
Nonmarketable equity securities	5,558	4,205
Loans receivable	692,236	569,401
Less allowance for credit losses	<u>(5,850)</u>	<u>(5,569)</u>
Loans, net	686,386	563,832
Accrued interest receivable	2,523	2,042
Premises, furniture and equipment, net	4,532	3,014
Deferred tax asset, net	3,080	3,033
Right of use asset on operating leases	162	273
Right of use asset on financing leases	7,095	8,023
Prepaid expenses and other assets	<u>1,317</u>	<u>1,430</u>
Total assets	<u>\$ 781,817</u>	<u>\$ 652,485</u>
Liabilities:		
Deposits:		
Noninterest bearing transaction accounts	\$ 76,020	\$ 63,949
Interest-bearing transaction accounts	50,096	45,942
Savings and money market	258,771	265,994
Time deposits greater than \$250,000	48,949	28,656
Other time deposits	<u>174,927</u>	<u>108,204</u>
Total deposits	608,763	512,745
Advances from Federal Home Loan Bank of Atlanta	105,000	79,000
Federal Reserve Bank borrowings	167	284
Note payable	5,000	-
Accrued interest payable	2,532	1,833
Operating lease liability	158	268
Financing lease liability	7,513	8,303
Other liabilities	<u>2,267</u>	<u>793</u>
Total liabilities	<u>731,400</u>	<u>603,226</u>
Commitments and Contingencies - Notes 1, 13, 16, and 20		
Shareholders' equity:		
Common stock, no par value, 10,000,000 shares authorized; 4,252,530 shares issued and outstanding at December 31, 2024 and 2023, respectively	44,024	43,753
Preferred stock, no par value, 10,000,000 shares authorized; 768,000 shares issued and outstanding at December 31, 2024 and 2023, respectively	9,545	9,545
Accumulated other comprehensive loss	(4,106)	(4,219)
Retained earnings	<u>954</u>	<u>180</u>
Total shareholders' equity	<u>50,417</u>	<u>49,259</u>
Total liabilities and shareholders' equity	<u>\$ 781,817</u>	<u>\$ 652,485</u>

The accompanying notes are an integral part of the financial statements.

Beacon Holding Company Inc. and Subsidiary
Consolidated Statements of Operations
For the years ended December 31, 2024 and 2023

(Amounts in Thousands, except share amounts)

	<u>2024</u>	<u>2023</u>
Interest income:		
Loans, including fees	\$ 35,924	\$ 24,845
Time deposits with other banks	14	54
Investment securities available for sale	1,111	1,002
Interest bearing deposits with other banks	<u>951</u>	<u>1,031</u>
Total	<u>38,000</u>	<u>26,932</u>
Interest expense:		
Time deposits \$250,000 and over	2,042	1,252
Other deposits	15,896	9,649
Other borrowings	<u>3,991</u>	<u>1,999</u>
Total	<u>21,929</u>	<u>12,900</u>
Net interest income	16,071	14,032
Provision for credit losses	<u>294</u>	<u>323</u>
Net interest income after provision for credit losses	<u>15,777</u>	<u>13,709</u>
Noninterest income:		
Service fees on deposit accounts	304	277
Interchange and merchant fee income	531	404
Other miscellaneous income	<u>146</u>	<u>3</u>
Total	<u>981</u>	<u>684</u>
Noninterest expenses:		
Salaries and employee benefits	7,999	6,742
Occupancy	2,265	1,687
Professional fees	702	504
Data processing	1,191	795
Furniture and equipment	430	291
Advertising	33	255
Insurance	812	569
Travel and entertainment	182	278
Loan expenses	175	358
Other operating expenses	<u>994</u>	<u>983</u>
Total	<u>14,783</u>	<u>12,462</u>
Net income before tax	1,975	1,931
Income tax expense	<u>529</u>	<u>480</u>
Net income after tax	\$ 1,446	\$ 1,451
Preferred dividend	<u>672</u>	<u>332</u>
Net income available to common shareholders	<u>\$ 774</u>	<u>\$ 1,119</u>
Income per common share:		
Basic	<u>\$ 0.18</u>	<u>\$ 0.26</u>
Diluted	<u>\$ 0.18</u>	<u>\$ 0.26</u>
Average common shares outstanding - basic	4,252,530	4,251,975
Average common shares outstanding - diluted	4,325,700	4,324,387

The accompanying notes are an integral part of the financial statements.

Beacon Holding Company Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
For the years ended December 31, 2024 and 2023

(Amounts in Thousands)

	<u>2024</u>	<u>2023</u>
Net income	\$ 1,446	\$ 1,451
Other comprehensive income		
Unrealized holding gains on securities available for sale	151	940
Net effect of taxes	<u>(38)</u>	<u>(240)</u>
Unrealized holding gains, net of tax	<u>113</u>	<u>700</u>
Other comprehensive income	<u>113</u>	<u>700</u>
Comprehensive income	<u>\$ 1,559</u>	<u>\$ 2,151</u>

The accompanying notes are an integral part of the financial statements.

Beacon Holding Company Inc. and Subsidiary
Consolidated Statements of Changes in Shareholders' Equity
For the years ended December 31, 2024 and 2023

*(Amounts in Thousands,
except share amounts)*

	<u>Common Stock</u>		<u>Preferred Stock</u>		<u>Retained</u>	<u>Accumulated</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>	<u>Earnings</u> <u>(Deficit)</u>	<u>Other</u> <u>Comprehensive</u> <u>Loss</u>	<u>Shareholders'</u> <u>Equity</u>
Balance, December 31, 2022	4,251,696	\$ 43,468	-	\$ -	\$ (939)	\$ (4,919)	\$ 37,610
Net income	-	-	-	-	1,451	-	1,451
Preferred stock dividends	-	-	-	-	(332)	-	(332)
Stock options exercised	834	10	-	-	-	-	10
Issuance of preferred stock, net of issuance costs	-	-	768,000	9,545	-	-	9,545
Other comprehensive income	-	-	-	-	-	700	700
Stock based compensation	-	275	-	-	-	-	275
Balance, December 31, 2023	<u>4,252,530</u>	<u>\$ 43,753</u>	<u>768,000</u>	<u>\$ 9,545</u>	<u>\$ 180</u>	<u>\$ (4,219)</u>	<u>\$ 49,259</u>
Net income	-	-	-	-	1,446	-	1,446
Preferred stock dividends	-	-	-	-	(672)	-	(672)
Other comprehensive income	-	-	-	-	-	113	113
Stock based compensation	-	271	-	-	-	-	271
Balance, December 31, 2024	<u>4,252,530</u>	<u>\$ 44,024</u>	<u>768,000</u>	<u>\$ 9,545</u>	<u>\$ 954</u>	<u>\$ (4,106)</u>	<u>\$ 50,417</u>

The accompanying notes are an integral part of the financial statements.

Beacon Holding Company Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the years ended December 31, 2024 and 2023

(Amounts in Thousands)

Cash flows from operating activities:	<u>2024</u>	<u>2023</u>
Net income	\$ 1,446	\$ 1,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	294	323
Depreciation expense	686	524
Amortization of securities available for sale	114	121
Accretion of securities available for sale	(65)	(72)
Stock-based compensation expense	271	275
Increase in accrued interest receivable	(481)	(724)
Increase in net deferred tax asset	(85)	(31)
Decrease in operating lease right of use asset	111	108
Decrease (increase) in prepaid expenses and other assets	113	(753)
Decrease in operating lease liability	(110)	(106)
Increase in accrued interest payable	699	1,258
Increase (decrease) in other liabilities	1,474	(176)
Net cash provided by operating activities	<u>4,467</u>	<u>2,198</u>
Cash flows from investing activities:		
Net increase in loans receivable	(122,848)	(127,414)
Purchase of premises, furniture, and equipment	(2,204)	(1,316)
Purchase of nonmarketable equity securities	(5,448)	(10,509)
Redemption of nonmarketable equity securities	4,095	8,516
Purchase of securities available for sale	-	(1,057)
Maturities of time deposits with other banks	500	1,000
Paydowns, calls, and maturities of securities available for sale	4,262	4,146
Net cash used for investing activities	<u>(121,643)</u>	<u>(126,634)</u>
Cash flows from financing activities:		
Decrease in financing lease right of use asset	928	583
Net increase in transaction deposits	9,002	75,814
Net increase in time deposits	87,016	26,382
Proceeds from Federal Home Loan Bank borrowings	132,118	288,000
Repayments of Federal Home Loan Bank borrowings	(106,118)	(254,500)
Proceeds from Federal Reserve Bank borrowings	312,500	17,000
Repayments of Federal Reserve Bank borrowings	(312,617)	(17,115)
Proceeds from subordinated debt	5,000	-
Repayment of subordinated debt	(5,000)	-
Proceeds from note payable	5,000	-
Decrease in financing lease liability	(790)	(544)
Preferred stock dividends	(672)	(332)
Proceeds from preferred stock issuance, net of issuance costs	-	9,545
Proceeds from common stock issuance, net of issuance costs	-	10
Net cash provided by financing activities	<u>126,367</u>	<u>144,843</u>
Net increase in cash and cash equivalents	<u>9,191</u>	<u>20,407</u>
Cash and cash equivalents, beginning of the year	<u>34,487</u>	<u>14,080</u>
Cash and cash equivalents, end of the year	<u>\$ 43,678</u>	<u>\$ 34,487</u>
Cash paid for:		
Income taxes	243	688
Interest	<u>21,230</u>	<u>11,642</u>
Supplemental disclosures of noncash activities:		
Unrealized gains on securities available for sale, net of tax	\$ 113	\$ 700
Right of use assets obtained for financing leases	\$ -	\$ (6,497)
Financing lease liability for new leases	\$ -	\$ 6,497

The accompanying notes are an integral part of the financial statements.

