Bank of Botetourt

2024 Annual Report

Independent Auditor's Report

To the Board of Directors
Bank of Botetourt
Buchanan, Virginia

Opinion

We have audited the consolidated financial statements of Bank of Botetourt and subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Emphasis of Matter

As discussed in Note 1 of the consolidated financial statements, Bank of Botetourt and subsidiary adopted ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326) on January 1, 2023. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of Botetourt and subsidiary's ability to continue as a going concern for one year from the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these consolidated financial statements.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (continued)

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 Bank of Botetourt and subsidiary'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 consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Bank of Botetourt and subsidiary'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.

Campbell & Lineberry, PC

Roanoke, Virginia
February 25, 2025

Consolidated Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets		
Cash and due from banks	$ 12,439,157	$ 10,448,088
Interest-bearing deposits with banks	53,130,735	58,512,225
Federal funds sold	936,000	524,000
Total cash and cash equivalents	66,505,892	69,484,313
Time deposits with banks	250,000	250,000
Debt securities held to maturity, net of allowance for credit losses of $18,000 at December 31, 2024 and 2023, respectively	9,982,000	9,932,000
Debt securities available for sale	73,159,328	85,663,138
Restricted equity securities	633,800	1,483,400
Loans, net of allowance for credit losses of $7,989,002 at December 31, 2024 and $7,541,587 in 2023	671,590,102	593,256,517
Property and equipment, net	17,355,721	14,651,868
Bank owned life insurance	7,543,830	4,399,492
Accrued interest receivable	2,633,152	2,286,059
Other assets	7,419,014	7,616,908
Total assets	$ 857,072,839	$ 789,023,695
Liabilities and Stockholders' Equity		
Liabilities		
Noninterest-bearing deposits	$ 179,420,331	$ 159,472,664
Interest-bearing deposits	587,801,599	530,119,715
Total deposits	767,221,930	689,592,379
Other borrowings	-	19,000,000
Accrued interest payable	3,544,286	1,573,929
Other liabilities	3,796,360	4,078,968
Total liabilities	774,562,576	714,245,276
Commitments and contingencies	-	-
Stockholders' equity		
Preferred stock, $1.00 par value; 1,000,000 shares authorized non-cumulative perpetual; 243,659 issued and outstanding at December 31, 2024 and 2023, respectively	243,659	243,659
Common stock, $1.50 par value; 5,000,000 shares authorized; 1,960,879 and 1,951,372 shares issued and outstanding at December 31, 2024 and 2023, respectively	2,941,319	2,927,059
Additional paid-in capital	24,198,416	23,937,515
Retained earnings	59,277,291	53,377,007
Accumulated other comprehensive loss	(4,150,422)	(5,706,821)
Total stockholders' equity	82,510,263	74,778,419
Total liabilities and stockholders' equity	$ 857,072,839	$ 789,023,695

See Notes to Consolidated Financial Statements

Consolidated Statements of Income

Years ended December 31, 2024 and 2023

	2024	2023
Interest income		
Loans and fees on loans	$ 37,602,993	$ 29,224,541
Federal funds sold	23,471	18,675
Securities:		
Taxable	1,572,017	1,737,054
Exempt from federal income tax	207,250	234,417
Dividend income	106,654	40,813
Deposits with banks	2,294,624	3,118,971
Total interest income	41,807,009	34,374,471
Interest expense		
Deposits	15,029,426	8,916,651
Federal funds purchased	514	181
Other borrowings	824,500	467,719
Total interest expense	15,854,440	9,384,551
Net interest income	25,952,569	24,989,920
Provision for credit losses	873,704	1,035,513
Net interest income after credit loss expense	25,078,865	23,954,407
Noninterest income		
Service charges on deposit accounts	1,283,649	1,305,979
ATM and debit card	1,871,205	1,956,496
Other service charges and fees	818,023	742,093
Mortgage origination fees	197,374	226,068
Other income	1,220,362	968,571
Total noninterest income	5,390,613	5,199,207
Noninterest expense		
Salaries and employee benefits	8,946,643	8,406,619
Occupancy	1,002,854	973,993
Equipment	1,121,518	908,664
Outside services	2,770,892	2,269,480
FDIC insurance premiums and assessment	476,737	348,206
ATM and debit card	1,455,045	1,426,549
Franchise tax	657,440	598,503
Telephone and communication	320,114	262,362
Other professional fees	239,808	297,640
Marketing	870,403	944,231
Other operating expenses	2,636,834	2,458,752
Total noninterest expense	20,498,288	18,894,999
Income before income taxes	9,971,190	10,258,615
Income tax expense	2,029,137	2,085,767
Net income	7,942,053	8,172,848
Preferred stock dividends	477,572	477,572
Net income available to common shareholders	$ 7,464,481	$ 7,695,276
Basic earnings per share	$ 3.82	$ 3.95
Diluted earnings per share	$ 3.82	$ 3.95
Basic weighted average shares outstanding	1,956,428	1,946,576
Diluted weighted average shares outstanding	1,956,428	1,946,576

See Notes to Consolidated Financial Statements

Consolidated Statements of Comprehensive Income

Years ended December 31, 2024 and 2023

	2024	2023
Net income	$ 7,942,053	$ 8,172,848
Other comprehensive income (loss):		
Decrease in unrealized holding losses on debt securities available for sale	1,693,163	2,804,066
Tax expense related to unrealized holding losses on debt securities - available for sale	(355,564)	(588,854)
Pension plan adjustment	266,847	227,515
Tax expense related to pension plan adjustment	(56,037)	(47,778)
Post-retirement health plan adjustment	10,114	(4,487)
Tax benefit (expense) related to post-retirement health plan adjustment	(2,124)	942
Total other comprehensive income	1,556,399	2,391,404
Total comprehensive income	$ 9,498,452	$ 10,564,252

Consolidated Statements of Stockholders' Equity

Years ended December 31, 2024 and 2023

	Preferred Stock	Common Stock	Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance, December 31, 2022	$ 243,659	$ 2,911,319	$ 23,654,683	$ 47,681,356	$ (8,098,225)	$ 66,392,792
Net income	-	-	-	8,172,848	-	8,172,848
Cumulative change in accounting standard	-	-	-	(501,772)	-	(501,772)
Changes in other comprehensive gain	-	-	-	-	2,391,404	2,391,404
Total comprehensive income						10,062,480
Dividends on preferred stock declared	-	-	-	(477,572)	-	(477,572)
Dividends on common stock declared	-	-	-	(1,497,853)	-	(1,497,853)
Stock issued under Dividend Reinvestment Plan	-	15,740	282,832	-	-	298,572
Balance, December 31, 2023	243,659	2,927,059	23,937,515	53,377,007	(5,706,821)	74,778,419
Net income	-	-	-	7,942,053	-	7,942,053
Changes in other comprehensive gain	-	-	-	-	1,556,399	1,556,399
Total comprehensive income						9,498,452
Dividends on preferred stock declared	-	-	-	(477,572)	-	(477,572)
Dividends on common stock declared	-	-	-	(1,564,197)	-	(1,564,197)
Stock issued under Dividend Reinvestment Plan	-	14,260	260,901	-	-	275,161
Balance, December 31, 2024	$ 243,659	$ 2,941,319	$ 24,198,416	$ 59,277,291	$ (4,150,422)	$ 82,510,263

See Notes to Consolidated Financial Statements

Consolidated Statements of Cash Flows

Years ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities		
Net income	$ 7,942,053	$ 8,172,848
Adjustments to reconcile net income		
to net cash provided by operations:		
Depreciation and amortization	1,085,526	970,790
Net accretion of securities premiums	(9,376)	(45,638)
Provision for credit losses on loans	917,925	878,928
Provision for credit losses on unfunded commitments	(44,221)	144,585
Provision for credit losses on HTM securities	-	12,000
Deferred income tax expense	247,009	(37,798)
Net realized loss on sales of assets	44,058	2,157
Increase in cash surrender value of life insurance	(144,338)	(86,286)
Changes in assets and liabilities:		
Loans held for sale	-	177,030
Accrued interest receivable	(347,093)	(458,481)
Other assets	(146,423)	(1,071,640)
Accrued interest payable	1,970,357	1,249,609
Other liabilities	(316,990)	706,046
Net cash provided by operating activities	11,198,487	10,614,150
Cash flows from investing activities		
Purchases of debt securities – available for sale	(507,290)	-
Purchases of debt securities – held to maturity	(200,000)	-
Purchases of restricted equity securities	(53,000)	(1,071,400)
Maturities of debt securities – available for sale	13,050,000	7,944,444
Maturities of debt securities – held to maturity	150,000	-
Proceeds from mortgage-backed securities paydowns	1,663,639	1,793,868
Redemption of restricted equity securities	902,600	-
Purchase of bank owned life insurance	(3,000,000)	-
Net increase in loans	(79,251,510)	(112,228,075)
Purchases of property and equipment	(3,794,290)	(1,489,067)
Net cash used in investing activities	(71,039,851)	(105,050,230)
Cash flows from financing activities		
Net increase (decrease) in noninterest-bearing deposits	19,947,667	(9,689,363)
Net increase in interest-bearing deposits	57,681,884	55,358,422
Net increase (decrease) in other borrowings	(19,000,000)	19,000,000
Proceeds from common stock issued	275,161	298,572
Cash dividends paid on preferred stock	(477,572)	(477,572)
Cash dividends paid on common stock	(1,564,197)	(1,497,853)
Net cash provided by financing activities	56,862,943	62,992,206
Net decrease in cash and cash equivalents	(2,978,421)	(31,443,874)
Cash and cash equivalents, beginning	69,484,313	100,928,187
Cash and cash equivalents, ending	$ 66,505,892	$ 69,484,313
Supplemental disclosure of cash flow information:		
Interest paid	$ 17,824,797	$ 8,134,941
Taxes paid	$ 2,011,000	$ 2,533,000

Notes to Consolidated Financial Statements

Note 1. Organization and Summary of Significant Accounting Policies

Organization

Bank of Botetourt (the "Bank") is a Virginia state-chartered bank subject to regulation by the Virginia Bureau of Financial Institutions and the Federal Deposit Insurance Corporation. The Bank provides full banking services through fourteen branch offices in Botetourt, Roanoke, Rockbridge, and Franklin counties, the City of Salem, and the Town of Vinton, all in Virginia. The Bank uses two "trading as" names, registered with the State Corporation Commission, for market branding purposes. Virginia Mountain Mortgage is advertised for secondary market mortgage banking activities and Botetourt Wealth Management is advertised for non-FDIC insured investment products. The Bank has a wholly-owned subsidiary, Buchanan Service Corporation, which conducts its operations through an interest in an insurance company and three title insurance companies.

