

Lumbee Guaranty Bank

Reports on Financial Statements

As of and for the years ended December 31, 2024 and 2023

Table of Contents

Statements of Condition 5

Statements of Income 6

Statements of Comprehensive Income 7

Statements of Changes in Shareholders' Equity 8

Statements of Cash Flows 9

Notes to Financial Statements 10 - 46

Independent Auditor's Report

To the Board of Directors
Lumbee Guaranty Bank

Opinion

We have audited the financial statements of Lumbee Guaranty Bank (the "Bank"), which comprise the statements of condition as of December 31, 2024 and 2023, the related statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the financial statements (collectively, the "financial statements").

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Elliott Davis, PLLC

Raleigh, North Carolina
March 28, 2025

Lumbee Guaranty Bank
Statements of Condition
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash and due from banks	\$ 7,415,677	\$ 6,904,132
Interest-bearing deposits in other banks	<u>17,661,314</u>	<u>37,371,317</u>
Cash and cash equivalents	<u>25,076,991</u>	<u>44,275,449</u>
Investment securities, available for sale	111,034,642	112,296,860
Investment securities, held to maturity (net of allowance for credit losses of \$7,701 for 2024 and \$6,350 for 2023, fair value \$116,434,730 and \$123,138,767 at December 31, 2024 and 2023, respectively)	136,021,241	139,319,930
Loans	218,390,114	196,478,402
Less: Unearned fees	(419,747)	(456,842)
Allowance for credit losses	<u>(1,423,791)</u>	<u>(1,725,011)</u>
Loans, net	<u>216,546,576</u>	<u>194,296,549</u>
Premises and equipment, net	7,704,939	7,965,320
Goodwill	591,147	591,147
Nonmarketable equity securities	533,300	509,700
Foreclosed real estate	45,478	-
Accrued interest receivable	2,883,632	2,568,752
Prepaid expenses	1,911,489	1,430,555
Cash value of bank owned life insurance	11,567,109	11,176,690
Other assets	<u>5,977,509</u>	<u>5,218,853</u>
Total assets	<u>\$ 519,894,053</u>	<u>\$ 519,649,805</u>
Liabilities and shareholders' equity		
Deposits:		
Noninterest-bearing	\$ 146,135,948	\$ 157,102,163
Interest checking	108,622,926	118,176,977
Savings	38,210,770	40,783,609
Time deposits	<u>173,129,047</u>	<u>150,379,537</u>
Total deposits	466,098,691	466,442,286
Securities sold under agreements to repurchase	5,326,180	7,538,140
Federal Home Loan Bank advances	-	12,126
Defined benefit pension plan liability	-	732,831
Other liabilities	<u>3,336,707</u>	<u>2,643,357</u>
Total liabilities	<u>474,761,578</u>	<u>477,368,740</u>
Shareholders' equity		
Common stock, \$2.00 par value, 4,800,000 shares authorized; 3,221,008 and 3,238,120 shares issued and outstanding at December 31, 2024 and 2023, respectively	6,442,016	6,476,240
Class A common stock, \$2.00 par value, 200,000 shares authorized; 102,019 and 102,019 shares issued and outstanding at December 31, 2024 and 2023, respectively	204,038	204,038
Surplus	6,161,369	6,328,856
Undivided profits	45,422,359	42,677,135
Accumulated other comprehensive loss	<u>(13,097,307)</u>	<u>(13,405,204)</u>
Total shareholders' equity	<u>45,132,475</u>	<u>42,281,065</u>
Total liabilities and shareholders' equity	<u>\$ 519,894,053</u>	<u>\$ 519,649,805</u>

The accompanying notes are an integral part of the financial statements

Lumbee Guaranty Bank**Statements of Income***For the years ended December 31, 2024 and 2023*

	<u>2024</u>	<u>2023</u>
Interest income		
Interest and other fees on loans	\$ 13,243,854	\$ 11,997,394
Interest on securities:		
Available for sale	3,505,074	2,623,240
Held to maturity	2,817,180	2,863,981
Nonmarketable equity securities	28,709	27,071
Interest due from banks	<u>1,253,136</u>	<u>1,081,243</u>
Total interest income and fees	<u>20,847,953</u>	<u>18,592,929</u>
Interest expense		
Interest on savings	59,301	62,227
Interest on interest-checking deposits	441,646	263,353
Interest on time deposits	6,265,900	2,589,591
Interest on FHLB advances	18,981	112,547
Interest paid on federal funds purchased	-	3,006
Interest on securities sold under agreements to repurchase	<u>255,529</u>	<u>206,604</u>
Total interest expense	<u>7,041,357</u>	<u>3,237,328</u>
Net interest income	13,806,596	15,355,601
Provision for (recovery of) credit losses	<u>(322,650)</u>	<u>29,205</u>
Net interest income after provision for (recovery of) credit losses	<u>14,129,246</u>	<u>15,326,396</u>
Noninterest income		
Service charges on deposit accounts	1,513,857	1,408,263
Income from bank owned life insurance	390,419	1,535,156
Mortgage loan fee income	76,822	84,084
Miscellaneous income	127,612	625,279
Other operating income	<u>1,211,530</u>	<u>715,507</u>
Total noninterest income	<u>3,320,240</u>	<u>4,368,289</u>
Noninterest expense		
Salaries and wages	5,212,078	4,870,367
Other personnel costs	1,800,274	1,863,030
Net occupancy expense	1,261,424	1,036,742
Equipment expense	615,018	527,921
Data processing	1,449,840	1,529,378
FDIC insurance premiums	230,000	220,044
Foreclosed real estate expense, net	28,254	5,107
Printing and office supplies	126,841	208,604
Professional fees	212,999	206,235
Other operating expenses	<u>1,765,210</u>	<u>2,687,758</u>
Total noninterest expense	<u>12,701,938</u>	<u>13,155,186</u>
Income before income taxes	4,747,548	6,539,499
Income tax expense	<u>898,097</u>	<u>582,099</u>
Net income	<u>\$ 3,849,451</u>	<u>\$ 5,957,400</u>
Basic net income per common share	<u>\$ 1.16</u>	<u>\$ 1.78</u>
Diluted net income per common share	<u>\$ 1.16</u>	<u>\$ 1.78</u>
Weighted average basic common shares outstanding	<u>3,328,645</u>	<u>3,340,109</u>
Weighted average diluted common shares outstanding	<u>3,328,645</u>	<u>3,340,109</u>

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

Lumbee Guaranty Bank
Statements of Comprehensive Income
For the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net income	\$ 3,849,451	\$ 5,957,400
Other comprehensive income:		
Changes to unrealized holding (losses) gains on available for sale securities	(878,442)	1,873,012
Tax effect	<u>201,822</u>	<u>(430,325)</u>
Total net of tax	<u>(676,620)</u>	<u>1,442,687</u>
Changes to defined benefit pension plan liability	1,278,179	312,163
Tax effect	<u>(293,662)</u>	<u>(71,719)</u>
Total net of tax	<u>984,517</u>	<u>240,444</u>
Total other comprehensive income	<u>307,897</u>	<u>1,683,131</u>
Comprehensive income	<u>\$ 4,157,348</u>	<u>\$ 7,640,531</u>

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

Lumbee Guaranty Bank
Statements of Changes in Shareholders' Equity
For the years ended December 31, 2024 and 2023

	Class A Common Stock		Common Stock		Surplus	Undivided Profits	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
	Shares	Amount	Shares	Amount				
Balance, December 31, 2022	102,443	\$ 204,886	3,237,720	\$ 6,475,440	\$ 6,330,434	\$ 37,467,920	\$ (15,088,335)	\$ 35,390,345
Adoption of new accounting standard	-	-	-	-	-	293,890	-	293,890
Net income	-	-	-	-	-	5,957,400	-	5,957,400
Other comprehensive income	-	-	-	-	-	-	1,683,131	1,683,131
Dividends declared (\$0.31 per share)	-	-	-	-	-	(1,041,515)	-	(1,041,515)
Stock based compensation	-	-	-	-	1,980	-	-	1,980
Shares repurchased	(704)	(1,408)	-	-	(6,958)	-	-	(8,366)
Proceeds from exercise of stock options	-	-	400	800	3,400	-	-	4,200
Stock issuance	280	560	-	-	-	(560)	-	-
Balance, December 31, 2023	102,019	\$ 204,038	3,238,120	\$ 6,476,240	\$ 6,328,856	\$ 42,677,135	\$ (13,405,204)	\$ 42,281,065
Net income	-	-	-	-	-	3,849,451	-	3,849,451
Other comprehensive income	-	-	-	-	-	-	307,897	307,897
Dividends declared (\$0.33 per share)	-	-	-	-	-	(1,104,227)	-	(1,104,227)
Stock based compensation	-	-	-	-	57	-	-	57
Shares repurchased	-	-	(18,120)	(36,240)	(167,544)	-	-	(203,784)
Stock issuance	-	-	1,008	2,016	-	-	-	2,016
Balance, December 31, 2024	<u>102,019</u>	<u>\$ 204,038</u>	<u>3,221,008</u>	<u>\$ 6,442,016</u>	<u>\$ 6,161,369</u>	<u>\$ 45,422,359</u>	<u>\$ (13,097,307)</u>	<u>\$ 45,132,475</u>

