

# 2024 ANNUAL REPORT



Timberlake Branch (Opened January 2025 in Lynchburg, VA)

Your Community, Your Bank, Your future



# THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY

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

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### Notice of Annual Meeting

The Annual Meeting of Shareholders will be held at 7:00 p.m. on May 20, 2025 at Appomattox Inn & Suites, 447 Old Courthouse Road, Appomattox, Virginia 24522. All shareholders are invited to attend.

### Independent Auditor

Yount, Hyde & Barbour, P.C.  
9954 Mayland Drive, Suite 2300  
Richmond, VA 23233

### Corporate Headquarters

The Farmers Bank of Appomattox  
223 Main Street  
Appomattox, Virginia 24522

### Branches

#### Concord Branch

Lacie Page, Manager  
10272 Village Highway  
Concord, VA 24538

#### Dillwyn Branch

Lisa Warner, Manager  
16086 N. James Madison Highway  
Dillwyn, VA 23936

#### Farmville Branch

Anabelle Rodriguez-Thurston, Manager  
1508 South Main Street  
Farmville, VA 23901

#### Main Street Branch

Jessica Hall, Manager  
223 Main Street  
Appomattox, VA 24522

#### Triangle Plaza Branch

Christopher Peters, Manager  
169 Old Courthouse Road  
Appomattox, VA 24522

#### Timberlake Branch

Vonnie Brooks, Manager  
8112 Timberlake Road  
Lynchburg, VA 24502

## THE PRESIDENT'S MESSAGE

Dear Shareholders,

On behalf of the Board of Directors and management of The Farmers Bank of Appomattox, I am pleased to present our annual report of the financial condition and results of operations of the Bank for the years ended December 31, 2024 and 2023. Our previous year had its challenges, with continued competition for deposits, increased pension costs, increases to the provision associated with loan losses, among others. However, the Bank was able to achieve strategic goals and rise above these challenges to remain profitable and well capitalized.

Net income for the year ended December 31, 2024 of \$2.7 million reflected a \$181 thousand (6.26%) decrease compared to year end 2023. Our earnings continue to be impacted by increases associated with interest expense which grew approximately \$2.0 million during 2024. Noninterest expense grew by \$720 thousand primarily due to settlement accounting expense associated with the Bank's cash balance pension plan. Management also saw an increase in the provision to account for potential loan losses. Nationwide, the banking industry experienced increased losses in consumer automobile lending, and Farmers Bank was not exempt to this trend. Management is taking steps necessary to mitigate potential losses in 2025. The increase to expense was partially offset by a \$2.7 million increase in interest income and a \$207 thousand increase in noninterest income. Noninterest income was marked by a \$62 thousand year over year decrease in certificate of deposit penalties, offset by a \$55 thousand increase from the Bank's subsidiary and a \$55 thousand increase from Bank Owned Life Insurance income.

The Bank's return on average assets (ROAA) of 0.78% outperformed our Virginia Bank peer average of 0.72% and the Bank's return on average equity (ROAE) of 8.27% outperformed the Virginia Bank peer average of 7.21%. Loans grew substantially by \$8.8 million (3.98%) during 2024, with a composite loan yield of 6.01%. Real Estate lending was the primary area of loan growth, while other types of loans remained relatively constant. The Bank's deposits remained very stable at \$308 million with a composite cost of funds at 1.72% and a favorable year-end deposit mix of transaction, savings, and time deposits.

Investments at amortized cost averaged \$103.3 million during the year which produced income in excess of \$2.9 million. The Bank's investment portfolio remains in a net unrealized loss position of \$11.3 million, comparable to the year-end 2023 figure of \$10.1 million. Management continues to review these investments to ensure that the unrealized loss in market value is due to current market interest rates and not related to any other underlying weakness of the investment issuers. Our Bank continues to maintain a very strong capital position that is well above the threshold for being well-capitalized under the Federal Reserve Bank's benchmarks. We continue to provide a consistent dividend payout ratio as a result of operations.

We are excited to announce that during 2024 the Bank was able to complete the construction of our newest branch facility at 8112 Timberlake Road in Lynchburg and have hired a talented staff. We began operations in January of 2025 and have been very well received by the Lynchburg community. We look forward to the new relationships we are able to build in the Lynchburg market. We invite you to visit our newest branch and invite your friends and neighbors in the area to bank with us. As we look to 2025, we are reminded of the immeasurable value of our dedicated employees and Board of Directors, which allows us to provide our customers and community with excellence in service. I am truly thankful for each and every member of the Farmers Bank family and the customers that put their trust in us.

Several of our long serving officers retired during 2024, including Dawn Tolley, our Executive Vice President and Chief Financial Officer; Betty Craft, our First Vice President and Chief Human Resource Officer and Kris McFadden, our Vice President and Head of Mortgage Lending. This group of officers have all been dedicated to

the advancement to our Bank. We are appreciative of their service and thankful that we have well qualified and seasoned officers to take their place. Our Bank is an evolving entity, however, our desire is to stay true to our roots by making real differences in the communities we serve.

There are exciting things happening with Farmers Bank. We remain committed to you our shareholders and the customers we have the privilege to serve. We could not have experienced the success that we have today without the support of you. I remain thankful for all we were able to accomplish this past year. As always, we remain committed to delivering great value for your investment. We ask you to invite your friends, associates, and colleagues to bank with us. There has never been a better time to bank with a true community bank that is responsive, flexible, and knowledgeable.

Sincerely,

John R. Caldwell  
President and Chief Executive Officer



## THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY

### Five-year Summary of Selected Financial Data (In Thousands, Except Per Share Data and Selected Ratios)

Income statement data	Years Ended December 31				
	2024	2023	2022	2021	2020
Interest income	\$ 16,645	\$ 13,965	\$ 11,335	\$ 10,693	\$ 9,718
Interest expense	5,340	3,383	975	822	982
Net interest income	11,305	10,582	10,360	9,871	8,736
Provision for credit losses	637	233	329	103	139
Net interest income after provision for credit losses	10,668	10,349	10,031	9,768	8,597
Noninterest income	1,236	1,029	1,137	1,091	1,119
Noninterest expense	8,772	8,052	7,505	7,025	6,598
Income tax expense	418	430	455	523	466
Net income	<u>\$ 2,714</u>	<u>\$ 2,896</u>	<u>\$ 3,208</u>	<u>\$ 3,311</u>	<u>\$ 2,652</u>
Per share data:					
Basic earnings per share	<u>\$ 2.50</u>	<u>\$ 2.67</u>	<u>\$ 2.96</u>	<u>\$ 3.06</u>	<u>\$ 2.45</u>
Cash dividends per share	<u>\$ 1.00</u>	<u>\$ 1.05</u>	<u>\$ 1.15</u>	<u>\$ 1.03</u>	<u>\$ 0.90</u>
Book value at year end	<u>\$ 31.38</u>	<u>\$ 30.11</u>	<u>\$ 25.65</u>	<u>\$ 34.86</u>	<u>\$ 33.43</u>
<b>Balance sheet data at end of year</b>					
Available-for-sale securities	\$ 89,698	\$ 93,845	\$ 72,463	\$ 95,175	\$ 69,919
Held to maturity securities	-	-	-	10,607	11,701
Total loans, net	229,474	220,695	214,894	185,289	164,571
Total assets	351,913	345,110	316,208	318,938	274,364
Deposits	308,836	308,693	279,177	277,743	233,621
Stockholders' equity	34,011	32,634	27,798	37,781	36,225
<b>Selected ratios</b>					
Return on average assets	0.78%	0.90%	1.03%	1.12%	1.04%
Return on average equity	8.27	10.08	10.47	9.06	7.63
Dividend payout ratio	39.92	39.30	38.84	33.71	36.77
Average equity to average assets	9.49	8.91	9.83	12.39	13.60

## THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY

### Common Stock Prices and Dividends Paid

The common stock of the Bank is not listed on a registered exchange. However, the investment firm of Davenport and Company, LLC has agreed to execute trades.

Following are listings of the quarterly high and low sales prices of Bank stock during 2024 and 2023, based on actual sales prices known to the Bank, along with the dividends that were paid during those periods. Prices do not necessarily reflect unreported trades, which may have been at lower or higher prices.

<u>2024</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
1st Quarter	\$ 23.90	\$ 22.47	\$ 0.55
2nd Quarter	\$ 22.50	\$ 22.10	-
3rd Quarter	\$ 22.97	\$ 21.75	\$ 0.45
4th Quarter	\$ 23.00	\$ 21.62	-
<u>2023</u>	<u>High</u>	<u>Low</u>	<u>Dividends</u>
1st Quarter	\$ 26.50	\$ 24.00	\$ 0.60
2nd Quarter	\$ 24.90	\$ 22.00	-
3rd Quarter	\$ 28.00	\$ 22.30	\$ 0.45
4th Quarter	\$ 23.29	\$ 23.01	-

As of December 31, 2024, there were 1,083,660 outstanding shares of Bank common stock, par value \$2.00 per share, held by 878 shareholders of record.

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2024, retained earnings which are free of such restrictions amounted to approximately \$5,350,462. Please reference Note 11 of the Notes to Consolidated Financial Statements for a discussion of dividend restrictions and capital requirements.



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders  
The Farmers Bank of Appomattox  
Appomattox, Virginia

### **Opinion**

We have audited the consolidated financial statements of The Farmers Bank of Appomattox and its Subsidiary (the Bank), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of income and comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the financial statements).

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

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

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

### **Auditor's Responsibilities for the Audit of the Financial Statements**

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

In performing an audit in accordance with GAAS, we:

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

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

#### **Other Information Included in the Annual Report**

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

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

*Yount, Hyde & Barbours, P.C.*

Richmond, Virginia  
March 12, 2025



**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Consolidated Balance Sheets**  
**December 31, 2024 and 2023**  
(In thousands, except share and per share data)

**Assets**

	2024	2023
Cash and cash equivalents		
Cash and due from banks	\$ 4,954	\$ 4,979
Federal funds sold	2,661	4,800
Total cash and cash equivalents	7,615	9,779
Securities available-for-sale, at fair value	89,698	93,845
Loans, net of allowance for credit losses (\$1,329 and \$1,217)	229,474	220,695
Bank premises and equipment, net	6,576	3,348
Accrued interest receivable	1,676	1,615
Investment in bank-owned life insurance	10,304	10,001
Prepaid pension expense	1,378	1,169
Deferred income tax	2,218	2,028
Other real estate owned, net of valuation allowance	-	148
Other assets	2,974	2,482
<b>Total assets</b>	<b>\$ 351,913</b>	<b>\$ 345,110</b>

**Liabilities and Stockholders' Equity**

Deposits		
Demand – noninterest bearing	\$ 62,344	\$ 57,928
Demand – interest bearing	63,046	67,322
Savings	58,451	63,368
Time:		
Certificates of deposit of \$250 and over	25,071	30,720
Other	99,924	89,355
Total deposits	308,836	308,693
Securities sold under repurchase agreements and other borrowings	7,166	2,292
Accrued interest payable	784	615
Other liabilities	1,116	876
<b>Total liabilities</b>	<b>317,902</b>	<b>312,476</b>
Stockholders' equity		
Common stock, \$2 par value. Authorized 1,600,000 shares: issued and outstanding 1,083,660 shares	2,167	2,167
Additional paid-in capital	1,000	1,000
Retained earnings	40,427	38,796
Accumulated other comprehensive loss	(9,583)	(9,329)
<b>Total stockholders' equity</b>	<b>34,011</b>	<b>32,634</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 351,913</b>	<b>\$ 345,110</b>