Beacon Holding Company Inc. and Subsidiary
Notes to Financial Statements

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Beacon Holding Company, Inc. (the Company) was organized under the laws of the State of South Carolina. On December 31, 2023, pursuant to a Reorganization Plan approved by Beacon Community Bank (the Bank) shareholders, articles of share exchange were executed, and the Company became the sole shareholder of the Bank. In return, Bank shareholders received equivalent shares of ownership in the Company. The Bank was organized under the laws of the State of South Carolina and received deposit insurance from the Federal Deposit Insurance Corporation (FDIC) effective January 8, 2018, when it officially commenced operations. The principal business activity of the Bank is to provide Banking services to Charleston, Dorchester, and Berkeley Counties in South Carolina. The Bank is subject to regulation by the FDIC and South Carolina Board of Financial Institutions. In the accompanying financial statements and notes, 2023 items are applicable to the Company, while all prior items are applicable to the Bank. For discussion purposes, the Company is referenced throughout the document.

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses on loans, including reserves on individually evaluated loans, the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, the valuation of investment securities, and deferred income tax assets and liabilities. In connection with the determination of the allowances for credit losses on loans and foreclosed real estate, management obtains independent appraisals for significant properties. Management must also make estimates in determining the estimated useful lives and methods for depreciating premises and equipment.

While management uses currently available information to recognize credit losses on loans and foreclosed real estate, future additions to the allowances may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the Company's allowances for credit losses on loans and foreclosed real estate. Such agencies may require the Company to recognize additions to the allowances based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the allowances for credit losses on loans and foreclosed real estate may change materially in the near term.

Concentrations of Credit Risk - Financial instruments, which potentially subject the Company to concentrations of credit risk, consist principally of loans receivable, investment securities, federal funds sold and amounts due from banks.

The Company makes loans to individuals and small businesses for various personal and commercial purposes primarily in Charleston, Dorchester, and Berkeley Counties in South Carolina. The Company's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. The Company has concentrations of residential real estate secured loans and commercial real estate secured loans, which totaled \$291.1 million, or 42.0% of total loans, and \$197.6 million, or 28.5% of total loans, respectively, at December 31, 2024. Residential real estate secured loans and commercial real estate secured loans totaled \$229.6 million, or 40.3% of total loans, and \$188.0 million, or 33.0% of total loans, at December 31, 2023. Management continues to monitor credit risk concentrations and has considered these concentrations in its evaluation of the allowance for credit losses. During the years ended December 31, 2024 and 2023, the Company had net loan charge offs of \$13,000 and \$9,000, respectively. Management is not aware of any other concentrations of loans to classes of borrowers or industries.

In addition to monitoring potential concentrations of loans to particular borrowers or groups of borrowers, industries and geographic regions, management monitors exposure to credit risk from concentrations of lending products and practices such as loans that subject borrowers to substantial payment increases (e.g. principal deferral periods, loans with initial interest-only periods, etc.), and loans with high loan-to-value ratios. Additionally, there are industry practices that could subject the Company to increased credit risk should economic conditions change over the course of a loan's life. For example, the Company makes variable rate loans and fixed rate principal-amortizing loans with maturities prior to the loan being fully paid (i.e. balloon payment loans). These loans are underwritten and monitored to manage the associated risks. Therefore, management believes that these particular practices do not subject the Company to unusual credit risk.

The Company's investment portfolio consists of US Treasury securities, various US Agency debt securities, municipal securities, and corporate debt securities. In the opinion of management, there is no concentration of credit risk in the investment portfolio. The Company places its deposits with correspondent banks and sells its federal funds to the Federal Reserve Bank. Management believes credit risk associated with correspondent accounts is not significant.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Accounting Standards Adopted in 2023 - On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (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 and generally applies to financial assets measured at amortized cost, including loan receivables and 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 at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for securities available for sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on securities available for sale if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell.

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 Company did not record an adjustment to retained earnings as of January 1, 2023, for the cumulative effect of adopting CECL, due to the negligible difference in the reserve calculation as a result of the transition from the allowance for loan losses to CECL.

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-temporarily 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 material.

Securities Available for Sale - All debt securities owned by the Company are classified as available for sale by management at December 31, 2024 and 2023. Securities available for sale are carried at amortized cost and adjusted to estimated market value by recognizing the aggregate unrealized gains or losses in a valuation account. Aggregate market valuation adjustments are recorded in shareholders' equity. The adjusted cost basis of securities available for sale is determined by specific identification and is used in computing the gain or loss upon sale. Interest income is recognized when earned.

Allowance for Credit Losses – Securities Available for Sale - For securities available for sale, management evaluates all securities in an unrealized loss position on at least an annual 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, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Nonmarketable Equity Securities - Nonmarketable equity securities consist of the cost of the Company's investments in the stocks of Federal Home Loan Bank of Atlanta and Independent Bankers Financial Corporation (IBFC). The Company has determined it is not practical to estimate the fair value of these investments and, accordingly, uses cost as fair value. The Federal Home Loan Bank of Atlanta stock has no quoted market value and no ready market for it exists. Investment in the Federal Home Loan Bank is a condition of borrowing from the Federal Home Loan Bank, and the stock is pledged to collateralize such borrowings. IBFC is the Bank Holding Company for The Independent Bankers Bank (TIB). IBFC's shareholder base is limited to banks, and as such, the marketability and trading volume of IBFC stock is very limited. Dividends on Federal Home Loan Bank stock and IBFC stock are recognized when paid and are included in interest income from investment securities available for sale. The Company's investment in Federal Home Loan Bank stock was \$5,480,000 and \$4,127,000 at December 31, 2024 and 2023, respectively. The Company's investment in IBFC stock was \$78,000 at December 31, 2024 and 2023, respectively.

Loans Receivable - Loans are stated at their unpaid principal balance, net of charge-offs, adjusted for unamortized premiums and unearned discounts and deferred loan fees and costs. Interest income is computed based upon the unpaid principal balance and is recorded in the period earned.

When serious doubt exists as to the collectability of a loan or when a loan becomes contractually 90 days past due as to principal or interest, recognition of interest income is generally discontinued unless the estimated net realizable value of collateral exceeds the unpaid principal balance and accrued interest. When recognition of interest income is discontinued, interest earned but not collected is reversed.

Loans are charged off when the amount of loss is reasonably quantifiable, and the loss is likely to occur. Interest payments received after a loan is placed in nonaccrual are applied as a principal reduction until such time as the loan is returned to accrual status. Generally, loans are returned to accrual status when the loan is brought current and the ultimate collectability of principal and interest is no longer in doubt. There was no unrecognized interest income on nonaccrual loans for each of the years ended December 31, 2024 and 2023.

Loan origination and commitment fees and certain direct loan origination costs (principally salaries and employee benefits) are deferred and amortized to income over the contractual life of the related loans or commitments, adjusted for prepayments, using a method approximating a level yield.

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using a weighted average remaining maturity (WARM) methodology:

- *Real Estate – Construction and Land Development* - Construction loans consist of loans to finance land for development of commercial or residential real property, construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial and residential real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.
- *Real Estate – Residential* - Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.
- *Real Estate – Commercial* - Owner occupied commercial mortgages consist of loans to purchase or re-finance owner occupied nonresidential properties. This includes office buildings, other commercial facilities, and farmland. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans and leases are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation. Non-owner occupied commercial mortgages consist of loans to purchase or refinance investment nonresidential properties. This includes office buildings and other facilities rented or leased to unrelated parties, as well as farmland and multifamily properties. The primary risk associated with income producing commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt. While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation. Multifamily loans are included within this category for purposes of estimating the allowance for credit losses.
- *Commercial* – Commercial business loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets. The primary risk associated with commercial and industrial and lease financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan.
- *Consumer and other* – Consumer and other loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for national and local economic trends and conditions and volume and severity of past due loans.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Leases - Management determines if an arrangement is a lease at inception. Operating leases are included in Right of Use (ROU) assets on operating leases and operating lease liabilities in our statements of condition. Financing leases are included in ROU assets on financing leases and financing lease liabilities in our statements of condition.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of lease payments. We use the implicit rate when readily determinable. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, such as vehicles, we account for the lease and non-lease components as a single lease component. Additionally, for certain equipment leases, we apply a portfolio approach to effectively account for the operating lease ROU assets and liabilities.

Premises, Furniture and Equipment - Premises, furniture and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed by the straight-line method, based on the estimated useful lives for furniture and equipment of 3 to 10 years. Leasehold improvements are amortized over the lesser of the asset's useful life or the life of the lease. The cost of assets sold or otherwise disposed of and the related allowance for depreciation are eliminated from the accounts and the resulting gains or losses are reflected in the statements of operations when incurred. Maintenance and repairs are charged to current expense. The costs of major renewals and improvements are capitalized.

Federal Reserve Bank Borrowings - The Federal Reserve created the Paycheck Protection Program Liquidity Facility (PPPLF) to help provide financing in response to disruptions arising from COVID-19. The PPPLF extends loans to banks that have loaned money to small businesses under the Paycheck Protection Program (PPP). Amounts borrowed are non-recourse and have a 100% advance rate equal to the principal amount of PPP loans pledged as security. In addition, loans financed under the PPPLF have no impact on regulatory leverage capital ratios. The maturity date of a borrowing under the PPPLF is equal to the maturity date of the PPP loan pledged to secure the borrowing and would be accelerated (i) if the underlying PPP loan goes into default and is transferred to the SBA to realize on the SBA guarantee or (ii) to the extent that any loan forgiveness reimbursement is received from the SBA. Borrowings under the PPPLF bear interest at a rate of 0.35% and there are no fees to the Bank. Outstanding borrowings from the PPPLF totaled \$167,000 and \$284,000 at December 31, 2024 and December 31, 2023, respectively. In addition to the PPPLF, the Bank has a line of credit with the Federal Reserve Discount Window.

