QUEENSTOWN BANCORP OF MARYLAND, INC.

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2024 AUDITED FINANCIAL STATEMENTS

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders
of Queenstown Bancorp of Maryland, Inc.
and Subsidiary
Queenstown, Maryland

Opinion

We have audited the accompanying consolidated financial statements of Queenstown Bancorp of Maryland, Inc. (a Maryland corporation) and subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years ended December 31, 2024, 2023, and 2022, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Queenstown Bancorp of Maryland, Inc. and subsidiary as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years ended December 31, 2024, 2023, and 2022 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. 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 Queenstown Bancorp of Maryland, Inc. and to meet our ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 consolidated financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 Queenstown Bancorp of Maryland, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Queenstown Bancorp of Maryland, Inc.'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.

UHY LLP

Salisbury, Maryland
April 8, 2025

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands)

	December 31	
	2024	**2023**
ASSETS		
Cash and due from banks	$ 5,876	6,363
Interest bearing deposits with banks	81,836	48,190
Total cash and cash equivalents	87,712	54,553
Securities available for sale (at fair value)	125,060	136,404
Securities held to maturity (at amortized cost)	2,731	2,999
Federal Home Loan Bank stock (at cost)	521	493
Loans	445,078	457,399
Less allowance for loan losses	(6,552)	(6,734)
Loans, net	438,526	450,665
Premises and equipment, net	6,619	6,205
Bank owned life insurance	16,091	15,637
Deferred income taxes	8,222	8,616
Accrued interest receivable	2,013	2,228
Prepaid expenses	460	530
Other assets	408	949
TOTAL ASSETS	$688,363	679,279
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	$165,661	171,032
Interest bearing deposits	425,457	420,352
Total deposits	591,118	591,384
Borrowings	25,000	20,000
Accrued expenses and other liabilities	6,070	5,246
Total liabilities	622,188	616,630
Common stock - $10 par value; shares authorized 10,000,000, shares issued and outstanding 1,195,209 and 1,197,300 , respectively	11,952	11,973
Additional paid in capital	358	463
Retained earnings	69,450	66,922
Accumulated other comprehensive (loss)	(15,585)	(16,709)
Total stockholders' equity	66,175	62,649
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$688,363	679,279

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share information)

	Years Ended		
	2024	**2023**	**2022**
INTEREST INCOME:			
Interest and fees on loans	$ 24,207	22,552	18,736
Interest and dividends on investment securities	2,975	3,186	2,890
Other interest income	3,348	2,290	902
Total interest income	30,530	28,028	22,528
INTEREST EXPENSE:			
Interest on deposits	9,638	7,059	1,550
Interest on borrowings	1,381	776	1
Total interest expense	11,019	7,835	1,551
Net interest income	19,511	20,193	20,977
Provision for loan losses, including unfunded commitments	(360)	(700)	-
Net interest income after provision for loan losses	19,871	20,893	20,977
NONINTEREST INCOME:			
Service charges on deposit accounts	494	509	470
Income on life insurance policies	439	398	380
Other income	861	876	859
Net (loss) gain on sales of securities	(356)	(660)	-
Total noninterest income	1,438	1,123	1,709
NONINTEREST EXPENSES:			
Salaries and employee benefits	8,629	8,295	7,861
Data processing and electronic banking expenses	1,178	1,338	1,172
Occupancy expense	735	745	728
Equipment expenses	501	486	496
FDIC insurance premiums	312	305	181
Other expenses	2,597	2,536	2,761
Total noninterest expenses	13,952	13,705	13,199
Income before income taxes	7,357	8,311	9,487
Income tax expense	1,841	2,150	2,450
Net income	$ 5,516	6,161	7,037
Basic net income per common share	$ 4.61	5.15	5.87
Diluted net income per common share	$ 4.58	5.10	5.81
Basic weighted average common shares outstanding	1,195,435	1,196,656	1,199,084
Diluted weighted average common shares outstanding	1,203,518	1,207,900	1,211,471

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	Years Ended 2024	2023	2022
Net income	$ 5,516	$ 6,161	$ 7,037
Other comprehensive income (loss), before tax:			
Securities available for sale:			
Net change in unrealized gains (losses)	1,807	5,508	(25,061)
Net losses on sales reclassified into earnings	(258)	(478)	-
Other comprehensive income (loss) , before tax	1,549	5,030	(25,061)
Income tax effect	(425)	(1,384)	6,896
Other comprehensive income (loss), net of tax	1,124	3,646	(18,165)
Total comprehensive income (loss)	$ 6,640	9,807	$ (11,128)

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2024, 2023 and 2022
(Dollars in thousands, except per share information)

	Common Stock Shares	Par Value	Additional paid- in capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Totals
Balances at January 1, 2022	1,200,248	$ 12,002	615	59,708	(2,190)	70,135
Net Income	-	-	-	7,037	-	7,037
Other comprehensive loss, net of tax	-	-	-	-	(18,165)	(18,165)
Restricted stock issued	1,055	11	55	-	-	66
Stock options exercised	1,920	19	54	-	-	73
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(8,000)	(80)	(400)	-	-	(480)
Cash dividends ($2.50 per share)	-	-	-	(2,991)	-	(2,991)
Balances at December 31, 2022	1,195,223	11,952	339	63,754	(20,355)	55,690
Net Income	-	-	-	6,161	-	6,161
Other comprehensive loss, net of tax	-	-	-	-	3,646	3,646
Restricted stock issued	2,066	21	112	-	-	133
Stock options exercised	240	2	6	-	-	8
Stock option compensation	-	-	15	-	-	15
Stock repurchases	(229)	(2)	(9)	-	-	(11)
Cash dividends ($2.50 per share)	-	-	-	(2,993)	-	(2,993)
Balances at December 31, 2023	1,197,300	11,973	463	66,922	(16,709)	62,649
Net Income	-	-	-	5,516	-	5,516
Other comprehensive income, net of tax	-	-	-	-	1,124	1,124
Restricted stock issued	2,187	22	117	-	-	139
Stock options exercised	2,900	29	80	-	-	109
Stock repurchases	(7,178)	(72)	(302)	-	-	(374)
Cash dividends ($2.50 per share)	-	-	-	(2,988)	-	(2,988)
Balances at December 31, 2024	1,195,209	$ 11,952	358	69,450	(15,585)	66,175