See notes to consolidated financial statements

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Consolidated Statements of Income and Comprehensive Income**  
**Years Ended December 31, 2024 and 2023**  
**(In thousands, except per share data)**

	2024	2023
<b>Interest income</b>		
Interest and fees on loans	\$ 13,283	\$ 11,621
Interest on securities		
U.S. Treasury Bills/Notes	9	-
U.S. Government agencies	68	68
Obligations of states and political subdivisions – nontaxable	846	935
Obligations of states and political subdivisions – taxable	346	347
Corporate obligations	296	250
Mortgage backed securities	1,011	292
SBA Pool Securities	374	75
Interest on federal funds sold	412	377
<b>Total interest income</b>	<b>16,645</b>	<b>13,965</b>
<b>Interest expense</b>		
Interest on deposits	5,310	3,322
Interest on securities sold under repurchase agreements and other borrowings	30	61
<b>Total interest expense</b>	<b>5,340</b>	<b>3,383</b>
<b>Net interest income</b>	<b>11,305</b>	<b>10,582</b>
Provision for credit losses	637	233
<b>Net interest income after provision for credit losses</b>	<b>10,668</b>	<b>10,349</b>
<b>Noninterest income</b>		
Service charges on deposit accounts	437	454
Gain (loss) on sales, calls or maturities of securities	3	(199)
Income from bank-owned life insurance	303	248
Other	493	526
<b>Total noninterest income</b>	<b>1,236</b>	<b>1,029</b>
<b>Noninterest expense</b>		
Salaries and employee benefits	4,853	4,406
Expenses of premises and equipment	728	679
Data processing	1,143	1,050
Other operating expenses	2,048	1,917
<b>Total noninterest expense</b>	<b>8,772</b>	<b>8,052</b>
<b>Income before income tax expense</b>	<b>3,132</b>	<b>3,326</b>
Income tax expense	418	430
<b>Net income</b>	<b>2,714</b>	<b>2,896</b>
Other comprehensive income (loss)		
Unrealized gain (loss) on available-for-sale securities, net of deferred income tax expense (benefit) of \$(248) and \$742 in 2024 and 2023, respectively.	(933)	2,790
Reclassification of (gain) loss recognized in net income, net of income tax (benefit) expense of \$1 and \$(42) in 2024 and 2023, respectively.	(2)	157
Change in funded status of pension, net of deferred income tax expense (benefit) of \$181 and \$94 in 2024 and 2023, respectively.	681	354
<b>Total other comprehensive income (loss)</b>	<b>(254)</b>	<b>3,301</b>
<b>Comprehensive income</b>	<b>\$ 2,460</b>	<b>\$ 6,197</b>
Per share data:		
Earnings per share, basic and diluted	\$ 2.50	\$ 2.67
Cash dividends per share	\$ 1.00	\$ 1.05

See notes to consolidated financial statements

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**Years Ended December 31, 2024 and 2023**  
**(In thousands, except per share data)**

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total Stockholders' Equity
<b>Balances at January 1, 2023</b>	\$ 2,167	\$ 1,000	\$ 37,261	\$ (12,630)	\$ 27,798
Net income	-	-	2,896	-	2,896
Impact of adoption of ASC 326	-	-	(223)	-	(223)
Cash dividends (\$1.05 per share)	-	-	(1,138)	-	(1,138)
Other comprehensive loss	-	-	-	3,301	3,301
<b>Balances at December 31, 2023</b>	<b>2,167</b>	<b>1,000</b>	<b>38,796</b>	<b>(9,329)</b>	<b>32,634</b>
Net income	-	-	2,714	-	2,714
Cash dividends (\$1.00 per share)	-	-	(1,083)	-	(1,083)
Other comprehensive income	-	-	-	(254)	(254)
<b>Balances at December 31, 2024</b>	<b>\$ 2,167</b>	<b>\$ 1,000</b>	<b>\$ 40,427</b>	<b>\$ (9,583)</b>	<b>\$ 34,011</b>

See notes to consolidated financial statements

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**  
**(In thousands)**

	2024	2023
<b>Cash flow from operating activities:</b>		
Net income	\$ 2,714	\$ 2,896
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of bank premises and equipment	212	212
Net (gain) loss on sale, call or maturity of investment securities	(3)	199
Net amortization and accretion of premiums and discounts on securities	560	620
Provision for credit losses	624	239
Provision for deferred income taxes	(121)	(37)
Net increase in cash surrender value of bank-owned life insurance	(303)	(248)
Net gain on the sale of other real estate	(12)	(7)
Net loss on disposition of bank premises and equipment	14	-
Net (increase) decrease in:		
Accrued interest receivable	(61)	(285)
Prepaid pension expense	653	471
Other assets	(492)	(57)
Net increase (decrease) in:		
Accrued interest payable	169	459
Other liabilities	240	(278)
<b>Net cash provided by operating activities</b>	<b>4,194</b>	<b>4,184</b>
<b>Cash flow from investing activities:</b>		
Proceeds from sales of available-for-sale securities	\$ 1,450	\$ 4,249
Proceeds from maturities and calls of available-for-sale securities	7,000	565
Principal payments from available-for-sale securities	2,743	1,104
Net proceeds from the sale of other real estate	160	125
Purchases of available-for-sale securities	(8,787)	(24,390)
Net increase in loans	(9,403)	(6,416)
Purchases of bank premises and equipment	(3,455)	(982)
<b>Net cash used in investing activities</b>	<b>(10,292)</b>	<b>(25,745)</b>
<b>Cash flow from financing activities:</b>		
Net decrease in demand deposits and savings accounts	(4,777)	(14,632)
Net increase in time deposits	4,920	44,148
Net decrease in securities sold under repurchase agreements	(126)	(434)
Proceeds from short term borrowings	5,000	-
Repayments of short term borrowings	-	(5,250)
Cash dividends paid	(1,083)	(1,138)
<b>Net cash provided by financing activities</b>	<b>3,934</b>	<b>22,694</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<b>(2,164)</b>	<b>1,133</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>9,779</b>	<b>8,646</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 7,615</b>	<b>\$ 9,779</b>

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**  
**(In thousands)**

	<u>2024</u>	<u>2023</u>
<b>Supplemental disclosure of cash flow information</b>		
Interest paid during the period	\$ <u>3,941</u>	\$ <u>2,924</u>
Federal income tax paid during the period	\$ <u>387</u>	\$ <u>544</u>
<b>Supplemental schedule of noncash investing and financing activities</b>		
Transfers from loans to other real estate owned	\$ <u>-</u>	\$ <u>148</u>
Unrealized (loss) gain on available-for-sale securities	\$ <u>(1,184)</u>	\$ <u>3,730</u>
Unrecognized net actuarial gain (loss) in defined benefit plan	\$ <u>862</u>	\$ <u>449</u>

See notes to consolidated financial statements

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2024 and 2023**  
**(In thousands, except share and per share data)**

**Note 1 - Summary of significant accounting policies**

The accounting and reporting policies of The Farmers Bank of Appomattox and its wholly owned subsidiary, Farmers Bank Financial Services, Inc., conform to accounting principles generally accepted in the United States of America (“GAAP”) and general practices within the banking industry. The following is a summary of the more significant accounting policies:

**Consolidation**

The consolidated financial statements include the accounts of The Farmers Bank of Appomattox and its wholly owned subsidiary (collectively, “the Bank”). The wholly owned subsidiary, Farmers Bank Financial Services, Inc., is utilized to account for the Bank’s investment in two insurance companies. All significant intercompany balances and transactions have been eliminated in the consolidation.

**Use of estimates**

In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the dates of the consolidated balance sheets and income and expenses for each year. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes in the near term relate to determination of the allowance for credit losses, the fair value of investment securities, and pension benefit obligations.

**Cash and cash equivalents**

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks and federal funds sold.

**Securities**

The Bank classifies its securities in two categories: (1) debt securities that the Bank has the positive intent and ability to hold to maturity are classified as “held to maturity securities” and reported at amortized cost. Amortization of premiums and accretion of discounts are adjusted on a basis which approximates the level yield method; and (2) debt securities not classified as held to maturity securities are classified as “available-for-sale securities” and reported at fair value, with unrealized gains and losses excluded from net income and reported in a separate component of stockholders’ equity.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains or losses on disposition of securities are based on the net proceeds and adjusted carrying values of the securities matured, called or sold, using the specific identification method on a trade date basis.

The Bank is required to maintain an investment in the capital stock of the Federal Reserve Bank, Community Bankers’ Bank, and the Federal Home Loan Bank of Atlanta (“FHLB”). No ready market exists for this stock, and it has no quoted market value. The Bank’s investment in these stocks is recorded at cost and is included in other assets on the Bank’s consolidated balance sheet.

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2024 and 2023**  
**(In thousands, except share and per share data)**

**Note 1 - Summary of significant accounting policies (continued)**

**Securities**

For available-for-sale debt securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

**Loans and allowance for credit losses**

The Bank accounts for loans in accordance with Accounting Standards Codification ("ASC") 326. Loans are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. The allowance for credit losses is a valuation allowance deducted from the loans' amortized costs basis to present the net amount expected to be collected on the loans. Loans are charged-off against the allowance when management believes the loan balance is uncollectable. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. The provision for credit losses is charged to expense.

The allowance for credit losses is an amount management believes will be adequate to absorb expected losses inherent in the loan portfolio. Management determines the adequacy of the allowance based upon reviews of individual credits, delinquencies, current economic conditions, reasonable and supportable forecasts, the risk characteristics of the various categories of loans, recent loan loss experience, and other pertinent factors. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. It is reasonably possible that management's estimate of credit losses and the related allowance may change materially in the near term. However, the amount of that change cannot be estimated. Various regulatory agencies, as an integral part of their examination process, periodically review the Bank's allowance for credit losses. Such agencies may require the Bank to recognize additions to the allowance for credit losses based on their judgments about information available at the time of their examinations.

The allowance for credit losses is measured on a pool basis with similar risk characteristics. The Bank measures the allowance for credit losses using the weighted average remaining life methodology. Under this methodology, the Bank uses a loss rate for each loan pool segment using historical information. Future expectations of the pool balances are determined by using a remaining life calculator. A quarterly expected loss rate is applied to an expected remaining balance for each period to determine the unadjusted expected loss for each loan pool segment.

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**Note 1 - Summary of significant accounting policies (continued)**

**Loans and allowance for credit losses**

To further adjust the allowance for credit losses for expected losses not included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: lending policies and procedures, state/local economic factors, nature and volume of loans, lending management, non-performing assets and loan losses, loan review, valuation of collateral, loan concentrations, and other external factors.

The Bank has segmented its loans into pools based on similar attributes such as risk characteristics, complexity, performance through economic cycles, duration and purpose. Accordingly, the segmented pools correspond to the individual loan's Call Report Code and have been identified as the following: real estate mortgage, real estate construction, commercial, and consumer. See Note 3 for further discussion on risk factors associated with loan segments. These loan segments are further disaggregated into classes of financing receivables described below:

Real estate mortgage

- Residential real estate
- Commercial real estate
- Home equity
- Other mortgage loans

Real estate construction

- Residential construction
- Other construction

Commercial

- Commercial and industrial
- Agricultural production
- Obligations of states and political subdivisions

Consumer

- Consumer
- Indirect dealer

Loans are considered past due when the contractual amounts due with respect to principal and interest are not received within 30 days of their contractual due date. Loans are generally placed in non-accrual status if they are 90 or more days past due unless they are in the process of collection. Interest related to non-accrual loans is recognized on the cash basis. Loans in non-accrual status are generally the collectible portion of bankrupt accounts. Loans are generally charged off when the collection of principal and interest is 90 days or more past due and the loan is considered uncollectible.