Income Taxes - Amounts provided for income taxes are based on income reported for financial statement purposes. Deferred income taxes are provided for the temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

The Company believes that its income tax filing positions taken or expected to be taken in its tax returns will more likely than not be sustained upon an audit by the taxing authorities and does not anticipate any adjustments that will result in a material adverse impact on the Company's financial condition, results of operations, or cash flow. Therefore, no reserves for uncertain tax positions have been recorded.

Advertising Expense - Advertising and public relations costs are generally expensed as incurred and are included in advertising expense in the accompanying statements of operations. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Expenses charged for advertising for the years ended December 31, 2024 and 2023 were \$33,000 and \$255,000, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Income Per Common Share - Basic income per common share is computed by dividing the net income available to common shareholders by the weighted average number of common shares outstanding during the period. Diluted income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares and potential common shares outstanding. Potential common share equivalents consist of stock options and warrants determined using the treasury stock method and the average market price of the common stock.

Preferred Stock - In March 2023, the Company issued 768,000 shares of non-cumulative mandatorily convertible no par value Series A preferred stock at a price of \$12.50 per share. Dividends are paid semiannually at 7.00% per annum. Proceeds net of offering costs were \$9,545,000. The shares mandatorily convert to common ownership on March 31, 2026 at an exchange ratio of 1:1.

Stock Based Compensation - Compensation expense is recognized in the statements of operations under the fair value provisions of the accounting literature. The Company measures stock-based compensation expense for all share-based awards granted based on the estimated fair value of those awards at grant date. For stock options granted under the Company's stock option plan, the Company estimates the fair value of the awards using the Black-Scholes valuation model. The compensation costs of stock options are recognized net of any estimated forfeitures on a straight-line basis over the requisite service period. Forfeiture rates are estimated at grant date. See Note 9 of the Notes to Financial Statements for further discussion of stock-based compensation. The Company's stock option plan provides for stock options to be granted primarily to directors, officers, and key employees. Options granted under the stock option plan may be incentive stock options or non-qualified stock options. Stock option awards are generally granted with an exercise price equal to, or in excess of, the market price of the Company's shares at the date of grant. Options vest ratably over a three-year period and expire after ten years from the date of grant.

Comprehensive Income - The Company reports comprehensive income in accordance with Accounting Standards Codification (ASC) 220, "Comprehensive Income." ASC 220 requires that all items that are required to be reported under accounting standards as comprehensive income be reported in a financial statement that is displayed with the same prominence as other financial statements. The disclosure requirements have been included in the Company's statements of comprehensive income. The Company's only accounts subject to this reporting are unrealized gains and losses arising in the securities available for sale portfolio.

Cash and Cash Equivalents - For purposes of reporting cash flows in the financial statements, the Company considers certain highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents include amounts due from banks, interest bearing deposits with other banks, and federal funds sold. Generally, federal funds are sold for one-day periods.

Off-Balance-Sheet Financial Instruments - In the ordinary course of business, the Company enters into off-balance-sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

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

The Company records an allowance for credit losses on off balance sheet credit exposures and unfunded commitments, unless the commitments to extend credit are unconditionally cancelable, through a provision for (or reversal of) credit losses in the Company's consolidated statements of operations. The allowance for credit losses is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's consolidated statements of condition.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Revenue Recognition - In accordance with ASC *Topic 606 Revenue from Contracts with Customers*, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied.

A description of the Company's revenue streams accounted for under ASC 606 follows:

Service fees on deposit accounts: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange income: The Company earns interchange fees from cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, with the transaction processing services provided to the cardholder. Fees are recognized on a daily basis.

Derivative Financial Instruments - The Company is exposed to certain risks relating to its ongoing business operations and uses interest rate derivatives as part of its asset-liability management strategy to help manage its interest rate risk position. The Company records all derivative assets and liabilities on the consolidated statements of condition at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting in accordance with ASC 815, *Derivatives and Hedging*. The Company currently has derivatives that are designated as qualifying hedging relationships. There are no other derivatives that are not designated as qualifying hedging relationships. The gain or loss on the derivative as well as the offsetting gain or loss on the hedged item are recognized in the consolidated statements of operations. See Note 22 of the Notes to Financial Statements for further discussion.

Segment Reporting - The Company adopted Accounting Standards Update 2023-07 "Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures" on January 1, 2024. The Company has determined that all of its banking divisions meet the aggregation criteria of ASC 280, *Segment Reporting*, as its current operating model is structured whereby banking divisions serve a similar base of residential and commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Company's Chief Executive Officer, who has been identified as the chief operating decision maker ("CODM").

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (continued)

Recently Issued Accounting Pronouncements - The following is a summary of recent authoritative pronouncements that may affect accounting, reporting, and disclosure of financial information by the Company:

In December 2023, the FASB issued guidance requiring public business entities to disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate (the rate reconciliation) for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a specified threshold. For public business entities, the amendments are effective for annual periods beginning after December 15, 2024. For entities other than public business entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect this amendment to have a material change to the consolidated financial statements.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and Uncertainties - In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk.

The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

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

NOTE 2 - CASH AND DUE FROM BANKS

At December 31, 2024 and 2023, the Company was not required to maintain cash balances with its correspondent banks to cover cash letter transactions.

NOTE 3 - SECURITIES AVAILABLE FOR SALE

The amortized costs and fair value of investment securities available for sale are as follows:

<i>(Amounts in Thousands)</i>	December 31, 2024			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
US Treasury securities	\$ 5,230	\$ -	\$ 556	\$ 4,674
US Agency securities	976	-	51	925
Agency mortgage backed	10,115	-	2,165	7,950
SLMA asset-backed securities	2,697	41	-	2,738
SBA asset-backed securities	540	-	3	537
Municipal securities	10,565	-	2,524	8,041
Corporate securities	2,125	-	254	1,871
Total investment securities	<u>\$ 32,248</u>	<u>\$ 41</u>	<u>\$ 5,553</u>	<u>\$ 26,736</u>

<i>(Amounts in Thousands)</i>	December 31, 2023			
	Amortized	Gross Unrealized		Fair
	Cost	Gains	Losses	Value
US Treasury securities	\$ 7,281	\$ -	\$ 640	\$ 6,641
US Agency securities	967	-	65	902
Agency mortgage backed	11,262	-	2,241	9,021
SLMA asset-backed securities	3,387	21	33	3,375
SBA asset-backed securities	840	-	4	836
Municipal securities	10,572	-	2,380	8,192
Corporate securities	2,250	-	321	1,929
Total investment securities	<u>\$ 36,559</u>	<u>\$ 21</u>	<u>\$ 5,684</u>	<u>\$ 30,896</u>

The following tables show the gross unrealized losses and estimated fair value of available for sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024 and December 31, 2023.

<i>(Amounts in Thousands)</i>	December 31, 2024					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
US Treasury securities	\$ -	\$ -	\$ 4,674	\$ 556	\$ 4,674	\$ 556
US Agency securities	-	-	925	51	925	51
Agency mortgage backed	-	-	7,950	2,165	7,950	2,165
SLMA asset-backed securities	-	-	-	-	-	-
SBA asset-backed securities	-	-	537	3	537	3
Municipal securities	-	-	8,041	2,524	8,041	2,524
Corporate securities	-	-	1,871	254	1,871	254
Total investment securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 23,998</u>	<u>\$ 5,553</u>	<u>\$ 23,998</u>	<u>\$ 5,553</u>

<i>(Amounts in Thousands)</i>	December 31, 2023					
	Less Than 12 Months		12 Months or Longer		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Losses	Value	Losses	Value	Losses
US Treasury securities	\$ -	\$ -	\$ 6,641	\$ 640	\$ 6,641	\$ 640
US Agency securities	-	-	902	65	902	65
Agency mortgage backed	-	-	9,021	2,241	9,021	2,241
SLMA asset-backed securities	1,023	10	1,175	23	2,198	33
SBA asset-backed securities	-	-	836	4	836	4
Municipal securities	-	-	8,192	2,380	8,192	2,380
Corporate securities	-	-	1,929	321	1,929	321
Total investment securities	<u>\$ 1,023</u>	<u>\$ 10</u>	<u>\$ 28,696</u>	<u>\$ 5,674</u>	<u>\$ 29,719</u>	<u>\$ 5,684</u>

NOTE 3 - SECURITIES AVAILABLE FOR SALE - (continued)

All securities in an unrealized loss position at December 31, 2024 and December 31, 2023 are either issued by U.S. government agencies or are issued by entities or municipalities deemed to have strong credit quality. Declines in fair value are deemed to be attributable to market changes in interest rates and are not deemed to be credit quality related. The Company also does not anticipate needing to sell these securities prior to their maturities. Therefore, the Company does not consider these securities to require an allowance for credit losses at December 31, 2024 or 2023.