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

Lumbee Guaranty Bank
Statements of Cash Flows
For the years ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Cash flows from operating activities		
Net income	\$ 3,849,451	\$ 5,957,400
Adjustments to reconcile net income to net cash flows provided by operating activities:		
Depreciation and amortization	636,634	555,973
Amortization of investment premiums	1,482,065	1,731,119
(Gain on sale) and write-downs on foreclosed real estate	8,550	(14,802)
Income from bank owned life insurance	(390,419)	(297,582)
Provision for (recovery of) credit losses	(322,650)	29,205
Stock based compensation	57	1,980
Change in:		
Accrued interest receivable	(314,880)	(237,174)
Prepaid expenses and other assets	(1,037,768)	633,420
Accrued interest payable	-	-
Other liabilities	964,690	(1,154,609)
Net cash flows provided by operating activities	<u>4,875,730</u>	<u>7,204,930</u>
Cash flows from investing activities		
Purchases of investment securities, available for sale	(11,897,162)	(24,375,400)
Maturities, calls and paydowns of investment securities, available for sale	12,551,211	8,942,105
Maturities and calls of investment securities, held to maturity	1,545,000	445,000
Purchases of nonmarketable equity securities	(23,600)	(98,700)
Increase in loans	(22,024,708)	(10,832,343)
Purchases of premises and equipment	(669,205)	(336,733)
Proceeds from disposal of premises and equipment	292,952	2,007
Purchases of bank owned life insurance	-	(1,167,767)
Proceeds from sales of foreclosed real estate	25,000	39,584
Net cash flows used in investing activities	<u>(20,200,512)</u>	<u>(27,382,247)</u>
Cash flows from financing activities		
(Decrease) increase in deposits	(343,595)	24,918,809
(Decrease) increase in securities sold under agreements to repurchase	(2,211,960)	5,150,014
Decrease in FHLB advances	(12,126)	(35,307)
Dividends paid	(1,104,227)	(1,041,515)
Common stock issued	2,016	(560)
Shares repurchased	(203,784)	(7,006)
Stock options exercised	-	3,400
Net cash flows (used in) provided by financing activities	<u>(3,873,676)</u>	<u>28,987,835</u>
Net (decreases) increases in cash and cash equivalents	(19,198,458)	8,810,518
Cash and cash equivalents at beginning of period	44,275,449	35,464,931
Cash and cash equivalents at end of period	<u>\$ 25,076,991</u>	<u>\$ 44,275,449</u>
Supplemental disclosure of cash flow information		
Interest paid	<u>\$ 7,091,860</u>	<u>\$ 2,865,867</u>
Taxes paid	<u>\$ 395,000</u>	<u>\$ 871,923</u>
Non-cash transactions		
Transfer from loans to foreclosed assets	<u>\$ 79,028</u>	<u>\$ 24,782</u>
Change in unrealized loss on securities available for sale, net of tax	<u>\$ (676,620)</u>	<u>\$ 1,442,689</u>
Changes to defined benefit pension plan liability, net of tax	<u>\$ 984,517</u>	<u>\$ 240,444</u>
Adoption impact of ASU 2016-13, net of tax	<u>\$ -</u>	<u>\$ 293,890</u>

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

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Lumbee Guaranty Bank is an independent, community bank providing full service banking through thirteen branch offices in Robeson, Cumberland, and Hoke counties in North Carolina. The Bank extends both commercial and consumer loans throughout its market area and offers a full range of deposit accounts for its customer base. The Bank is a North Carolina state-chartered bank subject to regulation by the North Carolina Commissioner of Banks and the Federal Deposit Insurance Corporation.

The accounting and reporting policies of the Bank follow generally accepted accounting principles (“GAAP”) and general practices of the financial services industry, within the Financial Accounting Standards Board’s (“FASB”) Accounting Standards Codification (“ASC”) structure of authoritative literature. The following is a summary of the more significant policies.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses, the valuation of foreclosed assets such as real estate acquired in connection with foreclosures or in satisfaction of loans, fair value of financial instruments, deferred taxes, and employee benefit plans.

Cash and Cash Equivalents

Cash and cash equivalents include cash and noninterest-bearing deposits, interest-bearing deposits, and funds sold. All amounts are readily convertible to cash and have maturities of less than 90 days.

Investment Securities

Investment securities are accounted for according to their purpose and holding period. Trading securities are those that are bought and held principally for the purpose of selling them in the near term. The Bank held no trading securities as of December 31, 2024 and 2023. Available for sale investment securities are those that may be sold before maturity due to changes in the Bank's interest rate risk profile or funding needs, and are reported at fair value with unrealized gains and losses, net of taxes, reported as a component of other comprehensive income. Held to maturity investment securities are those that management has the positive intent and ability to hold to maturity and are reported at amortized cost.

Realized gains and losses are recorded in noninterest income and are determined on a trade date basis using the specific identification method. Interest and dividends on investment securities are recognized in interest income on an accrual basis. Premiums are amortized into interest income using the interest method over the expected lives of the individual securities until the earlier of maturity or call date. Discounts are accreted into interest income using the interest method over the expected lives of the individual securities.

The Bank had accrued interest receivable of \$1,505,401 and \$1,500,238 at December 31, 2024 and 2023, respectively. Accrued interest receivable is excluded from the estimate of credit losses.

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

Allowance for Credit Losses – Available for Sale Securities

The Bank's available for sale securities are recorded at fair value on the balance sheet. These types of securities have zero expected credit losses under current conditions and reasonable and supportable forecasts. The Bank considered the following factors in reaching the conclusion of zero expected credit loss:

- Each of these securities has a long history, which includes the most recent financial crisis, of zero credit losses. This performance is expected to continue when considering current entity-specific and economic conditions and reasonable and supportable forecasts.
- Each security has been assigned a high credit rating by ratings agencies, and available information does not indicate that future downgrades are probable.
- Principal and interest payments on these securities are guaranteed (either directly or indirectly) by the U.S. government, or an agency of the U.S. government, a sovereign entity with high credit quality.
- The securities' issuer, guarantor, or sponsor (i.e., the U.S. government) can print its own currency and its currency is commonly held by other central banks and viewed as a reserve currency.
- The interest rate on U.S. Treasury securities is widely recognized as a risk-free rate. While the interest rates on FDIC insured CDs, GNMA, FHLMC, FNMA, FHLB, Farm Credit, SBA, and SBIC securities are generally priced above risk-free rates, this is generally considered to be attributable to non-credit-related risks, such as prepayment and liquidity factors.

Allowance for Credit Losses – Held to Maturity Securities

Management measures expected credit losses on held-to-maturity debt securities on an individual basis based on security rating. Accrued interest receivable on held-to-maturity debt securities is excluded from the estimate of credit losses.

The Bank has an Investment Policy that aspires to achieve no loss on securities purchased. The intent is to buy investment grade or better securities only. The policy allows the purchase of securities rated no lower than Baa by Moody's or BBB by S&P. The Bank has never had a default on HTM securities. Therefore, the Bank's position is their securities portfolio offers minimal to no risk. To calculate any potential reserve on the HTM securities portfolio, a loss model calculates the reserve for all HTM securities rated A or less based on the Top Line rating and will be included in the CECL reserve calculation.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding principal amount adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Loan origination fees and costs are capitalized and recognized as an adjustment to the yield on the related loan.

The Bank grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the North Carolina counties of Robeson, Cumberland and Hoke. The ability of the Bank's debtors to honor their contracts is dependent upon the general economic conditions in the area.

Interest is accrued on a loan and credited to income based on the principal amount outstanding. The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Credit card loans and other personal loans are typically charged off no later than 90 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful. The Bank had accrued interest receivable of \$1,378,231 and \$1,068,514 at December 31, 2024 and 2023, respectively.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

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

Loans, continued

A loan is considered collateral dependent when, based on current information and events, it is probable that the Bank will not be able to collect all amounts due from the borrower in accordance with the contractual terms of the loan, including scheduled interest payments. Collateral dependent loans exclude smaller balance homogeneous loans that are collectively evaluated for impairment.

When a loan has been identified as being collateral dependent, the amount of impairment is measured based on the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. If the measurement of the collateral dependent loan is less than the recorded investment in the loan (including accrued interest, net of deferred loan fees or costs, and unamortized premiums or discounts), an impairment is recognized by establishing or adjusting an existing allocation of the allowance, or by recording a partial charge-off of the loan to its fair value. Interest payments made on collateral dependent loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest income may be accrued or recognized on a cash basis.

Allowance for Credit Losses - Loans

On January 1, 2023 the Bank adopted ASU No. 2016-13, "Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13"). This new guidance replaces the incurred loss impairment methodology in current standards with the Current Expected Credit Loss ("CECL") methodology and requires consideration of a broader range of information to determine credit loss estimates. ASU 2016-13 requires the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts and requires enhanced disclosures related to the significant estimates and judgments used in estimating credit losses, as well as the credit quality and underwriting standards of an organization's portfolio. In addition, ASU 2016-13 amends the accounting for credit losses on available for sale debt securities and purchased financial assets with credit deterioration. The allowance for credit losses ("ACL") reflects management's estimate of losses that will result from the inability of its borrowers to make required loan payments. The impact ASU 2016-13 had on the consolidated financial statements was a decrease in the reserve for credit losses related to loans of \$162,309, a decrease in the reserve for unfunded commitments of \$217,034, and the creation of a reserve for HTM securities of \$7,331. Subsequent adjustments are made through a provision for credit losses charged against earnings. Management records loans charged off against the ACL and subsequent recoveries, if any, increase the ACL when they are recognized.

Management uses a systematic methodology to determine its allowance for credit losses ("ACL") for loans. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Bank's estimate of its ACL involves a reasonable degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. The Bank's ACL recorded in the balance sheet reflects management's best estimate within the range of expected credit losses. The Bank recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses.

The Bank defines collateral dependent loans as loans that have a nonaccrual status or a past due greater than or equal to 90 days. These loans may be individually assessed and evaluated using a Fair Value of Collateral or Discounted Cash Flow approach to determine their value.

To estimate our ACL, we assess loans on a collective basis unless collateral dependent. Any loans that are potentially collateral dependent are pulled out for individual review and assessment. The Bank utilizes a Cohort methodology. The Cohort method, also known as the open-pool methodology, identifies and captures the balance of loans as of a particular point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over their remaining lives, or until the loans are "exhausted" (i.e., have reached an acceptable point in time at which a significant majority of all losses are expected to have been recognized).