The accounting and reporting policies of the Bank and Buchanan Service Corporation 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. Following is a summary of the more significant policies.

Critical Accounting Policy

Management believes the policy with respect to the methodology for the determination of the allowance for credit losses involves a high degree of complexity. Management must make difficult and subjective judgments which often require assumptions or estimates about highly uncertain matters. Changes in these judgments, assumptions or estimates could cause reported results to differ materially. This critical policy and its application are periodically reviewed with the Audit Committee and Board of Directors.

Principles of Consolidation

The consolidated financial statements include the accounts of the Bank and Buchanan Service Corporation. All significant interBank transactions and balances have been eliminated in consolidation.

Business Segments

The Bank reports its activities as a single business segment. In determining proper segment definition, the Bank considers the materiality of a potential segment and components of the business about which financial information is available and regularly evaluated, relative to resource allocation and performance assessment.

Cash and Cash Equivalents

For the purpose of presentation in the Consolidated Statements of Cash Flows, cash and cash equivalents are defined as those amounts included in the balance sheet captions "Cash and due from banks", "Interest-bearing deposits with banks", and "Federal funds sold".

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions in the application of certain accounting policies 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 other real estate acquired in connection with foreclosures or in satisfaction of loans, and employee benefit plans. In connection with the determination of the allowance for credit losses and valuation of other real estate owned, management obtains independent appraisals for significant properties.

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

Use of Estimates, continued

The majority of the Bank's loan portfolio consists of loans in Botetourt and the adjacent counties of Southwest Virginia. Accordingly, the ultimate collectability of a substantial portion of the Bank's loan portfolio and the recovery of a substantial portion of the carrying amount of foreclosed real estate are susceptible to changes in local market conditions.

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

Interest-bearing Deposits with Banks

Interest-bearing deposits with banks are carried at cost.

Trading Securities

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

Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as held to maturity and recorded at amortized cost. Securities not classified as held to maturity or trading, including equity securities with readily determinable fair values, are classified as available for sale. Securities classified as "available for sale" are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Under the amended Financial Instruments topic of the Accounting Standards Codification, equity securities with readily determinable fair values are recorded at fair value with the unrealized gains and losses included in earnings. Realized gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Declines in the fair value of held to maturity and available for sale debt securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Bank to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

Adoption of Accounting Standard

On January 1, 2023, the Bank adopted ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. As amended, this standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

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

Adoption of Accounting Standard, continued

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

The Bank adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $255,000, which is presented as a reduction to net loans outstanding, an increase in the allowance for credit losses on unfunded loan commitments of $374,000, which is recorded in Other Liabilities and an increase in the allowance for credit losses on Debt Securities - Held to Maturity ("HTM") of $6,000, which is presented as a reduction to net Debt Securities - HTM outstanding. The adoption of CECL had an insignificant impact on the Bank's held to maturity and available for sale securities portfolios. The Bank recorded a net decrease to retained earnings of $502,000 as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

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

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

Allowance For Credit Losses – Available for Sale Securities

For available for sale securities management evaluates all investments in an unrealized loss position, on a quarterly basis. Management first assesses whether (i) it intends to sell or (ii) it is more likely than not that management will be required to sell the security before recovery of its amortized cost basis. If either case is affirmative, any previously recognized allowances are charged-off and the security's amortized cost is written down to fair value through income. If neither case is affirmative, the security is evaluated to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency and any adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Available for sale securities are charged-off against the allowance or, in the absence of any allowance, written down through income when deemed uncollectible by management or when either of the aforementioned criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit losses related to available for sale securities.

Accrued interest receivable on available for sale debt securities, which is reported in accrued interest receivable on the consolidate balance sheet, total $374,000 and $425,000 at December 31, 2024 and 2023, respectively. Management has made the accounting policy election to exclude accrued interest receivable on available for sale securities from the estimate of credit losses.

Notes to Consolidated Financial Statements

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

Allowance For Credit Losses – Held to Maturity Securities

The allowance for credit losses on held to maturity securities is a contra-asset valuation account, calculated in accordance with Accounting Standards Codification ("ASC") Topic 326 ("ASC 326"), that is deducted from the amortized cost basis of held to maturity securities to present management's best estimate of the net amount expected to be collected. Held to maturity securities are charged-off against the allowance when deemed uncollectible by management. Adjustments to the allowance are reported in our income statement as a component of credit loss expense. Management measures expected credit losses on held to maturity securities on a collective basis by major security type with each type sharing similar risk characteristics and considers historical credit loss information that is adjusted for current conditions and reasonable

Loans Held for Sale

The carrying amount of loans originated and intended for sale in the secondary market are at fair value.

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future, or until maturity or pay-off, are reported at their outstanding principal amount adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Accrued interest receivable related to loans totaled $2.2 million and $1.9 million at December 31, 2024 and 2023, respectively and was reported in accrued interest receivable on the consolidated balance sheets.

Loan origination fees and certain direct origination costs are capitalized and recognized over the lives of the respective loans as an adjustment to the yield. If loans prepay prior to maturities any unamortized fee or cost is recognized at that time.

Interest is accrued and credited to income based on the principal amount outstanding. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. Management also considers the adequacy of collateral and the state of the collection process. When interest accrual is discontinued, all unpaid accrued interest is reversed. The Bank applies payments received on nonaccrual loans first to outstanding principal, and the residual amount, if any, is applied to interest. When facts, circumstances, and consistent performance indicate the borrower has regained the ability to meet required payments, the loan is returned to accrual status. Past due status of loans is determined based on contractual terms.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Accrued interest receivable is excluded from the estimate of credit losses.

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

The allowance for credit losses on loans is measured on a collective basis for pools of loans with similar risk characteristics. The Bank has identified the following portfolio segments and measures the allowance for credit losses on loans using the following methods: Portfolio segments are grouped in homogenous pools that mirror the loan pools described in Federal Financial Institutions Examination Council Call Report as follows:

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

Allowance for Credit Losses on Loans, continued

- **Commercia**l loans carry risks of the client's ability to repay the loan from the cash flow derived from the commercial revenue streams.
- **Commercial Real Estate** loans carry risks of the client's ability to repay the loan from the cash flow derived from the underlying real estate risks inherent in managing a commercial real estate portfolio relate to sudden or gradual drops in property values as well as changes in the economic climate. Real estate security diminishes risks only to the extent that a market exists for the subject collateral. These risks are attempted to be mitigated by carefully underwriting loans of this type and by following appropriate loan-to-value standards.
- **Consumer** loans carry risks associated with the continued creditworthiness of the borrower. Consumer loans are more likely to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.
- **Residential Real Estate** loans, including equity lines of credit, carry risks associated with the continued creditworthiness of the borrower and the changes in the value of the collateral.
- **Agricultural & Raw Land** are loans to small businessmen and must be categorized when considering credit-worthiness. Therefore, agricultural loans are acceptable under some of the basic terms and conditions that apply to commercial loans.

For commercial real estate, residential real estate, commercial, and agricultural and raw land loans, the Bank primarily utilizes the discounted cash flow method to determine the allowance for credit losses, which is calculated as the difference between the amortized cost basis of the loan and the present value of the loan's expected cash flow. The Bank models expected cash flow on a loan-level basis and aggregates the results at the loan segment level. The Bank utilizes a probability of default ("PD") and loss given default rate ("LGD") modeling approach. These models utilize historical correlations between default experience and certain macroeconomic factors as determined through a statistical regression analysis. All loan segments modeled using this approach consider changes in the national unemployment rate. In addition to the national unemployment rate, GDP rate is considered for residential real estate, commercial, agricultural and raw land loans. Projections of these macroeconomic factors, obtained from an independent third party, are utilized to predict quarterly rates of default based on the statistical PD models. The predicted quarterly default rates are then applied to the loans' contractual cash flows. An estimated LGD, determined based on historical loss experience of the Bank and peer institutions, is applied to the quarterly defaulted balances for each loan to calculate the expected cash flow. The discount rate used to determine the present value of the expected cash flows is the effective interest rate for the loan at the time of the measurement.

The expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications.

For the Consumer loan pool described above, the Bank elected to use the Weighted Average Remaining Maturity ("WARM") methodology for calculating historical and future loss reserves. The WARM is based on every individual loan in the pool. Each loan's remaining life is determined based on contracted loan payments, expected prepayments, and maturity dates. Lifetime losses for each pool are calculated by multiplying the loan pool balance by the lifetime balance multiplier, the annual loss rate and the calculated uncollected percentage. Qualitative adjustments are a combination of forward looking projections for each pool based on objective economic data and custom qualitative factors as determined by the Bank, such economic trends, and conditions and underwriting standards. The total loss rate is the lifetime loss.

Additionally, the allowance for credit losses on loans calculation for all loan segments includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

Notes to Consolidated Financial Statements

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

Allowance for Credit Losses on Loans, continued

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses are based on the fair value of collateral at the reporting date adjusted for selling costs as appropriate.

On January 1, 2023 the Bank adopted Accounting Standards Update (ASU) No. 2022-02, “Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures.” ASU 2022-02 addresses areas identified by the FASB as part of its postimplementation review of the credit losses standard (ASU 2016-13) that introduced the CECL model. The amendments eliminate the accounting guidance for troubled debt restructurings by creditors that have adopted the CECL model and enhance the disclosure requirements for loan refinancings and restructurings made with borrowers experiencing financial difficulty. In addition, the amendments require the Bank to disclose current-period gross write-offs for financing receivables and net investment in leases by year of origination in the vintage disclosures. The Bank adopted the standard prospectively and there was no material impact to the Bank's consolidated financial statements or related disclosures.

Allowance For Credit Losses - Off -Balance-Sheet Credit Exposures.

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which we are exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if we have the unconditional right to cancel the obligation. The allowance is reported as a component of other liabilities in our consolidated balance sheets. Adjustments to the allowance are reported in our income statement as a component of credit loss expense.

Bank Owned Life Insurance

The cash surrender value of bank owned life insurance is a reasonable estimate of fair value and is included in with the bank owned life insurance balance on the consolidated balance sheet. The cash surrender value of these policies was $7,543,830 and $4,399,492 as of December 31, 2024 and 2023, respectively. Any increase in cash surrender value is recorded as other income on the consolidated statement of income. In the event of a qualifying death of an insured individual, the Bank would receive the death benefit which would be recorded as other income.