The amortized costs and fair values of investment securities available for sale at December 31, 2024 and 2023 by contractual maturity are shown below. Actual maturities may differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

<i>(Amounts in Thousands)</i>	2024		2023	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in less than one year	\$ -	\$ -	\$ 1,998	\$ 1,929
Due after one through five years	9,927	9,142	5,415	5,045
Due after five through ten years	12,538	10,298	19,494	16,552
Due after ten years	9,783	7,296	9,652	7,370
Total investment securities	<u>\$ 32,248</u>	<u>\$ 26,736</u>	<u>\$ 36,559</u>	<u>\$ 30,896</u>

No securities were sold during the years ended December 31, 2024, or 2023.

No securities were specifically pledged as collateral for public deposits, other borrowings, or lines of credit at December 31, 2024 or 2023.

NOTE 4 - LOANS RECEIVABLE

Loans receivable are summarized as follows:

<i>(Amounts in Thousands)</i>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Real estate secured:		
Construction and land development	\$ 55,798	\$ 39,751
Residential real estate	291,122	229,569
Multifamily	16,662	10,668
Commercial real estate	197,648	188,008
Total real estate secured	<u>\$ 561,230</u>	<u>\$ 467,996</u>
Commercial	51,145	41,650
Consumer and other	80,514	60,557
Total loans receivable	<u>692,889</u>	<u>570,203</u>
Deferred fees and costs, net	(653)	(802)
Less: Allowance for credit losses	<u>(5,850)</u>	<u>(5,569)</u>
Total loans receivable, net	<u>\$ 686,386</u>	<u>\$ 563,832</u>

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is an analysis of the allowance for credit losses by loan class for the years ended December 31, 2024 and 2023:

<i>(Amounts in Thousands)</i>	Construction and Land Development	Residential Real Estate	Multifamily	Commercial Real Estate	Commercial	Consumer and other	Total
Allowance for credit losses:							
Beginning balance	\$ 391	\$ 1,931	\$ 94	\$ 1,665	\$ 537	\$ 951	\$ 5,569
Charge-offs	-	-	-	-	-	(22)	(22)
Recoveries	-	-	-	-	-	9	9
Provisions	<u>23</u>	<u>330</u>	<u>20</u>	<u>(308)</u>	<u>182</u>	<u>47</u>	<u>294</u>
Ending balance	<u>\$ 414</u>	<u>\$ 2,261</u>	<u>\$ 114</u>	<u>\$ 1,357</u>	<u>\$ 719</u>	<u>\$ 985</u>	<u>\$ 5,850</u>

<i>(Amounts in Thousands)</i>	Construction and Land Development	Residential Real Estate	Multifamily	Commercial Real Estate	Commercial	Consumer and other	Total
Allowance for credit losses:							
Beginning balance	\$ 555	\$ 2,136	\$ 139	\$ 1,780	\$ 353	\$ 292	\$ 5,255
Charge-offs	-	-	-	-	-	(9)	(9)
Recoveries	-	-	-	-	-	-	-
Provisions	<u>(164)</u>	<u>(205)</u>	<u>(45)</u>	<u>(115)</u>	<u>184</u>	<u>668</u>	<u>323</u>
Ending balance	<u>\$ 391</u>	<u>\$ 1,931</u>	<u>\$ 94</u>	<u>\$ 1,665</u>	<u>\$ 537</u>	<u>\$ 951</u>	<u>\$ 5,569</u>

The Company had no individually evaluated loans at December 31, 2024 or December 31, 2023.

The following is a summary of past due loans as of December 31, 2024 and 2023:

<i>(Amounts in Thousands)</i>	30 – 59 Days Past Due	60 – 89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans Receivable	Nonaccrual Loans
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 55,798	\$ 55,798	\$ -
Residential real estate	419	164	-	583	290,539	291,122	-
Multifamily	-	-	-	-	16,662	16,662	-
Commercial real estate	-	-	-	-	197,648	197,648	-
Commercial	-	-	-	-	51,145	51,145	-
Consumer and other	<u>389</u>	<u>53</u>	<u>-</u>	<u>442</u>	<u>80,072</u>	<u>80,514</u>	<u>-</u>
Total loans	<u>\$ 808</u>	<u>\$ 217</u>	<u>\$ -</u>	<u>\$ 1,025</u>	<u>\$ 691,864</u>	<u>\$ 692,889</u>	<u>\$ -</u>

<i>(Amounts in Thousands)</i>	30 – 59 Days Past Due	60 – 89 Days Past Due	90 + Days Past Due	Total Past Due	Current	Total Loans Receivable	Nonaccrual Loans
Construction and land development	\$ -	\$ -	\$ -	\$ -	\$ 39,751	\$ 39,751	\$ -
Residential real estate	-	-	-	-	229,569	229,569	-
Multifamily	-	-	-	-	10,668	10,668	-
Commercial real estate	-	-	-	-	188,008	188,008	-
Commercial	102	-	-	102	41,548	41,650	-
Consumer and other	<u>50</u>	<u>-</u>	<u>-</u>	<u>50</u>	<u>60,507</u>	<u>60,557</u>	<u>-</u>
Total loans	<u>\$ 152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ 570,051</u>	<u>\$ 570,203</u>	<u>\$ -</u>

NOTE 4 – LOANS RECEIVABLE - (continued)

Credit Indicators

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The following definitions are utilized for risk ratings, which are consistent with the definitions used in supervisory guidance:

Special Mention - Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard - Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful - Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above-described process are considered to be pass rated loans.

NOTE 4 - LOANS RECEIVABLE - (continued)

The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2024:

<i>(amounts in thousands)</i>	Term Loans by Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Construction and land development								
Pass	\$ 28,126	\$ 20,535	\$ 4,362	\$ 94	\$ 345	\$ 1,475	\$ 684	\$ 55,621
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	177	-	-	-	-	177
Total construction and land development loans	<u>\$ 28,126</u>	<u>\$ 20,535</u>	<u>\$ 4,539</u>	<u>\$ 94</u>	<u>\$ 345</u>	<u>\$ 1,475</u>	<u>\$ 684</u>	<u>\$ 55,798</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Residential real estate								
Pass	\$ 60,077	\$ 29,322	\$ 58,096	\$ 49,518	\$ 44,323	\$ 6,920	\$ 42,808	\$ 291,064
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	58	58
Total residential real estate loans	<u>\$ 60,077</u>	<u>\$ 29,322</u>	<u>\$ 58,096</u>	<u>\$ 49,518</u>	<u>\$ 44,323</u>	<u>\$ 6,920</u>	<u>\$ 42,866</u>	<u>\$ 291,122</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Multifamily								
Pass	\$ 3,822	\$ 2,585	\$ 2,188	\$ 4,607	\$ -	\$ 3,460	\$ -	\$ 16,662
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total multifamily loans	<u>\$ 3,822</u>	<u>\$ 2,585</u>	<u>\$ 2,188</u>	<u>\$ 4,607</u>	<u>\$ -</u>	<u>\$ 3,460</u>	<u>\$ -</u>	<u>\$ 16,662</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate								
Pass	\$ 14,087	\$ 20,646	\$ 54,002	\$ 43,726	\$ 23,804	\$ 38,593	\$ 423	\$ 195,281
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	2,367	-	-	-	2,367
Total commercial real estate loans	<u>\$ 14,087</u>	<u>\$ 20,646</u>	<u>\$ 54,002</u>	<u>\$ 46,093</u>	<u>\$ 23,804</u>	<u>\$ 38,593</u>	<u>\$ 423</u>	<u>\$ 197,648</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial								
Pass	\$ 16,829	\$ 15,978	\$ 8,950	\$ 3,374	\$ 426	\$ 1,173	\$ 3,292	\$ 50,022
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	173	-	-	950	1,123
Total commercial loans	<u>\$ 16,829</u>	<u>\$ 15,978</u>	<u>\$ 8,950</u>	<u>\$ 3,547</u>	<u>\$ 426</u>	<u>\$ 1,173</u>	<u>\$ 4,242</u>	<u>\$ 51,145</u>
Current period gross write-offs	-	-	-	-	-	-	-	-
Consumer and other								
Pass	\$ 42,255	\$ 32,270	\$ 5,907	\$ 17	\$ 65	\$ -	\$ -	\$ 80,514
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total consumer and other loans	<u>\$ 42,255</u>	<u>\$ 32,270</u>	<u>\$ 5,907</u>	<u>\$ 17</u>	<u>\$ 65</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 80,514</u>
Current period gross write-offs	8	14	-	-	-	-	-	22

NOTE 4 - LOANS RECEIVABLE - (continued)

The following is a summary of the Company's loans as of December 31, 2023:

<i>(Amounts in thousands)</i>	Construction	Residential		Commercial		Consumer	
	and Land	Real Estate	Multifamily	Real Estate	Commercial	and other	Total
	Development	Real Estate					
Pass	\$ 39,751	\$ 229,569	\$ 10,668	\$ 181,399	\$ 39,349	\$ 60,557	\$ 561,293
Special mention	-	-	-	2,467	2,301	-	4,768
Substandard	-	-	-	4,142	-	-	4,142
Doubtful	-	-	-	-	-	-	-
	<u>\$ 39,751</u>	<u>\$ 229,569</u>	<u>\$ 10,668</u>	<u>\$ 188,008</u>	<u>\$ 41,650</u>	<u>\$ 60,557</u>	<u>\$ 570,203</u>

Modifications to borrowers experiencing financial difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses. In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The Company made no modifications to borrowers experiencing financial difficulty during the years ended December 31, 2024 or December 31, 2023.

Off-Balance-Sheet Financial Instruments

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated statements of condition. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for (or reversal of) on the consolidated statements of operations. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

At December 31, 2024 and 2023, the allowance for credit losses on off balance sheet credit exposures and unfunded commitments, which is included in other liabilities in the Company's consolidated statements of condition, was \$289,000.