Loan origination fees and the corresponding loan origination costs are deferred, and the net amount is amortized over the contractual life of the related loans as an adjustment of yield.



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**Note 1 - Summary of significant accounting policies (continued)**

**Allowance for credit losses on off-balance sheet credit exposures**

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The Bank identifies exposures by loan segment and assigns the same loss rates it uses with the allowance for credit losses mentioned above. The allowance for credit losses on off-balance sheet credit exposures is recorded in other liabilities.

**Bank premises and equipment**

Land is carried at cost, while bank premises and equipment are stated at cost, net of accumulated depreciation. Depreciation on bank premises and equipment is charged to expense over the estimated useful lives of the assets which range from three to forty years, principally on the straight-line method. The cost of assets retired and sold and the related accumulated depreciation are eliminated from the accounts and the resulting gains or losses are included in determining net income. Expenditures for maintenance and repairs are charged to expense as incurred, and improvements and betterments are capitalized.

**Other real estate owned**

Other real estate owned consists of properties acquired through foreclosure sales or deed in lieu of foreclosure. At the time of the foreclosure, the properties are recorded at the fair value less estimated costs to sell the property, establishing a new cost basis. Subsequently these properties are carried at the lower of cost or fair value less the estimated costs to sell the property. Losses from the acquisition of property in full or partial satisfaction of loans are charged against the allowance for credit losses. Subsequent write-downs, if any, are charged to expense. Gains and losses on the sales of foreclosed properties are included in determining net income in the year of the sale.

**Defined benefit pension plan**

The Bank maintains a noncontributory defined benefit pension plan covering certain employees. The overfunded or underfunded status of the pension plan is recognized as an asset or liability on the consolidated balance sheet, and changes in the funded status are recognized in comprehensive income. The net periodic pension expense includes a service cost component, interest on the projected benefit obligation, a component reflecting the actual return on plan assets, and the effect of deferring and amortizing certain actuarial gains and losses. The Bank's normal funding policy is to contribute to the pension plan amounts necessary to satisfy the Internal Revenue Service's funding standards and to the extent that they are deductible for federal income tax purposes.

**Bank-owned life insurance**

The Bank has purchased life insurance on key employees. The insurance is recorded at the cash surrender value on the consolidated balance sheet. Income generated from the policies is recorded as non-interest income.

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**Note 1 - Summary of significant accounting policies (continued)**

**Advertising**

The Bank expenses advertising costs as incurred. These costs totaled \$72 and \$82 in 2024 and 2023, respectively.

**Income taxes**

Income taxes are recorded using the asset and liability method, whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry-forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in net income in the period that includes the enactment date.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes that it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions.

Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying consolidated balance sheets, along with any associated interest and penalties that would be payable to the taxing authorities upon examination.

**Earnings per share**

Basic and diluted earnings per share is computed based on the weighted-average number of shares outstanding during each year. The weighted-average number of common shares outstanding was 1,083,660 for 2024 and 2023. The Bank has no potentially dilutive common shares.

**Comprehensive income**

ASC 220-10, *Comprehensive Income*, requires the Bank to classify items of “Other Comprehensive Income (Loss)” (such as net unrealized gains (losses) on available-for-sale securities) by their nature in a financial statement and present the accumulated balance of other comprehensive income separately from retained earnings and surplus in the equity section of a balance sheet. The Bank’s other comprehensive income consists of the change in the net unrealized gains (losses) on securities available-for-sale, net of income taxes, and the change in the funded status of the Bank’s defined benefit pension plan, net of income taxes.

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**Note 1 - Summary of significant accounting policies (continued)**

**Fair value measurements**

ASC Topic 820, “Fair Value Measurements and Disclosures,” defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and requires certain disclosures about fair value measurements. Please reference Note 15 addressing fair value measurements. In general, fair values of financial instruments are based on quoted market prices, where available. If such quoted market prices are not available, fair value is based upon internally developed models that primarily use as inputs observable market-based parameters. Any such valuation adjustments are applied consistently over time.

**Operating Segments**

The Bank’s reportable segment is determined by the Chief Executive Officer, who is designated the chief operating decision maker, based upon information provided about the Bank’s products and services offered, primarily banking operations. While the chief operating decision maker monitors the revenue streams of the various products and services, operations are similar, and financial performance is evaluated on a company-wide basis. Therefore, the reportable segment is solely the Bank. Loans, investments, and deposits provide the revenues in banking operations, while interest expense, salaries and employee benefits, provisions for credit losses, and data processing provide the significant expenses in banking operations. The chief operating decision maker uses return on average assets to benchmark the Bank against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessing performance and in establishing compensation. See Consolidated Statements of Income and Comprehensive Income for more information.

**Reclassifications**

Certain immaterial reclassifications have been made to prior period balances to conform to the current year presentations. Reclassifications had no impact on prior year net income or stockholders’ equity.

**Recent accounting pronouncements**

In December 2023, Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2023-09, “Income Taxes (Topic 740): Improvements to Income Tax Disclosures.” The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity’s applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Bank does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

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**Note 1 - Summary of significant accounting policies (continued)**

**Recently adopted pronouncements**

In November 2023, the FASB issued ASU No. 2023-07 *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures*, which requires enhanced segment reporting disclosures. This guidance requires additional disclosures intended to provide more insight into segment operations and clarify circumstances in which an entity can disclose multiple segment measures of profit or loss, provide new segment disclosure requirements for entities with a single reportable segment, and contain other disclosure requirements. The amendments are effective for public business entities for fiscal years beginning after December 15, 2023. The Company adopted ASU 2023-07 effective December 31, 2024. ASU 2023-07 did not have an impact on the Company's financial condition or results of operations.

**Note 2 - Securities**

The amortized costs, gross unrealized gains, gross unrealized losses and fair values of securities are as follows:

	December 31, 2024			
	Amortized Costs	Gross Unrealized		Fair Values
		Gains	Losses	
Available-for-sale				
U.S. Government agencies	\$ 6,991	\$ -	\$ (664)	\$ 6,327
Obligations of states and political subdivisions – nontaxable	45,064	-	(6,739)	38,325
Obligations of states and political subdivisions – taxable	15,105	-	(3,101)	12,004
Mortgage-backed securities	20,115	274	(764)	19,625
Corporate	8,019	32	(355)	7,696
SBA loan pools	<u>5,738</u>	<u>11</u>	<u>(28)</u>	<u>5,721</u>
Total	\$ <u>101,032</u>	\$ <u>317</u>	\$ <u>(11,651)</u>	\$ <u>89,698</u>
	December 31, 2023			
	Amortized Costs	Gross Unrealized		Fair Values
		Gains	Losses	
Available-for-sale				
U.S. Government agencies	\$ 6,987	\$ -	\$ (814)	\$ 6,173
Obligations of states and political subdivisions – nontaxable	45,572	-	(5,656)	39,916
Obligations of states and political subdivisions – taxable	15,177	-	(3,007)	12,170
Mortgage-backed securities	21,778	417	(717)	21,478
Corporate	8,099	25	(435)	7,689
SBA loan pools	<u>6,382</u>	<u>59</u>	<u>(22)</u>	<u>6,419</u>
Total	\$ <u>103,995</u>	\$ <u>501</u>	\$ <u>(10,651)</u>	\$ <u>93,845</u>

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**Note 2 – Securities (continued)**

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

	Available-for-Sale	
	Amortized Cost	Fair Values
Due in one year or less	\$ 987	\$ 985
Due after one year through five years	14,961	13,972
Due after five years through ten years	20,566	18,389
Due after ten years	64,518	56,352
Total	\$ 101,032	\$ 89,698

The amortized costs of securities pledged to collateralize public deposits and securities sold under repurchase agreements and for other purposes as required or permitted by law were approximately \$45,095 and \$46,381 (fair value of \$38,124 and \$39,933) at December 31, 2024 and 2023, respectively.

During 2024 and 2023, the Bank had called and matured securities with amortized costs totaling \$7,000 and \$565, respectively. There were no gross realized gains on called or matured securities during 2024 and 2023. The Bank had gross realized losses on called and matured securities of \$41 during 2024 and none in 2023.

During 2024, the Bank sold available-for-sale securities with amortized costs totaling \$1,406. Gross realized gains on these sales were \$44 and there were no gross realized losses on these sales. During 2023, the Bank sold available-for-sale securities with amortized costs totaling \$4,448. Gross realized gains on these sales were \$1, while gross realized losses on these sales were \$200.

The following table shows the gross unrealized losses and fair value of the Bank's investments, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2024:</b>						
U. S. Government agencies	\$ -	\$ -	\$ 6,327	\$ (664)	\$ 6,327	\$ (664)
Obligations of state and political subdivisions	-	-	50,330	(9,840)	50,330	(9,840)
Mortgage-backed securities	985	(1)	3,965	(763)	4,950	(764)
Corporate	1,933	(54)	3,752	(301)	5,685	(355)
SBA loan pools	-	-	3,857	(28)	3,857	(28)
Total	\$ 2,918	\$ (55)	\$ 68,231	\$ (11,596)	\$ 71,149	\$ (11,651)

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**Note 2 – Securities (continued)**

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<b>December 31, 2023:</b>						
U. S. Government agencies	\$ -	\$ -	\$ 6,173	\$ (814)	\$ 6,173	\$ (814)
Obligations of state and political subdivisions	1,391	(27)	50,695	(8,636)	52,086	(8,663)
Mortgage-backed securities	-	-	4,551	(717)	4,551	(717)
Corporate	-	-	5,690	(435)	5,690	(435)
SBA loan pools	4,222	(22)	-	-	4,222	(22)
<b>Total</b>	<b>\$ 5,613</b>	<b>\$ (49)</b>	<b>\$ 67,109</b>	<b>\$ (10,602)</b>	<b>\$ 72,722</b>	<b>\$ (10,651)</b>

As of December 31, 2024, there were 98 securities identified above with unrealized losses, of which 95 were in an unrealized loss position of 12 months or more. As of December 31, 2023, there were 97 securities identified above with unrealized losses, of which 94 were in an unrealized loss position of 12 months or more. These unrealized losses are all related to the change in market interest rates and not to the credit quality of the issuers. When analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. As the Bank has the ability and intent to hold debt securities for the foreseeable future and believes these securities will recover their amortized cost, management has concluded that a credit loss did not exist in its securities portfolio and no impairment loss has been recognized at December 31, 2024 and 2023.

**Note 3 - Loans and allowance for credit losses**

All loan information presented as of December 31, 2024 and 2023, is in accordance with ASC 326.

A summary of loans, net is as follows:

	December 31	
	2024	2023
Commercial loans	\$ 14,379	\$ 13,969
Real estate construction loans	16,959	14,495
Real estate mortgage loans	152,498	144,510
Consumer loans	39,145	40,932
Other loans	8,482	8,567
Total loans, gross	231,463	222,473
Less unearned income and fees, net	( 660)	( 561)
Loans, net of unearned income and fees	230,803	221,912
Less allowance for credit losses	( 1,329)	( 1,217)
<b>Loans, net</b>	<b>\$ 229,474</b>	<b>\$ 220,695</b>

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**Note 3 - Loans and allowance for loan losses (continued)**

Following is a breakdown of real estate mortgage loans:

	December 31	
	2024	2023
Real estate mortgage loans:		
Commercial mortgage loans	\$ 30,427	\$ 31,819
1 – 4 family residential mortgages	105,581	97,174
Home equity lines of credit	12,499	11,824
Other mortgages	3,991	3,693
Total real estate mortgage loans	\$ 152,498	\$ 144,510

*Loan origination / Risk management.* The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and non-performing and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions. The primary categories of loans originated by the Bank are real estate mortgage loans, real estate construction and land development loans, commercial loans and consumer loans.

