

Security Federal Corporation and Subsidiaries

**Consolidated Financial Statements and
Report of Independent Registered Public Accounting Firm**

As of and for the Years Ended December 31, 2025 and 2024

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Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Security Federal Corporation and Subsidiaries:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Security Federal Corporation and Subsidiaries (the "Company") as of December 31, 2025 and 2024, the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the "financial statements"). In our opinion, the financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its cash flows for each of the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

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

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

Critical Audit Matters

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

Allowance for Credit Losses

The Company reported a gross loan portfolio of \$686.6 million and related allowance for credit losses ("ACL") of \$13.5 million as of December 31, 2025. In order to measure expected credit losses on a collective basis, the Company has elected to utilize a weighted-average remaining life ("WARM") methodology for all segments. Loans not sharing similar risk characteristics are evaluated on an individual basis. The WARM method applies a loss rate to a given pool of loans over the estimated remaining life of the given pool. The remaining life of the pool is based on Company historical data. In addition, a 6-month forecast is applied to each segment, based on external sources, with immediate reversion to historical loss rates

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at the end of the forecast period. Additionally, a qualitative scorecard is used by management to assess the need for adjustments to expected credit loss estimates for information not already captured in the quantitative loss estimation process. The qualitative scorecard evaluates certain risks such as portfolio risk, economic trends, lending policies, credit administration risk, and industry conditions.

We identified the Company's estimate of the allowance for credit losses as a critical audit matter. The principal consideration for our determination of the ACL as a critical audit matter related to the high degree of complexity and judgment in the determination of significant model assumptions, specifically, the qualitative factor adjustments to quantitative loss rates. Auditing these complex judgments and assumptions made by the Company involves challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

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

- We obtained an understanding of the Company's process for establishing the ACL, including the basis for development and related adjustments of the qualitative factor components of the ACL.
- We evaluated the relevance and reasonableness of key assumptions by assessing portfolio segmentation, credit quality indicators, current credit conditions, and the incorporation of reasonable and supportable economic forecasts.
- We tested the completeness and accuracy of significant inputs to the model including the underlying data used to develop the qualitative factors.
- We validated the mathematical accuracy of the calculation.
- We evaluated the reasonableness of assumptions and data used by the Company in developing the qualitative factors by comparing these data points to internally developed and third-party sources, and other audit evidence gathered.

We have served as the Company's auditor since 1998.

A handwritten signature in black ink that reads "Elliott Davis, LLC". The signature is written in a cursive, flowing style.

Columbia, South Carolina
March 20, 2026

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

<i>(Dollars in thousands)</i>	December 31,	
	2025	2024
Assets:		
Cash and Cash Equivalents	\$ 75,335	\$ 178,277
Certificates of Deposit with Other Banks	1,250	1,250
Investments:		
Available For Sale ("AFS")	663,467	525,623
Held To Maturity ("HTM") (Fair Value of \$111,009 and \$130,902 at December 31, 2025 and December 31, 2024, Respectively)	112,818	135,200
Total Investments	776,285	660,823
Loans Receivable, Net:		
Held For Sale	3,126	599
Held For Investment (Net of Allowance of \$13,529 and \$13,894 at December 31, 2025 and December 31, 2024, Respectively)	673,056	686,550
Total Loans Receivable, Net	676,182	687,149
Accrued Interest Receivable	4,914	5,374
Operating Lease Right-of-Use Assets	1,023	927
Land Held for Sale	702	938
Premises and Equipment, Net	32,742	29,321
Federal Home Loan Bank ("FHLB") Stock, at Cost	1,083	1,089
Other Real Estate Owned ("OREO")	45	—
Bank Owned Life Insurance ("BOLI")	34,454	28,660
Goodwill	1,200	1,200
Other Assets	12,869	16,765
Total Assets	\$ 1,618,084	\$ 1,611,773
Liabilities:		
Deposit Accounts	\$ 1,371,777	\$ 1,324,033
Borrowings from Federal Reserve Bank ("FRB")	—	50,000
Other Borrowings	25,262	27,809
Junior Subordinated Debentures	—	5,155
Subordinated Debentures	10,000	10,000
Operating Lease Liabilities	1,047	959
Other Liabilities	9,543	11,428
Total Liabilities	1,417,629	1,429,384
Commitments (Note 18)		
Shareholders' Equity:		
Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP, \$1,000 Par Value; (82,949 Shares Authorized, Issued and Outstanding at December 31, 2025 and 2024)	\$ 82,949	\$ 82,949
Common Stock, \$0.01 Par Value; 5,000,000 Shares Authorized; 3,459,388 Shares Issued and 3,113,843 Shares Outstanding at December 31, 2025 and 3,458,050 Shares Issued and 3,186,571 Shares Outstanding at December 31, 2024	35	35
Additional Paid-In Capital ("APIC")	18,378	18,336
Treasury Stock, at Cost (345,545 and 271,479 Shares Outstanding at December 31, 2025 and 2024, Respectively)	(8,241)	(5,964)
Accumulated Other Comprehensive Loss ("AOCL")	(20,608)	(31,105)
Retained Earnings	127,942	118,138
Total Shareholders' Equity	200,455	182,389
Total Liabilities and Shareholders' Equity	\$ 1,618,084	\$ 1,611,773

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

<i>(Dollars in thousands, except per share amounts)</i>	Years Ended December 31,	
	2025	2024
Interest Income:		
Loans	\$ 44,152	\$ 41,301
Taxable Investment Securities	29,989	29,478
Tax-exempt Investment Securities	356	422
Other	4,155	6,105
Total Interest Income	78,652	77,306
Interest Expense:		
Deposits	30,153	29,849
FRB and Other Borrowings	453	3,957
Subordinated Debentures	525	1,297
Junior Subordinated Debentures	310	376
Total Interest Expense	31,441	35,479
Net Interest Income	47,211	41,827
(Reversal of) Provision for Credit Losses	(235)	1,370
Net Interest Income after (Reversal of) Provision for Credit Losses	47,446	40,457
Non-Interest Income:		
Gain on Sale of Investment Securities, Net	22	37
Gain on Sale of Loans	894	779
Gain on Sale of Land Held for Sale	62	—
Service Fees on Deposit Accounts	1,257	1,243
Commissions From Insurance Agency	881	791
Trust Income	1,894	2,265
BOLI Income	794	706
ATM and Check Card Fee Income	3,254	3,170
Grant Income	1,120	500
Other	1,310	756
Total Non-Interest Income	11,488	10,247
Non-Interest Expense:		
Compensation and Employee Benefits	23,994	21,799
Occupancy	3,693	3,296
Advertising	914	1,001
Depreciation and Maintenance of Equipment	1,615	1,685
FDIC Insurance Premiums	718	705
Consulting	820	658
Debit Card Expenses	1,937	1,559
Data Processing	1,640	1,410
Cloud Services	963	932
Other	5,309	5,095
Total Non-Interest Expense	41,603	38,140
Income Before Income Taxes	17,331	12,564
Provision For Income Taxes	3,658	2,757
Net Income	13,673	9,807
Preferred Stock Dividends	1,659	926
Net Income Available to Common Shareholders	\$ 12,014	\$ 8,881
Net Income Per Common Share (Basic)	\$ 3.80	\$ 2.77
Cash Dividend Per Share On Common Stock	\$ 0.71	\$ 0.56
Weighted Average Shares Outstanding (Basic)	3,159,030	3,208,405

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

<i>(Dollars in thousands)</i>	Years Ended December 31,	
	2025	2024
Net Income	\$ 13,673	\$ 9,807
Other Comprehensive Income:		
Unrealized Holding Gains on AFS Investments, Net of Tax of \$3.5 million and \$1.3 million at December 31, 2025 and 2024, Respectively	10,508	3,968
Reclassification Adjustment for Gains Included in Net Income, Net of Tax of \$6 thousand and \$9 thousand at December 31, 2025 and 2024, Respectively	(16)	(28)
Amortization of Unrealized Gains on AFS Investments Transferred to HTM, Net of Tax of \$1 thousand and \$2 thousand at December 31, 2025 and 2024, Respectively	5	5
Other Comprehensive Income	10,497	3,945
Comprehensive Income	\$ 24,170	\$ 13,752

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

<i>(Dollars in thousands)</i>	Preferred Stock		Common Stock		Treasury Stock		APIC	AOCI (Loss)	Retained Earnings	Total
	Shares	Amount	Shares	Amount	Shares	Amount				
December 31, 2023	82,949	\$ 82,949	3,456,136	\$ 35	227,359	\$ (4,913)	\$ 18,287	\$ (35,050)	\$ 111,054	\$ 172,362
Net Income	—	—	—	—	—	—	—	—	9,807	9,807
Other Comprehensive Income, Net of Tax	—	—	—	—	—	—	—	3,945	—	3,945
Treasury Stock Purchase	—	—	—	—	44,120	(1,051)	—	—	—	(1,051)
Employee Stock Purchase Plan Issuance	—	—	1,914	—	—	—	49	—	—	49
Cash Dividends on Common Stock	—	—	—	—	—	—	—	—	(1,797)	(1,797)
Cash Dividends on Preferred Stock	—	—	—	—	—	—	—	—	(926)	(926)
December 31, 2024	82,949	\$ 82,949	3,458,050	\$ 35	271,479	\$ (5,964)	\$ 18,336	\$ (31,105)	\$ 118,138	\$ 182,389
Net Income	—	—	—	—	—	—	—	—	13,673	13,673
Other Comprehensive Income, Net of Tax	—	—	—	—	—	—	—	10,497	—	10,497
Treasury Stock Purchase	—	—	—	—	74,066	(2,277)	—	—	—	(2,277)
Employee Stock Purchase Plan Issuance	—	—	1,338	—	—	—	42	—	—	42
Cash Dividends on Common Stock	—	—	—	—	—	—	—	—	(2,210)	(2,210)
Cash Dividends on Preferred Stock	—	—	—	—	—	—	—	—	(1,659)	(1,659)
December 31, 2025	82,949	\$ 82,949	3,459,388	\$ 35	345,545	\$ (8,241)	\$ 18,378	\$ (20,608)	\$ 127,942	\$ 200,455

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	For the Years Ended December 31,	
	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	\$ 13,673	\$ 9,807
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation Expense	2,162	2,070
Discount Accretion and Premium Amortization, Net	3,143	3,551
(Reversal of) Provisions for Credit Losses on Loans and Unfunded Commitments	(235)	1,370
Earnings on BOLI	(794)	(706)
Origination of Loans Held For Sale	(41,398)	(30,197)
Proceeds From Sale of Loans Held For Sale	39,765	31,344
Gain on Sales of Loans	(894)	(779)
Gain on Sales of Investments	(22)	(37)
Loss on Disposal of Premises and Equipment	—	1
Gain on Sale of Land Held For Sale	(62)	—
Decrease in Accrued Interest Receivable	460	138
Amortization of Operating Lease Right-of-Use ("ROU") Assets	480	475
Change in Other Assets	436	11,171
Change in Lease Liabilities and Other Liabilities	(2,330)	220
Net Cash Provided By Operating Activities	<u>14,384</u>	<u>28,428</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS Securities	(225,349)	(68,647)
Proceeds from Payments and Maturities of AFS Securities	74,164	68,769
Proceeds from Sale of AFS Securities	24,340	13,703
Purchase of HTM Securities	(2,985)	(3,249)
Proceeds from Payments and Maturities of HTM Securities	25,202	31,039
Redemption of Certificates of Deposits with Other Banks	—	1,100
Purchase of FHLB Stock	(1,181)	(167)
Redemption of FHLB Stock	1,187	—
Net Change in Loans Receivable	13,643	(66,468)
Proceeds from Sale of Land Held for Sale	298	—
Proceeds from Sale of Premises and Equipment	—	7
Purchase of BOLI policies	(5,000)	—
Purchase and Improvement of Premises and Equipment	(5,583)	(2,762)
Net Cash Used By Investing Activities	<u>(101,264)</u>	<u>(26,675)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Deposit Accounts	47,744	129,036
(Decrease) Increase in Other Borrowings, Net	(2,547)	8,629
Redemption of Junior Subordinated Debentures	(5,155)	—
Repurchase of Subordinated Debentures	—	(16,500)
Proceeds from FRB Borrowings	4,000	80,000
Repayment of FRB Borrowings	(54,000)	(149,200)
Purchases of Treasury Stock	(2,277)	(1,051)
Proceeds from Employee Stock Purchase Plan	42	49
Dividends to Common Stock Shareholders	(2,210)	(1,797)
Dividends to Preferred Stock Shareholders	(1,659)	(926)
Net Cash (Used) Provided By Financing Activities	<u>(16,062)</u>	<u>48,240</u>
Net (Decrease) Increase in Cash and Cash Equivalents	<u>(102,942)</u>	<u>49,993</u>
Cash and Cash Equivalents at Beginning of Year	178,277	128,284
Cash and Cash Equivalents at End of Year	<u>\$ 75,335</u>	<u>\$ 178,277</u>