NOTE 5 - PREMISES, FURNITURE AND EQUIPMENT

Premises, furniture and equipment are stated at cost less accumulated depreciation. Components of premises, furniture and equipment included in the statements of condition are as follows at December 31, 2024 and December 31, 2023:

<i>(Amounts in Thousands)</i>	<u>2024</u>	<u>2023</u>
Land	\$ 899	\$ -
Leasehold improvements	3,032	2,502
Construction in process	-	7
Furniture and equipment	3,113	2,331
Vehicles	<u>113</u>	<u>113</u>
	7,157	4,953
Less: accumulated depreciation	<u>2,625</u>	<u>1,939</u>
Total premises, furniture and equipment, net	<u><u>\$ 4,532</u></u>	<u><u>\$ 3,014</u></u>

During 2024 and 2023, the Company recorded no sales proceeds related to premises, furniture, and equipment. Construction in process consisted of engineering fees paid during 2023 for the development of a park adjacent to its headquarters location.

Depreciation expense for the years ended December 31, 2024 and December 31, 2023 was \$686,000 and \$524,000, respectively.

NOTE 6 - DEPOSITS

At December 31, 2024, the scheduled maturities of time deposits were as follows:

<i>(Amounts in Thousands)</i>	
2025	\$ 142,459
2026	34,493
2027	3,251
2028	2,098
2029 and thereafter	<u>41,575</u>
Total time deposits	<u><u>\$ 223,876</u></u>

The Company carried brokered deposits as of December 31, 2024 and 2023 of \$56.9 million and \$34.1 million, respectively. At December 31, 2024 and December 31, 2023, the Company had one deposit relationship which comprised approximately 13% and 25% of total deposits, respectively.

NOTE 7 - ADVANCES FROM THE FEDERAL HOME LOAN BANK OF ATLANTA

Advances from the Federal Home Loan Bank of Atlanta (FHLBA) are collateralized by FHLBA stock and pledges of certain residential mortgage loans and commercial real estate loans and are summarized as follows:

(Amounts in Thousands)

Maturity	Rate	December 31,	
		2024	2023
March 2024	4.57%	\$ -	\$ 10,000
May 2024	5.57%	-	19,000
February 2025	4.93%	10,000	-
April 2025	4.17%	5,000	5,000
June 2025	4.57%	20,000	-
July 2025	4.68%	5,000	-
September 2025	4.93%	10,000	-
October 2025	4.08%	5,000	-
January 2026	4.43%	5,000	-
December 2026	4.53%	10,000	10,000
April 2027	3.87%	5,000	5,000
February 2028	4.07%	5,000	5,000
March 2028	4.48%	5,000	5,000
April 2028	3.87%	5,000	5,000
April 2028	3.75%	5,000	5,000
November 2028	4.63%	10,000	10,000
		<u>\$ 105,000</u>	<u>\$ 79,000</u>

Fixed rate advances are subject to early termination options. The FHLBA reserves the right to terminate each agreement at an earlier date. The advances maturing in June 2025 and May 2024 were variable rate advances which could be advanced or paid down on a daily basis.

NOTE 8 – NOTE PAYABLE

On December 13, 2024, the Company entered into a debt arrangement with United Bankers' Bank for \$10 million which consisted of a \$5 million term debt facility and a \$5 million revolving line of credit. As collateral, the Company pledged its interest in the subsidiary Bank's stock.

The term facility of \$5 million was fully advanced upon origination and carried a fixed interest rate of 7.25%. It had an initial term of five years with quarterly payments, with the first 15 months of the term being interest only and the remaining term being principal and interest based on a 12 year amortization. A balloon payment of \$3.9 million will be due at maturity on December 13, 2029. Accrued interest on this note totaled \$19,000 at December 31, 2024.

The revolving line of credit had no balance or accrued interest payable at December 31, 2024. This facility had a variable interest rate equal to prime rate, which was 7.25% at the end of the year.

The Company used the proceeds from the term facility to retire subordinated debt from a related party of \$5 million; this transaction is described in more detail in Note 15. The Company plans to use the revolving line of credit on a temporary basis to contribute capital to its subsidiary bank as needed for growth, as well as to pay for its normal operating expenses, prior to completion of additional equity raises.

NOTE 9 - STOCK BASED COMPENSATION

On July 19, 2018, the Company's Board of Directors adopted the Beacon Community Bank 2018 Equity Incentive Plan. The plan was approved by shareholder at the Company's initial annual meeting and reserves 512,243 shares for issuance in the form of stock options or restricted stock. Options that expire without issuance and forfeitures are added back to shares that are available to be awarded under the plan.

NOTE 9 - STOCK BASED COMPENSATION - (continued)

On July 19, 2018, the CEO, CFO, COO, and CLO were each granted 30,000 incentive stock options by the Company. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 11.19%, risk free interest rate of 2.86% and an expected life of 6.24 years. One-third of the options vest on each of the first three anniversaries of January 8, 2018, the Company's opening date. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On July 19, 2018, the CEO, CFO, COO, and CLO were each granted non-qualified stock options by the Company as follows: CEO, 38,299 options; CFO, 29,762 options; COO, 21,224 options; and CLO, 29,762 options.

Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 11.19%, risk free interest rate of 2.86% and an expected life of 6.24 years. One-third of the options vest on each of the first three anniversaries of January 8, 2018, the Company's opening date. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On July 19, 2018, 14 individual employees were granted a total of 40,250 incentive stock options by the Company. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 11.14%, risk free interest rate of 2.86% and an expected life of 6.50 years. The options vest in three equal installments on each of the first three anniversaries of the date of grant. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On July 19, 2018, each outside member of the Company's Board of Directors was granted 10,000 non-qualified stock options by the Company, for a total of 160,000 options. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 11.14%, risk free interest rate of 2.86% and an expected life of 6.50 years. The options vest in three equal installments on each of the first three anniversaries of the date of grant. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On April 24, 2019, 2 individual employees were granted a total of 6,000 incentive stock options by the Company. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 11.51%, risk free interest rate of 2.86% and an expected life of 6.50 years. The options vest in three equal installments on each of the first three anniversaries of the date of grant. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On July 19, 2021, the Company's Board of Directors granted 8,300 non-qualified stock options to an individual director. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 31.60%, risk free interest rate of 0.38% and an expected life of 3.50 years. The options were immediately vested at the date of grant. The options have an exercise price of \$10.00 per share and terminate ten years after the date of grant.

On August 19, 2021, the Company's Board of Directors granted three individual directors 10,000 non-qualified stock options each. The options have an exercise price of \$10.00 per share and a vesting period of three years retroactive to each Director's beginning date of Board service. The options also terminate ten years after the beginning date of Board service. The individual Directors' beginning dates of Board service were June 20, 2019, January 16, 2020, and March 18, 2021. Fair value was estimated at the date of grant using the Black-Scholes option pricing model. The assumptions used for each of the grants was as follows: Grant # 1: dividend yield of 0.00%, historical volatility of 28.19%, risk free interest rate of 0.61% and an expected life of 4.30 years; Grant # 2: dividend yield of 0.00%, historical volatility of 26.88%, risk free interest rate of 0.78% and an expected life of 4.90 years; and Grant # 3: dividend yield of 0.00%, historical volatility of 24.69%, risk free interest rate of 0.91% and an expected life of 6.10 years.

On June 16, 2022, the Company granted 3,750 officer incentive stock options and 66,000 Board of Director non-qualified stock options. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 28.34%, risk free interest rate of 3.36% and an expected life of 6.50 years. The options vest in three equal installments on each of the first three anniversaries of the date of grant. The options have an exercise price of \$12.50 per share and terminate ten years after the date of grant.

NOTE 9 - STOCK BASED COMPENSATION - (continued)

On January 19, 2023, the Company granted 37,500 officer incentive stock options and 69,750 Board of Director non-qualified stock options. Fair value was estimated at the date of grant using the Black-Scholes option pricing model with the following assumptions: dividend yield of 0.00%, historical volatility of 28.21%, risk free interest rate of 3.43% and an expected life of 6.50 years. The options vest in three equal installments on each of the first three anniversaries of the date of grant. The options have an exercise price of \$12.50 per share and terminate ten years after the date of grant.

There was \$176,000 and \$406,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements at December 31, 2024 and 2023, respectively. The cost is expected to be recognized over a weighted average period of 0.97 years. The compensation expense recognized for the years ended December 31, 2024 and December 31, 2023 totaled \$271,000 and \$275,000, respectively.

A summary of the Company's stock options as of December 31, 2024, and changes during the year, are presented below:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>
Outstanding at December 31, 2023	417,018	\$ 11.06
Granted	-	-
Exercised	-	-
Forfeited	-	-
Expired	-	-
Outstanding at December 31, 2024	<u>417,018</u>	<u>\$ 11.06</u>

The following table summarizes information about the stock options outstanding under the Company's equity incentive plan at December 31, 2024 and 2023:

	2024		2023	
	<u>Outstanding</u>	<u>Exercisable</u>	<u>Outstanding</u>	<u>Exercisable</u>
Number of options	417,018	298,181	417,018	259,937
Weighted average remaining life	5.48	4.50	6.48	5.05
Weighted average exercise price	\$11.06	\$10.48	\$11.06	\$10.22
High exercise price	\$12.50	\$12.50	\$12.50	\$12.50
Low exercise price	\$10.00	\$10.00	\$10.00	\$10.00
Aggregate intrinsic value	\$ 600,507	\$ 602,326	\$ 600,507	\$ 592,656

NOTE 10 - STOCK WARRANTS

The organizers of the Company received stock warrants giving them the right to purchase one share of common stock for every \$10.00 of at risk money they contributed to the organizing entity, up to a total of \$2,000,000 of at risk funds. The organizers collectively contributed a total of \$2,000,000 in at risk funds, and a total of 200,000 warrants with an exercise price of \$10.00 per share were granted upon opening. The warrants were immediately vested upon issuance and expire ten years from the date of grant. During 2024 and 2023, no warrants were issued or forfeited. Life to date, 65,000 warrants have been exercised and 10,000 warrants have been forfeited.