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years Ended		
	2024	2023	2022
OPERATING ACTIVITIES:			
Net Income	$ 5,516	6,161	7,037
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	805	946	1,200
Depreciation and amortization	454	456	441
Provision for loan losses, including unfunded commitments	(360)	(700)	-
Loss on sales of securities	356	660	-
Deferred tax (benefit) expense	(33)	283	(22)
Stock option compensation	-	15	15
Net changes in:			
Accrued interest receivable	215	(169)	(318)
Accrued expenses and other liabilities	824	1,253	542
Prepaid expenses	70	(152)	(82)
Other operating activities	(7)	(583)	107
Net cash provided by operating activities	7,840	8,170	8,920
INVESTING ACTIVITES:			
Purchases of securities available-for-sale	-	-	(9,310)
Purchases of securities held-to-maturity	-	-	(3,336)
Proceeds from sales of securities available-for-sale	3,691	6,660	-
Principal payments received on securities available-for-sale	8,350	8,545	12,815
Principal payments received on securities held-to-maturity	269	257	108
Net decrease (increase) in loans	12,423	(28,313)	(44,327)
Purchases of FHLB stock	(28)	-	(277)
Proceeds from redemptions of FHLB stock	-	86	-
Purchases of premises and equipment	(867)	(426)	(376)
Proceeds from sales of real estate	-	-	104
Net cash provided (used) by investing activities	23,838	(13,191)	(44,599)
FINANCING ACTIVITIES:			
Net (decrease) increase in deposits	(266)	5,380	1,435
Proceeds from borrowings	25,000	20,000	5,000
Repayment of borrowings	(20,000)	(5,000)	-
Stock options exercised	109	9	73
Stock repurchases	(374)	(11)	(480)
Dividends paid	(2,988)	(2,993)	(2,991)
Net cash provided by financing activities	1,481	17,385	3,037
Net increase (decrease) in cash and cash equivalents	33,159	12,364	(32,642)
Cash and cash equivalents at beginning of year	54,553	42,189	74,831
Cash and cash equivalents at end of year	$ 87,712	$ 54,553	$ 42,189
Supplemental disclosures:			
Interest payments	$ 10,542	$ 6,334	1,490
Income tax payments	1,736	2,061	2,453
Noncash investing and financing activities:			
Transfers to other real estate	$ -	$ -	104

See accompanying notes to consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2024, 2023 AND 2022

(Dollars in thousands, except per share information)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting and reporting policies of the Company, which includes Queenstown Bancorp of Maryland, Inc. and its wholly owned subsidiary, Queenstown Bank of Maryland (the Bank), conform to accounting principles generally accepted in the United States of America and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2024.

Basis of Presentations

The consolidated financial statements include the accounts of Queenstown Bancorp of Maryland, Inc. and its subsidiary, Queenstown Bank of Maryland, with all significant intercompany transactions eliminated.

Nature of Operations

The Company provides a full range of banking services to individuals and businesses through its main office and five branches in Queen Anne's County and one branch each in Talbot, Caroline, and Dorchester Counties Maryland. Its primary deposit products are certificates of deposit and demand, savings, and money market accounts. Its primary lending products are commercial and consumer loans and real estate mortgages. The Company's loan portfolio has a concentration of residential and commercial real estate loans in Queen Anne's County and the surrounding area.

Use of Estimates

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

Securities

At the purchase date, the Company classifies securities as held to maturity or available for sale. Interest and dividend income on securities are recognized in interest income on the accrual basis. Premiums and discounts on securities are amortized as an adjustment to yield using the interest method. Premiums are amortized through the earliest call date. Discounts are accreted through the maturity date.

Debt securities acquired with both the intent and ability to hold to maturity are classified as held to maturity and reported at amortized cost. Federal Home Loan Bank stock is carried at cost and is restricted as to marketability.

Securities classified as available-for-sale are used as part of the Company’s asset/liability management strategy. Sales may occur in response to changes in interest rate conditions, balance sheet composition or other economic factors. All debt securities classified as available for sale are reported at estimated fair value, with unrealized gains and losses reported as accumulated other comprehensive income or loss, net of deferred income taxes, in the stockholders’ equity section of the Consolidated Balance Sheets. Declines in the fair value of individual available-for-sale securities below their amortized cost due to credit -related factors are recognized as an allowance for credit losses. On any available-for-sale securities with unrealized losses, the Company evaluates its ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value. Gains or losses realized from the sale of securities are determined by specific identification and are included in noninterest income.