Real estate mortgage loans are primarily underwritten as cash flow loans and secondarily as loans secured by real estate. Commercial real estate mortgage loans are subject to underwriting standards and processes similar to commercial loans where evaluation of the borrower’s ability to operate profitably and repay their obligations as agreed is critical to the underwriting process. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy.

Real estate construction and land development loans are generally based upon estimates of costs and value associated with the complete project. These loans often involve the disbursement of substantial funds, with repayment dependent on the ultimate success of the project. Management is aware that cost estimates may be inaccurate; thus, physical inspections of the property during the construction phase to assess whether the estimated percentage of completeness is in line with the requested loan advance are critical to the loan management process. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property, or some other interim loan commitment provided while permanent financing is being obtained. These loans are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of the property, general economic conditions, and the availability of permanent financing.

Residential real estate mortgage loans are primarily underwritten based on an assessment of the borrower’s credit history and estimated ability to repay the mortgage loan based on a comparison of the borrower’s verified income and current obligations, including the requested loan. The value of the property securing the loan is generally determined by an independent real estate appraisal. The Bank generally lends up to 80% of the value of the property, thus mitigating the risk associated with these loans. Home equity loans are also underwritten utilizing a maximum loan to value percentage of 80%.

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**Note 3 - Loans and allowance for loan losses (continued)**

Commercial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. Once it is determined that the borrower’s management possesses sound ethics and solid business acumen, the Bank’s management examines current and projected cash flows to determine the ability of the borrower to repay their obligations as agreed. Commercial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Management is aware that the cash flows of the borrower may not match projections and collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as inventory or equipment and may incorporate a personal guarantee. Some smaller amount, short-term loans are made on an unsecured basis.

The Bank typically originates consumer loans utilizing an independent, third-party credit bureau report to supplement the underwriting process. Consumer loans are primarily made based on an assessment of the borrower’s credit history and the estimated ability to repay the borrower’s obligations based on a comparison of the borrower’s stated income to existing obligations, including the loan being requested. These loans are generally secured by the asset being purchased, secured by unencumbered assets already owned by the borrower or unsecured. The risk associated with consumer loans is minimized by the relatively small amount of the loans spread among a large number of borrowers.

The Bank maintains an independent loan administration department that reviews all loan documentation for accuracy, completeness, and compliance with Bank policies and procedures. Results of these reviews are presented to management. The loan administration process compliments and reinforces the risk identification and assessment decisions made by lenders.

In the ordinary course of business, the Bank has granted loans to certain directors, executive officers, and their affiliates (collectively referred to as “related parties”). These loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other unaffiliated persons and do not involve more than normal risk of collectability. Activity in related party loans in 2024 and 2023 is presented in the following table:

	2024	2023
Balance of related party loans, January 1	\$ 820	\$ 769
Principal additions	112	180
Principal reductions	(186)	(129)
Reclassifications <sup>(1)</sup>	(29)	-
Balance of related party loans, December 31	\$ 717	\$ 820

(1) Reclassifications relate to an executive officer who retired in 2024 and is no longer considered a related party.



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**Note 3 - Loans and allowance for loan losses (continued)**

Non-accrual loans, segregated by type of loan, as of December 31, 2024 and 2023, were as follows:

	2024	2023
1-4 family residential real estate mortgages	\$ 749	\$ 520
Commercial mortgage loans	386	233
Real estate construction loans	-	14
Commercial loans	130	268
Consumer loans	500	454
Total non-accrual loans	\$ 1,765	\$ 1,489

Had non-accrual loans performed in accordance with their original contract terms, the Bank would have recognized additional interest income of approximately \$42 in 2024 and \$77 in 2023.

The following table presents the amortized costs basis of loans on non-accrual status and loans past due 90 days or more and still accruing as of December 31, 2024 and 2023:

	Non-Accrual With Allowance For Credit Losses	Non-Accrual With No Allowance For Credit Losses	Non-Accrual	Loans Past Due 30-89 Days	Accruing Loans 90 or More Days Past Due
<b>December 31, 2024:</b>					
Real estate mortgage loans:					
1-4 family res. mortgages	\$ -	\$ 749	\$ 749	\$ 5,478	\$ -
Commercial mortgages	-	386	386	171	-
Other mortgages	-	-	-	-	-
Real estate construction loans	-	-	-	288	-
Commercial loans	54	76	130	112	-
Consumer loans	202	298	500	3,780	16
Total	\$ 256	\$ 1,509	\$ 1,765	\$ 9,829	\$ 16

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**Note 3 - Loans and allowance for loan losses (continued)**

	Non-Accrual With Allowance For Credit Losses	Non-Accrual With No Allowance For Credit Losses	Non-Accrual	Loans Past Due 30-89 Days	Accruing Loans 90 or More Days Past Due
<b>December 31, 2023:</b>					
Real estate mortgage loans:					
1-4 family res. mortgages	\$ 46	\$ 474	\$ 520	\$ 1,756	\$ -
Commercial mortgages	-	233	233	206	-
Other mortgages	-	-	-	-	-
Real estate construction loans	1	13	14	11	-
Commercial loans	107	161	268	5	-
Consumer loans	205	249	454	2,789	46
<b>Total</b>	<b>\$ 359</b>	<b>\$ 1,130</b>	<b>\$ 1,489</b>	<b>\$ 4,767</b>	<b>\$ 46</b>

Loans are considered collateral-dependent when, based on current information and events, it is probable the Bank will be unable to collect all amounts in accordance with the original contractual terms of the loan agreement, including scheduled principal and interest payments when due. If a loan is collateral-dependent, a specific valuation allowance is allocated, if necessary, so that the loan is reported net, at the fair value of collateral if repayment is expected solely from the collateral. Interest payments on collateral-dependent loans are typically applied to principal unless collectability of the principal amount is reasonably assured, in which case interest is recognized on a cash basis. Collateral-dependent loans, or portions thereof, are charged off when deemed uncollectible.

The following table presents the amortized cost basis of collateral-dependent loans by category as of December 31, 2024 and 2023:

	Real Estate Secured Loans	Non-Real Estate Secured Loans	Total Collateral- Dependent Loans	Allowance For Credit Losses
<b>December 31, 2024:</b>				
Real estate mortgage loans:				
1-4 family residential mortgages	\$ 952	\$ -	\$ 952	\$ -
Commercial mortgages	417	-	417	-
Other mortgages	-	-	-	-
Real estate construction loans	-	-	-	-
Commercial loans	-	137	137	43
Consumer loans	-	598	598	57
<b>Total</b>	<b>\$ 1,369</b>	<b>\$ 735</b>	<b>\$ 2,104</b>	<b>\$ 100</b>

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**Note 3 - Loans and allowance for loan losses (continued)**

	<u>Real Estate Secured Loans</u>	<u>Non-Real Estate Secured Loans</u>	<u>Total Collateral- Dependent Loans</u>	<u>Allowance For Credit Losses</u>
<b>December 31, 2023:</b>				
Real estate mortgage loans:				
1-4 family residential mortgages	\$ 864	\$ -	\$ 864	\$ 4
Commercial mortgages	236	-	236	-
Other mortgages	-	-	-	-
Real estate construction loans	14	-	14	1
Commercial loans	-	271	271	47
Consumer loans	-	539	539	40
Total	<u>\$ 1,114</u>	<u>\$ 810</u>	<u>\$ 1,924</u>	<u>\$ 92</u>

*Credit Quality Indicators.* As part of the ongoing monitoring of the credit quality of the Bank's loan portfolio, management reviews certain credit quality indicators including (i) borrowers with outstanding loan balances totaling \$750 or greater; (ii) loans which are past due more than 30 days; (iii) loan charge offs and recoveries; (iv) non-accrual loans and (v) the general economic conditions in the Bank's market and surrounding areas. Loans with a total outstanding balance of \$750 or greater are reviewed annually to determine whether the loans should be classified. Management reviews all loans which are past due more than 30 days and two or more payments on a monthly basis. These loans are discussed with the Board of Directors at its monthly meeting. Loan charge offs and recoveries and non-accrual loans are also reported to the Board of Directors on a monthly basis. The local general economic conditions are detailed in a written report presented to management on a quarterly basis. This report is also included in the Bank's quarterly classified loan report. Management utilizes sources such as the state realtor reports; local, state and national economic statistics (such as unemployment statistics); and other business articles to prepare this report.

The Bank utilizes a risk rating matrix to assign a risk grade to each of its loans. A description of the general characteristics of the risk grades is as follows:

Satisfactory – These loans range from having minimal to acceptable credit risk.

Watch – These loans have acceptable credit risk but are beginning to develop potential weaknesses that may be temporary in nature but must be watched.

Other Assets Especially Mentioned (“OAEM”) – These loans have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at some future date.

Substandard – These loans are inadequately protected by the net worth or paying capacity of the borrower, and repayment may become dependent on liquidation of the underlying collateral. These loans have well-defined weaknesses, with the Bank likely sustaining a loss if the deficiencies are not corrected.

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

Loss – These loans are in a non-accrual status and in the process of collateral liquidation.

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**Note 3 - Loans and allowance for loan losses (continued)**

The following table presents the amortized cost basis of loan categories and credit quality as of December 31, 2024 and 2023. The Bank did not have any revolving loans converted to term at December 31, 2024 and 2023.

	Term Loans Amortized Cost Basis by Origination Year					Revolving loans amortized cost basis	Total
	2024	2023	2022	2021	Prior		
<b>December 31, 2024</b>							
<b>Real estate mortgage loans:</b>							
Risk rating							
Satisfactory	\$ 20,114	\$ 12,842	\$ 32,192	\$ 21,977	\$ 42,402	\$ 13,715	\$ 143,242
Watch	-	598	507	-	1,354	314	2,773
OAEM	-	117	-	1,062	889	65	2,133
Substandard	-	515	68	241	1,568	1,260	3,652
<b>Total real estate mortgage loans</b>	<u>\$ 20,114</u>	<u>\$ 14,072</u>	<u>\$ 32,767</u>	<u>\$ 23,280</u>	<u>\$ 46,213</u>	<u>\$ 15,354</u>	<u>\$ 151,800</u>
Real estate mortgage loans: Current period gross write offs	\$ -	\$ -	\$ 2	\$ -	\$ 1	\$ -	\$ 3
<b>Real estate construction loans:</b>							
Risk rating							
Satisfactory	\$ 8,420	\$ 3,211	\$ 2,204	\$ 1,106	\$ 1,460	\$ 372	\$ 16,773
OAEM	-	-	-	101	-	-	101
<b>Total real estate construction loans</b>	<u>\$ 8,420</u>	<u>\$ 3,211</u>	<u>\$ 2,204</u>	<u>\$ 1,207</u>	<u>\$ 1,460</u>	<u>\$ 372</u>	<u>\$ 16,874</u>
Real estate construction loans: Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1
<b>Commercial loans:</b>							
Risk rating							
Satisfactory	\$ 4,898	\$ 1,443	\$ 1,022	\$ 329	\$ 288	\$ 5,973	\$ 13,953
Watch	-	35	-	-	-	-	35
Substandard	20	57	2	-	2	266	347
Doubtful	-	-	49	-	-	-	49
<b>Total commercial loans</b>	<u>\$ 4,918</u>	<u>\$ 1,535</u>	<u>\$ 1,073</u>	<u>\$ 329</u>	<u>\$ 290</u>	<u>\$ 6,239</u>	<u>\$ 14,384</u>
Commercial loans: Current period gross write offs	\$ -	\$ 44	\$ -	\$ -	\$ 3	\$ -	\$ 47
<b>Consumer loans:</b>							
Risk rating							
Satisfactory	\$ 15,092	\$ 11,299	\$ 6,491	\$ 3,923	\$ 1,713	\$ 8	\$ 38,526
Watch	49	15	-	8	26	-	98
Substandard	58	226	148	120	87	-	639
<b>Total consumer loans</b>	<u>\$ 15,199</u>	<u>\$ 11,540</u>	<u>\$ 6,639</u>	<u>\$ 4,051</u>	<u>\$ 1,826</u>	<u>\$ 8</u>	<u>\$ 39,263</u>
Consumer loans: Current period gross write offs	\$ 48	\$ 311	\$ 116	\$ 113	\$ 40	\$ -	\$ 628
<b>Other loans:</b>							
Risk rating							
Satisfactory	\$ -	\$ -	\$ 1,482	\$ 7,000	\$ -	\$ -	\$ 8,482
<b>Total other loans</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,482</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,482</u>
Other loans: Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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**Note 3 - Loans and allowance for loan losses (continued)**