NOTE 11 - INCOME TAXES

Income tax benefit for the years ended December 31, 2024 and December 31, 2023 are summarized as follows:

<i>(Amounts in Thousands)</i>	December 31,	
	<u>2024</u>	<u>2023</u>
Current expense		
Federal	\$ 539	\$ 462
State	<u>86</u>	<u>49</u>
	625	511
Deferred tax benefit	(106)	(31)
Valuation allowance	<u>10</u>	<u>-</u>
Income tax expense	<u>\$ 529</u>	<u>\$ 480</u>

The gross amounts of deferred tax assets and deferred tax liabilities are as follows:

<i>(Amounts in Thousands)</i>	December 31,	
	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Allowance for credit losses	\$ 1,228	\$ 1,170
Organizational and start-up costs	104	115
Operating and financing lease liabilities	1,611	1,800
Unrealized losses on securities available for sale	1,406	1,444
Equity compensation	167	121
Deferred loan fees	137	169
State tax net operating loss	10	-
Other	<u>104</u>	<u>107</u>
Gross deferred tax assets	4,767	4,926
Less: valuation allowance	<u>(10)</u>	<u>-</u>
Total deferred tax assets	<u>4,757</u>	<u>4,926</u>
Deferred tax liabilities:		
Depreciation	(134)	(101)
Prepaid expenses	(19)	(50)
Right of use assets for operating and financing leases	<u>(1,524)</u>	<u>(1,742)</u>
Total deferred tax liabilities	<u>(1,677)</u>	<u>(1,893)</u>
Net deferred tax assets	<u>\$ 3,080</u>	<u>\$ 3,033</u>

A reconciliation between the income tax expense and the amount computed by applying the Federal statutory rate of 21% to income before income taxes for the years ended December 31, 2024 and December 31, 2023 follows:

<i>(Amounts in Thousands)</i>	<u>2024</u>	<u>2023</u>
	Tax expense at a statutory rate	\$ 415
Differences:		
Stock-based compensation	13	13
Other	24	23
Valuation adjustment	10	
State taxes (net of federal benefit)	<u>67</u>	<u>39</u>
Income tax expense	<u>\$ 529</u>	<u>\$ 480</u>

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions. The Company's policy is to classify any interest or penalties recognized as interest expense or noninterest expense, respectively. Tax returns for 2021 and subsequent years are subject to examination by taxing authorities.

NOTE 12 - BENEFIT PLAN

The Company established a defined contribution plan during 2018. All full-time employees are eligible to participate in the plan. The Company contributes a matching contribution of 100% of employee salary deferral contributions up to 3% of salary, plus 50% of employee salary deferral contributions from 3% to 5% of salary for the plan year. Matching contribution expense for the years ended December 31, 2024 and December 31, 2023 was \$198,000 and \$168,000, respectively, and is included within salaries and employee benefits on the consolidated statements of operations.

NOTE 13 - LEASES

The Company has a financing lease in place for its Mt. Pleasant operations center. The terms of its original lease, which was classified as an operating lease and commenced on March 1, 2018, were amended on January 11, 2022, and made concurrent with the terms of a separate operating lease agreement for additional adjoining space. Terms of the amended lease for the initial space have an initial lease term of 7 years, with options to renew the lease for two additional five-year periods. Base rent payments for the first year of the amended lease totaled approximately \$80,000, with annual increases of 3% over the initial term of the lease, as well as each of the years in the optional renewal periods. As part of the terms of the original lease, the landlord provided the Company with \$115,000 of leasehold improvements which the Company recorded as an asset and continues to depreciate over the Company's original seven-year lease term. As a result of the amended lease agreement the Company's adjusted right of use asset and corresponding lease liability totaled approximately \$513,000 and \$567,000, respectively, with the difference representing the undepreciated portion of the leasehold improvements. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 1.99%. This discount rate was determined to be the 7-year incremental borrowing rate at the lease inception date.

The Company has a financing lease in place for its initial retail location on the Charleston peninsula which was initially entered into during the organizational period. The lease commenced on June 30, 2017, and has an initial lease term of 10 years and 3 months, with an option to renew the lease for one additional five-year period. No rent payments were due for the first 3 months of the lease. Base rent payments for the first year of the lease totaled approximately \$48,000. Base rent payments increased by 3% with the 13th lease payment and will increase by 3% on an annual basis going forward. As part of the lease terms, the landlord provided the Company with \$90,000 of leasehold improvements which the Company recorded as an asset and is depreciating over the term of the lease. As a result of this transaction the Company recognized a right of use asset of approximately \$537,000, leasehold improvements of \$90,000, and a corresponding lease liability of approximately \$627,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 3.05%. This discount rate was determined to be the 10-year incremental borrowing rate at the lease inception date.

The Company has a financing lease in place for a retail location on Daniel Island in Charleston, which it opened in April 2021. The lease commenced on November 1, 2020, and has an initial lease term of eleven years, with two options to extend for five years each. No rent payments were due for the first 5 months of the lease. The first twelve base rent payments totaled \$19,000. Base rent payments increase to approximately \$46,000 for the next twelve payments, followed by 2% increases on an annual basis for the remainder of the lease. As a result of this transaction the Company recognized a right of use asset and corresponding lease liability of approximately \$479,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 1.27%. This discount rate was determined to be the 10-year incremental borrowing rate at the lease inception date.

The Company has a financing lease in place for a retail location on Ben Sawyer Boulevard in Mt. Pleasant, which it opened in September 2022. The lease commenced on March 1, 2022, and has an initial lease term of ten years, with three options to extend for five years each. The first rent payment was paid on July 1, 2022. Base rent payments for the first year of the lease totaled approximately \$116,000. Base rent payments will increase by 2% on an annual basis going forward. As a result of this transaction the Company recognized a right of use asset and corresponding lease liability of approximately \$1,093,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 2.18%. The discount rate was determined to be the 10-year incremental borrowing rate at the lease inception date.

The Company has a financing lease in place for a retail location on International Boulevard in North Charleston, which it opened in February 2023. The lease commenced on February 1, 2023, and has an initial lease term of ten years, with four options to extend for five years each. The first rent payment was paid on February 1, 2023. Base rent payments for the first year of the lease totaled approximately \$287,000. Base rent payments will increase by 2% on an annual basis going forward. As a result of this transaction the Company recognized a right of use asset and corresponding lease liability of approximately \$2,580,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 4.13%. The discount rate was determined to be the 10-year incremental borrowing rate at the lease inception date.

NOTE 13 - LEASES - (continued)

The Company has a financing lease in place for its headquarters location on North Highway 17 in Mount Pleasant, which it opened in September 2023. The lease commenced on September 9, 2023, and has an initial lease term of ten years, with four options to extend for five years each. The first rent payment was paid on February 9, 2023. Base rent payments for the first year of the lease totaled approximately \$415,000. Base rent payments will increase by 2% on an annual basis going forward. As a result of this transaction the Company recognized a right of use asset and corresponding lease liability of approximately \$3,917,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 3.37%. The discount rate was determined to be the 10-year incremental borrowing rate at the lease inception date.

For the year ended December 31, 2024, the Company's financing leases cost included approximately \$926,000 of amortization expense for its right of use assets and approximately \$260,000 of financing expense. For the year ended December 31, 2023, the Company's financing leases cost included approximately \$583,000 of amortization expense for its right of use assets and approximately \$165,000 of financing expense.

Minimum future rental payments under the non-cancelable financing leases described above are as follows:

(Amounts in Thousands)

2025	\$	1,071
2026		1,094
2027		1,088
2028		1,054
2029		994
Thereafter		<u>3,289</u>
Total minimum future rental payments	\$	<u>8,590</u>
Less: Effect of discount		<u>1,077</u>
Net lease liability	\$	<u>7,513</u>

The Company has an operating lease in place for additional space at its Mt. Pleasant operations center. The lease commenced on January 11, 2022, and has an initial lease term of 7 years, with options to renew the lease for two additional five-year periods. Base rent payments total approximately \$22,000 for the first year of the lease, with annual increases of 3% over the initial term of the lease, as well as each of the years in the optional renewal period. As a result, the annual lease-related expense is approximately \$24,000. As a result of this transaction the Company recognized a right of use asset and corresponding lease liability of approximately \$159,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 1.99%. This discount rate was determined to be the 7-year incremental borrowing rate at the lease inception date.

For the years ended December 31, 2024 and December 31, 2023, the Company's operating lease cost for the lease described above totaled approximately \$24,000 and \$24,000, respectively.

The Company has an operating lease in place for a retail location on Houston Northcutt Boulevard in Mt. Pleasant. The lease commenced on January 15, 2019, and had an initial lease term of 3.5 years, with an option to renew the lease for one additional three-year period. Base rent payments began six months after lease commencement and totaled approximately \$59,000 for the first year of the lease, with annual increases of 3% over the initial term of the lease, as well as each of the years in the optional renewal period. As part of the lease terms, the landlord provided the Company with \$31,000 of leasehold improvements which the Company recorded as an asset and depreciated over the initial lease term. As a result, the annual lease-related expense, including depreciation of leasehold improvements, was approximately \$93,000. The Company exercised its renewal option on this lease on January 4, 2022. As a result of the lease renewal the Company recognized a right of use asset and corresponding lease liability of approximately \$264,000. The amount of the liability was determined by calculating the present value of the annual cash lease payments using a discount rate of 3.04%. This discount rate was determined to be the 3-year incremental borrowing rate at the lease inception date.