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

<i>(Dollars in thousands)</i>	For the Years Ended December 31,	
	2025	2024
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	\$ 33,957	\$ 35,328
Income Taxes	4,170	2,852
Non Cash Transactions:		
ROU Asset Lease Renewal	576	—
Transfers of Loans to OREO	45	—
Other Comprehensive Income	10,497	3,945

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the more significant accounting and reporting policies used in the preparation and presentation of the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Basis of Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of Security Federal Corporation (the “Company”) and its wholly owned subsidiary, Security Federal Bank (the “Bank”) and the Bank’s wholly owned subsidiaries, Security Federal Investments, Inc. (“SFINV”) and Security Federal Insurance, Inc. (“SFINS”). SFINV was formed to hold investment securities and allow for better management of the securities portfolio. SFINS is an insurance agency offering auto, business, and home insurance. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company also has a wholly owned subsidiary, Security Federal Statutory Trust (the “Trust”), which issued and sold fixed and floating rate capital securities of the Trust. However, under current accounting guidance, the Trust is not consolidated in the financial statements. The Bank is primarily engaged in the business of accepting savings and demand deposits and originating mortgage loans and other loans to individuals and small businesses for various personal and commercial purposes.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing balances in other banks, and federal funds sold. Cash equivalents have original maturities of three months or less.

Investment Securities

Investment securities are classified in one of three categories: HTM, AFS, or trading. Management determines the appropriate classification of debt securities at the time of purchase. Investment securities are classified as HTM when the Company has the positive intent and ability to hold the securities to maturity. These securities are recorded at cost and adjusted for amortization of premiums and accretion of discounts over a level yield basis. Callable debt securities held at a premium are amortized until the earliest call date. Prepayment assumptions on mortgage-backed securities are anticipated.

Management classifies investment securities that are not considered to be HTM as AFS. This type of investment is stated at fair value with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity (“accumulated other comprehensive income (loss)”). Gains and losses from sales of AFS investment securities are determined using the specific identification method. The Company had no investment securities classified as trading.

Allowance for Credit Losses – Available for Sale Securities

Management evaluates all AFS investment securities in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance of any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit losses, limited by the amount that the fair value is less than the amortized cost basis. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (reversal of) credit losses. Losses are charged against the allowance for credit losses when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2025, there was no allowance for credit losses related to the AFS portfolio. Accrued interest receivable on AFS securities totaled \$2.3 million and \$2.5 million at December 31, 2025 and 2024, respectively, and was excluded from the estimate of credit losses.

Allowance for Credit Losses – Held to Maturity Securities

Management measures expected credit losses on HTM debt securities on a collective basis by major security type. The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Additionally, private label collateralized mortgage obligation (“CMO”) securities which are not explicitly or implicitly guaranteed by the U.S. government are evaluated utilizing underlying pool data such as historical loss rates, loan-to-value ratios and credit enhancement data. See “Note 3 - Investments, Held to Maturity” for additional information

regarding the major HTM security types. There was no allowance for credit losses on HTM securities at December 31, 2025. Accrued interest receivable on HTM securities totaled \$477,000 and \$589,000 at December 31, 2025 and 2024, respectively, and was excluded from the estimate of credit losses.

Loans Receivable Held for Investment

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans is reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current, there is a sustained period of repayment performance, and future payments are reasonably assured.

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 uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable on loans totaled \$2.1 million and \$2.3 million at December 31, 2025 and 2024, respectively, and was excluded from the estimate of credit losses. The allowance for credit losses on loans represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses on loans is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments:

Real Estate

- o *Construction* - Construction loans consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property. There is risk these construction and development projects can experience delays and cost overruns exceeding the borrower's financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral. In addition, construction loans consist of loans to finance land for development of commercial or residential real property and construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.
- o *Residential Mortgage* - Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are often secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.
- o *Commercial Mortgage* - Commercial mortgages can be broadly categorized into owner-occupied and non-owner-occupied loans. Owner-occupied commercial mortgages involve financing for the purchase or refinancing of nonresidential properties that are occupied by the borrowing operating companies. The collateral for these loans typically includes office buildings, warehouses, manufacturing facilities, and other commercial or industrial properties. These loans hinge on the borrowers' ability to achieve business results consistent with the projections made at the loan origination. Although the loans are secured by real property to mitigate risk, there is a possibility that the liquidation of collateral may not fully satisfy the obligation. Non-owner-occupied commercial mortgages are used for purchasing or refinancing investment nonresidential properties. The collateral for these loans encompasses office buildings and complexes, retail facilities, multifamily complexes, land under development, and various other commercial or industrial real estate. The primary risk associated with non-owner-occupied commercial mortgage loans is contingent upon the ability of the income-producing property that collateralizes the loan to generate sufficient cash flow for servicing the debt. Despite being collateralized by real property to mitigate risk, there remains the possibility that the liquidation of collateral will not entirely meet the obligation.

Commercial and Agricultural - Commercial and agricultural loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, business credit cards, and lease financing agreements for equipment, vehicles, or other assets.

The primary risk associated with commercial and agricultural loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan or lease.

Consumer loans

- o *Home equity* - Home equity loans consist of home equity lines of credit and other lines of credit secured by first or second liens on the borrower's primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values.
- o *Other* - Consumer loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

The Company calculates the allowance for credit losses on loans for each pool of loans using a remaining life loss methodology with a two quarter reasonable and supportable forecast period and an immediate reversion period. Management believes that the Company's historical loss experience provides the best basis for its assessment of expected credit losses on loans to determine the allowance for credit losses on loans. The Company uses its own internal data to measure historical credit loss experience within the loan pools with similar risk characteristics over an economic cycle. The Company then forecasts the calculated historical loss rates over the calculated remaining life of loans by pool.

Additionally, the allowance for credit losses on loans calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for 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.

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 on loans are based on the fair value of collateral at the reporting date adjusted for selling costs as appropriate.

Management evaluates the carrying value of the loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making these evaluations. The allowance for credit losses is subject to periodic evaluations by bank regulatory agencies that may require adjustments to be made to the allowance based upon the information that is available at the time of their examination.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The Company records an allowance for credit losses - unfunded commitments unless the commitments to extend credit are unconditionally cancellable, through a charge to provision for unfunded commitments, which is included in the provision for credit losses in the Company's consolidated income statements. The allowance for credit losses – unfunded commitments is estimated by loan segment at each balance sheet date using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses - unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

Loans Receivable Held for Sale

The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with institutional investors are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present little market risk for the Company. The Company usually delivers to, and receives funding from, the investor within 30 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination. The carrying amount of these loans approximates fair value. Gains on the sale of loans are recorded within non-interest income in the consolidated income statements. The gain recognized represents the difference between cash proceeds received over the carrying amount of loans sold.

Other Real Estate Owned

Other real estate owned represents real estate and other assets acquired through foreclosure or repossession and are initially recorded at the estimated fair value less costs to sell. Subsequent improvements are capitalized. Costs of holding real estate, such as property taxes, insurance, general maintenance and interest expense, are expensed as a period cost. Fair values are reviewed regularly and allowances for possible losses are established when the carrying value of the asset owned exceeds the fair value less estimated costs to sell. Fair values are generally determined by reference to an outside appraisal.

Premises and Equipment

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation of premises and equipment is amortized on a straight-line method over the estimated useful life of the related asset. Estimated lives are 7 to 40 years for buildings and improvements and generally 3 to 10 years for furniture, fixtures and equipment. Maintenance and repairs are charged to current expense. The cost of major renewals and improvements are capitalized.

Land Held for Sale

Land held for sale is reported at the lower of the carrying amount and fair value less costs to sell. No write-downs on land held for sale were recorded during 2025 or 2024.

Goodwill

The Company's goodwill is a result of the excess of the cost over the fair value of net assets resulting from the acquisition of Collier Jennings Financial Corporation in July 2006. Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Income Taxes

Income tax expense or benefit is recognized for the net change in the deferred tax liability or asset during the year. That amount together with income taxes currently payable is the total amount of income tax expense or benefit for the year. Deferred taxes are provided for by the differences in financial reporting bases for assets and liabilities compared with their tax bases. Generally, a current tax liability or asset is established for taxes presently payable or refundable and a deferred tax liability or asset is established for future tax items. A valuation allowance, if applicable, is established for deferred tax assets that may not be realized. Deferred income taxes are provided for differences between the provision for credit losses for financial statement purposes and those allowed for income tax purposes.

The Company adopted accounting guidance which prescribes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosures. There have been no gross amounts of unrecognized tax benefits or interest or penalties related to uncertain tax positions since adoption. There are no unrecognized tax benefits that would, if recognized, affect the effective tax rate. There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Advertising Expense

Advertising and public relations costs are generally expensed as incurred. External costs relating to direct mailing are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of \$914,000 and \$1.0 million were included in the Company's results of operations for the years ended December 31, 2025 and 2024, respectively.

Stock-Based Compensation

The Company accounts for compensation costs under its stock option plans using the fair value method. This method requires the measurement of the cost of employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. The cost of the award is recognized in the income statement over the vesting period of the award.

Net Income Per Common Share

Accounting guidance specifies the computation, presentation and disclosure requirements for earnings per share ("EPS") for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued. The dilutive effect of options outstanding under the Company's stock option plan is reflected in diluted EPS by application of the treasury stock method.

There were no stock options outstanding as of December 31, 2025 and 2024; and therefore, no dilutive options in the calculation of diluted EPS for those periods. The following tables show the Company's net income per common share for the years indicated.

	Year Ended December 31,					
	2025			2024		
	Net Income Available to Common Shareholders	Weighted Average Shares Outstanding	EPS	Net Income Available to Common Shareholders	Weighted Average Shares Outstanding	EPS
<i>(Dollars in thousands, except EPS)</i>						
Basic EPS	\$ 12,014	3,159,030	\$ 3.80	\$ 8,881	3,208,405	\$ 2.77

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include:

- Determination of the allowance for credit losses and provision for credit losses
- Valuation of real estate acquired in conjunction with foreclosures or in satisfaction of loans
- Income taxes, including tax provisions and realization of deferred tax assets
- Fair value of assets and liabilities

Segment Reporting

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

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

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current period classifications. There were no changes to previously reported net income or shareholders' equity.

Recently Issued or Adopted Accounting Standards

The following is a summary of recent authoritative pronouncements that could affect accounting, reporting, and disclosure of financial information by the Company:

On January 1, 2024, the Company adopted ASU 2023-07, “*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*”. The Company has determined that all of its banking divisions and subsidiaries meet the aggregation criteria of ASC 280, *Segment Reporting*. As such, the adoption did not have a material effect on its financial statements.