	Term Loans Amortized Cost Basis by Origination Year				Revolving loans amortized cost basis	Total
	2023	2022	2021	Prior		
<b>December 31, 2023</b>						
<b>Real estate mortgage loans:</b>						
Risk rating						
Satisfactory	\$ 14,900	\$ 35,050	\$ 25,183	\$ 46,857	\$ 12,528	\$ 134,518
Watch	340	1,252	252	1,555	249	3,648
OAEM	-	-	847	1,280	64	2,191
Substandard	166	72	263	1,762	1,276	3,539
<b>Total real estate mortgage loans</b>	<u>\$ 15,406</u>	<u>\$ 36,374</u>	<u>\$ 26,545</u>	<u>\$ 51,454</u>	<u>\$ 14,117</u>	<u>\$ 143,896</u>
Real estate mortgage loans:						
Current period gross write offs	\$ -	\$ -	\$ -	\$ 3	\$ -	\$ 3
<b>Real estate construction loans:</b>						
Risk rating						
Satisfactory	\$ 6,906	\$ 3,287	\$ 1,562	\$ 2,016	\$ 535	\$ 14,306
OAEM	-	-	105	-	-	105
Substandard	-	-	13	1	-	14
<b>Total real estate construction loans</b>	<u>\$ 6,906</u>	<u>\$ 3,287</u>	<u>\$ 1,680</u>	<u>\$ 2,017</u>	<u>\$ 535</u>	<u>\$ 14,425</u>
Real estate construction loans:						
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Commercial loans:</b>						
Risk rating						
Satisfactory	\$ 6,165	\$ 2,248	\$ 585	\$ 1,067	\$ 3,266	\$ 13,331
Watch	-	107	-	1	-	108
Substandard	116	-	-	102	266	484
Doubtful	-	50	-	-	-	50
<b>Total commercial loans</b>	<u>\$ 6,281</u>	<u>\$ 2,405</u>	<u>\$ 585</u>	<u>\$ 1,170</u>	<u>\$ 3,532</u>	<u>\$ 13,973</u>
Commercial loans:						
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
<b>Consumer loans:</b>						
Risk rating						
Satisfactory	\$ 17,762	\$ 10,409	\$ 7,430	\$ 4,760	\$ 5	\$ 40,366
Watch	22	38	21	51	-	132
Substandard	75	206	183	88	-	552
<b>Total consumer loans</b>	<u>\$ 17,859</u>	<u>\$ 10,653</u>	<u>\$ 7,634</u>	<u>\$ 4,899</u>	<u>\$ 5</u>	<u>\$ 41,050</u>
Consumer loans:						
Current period gross write offs	\$ 95	\$ 147	\$ 130	\$ 55	\$ 1	\$ 428
<b>Other loans:</b>						
Risk rating						
Satisfactory	\$ -	\$ 1,568	\$ 7,000	\$ -	\$ -	\$ 8,568
<b>Total other loans</b>	<u>\$ -</u>	<u>\$ 1,568</u>	<u>\$ 7,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 8,568</u>
Other loans:						
Current period gross write offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

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**Note 3 - Loans and allowance for loan losses (continued)**

The Bank adopted ASU No. 2016-13, “Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments,” as of January 1, 2023 in accordance with the required implementation date and recorded the impact of adoption to retained earnings, net of deferred income taxes, as required by the standard. Under ASC 326, the allowance for credit losses is an estimate of the expected credit losses on financial assets, which is measured using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets.

The Bank is utilizing a third-party model to tabulate its estimate of current expected credit losses, using a weighted average remaining maturity methodology. Accordingly, the loan portfolio has been segmented into pools based on similar attributes such as characteristics, complexity, performance through economic cycles, duration and purpose.

Furthermore, the weighted average remaining maturity methodology leverages a loss rate and future expectations of portfolio balances to calculate a reserve. The loss rate is calculated on each loan pool segment using historical information or forecast models. Future expectations of portfolio balances are determined by using the third-party model’s remaining life calculator. A quarterly expected loss rate is applied to an expected remaining balance for each period to determine the unadjusted expected loss for each loan pool segment. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of the Bank’s historical loss experience from March 31, 2004 to September 30, 2024. To further adjust the allowance for credit losses for expected losses not included within the quantitative component of the calculation, the Bank may consider the following qualitative adjustment factors: lending policies and procedures, state/local economic factors, nature and volume of loans, lending management, non-performing assets and loan losses, loan review, valuation of collateral, loan concentrations, and other external factors.

Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management’s judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate adequacy of the allowance is dependent upon a variety of factors beyond management’s control, including, among other things, the performance of the Bank’s loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

The allowances for credit losses on specific loans are based on a regular analysis and evaluation of the specific loans. On an annual basis, borrowers with outstanding loan balances totaling \$750 or greater are evaluated. On a semi-annual basis, borrowers with outstanding loan balances totaling \$50 or greater and classified as “Watch” “OAEM” or “Substandard” are evaluated. On a quarterly basis, borrowers 60 or more days past due with outstanding loan balances totaling \$100 or greater are evaluated. In addition, borrowers with outstanding loan balances totaling \$50 or greater classified as “Doubtful” and “Loss” are evaluated quarterly. Certain of these loans with potential problems are given an internal classification which reflects management’s assessment of the borrower’s ability to repay the loan, the estimated value of the underlying collateral and the economic environment and industry in which the borrower operates. The regular analysis and evaluation of problem loans is performed by the loan officers and independently reviewed and approved by management. Generally, specific allowances are based on the difference between the estimated value of the underlying collateral and the balance of the loan if the loan is deemed collateral dependent. Eventual outcomes may differ from these estimates.

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**Note 3 - Loans and allowance for loan losses (continued)**

Each quarter, management will perform an analysis of the qualitative adjustment factors that potentially reflect changes in the collectability of the loan portfolio not captured by historical loss data. These factors augment actual loss experience and help to estimate the probability of loss within a loan portfolio based upon emerging or inherent risk trends. This analysis is prepared in conjunction with the 2006 *Interagency Policy Statement on the Allowance for Loan and Lease Losses* regarding the estimation of credit losses. Management determines a rating for each factor based on information obtained from various sources. The scores for each factor are totaled and used to determine the average score and qualitative rating.

The following table presents the activity in the allowance for credit losses by loan category for the years ended December 31, 2024 and 2023:

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2023	\$ 478	\$ 69	\$ 140	\$ 530	\$ 1,217
Charged-off loans	(3)	(1)	(47)	(628)	(679)
Loan recoveries	3	-	1	163	167
Provision for credit losses	31	9	52	532	624
Balance, December 31, 2024	<u>\$ 509</u>	<u>\$ 77</u>	<u>\$ 146</u>	<u>\$ 597</u>	<u>\$ 1,329</u>

	Real estate mortgage loans	Real estate construction loans	Commercial loans	Consumer loans	Total
Balance, December 31, 2022	\$ 460	\$ 45	\$ 120	\$ 475	\$ 1,100
Impact of the adoption of ASC 326	85	24	31	88	228
Charged-off loans	(3)	-	-	(428)	(431)
Loan recoveries	7	9	3	62	81
Provision for credit losses	(71)	(9)	(14)	333	239
Balance, December 31, 2023	<u>\$ 478</u>	<u>\$ 69</u>	<u>\$ 140</u>	<u>\$ 530</u>	<u>\$ 1,217</u>

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**Note 4 – Troubled Loan Modifications**

The Bank adopted ASU 2022-02 effective January 1, 2023 on a prospective basis. As of December 31, 2024 and 2023, the Bank had troubled loan modifications with an amortized cost basis of \$42 and \$110, respectively, and zero and \$32, respectively, in allowance for those loans. As of December 31, 2024, there were no unfunded commitments on loans modified and designated as trouble loan modifications since January 1, 2024.

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Bank provides multiple types of concessions on one loan. 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.

There were no loans that were both experiencing difficulty and modified during the year ended December 31, 2024. The following table presents the amortized cost basis of loans at December 31, 2023, that were both experiencing difficulty and modified during the year ended December 31, 2023, by loan category and type of modification. The percentage of the amortized costs basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each category of financing receivable is also presented below.

	<u>Amortized Cost</u>	<u>% of Total Category of Financing Receivable</u>
<b>Term Extension</b>		
Commercial loans	\$ 6	0.04 %
<b>Total Term Extension</b>	<u>\$ 6</u>	
<b>Combination – Term Extension and Interest Rate Reduction</b>		
Commercial loans	\$ 70	0.50 %
Consumer loans	34	0.08 %
<b>Total Combination – Term Extension and Interest Rate Reduction</b>	<u>\$ 104</u>	
<b>Total</b>	<u>\$ 110</u>	

The Bank closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. At December 31, 2024 one commercial loan totaling \$55 had a payment default during the year ended December 31, 2024, and was modified in the twelve months prior to that default. At December 31, 2023, one commercial loan totaling \$55 that had been modified during the previous twelve months was 30 – 59 days past due. At December 31, 2023, there were no loans that had a payment default during the year ended December 31, 2023, and were modified in the twelve months prior to that default.

Loans secured by 1-4 family residential properties in process of foreclosure totaled zero and \$160 at December 31, 2024 and 2023, respectively.



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**Note 5 - Bank premises and equipment**

A summary of bank premises and equipment stated at cost, less accumulated depreciation, follows:

	December 31	
	2024	2023
Land	\$ 1,756	\$ 1,168
Buildings and improvements	4,014	3,986
Equipment, furniture and fixtures	1,390	2,029
Construction in progress	2,755	-
	9,915	7,183
Less accumulated depreciation	(3,339)	(3,835)
Net bank premises and equipment	\$ 6,576	\$ 3,348

On January 7, 2025, the Bank opened a full-service retail branch located at 8112 Timberlake Road, Lynchburg, Virginia 24502. Cost of \$2,704 included in construction in progress at December 31, 2024, relate to the Timberlake Road branch. The Bank incurred depreciation expense of \$212 in each of the years ended December 31, 2024 and 2023.