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

Allowance for Credit Losses - Loans, continued

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions and environmental factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as additional information becomes available.

The Bank collectively evaluates loans that share similar risk characteristics. In general, management has segmented loans by regulatory call code category. The Bank has identified the following portfolio segments:

Commercial loans include loans for commercial or industrial purposes to business enterprises that are not secured by real estate. These loans are typically made on the basis of the borrower's ability to repay from the cash flow of the borrower's business and are generally secured by accounts receivable, inventory, and equipment. The collateral securing loans may depreciate over time, may be difficult to appraise and may fluctuate in value based on the success of the business.

Commercial real estate loans include loans secured by non-residential real estate and improvements thereon. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations and management of these properties. Adverse economic conditions may affect the repayment ability of these loans.

Residential real estate loans include loans secured by residential real estate, including single-family and multifamily dwellings. Adverse economic conditions in the Bank's market area may reduce borrowers' ability to repay these loans and may reduce the collateral securing these loans.

Agriculture and Raw Land loans include loans secured by land known to be used or usable for agricultural purposes. Often these loans are made to single borrowers or groups of related borrowers, and the repayment of these loans largely depends on the results of operations of the land securing the loans.

Consumer loans include loans to individuals for household, family and other personal expenditures that are not secured by real estate. Consumer loans are generally secured by customer vehicles and other household goods. The collateral securing consumer loans may depreciate over time.

Qualitative environmental factors include external risk factors that management believes affect the overall lending environment of the Bank. Qualitative environmental factors that management of the Bank routinely analyze include levels and trends in delinquencies and collateral dependent loans; levels and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of changes in risk selection and underwriting practices; experience, ability, and depth of lending management and staff; national and local economic trend; and conditions such as unemployment rates, housing statistics, banking industry conditions, local economic forecasts; and the effect of changes in credit concentrations.

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

Bank Premises and Equipment

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

	<u>Years</u>
Buildings and improvements	7-40
Furniture and equipment	3-10

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Bank leases certain locations and equipment. The Bank records leases on the balance sheet in the form of a lease liability for the present value of the future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Bank could obtain for similar loans as of the date of commencement or renewal. The Bank does not record leases on the balance sheet that are classified as short term (less than one year).

At lease inception, the Bank determines the lease term by considering the minimum lease term and all optional renewal periods that the Bank is reasonably certain to renew. The lease term is also used to calculate straight-line rent expense. The depreciable life of the leasehold improvements is limited by the estimated lease term, including renewals if they are reasonably certain to be renewed. The Bank's leases do not contain residual value guarantees or material variable lease payments that will impact the Bank's ability to pay dividends or cause the Bank to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease payments not included in the lease liability, and any impairment of the right-of-use asset. Rent expense and variable lease expense are included in net occupancy expenses on the Bank's Statement of Income. The Bank's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. The amortization of the right-of-use asset arising from finance leases is expensed through net occupancy expense and the interest on the related lease liability is expensed through equipment expense on the Bank's Statement of Income.

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

Goodwill

Goodwill is not subject to amortization, but is subject to an annual assessment for impairment by applying a fair-value-based test as required by ASC 350.

Goodwill is tested for impairment at the reporting unit level on an annual basis as of December 31, or more often if events or circumstances indicate there may be impairment. Testing is conducted in two steps: identifying the potential impairment and then, if necessary, identifying the amount of impairment. The first step (step 1) compares the fair value of the reporting unit to its carrying amount. If the fair value is less than the carrying amount, a second test is conducted by comparing the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount exceeds the implied fair value, an impairment loss is recognized in an amount equal to that excess. For our annual impairment testing conducted during 2024 and 2023, we identified one reporting unit with goodwill of \$591,147. For purposes of the goodwill impairment test, the Bank primarily uses the qualitative approach to value the reporting unit. An initial qualitative evaluation is made to assess the likelihood of impairment and determine whether further quantitative testing to calculate the fair value is necessary. When the qualitative evaluation indicates that impairment is more likely than not, quantitative testing is required whereby the fair value of each reporting unit is calculated and compared to the recorded book value. Based on our analysis, we determined there is no goodwill impairment, since the fair value for the reporting unit was in excess of the respective reporting unit's carrying value as of December 31, 2024 and December 31, 2023.

The second step (step 2) of impairment testing is necessary only if the reporting unit does not pass step 1. Step 2 compares the implied fair value of the reporting unit goodwill with the carrying amount of the goodwill for the reporting unit. The implied fair value of goodwill is determined in the same manner as goodwill that is recognized in a business combination. Significant judgment and estimates are involved in estimating the fair value of the assets and liabilities of the reporting unit. Since the reporting unit did not fail step 1, step 2 was not applicable during 2024 and 2023 testing.

Significant judgment is applied when goodwill is assessed for impairment. This judgment includes developing cash flow projections, selecting appropriate discount rates, identifying relevant market comparables, incorporating general economic and market conditions, and selecting an appropriate control premium. Selection and weighting of the various fair value techniques may result in a higher or lower fair value. Judgment is applied in determining the weightings most representative of fair value.

Foreclosed Real Estate

Properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less anticipated costs to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses during the holding period and gains and losses on sales are included in foreclosed real estate expense.

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

Securities Sold Under Agreements to Repurchase

The Bank enters into sales of securities under agreements to repurchase. Fixed-coupon repurchase agreements are treated as financing, with the obligation to repurchase securities sold being reflected as a liability and the securities underlying the agreements remaining as assets.

Postretirement Benefit Plan

A qualified defined pension plan (the "Plan") is provided to all employees hired on or before December 31, 2017 who meet the eligibility requirements of 21 years of age and one year of service in which they have worked a minimum of 1,000 hours. Employees hired or rehired on or after January 1, 2018, will not be eligible to participate in this Plan, since the Plan was frozen with respect to new and rehired employees. To maintain the Plan's funding adequacy, the Bank contributes an appropriate amount which is deductible for federal income tax purposes. Benefits under the plan are accrued by periodic charges to income as determined by the Plan's actuary.

To the extent accumulated plan assets, including current period cash contributions, are less than projected benefit obligations, the Bank accrues such obligations through either a charge to income or other comprehensive income.

The Bank recognizes in its balance sheet an asset for the Plan's overfunded status or a liability for the Plan's underfunded status. The Bank also measures the Plan's assets and obligations that determine its funded status as of the end of the fiscal year and recognizes those changes in other comprehensive income, net of tax.

Stock Based Compensation

The Bank may grant stock-based compensation to employees and non-employee directors in the form of stock options and stock awards. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions necessary or advisable in the administration of the Stock Option Plan. The Bank recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period. The fair value of stock options is estimated at the date of grant using a Black-Scholes option pricing model and related assumptions.

Employee Stock Ownership Plan

The Bank established an Employee Stock Ownership Plan ("ESOP") for the exclusive benefit of all eligible employees and their beneficiaries subject to authority to amend, from time to time, or terminate, the ESOP. The ESOP is primarily designed to invest in common stock of the Bank and is permitted to purchase Bank common stock with contributions to the ESOP made by the Bank. Also, the ESOP is permitted to borrow money and use the loan proceeds to purchase Bank common stock. The ESOP had no loans outstanding as of as of December 31, 2024 or December 31, 2023. The money and Bank common stock in the ESOP are intended to grow tax free until retirement, death, disability or other termination of employment with the Bank.

Advertising and Public Relations Expense

The Bank expenses advertising and public relations costs as they are incurred. Advertising costs were \$174,531 and \$140,282 for the years ended December 31, 2024 and 2023, respectively and were included within other operating expenses.

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

Income Taxes

Provision for income taxes is based on amounts reported in the Statements of Income (after exclusion of non-taxable income such as interest on state and municipal securities) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes.

Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws.

Income per Share

Basic income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted income per share is computed by dividing net income by the weighted average number of common shares outstanding for the period, assuming conversion of all potentially dilutive common stock equivalents.

Accumulated Other Comprehensive Loss

Accumulated other comprehensive loss reflects the change in the Bank's equity during the period from transactions and events other than investments by and distributions to shareholders. It consists of certain changes in assets and liabilities that are reported as separate components of shareholders' equity rather than as income or expense. The following table shows the changes in accumulated other comprehensive loss by component.

	Unrealized Losses on Available for Sale Securities	Defined Benefit Pension Items	Total
<i>Balance, December 31, 2022</i>	(13,421,733)	\$ (1,666,602)	\$ (15,088,335)
Net unrealized gains on investment securities, net of tax	1,442,687	-	1,442,687
Defined benefit pension items, net of tax	-	240,444	240,444
<i>Balance, December 31, 2023</i>	<u>\$ (11,979,046)</u>	<u>\$ (1,426,158)</u>	<u>\$ (13,405,204)</u>
Net unrealized losses on investment securities, net of tax	(676,620)	-	(676,620)
Defined benefit pension items, net of tax	-	984,517	984,517
<i>Balance, December 31, 2024</i>	<u>\$ (12,655,666)</u>	<u>\$ (441,641)</u>	<u>\$ (13,097,307)</u>

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank 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.

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Bank to concentrations of credit risk, consist principally of loans, investment securities, and amounts due from banks.

The Bank makes loans to individuals and small businesses for personal and commercial purposes primarily in Robeson, Cumberland, and Hoke counties in North Carolina and surrounding areas. The Bank's loan portfolio is not concentrated in loans to any single borrower or a relatively small number of borrowers. Additionally, management is not aware of any concentrations of loans to classes of borrowers or industries that would be similarly affected by economic conditions.