In December 2023, the FASB amended the Income Taxes topic in the ASC to improve the transparency of income tax disclosures. The amendments were effective for annual periods beginning after December 15, 2024 and did not have a material effect on the Company's financial statements.

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

Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make

contractual payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and securities available for sale. The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the bank regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting from the regulators' judgments based on information available to them at the time of their examination.

NOTE 2 - INVESTMENTS, AVAILABLE FOR SALE

AFS securities are recorded at fair market value. There was no allowance for credit losses for AFS securities as of December 31, 2025 and 2024. The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of AFS securities at the dates indicated were as follows:

	December 31, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
<i>(Dollars in thousands)</i>				
Student Loan Pools	\$ 86,391	\$ 112	\$ (534)	\$ 85,969
Small Business Administration ("SBA") Bonds	56,362	234	(1,620)	54,976
Tax Exempt Municipal Bonds	17,736	549	(559)	17,726
Taxable Municipal Bonds	64,358	—	(8,495)	55,863
Other Asset Backed Securities	2,961	—	(15)	2,946
Mortgage-Backed Securities ("MBS")	463,110	477	(17,600)	445,987
Total AFS Securities	<u>\$ 690,918</u>	<u>\$ 1,372</u>	<u>\$ (28,823)</u>	<u>\$ 663,467</u>
	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
<i>(Dollars in thousands)</i>				
Student Loan Pools	\$ 39,670	\$ 117	\$ (203)	\$ 39,584
SBA Bonds	66,491	337	(2,402)	64,426
Tax Exempt Municipal Bonds	6,746	—	(688)	6,058
Taxable Municipal Bonds	64,530	—	(11,970)	52,560
MBS	389,592	346	(26,943)	362,995
Total AFS Securities	<u>\$ 567,029</u>	<u>\$ 800</u>	<u>\$ (42,206)</u>	<u>\$ 525,623</u>

Student Loan Pools are typically 97% guaranteed by the United States government while SBA bonds are 100% backed by the full faith and credit of the United States government. The other asset backed securities are interest-only strips on pools of guaranteed SBA 7(a) notes. The majority of the Bank's MBS are issued or guaranteed by an agency of the United States government such as Ginnie Mae, or by Government Sponsored Entities ("GSEs"), including Fannie Mae and Freddie Mac. Ginnie Mae MBS are backed by the full faith and credit of the United States government, while those issued by GSEs are not. Also included in MBS are private label collateralized mortgage obligation ("CMO") securities, which are issued by non-governmental real estate mortgage investment conduits and are not backed by the full faith and credit of the United States government. At December 31, 2025, the Bank held an amortized cost and fair value of \$93.2 million and \$91.1 million in private label CMO securities, compared to an amortized cost and fair value of \$80.3 million and \$76.0 million at December 31, 2024, respectively.

The amortized cost and fair value of AFS securities at December 31, 2025 are shown below by contractual maturity. Expected maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without call or prepayment penalties. Since MBS are not due at a single maturity date, they are disclosed separately, rather than allocated over the maturity groupings below.

	Amortized Cost	Fair Value
<i>(Dollars in thousands)</i>		
Due in one year or less	\$ 64	\$ 64
Due after one year to five years	21,560	20,703
Due after five to ten years	58,679	53,394
Due after ten years or more	147,505	143,319
MBS	463,110	445,987
Total AFS Securities	<u>\$ 690,918</u>	<u>\$ 663,467</u>

The amortized cost and fair value of AFS securities pledged as collateral for certain deposit accounts, FHLB advances, FRB, and other borrowings were \$439.5 million and \$413.2 million at December 31, 2025, and \$483.9 million and \$446.1 million at December 31, 2024, respectively.

During the year ended December 31, 2025, we received \$24.3 million in gross proceeds from sales of AFS securities and recognized gross gains of \$57,000 and gross losses of \$35,000. During the year ended December 31, 2024, we received \$13.7 million in gross proceeds from sales of AFS securities and recognized gross gains of \$408,000 and gross losses of \$371,000.

The following tables summarize gross unrealized losses and the related fair value, aggregated by investment category and length of time that individual AFS securities have been in a continuous unrealized loss position at the dates indicated.

	December 31, 2025								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#
<i>(Dollars in thousands)</i>									
Student Loan Pools	\$ 43,860	\$ (347)	20	\$ 14,709	\$ (187)	16	\$ 58,569	\$ (534)	36
SBA Bonds	2,499	(24)	7	24,452	(1,596)	40	26,951	(1,620)	47
Tax Exempt Municipal Bonds	—	—	—	6,079	(559)	5	6,079	(559)	5
Taxable Municipal Bonds	—	—	—	55,863	(8,495)	59	55,863	(8,495)	59
Other Asset Backed Securities	2,946	(15)	3	—	—	—	2,946	(15)	3
MBS	120,504	(407)	36	229,976	(17,193)	170	350,480	(17,600)	206
	<u>\$169,809</u>	<u>\$ (793)</u>	<u>66</u>	<u>\$331,079</u>	<u>\$ (28,030)</u>	<u>290</u>	<u>\$500,888</u>	<u>\$ (28,823)</u>	<u>356</u>

	December 31, 2024								
	Less than 12 Months			12 Months or More			Total		
	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#
<i>(Dollars in thousands)</i>									
Student Loan Pools	\$ 3,014	\$ (10)	4	\$ 23,427	\$ (193)	22	\$ 26,441	\$ (203)	26
SBA Bonds	10,795	(154)	12	24,319	(2,248)	46	35,114	(2,402)	58
Tax Exempt Municipal Bonds	—	—	—	6,058	(688)	5	6,058	(688)	5
Taxable Municipal Bonds	—	—	—	52,560	(11,970)	59	52,560	(11,970)	59
MBS	16,510	(152)	26	270,559	(26,791)	195	287,069	(26,943)	221
	<u>\$ 30,319</u>	<u>\$ (316)</u>	<u>42</u>	<u>\$376,923</u>	<u>\$ (41,890)</u>	<u>327</u>	<u>\$407,242</u>	<u>\$ (42,206)</u>	<u>369</u>

At December 31, 2025, AFS securities consisted of 532 securities, 356 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's SBA bonds, MBS, and taxable municipal bonds. The Company reviews its investment securities portfolio at least quarterly and more frequently when economic conditions warrant, assessing whether an allowance for credit loss is deemed necessary. Management's evaluation of those securities with unrealized losses as of December 31, 2025 is discussed below.

Student Loan Pools

At December 31, 2025, there were 54 AFS student loan pool securities, 36 of which had unrealized losses. All securities with unrealized losses were rated AA or higher by Moody's, Bloomberg, and/or S&P and each of the individual securities have credit enhancements further reducing potential realized losses. The unrealized losses on these securities are believed to be caused by the current interest rate environment, and not credit quality. Because the Company does not intend to sell these investments and it is not more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

SBA Bonds

SBA securities are fully backed by the U.S. government. At December 31, 2025, there were 107 SBA Bonds, 47 of which had unrealized losses. These unrealized losses related principally to changes in market interest rates. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

Municipal Bonds

At December 31, 2025 there were 5 tax exempt municipal securities and 59 taxable municipal securities that had unrealized losses. Each of the Municipal securities held were rated "A2" (Moody's) or "AA-" (S&P) or better. The Company believes the unrealized losses on those investments were caused by the interest rate environment and do not relate to the underlying credit quality of the issuers. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

Other Asset Backed Securities

At December 31, 2025, there were 3 other asset backed securities, all of which were in an unrealized loss position. These securities are valued using Level 2 inputs, and are interest-only strips on a pool of guaranteed SBA 7(a) notes. The Company believes the total unrealized loss on these 3 investments is related to the bid-ask price volatility and not the underlying credit quality, and because it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

MBS

At December 31, 2025, approximately 80% of the AFS MBS held by the Company were issued or guaranteed by an agency of the U.S. government such as Ginnie Mae, or by Government Sponsored Entities ("GSEs"), including Fannie Mae and Freddie Mac. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. At December 31, 2025, there were 163 of these securities in an unrealized loss position. This impairment is believed to be caused by the current interest rate environment. Because the decline in market value is attributable to the current interest rate environment and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

Also included in MBS are private label collateralized mortgage obligation ("CMO") securities, which are issued by non-governmental real estate mortgage investment conduits and are not backed by the full faith and credit of the U.S. government. At December 31, 2025 we held 65 private label CMO securities with an amortized cost and fair value of \$93.2 million and \$91.1 million, respectively. At that date, 43 of these securities had unrealized losses. Of the 43 securities in a loss position, 30 were rated AA or higher by Moody's, Bloomberg, and/or S&P. In addition, each of the individual securities have credit enhancements and LTVs further reducing potential realized losses. This impairment is believed to be caused by the current interest rate environment. Because the decline in market value is attributable to the current interest rate environment and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income as of December 31, 2025.

Accrued interest receivable on AFS securities totaled \$2.3 million and \$2.5 million at December 31, 2025 and 2024, respectively, and was excluded from the estimate of credit losses.

NOTE 3 - INVESTMENTS, HELD TO MATURITY

HTM securities are recorded at amortized cost. The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of HTM securities at the dates indicated were as follows:

	December 31, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>				
Student Loan Pools	\$ 11,812	\$ 224	\$ —	\$ 12,036
SBA Bonds	5,648	106	—	5,754
Taxable Municipal Bonds	984	—	(1)	983
MBS	94,374	977	(3,115)	92,236
Total HTM Securities	<u>\$ 112,818</u>	<u>\$ 1,307</u>	<u>\$ (3,116)</u>	<u>\$ 111,009</u>

	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>				
US Treasury Bonds	\$ 11,967	\$ —	\$ (39)	\$ 11,928
Student Loan Pools	13,202	333	—	13,535
SBA Bonds	8,168	145	—	8,313
Taxable Municipal Bonds	973	—	(20)	953
MBS	100,890	404	(5,121)	96,173
Total HTM Securities	<u>\$ 135,200</u>	<u>\$ 882</u>	<u>\$ (5,180)</u>	<u>\$ 130,902</u>

At December 31, 2025, the amortized cost and fair value of HTM securities that were pledged as collateral for certain deposit accounts and FRB and other borrowings were \$87.2 million and \$85.2 million compared to an amortized cost and fair value of \$94.1 million and \$89.8 million at December 31, 2024, respectively.

At December 31, 2025, HTM securities had a combined book value of \$112.8 million and an average book yield of 4.47%, which was calculated by multiplying the carrying value of each HTM security by its yield and dividing the sum of these results by the total carrying value. The following table includes a summary of the amortized cost and average book yield of HTM securities by contractual maturity at December 31, 2025. Since MBS do not have fixed maturity dates, they are disclosed separately.

	Carrying Value	Average Book Yield
HTM Securities:		
Due after one year through five years	\$ 1,523	4.09%
Due after five years through ten years	3,176	6.13%
Due after ten years	13,745	5.85%
MBS	94,374	4.22%
Total HTM Securities	<u>\$ 112,818</u>	<u>4.47%</u>

The following tables summarize gross unrealized losses and the related fair value, aggregated by investment category and length of time that individual HTM securities have been in a continuous unrealized loss position at the dates indicated.