For the years ended December 31, 2024 and December 31, 2023, the Company's operating lease cost for the lease described above totaled approximately \$92,000 and \$92,000, respectively. Additionally, for the years ended December 31, 2024 and December 31, 2023, the Company recognized no depreciation of landlord provided leasehold improvements in either of the years.

NOTE 13 - LEASES - (continued)

Minimum future rental payments under the non-cancelable operating leases described above are as follows:

<i>(Amounts in Thousands)</i>	
2025	\$ 79
2026	25
2027	26
2028	26
2029	7
Thereafter	<u>-</u>
Total minimum future rental payments	<u>\$ 163</u>
Less: effective lease liability	<u>5</u>
Net lease liability	<u>\$ 158</u>

NOTE 14 - SHAREHOLDERS' EQUITY

During the years ended December 31, 2024 and December 31, 2023, the Company issued 0 and 834 shares of common stock, respectively. During the year ended December 31, 2023, share issuances comprised of 834 option exercises at \$12.50 per share for total proceeds of \$10,425. There were no shares of non-cumulative mandatorily convertible preferred stock issued during the year ended December 31, 2024. During the year ended December 31, 2023, the Company issued 768,000 shares of non-cumulative mandatorily convertible preferred stock at \$12.50 per share and an annual coupon rate of 7.00% with semiannual dividend payments. These shares will convert to common stock on March 31, 2026, at a 1:1 conversion rate. Dividends paid on preferred stock totaled \$672,000 and \$332,000 for the years ended December 31, 2024 and December 31, 2023, respectively.

NOTE 15 - RELATED PARTY TRANSACTIONS

Certain parties (principally certain directors and executive officers of the Company, their immediate families and business interests) were loan customers of and had other transactions in the normal course of business with the Company. Related party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than the normal risk of collectability.

The following table summarizes related party loans:

<i>(Amounts in Thousands)</i>	<u>2024</u>	<u>2023</u>
Balance at the beginning of the year	\$ 14,393	\$ 8,300
New loans or advances	459	6,331
Repayments	<u>(733)</u>	<u>(238)</u>
Balance at the end of the year	<u>\$ 14,119</u>	<u>\$ 14,393</u>

Deposits by directors, including their affiliates, and executive officers, at December 31, 2024 and 2023 totaled approximately \$83,688,000 and \$135,205,000, respectively.

The financing lease on the Company's Charleston peninsula location described in Note 13 is with a limited liability corporation that is owned by a director of the Company. Expenses associated with this lease totaled approximately \$60,000 and \$62,000 for the years ended December 31, 2024 and December 31, 2023, respectively. Each of the financing leases on the Company's International Boulevard and North Highway 17 locations described in Note 13 are with separate limited liability corporations that are owned by directors of the Company. Expenses associated with the International Boulevard lease totaled approximately \$354,000 and \$301,000 for the years ended December 31, 2024 and December 31, 2023, respectively. Expenses associated with the North Highway 17 location totaled approximately \$516,000 and \$131,000 for the years ended December 31, 2024 and December 31, 2023, respectively.

The Company purchased a Sprinter Van for \$113,000 from an automotive dealership owned by one of its directors during 2018. The purpose of the vehicle is for corporate events and other general corporate uses. The Company recognized approximately \$0 and \$15,000 of depreciation expense for this during vehicle the years ended December 31, 2024 and December 31, 2023, respectively.

NOTE 15 – RELATED PARTY TRANSACTIONS – (continued)

On January 30, 2024, the Company issued subordinated debt totaling \$5 million to one of its directors. The note had a fixed rate of interest of 8.00% with a maturity of January 30, 2029. On December 13, 2024, upon receipt of proceeds from its note payable from United Bankers' Bank referenced in Note 8, we retired this debt early with a full payment of principal and accrued interest. Interest paid on the note during 2024 totaled \$348,000.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

The Company is subject to claims and lawsuits which arise primarily in the ordinary course of business. Management is not aware of any legal proceedings which would have a material adverse effect on the financial position or operating results of the Company.

NOTE 17 - REGULATORY MATTERS

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum ratios (set forth in the table below) of Tier 1, Common Equity Tier 1 (CET1), and total capital as a percentage of assets and off-balance-sheet exposures, adjusted for risk-weights ranging from 0% to 150%. Tier 1 capital of the Company consists of common stockholders' equity, excluding the unrealized gain or loss on securities available for sale, minus certain intangible assets, while CET1 is comprised of Tier 1 capital, adjusted for certain regulatory deductions and limitations. Tier 2 capital consists of the allowance for credit losses subject to certain limitations. Total capital for purposes of computing the capital ratios consists of the sum of Tier 1 and Tier 2 capital.

The Company is also required to maintain capital at a minimum level based on average assets (as defined), which is known as the leverage ratio. Only the strongest institutions are allowed to maintain capital at the minimum requirement. All others are subject to maintaining ratios 1% to 2% above the minimum.

Effective March 31, 2015, quantitative measures established by applicable regulatory standards, including the newly implemented Basel III revised capital adequacy standards and relevant provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd Frank Act"), require the Company to maintain (i) a minimum ratio of Tier 1 capital to average total assets, after certain adjustments, of 4.00%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of 6.00%, (iii) a minimum ratio of total-capital to risk-weighted assets of 8.00% and (iv) a minimum ratio of CET1 to risk-weighted assets of 4.50%. A "well-capitalized" institution must generally maintain capital ratios 2% higher than the minimum guidelines.

In order to avoid restrictions on capital distributions or discretionary bonus payments to executives, the Company will also be required to maintain a "capital conservation buffer" in addition to its minimum risk-based capital requirements. This buffer will be required to consist solely of CET1, but the buffer will apply to all three risk-based measurements (CET1, Tier 1 and total capital). The capital conservation buffer was phased in incrementally over time, beginning January 1, 2016 and was fully phased in on January 1, 2019, with an additional amount of Tier 1 capital equal to 2.5% of risk-weighted assets.

As of the most recent regulatory examination, the Company was deemed well-capitalized under the regulatory framework for prompt corrective action. To be categorized well capitalized, the Company must maintain total risk-based, Tier 1 risk-based, and Tier 1 leverage ratios as set forth in the table below. There are no conditions or events that management believes have changed the Company's categories.

NOTE 17 - REGULATORY MATTERS - (continued)

The following table summarizes the capital ratios and the regulatory minimum requirements of the subsidiary Bank at December 31, 2024 and 2023.

<i>(Amounts in Thousands)</i>	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	December 31, 2024					
Total capital (to risk-weighted assets)	\$64,961	10.24%	50,763	8.00%	63,454	10.00%
Tier 1 capital (to risk-weighted assets)	59,111	9.32%	38,072	6.00%	50,763	8.00%
Tier 1 capital (to average assets)	59,111	7.96%	29,688	4.00%	37,109	5.00%
Common equity tier 1 capital (to risk-weighted assets)	49,566	7.81%	28,554	4.50%	41,245	6.50%

<i>(Amounts in Thousands)</i>	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well-Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
	December 31, 2023					
Total capital (to risk-weighted assets)	\$59,054	11.21%	42,142	8.00%	52,678	10.00%
Tier 1 capital (to risk-weighted assets)	53,485	10.15%	31,607	6.00%	42,142	8.00%
Tier 1 capital (to average assets)	53,485	8.51%	25,140	4.00%	31,425	5.00%
Common equity tier 1 capital (to risk-weighted assets)	43,940	8.34%	23,705	4.50%	34,241	6.50%

NOTE 18 - LINES OF CREDIT

As of December 31, 2024, the subsidiary Bank had six unsecured lines of credit to purchase federal funds from unrelated correspondent institutions totaling \$33.5 million. At December 31, 2024 and 2023, there was no balance outstanding on the lines of credit. The lenders have reserved the right to withdraw the unsecured lines at their option. These lines of credit are available under various terms and are available for general corporate purposes. The Company may also borrow from the FHLBA based on a predetermined formula. Advances on this line totaled \$105 million and \$79 million at December 31, 2024 and 2023, respectively. Letters of Credit issued on the Company's behalf to collateralize uninsured public funds on deposit with the Company totaled approximately \$35.3 million and \$23.4 million at December 31, 2024 and 2023, respectively. Additional funds of approximately \$44 million were available on the line at December 31, 2024. Advances are subject to approval by the FHLBA and may require the Company to pledge additional collateral. The Company has pledged approximately \$185.2 million in qualifying collateral for these advances and letters of credit at December 31, 2024.

NOTE 19 - RESTRICTIONS ON DIVIDENDS

South Carolina Banking regulations restrict the amount of dividends that can be paid. Dividends paid by the subsidiary Bank to the Company are payable only from retained earnings. At December 31, 2024, the Bank's retained earnings totaled \$2,063,000. At December 31, 2023, the Bank's retained earnings totaled \$186,000. The Bank is authorized to pay cash dividends up to 100% of net income in any calendar year without obtaining the prior approval of the Commissioner of Banking provided that the Bank received a composite rating of one or two at the last Federal or State regulatory examination.