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. Management has determined that there is no concentration of credit risk associated with its lending policies or practices. Additionally, there are industry practices that could subject the Bank to increased credit risk should economic conditions change over the course of a loan's life. For example, the Bank 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 Bank to unusual credit risk.

The Bank's investment portfolio consists principally of obligations of the United States, its agencies or its corporations as well as state and municipal securities. In the opinion of management, there is no concentration of credit risk in its investment portfolio. The Bank places its deposits and correspondent accounts with high quality institutions. Management believes credit risk associated with correspondent accounts is not significant.

Risks and Uncertainties

In the normal course of its business, the Bank encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk. The Bank is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the Bank'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 Bank.

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

Segment Reporting

Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to assess performance and allocate resources. While the CEO, who is considered the chief operating decision maker, monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated, on a Bank-wide basis using pretax income. Operating segments are aggregated into one segment as operating results for all segments are similar. Accordingly, all of the financial service operations are considered by management to be aggregated in one reportable operating segment.

Reclassification of Prior Year Presentation

Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income.

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

Revenue Recognition

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities, which comprise the majority of the Bank's revenue. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in the scope of the new guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, and sale transactions related to foreclosed real estate. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts

Service charges on deposit accounts consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, check orders, and other deposit account related fees. The Bank's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Bank's performance obligation is satisfied and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

Miscellaneous Income

Miscellaneous income is primarily comprised of gift card fees, cash awards and incentives. The Bank collects a fee for the sale of gift cards to customers and revenue recognized at that point in time. The Bank has been the recipient of cash awards, such as the Bank Enterprise Award. Upon receipt of the award, the Bank recognizes revenue. Contracts with vendors sometimes include cash incentives and income is recognized upon receipt.

Other Operating Income

Other operating income is primarily comprised of debit and credit card income, ATM fees, merchant services income, and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Bank's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Bank cardholder uses a non-Bank ATM or a non-Bank cardholder uses a Bank ATM. Merchant services income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Bank's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

	Year Ended December 31,	
	2024	2023
Noninterest Income		
Service charges on deposit accounts	\$ 1,513,857	\$ 1,408,263
Miscellaneous income	127,612	625,279
Other operating income	1,211,530	715,507
Noninterest income (in-scope of Topic 606)	<u>2,852,999</u>	<u>2,749,049</u>
Noninterest income (out-of-scope of Topic 606)	467,241	1,619,240
Total Noninterest Income	<u>\$ 3,320,240</u>	<u>\$ 4,368,289</u>

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

Recently Issued Accounting Pronouncements

The following is a summary of recent authoritative pronouncements.

In December 2023, the FASB amended the Income Taxes topic in the ASC to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Bank does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2024, the FASB amended the Income Statement - Reporting Comprehensive Income topic in the ASC to require public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to financial statements. The amendments are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Bank will apply the amendments prospectively to financial statements issued for reporting periods after the effective date. The Bank does not expect these amendments to have a material effect on its 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 Bank's financial position, results of operations or cash flows.

As of and for the years ended December 31, 2024 and 2023

Note 2. Investment Securities

Debt and equity securities have been classified in the balance sheets according to management's intent. The amortized cost of securities and their approximate fair values at December 31 were as follows:

	<u>December 31, 2024</u>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
<u>Available for Sale Securities</u>				
Government-sponsored enterprise securities	\$ 12,067,696	\$ -	\$ (2,322,630)	\$ 9,745,066
Mortgage-backed securities	<u>115,397,542</u>	<u>81,773</u>	<u>(14,189,739)</u>	<u>101,289,576</u>
Total available for sale	<u>\$ 127,465,238</u>	<u>\$ 81,773</u>	<u>\$ (16,512,369)</u>	<u>\$ 111,034,642</u>

	<u>December 31, 2023</u>			<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	
<u>Available for Sale Securities</u>				
Government-sponsored enterprise securities	\$ 12,900,674	\$ -	\$ (2,340,298)	\$ 10,560,376
Mortgage-backed securities	<u>114,948,339</u>	<u>84,032</u>	<u>(13,295,887)</u>	<u>101,736,484</u>
Total available for sale	<u>\$ 127,849,013</u>	<u>\$ 84,032</u>	<u>\$ (15,636,185)</u>	<u>\$ 112,296,860</u>

	<u>December 31, 2024</u>				<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Allowance for Credit Losses</u>	
<u>Held to Maturity Securities</u>					
State and municipal securities	<u>\$ 136,028,942</u>	<u>\$ 5,469</u>	<u>\$ (19,599,681)</u>	<u>\$ 7,701</u>	<u>\$ 116,434,730</u>

	<u>December 31, 2023</u>				<u>Fair Value</u>
	<u>Amortized Cost</u>	<u>Unrealized Gains</u>	<u>Unrealized Losses</u>	<u>Allowance for Credit Losses</u>	
<u>Held to Maturity Securities</u>					
State and municipal securities	<u>\$ 139,326,280</u>	<u>\$ 39,914</u>	<u>\$ (16,227,427)</u>	<u>\$ 6,350</u>	<u>\$ 123,138,767</u>

The Bank had no realized gains nor realized losses recognized for the year ended December 31, 2024 and 2023 from the sale of securities available for sale.

The Bank had eight held to maturity securities that were taxable with an amortized cost of \$6,181,368 and eight held to maturity securities that were taxable with an amortized cost of \$6,195,827, at December 31, 2024 and 2023, respectively.

Note 2. Investment Securities, continued

Allowance for Credit Losses-Held to Maturity Securities

The following table shows a roll forward of the allowance for credit losses on held-to-maturity securities for the year ended December 31, 2024:

	<u>State and municipal securities</u>
Balance, December 31, 2022	\$ -
Adjustment for adoption of ASU 2016-13	7,331
Provision for credit losses	(981)
Charge-offs of securities	-
Recoveries of amounts previously written-off	-
Balance, December 31, 2023	\$ 6,350
Provision for credit losses	1,351
Charge-offs of securities	-
Recoveries of amounts previously written-off	-
Balance, December 31, 2024	<u>\$ 7,701</u>

The Bank monitors the credit quality of the debt securities held-to-maturity through the use of credit ratings. The Bank monitors the credit ratings on a quarterly basis. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2024, aggregated by credit quality indicators:

	<u>2024</u>
AAA	\$ 27,280,767
AA+	18,350,948
AA	72,455,541
AA-	15,200,560
A+	2,488,887
A	-
A-	-
Not rated	<u>252,239</u>
Total	<u>\$ 136,028,942</u>

Note 3. Loans Receivable

The major segmented components of loans at December 31, 2024 and 2023 are as follows:

	<u>2024</u>	<u>2023</u>
Commercial	\$ 37,686,449	\$ 20,558,748
Commercial Real Estate	91,886,894	87,771,313
Consumer	6,504,270	6,064,045
Residential Real Estate	76,798,448	66,577,274
Agricultural and Raw Land	<u>5,237,536</u>	<u>14,098,111</u>
Total Principal Balance	218,113,597	195,069,491
Overdrafts	53,109	33,211
Loans in Process	<u>223,408</u>	<u>1,375,700</u>
Gross Loans	218,390,114	196,478,402
Unearned Fees	(419,747)	(456,842)
Allowance for Credit Losses	<u>(1,423,791)</u>	<u>(1,725,011)</u>
Net Loans	<u>\$ 216,546,576</u>	<u>\$ 194,296,549</u>

Note 4. Allowance for Credit Losses

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024 and 2023 under the CECL methodology.

December 31, 2024

Allowance for credit losses	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture and Raw Land	Total
Balance - December 31, 2023	\$ 128,207	\$ 773,380	\$ 169,322	\$ 649,521	\$ 4,581	\$ 1,725,011
Charge-offs	(1,780)	-	(2,419)	(1,902)	-	(6,101)
Recoveries	-	299	2,045	6,884	-	9,228
Recovery of credit losses	(11,214)	(168,221)	(34,231)	(90,120)	(561)	(304,347)
Balance - December 31, 2024	<u>\$ 115,213</u>	<u>\$ 605,458</u>	<u>\$ 134,717</u>	<u>\$ 564,383</u>	<u>\$ 4,020</u>	<u>\$ 1,423,791</u>

December 31, 2023

Allowance for credit losses	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agriculture and Raw Land	Unallocated	Total
Balance - December 31, 2022	\$ 95,133	\$ 1,065,753	\$ 41,267	\$ 547,186	\$ 55,642	\$ 166,012	\$ 1,970,993
Adjustment to allowance for adoption of ASU 2016-13	12,684	\$(177,024)	\$122,803	\$96,508	(51,268)	(166,012)	(162,309)
Charge-offs	(96,884)	(299)	(5,224)	(23,672)	-	-	(126,079)
Recoveries	15,965	-	51	1,285	-	-	17,301
Provision for (recovery of) credit losses	101,309	(115,050)	10,425	28,214	207	-	25,105
Balance - December 31, 2023	<u>\$ 128,207</u>	<u>\$ 773,380</u>	<u>\$ 169,322</u>	<u>\$ 649,521</u>	<u>\$ 4,581</u>	<u>\$ -</u>	<u>\$ 1,725,011</u>

Collateral Dependent

The Bank has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner-occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.
- Agricultural loans are generally secured by large acre parcels of which the primary use of the land is agricultural in nature. Raw land loans generally are undeveloped large acre properties with no specific planned purpose.

The following table details the amortized cost of collateral dependent loans as of December 31 2024 and 2023:

	2024	2023
Commercial	\$ -	\$ 356,019
Commercial Real Estate	979,303	218,781
Consumer	-	-
Residential Real Estate	193,420	-
Agricultural and Raw Land	-	40,651
Total loans	<u>\$ 1,172,723</u>	<u>\$ 615,451</u>

Note 4. Allowance for Credit Losses, continued

Past Due Loans

A loan is considered past due if the required principal and interest payment has not been received as of the due date. The following schedule is an aging of past due loans receivable by portfolio segment as of December 31, 2024 and 2023.