	December 31, 2025					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Dollars in thousands)</i>						
Taxable Municipal Bonds	\$ —	\$ —	\$ 983	\$ (1)	\$ 983	\$ (1)
MBS	1,266	(14)	44,013	(3,101)	45,279	(3,115)
	<u>\$ 1,266</u>	<u>\$ (14)</u>	<u>\$ 44,996</u>	<u>\$ (3,102)</u>	<u>\$ 46,262</u>	<u>\$ (3,116)</u>

	December 31, 2024					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<i>(Dollars in thousands)</i>						
US Treasury Bonds	\$ —	\$ —	\$ 11,928	\$ (39)	\$ 11,928	\$ (39)
Taxable Municipal Bonds	—	—	953	(20)	953	(20)
MBS	9,906	(156)	43,547	(4,965)	53,453	(5,121)
	<u>\$ 9,906</u>	<u>\$ (156)</u>	<u>\$ 56,428</u>	<u>\$ (5,024)</u>	<u>\$ 66,334</u>	<u>\$ (5,180)</u>

At December 31, 2025 and 2024, 40 and 47 individual HTM securities were in a loss position, respectively. We believe, based on industry analyst reports and credit ratings, that the deterioration in value was attributable to changes in market interest rates and was not in the credit quality of the issuer. We have the ability and intent to hold these securities to maturity.

The estimate of expected credit losses on HTM securities is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Additionally, private label CMO securities which are not explicitly or implicitly guaranteed by the U.S. government are evaluated utilizing underlying pool data such as historical loss rates, loan-to-value ratios and credit enhancement data. At December 31, 2025, we held an amortized cost and fair value of \$6.0 million and \$5.9 million in HTM private label CMO securities, compared to an amortized cost and fair value of \$9.0 million and \$8.9 million at December 31, 2024, respectively. All MBS issued by government-sponsored corporations are either explicitly or implicitly guaranteed

by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and local governments securities held by the Company are highly rated by major rating agencies.

As a result of the analysis, the allowance for credit losses for HTM securities was not considered to be material as of December 31, 2025 and 2024. The following table summarizes the amortized cost and credit ratings of our HTM securities that were considered to have greater than zero percent credit loss probability at December 31, 2025.

<i>Amortized Cost (Dollars in thousands)</i>	2025
Taxable Municipal Bond	
AA	\$ 984
Total Taxable Municipal Bond	984
Private Label MBS	
AAA	5,964
Total Private Label	\$ 5,964

As of December 31, 2025, there were no HTM securities that were classified as either nonaccrual or 90 days or more past due and still accruing. Accrued interest receivable on HTM securities totaled \$477,000 and \$589,000 at December 31, 2025 and 2024, respectively, and was excluded from the estimate of credit losses.

NOTE 4 - LOANS RECEIVABLE, NET

Loans receivable, net, at the dates indicated are summarized as follows:

	December 31,			
	2025		2024	
	Balance	% of Total Gross Loans	Balance	% of Total Gross Loans
<i>(Dollars in thousands)</i>				
Real Estate Loans:				
Construction	\$ 66,577	9.7%	\$ 109,928	15.7%
Residential	219,931	32.0%	203,650	29.0%
Commercial	295,302	43.0%	288,509	41.2%
Commercial and Agricultural Loans	37,914	5.5%	36,870	5.3%
Consumer Loans:				
Home Equity Lines of Credit ("HELOC")	42,987	6.3%	37,837	5.4%
Other Consumer Loans	23,864	3.5%	23,843	3.4%
Total Loans Held For Investment, Gross	686,575	100.0%	700,637	100.0%
Less:				
Allowance For Credit Losses	13,529		13,894	
Deferred Loan (Costs) Fees, Net	(10)		193	
	13,519		14,087	
Loans Receivable Held For Investment, Net	\$ 673,056		\$ 686,550	

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information regarding the borrowers' ability to pay off their loan in accordance with its terms. This information includes; but is not limited to, current financial and credit documentation, payment history, public information and current economic trends, among other factors. Risk ratings are used to rate the credit quality of loans for the purposes of determining the Bank's allowance for credit losses. The following definitions are used for credit quality risk ratings:

Pass - loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered to have the least amount of risk in terms of determining the allowance for credit losses.

Caution - loans that do not currently expose the Bank to sufficient risk to warrant adverse classification but possess weaknesses.

Special Mention - loans that do not currently expose the Bank to sufficient risk to warrant adverse classification but possess more weaknesses than Caution loans.

Substandard - loans that typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value. All loans 90 days or more past due are automatically classified in this category.

Doubtful - loans that have all the weaknesses of Substandard loans and those weaknesses make collection or liquidation highly questionable and improbable based on current conditions and values.

Loss - loans that are considered uncollectible and of such little values that their continuance as assets is not warranted.

The following table presents the Company's recorded investment in loans, excluding loans held for sale, by credit quality indicators, loan segment and year of origination as of December 31, 2025.

<i>(Dollars in thousands)</i>	December 31, 2025							
	Term Loans by Year of Origination							
	2025	2024	2023	2022	2021	Prior	Revolving	Total
Real Estate - Construction								
Pass	\$ 8,791	\$ 2,698	\$ 609	\$ 2,038	\$ 984	\$ 24	\$ 15,896	\$ 31,040
Caution	7,148	1,716	1,380	218	159	65	24,058	34,744
Special Mention	106	—	—	—	—	—	100	206
Substandard	—	126	407	—	54	—	—	587
Total Real Estate - Construction	16,045	4,540	2,396	2,256	1,197	89	40,054	66,577
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Real Estate - Residential								
Pass	11,914	23,411	30,321	46,894	11,749	17,546	298	142,133
Caution	10,946	10,764	17,246	9,125	3,412	6,698	11,990	70,181
Special Mention	1,959	942	627	212	242	289	—	4,271
Substandard	413	—	713	252	357	1,611	—	3,346
Total Real Estate - Residential	25,232	35,117	48,907	56,483	15,760	26,144	12,288	219,931
Current Period Gross Charge-Offs	—	—	18	—	—	—	—	18
Real Estate - Commercial								
Pass	30,951	33,303	20,857	49,252	40,140	16,179	15,473	206,155
Caution	16,095	10,720	9,928	8,174	10,977	7,373	5,198	68,465
Special Mention	1,574	1,130	188	—	1,320	402	—	4,614
Substandard	2,964	7,539	3,399	2,006	110	—	50	16,068
Total Real Estate - Commercial	51,584	52,692	34,372	59,432	52,547	23,954	20,721	295,302
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Commercial and Agricultural								
Pass	11,377	2,720	2,276	1,845	1,158	292	1,905	21,573
Caution	3,441	1,845	2,566	409	742	—	3,753	12,756
Special Mention	2,599	—	407	—	—	—	100	3,106
Substandard	100	178	143	35	—	12	11	479
Total Commercial and Agricultural	17,517	4,743	5,392	2,289	1,900	304	5,769	37,914
Current Period Gross Charge-Offs	—	132	42	—	—	—	—	174
Home Equity Lines of Credit								
Pass	—	—	—	—	—	—	32,610	32,610
Caution	—	—	—	—	—	—	9,481	9,481
Special Mention	—	—	—	—	—	—	580	580
Substandard	—	—	—	—	—	—	316	316
Total Home Equity Lines of Credit	—	—	—	—	—	—	42,987	42,987
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—

Other Consumer								
Pass	5,416	3,505	1,835	1,171	278	99	5,013	17,317
Caution	2,320	1,591	848	602	173	129	321	5,984
Special Mention	163	91	—	12	5	—	11	282
Substandard	14	105	35	66	38	15	8	281
Total Other Consumer	7,913	5,292	2,718	1,851	494	243	5,353	23,864
Current Period Gross Charge-Offs	14	10	23	6	30	6	122	211
Total Loans	\$ 118,291	\$ 102,384	\$ 93,785	\$ 122,311	\$ 71,898	\$ 50,734	\$ 127,172	\$ 686,575
Total Current Period Gross Charge-Offs	\$ 14	\$ 142	\$ 83	\$ 6	\$ 30	\$ 6	\$ 122	\$ 403

The table below summarizes the balance by credit quality rating and loan segment, excluding loans held for sale, at December 31, 2024.

<i>(Dollars in thousands)</i>	December 31, 2024							
	Term Loans by Year of Origination						Revolving	Total
	2024	2023	2022	2021	2020	Prior		
Real Estate - Construction								
Pass	\$ 13,446	\$ 1,791	\$ 13,688	\$ 9,830	\$ 683	\$ 33,644	\$ 5,300	\$ 78,382
Caution	7,182	3,661	4,932	62	118	12,176	233	28,364
Special Mention	364	75	—	—	—	781	—	1,220
Substandard	134	697	—	199	118	735	79	1,962
Total Real Estate - Construction	21,126	6,224	18,620	10,091	919	47,336	5,612	109,928
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Real Estate - Residential								
Pass	25,712	38,130	42,248	6,611	6,651	16,280	11,131	146,763
Caution	9,170	17,725	9,839	3,742	4,586	3,244	174	48,480
Special Mention	1,097	2,016	63	413	248	64	—	3,901
Substandard	165	1,736	841	362	—	1,402	—	4,506
Total Real Estate - Residential	36,144	59,607	52,991	11,128	11,485	20,990	11,305	203,650
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Real Estate - Commercial								
Pass	29,719	27,652	51,892	44,891	12,724	27,983	1,696	196,557
Caution	17,770	15,057	7,994	15,307	3,315	8,076	2,415	69,934
Special Mention	198	138	874	438	1,201	11,109	99	14,057
Substandard	167	6,015	775	259	—	745	—	7,961
Total Real Estate - Commercial	47,854	48,862	61,535	60,895	17,240	47,913	4,210	288,509
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Commercial and Agricultural								
Pass	5,750	3,239	2,992	2,370	320	470	4,457	19,598
Caution	9,233	3,356	941	889	10	814	952	16,195
Special Mention	7	429	—	70	—	—	100	606
Substandard	21	174	102	30	10	41	93	471
Total Commercial and Agricultural	15,011	7,198	4,035	3,359	340	1,325	5,602	36,870
Current Period Gross Charge-Offs	—	23	35	—	—	2	22	82

Home Equity Lines of Credit

Pass	163	—	—	—	—	—	28,979	29,142
Caution	—	—	—	—	—	—	7,612	7,612
Special Mention	98	—	—	—	—	—	436	534
Substandard	—	—	—	—	—	—	549	549
Total Home Equity Lines of Credit	261	—	—	—	—	—	37,576	37,837
Current Period Gross Charge-Offs	—	—	—	—	—	—	—	—
Other Consumer								
Pass	5,328	3,386	2,205	776	338	52	5,039	17,124
Caution	2,550	1,501	1,243	434	217	78	285	6,308
Special Mention	132	56	22	—	—	—	8	218
Substandard	—	31	39	81	26	5	11	193
Total Other Consumer	8,010	4,974	3,509	1,291	581	135	5,343	23,843
Current Period Gross Charge-Offs	—	40	18	4	6	13	164	245
Total Loans	\$ 128,406	\$ 126,865	\$ 140,690	\$ 86,764	\$ 30,565	\$ 117,699	\$ 69,648	\$ 700,637
Total Current Period Gross Charge-Offs	\$ -	\$ 63	\$ 53	\$ 4	\$ 6	\$ 15	\$ 186	\$ 327

Past Due and Non-accrual Loans

The following tables present an age analysis of past due balances by category at the dates indicated.