Property 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:

	Years
Buildings and improvements	7-40
Furniture and equipment	3-10

Foreclosed Assets

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the lower of loan balance or fair value less the cost 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, gains and losses on sale, and changes in the valuation allowance are included in net expenses from foreclosed assets.

Notes to Consolidated Financial Statements

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

Employee Benefit Plans

A noncontributory cash balance pension plan (the "Plan") has been provided for all employees who met the eligibility requirements of 21 years of age and one year of service. The formulary contribution allocated annually to each participant's hypothetical cash balance account is based on the ages and years of service of the employee participants. Interest credit is indexed to the 10-year Treasury rate and is guaranteed not to be less than 3% on an annual basis. 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 actuaries. 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. To the extent accumulated Plan assets are greater than projected benefit obligations, the Bank records such benefits as a reduction of expense or as other comprehensive income. The Bank has adopted the amended Compensation – Retirement Benefits topic of the Accounting Standards Codification related to the income statement presentation of the components of net periodic benefit cost of the Plan. Adoption of the amendment had an immaterial effect on the Bank's income statement.

The Bank also provides a qualified profit sharing/thrift plan. All eligible employees, age 18 and older, are automatically enrolled to participate, unless they choose to opt-out of the plan, after completing their first six months of service. The Bank expenses its matching portion to the employees' contributions each payroll period.

The Bank sponsors a post-retirement health care plan for certain retired employees. Expenses related to benefits under the plan are shared by the Bank and the retirees monthly. The Bank's monthly portion is expensed to income. To the extent accumulated plan assets, including periodic cash contributions from the Bank and the retirees, are less than the benefit obligations, the Bank accounts for such obligations through either a charge to income or other comprehensive income.

Marketing, Advertising and Public Relations Expense

The Bank expenses marketing, advertising and public relations costs as they are incurred.

Transfers of Financial Assets

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

Income Taxes

Provision for income taxes is based on amounts reported in the consolidated statements of income (after exclusion of non-taxable income such as interest on state and municipal securities and loans) and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. Deferred income tax liabilities relating to unrealized appreciation (or the deferred tax asset in the case of unrealized depreciation) on investment debt securities available for sale and the pension plan and post-retirement benefits are recorded in other liabilities (assets). These items are recorded as an adjustment to equity and to other comprehensive income in the financial statements and not included in net income determination until realized. Accordingly, the resulting deferred income tax liabilities or assets are also recorded as an adjustment to equity and to other comprehensive income.

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

Income Taxes, continued

The Bank defers loan fees and costs for financial statement purposes. Current tax regulations suggest that loan fees also be deferred using the effective yield method for income tax purposes. These regulations also suggest that the associated costs, which are primarily employee salaries, be currently deducted. The Bank has chosen to accelerate revenue recognition by including these loan fees in current year income for income tax purposes. As a result of the implementation of disclosure guidance regarding Income Taxes, the Bank has not incurred a tax benefit because the payment of tax on these fees has been accelerated.

In the event that the Bank has an unrecognized tax benefit in future accounting periods, the Bank will recognize interest accrued related to the benefit in interest expense and penalties in operating expenses. There were no interest or penalties related to an unrecognized tax benefit for the years ended December 31, 2024 and 2023. Because of the impact of deferred tax accounting, other than interest and penalties, the reversal of the above treatment by taxing authorities would not affect the annual effective tax rate but would defer the payment of cash to the taxing authority to later periods.

Basic and Diluted Earnings per Share

Basic and diluted earnings per share is computed by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. At December 31, 2024 and 2023, the Bank had no potentially dilutive securities outstanding.

Comprehensive Income (Loss)

Comprehensive income (loss) reflects the change in the Bank's equity during the year arising from transactions and events other than investments by, and distributions to, stockholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense.

Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and commercial and standby letters of credit. Such financial instruments are recorded in the financial statements when they are funded. Related fees are recorded when they are incurred or received.

Fair Value Measurements

The Fair Value Measurements and Disclosures topic provides guidance and requires disclosure of fair value information about financial instruments, whether or not recognized in the balance sheet. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

Revenue Recognition

The core principle of Revenue from Contracts with Customers is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The scope of the guidance explicitly excludes revenue recognition from net interest income as well as many other revenue streams from financial assets and liabilities including loans, leases, and securities. Accordingly, the

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

Revenue Recognition, continued

accounting policies for the majority of the Bank's revenues were not covered by this accounting standard. The Bank assesses its revenue contracts related to revenue streams that are within the scope of the standard and the principles of revenue recognition from the accounting standard are largely consistent with existing guidance and current practices already applied by the Bank.

Leases

The Bank evaluates its new and existing leasing contracts and activities under the amended Leases topic of the Accounting Standards Codification for recognition, measurement, presentation, and disclosure of leasing transactions and requires all leases with lease terms over twelve months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases are classified as either finance leases or operating leases. The amended Leases topic allows the Bank to largely account for the existing leases consistent with current guidance except for the incremental balance sheet recognition for any qualifying leases.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through February 25, 2025, which is the date the financial statements were available to be issued.

Reclassification

Certain reclassifications have been made to the prior year's financial statements to place them on a comparable basis with the current year. Net income and stockholders' equity previously reported were not affected by these reclassifications.

Note 2. Restrictions on Cash

To comply with banking regulations, the Bank is required to maintain certain average cash reserve balances. The daily average cash reserve requirement was approximately $1,050,000 for the periods ending December 31, 2024 and 2023.

Note 3. Securities

Debt and equity securities have been classified in the consolidated balance sheets according to management's intent. The carrying amounts of securities and their approximate fair values at December 31 follow:

2024	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale:				
Government-sponsored enterprises	$ 45,993,891	$ -	$ 2,171,646	$ 43,822,245
State and municipal securities	18,707,435	-	1,524,702	17,182,733
U.S. treasury securities	3,998,426	-	20,176	3,978,250
Mortgaged-backed securities	7,677,865	-	462,675	7,215,190
Corporate securities	1,001,639	-	40,729	960,910
	$ 77,379,256	$ -	$ 4,219,928	$ 73,159,328

2023	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Available for sale:				
Government-sponsored enterprises	$ 50,985,717	$ -	$ 3,548,042	$ 47,437,675
State and municipal securities	19,319,034	-	1,614,890	17,704,144
U.S. treasury securities	10,961,712	-	203,082	10,758,630
Mortgaged-backed securities	9,307,027	-	477,373	8,829,654
Corporate securities	1,002,739	-	69,704	933,035
	$ 91,576,229	$ -	$ 5,913,091	$ 85,663,138

Government-sponsored enterprises, commonly referred to as U.S. Government Agencies, include investments in Federal Farm Credit Banks, and Federal Home Loan Banks.

All mortgage-backed securities included in the above table were by U.S. Government Agencies.

There is no allowance for credit losses on available for sale securities as of December 31, 2024 and 2023, respectively.

Debt securities held to maturity consisted of an investment in subordinated debt offerings of a 501(c)(3) non-profit, non-stock Community Development Financial Institution ("CDFI") dedicated to revitalizing communities, facilitating the creation of jobs, and increasing the amount of affordable housing throughout Virginia and investments in subordinated debt offerings of for-profit commercial financial institutions. The amortized cost and carrying value of these securities was $9,982,000, net of allowance for credit loss, as of December 31, 2024 and $9,932,000 as of December 31, 2023.

Securities with a fair value of $20.0 million were pledged at December 31, 2024. Securities with a fair value of $19.5 million were pledged at December 31, 2023.

Gains and losses on the sale of investment securities are determined using the specific identification method. During 2024 and 2023, there were no sales of investment securities.

Note 3. Securities, continued

The scheduled maturities of securities available for sale and held to maturity at December 31, 2024, are shown below. Actual expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Mortgaged-back securities included in these totals are categorized by final maturity at December 31, 2024.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 14,133,031	$ 13,929,461	$ -	$ -
Due after one year through five years	53,138,997	50,088,945	4,100,000	4,091,000
Due after five years through ten years	6,853,604	6,178,381	5,900,000	5,891,000
Due after ten years	3,253,624	2,962,541	-	-
	$ 77,379,256	$ 73,159,328	$ 10,000,000	$ 9,982,000

The following tables shows a rollforward of the allowance for credit losses on held to maturity securities for the year ended December 31, 2024.

	Subordinated Debt
(Dollars in Thousands)	
Allowance For Credit Losses	
Balance, December 31, 2023	$ 18
Provision for Credit Losses	-
Charge-Offs of Securities	-
Recoveries	-
Balance, December 31, 2024	$ 18

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.

	Subordinated Debt	Total HTM Securities
2024	$ 10,000,000	$ 10,000,000
Credit Rating:		
Not Rated – Non Agency	10,000,000	10,000,000
Total	$ 10,000,000	$ 10,000,000
2023	$ 9,950,000	$ 9,950,000
Credit Rating:		
Not Rated – Non Agency	9,950,000	9,950,000
Total	$ 9,950,000	$ 9,950,000

Note 3. Securities, continued

The following tables detail unrealized losses and related fair values in the Bank's available for sale investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2024						
Government-sponsored enterprises	$ -	$ -	$43,822,245	$ 2,171,646	$43,822,245	$ 2,171,646
State and municipal securities	-	-	17,182,733	1,524,702	17,182,733	1,524,702
U.S. treasury securities	-	-	3,978,250	20,176	3,978,250	20,176
Mortgaged-backed securities	-	-	7,215,190	462,675	7,215,190	462,675
Corporate securities	-	-	960,910	40,729	960,910	40,729
Total temporarily impaired securities	$ -	$ -	$73,159,328	$ 4,219,928	$73,159,328	$ 4,219,928
2023						
Government-sponsored enterprises	$ -	$ -	$47,437,675	$ 3,548,042	$47,437,675	$ 3,548,042
State and municipal securities	2,678,799	29,753	15,025,345	1,585,137	17,704,144	1,614,890
U.S. treasury securities	-	-	10,758,630	203,082	10,758,630	203,082
Mortgaged-backed securities	-	-	8,829,654	477,373	8,829,654	477,373
Corporate securities	-	-	933,035	69,704	933,035	69,704
Total temporarily impaired securities	$ 2,678,799	$ 29,753	$82,984,339	$ 5,883,338	$85,663,138	$ 5,913,091

The following tables detail unrealized losses and related fair values in the Bank's held to maturity investment securities portfolio. This information is aggregated by the length of time that individual securities have been in a continuous unrealized loss position as of December 31.