December 31, 2024

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days + Past Due & Still Accruing</u>	<u>Non-Accrual Loans</u>	<u>Current</u>	<u>Total Loans Receivable</u>
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 37,686,449	\$ 37,686,449
Commercial Real Estate	226,640	15,001	-	484,786	91,645,253	91,886,894
Consumer	97,379	2,505	-	28,830	6,404,386	6,504,270
Residential Real Estate	247,127	54,156	-	287,646	76,497,165	76,798,448
Agricultural and Raw Land	14,538	38,874	-	-	5,184,124	5,237,536
	<u>\$ 585,684</u>	<u>\$ 110,536</u>	<u>\$ -</u>	<u>\$ 801,262</u>	<u>\$ 217,417,377</u>	<u>\$ 218,113,597</u>

December 31, 2023

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>90 Days + Past Due & Still Accruing</u>	<u>Non-Accrual Loans</u>	<u>Current</u>	<u>Total Loans Receivable</u>
Commercial	\$ 11,790	\$ -	\$ -	\$ -	\$ 20,546,958	\$ 20,558,748
Commercial Real Estate	30,789	46,261	-	422,649	87,694,263	87,771,313
Consumer	67,401	600	12,783	13,258	5,983,261	6,064,045
Residential Real Estate	210,291	330,077	128,417	244,462	65,908,489	66,577,274
Agricultural and Raw Land	16,303	-	47,275	47,274	14,034,533	14,098,111
	<u>\$ 336,574</u>	<u>\$ 376,938</u>	<u>\$ 188,475</u>	<u>\$ 727,643</u>	<u>\$ 194,167,504</u>	<u>\$ 195,069,491</u>

Non-accrual Loans

Loans are generally placed in non-accrual status when the collection of interest is 90 days or more past due, when the full collection of all principal and interest is unlikely, (even if the amount and timing of the eventual loss are unknown), when a loan is designated as a modification to borrower experiencing financial difficulty, or when the borrower has filed for bankruptcy. Loans that are less delinquent than 90 days past due may also be placed on non-accrual if so directed by the Chief Credit Officer.

Loans that meet these criteria guidelines may be kept on accrual if approved by the Chief Credit Officer and one of the following apply: 1) the loan is well secured and in the process of collection or 2) the loan is past due because of a recent maturity without a timely renewal, but the loan has been approved for renewal and is in the process of being renewed and returned to a paying status. A debt is "well secured" if collateralized by liens on or pledges of real or personal property, including securities, that have a realizable value sufficient to discharge the debt in full or by the guarantee of a financially responsible party. A debt is "in process of collection" if collection is proceeding in due course either through legal action, including judgment enforcement procedures, or, in appropriate circumstances, through collection efforts not involving legal actions which are reasonably expected to result in repayment of the debt or its restoration to a current status. When interest accrual is discontinued, all unpaid accrued interest is reversed.

A non-accrual loan may be returned to accrual status when the Bank can reasonably expect continued timely payments until payment in full. All prior arrearage does not necessarily have to be eliminated, nor do all previously charged off amounts need to have been recovered. The loan can be returned to accrual status if: 1) approved by the Chief Credit Officer, and 2) the return to sustained, acceptable, payment performance, without subsequent relapse to seriously delinquent or otherwise non-performing, is likely. The two general rules that apply here are: a) all principal and interest amounts contractually due (including arrearage) are reasonably assured of repayment within a reasonable period, and b) there is a sustained period of repayment performance (generally a minimum of six months) by the borrower, in accordance with the contractual terms involving payments of cash or cash equivalents.

Note 4. Allowance for Credit Losses, continued

The following table is a summary of the Bank's nonaccrual loans by major categories for the periods indicated.

	<u>December 31, 2024</u>		
	<u>Nonaccrual Loans With No Allowance</u>	<u>Nonaccrual Loans With An Allowance</u>	<u>Total Nonaccrual Loans</u>
Commercial	\$ -	\$ -	\$ -
Commercial Real Estate	484,786	-	484,786
Consumer	28,830	-	28,830
Residential Real Estate	287,646	-	287,646
Agricultural and Raw Land	-	-	-
Total loans	<u>\$ 801,262</u>	<u>\$ -</u>	<u>\$ 801,262</u>
	<u>December 31, 2023</u>		
	<u>Nonaccrual Loans With No Allowance</u>	<u>Nonaccrual Loans With An Allowance</u>	<u>Total Nonaccrual Loans</u>
Commercial	\$ -	\$ -	\$ -
Commercial Real Estate	422,649	-	422,649
Consumer	13,258	-	13,258
Residential Real Estate	244,462	-	244,462
Agricultural and Raw Land	47,274	-	47,274
Total loans	<u>\$ 727,643</u>	<u>\$ -</u>	<u>\$ 727,643</u>

The Bank recognized \$0 and \$22,633 of interest income on loans that were non-accrual as of the year ended December 31, 2024, and 2023, respectfully.

Modifications Made 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. The Bank uses a probability of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

As 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 Bank modifies loans by providing principal forgiveness on certain of its real estate 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 Bank 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. Multiple types of modifications can be made on the same loan within the current reporting period.

During the year ended December 31, 2024 and 2023, the Bank made no loan modifications to borrowers experiencing financial difficulty.

Note 4. Allowance for Credit Losses, continued

Credit Quality

The Bank uses several metrics as credit quality indicators of current or potential risks as part of the ongoing monitoring of the credit quality of its portfolio. The credit quality indicators are periodically reviewed and updated on a case-by-case basis. The loan portfolio is reviewed, both internally and through the use of independent external sources, to validate the credit risk on a periodic basis. The Bank uses the following definitions for the internal risk rating grades, listed from the least risk to the highest risk.

Pass

Loans that are not adversely rated, are contractually current as to principal and interest, and are otherwise in compliance with the contractual terms of the loan agreement. Management believes that there is a low likelihood of loss related to those loans that are considered pass.

Weak Pass

This grade is given to acceptable loans that show signs of weakness in either adequate sources of repayment or collateral, but have demonstrated mitigating factors that minimize the risk of delinquency or loss. Loans assigned Weak Pass may demonstrate some or all of the following characteristics: a) Additional exceptions to the Bank's policy requirements, product guidelines or underwriting standards that present a higher degree of risk to the Bank. Although the combination and/or severity of identified exceptions is greater, all exceptions have been properly mitigated by other factors; b) Unproved, insufficient or marginal primary sources of repayment that appear sufficient to service the debt at this time. Repayment weaknesses may be due to minor operational issues, financial trends, or reliance on projected (not historic) performance; and c) Marginal or unproven secondary sources to liquidate the debt, including combinations of liquidation of collateral and liquidation value to the net worth of the borrower or guarantor.

For existing loans, payments have generally been made as agreed with only minor and isolated delinquencies.

Special Mention

Watch List or Special Mention loans include the following characteristics: a) Loans with underwriting guideline tolerances and/or exceptions with no identifiable mitigating factors; b) Extending loans that are currently performing satisfactorily but with potential weaknesses that may, if not corrected, weaken the asset or inadequately protect the Bank's position at some future date. Potential weaknesses are the result of deviations from prudent lending practices; and c) Loans where adverse economic conditions that develop subsequent to the loan origination do not jeopardize liquidation of the debt, but do substantially increase the level of risk, may also warrant this rating.

Note 4. Allowance for Credit Losses, continued

Credit Quality, continued

Substandard

A Substandard loan is inadequately protected by the current sound net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans classified as Substandard must 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.

Loans consistently not meeting the repayment schedule should be downgraded to substandard.

Loans in this category are characterized by deterioration in quality exhibited by any number of well-defined weaknesses requiring corrective action. The weaknesses may include, but are not limited to: high debt to worth ratios, declining or negative earnings trends, declining or inadequate liquidity, improper loan structure, questionable repayment sources, lack of well-defined secondary repayment source, and unfavorable competitive comparisons.

Such loans are no longer considered to be adequately protected due to the borrower's declining net worth, lack of earnings capacity, declining collateral margins and/or unperfected collateral positions. A possibility of loss of a portion of the loan balance cannot be ruled out. The repayment ability of the borrower is marginal or weak and the loan may have exhibited excessive overdue status or extensions and/or renewals.

Doubtful

Loans classified as Doubtful have all the weaknesses inherent in loans classified as Substandard, plus 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. However, these loans are not yet rated as loss because certain events may occur which would salvage the debt. Among these events are: the injection of capital, alternative financing, or the liquidation of assets or the pledging of additional collateral.

The ability of the borrower to service the debt is extremely weak, overdue status is constant, the debt has been placed on non-accrual status, and no definite repayment schedule exists.

Doubtful is a temporary grade where a loss is expected but is presently not quantified with any degree of accuracy. Once the loss position is determined, the amount is charged off.

Loss

Loans classified as Loss are considered uncollectable and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off this worthless loan even though partial recovery may be affected in the future.

Probable Loss portions of Doubtful assets should be charged against the Allowance for Credit Losses. Loans may reside in this classification for administrative purposes for a period not to exceed the earlier of thirty (30) days or calendar quarter-end.