**Note 6 – Bank-owned life insurance**

At December 31, 2024 and 2023, the Bank owned life insurance policies on key employees with total insurance in force of \$20,748 and \$22,040, respectively. Generally accepted accounting standards require that these policies be recorded at the cash surrender value, net of surrender charges and/or early termination charges. As of December 31, 2024 and 2023, the BOLI cash surrender value was \$10,304 and \$10,001, respectively, resulting in other noninterest income of \$303 and \$248 in 2024 and 2023, respectively. The increases in the cash surrender values resulted in an annualized net yield of 3.26% (4.13% on a pre-tax equivalent basis) in 2024 and 2.62% (3.32% on a pre-tax equivalent basis) in 2023.

**Note 7 - Pension plans**

Effective January 1, 2012, the Bank amended its defined benefit pension plan (the “Plan”) converting it to a cash-balance pension plan whereby benefits earned by participants under the plan through December 31, 2011 were converted to an opening account balance for each participant. The opening balance was calculated based on IRS mandated assumptions for lump sum payouts. Eligibility under the cash-balance plan is the same as the previous defined benefit pension plan except the vesting period was shortened from five years to three years. Benefits under the cash-balance plan are computed based on graduated earnings rates determined by employees’ years of credited service as of December 31, 2011, plus interest at rates pre-set by management and the cash-balance plan administrators. As with the previous defined benefit pension plan, assets are invested in a balanced fund, fixed income fund and equity fund administered by the Virginia Bankers Association. As of December 31, 2011, no new entrants will be allowed into the Plan.

The Bank complies with ASC 715, *Compensation – Retirement Benefits*, which requires management to present in the statement of financial position the funded status of the plan as an asset (overfunded) or liability (underfunded) with any unrecognized actuarial gain (loss), prior service costs, or transition amount from the adoption of ASC 715, shown as an adjustment to the accumulated other comprehensive income.

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**Note 7 - Pension plans (continued)**

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

**Asset Allocation**

The plan's weighted-average asset allocations at December 31, 2024 and 2023, by asset category, are as follows:

	December 31,	
	2024	2023
Mutual Funds - Fixed Income	56%	60%
Mutual Funds - Equity	44%	40%
Total	100%	100%

The trust fund is sufficiently diversified to maintain a reasonable level of risk without imprudently sacrificing return, with a targeted asset allocation of 50% fixed income and 50% equities. The Investment Manager selects investment fund managers with demonstrated experience and expertise, and funds with demonstrated historical performance, for the implementation of the Plan's investment strategy. The Investment Manager will consider both actively and passively managed investment strategies and will allocate funds across the asset classes to develop an efficient investment structure.

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

The investment strategy for plan assets is to provide allocation models with varying degrees of investment return and risk consistent with sound funding objectives and participant demographics utilizing various types of assets such as large cap stocks, S&P 500 index fund, small and mid-cap stocks, cash equivalents and short term bonds. The performance goal for the investments of the plan is to exceed the investment benchmarks over the most recent 3- and 5-year periods while taking less risk than the market.

Plan investments are stated at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The following table presents the fair value of the net assets, by asset category, at December 31, 2024 and 2023:

Description of Assets:	2024	2023
Mutual Funds / Equity	\$ 1,599	\$ 1,887
Mutual Funds / Fixed Income	2,035	2,786
Total plan assets	\$ 3,634	\$ 4,673

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**Note 7 – Pension plans (continued)**

All of the plan assets are considered to be Level 1 assets, within the fair value hierarchy, as of December 31, 2024 and 2023. Level 1 assets are those with quoted prices in active markets for identical assets or liabilities.

**Other disclosures for the year ended December 31, 2024 and 2023:**

Change in benefit obligation

	2024	2023
Projected benefit obligation – beginning of year	\$ 3,503	\$ 3,543
Service cost	90	99
Interest cost	147	168
Actuarial (gain) loss	(192)	201
Benefits paid	(1,292)	(525)
Loss (gain) due to settlement	-	17
	<u>2,256</u>	<u>3,503</u>
Projected benefit obligation – end of year	\$ <u>2,256</u>	\$ <u>3,503</u>

Change in plan assets

	2024	2023
Fair value of assets – beginning of the year	\$ 4,673	\$ 4,735
Actual return (loss) on plan assets	253	463
Employer contribution	-	-
Benefits paid	(1,292)	(525)
	<u>3,634</u>	<u>4,673</u>
Fair value of assets – end of the year	\$ <u>3,634</u>	\$ <u>4,673</u>
Deferred asset loss (gain)	\$ <u>21</u>	\$ <u>(178)</u>

Funded status

	2024	2023
Projected benefit obligation – end of year	\$ (2,256)	\$ (3,503)
Fair value of assets – end of year	<u>3,634</u>	<u>4,673</u>
Funded status at the end of the year	\$ <u>1,378</u>	\$ <u>1,170</u>

Other changes in plan assets and benefit obligations recognized in other comprehensive income (loss):

	2024	2023
Net (gain) loss	\$ (944)	\$ (531)
Amortization of prior service cost	<u>82</u>	<u>82</u>
Total amount recognized	\$ <u>(862)</u>	\$ <u>(449)</u>

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**Note 7 – Pension plans (continued)**

The following tables set forth the disclosures regarding the defined benefit plan:

Components of net periodic benefit costs

	2024	2023
Service cost	\$ 90	\$ 99
Interest cost	147	168
Expected return on plan assets	(274)	(285)
Net amortization of prior service cost	(82)	(82)
Recognized net loss due to settlement	590	307
Recognized net actuarial loss	182	264
Net periodic benefit cost	\$ 653	\$ 471

The end of year weighted-average assumptions are:

	2024	2023
Discount rate used for net periodic pension cost	4.75%	5.00%
Discount rate used for disclosure	5.50%	4.75%
Expected return on plan assets	6.50%	6.50%
Rate of compensation increase for disclosure	3.00%	3.00%
Rate of compensation increase for net periodic pension cost	3.00%	3.00%
Expected future interest crediting rate	3.50%	3.00%

Additional disclosure information

Accumulated benefit obligation, December 31, 2024	\$ 2,256
Vested benefit obligation, December 31, 2024	\$ 2,256

The projected benefit payments for the next ten years are as follows:

<u>Year</u>	<u>Amount</u>
2025	\$ 211
2026	431
2027	513
2028	543
2029	338
2030 – 2034	381

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**Note 7 – Pension plans (continued)**

**401(k) plan**

In addition to the defined benefit plan described above, the Bank also sponsors a 401(k) defined contribution plan. The Bank makes a matching contribution to the plan in the amount of 100% of the first 3% and 50% of the next 3% of the elective contributions made by the participants. Participants have the right to contribute up to the maximum allowed under section 401(g) of the Internal Revenue Code.

The Bank also made supplemental contributions to the 401(k) accounts of employees hired January 1, 2012 or later who were not eligible for participation in the cash-balance defined benefit plan. The supplemental contribution was equal to 2.0% of the employee salary and will be paid at the end of each year, beginning December 31, 2012. The Bank's expense for all 401(k) contributions totaled \$148 and \$142 for 2024 and 2023, respectively.

**Note 8 - Income taxes**

Income tax expense attributable to income before income tax expense is summarized as follows:

	December 31,	
	2024	2023
Current federal income tax expense	\$ 539	\$ 467
Deferred federal income tax expense (benefit)	(121)	(37)
Total	\$ <u>418</u>	\$ <u>430</u>

Income tax expense differed from amounts computed by applying the U.S. Federal income tax rate of 21% for 2024 and 2023 to income before income tax expense as a result of the following:

	December 31,	
	2024	2023
Income tax expense at the statutory rate	\$ 658	\$ 698
Increase (reduction) in income tax expense resulting from		
Tax-exempt interest	(233)	(251)
Disallowance of interest expense	38	28
Bank-owned life insurance	(63)	(52)
Other	18	7
Total	\$ <u>418</u>	\$ <u>430</u>

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**Note 8 - Income taxes (continued)**

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities are as follows:

	December 31	
	2024	2023
Deferred tax assets		
Loans, due to allowance for loan losses and net unearned fees	\$ 216	\$ 187
Other real estate, due to valuation allowances	-	-
Pension valuation adjustment	167	348
Unrealized loss on available-for sale securities	2,380	2,131
Other	196	190
Total gross deferred tax assets	2,959	2,856
Deferred tax liabilities		
Bank premises and equipment due to differences in depreciation	179	140
Prepaid pension, due to actual pension contribution in excess of accrual for financial reporting purposes	457	594
Loan costs	105	94
Total gross deferred tax liabilities	741	828
Net deferred tax asset (liability)	\$ 2,218	\$ 2,028

The Bank did not recognize any interest or penalties related to income tax during the years ended December 31, 2024 and 2023, and did not accrue interest or penalties as of December 31, 2024 and 2023. The Bank does not have an accrual for uncertain tax positions as of December 31, 2024 and 2023, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on clear and unambiguous tax law. Tax returns for all years 2021 and thereafter are subject to future examination by tax authorities.

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**Note 9 - Deposits**

The Bank's time deposits include accounts with balances of \$250 or more of \$25,071 and \$30,720 as of December 31, 2024 and 2023, respectively. At December 31, 2024, maturities of time deposits are scheduled as follows:

<u>Year Ending</u>	<u>Amount</u>
2025	\$ 84,113
2026	13,047
2027	2,927
2028	18,515
Thereafter	<u>6,393</u>
Total	\$ <u>124,995</u>

In the ordinary course of business, certain directors, executive officers, and their affiliates (collectively referred to as "related parties") of the Bank have maintained deposit accounts with the Bank. These deposits were opened on substantially the same terms, including interest rates for interest-bearing accounts, as those prevailing at the time for comparable transactions with other unaffiliated persons. Balances for these deposits as of December 31, 2024 and 2023 were \$1,524 and \$1,437, respectively.

Brokered deposits, as defined by the Federal Deposit Insurance Corporation ("FDIC"), totaled \$19,872 and \$19,841 at December 31, 2024 and 2023, respectively.

**Note 10 - Securities sold under repurchase agreements and other borrowings**

The Bank offers to its larger commercial customers a cash management service known as securities sold under repurchase agreements. These cash management accounts are administered by the Bank and pay a set interest rate determined by management. These accounts are secured by a pledge on a portion of the Bank's investments, which remain under management's control. The Bank had \$2,166 and \$2,292 outstanding in cash management accounts as of December 31, 2024 and 2023, respectively. The maximum month-end outstanding balances were \$3,019 and \$5,105 during 2024 and 2023, respectively, and the average outstanding balances were \$2,384 and \$2,997 during these periods.

The Bank maintains a line of credit secured by securities and residential mortgage loans under a blanket lien agreement with FHLB. The Bank had available \$37,087 and \$32,422 of credit for future borrowings from FHLB at December 31, 2024 and 2023, respectively. In addition, the Bank had unused lines of credit with correspondent banks totaling \$12,000 and \$7,000 at December 31, 2024 and 2023, respectively.

The table below presents selected information on other borrowings:

	<u>December 31,</u>	
	<u>2024</u>	<u>2023</u>
Balance outstanding at year end	\$ 5,000	\$ -
Maximum balance at any month end during the year	5,000	6,000
Average balance for the year	336	1,153
Weighted average rate for the year	4.76%	4.63%
Weighted average rate on borrowings at year end	4.53%	-

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**Note 11 - Dividend restrictions and capital requirements**

The Bank is subject to certain regulatory restrictions pertaining to the amount of dividends that it may pay. The Federal Reserve restricts, without prior approval, the total dividend payments of a member bank in any calendar year to the bank's net income of that year, as defined, combined with its retained net income of the preceding two calendar years, less any required transfers to surplus. At December 31, 2024, retained earnings which are free of such restrictions amounted to approximately \$5,350.