NOTE 20 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

The Company is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments consist of commitments to extend credit and standby letters of credit. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. A commitment involves, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the statements of condition. The Company's exposure to credit loss in the event of nonperformance by the other party to the instrument is represented by the contractual notional amount of the instrument. Since certain commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company uses the same credit policies in making commitments to extend credit as it does for on-balance-sheet instruments. Letters of credit are conditional commitments issued to guarantee a customer's performance to a third party and have essentially the same credit risk as other lending facilities.

Collateral held for commitments to extend credit and letters of credit varies but may include accounts receivable, inventory, property, plant, equipment and income-producing commercial properties.

The following table summarizes the Company's off-balance-sheet financial instruments whose contract amounts represent credit risk at December 31, 2024 and 2023:

(Amounts in Thousands)

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 111,102	\$ 79,998

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles provide a framework for measuring and disclosing fair value. Required disclosures include the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition and whether the measurements are made on a recurring basis (for example, available for sale investment securities) or on a nonrecurring basis (for example, individually evaluated loans).

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

Fair Value Hierarchy

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

Level 1 - Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 - Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models and similar techniques. Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

Securities Available for Sale

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

Individually Evaluated Loans

The Company does not record loans at fair value on a recurring basis, however, from time to time, a loan is evaluated individually and an allowance for credit loss is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan are individually evaluated for credit loss. The fair value of individually evaluated loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows.

Those individually evaluated loans not requiring an allowance for credit loss represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. Individually evaluated loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price, discounted cash flow analysis or a current appraised value, the Company records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the loan as nonrecurring Level 3. The Company had no individually evaluated loans at December 31, 2024 or 2023.

Derivative Financial Instruments

The fair values of derivative arrangements are estimated by the Company using a third-party derivative valuation expert who relies on Level 2 inputs, namely interest cash flow models to determine a fair value by calculating a settlement termination value with the counterparty.

The tables below present the balances of assets measured at fair value on a recurring basis by level within the hierarchy as of December 31, 2024 and 2023.

December 31, 2024	Level 1	Level 2	Level 3	Fair Value
Assets:				
Securities available for sale				
US Treasury securities	\$ 4,674	\$ —	\$ —	\$ 4,674
US Agency securities	—	925	—	925
Agency mortgage backed	—	7,950	—	7,950
SLMA asset-backed securities	—	2,738	—	2,738
SBA asset-backed securities	—	537	—	537
Municipal securities	—	8,041	—	8,041
Corporate securities	—	1,871	—	1,871
Total securities available for sale	<u>\$ 4,674</u>	<u>\$ 22,062</u>	<u>\$ —</u>	<u>\$ 26,736</u>
Derivative assets	<u>\$ —</u>	<u>\$ 956</u>	<u>\$ —</u>	<u>\$ 956</u>
Liabilities:				
Derivative liabilities	<u>\$ —</u>	<u>\$ 958</u>	<u>\$ —</u>	<u>\$ 958</u>

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

December 31, 2023	Level 1		Level 2		Level 3		Fair Value
Assets:							
Available-for-sale securities							
US Treasury securities	\$	6,641	\$	—	\$	—	\$ 6,641
US Agency securities		—		902		—	902
Agency mortgage backed		—		9,021		—	9,021
SLMA asset-backed securities		—		3,375		—	3,375
SBA asset-backed securities		—		836		—	836
Municipal securities		—		8,192		—	8,192
Corporate securities		—		1,929		—	1,929
Total securities available for sale	\$	6,641	\$	24,255	\$	—	\$ 30,896

There were no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2024 or 2023.

The following methods and assumptions were used to estimate the fair value of significant financial instruments:

Cash and Cash Equivalents – The carrying amount of these financial instruments approximates fair value. All mature within 90 days and do not present unanticipated credit concerns.

Time Deposits with Other Banks – Fair value is based on market prices for similar assets.

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

Nonmarketable Equity Securities – The carrying value of these securities approximates the fair value since no ready market exists for the stocks.

Loans Receivable – The valuation of loans receivable is estimated using the exit price notion which incorporates factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. This credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: variable rate loans, individually evaluated loans and all other loans. The results are then adjusted to account for credit risk as described above.

For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values. Fair values for impaired loans are estimated using discounted cash flow models or based on the fair value of the underlying collateral.

Deposits – The fair value of demand deposits, savings, and money market accounts is the amount payable on demand at the reporting date. The fair values of certificates of deposit and other time deposits are estimated using a discounted cash flow calculation that applies current interest rates to a schedule of aggregated expected maturities.

Note Payable – The fair value is estimated by discounting the future cash flows using the current rates at which similar note offerings with similar terms and maturities would be issued by similar institutions. As discount rates are based on current note rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale.

Advances from Federal Reserve Bank – For disclosure purposes, the fair value of the fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

Advances from Federal Home Loan Bank of Atlanta – For disclosure purposes, the fair value of the fixed rate borrowing is estimated using discounted cash flows, based on the current incremental borrowing rates for similar types of borrowing arrangements.

NOTE 21 - FAIR VALUE OF FINANCIAL INSTRUMENTS - (continued)

Accrued Interest Receivable and Payable – The carrying value of these instruments is a reasonable estimate of fair value. As current rates are based on daily advance rates, the carrying amount is deemed to be a reasonable estimate of fair value.

The following tables present the estimated fair values, related carrying amounts, and valuation level of the financial instruments as of the dates stated:

	December 31, 2024				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets:</i>					
Cash and cash equivalents	\$ 43,678	\$ 43,678	\$ 43,678	\$ -	\$ -
Time deposits with other banks	750	722	-	722	-
Securities available-for-sale	26,736	26,736	4,674	22,062	-
Nonmarketable equity securities	5,558	5,558	5,558	-	-
Loans receivable	686,386	-	-	-	653,247
<i>Financial Liabilities:</i>					
Deposits	608,763	608,593	-	608,593	-
Note payable	5,000	5,000	-	5,000	-
Advances from the Federal Reserve Bank	167	167	167	-	-
Advances from the Federal Home Loan Bank of Atlanta	105,000	105,082	-	105,082	-
	December 31, 2023				
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
<i>Financial Assets:</i>					
Cash and cash equivalents	\$ 34,487	\$ 34,487	\$ 34,487	\$ -	\$ -
Time deposits with other banks	1,250	1,190	-	-	-
Securities available-for-sale	30,896	30,896	6,641	24,255	-
Nonmarketable equity securities	4,205	4,205	4,205	-	-
Loans receivable	563,832	527,606	-	-	527,606
<i>Financial Liabilities:</i>					
Deposits	512,745	514,688	-	514,688	-
Advances from the Federal Reserve Bank	284	284	284	-	-
Advances from the Federal Home Loan Bank of Atlanta	79,000	78,688	-	78,688	-

NOTE 22 - DERIVATIVES

The Company utilizes interest rate swaps agreements as part of its asset-liability management strategy to help mitigate its interest rate risk. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and the other terms of the individual interest rate swap agreements. Derivative financial instruments are recorded in the consolidated statements of condition as either an asset or a liability (in other assets or other liabilities, respectively) and measured at fair value.

(Amounts in thousands)

	2024		2023	
	Notional Amount	Fair Value	Notional Amount	Fair Value
Included in other liabilities:				
Derivatives designated as hedges				
Interest rate swaps related to fair value hedges	\$ 150,000	\$ (958)	\$ -	\$ -

The Company did not have any derivatives that are not designated as hedges as of December 31, 2024 and 2023.

The interest rate swap matures in February 2027 and carries a notional amount of \$150 million at December 31, 2024. The risk management objective with respect to the fair value hedges is to hedge the risk of certain fixed-rate loans. These fair value hedges convert the fixed rates of the loans to 1-month compounded average Secured Overnight Financing Rate (“SOFR”). The hedges were determined to be effective during the periods presented. The Company expects these hedges to remain effective during the remaining term of the swap.

NOTE 22 - DERIVATIVES - (continued)

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustment for the fair value hedges as of December 31, 2024 and 2023:

Line Item in The Balance Sheet in Which the Hedges Item is Included	Carrying Amount of the Hedged Assets (Liabilities)		Cumulative Amount of Fair Value Hedging Adjustments Included in the Carrying Amount of the Hedged Assets	
	2024	2023	2024	2023
Residential real estate	\$ 150,000	\$ -	\$ 956	\$ -

There were no discontinued hedging relationships, and therefore, the above balances do not include any adjustments on discontinued hedging relationships. As of December 31, 2024, the total notional amount of the pay-fixed/receive variable interest rate swap portfolio was \$150 million.

The following table summarizes information about the interest rate swaps designated as fair value hedges at December 31, 2024:

Notional Amount of fair value hedges	\$ 150,000,000
Fixed Pay Rate	4.35%
Average SOFR Receive Rate	4.53%
Weighted Average Maturity	2.19

The following table presents the change in fair value for derivatives designated as fair value hedges as well as the offsetting change in fair value on the hedged items for the years ended December 31, 2024 and 2023:

	Year Ended December Gain/(Loss)	
	2024	2023
Fair value hedge: gain (loss)		
Change in fair value of interest rate swaps hedging certain fixed rate loans	\$ 956	\$ -
Change in fair value of hedged fixed rate loans	\$ (958)	\$ -

The following table presents the effect of Fair Value Hedge Accounting on the Consolidated Statements of Operations and the location and amount of gain or (loss) recognized in income on Fair Value hedging relationships for the years ended December 31, 2024 and 2023:

NOTE 23 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the statements of condition date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the statements of condition, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the statements of condition but arose after that date. Management has reviewed events occurring through March 19, 2025, the date the financial statements were issued, and considers there to be no subsequent events requiring accrual or disclosure.