Loans

Loans are stated at their principal balance outstanding net of deferred loan fees and costs. Overdrafts are included in loans outstanding. Interest income on loans is accrued at the contractual rate on the principal amount outstanding. The Company places loans, except for consumer, on nonaccrual when any portion of the principal or interest is ninety days past due and collateral is insufficient to discharge the debt in full. Interest accrual may also be discontinued earlier if, in management's opinion, collection is unlikely. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Interest received on impaired loans placed on nonaccrual status is generally applied to reduce the carrying value of the loan or, if principal is considered fully collectible, recognized as interest income. For all other loans, loan balances are charged off when it becomes evident that such balances are not fully collectible. For loans secured by real estate, the excess of the loan balances over the net realizable value of the property collateralizing the loan is charged off. Accrual of interest resumes when the loan is brought current and the borrower demonstrates the ability to service the debt on a current basis. Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized over the contractual life of the loan as an adjustment to the loan's yield.

Allowance for Loan Losses

The allowance for loan losses is maintained at a level which, in management's judgment, is adequate to absorb credit losses inherent in the loan portfolio. The allowance is determined by management's evaluation of the loan and lease portfolio based on such factors as the differing economic risks associated with each loan category, the current financial condition of specific borrowers, the economic environment in which borrowers operate, the level of delinquent loans, the value of any collateral and, where applicable, the existence of any guarantees or indemnification. As a result, these judgments are inherently subjective and involve material estimates that may be susceptible to significant change. The allowance is increased by the loan loss provision charged to operating expenses and reduced by charge-offs, net of recoveries. The provision for loan losses is based on the ongoing review of the loan portfolios, past loss experience and current economic conditions which could impact the borrowers' repayment performance.

Effective January 1, 2023, the Company applied ASU 2016-13, Financial Instruments - Credit Losses ("ASC 326"), such that the allowance calculation is based on a current expected credit losses (CECL) methodology. ASC 326 requires entities to estimate an allowance for credit losses ("ACL") on certain types of financial instruments measured at amortized cost using a ("CECL") methodology, replacing the incurred loss methodology from prior GAAP. It also applies to unfunded commitments to extend credit, including loan commitments, standby letters of credit, and other similar instruments.Additionally, the measurement principles for modifications of loans to borrowers experiencing financial difficulty were modified, including how the ACL is measured for such loans.

The amendments of ASC 326, upon adoption, were applied on a modified retrospective basis. Results for reporting periods beginning after January 1, 2023 are presented under ASU 2016-13 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The company was not required to record any adjustment to retained earnings as of January 1, 2023.

Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and amortization. Land is stated at cost. The Company's policy is to provide for depreciation of physical properties over their estimated useful lives or the lease term (whichever is shorter) as a charge to operations at straight-line rates. Expenditures for maintenance, repairs and minor renewals are charged to operations; expenditures for betterments are charged to the property accounts. Upon retirement or other disposition of properties, the carrying value and the related accumulated depreciation or amortization are removed from the accounts.

Advertising Costs

Advertising costs are expensed as incurred.

Off-Balance Sheet Credit Risk

The Company issues financial or standby letters of credit that represent conditional commitments to fund transactions by the Company, typically to guarantee performance of a customer to a third party related to borrowing arrangements. The credit risk associated with issuing letters of credit is essentially the same as occurs when extending loan facilities to borrowers. The Company monitors the exposure to the letters of credit as part of its credit review process. Extensions of letters of credit, if any, would become part of the loan balance outstanding and would be evaluated in accordance with the Company's credit policies. Potential exposure to loss for unfunded letters of credit if deemed necessary would be recorded in other liabilities.

The Bank records a reserve, reported in other liabilities, for expected credit losses on commitments to extend credit that are not unconditionally cancellable by the Bank. The reserve for unfunded commitments is measured based on the principles utilized in estimating the ACL on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses. During 2024 there was no provision for credit losses associated with its unfunded commitments. During the year ended December 31, 2023, the Bank recorded a $68 thousand provision for credit losses associated with its unfunded commitments.

Other Real Estate

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and carried at the lower of fair value minus estimated costs of disposal or cost. Fair value is based on independent appraisals and other relevant factors. At the time of acquisition any excess of loan balance over fair value is charged to the allowance for loan losses.

Income Taxes

Deferred income taxes are calculated by applying enacted statutory tax rates to temporary differences consisting of all significant items which are reported for tax purposes in different years than for accounting purposes. Deferred tax assets are recognized only to the extent that it is more likely than not that such amounts will be realized based on considerations of available evidence. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Per Share Data

Basic net income per share is computed by dividing the net income by the weighted average number of shares of common stock outstanding during the year presented. Diluted net income per share is computed by dividing net income by the weighted average number of shares of common stock plus the assumed conversions of common stock equivalents outstanding using the treasury method.

Subsequent Events

Subsequent events have been evaluated for potential recognition and disclosure through the date of the independent auditors' report, the date these consolidated financial statements were available to be issued. No subsequent events were identified that would affect the presentation of the consolidated financial statements.

Statement of Cash Flows

For purposes of reporting cash flows, cash equivalents are composed of cash and due from banks and interest bearing deposits with banks.

Comprehensive Income (Loss)

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains, and losses be included in net income. However, certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the stockholders' equity section of the consolidated balance sheet. Such items, along with net income, are componets of comprehensive income (loss).

Noninterest Income

Service charges on deposit accounts – Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for 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 Company'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.

Other noninterest income – Other noninterest income consists of fees, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

Recent Accounting Pronouncements

During June 2016, the FASB issued ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016- 13 as codified in Topic 326, including ASU's 2020-04, 2020-05, 2020-10, 2020-11, 2021-02, and 2021-03. The ASU is effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. The adoption did not have a material impact on the consolidated financial statements.