	December 31, 2025					
	30-59 Days	60-89 Days	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
	Past Due	Past Due	Due	Due		
<i>(Dollars in thousands)</i>						
Construction Real Estate	\$ 354	\$ —	\$ 407	\$ 761	\$ 65,816	\$ 66,577
Residential Real Estate	4,676	1,247	767	6,690	213,241	219,931
Commercial Real Estate	1,894	737	249	2,880	292,422	295,302
Commercial and Agricultural	110	196	150	456	37,458	37,914
Consumer HELOC	77	181	—	258	42,729	42,987
Other Consumer	351	116	142	609	23,255	23,864
Total	\$ 7,462	\$ 2,477	\$ 1,715	\$ 11,654	\$ 674,921	\$ 686,575
	December 31, 2024					
	30-59 Days	60-89 Days	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
	Past Due	Past Due	Due	Due		
<i>(Dollars in thousands)</i>						
Construction Real Estate	\$ 3,755	\$ 35	\$ 1,156	\$ 4,946	\$ 104,982	\$ 109,928
Residential Real Estate	2,038	864	382	3,284	200,366	203,650
Commercial Real Estate	1,708	140	630	2,478	286,031	288,509
Commercial and Agricultural	991	-	305	1,296	35,574	36,870
Consumer HELOC	164	26	21	211	37,626	37,837
Other Consumer	216	117	46	379	23,464	23,843
Total	\$ 8,872	\$ 1,182	\$ 2,540	\$ 12,594	\$ 688,043	\$ 700,637

At December 31, 2025 and 2024, the Bank did not have any loans that were 90 days or more past due and still accruing interest. At December 31, 2025, the Bank had \$5.8 million in non-accrual loans, of which \$3.5 million were current, \$198,000 were 30-59 days past due, \$352,000 were 60-89 days past due, and the remaining non-accrual loans were 90 or more days past due. Our strategy is to work with our borrowers to reach acceptable payment plans while protecting our interests in the existing collateral. In the event an acceptable arrangement cannot be reached, we may have to acquire these properties through foreclosure or other means and subsequently sell, develop, or liquidate them.

The following table shows non-accrual loans by category at the dates indicated.

<i>(Dollars in thousands)</i>	December 31, 2025			December 31, 2024		
	Nonaccrual Loans			Nonaccrual Loans		
	With No Allowance	With an Allowance	Total	With No Allowance	With an Allowance	Total
Construction Real Estate	\$ 461	\$ —	\$ 461	\$ 1,438	\$ —	\$ 1,438
Residential Real Estate	1,208	368	1,576	1,503	204	1,707
Commercial Real Estate	3,259	—	3,259	3,658	—	3,658
Commercial and Agricultural	193	—	193	331	—	331
Consumer HELOC	162	—	162	424	—	424
Other Consumer	146	—	146	78	—	78
Total Nonaccrual Loans	\$ 5,429	\$ 368	\$ 5,797	\$ 7,432	\$ 204	\$ 7,636

The Company did not recognize any interest income on nonaccrual loans during the years ended December 31, 2025 and 2024. The following table represents the accrued interest receivables written off by reversing interest income during the years ended December 31, 2025 and 2024.

<i>(Dollars in thousands)</i>	For the Year Ended December 31,	
	2025	2024
Construction Real Estate	\$ 1	\$ 1
Residential Real Estate	10	26
Commercial Real Estate	1	5
Commercial and Agricultural	8	5
Consumer HELOC	1	—
Other Consumer	6	4
Total Loans	\$ 27	\$ 41

Allowance for Credit Losses

The tables below show the activity in the allowance for credit losses on loans by loan category for the years ended December 31, 2025 and 2024.

<i>(Dollars in thousands)</i>	For the Year Ended December 31, 2025						
	Real Estate			Commercial and Consumer		Other	Total
	Construction	Residential	Commercial	Agricultural	HELOC		
Beginning Balance	\$ 1,904	\$ 4,182	\$ 5,387	\$ 990	\$ 787	\$ 644	\$ 13,894
(Reversal of) Provision for Credit Losses	(697)	278	93	(77)	95	114	(194)
Charge-Offs	—	(18)	—	(174)	—	(211)	(403)
Recoveries	1	15	141	38	—	37	232
Ending Balance	\$ 1,208	\$ 4,457	\$ 5,621	\$ 777	\$ 882	\$ 584	\$ 13,529

<i>(Dollars in thousands)</i>	For the Year Ended December 31, 2024						
	Real Estate			Commercial and Consumer		Other	Total
	Construction	Residential	Commercial	Agricultural	HELOC		
Beginning Balance	\$ 1,828	\$ 3,551	\$ 5,052	\$ 808	\$ 731	\$ 599	\$ 12,569
Provision for Credit Losses	41	581	310	237	53	258	1,480
Charge-Offs	—	—	—	(82)	—	(245)	(327)
Recoveries	35	50	25	27	3	32	172
Ending Balance	\$ 1,904	\$ 4,182	\$ 5,387	\$ 990	\$ 787	\$ 644	\$ 13,894

Allowance for Credit Losses and Individually Evaluated Loans

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

- o Commercial real estate loans can be secured by either owner occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- o Construction real estate loans are typically secured by commercial and residential lots.
- o Commercial and agricultural business loans are primarily secured by business equipment, furniture and fixtures, inventory and receivables.
- o Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- o Home equity lines of credit are generally secured by second mortgages on residential real estate property.
- o Consumer loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

In accordance with our policy, non-accrual commercial loans with balances under \$200,000 and non-accrual consumer loans with balances under \$100,000 are excluded from individual evaluation in calculating the allowance for credit losses due to immateriality. Such loans are included in the respective pooled loan segments within the allowance for credit losses calculation. The following table summarizes the amortized cost of individually evaluated loans.

<i>(Dollars in thousands)</i>	As of December 31,	
	2025	2024
Construction Real Estate	\$ 407	\$ 1,156
Residential Real Estate	813	849
Commercial Real Estate	3,153	3,426
Commercial and Agricultural	125	—
Consumer HELOC	100	295
Total	<u>\$ 4,598</u>	<u>\$ 5,726</u>

Modifications to Borrowers Experiencing Financial Difficulty

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

Modifications made to borrowers experiencing financial difficulty typically have their impact already factored into the allowance for credit losses. This is due to the measurement methodologies utilized in estimating the allowance. Consequently, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. As such, multiple types of modifications may have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The Company had no modified loans to borrowers experiencing financial difficulty during the years ended December 31, 2025 and 2024.

Allowance for Credit Losses - Unfunded Commitments

The Company maintains an allowance for credit losses - unfunded commitments for credit exposures such as unfunded balances for existing lines of credit and 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 be canceled at any time). The allowance for credit losses - unfunded commitments is adjusted through the provision for (reversal of)

credit losses. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in this footnote. The allowance for credit losses - unfunded commitments at December 31, 2025 is separately classified on the balance sheet within "Other Liabilities."

The following table presents the balance and activity in the allowance for credit losses - unfunded loan commitments.

Allowance for Credit Losses - Unfunded Commitments <i>(Dollars in thousands)</i>	For the Year Ended December 31,	
	2025	2024
Beginning Balance	\$ 749	\$ 859
Reversal of provision for unfunded commitments	(41)	(110)
Ending Balance	\$ 708	\$ 749

NOTE 5 - PREMISES AND EQUIPMENT, NET AND LEASES

Premises and equipment, net, at the dates indicated are summarized as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2025	2024
Land	\$ 8,346	\$ 7,082
Buildings and Improvements	35,200	33,465
Furniture and Equipment	7,937	11,926
Construction in Progress	98	281
Total Premises and Equipment	51,581	52,754
Less: Accumulated Depreciation	(18,839)	(23,433)
Total Premises and Equipment, Net	\$ 32,742	\$ 29,321

Construction in progress of \$98,000 at December 31, 2025 and \$281,000 at December 31, 2024, primarily included building and construction costs associated with renovations to our existing branches. Depreciation expense on premises and equipment was \$2.2 million and \$2.1 million for the years ended December 31, 2025 and 2024, respectively. There was no loss on disposal of premises and equipment during 2025 compared to a \$1,000 loss during 2024.

The Company has operating leases on six of its branches. During the year ended December 31, 2025, the Company made cash payments in the amount of \$526,000 for operating leases. The lease expense recognized during this period was \$517,000 and is included in occupancy expense within the Consolidated Statements of Income. The net operating lease liability increased \$88,000 during the year ended December 31, 2025 due to the renewal of one lease. At December 31, 2025, the Company had operating lease ROU assets of \$1.0 million and an operating lease liability of \$1.0 million recorded on its consolidated balance sheet compared to operating lease ROU assets of \$927,000 and an operating lease liability of \$959,000 at December 31, 2024. The lease agreements have maturity dates ranging from 2026 through 2032, some of which include options for multiple five or ten year extensions. At December 31, 2025, the remaining weighted average lease term was 4.2 years and the weighted average discount rate used was 3.9% compared to a remaining weighted average lease term of 2.3 years and a 3.2% weighted average discount rate at December 31, 2024.

The ROU asset and lease liability are recognized at lease commencement by calculating the present value of lease payments over the lease term. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

At December 31, 2025, future undiscounted lease payments for operating leases with initial terms of one year or more were as follows:

Year ended December 31,	<i>(Dollars in thousands)</i>
2026	\$ 459
2027	243
2028	106
2029	96
Thereafter	240
Total undiscounted lease payments	1,144
Less: effect of discounting	97
Present value of estimated lease payments (lease liability)	\$ 1,047

NOTE 6 - GOODWILL

Goodwill was \$1.2 million at both December 31, 2025 and 2024. In accordance with accounting guidance, the Company conducts an annual evaluation of its goodwill as of December 31 each year. Following these evaluations, the Company concluded that no impairment existed. As a result, there was no goodwill write-down for the years ended December 31, 2025 and 2024.

NOTE 7 - FHLB STOCK

The Bank, as a member of the FHLB of Atlanta, is required to acquire and hold shares of capital stock in the FHLB of Atlanta in an amount equal to a membership component, which was equal to 0.07% of total Bank assets at both December 31, 2025 and 2024, plus a transaction component equal to 4.75% of outstanding advances (borrowings) from the FHLB of Atlanta at December 31, 2025 and 2024, respectively. The Bank was in compliance with this requirement with an investment in FHLB of Atlanta stock of \$1.1 million at both December 31, 2025 and 2024, respectively. As there is no readily available market for this stock and no quoted fair value, it is carried at cost, consistent with the historical practice of redeeming the stock at par.

NOTE 8 - OTHER REAL ESTATE OWNED

The Bank owned \$45,000 in OREO at December 31, 2025 compared to none at December 31, 2024. Transactions in OREO for the years indicated are summarized as follows:

<i>(Dollars in thousands)</i>	2025	2024
Balance, beginning of year	\$ —	\$ —
Additions	45	—
Sales	—	—
Write-downs	—	—
Balance, end of year	<u>\$ 45</u>	<u>\$ —</u>

There were no sales or write downs of OREO property during the years ended December 31, 2025 and 2024.

NOTE 9 - DEPOSITS

Deposits outstanding at the dates indicated are summarized below by account type as follows:

<i>Deposit Type (Dollars in thousands)</i>	December 31,	
	2025	2024
Checking	\$ 489,792	\$ 483,275
Money Market	489,888	443,572
Savings	88,735	87,630
Certificates of Deposit	303,362	309,556
Total Deposits	<u>\$ 1,371,777</u>	<u>\$ 1,324,033</u>

The Bank had \$6.3 and \$5.4 million in brokered deposits which are included in checking and money market deposits above, at December 31, 2025 and 2024, respectively. In addition, the Bank had \$5.1 million and \$25.8 million in brokered time deposits at December 31, 2025 and 2024, respectively, having a weighted average interest rate of 4.50% at both dates. Brokered time deposits are included in certificates of deposit above and below. At December 31, 2025 and 2024, the Bank had \$73,000 and \$55,000, respectively, in overdrafts that were reclassified to loans.

Certificate of deposits that exceeded the FDIC insurance limit of \$250,000 totaled \$81.1 million and \$96.0 million at December 31, 2025 and 2024, respectively.