As of and for the years ended December 31, 2024 and 2023

Note 4. Allowance for credit Losses, continued

Credit Quality, continued

Vintage disclosures:

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

	Term Loans by Year of Origination						Total
	2024	2023	2022	2021	Prior	Revolving	
Commercial							
Pass	\$ 14,006,306	\$ 5,063,872	\$ 2,767,338	\$ 540,246	\$ 12,573,405	\$ -	\$ 34,951,167
Weak Pass	632,492	1,103,228	579,267	126,731	186,768	-	2,628,486
Special Mention	52,665	14,593	5,821	16,117	-	-	89,196
Substandard	-	-	-	-	17,600	-	17,600
Total	<u>\$ 14,691,463</u>	<u>\$ 6,181,693</u>	<u>\$ 3,352,426</u>	<u>\$ 683,094</u>	<u>\$ 12,777,773</u>	<u>\$ -</u>	<u>\$ 37,686,449</u>
Current period gross write-offs	-	-	1,780	-	-	-	1,780
Commercial Real Estate							
Pass	\$ 6,659,982	\$ 8,922,152	\$ 8,161,015	\$ 5,223,033	\$ 18,580,993	\$ -	\$ 47,547,175
Weak Pass	6,369,325	4,716,995	10,292,045	1,930,655	15,643,643	-	38,952,663
Special Mention	33,084	-	-	-	1,584,256	-	1,617,340
Substandard	-	1,196,594	690,589	1,810	1,880,723	-	3,769,716
Total	<u>\$ 13,062,391</u>	<u>\$ 14,835,741</u>	<u>\$ 19,143,649</u>	<u>\$ 7,155,498</u>	<u>\$ 37,689,615</u>	<u>\$ -</u>	<u>\$ 91,886,894</u>
Current period gross write-offs	-	-	-	-	-	-	-
Consumer							
Pass	\$ 2,239,124	\$ 1,114,666	\$ 857,792	\$ 424,997	\$ 403,023	\$ 206,327	\$ 5,245,929
Weak Pass	510,484	254,585	205,908	49,160	24,493	47,910	1,092,540
Special Mention	-	2,388	21,609	-	-	-	23,997
Substandard	40,169	16,557	15,581	-	61,125	8,372	141,804
Total	<u>\$ 2,789,777</u>	<u>\$ 1,388,196</u>	<u>\$ 1,100,890</u>	<u>\$ 474,157</u>	<u>\$ 488,641</u>	<u>\$ 262,609</u>	<u>\$ 6,504,270</u>
Current period gross write-offs	-	1,779	-	-	640	-	2,419
Residential Real Estate							
Pass	\$ 6,599,818	\$ 5,480,278	\$ 3,092,124	\$ 5,354,227	\$ 7,679,263	\$ 9,405,370	\$ 37,611,080
Weak Pass	7,718,372	6,135,751	4,978,137	3,655,290	8,130,626	4,178,719	34,796,895
Special Mention	176,552	-	276,409	35,522	894,495	402,873	1,785,851
Substandard	-	83,345	433,392	-	1,536,052	551,833	2,604,622
Total	<u>\$ 14,494,742</u>	<u>\$ 11,699,374</u>	<u>\$ 8,780,062</u>	<u>\$ 9,045,039</u>	<u>\$ 18,240,436</u>	<u>\$ 14,538,795</u>	<u>\$ 76,798,448</u>
Current period gross write-offs	-	-	-	-	1,902	-	1,902
Agriculture and Raw Land							
Pass	\$ 200,561	\$ 1,580,512	\$ 161,408	\$ 218,782	\$ 385,133	\$ -	\$ 2,546,396
Weak Pass	275,323	175,903	-	749,420	1,347,700	-	2,548,346
Special Mention	9,000	-	-	-	62,981	-	71,981
Substandard	-	-	-	-	70,813	-	70,813
Total	<u>\$ 484,884</u>	<u>\$ 1,756,415</u>	<u>\$ 161,408</u>	<u>\$ 968,202</u>	<u>\$ 1,866,627</u>	<u>\$ -</u>	<u>\$ 5,237,536</u>
Current period gross write-offs	-	-	-	-	-	-	-

Note 5. Premises and Equipment

A summary of premises and equipment at December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Land	\$ 2,153,595	\$ 2,205,966
Buildings and improvements	10,241,068	10,450,255
Equipment	3,775,688	3,457,982
Construction in Process	<u>61,952</u>	<u>15,920</u>
	16,232,303	16,130,123
Less accumulated depreciation	<u>(8,527,364)</u>	<u>(8,164,803)</u>
	<u>\$ 7,704,939</u>	<u>\$ 7,965,320</u>

Depreciation expense for the years ended December 31, 2024 and 2023 was \$636,634 and \$555,973, respectively.

Note 6. Leases

On January 1, 2019, the Bank adopted ASU No. 2016-02 “Leases (Topic 842)” and subsequent amendments thereto, which requires the Bank to recognize most leases on the Statements of Condition. The Bank determined that there were 2 operating lease arrangements in place as of December 31, 2024 and 2023 that were recorded as a right-of-use asset and lease liability on the Statements of Condition.

The Bank is obligated on a ten-year operating lease for a branch facility located in Fayetteville, North Carolina with monthly payments of \$6,250. In 2023, the Bank was obligated on a five-year operating lease for a different branch facility that is no longer leased as of December 31, 2024. The Bank also has operating lease obligations for office equipment used at the branch locations.

The following tables present information about the Bank’s leases that are included in other assets and other liabilities at December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Lease liability	\$ 706,309	\$ 326,338
Right-of-use assets	679,350	315,999
Weighted average remaining lease term (in years)	8.81	7.71
Weighted average discount rate	4.34%	1.83%
	<u>2024</u>	<u>2023</u>
Operating lease cost included interest and amortization expense	\$ 148,651	\$ 87,734
Total Lease Cost	148,651	87,734

Maturity analysis of the operating lease liabilities as of December 31, 2024 is as follows:

2025	\$ 116,338
2026	78,500
2027	81,000
2028	84,500
After 2029	<u>507,250</u>
Total lease payments	\$ 867,588
Lease interest	<u>(161,279)</u>
Present value of lease liabilities	<u>\$ 706,309</u>

Note 7. Goodwill

A summary of goodwill at December 31, 2024 and 2023 was as follows:

	<u>2024</u>		<u>2023</u>	
	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>	<u>Gross Carrying Value</u>	<u>Accumulated Amortization</u>
Goodwill	\$ 591,147	\$ -	\$ 591,147	\$ -

Management assesses goodwill on an annual basis on December 31 for impairment and adjusts accordingly. As of December 31, 2024, management did not consider goodwill to be impaired.

Note 8. Deposits

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2024 and 2023 was \$35,550,066 and \$29,347,327 respectively.

Maturities of time deposits are scheduled as follows:

	<u>Amount</u>
2025	\$ 159,386,383
2026	7,734,293
2027	4,881,342
2028	848,049
2029	278,980
	<u>\$ 173,129,047</u>

The Bank had \$15,003,000 in brokered time deposits as of December 31, 2024 and \$5,000,000 as of December 31, 2023.

Note 9. Borrowings

Securities Sold under Agreements to Repurchase

Securities sold under repurchase agreements are summarized as follows for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Amount outstanding at year end	\$ 5,326,180	\$ 7,538,140
Average amount outstanding during year	\$ 7,464,786	\$ 6,604,270
Maximum amount outstanding at any month-end	\$ 9,802,887	\$ 9,212,608
Weighted average rate paid at year-end	0.29%	0.32%
Weighted average rate paid during the year	0.29%	0.25%

Federal Home Loan Bank Advances

The following information is provided for balances, rates, and maturities with the FHLB as of December 31:

<u>Advance Type</u>	<u>2024</u>			<u>2023</u>	
	<u>Maturity</u>	<u>Rate</u>	<u>Amount</u>	<u>Rate</u>	<u>Amount</u>
Principal Reducing Credit	-	-	-	2.00%	12,126

The Bank had investment securities with an amortized cost of \$19,327,768 and \$19,651,724 pledged to the FHLB at December 31, 2024 and 2023, respectively. These pledged securities had a carrying amount of \$19,103,676 and \$18,928,128 at December 31, 2024 and 2023, respectively.

Unsecured Lines of Credit

The Bank had unsecured lines of credit with correspondent banks available for overnight borrowing totaling approximately \$34 million at December 31, 2024 and 2023.

Note 10. Regulatory Capital

The Bank is subject to various regulatory capital requirements administered by its primary federal regulator, the Federal Deposit Insurance Corporation (“FDIC”). Failure to meet the minimum regulatory capital requirements can initiate certain mandatory and possible additional discretionary actions by regulators that if undertaken, could have a direct material effect on the Bank and the financial statements. Under the regulatory capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines involving quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classification under the prompt corrective action guidelines 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 Bank to maintain minimum amounts and ratios of: total risk-based capital and Tier 1 capital to risk-weighted assets (as defined in the regulations), and Tier 1 capital to adjusted total assets (as defined). Management believes, as of December 31, 2024, that the Bank met all the capital adequacy requirements to which it was subject.

In September 2019, the Federal Reserve Board, along with other federal banking regulatory agencies, issued a final rule, effective January 1, 2020, that gives community banks the option to calculate a simple leverage ratio to measure capital adequacy if the community banks meet certain requirements. Under the rule, a community bank is eligible to elect the Community Bank Leverage Ratio (“CBLR”) framework if the community bank has less than \$10 billion in total consolidated assets, limited amounts of certain assets and off-balance sheet exposures, and a leverage ratio greater than 9.0%. Qualifying institutions that elect to use the CBLR framework and that maintain a leverage ratio of greater than 9.0% will be considered to have satisfied the risk-based and leverage capital requirements in the regulatory agencies’ generally applicable capital rules and to have met the well-capitalized ratio requirements. The Bank adopted the CBLR framework beginning on January 1, 2020.