During December 2020, the FASB issued ASU 2020-12, "Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes.", which simplifies the accounting for income taxes by removing multiple exceptions to the general principals in Topic 740. The amendments are effective for fiscal years beginning after December 15, 2022 and interim periods within fiscal years beginning after December 15, 2023. The adoption did not have a material impact on the consolidated financial statements.

In March 2021, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2021-04 "Reference Rate Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting." The new standard results from the London Interbank Offered Rate ("LIBOR") being discontinued as an available benchmark rate. The standard is elective and provides optional expedients and exceptions for applying GAAP to contracts, hedging, or other transactions that reference LIBOR, or another reference rate expected to be discontinued. The amendments in the update are effective for all entities between March 12, 2021 and December 31, 2023. The Company has few transactions referencing LIBOR and has transitioned to alternative rates, consistent with industry guidelines.

2. SECURITIES

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

	December 31, 2024			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 21,935	8	1,883	20,060
State and municipal	26,492	-	4,217	22,275
Mortgage backed	92,651	2	15,041	77,612
Corporate debt	5,485	6	378	5,113
Totals	$ 146,563	16	21,519	125,060

	December 31, 2023			
Available for sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasuries and government agencies	$ 23,112	19	2,215	20,916
State and municipal	29,718	-	4,477	25,241
Mortgage backed	101,143	2	15,584	85,561
Corporate debt	5,483	-	797	4,686
Totals	$ 159,456	21	23,073	136,404

	December 31, 2024			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 2,731	-	161	2,570

	December 31, 2023			
Held to maturity	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage backed	$ 2,999	-	160	2,839

The table below shows our securities' gross unrealized losses and fair value, aggregated by 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 more		Totals	
As of December 31, 2024	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
Available for sale						
U.S. treasuries and government agencies	$ 1,680	6	16,686	1,877	18,366	1,883
State and municipal	-	-	22,275	4,217	22,275	4,217
Mortgage backed	890	14	76,541	15,027	77,431	15,041
Corporate debt	-	-	4,627	378	4,627	378
Totals	$ 2,570	20	120,129	21,499	122,699	21,519
Held to maturity						
Mortgage backed	$ -	-	2,570	161	2,570	161

As of December 31, 2023	Less than 12 months Fair Value	Less than 12 months Unrealized Loss	12 months or more Fair Value	12 months or more Unrealized Loss	Totals Fair Value	Totals Unrealized Loss
Available for sale						
U.S. treasuries and government agencies	$ 839	1	16,553	2,214	17,392	2,215
State and municipal	148	28	25,093	4,449	25,241	4,477
Mortgage backed	-	-	85,444	15,584	85,444	15,584
Corporate debt	447	30	4,240	767	4,687	797
Totals	$ 1,434	59	131,330	23,014	132,764	23,073
Held to maturity						
Mortgage backed	$ -	-	2,839	160	2,839	160

The unrealized losses that exist are the result of changes in market interest rates since original purchases. These unrealized losses are considered temporary in nature and will recover over time as these securities approach maturity. The Company has sufficient liquidity to hold these securities for an adequate period of time, to allow for an eventual recovery in fair value.

The amortized cost and fair values of debt securities at December 31, 2024 by contractual maturity are shown below. Expected maturities will 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	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
As of December 31, 2024				
less than one to five years	$ 23,095	21,149	$ -	-
Five to ten years	24,412	20,666	-	-
After ten years	6,405	5,633	-	-
	53,912	47,448	-	-
Mortgage backed	92,651	77,612	2,731	2,570
Totals	$ 146,563	125,060	$ 2,731	2,570

	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
As of December 31, 2023				
One to five years	$ 15,571	14,084	$ -	-
Five to ten years	31,044	26,463	-	-
After ten years	11,698	10,296	-	-
	58,313	50,843	-	-
Mortgage backed	101,143	85,561	2,999	2,839
Totals	$ 159,456	136,404	$ 2,999	2,839

For the years ended December 31, 2024 and 2023 , the Company recognized losses from the sales of securities of $ 356 thousand and $ 660 thousand, respectively. There were no sales of securities in 2022 .

At December 31, 2024 and 2023, securities with a carrying value of $75,850 thousand and $82,140 thousand respectively, were pledged as collateral for certain government deposits and for other purposes.

3. LOANS

At December 31, 2024 and 2023, loans are as follows:

	2024	2023
Real estate:		
Construction and land development	$ 26,480	34,732
Secured by farmland	30,654	29,082
Commercial	158,147	165,520
Residential	211,690	207,466
Commercial and agricultural	12,605	14,736
Consumer	5,502	5,863
Totals	$ 445,078	457,399

Unammortized net deferred loan costs amounted to $176 thousand and $328 thousand at December 31, 2024 and 2023. A summary of current, past due, and nonaccrual loans as of December 31, 2024 and 2023 was as followed:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2024					
Real estate:					
Construction and land development	$ 26,379	101	-	-	26,480
Secured by farmland	30,595	-	59	-	30,654
Commercial	157,780	367	-	-	158,147
Residential	210,856	792	42	-	211,690
Commercial and agricultural	12,023	-	32	550	12,605
Consumer	5,502	-	-	-	5,502
Totals	$ 443,135	1,260	133	550	445,078

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
As of December 31, 2023					
Real estate:					
Construction and land development	$ 34,732	-	-	-	34,732
Secured by farmland	28,970	112	-	-	29,082
Commercial	164,602	-	-	918	165,520
Residential	206,770	474	222	-	207,466
Commercial and agricultural	14,064	-	-	672	14,736
Consumer	5,848	15	-	-	5,863
Totals	$ 454,986	601	222	1,590	457,399

Loans on which the accrual of interest has been discontinued totaled $550 thousand and $1,590 thousand at December 31, 2024 and 2023 respectively. Interest that would have been accrued on these loans totaled $30 thousand and $10 thousand for the years ended December 31, 2024 and 2023 respectively. At December 31, 2024 there were no residential mortgages in the process of foreclosure.