The amounts and scheduled maturities of all certificates of deposit at the dates indicated were as follows:

<i>(Dollars in thousands)</i>	December 31,	
	2025	2024
Within 1 Year	\$ 279,130	\$ 253,065
After 1 Year, Within 2 Years	16,470	33,035
After 2 Years, Within 3 Years	3,264	14,547
After 3 Years, Within 4 Years	2,884	3,777
After 4 Years, Within 5 Years	1,018	4,551
After 5 Years	596	581
Total Certificates of Deposits	<u>\$ 303,362</u>	<u>\$ 309,556</u>

NOTE 10 - FHLB ADVANCES AND FRB BORROWINGS

FHLB advances are secured by a blanket collateral agreement with the FHLB by pledging the Company's portfolio of residential first mortgage loans and investment securities. The Bank's total pledged collateral for FHLB advances had an amortized cost and fair value of \$43.8 million and \$36.4 million at December 31, 2025 and \$48.1 million and \$39.3 million at December 31, 2024, respectively. At December 31, 2025 and 2024, the Company had \$463.9 million and \$453.5 million, respectively, in borrowing capacity at the FHLB based on the collateral value of pledged investment securities and loans. There were no outstanding FHLB advances at December 31, 2025 and 2024.

The Company had no outstanding borrowings with the FRB at December 31, 2025 compared to \$50.0 million in outstanding borrowings under the FRB Term Funding Program ("BTFP") with a weighted average borrowing rate of 4.76% at December 31, 2024. The Company originally elected to participate in the BTFP during 2023 to refinance existing FRB discount window borrowings at a lower fixed rate. Advances under that program had a one-year term and were priced at the one year overnight index swap ("OIS") rate plus 10 basis points on the day the advance was made. Effective January 24, 2024, the FRB announced that future advances through the BTFP's expiration on March 11, 2024, would be set at no lower than the interest rate on reserve balances in effect at the time of the advance.

Depository institutions may borrow from the FRB discount window for periods as long as 90 days, and borrowings are prepayable and renewable by the borrower daily. At December 31, 2025, we had pledged as collateral for these borrowings investment securities with an amortized cost and fair value of \$312.9 million and \$293.9 million, compared to an amortized cost and fair value of \$370.2 million and \$341.0 million, respectively, at December 31, 2024.

The Company participates in the FRB's Borrower-In-Custody ("BIC") program, which allows for the pledging of various loan types to secure FRB borrowings. As of December 31, 2025, the Company had pledged loan collateral for FRB borrowings with an amortized cost and collateral value of \$71.2 million and \$57.4 million, respectively, compared to pledged loan collateral with an amortized cost and collateral value of \$84.9 million and \$66.2 million at December 31, 2024, respectively.

NOTE 11 - OTHER BORROWINGS

The Bank had \$25.3 million and \$27.8 million in other borrowings at December 31, 2025 and 2024, respectively. These borrowings consist of short-term repurchase agreements with certain commercial demand deposit customers for sweep accounts. The repurchase agreements typically mature within one to three days and the interest rate paid on these borrowings floats monthly with money market type rates. At both December 31, 2025 and 2024, the interest rate paid on the repurchase agreements was 1.49%. The maximum amount outstanding at any month end during the year ended December 31, 2025 was \$30.2 million compared to \$28.0 million during the year ended December 31, 2024. The Bank had pledged as collateral for these repurchase agreements investment securities with amortized costs and fair values of \$36.4 million and \$34.4 million at December 31, 2025 and \$42.1 million and \$39.7 million at December 31, 2024, respectively.

NOTE 12 - JUNIOR SUBORDINATED DEBENTURES

On September 21, 2006, Security Federal Statutory Trust (the "Trust"), a wholly-owned subsidiary of the Company, issued and sold fixed and floating rate capital securities of the Trust (the "Capital Securities"), which are reported on the consolidated balance sheet as junior subordinated debentures, generating proceeds of \$5.2 million. The Trust loaned these proceeds to the Company to use for general corporate purposes, primarily to provide capital to the Bank.

On December 15, 2025, the Company redeemed all its outstanding Floating Rate Junior Subordinated Deferrable Interest Debentures (the "Debentures") in accordance with the Indenture dated September 21, 2006. The Debentures were redeemed at 100% of the principal amount, plus accrued and unpaid interest to, but excluding, the redemption date. The \$5.2 million principal payment reduced the junior subordinated debentures balance to \$0, and accrued interest of \$78,000 was recognized. No gain or loss was recorded on the redemption.

Prior to the redemption, the debentures accrued and paid distributions quarterly at a floating rate of three-month Secured Overnight Financing Rate ("SOFR") as adjusted by the relevant spread adjustment of 0.26161 plus 170 basis points, resulting in a rate per annum of 6.00% on the Redemption Date compared to 6.32% as of December 31, 2024. The debentures were callable by the Company in September 2011, and quarterly thereafter, with a final maturity date of December 15, 2036, or upon earlier optional redemption as provided in the indenture.

NOTE 13 - SUBORDINATED DEBENTURES

In November 2019, the Company issued to certain institutional investors \$17.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2029 (the "10-Year Notes") and \$12.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2034 (the "15-Year Notes", and together with the 10-Year Notes, the "Notes"). The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note ranks equally in right of payment with other Notes.

The 10-Year Notes had a stated maturity of November 22, 2029, and bore interest at a fixed rate of 5.25% per year, from and including November 22, 2019 but excluding November 22, 2024. In November 2024, the Company redeemed the 10-Year Notes, which had an aggregate principal balance of \$16.5 million.

The 15-Year Notes mature on November 22, 2034, and bear interest at a fixed rate of 5.25% per year from and including November 22, 2019, but excluding November 22, 2029. From and including November 22, 2029 to, but excluding, the maturity date or early redemption date, the interest rate for the 15-Year Notes resets semi-annually to an interest rate equal to the then-current three-month SOFR rate plus 357 basis points. The Notes are payable semi-annually in arrears on June 1 and December 1 of each year commencing June 1, 2020. The 15-Year Notes are not subject to redemption at the option of the holder and may be redeemed by the Company only under certain limited circumstances prior to November 22, 2029.

At December 31, 2025 and 2024, the Company had a remaining balance of \$10.0 million, comprised of all 15-Year Notes. The Company may redeem the 15-Year Notes at its option, in whole at any time, or in part from time to time, after November 22, 2029.

The Notes have been structured to qualify as Tier 2 capital for the Company under applicable regulatory guidelines. The Company used the net proceeds from the sale of the Notes to fund the redemption of the convertible senior debentures and for general corporate purposes to support future growth.

NOTE 14 - INCOME TAXES

Income tax expense was comprised of the following for the years indicated below:

<i>(Dollars in thousands)</i>	Year Ended December 31,	
	2025	2024
Current:		
Federal	\$ 3,319	\$ 2,551
State	441	391
Total Current Tax Expense	3,760	2,942
Deferred:		
Federal	(121)	(229)
State	19	44
Total Deferred Tax Benefit	(102)	(185)
Total Income Tax Expense	\$ 3,658	\$ 2,757

The Company's income taxes differ from those computed at the statutory federal income tax rate for the years indicated, as follows:

<i>(Dollars in thousands)</i>	Year Ended December 31,			
	2025		2024	
	Amount	Percent	Amount	Percent
Tax at Statutory Income Tax Rate	\$ 3,640	21.0%	\$ 2,639	21.0%
State Tax	526	3.1%	426	3.4%
Tax Exempt Interest	(108)	-0.6%	(82)	-0.7%
Tax Credits	(96)	-0.6%	(96)	-0.8%
Life Insurance	(166)	-1.0%	(148)	-1.2%
Valuation Allowance	(159)	-0.9%	(73)	-0.6%
Other	21	0.1%	91	0.7%
Total Income Tax Expense	\$ 3,658	21.1%	\$ 2,757	21.9%

Total federal and state income taxes paid, net of refunds, for the years ended December 31, 2025 and 2024 are presented below.

<i>(Dollars in thousands)</i>	December 31,	
	2025	2024
Federal	\$ 3,198	\$ 2,322
State :		
South Carolina	399	338
Georgia	61	97
Total Taxes Paid, Net of Refunds	\$ 3,658	\$ 2,757

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2025 and 2024 are presented below. Net deferred tax assets or liabilities were included in other assets or other liabilities at December 31, 2025 and 2024.

<i>(Dollars in thousands)</i>	December 31,	
	2025	2024
Deferred Tax Assets:		
Deferred Compensation	\$ 1,033	\$ 960
Provision for Credit Losses	2,884	2,985
Reserve for Unfunded Commitments	151	161
Land Held for Sale Write-down	74	75
Net Fees Deferred for Financial Reporting	49	52
Net Operating Losses	169	328
Unrealized Loss on AFS Securities	6,848	10,313
Other	127	120
Total Gross Deferred Tax Assets	<u>11,335</u>	<u>14,994</u>
Less: Valuation Allowance	<u>(169)</u>	<u>(328)</u>
Total Deferred Tax Assets	<u>11,166</u>	<u>14,666</u>
Deferred Tax Liabilities:		
FHLB Stock Basis Over Tax Basis	68	72
Depreciation	1,112	1,247
Prepaid Expenses	42	40
Total Deferred Tax Liability	<u>1,222</u>	<u>1,359</u>
Net Deferred Tax Asset	<u>\$ 9,944</u>	<u>\$ 13,307</u>

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2025, management has determined that it is more likely than not that the total deferred tax asset will be realized except for the deferred tax asset associated with state net operating loss carryforwards, and, accordingly, has established a valuation allowance only for this item. The change in the valuation allowance was approximately \$159,000. The Company had state net operating losses attributable to the non-bank entities of \$4.3 million and \$8.3 million for the years ended December 31, 2025 and 2024, respectively.

Retained earnings at December 31, 2025 included tax bad debt reserves of \$2.1 million, for which no provision for federal income tax has been made. If, in the future, these amounts are used for any purpose other than to absorb bad debt losses, including dividends, stock redemptions, or distributions in liquidation, or the Company ceases to be qualified as a bank holding company, they may be subject to federal income tax at the prevailing corporate tax rate. At December 31, 2025, the Company had no material unrecognized tax benefits or accrued interest and penalties. It is the Company's policy to account for interest and penalties accrued relative to unrecognized tax benefits as a component of income tax expense. Tax returns for 2022 and subsequent years are subject to examination by taxing authorities.

NOTE 15 - REGULATORY MATTERS

The Bank, as a state-chartered, federally insured savings bank, is subject to the capital requirements established by the FDIC. Under the FDIC's capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

The Company is a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. For a bank holding company with less than \$3.0 billion in assets, the capital guidelines apply on a bank only basis and the Federal Reserve expects the holding company's subsidiary banks to be well-capitalized under the prompt corrective action regulations.

Based on its capital levels at December 31, 2025, the Bank exceeded all regulatory capital requirements as of that date. Consistent with the Bank's goals to operate a sound and profitable organization, it is the Bank's policy to maintain a "well-capitalized" status under the regulatory capital categories of the FDIC. Based on capital levels at December 31, 2025, the Bank was considered to be "well-capitalized" under applicable regulatory requirements. Management monitors the capital levels to provide for current and future business opportunities and to maintain the Bank's "well-capitalized" status.

The tables below provide the Bank's regulatory capital requirements and actual results at December 31, 2025 and 2024.

<i>(Dollars in Thousands)</i>	Actual		For Capital Adequacy		To Be Well Capitalized	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2025						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	\$ 163,721	19.3%	\$ 50,885	6.0%	\$ 67,847	8.0%
Total Risk-Based Capital (To Risk Weighted Assets)	174,367	20.6%	67,847	8.0%	84,809	10.0%
Common Equity Tier 1 Capital (To Risk Weighted Assets)	163,721	19.3%	38,164	4.5%	55,126	6.5%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	163,721	10.2%	64,335	4.0%	80,419	5.0%
December 31, 2024						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	\$ 158,748	18.7%	\$ 50,913	6.0%	\$ 67,883	8.0%
Total Risk-Based Capital (To Risk Weighted Assets)	169,405	20.0%	67,883	8.0%	84,854	10.0%
Common Equity Tier 1 Capital (To Risk Weighted Assets)	158,748	18.7%	38,184	4.5%	55,155	6.5%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	158,748	9.9%	64,277	4.0%	80,346	5.0%

In addition to the minimum capital requirements, the Bank must maintain a capital conservation buffer, which consists of additional Common Equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. At December 31, 2025 the Bank's conservation buffer was 12.0%.