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2024						
Subordinated Debt	$ -	$ -	$ 9,982	$ 18	$ 9,982	$ 18
Total temporarily impaired securities	$ -	$ -	$ 9,982	$ 18	$ 9,982	$ 18

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2023						
Subordinated Debt	$ 9,932	$ 18	$ -	$ -	$ 9,932	$ 18
Total temporarily impaired securities	$ 9,932	$ 18	$ -	$ -	$ 9,932	$ 18

Management considers the nature of the investment, the underlying causes of the decline in market value, the severity and duration of the decline in market value and other evidence, on a security by security basis, in determining if the decline in market value is other than temporary. The Bank does not believe that gross unrealized losses as of December 31, 2024, which is comprised of ninety two investment securities, represent an other-than-temporary impairment. The gross unrealized losses reported relate to investment securities in all categories. Total gross unrealized losses, which represent 5.27% of the amortized cost basis of the Bank's total investment securities, were attributable to changes in interest rates due to market conditions and not due to the credit quality of the investment securities. The Bank has both the ability and the intent to hold all of these securities for a period of time necessary to recover amortized cost.

Restricted equity securities of $633,800 in 2024 and $1,483,400 in 2023, which are carried at cost, consist of investments in stock of the Federal Home Loan Bank of Atlanta ("FHLB"), and CBB Financial Corp., which are upstream correspondents of the Bank. The FHLB requires financial institutions to make equity investments in the FHLB in order to borrow from it. The Bank is required to hold that stock so long as it has borrowing capacity from the FHLB. Both the Bank's stock in CBB Financial Corp. and the FHLB are restricted in the fact that the stock may only be repurchased

Note 3. Securities, continued

by the issuer. Management also considers these investments when testing for impairment. On a quarterly basis, management reviews both institutions' capital adequacy to ensure they meet regulatory minimum requirements. Bank management does not believe any unrealized losses associated with investments in these institutions to be anything other than temporary.

Note 4. Loans Receivable

The Bank segments its loan portfolio to capture the nature of credit risk inherent in its loans receivable. These segments allow management to monitor risk and performance. In reviewing risk, management has determined there to be several different risk categories within the loan portfolio. The allowance for credit losses consists of amounts applicable to portfolios of: (i) Commercial Loans; (ii) Commercial Real Estate Loans; (iii) Consumer Loans; (iv) Residential Real Estate; and (v) Agricultural and Raw Land Loans.

The Commercial segment consists of loans made for the purpose of financing the activities of commercial customers. The Commercial Real Estate portfolio includes owner occupied, non-owner occupied, and multi-family dwellings. The Residential Real Estate segment consists of fixed rate and adjustable rate single-family amortizing term loans, which are primarily first liens and home equity loans which are generally second liens. The Agricultural and Raw Land category is for farm loans and for undeveloped land. Consumer loans consist of motor vehicle loans, savings account loans, personal lines of credit, overdrafts, other types of secured consumer loans, and unsecured personal loans.

The major segmented components of loans at December 31 are as follows (in thousands):

	2024	2023
Commercial	$ 49,590	$ 45,099
Commercial Real Estate	238,744	211,818
Consumer	25,660	27,094
Residential Real Estate	333,385	289,051
Agricultural & Raw Land	32,200	27,736
	679,579	600,798
Allowance for credit losses	(7,989)	(7,542)
	$ 671,590	$ 593,256

Included in loans receivable are unamortized net deferred loans fees of $54,957 and $403,854, at December 31, 2024 and 2023, respectively.

Included in loans receivable are $154,000 and $183,400 in overdraft deposit accounts at December 31, 2024 and 2023, respectively.

The Bank had no subprime residential loans at December 31, 2024 or 2023.

Construction loans are originated in the Commercial Real Estate and Residential Real Estate segments of the loan portfolio, as reflected in the components in the table above. Construction lending is generally considered to involve a higher degree of credit risk than long-term permanent financing. If the estimate of construction cost proves to be inaccurate, the Bank may be compelled to advance additional funds to complete the construction with repayment dependent, in part, on the success of the ultimate project rather than the ability of a borrower or guarantor to repay the loan. If the Bank is forced to foreclose on a project prior to completion, there is no assurance that it will be able to recover all of the unpaid portion of the loan. In addition, the Bank may be required to fund additional amounts to complete a project and may have to hold the property for an indeterminate period of time. As of December 31, 2024, construction lending represents $45,728,000 or 6.73% of the overall loan portfolio, compared to $45,823,000, or 7.62%, the year prior.

Note 4. Loans Receivable, continued

Loans are considered past due if the required principal and interest payment have not been received as of the due date. Loans are generally placed in nonaccrual status when, in management's opinion, the collection of principal and interest is 90 days or more past due, unless the obligation is both well-secured and in the process of collection. When interest accrual is discontinued, all unpaid accrued interest is reversed. Payments on nonaccrual loans are applied to the principal balance. No interest income was recognized on impaired loans subsequent to the nonaccrual status designation. A loan is returned to accrual status when the borrower makes consistent payments according to the contractual terms and the future payments are reasonably assured.

The following schedule is an aging of past due loans receivable, including those on nonaccrual status, by portfolio segment as of December 31, 2024.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Nonaccrual
Commercial	$ 268,157	$ 298,623	$ 705,558	$ 1,272,338	$ 48,317,472	$ 49,589,810	$ -
Commercial Real Estate	509,910	259,491	-	769,401	237,975,151	238,744,552	-
Consumer	366,549	222,364	28,659	617,572	25,042,215	25,659,787	11,682
Residential Real Estate	2,309,815	1,619,408	199,755	4,128,978	329,256,083	333,385,061	39,447
Agricultural & Raw Land	24,973	411,537	616,409	1,052,919	31,146,975	32,199,894	-
Total	$ 3,479,404	$ 2,811,423	$ 1,550,381	$ 7,841,208	$ 671,737,896	$ 679,579,104	$ 51,129

The following schedule is an aging of past due loans receivable, including those on nonaccrual status, by portfolio segment as of December 31, 2023.

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans Receivable	Nonaccrual
Commercial	$ 245,959	$ 47,036	$ 74,244	$ 367,239	$ 44,731,449	$ 45,098,688	$ -
Commercial Real Estate	268,582	687,587	-	956,169	210,862,064	211,818,233	-
Consumer	387,386	49,228	122,521	559,135	26,534,917	27,094,052	55,942
Residential Real Estate	1,091,835	1,061,726	356,775	2,510,336	286,541,008	289,051,344	44,247
Agricultural & Raw Land	344,205	-	-	344,205	27,391,582	27,735,787	21,000
Total	$ 2,337,967	$ 1,845,577	$ 553,540	$ 4,737,084	$ 596,061,020	$ 600,798,104	$ 121,189

Note 5. Allowance for Credit Losses

The Bank uses several metrics as credit quality indicators of current or potential risks in the loan portfolio. These indicators include, but are not limited to, credit bureau reports, loan-to-value ratios, internal risk ratings, current financial information, historical payment experience, economic conditions, and trends in net charge-offs and nonperforming loans. As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, every loan is assigned a risk rating grade at the time of loan origination. The risk ratings are formally reviewed for appropriateness over the life of the loan on at least an annual basis. The formal external review occurs during the fourth quarter to correspond to the Bank's fiscal year-end. In addition, quarterly internal reviews occur for specific loans identified by loan administration to ensure loans with potential material impact are captured on an interim basis. These processes historically provide a predictive element to assist management in their efforts to quantify losses. The quarterly review is an important process to accurately identify impaired loans, a critical component in the allowance for credit losses calculation. The credit quality indicators are periodically reviewed and updated on a case-by-case basis.

Listed from the least risk to the highest risk, management uses a nine point internal risk rating system to monitor the credit quality of the non-consumer segments of the loan portfolio.

Note 5. Allowance for Credit Losses, continued

Pass: For presentation in the note, "Pass" will include all loans that are rated excellent, good, satisfactory and acceptable, as further described:

> **Excellent:** The borrower is typically a long established, well-seasoned Bank with a significant market position. It possesses unquestioned asset quality, liquidity, and excellent sales and earnings trends. Leverage, if present, is well below industry norms. Borrower appears to have capacity to meet all of its obligations under almost any circumstances. If a business, the borrowing entity's management has extensive experience and depth.
>
> **Good:** The borrower demonstrates a strong and liquid financial condition based upon current financial information and qualifies to borrow on an unsecured basis under most circumstances. If borrowing is secured, collateral is readily marketable and amply margined. Repayment sources are well defined and more than adequate. Credit checks and prior lending experiences with the Bank, if any, are fully satisfactory. The borrower's cash flow comfortably exceeds total current obligations.
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> **Satisfactory:** The borrower provides current financial information reflecting a satisfactory financial condition and reasonable debt service capacity. If borrowing is secured, collateral is marketable, adequately margined at the present time, and expected to afford coverage to maturity. Repayment understandings are documented, sources are considered adequate, and repayment terms are appropriate. Credit checks and prior experience, if any, are satisfactory. The borrower is usually established and is attractive to other financial institutions. If a business, the borrower's balance sheet is stable and sales and earnings are steady and predictable.
>
> **Acceptable:** While an acceptable credit risk to the Bank, the borrower will generally demonstrate a higher leveraged, less liquid balance sheet and capacity to service debt, while steady, may be less well-defined. Repayment terms may not be appropriate for individual transactions. Borrower is generally acceptable to other financial institutions; however, secured borrowing is the norm. Collateral marketability and margin are acceptable at the present time but may not continue to be so. Credit checks or prior experience, if any, reveals some, but not serious, slowness in paying. If a business, its management experience may be limited or have less depth than a Satisfactory borrower. Sensitivity to economic or credit cycles exists, and staying power could be a problem.

Watch: Loan coverage is somewhat erratic, future coverage is uncertain, liquidity is strained and leverage capacity is considered minimal. Indicators of potential deterioration of repayment sources have resulted in uncertainty or unknown factors concerning the status of the credit. This risk rating is considered transitory in nature. When factors causing the uncertainty have been clearly defined, a risk rating will be assigned commensurate with the risk characteristics and circumstances that exist.

Special Mention: While loans to a borrower in this rating category are currently protected (no loss of principal or interest envisioned), they may pose undue or unwarranted credit risks if weaknesses are not checked or corrected. Weaknesses may be limited to one or several trends or developments. Weaknesses may include one or more of the following: a potentially over-extended financial condition, a questionable repayment program, an uncertain level of continuing employment or income, inadequate or deteriorating collateral, inadequate or untimely financial information, management competence or succession issues, and a high degree of vulnerability to outside forces.