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

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier 1 risk-based capital (as defined in the regulations), to risk-weighted assets (as defined), and of Tier 1 capital (as defined) to average assets (as defined). Effective January 1, 2015, the final rule implementing the Basel Committee on Banking Supervision's capital guidelines for U. S. banks (Basel III rules) began its phase-in. All requirements of the Basel III rules were phased in over a multi-year schedule, and became fully phased in by January 1, 2019. As part of the new requirements, the Common Equity Tier 1 ratio is calculated and utilized in the assessment of capital for all institutions. Management believes, as of December 31, 2024 and 2023, the Bank met all capital adequacy requirements to which it is subject.

In July 2013, the Federal Reserve issued final rules to include technical changes to its market risk capital rules to align them with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. Effective January 1, 2015, the final rules require the Bank to comply with the following minimum capital ratios: (i) a new common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets (increased from the prior requirement of 4.0%); (iii) a total capital ratio of 8.0% of risk-weighted assets (unchanged from the prior requirement); and (iv) a leverage ratio of 4.0% of total assets (unchanged from the prior requirement). The Basel III Final Rules establish a capital conservation buffer of 2.5%, which is added to the 4.5% CET1 to risk-weighted assets to increase the ratio to at least 7.0%. The Basel III Final Rules also establish risk weightings that applied to many classes of assets held by community banks, importantly including applying higher risk weightings to certain commercial real estate loans. The Basel III Final Rules became effective January 1, 2015, and the Basel III Final Rules capital conservation buffer was phased in from 2015 to 2019.

Now fully phased in, the Basel III Final Rules require banks to maintain (i) a minimum ratio of CET1 to risk-weighted assets of at least 4.5%, plus a 2.5% capital conservation buffer resulting in a minimum ratio of CET1 to risk-weighted assets of at least 7.0%; (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer, effectively resulting in a minimum Tier 1 capital ratio of 8.5% upon full implementation; (iii) a minimum ratio of total capital (Tier 1 plus Tier 2 capital) to risk-weighted assets of at least 8.0% plus the capital conservation buffer effectively resulting in a minimum total capital ratio of 10.5% upon full implementation, and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to balance sheet exposures plus certain off-balance sheet exposures, computed as the average for each calendar quarter.



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**Note 11 - Dividend restrictions and capital requirements (continued)**

As of December 31, 2024, the most recent notification from the Federal Reserve Bank of Richmond categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based and Tier 1 leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual regulatory capital amounts and ratios are also presented in the table below.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<b>December 31, 2024</b>						
Total capital						
(to risk-weighted assets)	\$ 44,985	19.06%	\$ 18,886	8.0%	\$ 23,607	>10.0%
Tier 1 capital						
(to risk-weighted assets)	\$ 43,594	18.47%	\$ 14,164	6.0%	\$ 18,886	>8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	\$ 43,594	18.47%	\$ 10,623	4.5%	\$ 15,345	>6.5%
Tier 1 capital (leverage)						
(to average assets)	\$ 43,594	12.48%	\$ 13,976	4.0%	\$ 17,470	>5.0%
<b>December 31, 2023</b>						
Total capital						
(to risk-weighted assets)	\$ 43,229	19.00%	\$ 18,200	8.0%	\$ 22,751	>10.0%
Tier 1 capital						
(to risk-weighted assets)	\$ 41,963	18.44%	\$ 13,650	6.0%	\$ 18,200	>8.0%
Common equity Tier 1 capital						
(to risk-weighted assets)	\$ 41,963	18.44%	\$ 10,238	4.5%	\$ 14,788	>6.5%
Tier 1 capital (leverage)						
(to average assets)	\$ 41,963	12.60%	\$ 13,323	4.0%	\$ 16,653	>5.0%

**Note 12 – Revenue Recognition**

The Bank records revenue based on ASU No. 2014-09 "Revenue from Contracts with Customers" (Topic 606). Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees, merchant income, and insurance commissions. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Substantially all of the Bank's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of Topic 606 are discussed below.

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**Note 12 – Revenue Recognition (continued)**

*Service Charges on Deposit Accounts*

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

*Fees, Exchange, and Other Service Charges*

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

*Other*

Other noninterest income consists of other recurring revenue streams such as safety deposit box rental fees and other miscellaneous revenue streams. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Bank determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

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**Note 13 – Noninterest expense - Other operating expenses**

Major items included in the other operating expenses component of noninterest expense are as follows:

	2024	2023
Office supplies	\$ 81	\$ 84
Virginia franchise tax	362	325
Audit fees	165	151
Board expense	104	103
FDIC assessments	150	125
Marketing and advertising costs	72	82
Other	1,114	1,047
	<u>1,114</u>	<u>1,047</u>
Total	<u>\$ 2,048</u>	<u>\$ 1,917</u>

**Note 14 - Financial instruments with off-balance-sheet risk**

The Bank is not a party to derivative financial instruments with off-balance-sheet risks such as futures, forwards, swaps and options. The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments may involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of these instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

Credit risk is defined as the possibility of sustaining a loss because the other party to a financial instrument fails to perform in accordance with the terms of the contract. The Bank's maximum exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of the instruments. The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments.

The Bank requires collateral or other security to support financial instruments when it is deemed necessary. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation of the counterparty and the Bank's access to the collateral. Types of collateral may include marketable securities, real estate and business equipment.

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**Note 14 - Financial instruments with off-balance-sheet risk (continued)**

Financial instruments whose contract amounts represent credit risk are as follows:

	Contract Amounts at December 31	
	2024	2023
Commitments to extend credit	\$ <u>34,739</u>	\$ <u>27,130</u>
Standby letters of credit	\$ <u>272</u>	\$ <u>402</u>

The reserve for credit losses on off-balance sheet credit exposures was \$62 and \$49 at December 31, 2024 and 2023, respectively. Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing standby letters of credit is generally less than that involved in extending loans to customers because the Bank generally holds deposits equal to the commitment. Management does not anticipate any material losses as a result of these transactions.

The Bank’s business activity is with customers located in the counties of Appomattox, Buckingham, Campbell, and Prince Edward in Virginia and the City of Lynchburg, Virginia. Accordingly, operating results are closely correlated with the economic trends within the counties and influenced by the significant industries within the region, including agriculture, timber and logging, and light manufacturing. In addition, the ultimate collectability of the Bank’s loan portfolio is susceptible to changes in the market conditions within the region.

**Note 15 – Fair Value Measurements**

**Determination of Fair Value**

The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic of FASB ASC, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability (an “exit price”) in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank’s various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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**Note 15 – Fair Value Measurements (continued)**

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

**Fair Value Hierarchy**

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value.

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 – observable inputs other than the quoted prices included in Level 1.
- Level 3 – unobservable inputs.

Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy:

**Fair Value on a Recurring Basis**

Securities Available-for-Sale

Fair values of securities, excluding restricted investments in Federal Reserve Bank stock, Federal Home Loan Bank stock and Community Bankers' Bank stock are based on quoted prices available in an active market. If quoted prices are available, these securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics, or discounted cash flow.

Level 2 securities would include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where there is limited activity or less transparency around inputs to the valuation, securities are classified within Level 3 of the valuation hierarchy. Currently, all of the Bank's securities are considered to be Level 2 securities.

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**Note 15 – Fair Value Measurements (continued)**

The following table summarizes the Bank’s financial assets that were measured at fair value on a recurring basis during 2024 and 2023.

Description	Carrying Value at December 31, 2024			
	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agency securities	\$ 6,327	\$ -	\$ 6,327	\$ -
Municipal securities	50,329	-	50,329	-
Mortgage-backed securities	19,625	-	19,625	-
Corporate securities	7,696	-	7,696	-
SBA loan pools	5,721	-	5,721	-
<b>Total available-for-sale securities</b>	<b>\$ 89,698</b>	<b>\$ -</b>	<b>\$ 89,698</b>	<b>\$ -</b>

Description	Carrying Value at December 31, 2023			
	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. Government agency securities	\$ 6,173	\$ -	\$ 6,173	\$ -
Municipal securities	52,086	-	52,086	-
Mortgage-backed securities	21,478	-	21,478	-
Corporate securities	7,689	-	7,689	-
SBA loan pools	6,419	-	6,419	-
<b>Total available-for-sale securities</b>	<b>\$ 93,845</b>	<b>\$ -</b>	<b>\$ 93,845</b>	<b>\$ -</b>

Fair Value on a Non-recurring Basis

Collateral-dependent loans

Loans are designated as collateral-dependent when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected when due. The measurement of loss associated with collateral-dependent loans can be based on either the observable market price of the loan or the fair value of the collateral. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable.

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**Note 15 – Fair Value Measurements (continued)**

The vast majority of the collateral is real estate. The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2). However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports (Level 3). Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

Other real estate owned

Certain assets such as other real estate owned (OREO) are measured at fair value less cost to sell in accordance with ASC 820. Real estate acquired through foreclosure is transferred to OREO. The measurement of loss associated with OREO is based on the fair value of the collateral compared to the unpaid loan balance and anticipated costs to sell the property. The value of OREO property is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Bank using observable market data (Level 2).

Any fair value adjustments are recorded in the period incurred and expensed against current earnings. However, in situations where the collateral is a house or building in the process of construction, the appraisal is more than 12 months old, management has determined the fair value of the collateral is further impaired below the appraised value, or the appraisal is not based solely on market comparables adjusted for observable inputs, the value is considered Level 3.

The following tables summarize the Bank's collateral-dependent loans and OREO measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023:

<u>Description</u>	<u>Carrying Value at December 31, 2024</u>			
	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans	\$ 189	\$ -	\$ -	\$ 189

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**Note 15 – Fair Value Measurements (continued)**

<u>Description</u>	<u>Carrying Value at December 31, 2023</u>			
	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral-dependent loans	\$ 294	\$ -	\$ -	\$ 294
Other real estate owned	\$ 148	\$ -	\$ -	\$ 148

The following table sets forth information regarding the quantitative inputs used to value assets classified as Level 3:

Quantitative information about Level 3 Fair Value Measurements at December 31, 2024

<u>Description</u>	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Inputs</u>	<u>Weighted Average Discount</u>	<u>Range of Weighted Average Discount</u>
Assets:					
Collateral-dependent loans					
Commercial	12	Business financial statement	Adjustment for marketability of collateral	79.0%	Range of 10.0% to 90.0%
Consumer	<u>177</u>	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%	Range of 5.0% to 15.0%
Total Collateral-dependent Loans	\$ <u>189</u>				



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**Note 15 – Fair Value Measurements (continued)**

Quantitative information about Level 3 Fair Value Measurements at December 31, 2023

Description	Fair Value	Valuation Technique(s)	Unobservable Inputs	Weighted Average Discount	Range of Weighted Average Discount
Assets:					
Collateral-dependent loans					
Commercial	63	Business financial statement	Adjustment for marketability of collateral	37.5%	Range of 25.0% to 45.0%
Residential RE	43	Discounted appraised value	Estimation of selling costs	10.0%	Range of 2.0% to 10.0%
Consumer	<u>188</u>	NADA Retail Value of vehicle	Adjustment for condition of the vehicle	10.0%	Range of 5.0% to 15.0%
Total Collateral-dependent Loans	\$ <u>294</u>				
Other Real Estate Owned					
Residential vacant land	\$ <u>148</u>	Sales comparison approach	Estimation of selling costs	10.0%	Range of 7.5% to 15.0%
Total Other RE Owned	\$ <u>148</u>				