NOTE 16 - EMPLOYEE BENEFIT PLANS

The Company participates in a multiple employer defined contribution employee benefit plan covering substantially all employees with six months or more of service. The Company matches a portion of the employees' contributions and the plan has a discretionary profit sharing provision. Total employer contributions were \$421,000 and \$404,000 for the years ended December 31, 2025 and 2024, respectively, which are included within Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

The Company has an Employee Stock Purchase Plan ("ESPP"). The ESPP allows employees of the Company to purchase stock quarterly through a payroll deduction at a discount calculated as 15% of the market value with a floor equal to the Company's book value. The ESPP, which was approved by stockholders in April 2018, became effective July 1, 2018. Participation in the ESPP is voluntary. Employees are limited to investing \$25,000 or 5% of their annual salary, whichever is lower, during the year. There were 1,338 shares of common stock purchased through the ESPP during the year ended December 31, 2025 compared to 1,914 shares purchased during 2024.

In 2014, the Company implemented an Incentive Compensation Plan (the "Plan"). Incentive awards are based on the financial and operating performance of the Company as well as other participant specific objectives. The Plan allows employees of the Company to earn up to 7.5 days of their annual salary for successfully completing specific goals established by the participants and their respective supervisors plus an additional 2.5 days of their annual salary if the Company meets an annual predetermined net operating income amount determined by the Board of Directors.

In 2016, the Company implemented a Quarterly Branch Incentive Compensation Plan (the "Branch Incentive Plan"), and all branch employees were moved from the Plan to the Branch Incentive Plan. This plan is for retail branch employees only and pays incentive on a quarterly basis based on specific performance goals established for each branch location.

The Company also implemented an Incentive Compensation Plan for executive level officers (the "Executive Plan"). Under this plan, incentive awards are based on contributions to performance as measured by critical operating and financial ratios, and other participant specific objectives. The Company must meet the annual predetermined net operating income amount determined by the Board of Directors for any incentive awards to be paid under the Executive Plan. If the Company does not meet the required net income amount, no incentives are paid under the Executive Plan regardless of the executive's performance on individual objectives or entity wide objectives.

Participation in the ESPP, the Plan, the Branch Incentive Plan and the Executive Plan is voluntary. During the years ended December 31, 2025 and 2024, the Company incurred expenses of \$623,000 and \$225,000, respectively, related to these incentive plans, which are included in Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

Certain officers of the Company participate in a supplemental retirement plan. These benefits are not qualified under the Internal Revenue Code and they are not funded. During the years ended December 31, 2025 and 2024, the Company incurred expenses of \$535,000 and \$471,000, respectively, for this plan, which are included in Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

NOTE 17 - BANK OWNED LIFE INSURANCE

BOLI provides key person life insurance on certain officers of the Company. The cash value of the life insurance policies is recorded as a separate line item in the accompanying balance sheets at \$34.5 million and \$28.7 million at December 31, 2025 and 2024, respectively. The earnings portion of the insurance policies grows tax deferred and helps offset the cost of the Company's benefits programs. The Company recorded earnings of \$794,000 and \$706,000 for the growth in the cash surrender value of life insurance during the years ended December 31, 2025 and 2024, respectively. The Company received no death benefits during the years ended December 31, 2025 and 2024.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Bank is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of the Company.

In conjunction with its lending activities, the Bank enters into various commitments to extend credit. The Bank also issues letters of credit. Loan commitments (unfunded loans and unused lines of credit) and letters of credit are issued to accommodate the financing needs of the Bank's customers. Loan commitments are agreements by the Bank to lend at a future date, so long as there are no violations of any conditions established in the agreement. Letters of credit commit the Bank to make payments on behalf of customers when certain specified events occur.

Financial instruments where the contract amount represents the Bank's credit risk include commitments under pre-approved but unused lines of credit of \$136.4 million and \$147.1 million and letters of credit of \$4.6 million and \$5.1 million at December 31, 2025 and 2024, respectively. These loan and letter of credit commitments are subject to the same credit policies and reviews as loans on the balance sheet. Collateral, both the amount and nature, is obtained based upon management's assessment of the credit risk. Since many of the extensions of credit are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements.

Included in the loan commitments noted above were unused credit card loan commitments of \$13.3 million and \$13.4 million and undisbursed loans in process of \$6.2 million and \$11.3 million at December 31, 2025 and 2024, respectively. The Bank also had \$1.3 million in outstanding commitments on mortgage loans approved but not yet closed at December 31, 2025 compared to \$1.1 million at December 31, 2024. These commitments, which are funded subject to certain limitations, extend over varying periods of time with the majority being funded within 45 days.

At December 31, 2025 and 2024, the Bank had outstanding commitments to sell approximately \$3.1 million and \$599,000 of loans, respectively, which encompassed the Bank's held for sale loans. The Bank also has commitments to sell mortgage loans not yet closed, on a best efforts basis. Under this arrangement, the Bank suffers no penalty if it is unable to deliver the loans to potential buyers. The fair value of the Bank's commitment to originate mortgage loans at committed interest rates and to sell such loans to permanent investors is deemed insignificant.

NOTE 19 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and companies with which they are affiliated are customers of, and have banking transactions with, the Bank in the ordinary course of business. Loans to directors, executive officers and their affiliates are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions. A summary of loan transactions with directors, executive officers and their affiliates for the years indicated, is as follows:

<i>(Dollars in thousands)</i>	Years Ended December 31,	
	2025	2024
Balance, Beginning of Period	\$ 896	\$ 1,002
New Loans	400	—
Less Loan Payments	(118)	(106)
Balance, End of Period	<u>\$ 1,178</u>	<u>\$ 896</u>

Loans to all employees, officers, and directors of the Company constituted approximately 2.96% and 3.04% of the Company's total shareholders' equity at December 31, 2025 and 2024, respectively. Deposits from executive officers and directors of the Company and their related interests were approximately \$23.7 million and \$21.9 million at December 31, 2025 and 2024 and have substantially the same terms, including interest rates, as those prevailing at the time with other non-related depositors.

The Company leased office space from a related party during the years ended December 31, 2025 and 2024. The lease is with a company in which the related party, who is a director of the Company, has an ownership interest. The Company incurred rent expense of \$110,000 and \$108,000 for the years ended December 31, 2025 and 2024, respectively, related to this lease. We believe the transactions with respect to this lease were made on terms that are comparable to those which would be made with unaffiliated persons.

NOTE 20 - PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

The following is condensed financial information of Security Federal Corporation (Parent Company only). The primary asset is its investment in the Bank subsidiary and the principal source of income for the Company is equity in undistributed earnings from the Bank.

Condensed Balance Sheet Data

<i>(In Thousands)</i>	December 31,	
	2025	2024
Assets:		
Cash	\$ 12,018	\$ 28,009
Investment Securities	54,406	40,881
Investment in Security Federal Statutory Trust	—	155
Investment in Security Federal Bank	144,343	128,834
Accrued Interest Receivable	126	122
Accounts Receivable and Other Assets	69	77
Total Assets	\$ 210,962	\$ 198,078
Liabilities and Shareholders' Equity:		
Accounts Payable and Other Liabilities	\$ 507	\$ 534
Long-term Debt	10,000	15,155
Shareholders' Equity	200,455	182,389
Total Liabilities and Shareholders' Equity	\$ 210,962	\$ 198,078

Condensed Statements of Income Data

<i>(In Thousands)</i>	Years Ended December 31,	
	2025	2024
Income:		
Equity in Earnings of Security Federal Bank	\$ 11,072	\$ 8,620
Interest Income	3,054	3,000
Grant Income	1,120	220
Total Income	15,246	11,840
Expenses:		
Interest Expense	835	1,673
Other Expenses	46	63
Total Expenses	881	1,736
Income Before Income Taxes	14,365	10,104
Income Tax Expense	692	297
Net Income	13,673	9,807
Preferred Stock Dividends	1,659	926
Net Income Available to Common Shareholders	\$ 12,014	\$ 8,881

Condensed Statements of Cash Flow Data

(In Thousands)	Years Ended December 31,	
	2025	2024
Operating Activities:		
Net Income	\$ 13,673	\$ 9,807
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities:		
Equity in Undistributed Earnings of Security Federal Bank	(4,072)	(8,620)
Discount Accretion and Premium Amortization, Net	13	13
Change in Accrued Interest Receivable	(4)	78
Change in Accounts Receivable and Other Assets	19	11,085
Change in Accounts Payable and Other Liabilities	(27)	(299)
Net Cash Provided by Operating Activities	9,602	12,064
Investing Activities:		
Purchase of Investment Securities	(31,023)	(5,031)
Proceeds from Principal Paydowns and Maturities of Investment Securities	17,434	14,360
Proceeds from Redemption of Statutory Trust	155	—
Investment in Subsidiary	(900)	—
Net Cash (Used) Provided by Investing Activities	(14,334)	9,329
Financing Activities:		
Repurchase of Subordinated Debentures	—	(16,500)
Redemption of Junior Subordinated Debentures	(5,155)	—
Proceeds from Employee Stock Plan Purchases	42	49
Purchase of Treasury Stock	(2,277)	(1,052)
Cash Dividends on Preferred Stock	(1,659)	(926)
Cash Dividends on Common Stock	(2,210)	(1,797)
Net Cash Used by Financing Activities	(11,259)	(20,226)
Net (Decrease) Increase in Cash	(15,991)	1,167
Cash at Beginning of Period	28,009	26,842
Cash at End of Period	\$ 12,018	\$ 28,009

NOTE 21 - CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires the Company to disclose fair value of financial instruments measured at amortized cost on the balance sheet and to measure that fair value using an exit price notion, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions.

Accounting guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The following three levels of inputs may be used to measure fair value:

Level 1 - Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries and money market funds.

Level 2 - Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant

to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

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

Investment Securities AFS

Investment securities AFS are recorded at fair value on a recurring basis. At December 31, 2025, the Company's investment portfolio was comprised of student loan pools, government and agency bonds, MBS issued by government sponsored agencies or GSEs, private label CMO securities and municipal securities. Fair value measurement is based upon prices obtained from third party pricing services that use independent pricing models which rely on a variety of factors including reported trades, broker/dealer quotes, benchmark yields, economic and industry events and other relevant market information. As such, these securities are classified as Level 2.

Mortgage Loans Held for Sale

The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with institutional investors are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company.

The Company usually delivers to, and receives funding from, the investor within 30 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination. These loans are classified as Level 2.

Land Held for Sale

Land held for sale is reported at the lower of the carrying amount or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the collateral value less estimated selling costs. The Company records land held for sale as nonrecurring level 3.

Individually Evaluated Loans

The Company does not record loans held for investment at fair value on a recurring basis. However, from time to time, the Company designates individually evaluated loans with higher risk as collateral dependent loans and an allowance for credit losses is established as necessary. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and 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 Company 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 estimated costs to sell, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

Fair value is estimated using one of the following methods: fair value of the collateral less estimated costs to sell, discounted cash flows, or market value of the loan based on similar debt. The fair value of the collateral less estimated costs to sell is the most frequently used method. Typically, the Company reviews the most recent appraisal and if it is over 24 months old will request a new third party appraisal. Depending on the particular circumstances surrounding the loan, including the location of the collateral, the date of the most recent appraisal and the value of the collateral relative to the recorded investment in the loan, management may order an independent appraisal immediately or, in some instances, may elect to perform an internal analysis. For instance, in scenarios where the collateral on a nonperforming commercial real estate loan is outside the Company's primary market area, management would usually order an independent appraisal promptly - either at the time the loan becomes nonperforming or immediately following the determination that the loan is collateral dependent. Conversely, for a nonperforming commercial real estate loan where management is familiar with the property and surrounding areas, and the original appraisal value significantly exceeds the recorded investment in the loan, management may choose to perform an internal analysis. This involves reviewing and adjusting the previous appraisal value for current conditions, including recent sales of similar properties in the area and relevant economic trends. These valuations are reviewed at a minimum on a quarterly basis.

Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2025, all individually evaluated loans were evaluated based on the fair value of the collateral. Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Company records individually evaluated collateral dependent loans as nonrecurring Level 3.

Other Real Estate Owned

Fair value adjustments to OREO are recorded at the lower of the carrying amount of the loan or the fair value of the collateral less selling costs. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, management periodically performs valuations such that the real estate is carried at the lower of its new cost basis or fair value, net of estimated costs to sell. Foreclosed assets are recorded as nonrecurring Level 3.

The tables below present the balances of assets measured at fair value on a recurring basis at the dates indicated. There were no liabilities measured at fair value on a recurring basis as of December 31, 2025 and 2024.

<i>(Dollars in thousands)</i>	December 31, 2025			December 31, 2024		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Student Loan Pools	\$ —	\$ 85,969	\$ —	\$ —	\$ 39,584	\$ —
SBA Bonds	—	54,976	—	—	64,426	—
Tax Exempt Municipal Bonds	—	17,726	—	—	6,058	—
Taxable Municipal Bonds	—	55,863	—	—	52,560	—
Other Asset Backed Securities	—	2,946	—	—	—	—
MBS	—	445,987	—	—	362,995	—
Total	\$ —	\$ 663,467	\$ —	\$ —	\$ 525,623	\$ —

The Company 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. The table below presents assets measured at fair value on a nonrecurring basis at the dates indicated, aggregated by the level in the fair value hierarchy within which those measurements fall. There were no liabilities measured at fair value on a nonrecurring basis as of December 31, 2025 and 2024.

Assets (in thousands):	December 31, 2025			
	Level 1	Level 2	Level 3	Total
Mortgage Loans Held For Sale	\$ —	\$ 3,126	\$ —	\$ 3,126
Individually Evaluated Loans	—	—	4,598	4,598
Land Held For Sale	—	—	702	702
OREO	—	—	45	45
Total	\$ —	\$ 3,126	\$ 5,345	\$ 8,471

Assets (in thousands):	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Mortgage Loans Held For Sale	\$ —	\$ 599	\$ —	\$ 599
Individually Evaluated Loans	—	—	5,726	5,726
Land Held For Sale	—	—	938	938
Total	\$ —	\$ 599	\$ 6,664	\$ 7,263

For Level 3 assets measured at fair value on a recurring or non-recurring basis, the significant unobservable inputs used in the fair value measurements at the dates indicated were as follows:

Level 3 Assets	Valuation Technique	Significant Unobservable Inputs	2025 Range	2024 Range
Land Held for Sale	Appraised Value/Comparable Sales	Discounts to appraised values for estimated holding or selling costs	10%	10%
Individually Evaluated Loans	Appraised Value	Discounts to appraised values or cash flows for estimated holding and/or selling costs or age of appraisal	0 - 10%	10 - 12%
OREO	Appraised Value/Comparable Sales	Discounts to appraised values for estimated holding or selling costs	31%	N/A

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

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

Certificates of deposits with other banks—Fair value is based on market prices for similar assets.

Investment Securities HTM—Valued at quoted market prices or dealer quotes.

Loans Receivable, Net—The fair value of loans is estimated using an exit price notion. The exit price notion uses a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument and incorporates other factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. The credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: commercial real estate, commercial and agricultural, residential real estate, construction, consumer HELOCs and all other consumer loans. The results are then adjusted to account for credit risk as described above. A further credit risk discount must be applied using a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values.

FHLB Stock—The fair value approximates the carrying value.

Deposits—The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

FHLB Advances and Borrowings from the FRB—Fair value is estimated using discounted cash flows with current market rates for borrowings with similar terms.

Other Borrowed Money—The carrying value of these short-term borrowings approximates fair value.

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

Junior Subordinated Debentures—The carrying value of junior subordinated debentures approximates fair value.

The following tables summarize the carrying value and estimated fair value of the Company's financial instruments at the dates indicated, presented in accordance with the applicable accounting guidance.

(In Thousands)	December 31, 2025				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	\$ 75,335	\$ 75,335	\$ 75,335	\$ —	\$ —
Certificates of Deposits with Other Banks	1,250	1,250	—	1,250	—
AFS Securities	663,467	663,467	—	663,467	—
HTM Securities	112,818	111,009	—	111,009	—
Loans Receivable, Net	673,056	674,200	—	—	674,200
FHLB Stock	1,083	1,083	1,083	—	—
Financial Liabilities:					
Deposits:					
Checking, Savings and Money Market Accounts	\$ 1,068,415	\$ 1,068,415	\$ 1,068,415	\$ —	\$ —
Certificate Accounts	303,362	303,119	—	303,119	—
Other Borrowed Money	25,262	25,262	25,262	—	—
Subordinated Debentures	10,000	7,625	—	7,625	—

(In Thousands)	December 31, 2024				
	Carrying Amount	Fair Value			
		Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	\$ 178,277	\$ 178,277	\$ 178,277	\$ —	\$ —
Certificates of Deposits with Other Banks	1,250	1,250	—	1,250	—
AFS Securities	525,623	525,623	—	525,623	—
HTM Securities	135,200	130,902	—	130,902	—
Loans Receivable, Net	686,550	677,282	—	—	677,282
FHLB Stock	1,089	1,089	1,089	—	—
Financial Liabilities:					
Deposits:					
Checking, Savings and Money Market Accounts	\$ 1,014,477	\$ 1,014,477	\$ 1,014,477	\$ —	\$ —
Certificate Accounts	309,556	309,355	—	309,355	—
Borrowings from FRB	50,000	50,010	50,010	—	—
Other Borrowed Money	27,809	27,809	27,809	—	—
Subordinated Debentures	10,000	7,371	—	7,371	—
Junior Subordinated Debentures	5,155	5,155	—	5,155	—

At December 31, 2025, the Company had \$141.1 million of off-balance sheet financial commitments. These commitments are to originate loans and unused consumer lines of credit and credit card lines. Because these obligations are based on current market rates, if funded, the original principal is considered to be a reasonable estimate of fair value.

Fair value estimates are made on a specific date, based on relevant market data and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the Bank's entire holdings of a particular financial instrument.

Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, current interest rates and prepayment trends, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in any of these assumptions used in calculating fair value would also significantly affect the estimates. Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has significant assets and liabilities that are not considered financial assets or liabilities including deposit franchise values, loan servicing portfolios, deferred tax liabilities, and premises and equipment.

In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. The Company has used management's best estimate of fair value on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

NOTE 22 - NON-INTEREST INCOME

The following table presents non-interest income for the years indicated. All revenue from contracts with customers within the scope of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) is recognized in non-interest income, except for gains on the sale of OREO, which are included in non-interest expense when applicable.

	Year Ended December 31,	
	2025	2024
Non-interest income (in thousands):		
Gain on Sale of Investments, net ⁽¹⁾	\$ 22	\$ 37
Gain on Sale of Loans ⁽¹⁾	894	779
Gain on Sale of Land Held for Sale ⁽¹⁾	62	—
Service Fees on Deposit Accounts	1,257	1,243
Commissions From Insurance Agency ⁽¹⁾	881	791
Trust Income	1,894	2,265
BOLI Income ⁽¹⁾	794	706
ATM and Check Card Fee Income	3,254	3,170
Grant Income ⁽¹⁾	1,120	500
Other ⁽¹⁾	1,310	756
Total non-interest income	\$ 11,488	\$ 10,247

(1) NOT WITHIN THE SCOPE OF ASC 606

Revenue Recognition

The following is a discussion of key revenues within the scope of the current revenue guidance.

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

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

Service Fees on Deposit Accounts

The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts monthly. The performance obligation is satisfied and the fees are recognized monthly as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Trust Income

Trust income includes monthly advisory fees that are based on assets under management and certain transaction fees that are assessed and earned monthly, concurrently with the investment management services provided to the customer. The Bank does not charge performance based fees for its trust services and does not currently have any institutional clients, hedge funds or mutual funds.

ATM and Check Card Fee Income

Check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

NOTE 23 - PREFERRED STOCK

On May 24, 2022, the Company entered into a Letter Agreement (the "Initial Agreement") with the U.S. Department of Treasury under the Emergency Capital Investment Program ("ECIP"). Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially in low-income and underserved communities, including counties with persistent poverty, that may be disproportionately impacted by the economic effects of the COVID-19 pandemic by providing direct and indirect capital investments in low- and moderate-income community financial institutions.

Pursuant to the Initial Agreement, the Company agreed to issue 82,949 shares of preferred stock ("Preferred Stock") for an aggregate purchase price of \$82.9 million in cash. This ECIP investment is treated as Tier 1 capital. The Preferred Stock bears no dividend for the first 24 months following the investment date. Thereafter, the dividend rate will be adjusted to a rate not to exceed 2%, based on the satisfaction of the lending growth criteria set forth in the Initial Agreement. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years two through ten. Dividends will be payable quarterly in arrears on March 15, June 15, September 15, and December 15.

The Preferred Stock may be redeemed at the option of the Company on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies' regulatory capital regulations. The Preferred Stock is reported on the Consolidated Balance Sheets as Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP.

On January 10, 2025, the Company entered into an ECIP Securities Purchase Option Agreement (the "SPO Agreement") with the Treasury. Pursuant to the SPO Agreement, the Treasury granted the Company an option to purchase all of the Preferred Stock during the option period, which is the first fifteen years following the closing date of the Initial Agreement. The purchase price for the Preferred Stock pursuant to the purchase option is determined based on a formula equal to the present value of the Preferred Stock, calculated as

set forth in the SPO Agreement, together with any accrued and unpaid dividends thereon, as of the closing date. Subject to variations in interest rates and the equity risk premium, which are components included in the purchase price calculation, the Company presently expects that the purchase price will be at a substantial discount to the face value of the Preferred Stock.

The purchase option may not be exercised during the ECIP period, defined as the first ten years following the closing date of the Initial Agreement (the "ECIP Period"), unless and until at least one of the threshold conditions under the SPO Agreement has been met. The threshold conditions are as follows: (1) over any sixteen consecutive quarters, an average of at least 60% of the Company's "Total Originations" qualify as "Deep Impact Lending;" (2) over any twenty-four consecutive quarters, an average of at least 85% of the Company's "Total Originations" qualify as "Qualified Lending;" or (3) the Preferred Stock has a dividend rate of no more than 0.5% at each of the six consecutive Reset Dates, in each case as those terms are defined in the SPO Agreement.

The earliest date a threshold condition may be met is June 30, 2026, the end of the sixteenth consecutive quarter following the original closing date. However, the Company does not currently meet any of the threshold conditions, and there can be no assurance if or when they will be satisfied. At present, the Company has reported no consecutive quarters in which both the Deep Impact Lending and Qualified Lending conditions were met. The Preferred Stock currently carries a dividend rate of 2.0%.

In addition to meeting a threshold condition, the SPO Agreement requires the Company to satisfy other eligibility criteria to exercise the purchase option, including compliance with the terms of the Initial Agreement, the Preferred Stock maintaining qualification as either a CDFI or an MDI, and meeting other legal and regulatory requirements. Although the Company currently satisfies these general eligibility requirements, other than meeting a threshold condition, there can be no assurance that it will continue to do so in the future.

NOTE 24 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Management has reviewed the events occurring through the date the financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.