Substandard: Assets in this category are inadequately protected by the current creditworthiness and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Nonaccrual loans, reduced-earnings loans, and loans to borrowers engaged in bankruptcy proceedings are automatically rated Substandard or lower.

Doubtful: A loan rated Doubtful has all of the weaknesses inherent in one rated Substandard with the added characteristic that the weakness may make collection or liquidation in full, on the basis of currently existing facts, highly improbable. A Doubtful rating generally is used when the amount of loss can be projected and that projection

Note 5. Allowance for Credit Losses, continued

exceeds one-third of the balance of outstanding debt but does not exceed two-thirds of that balance. A Doubtful rating is generally applied when the likelihood of significant loss is high. At December 31, 2024 and 2023 there were no loans classified as doubtful.

Loss: A Loss rating should be applied when the borrower's outstanding debt is considered uncollectible or of such little value that its continuance as a bankable asset is not warranted. This rating does not suggest that there is absolutely no recovery or salvage value, but that it is not practical or desirable to defer writing off the debt even though a partial recovery may be affected in the future. At December 31, 2024 and 2023 there were no loans classified as loss.

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

	Term Loans by Year of Organization							
	2024	2023	2022	2021	2020	Prior	Revolving	Total
(Dollars in Thousands)								
Commercial:								
Pass	$ 15,149,228	$ 8,943,409	$ 7,344,689	$ 2,635,314	$ 651,284	$ 824,254	$ 12,365,249	$ 47,913,427
Watch	66,970	553,487	-	237,650	267,585	-	399,780	1,525,472
Special Mention	-	15,265	-	-	-	83,893	-	99,158
Substandard	-	-	-	-	51,753	-	-	51,753
Total Commercial Loans	$ 15,216,198	$ 9,512,161	$ 7,344,689	$ 2,872,964	$ 970,622	$ 908,147	$ 12,765,029	$ 49,589,810
Commercial Real Estate								
Pass	$ 53,864,009	$ 50,448,419	$ 35,187,426	$ 32,163,873	$ 8,138,109	$ 46,132,137	$ 10,240,851	$ 236,174,784
Watch	379,725	-	-	-	288,760	30,453	1,075,998	1,774,936
Special Mention	115,750	-	-	-	-	105,298	-	221,048
Substandard	-	-	-	-	-	573,784	-	573,784
Total Commercial Real Estate Loans	$ 54,359,484	$ 50,448,419	$ 35,187,426	$ 32,163,873	$ 8,426,869	$ 46,841,672	$ 11,316,849	$ 238,744,552
Consumer:								
Pass	$ 12,919,180	$ 6,945,813	$ 3,244,377	$ 607,955	$ 324,720	$ 286,023	$ 894,499	$ 25,222,567
Watch	136,745	107,006	16,505	-	-	-	-	260,256
Special Mention	3,159	-	-	-	-	-	-	3,159
Substandard	-	12,476	11,931	-	-	-	149,398	173,805
Total Consumer Loans	$ 13,059,084	$ 7,065,295	$ 3,272,813	$ 607,955	$ 324,720	$ 286,023	$ 1,043,897	$ 25,659,787
Residential Real Estate								
Pass	$ 83,413,390	$ 61,177,724	$ 65,863,326	$ 24,607,836	$ 22,115,522	$ 42,213,904	$ 27,512,203	$ 326,903,905
Watch	1,224,898	404,048	449,921	-	-	828,414	263,501	3,170,782
Special Mention	843,600	-	-	93,495	-	426,644	- 61,495	1,425,234
Substandard	-	285,996	-	-	-	1,411,496	187,648	1,885,140
Total Residential Real Estate Loans	$ 85,481,888	$ 61,867,768	$ 66,313,247	$ 24,701,331	$ 22,115,522	$ 44,880,458	$ 28,024,847	$ 333,385,061
Agricultural & Raw Land								
Pass	$ 5,422,630	$ 4,621,912	$ 4,187,911	$ 162,498	$ 707,459	$ 11,238,734	$ 3,887,687	$ 30,228,831
Watch	-	677,437	-	-	97,014	156,925	124,822	1,056,198
Special Mention	-	-	-	-	-	781,146	-	781,146
Substandard	-	-	-	-	-	133,719	-	133,719
Total Agricultural & Raw Land Loans	$ 5,422,630	$ 5,299,349	$ 4,187,911	$ 162,498	$ 804,473	$ 12,310,524	$ 4,012,509	$ 32,199,894

Note 5. Allowance for Credit Losses, continued

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

	Term Loans by Year of Organization							
	2023	2022	2021	2020	2019	Prior	Revolving	Total
(Dollars in Thousands)								
Commercial:								
Pass	$ 12,037,448	$ 10,710,845	$ 4,531,336	$ 1,451,544	$ 698,727	$ 884,314	$ 11,518,112	$ 41,832,326
Watch	460,587	-	-	300,150	-	-	605,364	1,366,101
Special Mention	1,749,718	-	-	-	-	89,608	-	1,839,326
Substandard	2,509	-	-	58,426	-	-	-	60,935
Total Commercial Loans	$ 14,250,262	$ 10,710,845	$ 4,531,336	$ 1,810,120	$ 698,727	$ 973,922	$ 12,123,476	$ 45,098,688
Commercial Real Estate								
Pass	$ 61,836,789	$ 40,598,540	$ 34,232,199	$ 9,497,116	$ 17,524,733	$ 36,592,936	$ 9,632,938	$ 209,915,251
Watch	697,218	-	-	316,220	-	-	63,591	1,077,029
Special Mention	115,854	-	-	-	-	352,476	-	468,330
Substandard	-	-	-	-	-	357,623	-	357,623
Total Commercial Real Estate Loans	$ 62,649,861	$ 40,598,540	$ 34,232,199	$ 9,813,336	$ 17,524,733	$ 37,303,035	$ 9,696,529	$ 211,818,233
Consumer:								
Pass	$ 16,535,396	$ 5,878,694	$ 1,437,184	$ 799,172	$ 502,628	$ 186,484	$ 1,275,944	$ 26,615,502
Watch	186,044	107,443	3,140	-	-	-	-	296,627
Special Mention	-	-	-	-	-	-	-	-
Substandard	14,176	15,931	-	-	-	-	151,816	181,923
Total Consumer Loans	$ 16,735,616	$ 6,002,068	$ 1,440,324	$ 799,172	$ 502,628	$ 186,484	$ 1,427,760	$ 27,094,052
Residential Real Estate								
Pass	$ 86,111,881	$ 71,608,318	$ 27,870,700	$ 24,330,061	$ 15,890,736	$ 35,588,510	$ 24,779,880	$ 286,180,086
Watch	414,671	509,917	-	-	11,055	693,952	274,276	1,903,871
Special Mention	-	48,423	97,325	-	-	323,424	-	469,172
Substandard	298,132	-	-	-	-	156,306	43,777	498,215
Total Residential Real Estate Loans	$ 86,824,684	$ 72,166,658	$ 27,968,025	$ 24,330,061	$ 15,901,791	$ 36,762,192	$ 25,097,933	$ 289,051,344
Agricultural & Raw Land								
Pass	$ 5,175,911	$ 4,451,479	$ 181,009	$ 791,975	$ 2,034,710	$ 11,142,844	$ 3,306,048	$ 27,083,976
Watch	62,694	319,017	-	119,849	-	32,104	118,147	651,811
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Total Agricultural & Raw Land Loans	$ 5,238,605	$ 4,770,496	$ 181,009	$ 911,824	$ 2,034,710	$ 11,174,948	$ 3,424,195	$ 27,735,787

The following table is a summary of the Bank’s nonaccrual loans by major categories for the year ended December 31, 2024.

	CECL		
	December 31, 2024		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans With An Allowance	Total Nonaccrual Loans
(Dollars in Thousands)			
Commercial	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Consumer Loans	-	11,682	11,682
Residential Real Estate	-	39,447	39,447
Agricultural & Raw Land	-	-	-
Total Loans	$ -	$ 51,129	$ 51,129

Note 5. Allowance for Credit Losses, continued

The following table is a summary of the Bank's nonaccrual loans by major categories for the year ended December 31, 2023.

	CECL		
	December 31, 2023		
(Dollars in Thousands)	Nonaccrual Loans with No Allowance	Nonaccrual Loans With An Allowance	Total Nonaccrual Loans
Commercial	$ -	$ -	$ -
Commercial Real Estate	-	-	-
Consumer Loans	40,785	15,157	55,942
Residential Real Estate	-	44,247	44,247
Agricultural & Raw Land	21,000	-	21,000
Total Loans	$ 61,785	$ 59,404	$ 121,189

The Bank designates individually evaluated loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Bank designates as having higher risk. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral as the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Bank has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

The following table presents an analysis of collateral-dependent loans of the Bank as of December 31, 2024:

(Dollars in Thousands)	December 31, 2024
Commercial Real Estate:	
Owner Occupied	$ 1,043,475
Residential Real Estate:	
Non-Owner Occupied	325,443
Total	$ 1,368,918

The following table presents an analysis of collateral-dependent loans of the Bank as of December 31, 2023:

(Dollars in Thousands)	December 31, 2023
Commercial Real Estate:	
Owner Occupied	$ 1,045,213
Consumer:	
Automobile	40,785
Residential Real Estate:	
Non-Owner Occupied	44,246
Agricultural & Raw Land:	
Residential Lots	21,000
Total	$ 1,151,244

Note 5. Allowance for Credit Losses, continued

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

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural & Raw Land	Total
Balance, December 31, 2023	$ 512,309	$ 1,919,947	$ 473,092	$ 4,243,175	$ 393,064	$ 7,541,587
Charge-offs	(427,978)	-	(272,408)	-	-	(700,386)
Recoveries	2,100	25,114	74,393	71,901	56,368	229,876
Provision for loan losses	458,458	(53,209)	163,360	426,368	(77,052)	917,925
Balance, December 31, 2024	$ 544,889	$ 1,891,852	$ 438,437	$ 4,741,444	$ 372,380	$ 7,989,002

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

	Commercial	Commercial Real Estate	Consumer	Residential Real Estate	Agricultural & Raw Land	Total
Balance, December 31, 2022	$ 519,950	$ 2,273,000	$ 448,510	$ 3,181,800	$ 263,189	$ 6,686,450
Impact of Adoption of ASU 2016-13	(34,838)	150,566	51,495	(170,859)	258,688	255,052
Charge-offs	(30,381)	-	(188,023)	(124,919)	(58,206)	(401,530)
Recoveries	43,179	-	66,347	9,161	4,000	122,687
Provision for loan losses	14,399	(503,619)	94,763	1,347,992	(74,607)	878,928
Balance, December 31, 2023	$ 512,309	$ 1,919,947	$ 473,092	$ 4,243,175	$ 393,064	$ 7,541,587

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. commitment cannot cancelled 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. The allowance for credit losses for unfunded loan commitments of $474,000 and $519,000 at December 31, 2024 and 2023, respectively, is in Other Liabilities on the balance sheets.