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**Note 15 – Fair Value Measurements (continued)**

The estimated fair values, and related carrying or notional amounts, of the Bank’s financial instruments and their placement in the fair value hierarchy as of December 31, 2024 and December 31, 2023 are as follows:

	Carrying Amount	Approximate Fair Value by Valuation Hierarchy		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2024				
<b>Financial assets</b>				
Cash and due from banks	\$ 4,954	\$ 4,954	\$ -	\$ -
Federal funds sold	2,661	2,661	-	-
Securities available-for-sale	89,698	-	89,698	-
Loans, net	229,474	-	-	215,299
Accrued interest receivable	1,676	-	1,676	-
Bank-owned life insurance	10,304	-	10,304	-
<b>Total financial assets</b>	<b>\$ 338,767</b>	<b>\$ 7,615</b>	<b>\$ 101,678</b>	<b>\$ 215,299</b>
<b>Financial liabilities</b>				
Deposits	\$ 308,836	\$ -	\$ 183,841	\$ 116,777
Securities sold under repurchase Agreements and other				
Borrowings	7,166	-	7,166	-
Accrued interest payable	784	-	784	-
<b>Total financial liabilities</b>	<b>\$ 316,786</b>	<b>\$ -</b>	<b>\$ 191,791</b>	<b>\$ 116,777</b>

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**Note 15 – Fair Value Measurements (continued)**

	Carrying Amount	Approximate Fair Value by Valuation Hierarchy		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2023				
<b>Financial assets</b>				
Cash and due from banks	\$ 4,979	\$ 4,979	\$ -	\$ -
Federal funds sold	4,800	4,800	-	-
Securities available-for-sale	93,845	-	93,845	-
Loans, net	220,695	-	-	207,036
Accrued interest receivable	1,615	-	1,615	-
Bank-owned life insurance	10,001	-	10,001	-
<b>Total financial assets</b>	<b>\$ 335,935</b>	<b>\$ 9,779</b>	<b>\$ 105,461</b>	<b>\$ 207,036</b>
<b>Financial liabilities</b>				
Deposits	\$ 308,693	\$ -	\$ 188,618	\$ 109,991
Securities sold under repurchase Agreements and other				
Borrowings	2,292	-	2,292	-
Accrued interest payable	615	-	615	-
<b>Total financial liabilities</b>	<b>\$ 311,600</b>	<b>\$ -</b>	<b>\$ 191,525</b>	<b>\$ 109,991</b>

Fair value estimates are made at a specific point in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Bank's entire holdings of a particular financial instrument. Because no market exists for a significant portion of the Bank's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, 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 assumptions could significantly affect the estimates.

Fair value estimates are based on existing on-balance-sheet 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. Significant assets that are not considered financial assets include deferred income taxes and bank premises and equipment; a significant liability that is not considered a financial liability is accrued pension benefits. 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 the estimates.

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2024 and 2023**  
(In thousands, except share and per share data)

**Note 15 – Fair Value Measurements (continued)**

The Bank assumes interest rate risk (the risk that general interest rate levels will change) as a result of its normal operations. As a result, the fair values of the Bank’s financial instruments will change when interest rate levels change, and that change may be either favorable or unfavorable to the Bank. Management attempts to match maturities of assets and liabilities to the extent believed necessary to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay in a rising rate environment and more likely to prepay in a falling rate environment. Conversely, depositors who are receiving fixed rates are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment.

Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting terms of new loans and deposits and by investing in securities with terms that mitigate the Bank’s overall interest rate risk.

**Note 16 – Accumulated Other Comprehensive Income (Loss)**

Changes in each component of accumulated other comprehensive income (loss) were as follows:

	Net Unrealized Loss on Available-for- Sale Securities	Change in Unfunded Pension Liability	Accumulated Other Comprehensive Loss
Balance at December 31, 2022	\$ (10,965)	\$ (1,665)	\$ (12,630)
Unrealized gain on securities available- -for-sale, net of deferred tax of \$742	2,790		2,790
Reclassification adjustment for loss on sale of securities, net of tax of (\$42) <sup>(1)</sup>	157		157
Change in pension plan assets and benefit obligations, net of deferred tax of (\$111) <sup>(2)</sup>		419	419
Amortization of prior service cost, net of deferred tax (benefit) of \$17 <sup>(2)</sup>		(65)	(65)
Balance at December 31, 2023	<u>\$ (8,018)</u>	<u>\$ (1,311)</u>	<u>\$ (9,329)</u>
Unrealized loss on securities available- -for-sale, net of deferred tax of \$248	(933)		(933)
Reclassification adjustment for gain on sale of securities, net of tax of \$1 <sup>(1)</sup>	(2)		(2)
Change in pension plan assets and benefit obligations, net of deferred tax of (\$198) <sup>(2)</sup>		746	746
Amortization of prior service cost, net of deferred tax (benefit) of \$17 <sup>(2)</sup>		(65)	(65)
Balance at December 31, 2024	<u>\$ (8,953)</u>	<u>\$ (630)</u>	<u>\$ (9,583)</u>

(1) Included on income statement in “Gains on sales, calls and maturities of securities”

(2) Included on income statement in “Salaries and employee benefits”

**THE FARMERS BANK OF APPOMATTOX AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**  
**December 31, 2024 and 2023**  
**(In thousands, except share and per share data)**

**Note 17 – Subsequent Events**

Management has evaluated subsequent events for potential recognition and/or disclosure in the December 31, 2024 consolidated financial statements. This evaluation was through March 12, 2025, the date the consolidated financial statements were available to be issued. Management noted that on February 11, 2025, the Board of Directors declared a cash dividend of \$0.55 per share payable March 7, 2025 to shareholders of record as of February 24, 2025.

# THE BOARD OF DIRECTORS



**L-R Standing:** R. Kinckle Robinson, Alfred Jones III, Benjamin H. Johnson, Allison F. Gobble,  
Christopher J. Dillon, Christopher N. Simpson

**L-R Seated:** Laurie S. Harris, Douglas M. Webb, John R. Caldwell

# SENIOR OFFICERS



**L-R Front Row:** Cassandra R. Mullins, Alexa G. Layne-Stratton, John R. Caldwell, Stephanie O. Smith, Katherine A. Kraince

**L-R Back Row:** Bruce S. Drinkard, Brian D. Wilkerson, Kenneth A. Shorter, Thomas L. Rasey, Jr., J. Christian Pemberton

# 2024 FARMERS BANK MANAGEMENT

## EXECUTIVE OFFICERS

John R. Caldwell	President & Chief Executive Officer
Bruce S. Drinkard	Senior Vice President & Chief Lending Officer
Thomas L. Rasey, Jr.	Senior Vice President, Chief Operations Officer, & Corporate Secretary
J. Christian Pemberton	Senior Vice President & Chief Financial Officer

## SENIOR OFFICERS

Kenneth A. Shorter	First Vice President & Chief Information Technology Officer
Brian D. Wilkerson	First Vice President & Chief Retail Lending Officer
Stephanie O. Smith	First Vice President, Branch Administrator, & Security Officer
Katherine A. Kraince	First Vice President & Chief Human Resources Officer
Cassandra R. Mullins	Vice President, Head of Compliance
Alexa G. Layne-Stratton	Vice President, Marketing & Project Management Officer

## OFFICERS

Cynthia P. Martin	Vice President, Head of Real Estate Lending
Curtis H. Hancock	Vice President, IT Specialist
Taylor L. W. Bradshaw	Vice President, Loan Administration Officer
Jessica J. Hall	Vice President, Main Branch Manager
Christopher M. Peters	Vice President, Triangle Plaza Branch Manager
Lacie C. Page	Vice President, Concord Branch Manager
Lisa H. Warner	Vice President, Buckingham Branch Manager
Anabelle R. Rodriguez-Thurston	Vice President, Farmville Branch Manager
Vonnie H. Brooks	Vice President, Timberlake Branch Manager
Samantha A. Williams	Assistant Vice President, Payments Officer
Elaina M. Kivett	Assistant Vice President, Operations and Operations Training Officer
Lauren E. Sadler	Assistant Vice President, Retail Operations Officer
J. Eli Sawyers	Assistant Vice President, IT/Vendor & Risk Management
Keri R. Bailey	Assistant Vice President, HR, Payroll & Benefits
Michael W. Inglett	Assistant Vice President, Real Estate Operations Manager
Joan B. Jamerson	Assistant Vice President, Collections Supervisor
Haley M. Drew	Bank Officer, Accounting Officer II
Charity E. Oxner	Bank Officer, BSA Officer
Cody W. Drinkard	Bank Officer, Lending Officer II
Emily B. Hedrick	Bank Officer, Loan Department Supervisor
Sarah F. Glover	Bank Officer, Assistant Branch Manager, Concord
Matthew D. Cash	Bank Officer, Universal Banker
Ellen K. McGarry	Bank Officer, Universal Banker
Beverly Jo DeVore	Bank Officer, Universal Banker



# 2024 EMPLOYEES

## MAIN OFFICE

Penny P. Franklin  
Uwana M. Litchford  
Janet M. Baker  
Whitney D. Drew  
Alysia V. Baker  
Alexis N. Keen  
Amy L. Covington  
J. Tatum Martin  
Jefferson D. Wise  
Bailey G. Purcell  
Jennifer N. Glover  
Laura R. Shumaker  
Kaylee R. Maxwell  
Logan C. Marquis  
Sandra L. Clapp  
Sue T. Ranson  
James N. Bollinger  
Sarah M. Overstreet  
Richard E. Smith  
Michael E. Lewis  
Elizabeth D. Ferguson  
Heidi S. McCraw  
Berkley E. Jamerson  
Gavin O. Cooper  
A. Jasmine Monroe  
Leslie Flores  
Mary C. O'Brien  
David A. Dorris  
Eric D. Hernandez  
Ashlyn M. Gott  
Anna M. Puckett

## TRIANGLE PLAZA BRANCH

Delaphine L. Chambers  
Angela G. Charté  
S. Briana Stratton  
Amanda H. Patrick

## CONCORD BRANCH

Doris "Scottie" H. Tyree  
Amber M. Thomson  
Melissa H. Dooley  
Amber N. Smith

## BUCKINGHAM BRANCH

Kimberly F. Coleman  
Ontavia L. Hurt  
Stacy D. Perkins

## FARMVILLE BRANCH

Viviana E. Rios  
Braden Dunn

## TIMBERLAKE BRANCH

Elizabeth S. Lacy  
Elizabeth A. Bowles  
Kristal L. Porter  
Roxanne M. Merkal

# 2024 HIGHLIGHTS



**ALL EMPLOYEES**



**UNIVERSAL/RELATIONSHIP BANKERS**



**LOAN OFFICERS**



**TIMBERLAKE BRANCH STAFF**



**MENTORSHIP GROUP**

# 2024 HIGHLIGHTS



**YEARS OF SERVICE**



**ANNUAL COMMUNITY SHRED EVENT**



**TEACH CHILDREN TO SAVE**



**INTERNATIONAL WOMEN'S DAY**



**CLUB TRIP TO FREDERICKSBURG**



**EXECUTIVE CIRCLE DINNER**



Timberlake Branch (Opened January 2025 in Lynchburg, VA)

## Contact Us

1-877-405-7797

[www.TheFarmersBankVA.com](http://www.TheFarmersBankVA.com)



## Locations

Appomattox

Concord

Dillwyn

Farmville

Lynchburg