4. ALLOWANCE FOR LOAN LOSSES

Changes in the allowance for credit losses for the year ended December 31, 2024 and 2023 were as follows:

		Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2024							
Beginning Balance	$	243	1,724	4,129	615	23	6,734
Provision for loan losses		-	-	(360)	-	-	(360)
Net charge-offs:							
Charge-offs		-	(2)	-	(22)	(6)	(30)
Recoveries		56	36	87	10	19	208
Net (charge-offs) recoveries		56	34	87	(12)	13	178
Ending balance	$	299	1,758	3,856	603	36	6,552
As of December 31, 2023							
Beginning Balance	$	272	2,889	4,194	190	20	7,565
Provision for loan losses		(45)	(1,223)	-	500	-	(768)
Net charge-offs:							
Charge-offs		-	-	(125)	(82)	(14)	(221)
Recoveries		16	58	60	7	17	158
Net (charge-offs) recoveries		16	58	(65)	(75)	3	(63)
Ending balance	$	243	1,724	4,129	615	23	6,734

Although the above allocation is performed, the allowance for loan losses is general in nature and is available to absorb losses from any loan type.

Management has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the ACL, the Bank segments its loan portfolio by FDIC Call Report codes. For reporting purposes, these loan segments are aggregated by the following product types: Real Estate Loans, Commercial and Industrial, and Consumer. Real estate loans are further divided into the following three classes: Construction (which includes construction, land development, and other land loans), Residential Mortgages, and Commercial Mortgages. Pooled loan segments are reviewed and analyzed quarterly using the Bank's annualized net charge-offs since January 1, 2015, to the most recent quarter-end. The quantitative historical loss rate is then adjusted for reasonable and supportable economic forecasts and the review of the following qualitative factors:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices.
2. Changes in the experience, depth, and ability of management.
3. Changes in the quality of the loan review system.
4. Changes in the concentrations of credit within the pool.
5. Changes in the nature, volume, and growth rate of the loan portfolio.
6. Trends in past due, non-accrual, and adversely classified loans
7. Changes in the value of the underlying collateral for collateral-dependent loans.
8. Changes in competition, legal, and regulatory factors.
9. Imprecision risk of the economic outlook and model.

In accordance with ASU 2016-13 individually evaluated loans that do not fit within a portfolio segment are specifically identified and individually analyzed to determine the amount of their expected loss. The establishment of a specific reserve does not necessarily mean that the loan with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts. The total ACL reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2024 and 2023.

The following table provides information on individually evaluated loans by loan category as of December 31, 2024 and 2023:

		Recorded investment	Unpaid principal balance	Related allowance	Average recorded investment
As of December 31, 2024					
With a related allowance recorded:					
Real estate – residential	$	42	42	13	44
Real estate – commercial & farmland		59	59	18	67
Commercial & agricultural		582	691	175	684
Totals	$	683	792	206	795
As of December 31, 2023					
With a related allowance recorded:					
Real estate – residential	$	222	273	68	220
Real estate – commercial & farmland		918	1,043	279	1,068
Commercial & agricultural		672	750	206	764
Totals	$	1,812	2,066	553	2,052

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2024 and 2023. Criticized loans are considered inadequately protected by the current paying capacity of the borrower or of the collateral pledged, if any. These loans have weaknesses that jeopardize the liquidation of the debt. Loans not meeting the definition of criticized are considered pass rated loans. Consumer Loans are not risk rated by the Company, so they are excluded from the tables below.

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Totals
As of December 31, 2024					
Pass	$ 26,355	210,688	184,176	12,023	433,242
Criticized accrual	125	1,002	4,625	32	5,784
Criticized nonaccrual	-	-	-	550	550
Total	$ 26,480	211,690	188,801	12,605	439,576
As of December 31, 2023					
Pass	$ 34,657	206,107	189,482	14,064	444,310
Criticized accrual	75	1,359	4,202	-	5,636
Criticized nonaccrual	-	-	918	672	1,590
Totals	$ 34,732	207,466	194,602	14,736	451,536

At December 31, 2024 and 2023 the allocation of the allowance for loan losses summarized on the basis of evaluation methodology was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2024						
Individually evaluated	$ -	13	18	175	-	206
Collectively evaluated	299	1,745	3,838	428	36	6,346
Total	$ 299	1,758	3,856	603	36	6,552
As of December 31, 2023						
Individually evaluated	$ -	68	279	206	-	553
Collectively evaluated	243	1,656	3,850	409	23	6,181
Totals	$ 243	1,724	4,129	615	23	6,734

The recorded investment in loans summarized based on evaluation methodology as of December 31, 2024 and 2023 was as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Total
As of December 31, 2024						
Individually evaluated for impairment	$ -	42	59	582	-	683
Collectively evaluated for impairment	26,480	211,648	188,742	12,023	5,502	444,395
Total	$ 26,480	211,690	188,801	12,605	5,502	445,078
As of December 31, 2023						
Individually evaluated for impairment	$ -	222	918	672	-	1,812
Collectively evaluated for impairment	34,732	207,244	193,684	14,064	5,863	455,587
Total	$ 34,732	207,466	194,602	14,736	5,863	457,399

On January 1, 2023, the Bank adopted ASU 2022-02, Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures, which eliminates Troubled Debt Restructuring (“TDR”) recognition and measurement guidance and instead requires loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. If a loan is modified for a borrower who is experiencing financial difficulties and the modifications are considered to be more than minor, the loan is subject to certain disclosure requirements outlined in ASU 2022-02. During 2024 and 2023 , the Bank did not modify any loans for borrowers which met the disclosure requirements outlined in ASU 2022-02.