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.

(Dollar in Thousands)	Total Allowance for Credit Losses - Unfunded Commitments
Balance, December 31, 2023	$ 519
Provision for unfunded commitments	11
Recovery of allowance for off-balance sheet losses	(56)
Balance, December 31, 2024	$ 474

Note 5. Allowance for Credit Losses, continued

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the year ended December 31, 2023.

	Total Allowance for Credit Losses - Unfunded Commitments
(Dollar in Thousands)	
Balance, December 31, 2022	$ -
Adjustment to allowance for unfunded commitments for Adoption of ASU 2016-13	374
Provision for unfunded commitments	217
Recovery of allowance for off-balance sheet losses	(72)
Balance, December 31, 2023	$ 519

The Bank had no loan modifications made to the borrowers having financial difficulty during the year ended December 31, 2024 and 2023.

Note 6. Property, Equipment and Foreclosed Assets

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

	2024	2023
Land	$ 4,137,371	$ 4,137,371
Construction in process	2,301,567	647,632
Buildings and improvements	12,990,660	12,840,648
Furniture and equipment	6,572,408	5,908,737
	26,002,006	23,534,388
Less accumulated depreciation	8,646,285	8,882,520
	$ 17,355,721	$ 14,651,868

Depreciation expense for 2024 and 2023 was $1,046,380 and $897,981, respectively.

Lessor Activities

The Bank leased out a portion of its loan administration facility during the first quarter 2024 and received rental income of $2,250 in 2024 and $8,250 in 2023.

The Bank leased out a portion of two branch facilities under a lease and received rental income of $38,400 in 2024 and $39,150 in 2023.

The Bank leases office space to Rockbridge Title Services, LLC for an annual amount of $6,500 in 2024 and 2023, respectively. The Bank leases office space to Mountain Valley Title Insurance Agency, LLC for $1,625 in 2024 and $6,500 in 2023. Rental income amounted to $8,125 in 2024 and $13,000 in 2023, respectively. Both of these companies are related party interests as subsidiaries of the Bank.

The Bank leased out a portion of land under a lease and received rental income of $6,500 in 2024 and $3,500 in 2023.

Aggregate rental income for 2024 and 2023 was $55,275 and $63,900, respectively.

Note 6. Property, Equipment and Foreclosed Assets, continued

Lessee Activities

The Bank leases locations for automated teller machines, equipment, and office space under various operating leases, annually renewable, that call for annual payments as follows:

2025	$ 20,407
2026	15,765
2027	16,242
2028	5,468
2029	-
Thereafter	-
	$ 57,882

Aggregate rental expense for 2024 and 2023 was $26,489 and $20,096, respectively.

The estimated right-of-use asset and lease liability associated with the above operating leases are included on the Bank's balance sheet in other assets and other liabilities, respectively, as of December 31, 2024 and 2023.

Foreclosed Assets

At December 31, 2024 and December 31, 2023, the Bank held no foreclosed assets.

Note 7. Deposits

The aggregate amount of time deposits in denominations of $250,000 or more at December 31, 2024 and 2023 was $67,259,725 and $70,057,384, respectively.

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

2025	$ 264,099,628
2026	13,133,180
2027	4,357,859
2028	1,006,340
2029	580,053
Thereafter	-
	$ 283,177,060

Note 8. Federal Home Loan Bank Borrowings

At December 31, 2024 the Bank had no outstanding Federal Home Loan Bank ("FHLB") borrowings. At December 31, 2023 the Bank had $19,000,000 outstanding FHLB advances.

Note 9. Short-Term Debt

The Bank has established various credit facilities to provide additional liquidity if and as needed. These facilities from correspondent banks included unsecured lines of credit, a secured line of credit and a repurchase agreement line of credit totaling $56,000,000, at December 31, 2024 and 2023, respectively. The Bank had no outstanding balance against these lines at December 31, 2024 and December 31, 2023.

In addition, the Bank has a secured line of credit of approximately $61,433,000 with the Federal Home Loan Bank of Atlanta as of December 31, 2024. Any borrowings from the Federal Home Loan Bank are secured by a blanket collateral agreement on a pledged portion of the Bank's 1-to-4 family residential real estate loans, multifamily

Note 9. Short-Term Debt, continued

mortgage loans, and commercial mortgage collateral. Additionally, the Bank pledged a portion of the Bank's investment portfolio approximating a fair value of $20,009,000. At December 31, 2024, a $30,000,000 letter of credit in favor of the Commonwealth of Virginia-Treasury Board, to secure public deposits, was utilized from this line of credit. The Bank had no outstanding balance at December 31, 2024, compared to $19,000,000 at December 31, 2023. This pledging arrangement reduced the available credit for secondary liquidity needs to $31,433,000.

The Bank has established a Discount Window facility at the Federal Reserve Bank of Richmond as part of its Contingency Liquidity Plan. Collateral would have to be pledged in order to borrow from the facility. No balance was outstanding on this line at December 31, 2024 or 2023.

Note 10. Fair Values Measurements

Determination of Fair Value

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the "Fair Value Measurement and Disclosures" topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

The following methods and assumptions were used by the Bank in estimating its fair value disclosures for financial instruments:

The fair value of net loans is based on estimated cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This does not include consideration of liquidity that market participants would use to value such loans. The estimated fair values of deposits are based on estimated cash flows discounted at market interest rates.

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.

Fair Value Hierarchy

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

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

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

Note 10. Fair Values Measurements

Fair Value Hierarchy, continued

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include the use of option pricing models, discounted cash flow models and similar techniques.

The following is a description of valuation methodologies used for assets and liabilities recorded at fair value:

Securities Available for Sale

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

Foreclosed Assets

Foreclosed assets are recorded at the lower of investment in the loan or fair value at acquisition. During the holding phase, foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based on independent observable market prices or appraised values of the collateral, which the Bank considers to be Level 2 inputs. When the appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the foreclosed asset as nonrecurring Level 3.

Loans, net

Other than the loans held for sale portfolio, the Bank does not record loans at fair value on a recurring basis, however, from time to time, a loan is considered impaired 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 impaired. Once a loan is identified as individually impaired, management measures impairment. The fair value of impaired loans is estimated using one of several methods, including the collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring a specific allowance represent loans for which the fair value of expected repayments or collateral exceed the recorded investment in such loans. At December 31, 2024 and 2023, substantially all impaired loans were evaluated based upon the fair value of collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Bank records the loan as nonrecurring Level 3. When management performs an in-house appraisal using data such as comparable sales analysis, analysis on tax assessments, and physical inspection to determine the fair value, the Bank records the loans as nonrecurring Level 3.

Deposits

Deposits without a stated maturity, including demand, interest-bearing demand, and savings accounts, are reported at their carrying value in accordance with authoritative accounting guidance. No value has been assigned to the franchise value of these deposits. For other types of deposits with fixed maturities, fair value has been estimated by discounting future cash flows based on interest rates currently being offered on deposits with similar characteristics and maturities.

Note 10. Fair Values Measurements, continued

The carrying amounts and estimated fair values of the Bank's financial instruments as of December 31, 2024 and 2023 are presented below.

			Fair Value Measurements As of December 31, 2024 Using		
(In Thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 66,506	$ 66,506	$ 66,506	$ -	$ -
Securities, held to maturity	10,000	9,982	-	-	9,982
Securities, available for sale	73,159	73,159	-	73,159	-
Restricted equity securities	634	634	-	634	-
Loans held for sale	-	-	-	-	-
Loans, net	671,590	650,678	-	-	650,678
Bank owned life insurance	7,544	7,544	-	7,544	-
Accrued income	2,633	2,633	-	2,633	-
Financial liabilities					
Deposits	$ 767,222	$ 690,974	$ -	$ 690,974	$ -
Accrued interest payable	3,544	3,544	-	3,544	-

			Fair Value Measurements As of December 31, 2023 Using		
(In Thousands)	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets					
Cash and cash equivalents	$ 69,484	$ 69,484	$ 69,484	$ -	$ -
Securities, held to maturity	9,950	9,932	-	-	9,932
Securities, available for sale	85,663	85,663	-	85,663	-
Restricted equity securities	1,483	1,483	-	1,483	-
Loans held for sale	-	-	-	-	-
Loans, net	593,257	575,757	-	-	574,757
Bank owned life insurance	4,399	4,399	-	4,399	-
Accrued income	2,286	2,286	-	2,286	-
Financial liabilities					
Deposits	$ 689,592	$ 606,232	$ -	$ 606,232	$ -
Accrued interest payable	1,574	1,574	-	1,574	-

Note 10. Fair Value Measurements, continued

Assets Measured at Fair Value on a Recurring Basis

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

		Fair Value Measurements at December 31, 2024 Using		
(In Thousands)	**Total**	**Quoted Prices in Active Markets for IdenticalAssets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:				
Government-sponsored enterprises	$ 43,822	$ -	$ 43,822	$ -
State and municipal securities	17,183	-	17,183	-
U.S. treasury securities	3,978	-	3,978	-
Mortgaged-backed securities	7,215	-	7,215	-
Corporate securities	961	-	961	-
Total assets at fair value	$ 73,159	$ -	$ 73,159	$ -

		Fair Value Measurements at December 31, 2023 Using		
(In Thousands)	**Total**	**Quoted Prices in Active Markets for IdenticalAssets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Securities available for sale:				
Government-sponsored enterprises	$ 47,438	$ -	$ 47,438	$ -
State and municipal securities	17,704	-	17,704	-
U.S. treasury securities	10,758	-	10,758	-
Mortgaged-backed securities	8,830	-	8,830	-
Corporate securities	933	-	933	-
Total assets at fair value	$ 85,663	$ -	$ 85,663	$ -

Note 10. Fair Value Measurements, continued

Assets Measured at Fair Value on a Nonrecurring Basis

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

		Fair Value Measurements at December 31, 2024 Using		
	Total	**Quoted Prices in Active Markets for IdenticalAssets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In Thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Agricultural & Raw Land	-	-	-	-
Consumer	-	-	-	-
Residential Real Estate	35	-	35	-
Total impaired loans	35	-	35	-
Foreclosed assets	-	-	-	-
Total assets at fair value	$ 35	$ -	$ 35	$ -

		Fair Value Measurements at December 31, 2023 Using		
	Total	**Quoted Prices in Active Markets for IdenticalAssets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
(In Thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Agricultural & Raw Land	-	-	-	-
Consumer	32	-	32	-
Residential Real Estate	-	-	-	-
Total impaired loans	32	-	32	-
Foreclosed assets	-	-	-	-
Total assets at fair value	$ 32	$ -	$ 32	$ -

Note 11. Benefit Plans

Pension Plan

For the years ended December 31, 2024 and 2023, the Bank had a noncontributory cash balance pension plan ("Plan"). The Plan is sponsored by the Virginia Bankers Association and covers all eligible employees with at least one year of service who have attained the age of twenty-one. The Bank is permitted to make annual contributions to the Plan. Contribution credits are based on a tier for age and years of service. Interest is credited annually based on a rate tied to the 10-year Treasury rate and is guaranteed to meet the minimum threshold established by the IRS and not to be less than 3% on an annual basis. Upon retirement, the Plan permits lump sum, periodic installments, and monthly benefit payment options.