The Bank’s actual and required capital amounts and ratios are as follows (dollars in thousands):

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum 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>
<i>December 31, 2024</i>						
CBLR	\$ 58,157	11.22%	\$ 20,739	4.00%	\$ 25,924	5.00%
<i>December 31, 2023</i>						
CBLR	\$ 55,095	10.86%	\$ 20,293	4.00%	\$ 25,366	5.00%

Note 11. Income per Share

The following table details the computation of basic and diluted income per share for each year ended December 31:

	<u>2024</u>	<u>2023</u>
Net income	\$ 3,849,451	\$ 5,957,400
Weighted average basic shares outstanding	3,328,645	3,340,109
Weighted average diluted shares outstanding	\$ 3,328,645	\$ 3,340,109
Basic net income per common share	\$ 1.16	\$ 1.78
Diluted net income per common share	\$ 1.16	\$ 1.78

Note 12. Income Taxes

The provision for income taxes for 2024 and 2023 consists of the following:

	<u>2024</u>	<u>2023</u>
Income tax expense		
Current tax expense		
Federal	\$ 530,296	\$ 315,879
State	101,453	90,413
Total	631,749	406,292
Deferred tax expense (benefit)		
Federal	213,297	148,176
State	53,051	27,631
Total	266,348	175,807
	<u>\$ 898,097</u>	<u>\$ 582,099</u>

The provision for federal income taxes differs from that computed by applying federal statutory rates to income before federal income tax expense, as indicated in the following analysis:

	<u>2024</u>	<u>2023</u>
Federal statutory income tax at 21% for 2024 and 2023	\$ 1,009,886	\$ 1,373,295
Tax exempt interest	(291,053)	(444,975)
Non-taxable life insurance income	(81,988)	(322,383)
Effect of state income taxes	122,058	93,255
Previous year over accrual	151,399	-
Other	(12,205)	(117,093)
	<u>\$ 898,097</u>	<u>\$ 582,099</u>

Note 12. Income Taxes, continued

A cumulative net deferred tax asset is included in other assets. The components of the asset are as follows:

	<u>2024</u>	<u>2023</u>
Deferred tax assets:		
Allowance for credit losses	\$ 285,193	\$ 347,441
Pension obligations	130,600	425,394
Stock compensation	35,506	35,814
Net unrealized losses on available for sale securities	3,742,479	3,573,107
Interest income on nonaccrual loans	19,083	24,382
Deferred compensation	416,281	353,556
Other	-	33,614
Total deferred tax assets	<u>4,629,142</u>	<u>4,793,308</u>
Deferred tax liabilities:		
Accumulated depreciation	(296,440)	(300,833)
Other	(22,191)	-
Total deferred tax liabilities	<u>(318,630)</u>	<u>(300,833)</u>
Net deferred tax assets	<u>\$ 4,310,511</u>	<u>\$ 4,492,474</u>

The Bank has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with applicable FIN 48 regulations. The federal income tax returns of the Bank for 2021 and subsequent years are subject to examination by taxing agencies, generally for three years after they were filed.

Note 13. Employee Benefit Plans

Pension Plan

The Bank maintains a noncontributory qualified benefit plan (“the Plan”) covering all eligible employees who work 1,000 hours or more as of the beginning of the plan’s fiscal year. The Plan was frozen with respect to new and rehired employees as of December 31, 2017. Benefits are based on years of service.

The following table provides a reconciliation of changes in benefit obligation and fair value of plan assets, as well as the funded status recognized in the Bank’s balance sheets for the plan for the years ended December 31:

	<u>2024</u>	<u>2023</u>
Benefit obligation, beginning of year	\$ (7,375,596)	\$ (7,217,864)
Service cost	(94,594)	(108,021)
Interest cost	(326,077)	(345,425)
Actuarial gains (losses)	948,957	(72,552)
Employer benefits paid	<u>388,573</u>	<u>368,266</u>
Benefit obligation, end of year	<u>(6,458,737)</u>	<u>(7,375,596)</u>
Fair value of plan assets, beginning of year	6,642,765	6,008,353
Actual return on plan assets	809,229	782,678
Employer contributions	-	220,000
Employer benefits paid	<u>(388,573)</u>	<u>(368,266)</u>
Fair value of plan assets, end of year	<u>7,063,421</u>	<u>6,642,765</u>
Funded status, end of year	<u>\$ 604,684</u>	<u>\$ (732,831)</u>

The following presents the amounts recognized in accumulated other comprehensive income (“AOCI”) for the plan as of December 31:

	<u>2024</u>	<u>2023</u>
Unrecognized net prior service cost	(514,319)	(577,221)
Unrecognized net loss	<u>1,087,693</u>	<u>2,428,774</u>
Amount recognized in AOCI	<u>\$ 573,374</u>	<u>\$ 1,851,553</u>

The accumulated benefit obligation was \$6,136,200 and \$6,832,431 at December 31, 2024 and 2023, respectively.

Components of net periodic pension cost are presented in the following table:

	<u>2024</u>	<u>2023</u>
Service cost	\$ 94,594	\$ 108,021
Interest cost	326,077	345,425
Expected return on plan assets	(516,911)	(465,996)
Amortization of:		
Prior service cost	(62,902)	(62,901)
Net actuarial losses	<u>99,806</u>	<u>130,934</u>
Net periodic pension expense (benefit)	<u>\$ (59,336)</u>	<u>\$ 55,483</u>

The estimated prior service cost and net change that will be amortized from accumulated other comprehensive income into 2025 net periodic pension cost are \$(63,000) and \$30,000, respectively.

Note 13. Employee Benefit Plans, continued

Assumptions used to determine the benefit obligations as of December 31, 2024 and 2023 for the Plan were as follows:

	<u>2024</u>	<u>2023</u>
Weighted Average Assumptions		
Discount rate	5.48%	4.79%
Compensation Rate Increase	3.00%	3.00%

Assumptions used to determine the net periodic cost for the Plan for the years ended December 31, 2024 and 2023 were as follows:

	<u>2024</u>	<u>2023</u>
Weighted Average Assumptions		
Discount rate	4.79%	4.99%
Expected Long-term Rate of Return on Plan Assets	8.00%	8.00%
Compensation Rate Increase	3.00%	3.00%

The Bank's overall investment strategy is to maintain the purchasing power of the current assets and all future contributions by producing positive rates of return on plan assets; maximize returns within reasonable and prudent levels of risk; and control costs of administering the plan and managing the investments.

The fair values of the Retirement Plan assets for the years ended December 31, 2024 and 2023 by asset category were as follows:

	Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
<u>December 31, 2024</u>				
Cash and Equivalents	\$ 80,071	\$ -	\$ -	\$ 80,071
Domestic Equity Mutual Funds	6,701,130	-	-	6,701,130
Lumbee Guaranty Bank Common Stock	-	130,707	-	130,707
Certificates of Deposit	<u>151,513</u>	-	-	<u>151,513</u>
Total	<u>\$ 6,932,714</u>	<u>\$ 130,707</u>	<u>\$ -</u>	<u>\$ 7,063,421</u>
<u>December 31, 2023</u>				
Cash and Equivalents	\$ 323,862	\$ -	\$ -	\$ 323,862
Domestic Equity Mutual Funds	6,079,313	-	-	6,079,313
Lumbee Guaranty Bank Common Stock	-	90,720	-	90,720
Certificates of Deposit	<u>148,870</u>	-	-	<u>148,870</u>
Total	<u>\$ 6,552,045</u>	<u>\$ 90,720</u>	<u>\$ -</u>	<u>\$ 6,642,765</u>

The Bank expects to contribute \$285,000 to the Plan in 2025.

Estimated future benefit payments, which reflect expected future service, as appropriate, are expected to be paid as follows:

<u>Year</u>	<u>Amount</u>
2025	\$ 370,000
2026	370,000
2027	390,000
2028	400,000
2029	440,000
2030-2034	2,340,000

Note 13. Employee Benefit Plans, continued

Long-Term Stock Option Compensation Plan

Under our Long-Term Stock Compensation Plan (the "Stock Option Plan"), the Bank is authorized to grant stock options and stock awards to our officers, other key employees and directors. The Stock Option Plan is administered by our Personnel Committee, which is authorized to make all determinations regarding the persons to whom, and numbers of shares for which, options and awards will be granted, to specify certain of the terms of options and awards, and to interpret and establish rules, make all determinations, and take all other actions, necessary or advisable in the administration of the Plan.

At the Personnel Committee's discretion, options granted to officers and employees may be incentive stock options ("ISOs") pursuant to Section 422(a) of the Internal Revenue Code of 1986, as amended, or they may be nonqualified stock options ("NQSOs"). Only NQSOs may be granted to directors. To date, only stock options that qualify as ISOs have been granted under the Stock Option Plan.

On March 22, 2018, the Bank's Board of Directors adopted the 2018 Employee Stock Option Plan (the "2018 Stock Option Plan") under which up to 341,756 options to purchase shares of stock may be granted at the Board's discretion. The termination date of the plan is March 22, 2028. The 2018 Stock Option Plan replaces the Long-Term Stock Compensation Plan which expired May 23, 2016.

A summary of the activity in the stock option plan for 2024 follows:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term</u>
Outstanding at beginning of year	3,200	\$ 10.50	0.13 years
Granted	-	-	-
Exercised	-	-	-
Forfeited or expired	<u>3,200</u>	10.50	-
Outstanding at end of year	<u><u>-</u></u>	\$ -	-
Fully vested at end of year	-	\$ -	-
Exercisable at end of year	-	\$ -	-

401(k) Plan

The Bank adopted a 401(k) plan for its employees effective April 1997. All employees are eligible provided they have attained 21 years of age and completed 1,000 hours of service. The Bank contributes a matching contribution of \$0.50 per cash dollar up to a maximum of 3% of an employee's eligible contribution. The Bank's expense for the plan was \$81,987 and \$86,049 for the years ended December 31, 2024 and 2023, respectively and was included in other personnel costs.

Employee Stock Ownership Plan

The Bank formed an ESOP for its employees in 2013. All employees of the Bank meeting certain tenure requirements are entitled to participate in the ESOP. Employer contributions are discretionary. Employee contributions are not permitted. There were 77,383 shares in the ESOP at December 31, 2024 and 2023.