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2024	2023
Land	2,738	1,885
Leasehold improvements	161	161
Buildings and land improvements	7,568	7,568
Furniture and equipment	4,021	4,006
	14,488	13,620
Accumulated depreciation and amortization	(7,869)	(7,415)
Premises and equipment – net	$ 6,619	6,205

Depreciation expense was $454 thousand, $456 thousand and $441 thousand for each of the years ended December 31, 2024, 2023 and 2022, respectively.

Rent expense applicable to operating leases amounted to $78 thousand for 2024, $72 thousand for 2023, and $60 thousand for 2022. The Bank has short-term lease obligations for office locations. Future minimum lease payments subsequent to 2024 are $28 thousand for 2025.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2024 and 2023, by type of account is as follows:

	2024	2023
Savings and money market	$ 146,563	155,182
Interest bearing demand	76,134	68,242
Time deposits through $250,000	159,811	152,061
Time deposits of more than $250,000	42,949	44,867
Total interest bearing deposits	$ 425,457	420,352

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

2025	$ 132,864
2026	66,089
2027	2,538
2028	688
2029	581
	$ 202,760

Interest on deposits for the years ended December 31, 2024, 2023 and 2022 consisted of the following:

	2024	2023	2022
Savings and money market	$ 809	738	357
Interest bearing demand	1,452	1,329	473
Time deposits more than $ 250,000	1,517	1,042	133
Other time deposits	5,860	3,950	587
Total interest on deposits	$ 9,638	7,059	1,550

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta with original maturities of up to one year and advances from the Federal Reserve Bank of Richmond Discount Window Bank Term Funding Program (BTFP). There was a $25 million advance outstanding under the BTFP at December 31, 2024. The advance matures in January 2025 with an interest rate of 4.76%. There was a $ 20 million BTFP advance outstanding at December 31, 2023, that matured and was paid off in April of 2024.

At December 31, 2024, credit available under the FHLB credit facility approximates $95 million , letters of credit issued for the benefit of public funds depositors of $45 million are outstanding. The Bank is required to maintain an investment in stock of the FHLB in the amount of $521 thousand as a condition for the credit facility. The Bank has also pledged its portfolios of 1-4 family first and second mortgage loans, home equity loans, multi-family mortgages and mortgages secured by farmland as collateral for this credit facility. Certain qualifying commercial mortgages are also pledged as collateral for this credit facility. Principal balances outstanding on these mortgage loans total approximately $294 million at December 31, 2024. Securities pledged to the BTFP have approximate principal balances of $ 51 million at December 31, 2024.

8. STOCKHOLDERS' EQUITY

The Board of Directors has approved plans authorizing the Company to purchase shares of its common stock. Purchased shares will be used for corporate purposes including issuance under the Company’s stock based compensation plans. The number of shares remaining available for purchase under the plans was 96,234 shares at December 31, 2024.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were $2,988 thousand for 2024.

The Company and the Bank are subject to various regulatory capital requirements. 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 Company's and the Bank's financial statements. Regulatory non-objection may be required to pay certian dividends. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off-balance sheet items as calculated under regulatory capital practices. The Company'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 Company and the Bank to maintain amounts and ratios (as set forth in the following table) of total and Tier I Capital (as defined in the regulations) to risk-weighted assets (as defined). As of December 31, 2024, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2024, the most recent notification from the Bank's primary regulators categorized the Bank as well capitalized under the prompt corrective action regulations. To be categorized as well capitalized, a bank must maintain a minimum total risk-based, Tier I risk-based and Tier I leverage ratios as set forth in the following tables. There are no conditions or events since the last notifications that management believes have changed the Company's and Bank's category. Actual capital amounts and ratios are presented in the following table for the Company and the Bank.

	Amount	Actual Ratio	For Capital Adequacy Purposes	To Be Well Capitalized Under Prompt Corrective Action Provisions
As of December 31, 2024				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 87,505	19.07%	8%	
Bank	87,282	19.03%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	81,760	17.82%	6%	
Bank	81,537	17.78%	6%	8%
Common equity tier I				
Company (consolidated)	81,760	17.82%	4.50%	
Bank	81,537	17.78%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	81,760	11.59%	4%	
Bank	81,537	11.56%	4%	5%
As of December 31, 2023				
Total capital (to risk weighted assets):				
Company (consolidated)	$ 85,318	17.92%	8%	
Bank	84,969	17.85%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	79,357	16.67%	6%	
Bank	79,009	16.60%	6%	8%
Common equity tier I				
Company (consolidated)	79,357	16.67%	4.50%	
Bank	79,009	16.60%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	79,357	11.42%	4%	
Bank	79,009	11.37%	4%	5%

9. INCOME TAXES

Applicable income taxes on net income for 2024, 2023 and 2022 consist of the following:

	2024	2023	2022
Current income tax expense:			
Federal	$ 1,351	1,325	1,758
State	523	542	714
	1,874	1,867	2,472
Deferred income tax (benefit) expense :			
Federal	(42)	200	(24)
State	9	83	2
	(33)	283	(22)
Total income tax expense	$ 1,841	2,150	2,450

Components of deferred income tax (benefit) expense for 2024, 2023 and 2022 consist of the following:

	2024	2023	2022
Provision for loan losses	$ 50	203	(45)
Loan fees and costs	(2)	14	53
Deferred compensation	(54)	(36)	(61)
Depreciation and amortization	(59)	23	(7)
Interest income	32	47	52
Stock based compensation	-	32	(14)
Total deferred income tax (benefit) expense	$ (33)	283	(22)

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2024, 2023, and 2022 follows:

	2024		2023		2022	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	1,545	21.0%	1,745	21.0%	1,992	21.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(37)	-0.5%	(20)	-0.2%	(35)	-0.4%
Bank owned life insurance income	(92)	-1.3%	(84)	-1.0%	(80)	-0.8%
State income tax, net of federal income tax benefit	420	5.7%	494	5.9%	564	5.9%
Other	5	0.0%	15	0.2%	9	0.1%
Total income taxes	$ 1,841	25.0%	2,150	25.9%	2,450	25.8%

Significant components of the Company's deferred tax assets and liabilities at December 31, 2024 and 2023 are as follows:

	2024	2023
Deferred tax assets:		
Allowances for credit losses	$ 1,828	1,878
Deferred compensation	794	740
Interest income	123	155
Others	2	3
Unrealized loss on securities available-for-sale	5,918	6,344
Total deferred tax assets	8,665	9,120
Deferred tax liabilities:		
Accumulated depreciation and amortization	279	338
Loan fees and costs	164	166
Total deferred tax liabilities	443	504
Net deferred tax assets	$ 8,222	8,616

Management has determined that no valuation allowance is required as it is more likely than not that the net deferred tax assets will be fully realizable in future years. The Company remains subject to examination of income tax returns for the years ending after December 31, 2021.

10. RETIREMENT PLANS AND OTHER EMPLOYEE BENEFIT AGREEMENTS

The Company has a Section 401(k) profit sharing plan which covers substantially all employees who meet certain service requirements. Employer contributions to the plan include a discretionary contribution and matching contributions of a percentage of employee elective salary deferral contributions. Employer contributions included in operating expenses for 2024, 2023 and 2022 were $228 thousand, $220 thousand, and $196 thousand, respectively.

The Company has provided additional retirement benefits as well as pre-retirement death benefits to selective executives through deferred compensation agreements. The deferred compensation plan agreements provide for monthly benefit payments for fifteen years after retirement. Benefit payments were $154 thousand, $122 thousand, and $120 thousand, for 2024, 2023 and 2022, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the employees' retirement dates. Benefit accruals included in operating expenses for 2024, 2023 and 2022 were $338 thousand, $333 thousand, and $321 thousand, respectively. The accrued liability for deferred compensation agreements were $2,559 thousand at December 31, 2024 and $2,375 thousand at December 31, 2023.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement. Benefit payments were $35 thousand, $125 thousand and $23 thousand for 2024, 2023 and 2022, respectively. The Company is accruing the present value of these benefits over the remaining number of years to the directors' retirement dates. Benefit accruals included in operating expenses for 2024, 2023 and 2022, were $50 thousand, $44 thousand and $43 thousand, respectively. The accrued liability for deferred compensation for directors was $327 thousand at December 31, 2024 and $312 thousand at December 31, 2023.

11. STOCK-BASED COMPENSATION

The Company has a qualified incentive stock option plan for officers and employees and a nonqualified stock option plan for directors. The total number of shares of Common Stock that may be granted is 126,000 for the incentive plan and 63,000 for the nonqualified plan. Information with respect to the options granted is as follows:

	2024		2023		2022	
	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price
Balance, January 1	21,165	$ 37.12	21,405	$ 37.11	23,325	$ 37.19
Options granted	-	-	-	-	-	-
Options exercised	(2,900)	37.72	(240)	38.26	(1,920)	38.06
Options forfeited	-	-	-	-	-	-
Options expired	(1,000)	40.00	-	-	-	-
Balance, December 31	17,265	$ 36.85	21,165	$ 37.12	21,405	$ 37.11
Options exercisable, December 31	17,265	$ 36.85	21,165	$ 37.12	21,405	$ 37.11

Stock options outstanding at December 31, 2024 were as follows:

	Issued and Outstanding Options			Exercisable (Vested) Options		
Exercise Price Range	Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Number Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
$0.00 through $34.99	9,065	2.34	$ 34.00	9,065	2.34	$ 34.00
$35.00 through $54.99	8,200	3.28	$ 40.00	8,200	3.28	$ 40.00
Totals:	17,265	2.78	$ 36.85	17,265	2.78	$ 36.85

The maximum term of stock options granted under the plans is 10 years.
There were no options granted in 2024, 2023 or 2022.

Additionally, the Company has a restricted stock plan to provide designated employees and directors the opportunity to receive grants of stock awards. The Restricted Stock Plan authorizes the issuance of up to 10,000 shares of common stock, of which 7,251 shares are available for issuance at December 31, 2024. Restricted stock awards are subject to a three year vesting schedule. Restricted shares granted in 2024 were 2,187 shares, shares vested were 729 shares. The fair market value at the date of grant was $63.56 per share. Compensation costs are recognized on a straight line basis over the vesting period.

Stock based compensation costs for 2024, 2023, and 2022, were $139 thousand, $148 thousand and $130 thousand, respectively. As of December 31, 2024, all compensation cost related to the issuance of stock options has been recognized. The intrinsic value for the stock options exercised was $68 thousand, $7 thousand, and $47 thousand, in the years ended December 31, 2024, 2023 and 2022 , respectively. The total intrinsic value of outstanding stock options was $400 thousand at December 31, 2024. The total intrinsic value of exercisable stock options was $400 thousand at December 31, 2024.

12. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Company makes extensions of credit to its directors and their associates and several of its policy making officers on substantially the same terms, including interest rates and collateral, as those prevailing for comparable transactions with other customers. Extensions of credit outstanding, both direct and indirect, to directors and policy making officers were $2,112 thousand at December 31, 2024 and $2,641 thousand at December 31, 2023. New or additional extensions of credit during 2024 were $203 thousand. Credit reductions and retirements were $732 thousand during 2024. Deposit balances of directors and policy making officers were $3,056 thousand and $3,911 thousand at December 31, 2024 and 2023, respectively.

14. OTHER EXPENSES

Additional details on other expenses are as follows:

	2024	2023	2022
Consulting fees	$ 323	348	528
Directors fees	268	278	312
Debit card transaction expenses	191	218	254
Marketing and advertising	165	235	185
Auditing expenses	174	152	139
Postage	124	108	112
Other expenses	1,352	1,197	1,231
Total other expenses	$ 2,597	2,536	2,761

15. FINANCIAL INSTRUMENTS

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit.

The Company's exposure to credit losses in the event of nonperformance by the other party to these financial instruments are represented by the contractual amount of the instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments. Included in other liabilities are allowances for losses on unfunded credit commitments of $92 thousand at December 31, 2024 and 2023. The provisions for losses on unfunded commitments were $ 68 thousand for 2023. There were no provisions for losses on unfunded commitments in 2024 nor 2022.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitments do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers.

A summary of the contract amounts of the Company's financial instruments with off-balance sheet risk at December 31, 2024 is as follows:

Commitments to extend credit	$63,762 thousand
Standby letters of credit	$4,084 thousand

16. FAIR VALUE MEASUREMENTS

The Company discloses fair value information about financial instruments for which it is practicable to estimate the value, whether or not such financial instruments are recognized on the balance sheet. Fair value is the amount at which a financial instrument could be exchanged in a current transaction between willing parties, other than in a forced sale or liquidation, and is best evidenced by quoted market price, if one exists.

Quoted market prices, if available, are shown as estimates of fair value. Because no quoted market prices exist for a substantial portion of the Company's financial instuments, the fair value of such instruments has been derived based on management's assumptions with respect to future economic conditions, the amount and timing of future cash flows and estimated discount rates. Different assumptions could significantly affect these estimates. Accordingly, the net realizable value could be materially different from the estimates presented. In addition, the estimates are only indicative of individual financial instrument values and should not be considered an indication of the fair value of the Company taken as a whole.

The following methods and assumptions were used to estimate the fair value of each category of financial instrument for which it is practicable to estimate value:

- Cash and due from banks and federal funds sold: The carrying amounts reported are considered to approximate their fair values. Time deposits fair values are based on quoted market values.
- Investment securities: Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.
- Loans: For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar terms to borrowers of similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. The carrying amount of accrued interest receivable approximates its fair value.
- Deposits: The fair value disclosed for deposits with no defined maturity are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair values for certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated contractual maturities on such time deposits. The carrying amount of accrued interest payable approximates fair value.
- Borrowings: The fair value is estimated based on interest rates currently available for debt with similar terms and remaining maturities.

The estimated fair values of the Company's financial instruments as December 31, 2024 and 2023 are as follows:

	2024		2023	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	$ 5,876	5,876	$ 6,363	6,363
Interest bearing deposits with banks	81,836	81,733	48,190	47,897
Investment securities:				
Available for sale	125,060	125,060	136,404	136,404
Held to maturity	2,731	2,570	2,999	2,839
Federal Home Loan Bank stock	521	521	493	493
Loans, net of allowance	438,526	412,326	450,665	421,116
Accrued interest receivable	2,013	2,013	2,228	2,228
Financial liabilities:				
Deposits	591,118	590,136	591,384	589,044
Borrowings	25,000	25,000	20,000	20,000
Accrued interest payable	1,005	1,005	977	977

The Company has adopted the Financial Accounting Standard Board's ("FASB") guidance on *Fair Value Measurements* which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. This guidance requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB's guidance defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. This guidance also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

Fair Value Hierarchy

Level 1 – Quoted prices in active markets for identical assets or liabilities

Level 2 – Other significant observable inputs (including quoted prices in active markets for similar assets or liabilities)

Level 3 – Significant unobservable inputs (including the Company's own assumptions in determining the fair value of assets or liabilities)

The following table presents fair value measurements on a recurring basis as of December 31, 2024 and 2023:

	2024			
Securities available for sale	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ 3,733	16,327	-	20,060
State and municipal	-	22,275	-	22,275
Mortgage backed	-	77,612	-	77,612
Corporate debt	-	5,113	-	5,113
Total available for sale securities	3,733	121,327	-	125,060

	2023			
Securities	**Level 1**	**Level 2**	**Level 3**	**Fair Value**
U.S. treasuries and government agencies	$ 3,621	17,295	-	20,916
State and municipal	-	25,241	-	25,241
Mortgage-backed	-	85,561	-	85,561
Corporate debt		4,686		4,686
Total available for sale securities	$ 3,621	132,783	-	136,404

Securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. The following table presents fair value measurements on a non-recurring basis as of December 31, 2024 and 2023:

2024

	Level 1	Level 2	Level 3	Fair Value
Nonperforming loans	$ -	-	683	683

2023

	Level 1	Level 2	Level 3	Fair Value
Nonperforming loans	$ -	-	1,812	1,812

Loans which are deemed to be nonperforming or impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are derived as follows:

Level 3 inputs are independent appraisals and other available market evaluations used by management in estimating fair value.