The Bank includes the net periodic benefit cost comprised of service cost and other components in with salaries and employee benefits on the income statement.

Note 11. Benefit Plans, continued

Pension Plan, continued

The Plan was overfunded at December 31, 2024 and 2023. The plan remained overfunded in 2024 primarily due to an actuarial gain, a gain on plan assets, partially offset by benefits paid. The following table is a summary of the plan's funded status for each year ended December 31:

	2024	2023
Change in benefit obligation		
Benefit obligation at beginning of year	$ 4,837,927	$ 4,589,659
Service cost	322,362	259,977
Interest cost	210,736	202,123
Actuarial (gain) loss	(145,730)	136,927
Benefits paid	(519,143)	(350,759)
Benefit obligation at end of year	4,706,152	4,837,927
Change in plan assets		
Fair value of plan assets at beginning of year	5,050,917	4,665,613
Actual (loss) gain on plan assets	393,150	586,063
Employer contributions	300,000	150,000
Benefits paid	(519,143)	(350,759)
Fair value of plan assets at end of year	5,224,924	5,050,917
Funded status, over (under) at end of year	$ 518,772	$ 212,990
Amounts recognized on the balance sheet		
Other assets	$ 744,729	$ 494,985
Net assets (liabilities)	$ 744,729	$ 494,985
Amounts recognized in accumulated other comprehensive income:		
Actuarial loss, net of tax	$ 850,030	$ 1,060,839
Components of net periodic benefit cost and other amounts recognized in accumulated other comprehensive income:		
Net periodic benefit cost		
Service cost	$ 322,362	$ 259,977
Interest cost	210,736	202,123
Expected return on plan assets	(345,965)	(310,454)
Amortization of prior service cost	6,628	6,628
Recognized net actuarial loss	67,304	82,205
Net periodic benefit cost	261,065	240,479
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Net actuarial loss (gain)	(266,847)	(227,515)
Tax benefit (expense) on actuarial gain	56,037	47,778
Total recognized in other comprehensive (income) loss	(210,810)	(179,737)
Total recognized in net periodic benefit cost and other comprehensive loss	$ 50,255	$ 60,742

Note 11. Benefit Plans, continued

Pension Plan, continued

	2024	2023
Assumptions		
Weighted-average assumptions at December 31		
Discount rate used for net periodic pension cost	4.70%	4.90%
Discount rate used for disclosure	5.35%	4.70%
Expected return on plan assets	7.25%	7.25%
Rate of compensation increase	3.00%	3.00%
Rate of compensation increase for net periodic pension cost	3.00%	3.00%

Using the same fair value hierarchy described in Note 10, the fair values of the Bank's pension plan assets, by asset category, are as follows:

December 31, 2024	Total	Level 1	Level 2	Level 3
Cash equivalents and short term investments	$ -	$ -	$ -	$ -
Mutual funds – equities	2,688,026	2,688,026	-	-
Mutual funds – fixed income	2,536,898	2,536,898	-	-
Total assets at fair value	$ 5,224,924	$ 5,224,924	$ -	$ -

December 31, 2023	Total	Level 1	Level 2	Level 3
Cash equivalents and short term investments	$ -	$ -	$ -	$ -
Mutual funds – equities	2,594,014	2,594,014	-	-
Mutual funds – fixed income	2,456,903	2,456,903	-	-
Total assets at fair value	$ 5,050,917	$ 5,050,917	$ -	$ -

A contribution of $350,000 is expected to be made in 2025.

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

2025	$ 982,082
2026	449,994
2027	114,687
2028	583,649
2029	256,337
2030-2034	2,074,639

Long-term rate of return

The plan sponsor selects the expected long-term rate-of-return-on-assets assumption in consultation with their investment advisors and actuary. This rate is intended to reflect the average rate of earnings expected to be earned on the funds invested or to be invested to provide plan benefits. Historical performance is reviewed, especially with respect to real rates of return (net of inflation), for the major asset classes held or anticipated to be held by the trust, and for the trust itself. Undue weight is not given to recent experience – that may not continue over the measurement period – with higher significance placed on current forecasts of future long-term economic conditions.

Because assets are held in a qualified trust, anticipated returns are not reduced for taxes. Further, solely for this purpose, the plan is assumed to continue in force and not terminate during the period during which assets are invested. However, consideration is given to the potential impact of current and future investment policy, cash flow into and out of the trust, and expenses (both investment and non-investment) typically paid from plan assets (to the extent such expenses are not explicitly estimated within periodic cost).

Note 11. Benefit Plans, continued

Pension Plan, continued

Discount Rate

The process used to select the discount rate assumption under ASC 715 takes into account the benefit cash flow and the segmented yields on high quality corporate bonds that would be available to provide for the payment of the benefit cash flow. A single effective discount rate, rounded to the nearest 0.25%, is then established that produces an equivalent discounted present value.

Asset allocation and investment strategies

The pension plan's weighted-average asset allocations, by asset category, are as follows for the year-ended December 31:

	2024	2023
Asset Category		
Mutual funds – fixed income	47%	40%
Mutual funds – equity	53%	60%
Total	100%	100%

Bank management elects an asset allocation for the plan annually. The election is based on management's assessment of the fixed income and equities markets and the economic outlook when matching potential risk and return for employee participants. The trust fund is diversified to maintain a reasonable level of risk without imprudently sacrificing return. The targeted asset allocation was 40% fixed income and 60% equities in 2024 and 2023. The Investment Manager selects fund managers with demonstrated experience and expertise and funds with demonstrated historical performance for the implementation of the Plan's investment strategy. The Investment Manager considers both actively and passively managed investment strategies and allocates funds across the asset classes to develop an efficient investment structure.

It is the responsibility of the Trustee to administer the investments of the Trust within reasonable costs, being careful to avoid sacrificing quality. These costs include, but are not limited to, management and custodial fees, consulting fees, transaction costs and other administration costs chargeable to the Trust.

Concentration of risk

No concentration of risk was identified in the plan.

Note 11. Benefit Plans, continued

Post-Retirement Health Insurance

The Bank sponsors a post-retirement health care plan for certain retired employees. The health plan has an annual limitation (a "cap") on the dollar amount of the employer's share of the cost of covered benefits incurred by a plan participant. The retiree is responsible, therefore, for the amount by which the cost of the benefit coverage under the plan incurred during a year exceeds that cap. No health care cost increases have been factored into the health plan's actuarial calculations due to this cap. The plan remains frozen with coverage continuing for two existing retiree participants. The following tables summarize the Bank's post retirement plan obligations, assets, funded status, and the assumptions and components of net periodic benefit costs using a measurement date of December 31, 2024 and 2023:

	2024	2023
Change in benefit obligation		
Benefit obligation at beginning of year	$ 48,724	$ 52,627
Interest cost	2,272	2,267
Actuarial loss	(13,352)	1,030)
Benefits paid	(6,800)	(7,200)
Benefit obligation at end of year	30,844	48,724
Change in plan assets		
Fair value of plan assets at beginning of year	-	-
Employer contribution	6,800	7,200
Benefits paid	(6,800)	(7,200)
Fair value of plan assets at end of year	-	-
Funded status, over (under) at end of year	$ 30,844	$ 48,724
Amounts recognized on the balance sheet		
Other liabilities	$ (30,844)	$ (55,465)
Net liabilities	$ (30,844)	$ (55,465)
Amounts recognized in accumulated other comprehensive income:		
Actuarial gain	$ (42,215)	$ (32,101)
Deferred tax expense	8,865	6,741
Net accumulated other comprehensive loss (income)	$ (33,350)	$ (25,360)
Components of net periodic postretirement cost and other amounts recognized in accumulated other comprehensive income:		
Net periodic benefit cost		
Interest cost	$ 2,272	$ 2,267
Amortization of net gain	(3,238)	(3,458)
Net periodic postretirement cost	(966)	(1,191)
Other changes in plan assets and benefit obligations recognized in other comprehensive income		
Actuarial (gain) loss	(10,114)	4,487
Tax benefit on comprehensive income (loss)	2,124	(942)
Total recognized in other comprehensive loss	(7,990)	3,545
Total recognized in net periodic postretirement cost and other comprehensive (income) loss	$ (8,956)	$ 2,354

Note 11. Benefit Plans, continued

Post-Retirement Health Insurance, continued

The Bank expects to recognize no amortization of transition obligation in 2025.

The discount rate assumption in determining the benefit relating to the untrended post-retirement health care plan at December 31, 2024, was 5.03 %. Since the post-retirement health insurance benefit plan is untrended, increases and decreases in health care cost trend rates, expected rate of return on plan assets, and the rate of compensation increase is not applicable.

Employer contributions are expected to be $4,800 in 2025.

Estimated future benefit payments by the plan are as follows:

2025	$	4,800
2026		4,475
2027		4,137
2028		3,791
2029		3,440
2030-2034		12,064

Deferred Compensation Plan

Funded deferred compensation plans have been adopted for certain members of the Board of Directors and executive employees. The corresponding assets and liabilities of the plans are held by a third party through the Virginia Bankers Association and totaled $688,200 and $798,813 for the Director Plan at December 31, 2024 and 2023, respectively. The Executive Plan had no active participants and a zero balance at December 31, 2024 and 2023.