Note 14. Deferred Compensation Plan for Directors/Executives

The Bank has established a deferred compensation plan for non-employee directors of the Bank (the “Director Plan”). Each participating director may defer up to 100% of their monthly Board fees into the Director Plan. The Director Plan also provides a \$25,000 death benefit payable to the Director’s beneficiary. The Bank also adopted a deferred compensation plan for the benefit of key employees. While the plan is to be funded from the general assets of the Bank, life insurance policies were acquired for the purpose of serving as the primary funding source. Under the plan, cash values on life insurance policies increased \$390,419 in 2024. The cash value on life insurance policies increased \$297,582, acquired \$3,000,000 in additional life insurance, and a death benefit payout of \$1,832,233 for a total increase of \$1,465,349 in 2023. The Bank also recognized life insurance proceeds of \$1,237,574 in 2023. The Bank also has deferred directors fees of \$293,274 and \$240,163, in 2024 and 2023 respectively.

Note 15. Related Party Transactions

The Bank has entered into transactions with its directors, executive officers, significant shareholders (own voting shares of 10% or more) and their affiliates (related parties). Such transactions were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

Aggregate loan transactions with related parties were as follows:

	<u>2024</u>	<u>2023</u>
<i>Balance, beginning</i>	\$ 686,898	\$ 565,410
New loans and advances	399,589	236,736
Repayments	<u>(244,664)</u>	<u>(115,248)</u>
<i>Balance, ending</i>	<u>\$ 841,823</u>	<u>\$ 686,898</u>

The Bank had related party deposits in the amount of \$5,308,344 and \$3,935,817 at December 31, 2024 and 2023, respectively.

Note 16. Commitments and Contingencies

In the normal course of business the Bank is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the financial statements.

Note 17. Financial Instruments with Off-Balance-Sheet Risk

In the normal course of business, the Bank has outstanding commitments and contingent liabilities, such as commitments to extend credit and standby letters of credit, which are not included in the accompanying financial statements. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual or notional amount of those instruments. The Bank uses the same credit policies in making such commitments as it does for instruments that are included in the balance sheet. The Bank maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., the commitment cannot be canceled at any time). The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in Note 4. The allowance for credit losses for unfunded loan commitments of \$70,855 and \$90,509 as of December 31, 2024 and 2023 respectively, is reported on the balance sheet within Other Liabilities.

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2024:

Total Allowance For Credit Losses - Unfunded Commitments

Balance, December 31, 2022	\$	302,462
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13		(217,034)
Provision for unfunded commitments		<u>5,081</u>
Balance, December 31, 2023	\$	90,509
Recovery of unfunded commitments		<u>(19,654)</u>
Balance, December 31, 2024	\$	<u><u>70,855</u></u>

Financial instruments whose contract amount represents credit risk at December 31, were as follows:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 32,084,617	\$ 34,636,637
Standby letters of credit	-	65,000

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

Standby letters of credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit. The Bank holds first deeds of trust, certificates of deposit and/or marketable securities as collateral supporting those commitments for which collateral is deemed necessary.

The Bank enters into a variety of interest rate contracts including interest rate caps and floors in its trading activities and in managing interest rate exposure.

Note 18. Fair Value

Financial Instruments

For assets and liabilities that are not presented on the balance sheet at fair value, the Bank uses the following methods to determine fair value:

The Bank uses an exit price notion to estimate fair value of financial instruments measured at amortized cost on the balance sheet. The exit price notion also incorporates factors such as credit risk, illiquidity risk and market risk factors.

The fair value of off-balance sheet financial instruments is considered immaterial. These off-balance sheet financial instruments are commitments to extend credit and are either short-term in nature or subject to immediate repricing.

The following presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments as of December 31, 2024 and 2023. These tables exclude financial instruments for which the carrying amount approximates fair value and which would be classified as Level 1. For short-term financial assets such as cash and cash equivalents, the carrying amount is a reasonable estimate of fair value due to the relatively short time between the origination of the instrument and its expected realization.

Fair Value Hierarchy

Under FASB ASC Topic 820 "Fair Value Measurements and Disclosures" ("FASB ASC 820"), the Bank groups assets and liabilities at fair values in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. 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 price 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 use of option pricing models, discounted cash flow models and similar techniques.

Note 18. Fair Value, continued

The estimated fair values of the Bank's financial instruments are as follows (dollars in thousands):

	Carrying Amount	Fair Value	Fair Value Measurements		
			Quoted Prices in Active Markets for Identical Assets or Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2024					
<i>Financial Instruments - Assets</i>					
Cash and cash equivalents	25,077	25,077	25,077	-	-
Non-marketable securities	533	533	-	533	-
Loans, net of allowance for credit losses	216,547	214,476	-	-	214,476
<i>Financial Instruments - Liabilities</i>					
Deposits	466,099	465,693	-	465,693	-
December 31, 2023					
<i>Financial Instruments - Assets</i>					
Cash and cash equivalents	44,275	44,275	44,275	-	-
Non-marketable securities	510	510	-	510	-
Loans, net of allowance for credit losses	194,297	182,385	-	-	182,385
<i>Financial Instruments - Liabilities</i>					
Deposits	466,442	465,275	-	465,275	-
FHLB Advances	12	12	-	-	12

Following is a description of valuation methodologies used for assets and liabilities recorded at fair value.

Cash and Cash Equivalents

The carrying amount reported in the balance sheet for this instrument approximates the fair values due to the short-term nature of this instrument.

Non-Marketable Securities

The carrying amount is a reasonable estimate of fair value.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, 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.

Note 18. Fair Value, continued

Loans

The Bank does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered collateral dependent 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 considered collateral dependent. Once a loan is identified as individually collateral dependent, management measures impairment. The fair value of collateral dependent loans is estimated using one of several methods, including the collateral value, market value of similar debt and discounted cash flows. Those collateral dependent loans not requiring a specific allowance represents loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. Collateral dependent loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The fair value of collateral dependent loans is generally based on judgment and therefore classified as nonrecurring Level 3.

Foreclosed Real Estate

Foreclosed real estate is adjusted to fair value upon transfer of the loans to foreclosed real estate. Real estate acquired in settlement of loans is recorded initially at estimated fair value of the property less estimated selling costs at the date of foreclosure. The initial recorded value may be subsequently reduced by additional allowances, which are charges to earnings if the estimated fair value of the property less estimated selling costs declines below the initial recorded value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. The fair value of foreclosed assets is generally based on judgment and therefore is classified as nonrecurring Level 3.

Deposits

The fair value disclosed of demand deposits (e.g., interest and noninterest checking, savings, certificates of deposit, and certain types of money market accounts) are by definition, equal to the amount payable on demand at the reporting date (i.e., their carrying amount) resulting in a Level 2 classification. The carrying amounts of variable rate, fixed-term money market accounts and certificates of deposit approximate their fair values at the reporting date resulting in a Level 2 classification. Fair values for fixed rate certificates of deposit are estimated using a discounted cash flows calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits resulting in a Level 2 classification.

FHLB Advances

The carrying amount is a reasonable estimate of fair value.

Fair value of assets and liabilities measured on a recurring basis at December 31, 2024 and December 31, 2023 are as follows:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
<u>December 31, 2024</u>				
Available for sale securities				
Government-sponsored enterprise securities	\$ 9,745,066	\$ -	\$ 9,745,066	\$ -
Mortgage-Backed Securities	<u>101,289,576</u>	<u>-</u>	<u>101,289,576</u>	<u>-</u>
Total assets at fair value	<u>\$ 111,034,642</u>	<u>\$ -</u>	<u>\$ 111,034,642</u>	<u>\$ -</u>
<u>December 31, 2023</u>				
Available for sale securities				
Government-sponsored enterprise securities	\$ 10,560,376	\$ -	\$ 10,560,376	\$ -
Mortgage-Backed Securities	<u>101,736,484</u>	<u>-</u>	<u>101,736,484</u>	<u>-</u>
Total assets at fair value	<u>\$ 112,296,860</u>	<u>\$ -</u>	<u>\$ 112,296,860</u>	<u>\$ -</u>

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

Note 18. Fair Value, continued

Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis

The Bank may be required from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower cost or market that were recognized at fair value below cost at the end of the period. Balances are net of specific reserves. Assets measured at fair value on a nonrecurring basis are included in the table below.

	<u>Total</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
December 31, 2024				
Collateral dependent loans	\$ 1,172,723	\$ -	\$ -	\$ 1,172,723
Foreclosed real estate	45,478	-	-	45,478
Total assets at fair value	<u>\$ 1,218,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,218,201</u>
December 31, 2023				
Collateral dependent loans	\$ 2,424,286	\$ -	\$ -	\$ 2,424,286
Total assets at fair value	<u>\$ 2,424,286</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,424,286</u>

Level 3 Valuation Techniques

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

	<u>Fair Value at</u>		<u>Valuation</u>	<u>Significant</u>	<u>Significant</u>
	<u>December 31,</u>	<u>December 31,</u>			
	<u>2024</u>	<u>2023</u>	<u>Technique</u>	<u>Inputs</u>	<u>Input Value</u>
Collateral dependent loans	\$ 1,172,723	\$ 2,424,286	Appraised Value/ Discounted Cash Flows	Collateral discounts Discount rate	6-10% 5-16%

Note 19. Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet 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 balance sheet, 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 balance sheet but arose after that date.

The Bank does not have any significant deposit concentrations. The largest deposit pool is made up of public fund accounts which are generally around 10% of the total deposit portfolio. In relation to current economic conditions, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through the date the financial statements were issued.

The Bank has disclosed its investment portfolio position in Note 2. There has been no significant deterioration in the investment portfolio through the date the financial statements were issued.

Management has reviewed the events occurring through March 28, 2025, and no additional subsequent events occurred requiring accrual or disclosure.