Profit Sharing/Thrift Plan

The Bank provides a profit sharing/thrift plan for its employees to which contributions are made at the discretion of the Board of Directors. All full-time employees, age 18 and older, are eligible to participate and are automatically enrolled, unless they choose to opt-out of the plan, after completing their first six months of service. The plan allows for pretax employee contributions of up to the maximum allowed by the IRS. In 2024 and 2023, the first 1% of employee contributions was matched 100% by the Bank. The next 5% of employee contributions was matched 50% by the Bank. Employer contributions, to the plan amounted to $321,106 in 2024. Employer contributions were $231,295 in 2023, including a 2% accrual for profit sharing.

Note 12. Income Taxes

Current and Deferred Income Tax Components

The components of income tax expense (benefit) are as follows:

	2024	2023
Current		
Federal	$ 1,763,242	$ 2,104,493
State	18,886	19,072
	1,782,128	2,123,565
Deferred		
Federal	234,721	(54,914)
State	12,288	17,116
	247,009	(37,798)
Income Tax Expense	$ 2,029,137	$ 2,085,767

Note 12. Income Taxes, continued

Rate Reconciliation

A reconciliation of income tax expense computed at the statutory federal income tax rate to income tax expense included in the consolidated statements of income is as follows:

	2024	2023
Tax at statutory federal rate	$ 2,093,950	$ 2,154,309
Tax exempt interest income	(47,815)	(62,392)
Other	(16,998)	(6,150)
Income tax expense	$ 2,029,137	$ 2,085,767

Deferred Income Tax Analysis

The significant components of net deferred tax assets at December 31 are summarized as follows:

	2024	2023
Deferred tax assets		
Allowance for credit losses	$ 1,677,690	$ 1,583,733
Liability for credit losses on unfunded commitments	99,638	108,924
Allowance for credit losses on securities held to maturity	3,780	3,780
Deferred compensation	172,827	168,522
Pension plan	225,957	281,995
Investment in pass-through entities	-	6,308
Interest on nonaccrual loans	10,163	9,173
Accrued unpaid compensation	98,868	88,515
Net unrealized losses on securities available for sale	886,185	1,241,749
Other	87,791	148,834
Deferred tax assets	3,262,899	3,641,533
Deferred tax liabilities		
Depreciation	(1,006,362)	(808,639)
Bank owned life insurance	(149,204)	(118,893)
Accrued pension costs	(408,475)	(389,799)
Post-retirement health benefits	(8,865)	(6,741)
Investment in pass-through entities	(5,980)	-
Other	(30,035)	(2,749)
Deferred tax liabilities	(1,608,921)	(1,326,821)
Net deferred tax asset	$ 1,653,978	$ 2,314,712

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 accounting guidance on Income Taxes.

The Bank has evaluated the need for a deferred tax valuation allowance for the years ended December 31, 2024 and 2023 in accordance with ASC 740, Income Taxes. Based on a three year taxable income projection and tax strategies which would result in recognition of potential securities gains and the effects of off-setting deferred tax liabilities, the Bank believes that it is more likely than not that the deferred tax assets are realizable. Therefore, no allowance is required.

Note 13. Low Income Housing Tax Credits

The Bank is an investor in a housing equity fund. The general purpose of this fund is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, deliver Federal Low Income Housing Credits to investors, allocate tax losses and other possible tax benefits to investors, and to preserve and protect project assets. The Bank accounts for this investment under the proportional amortization method and at December 31, 2024, the investment in this fund, recorded in other assets on the consolidated balance sheet, was $177,295. Total projected tax credits to be received for 2024 are $43,071 which is based on the most recent estimates received from the fund. Amortization expense for 2024 was $42,989. At December 31, 2024, the Bank had fully funded its commitment to the housing equity fund. Therefore, no additional capital calls are expected.

Note 14. Commitments and Contingencies

Litigation

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 consolidated financial statements.

Financial Instruments with Off-Balance-Sheet Risk

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, credit risk in excess of the amounts recognized in the consolidated balance sheets.

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 amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as for on-balance-sheet instruments. A summary of commitments at December 31 is as follows:

	2024	2023
Commitments to extend credit	$ 145,092,000	$ 136,107,000
Standby letters of credit	5,411,000	4,446,000
	$ 150,503,000	$ 140,553,000

Note 14. Commitments and Contingencies, continued

Financial Instruments with Off-Balance-Sheet Risk, continued

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

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

In the normal course of business, the Bank extends commitment letters to fund loans at a future date. The Bank had issued approximately $23,380,000 in such commitments at December 31, 2024. However, there is no assurance that the loans will be originated and funded due to uncertainty of customer acceptance of the terms and conditions of the agreement.

Concentrations of Credit Risk

Substantially all of the Bank's loans, commitments to extend credit, and standby letters of credit have been granted to customers in the Bank's market area and such customers are generally depositors of the Bank. The concentrations of credit by type of loan are set forth in Note 4. The distribution of commitments to extend credit approximates the distribution of loans outstanding. Standby letters of credit are granted primarily to commercial borrowers. Although the Bank has a reasonably diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent upon economic conditions in and around the counties of Botetourt, Roanoke, Rockbridge, Franklin, the City of Salem, the Town of Vinton, and Rocky Mount, all in Virginia. At December 31, 2024 the Bank had an approximate $72,010,000 in secured loan concentration balances in 1-4 family residential construction, other construction, land and development, and lots. This amount represents 76% of total risk based capital, complying with the Federal Deposit Insurance Corporation's ("FDIC") suggested guideline of less than 100%.

The Bank also monitors loan concentrations for non-owner occupied commercial real estate, construction, and lot loans. Combined with the categories above, the Bank had approximately $176,424,000 in concentration balances or 186% of total risk based capital, below the FDIC's suggested guideline of less than 300%. Large individual credit relationships are also monitored to mitigate risk and ensure compliance with applicable laws.

Certain cash deposits maintained by the Bank with other financial institutions are secured by federal depository insurance. At times during the year these accounts are in excess of the FDIC insured limit of $250,000. The Bank has not experienced losses in such accounts and believes it is not exposed to significant credit risk on cash and cash equivalents.

Note 15. Regulatory Restrictions

Investments in state and municipal securities involve governmental entities within and outside the Bank's market area. The Bank from time to time has cash and cash equivalents on deposit with financial institutions which exceed federally-insured limits.

Dividends

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

Note 15. Regulatory Restrictions, continued

Capital Requirements

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory (and possibly additional discretionary) actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements.

Federal banking agencies jointly issued a final rule that provided for an optional and simplified measure of capital adequacy, the community bank leverage ratio framework, for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. A qualifying community banking organization is defined as having less than $10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. It also cannot be an advanced approaches institution. Bank of Botetourt qualified to opt-in to the Community Bank Leverage Ratio ("CBLR"). To qualify, the Bank is required to maintain a CBLR greater than or equal to 9.0% each year.

Management believes, as of December 31, 2024 and 2023, respectively, that the Bank met all capital adequacy requirements to which they are subject and was categorized as "well capitalized" as defined by applicable regulations. There are no conditions or events since that date that management believes have changed the Bank's category.

The Bank's actual capital amounts and ratios are presented in the tables below (in thousands except for percentages):

			Capital Required To Be Considered Well Capitalized CBLR Framework	
	Amount	**Ratio**	**Amount**	**Ratio**
December 31, 2024:				
Tier 1 Capital (to Average Assets)	$ 86,920	10.3%	$ 76,319	9.0%
December 31, 2023:				
Tier 1 Capital (to Average Assets)	$ 80,861	10.4%	$ 70,244	9.0%

Note 16. Transactions with Related Parties

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

Aggregate loan transactions with related parties were as follows for the year-ended December 31:

	2024	**2023**
Balance, beginning	$ 189,297	$ 396,159
New loans or credit line advances	3,317,718	157,611
Repayments	(593,705)	(364,473)
Balance, ending	$ 2,913,310	$ 189,297

Note 16. Transactions with Related Parties, continued

Deposit transactions with related parties at December 31, 2024 and 2023 were insignificant.

As discussed in Note 6 Property, Equipment and Foreclosed Assets, the Bank had lessee activities with companies of related party interests in both 2024 and 2023.

Note 17. Stockholders' Equity

Dividend Reinvestment and Stock Purchase Plan

The Bank's Dividend Reinvestment and Stock Purchase Plan ("DRIP") provides for the issuance of up to 200,000 shares of common stock. Common shares may be acquired on a quarterly basis via full or partial dividend reinvestment, systematic quarterly purchases, or a one-time purchase based on the following methodology. The purchase price of shares purchased by the Plan Administrator is 97% of the stock's market value. Approximately 10 days prior to the transaction day, the Bank requests trade history using third party data from Bloomberg or a similar source. On the date of the request, trade volume and prices are obtained for the preceding three-week period. Using this three-week (15 trading days) measurement period, the volume weighted average price is calculated. A three percent discount is applied to the volume weighted average price to determine the DRIP price.

The following is a summary of the shares of common stock issued from dividends reinvested and optional cash purchases in 2024 and 2023.

	2024	
	Shares	Purchase Price
First Quarter	2,824	$ 28.03
Second Quarter	2,425	27.77
Third Quarter	2,173	30.06
Fourth Quarter	2,085	30.38
Total Shares Issued	9,507	

	2023	
	Shares	Purchase Price
First Quarter	3,418	$ 27.98
Second Quarter	2,476	29.10
Third Quarter	2,330	28.78
Fourth Quarter	2,269	28.13
Total Shares Issued	10,493	

Preferred Stock

The Preferred Stock pays a dividend of 7% per year, based on the initial subscription price of $28.00 per share. The dividends are paid quarterly at the sole discretion of the Bank's Board of Directors and are noncumulative. During any dividend period in which the Preferred Stock is outstanding, unless full dividends for the most recently completed dividend period on all outstanding Preferred Stock have been declared and paid, no dividend will be declared or paid on the Bank's Common Stock.

The Preferred Stock is nonvoting except with respect to any fundamental change in the terms of the preferred stock. These shares are convertible into Bank Common Stock no sooner than five years from issuance on November 9, 2022.

Note 18. Subsequent Events

Declaration of Cash Dividend

On January 29, 2025, the Bank declared a first quarter $0.49 dividend per preferred share paid on February 7, 2025 to preferred shareholders of record January 31, 2025.

On January 29, 2025, the Bank declared a first quarter $0.225 dividend per common share paid on February 18, 2025 to shareholders of record on February 11, 2025.

Note 19. Accounting Standards Updates

In December 2023, the FASB amended the Income Taxes topic in the Accounting Standards Codification 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 financial statements.

In November 2024, the FASB amended the Income Statement—Reporting Comprehensive Income topic in the Accounting Standards Codification 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 to financial statements issued for reporting periods after the effective date.

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

Bank of Botetourt

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