

**QUEENSTOWN BANCORP
OF MARYLAND, INC.**



QUEENSTOWN
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**2025
AUDITED FINANCIAL
STATEMENTS**

AUDITED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

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Independent Auditor's Report

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

Opinion

We have audited the accompanying consolidated financial statements of Queenstown Bank of Maryland, Inc. and its wholly owned subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2025, and the related statement of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, 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 the Company as of December 31, 2025, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company 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.

Prior Period Consolidated Financial Statements

The consolidated financial statements of the Company as of December 31, 2024 were audited by other auditors whose report dated April 8, 2025, expressed an unmodified opinion on those statements.

Responsibilities of Management for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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 Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’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 the Company’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 consists of the letter to shareholders (unaudited) included in the annual report but does not include the consolidated financial statements and our auditor’s report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated 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.

Brown, Edwards & Company, S. L. P.

CERTIFIED PUBLIC ACCOUNTANTS

Harrisonburg, Virginia
March 25, 2026

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)

	December 31	
	2025	2024
ASSETS		
Cash and due from banks	\$ 5,442	5,876
Interest bearing deposits with banks	99,273	81,836
Total cash and cash equivalents	104,715	87,712
Securities available for sale (at fair value)	117,134	125,060
Securities held to maturity (at amortized cost)	8,198	2,731
Federal Home Loan Bank stock (at cost)	527	521
Loans	457,129	445,078
Less allowance for credit losses	(6,587)	(6,552)
Loans, net	450,542	438,526
Premises and equipment, net	7,179	6,619
Bank owned life insurance	16,560	16,091
Deferred income taxes	6,304	8,222
Accrued interest receivable	2,116	2,013
Prepaid expenses	592	460
Other assets	734	408
TOTAL ASSETS	\$714,601	688,363
LIABILITIES AND STOCKHOLDERS' EQUITY		
Noninterest bearing deposits	\$172,201	165,661
Interest bearing deposits	463,171	425,457
Total deposits	635,372	591,118
Short-term borrowings	-	25,000
Accrued expenses and other liabilities	5,217	6,070
Total liabilities	640,589	622,188
Common stock - \$10 par value; shares authorized 10,000,000, shares issued and outstanding 1,194,728 and 1,195,209 , respectively	11,947	11,952
Additional paid in capital	288	358
Retained earnings	72,153	69,450
Accumulated other comprehensive loss	(10,376)	(15,585)
Total stockholders' equity	74,012	66,175
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$714,601	688,363

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		
	2025	2024	2023
INTEREST INCOME:			
Interest and fees on loans	\$ 24,761	24,207	22,552
Interest and dividends on investment securities	2,586	2,975	3,186
Other interest income	3,647	3,348	2,290
Total interest income	<u>30,994</u>	<u>30,530</u>	<u>28,028</u>
INTEREST EXPENSE:			
Interest on deposits	10,640	9,638	7,059
Interest on borrowings	32	1,381	776
Total interest expense	<u>10,672</u>	<u>11,019</u>	<u>7,835</u>
Net interest income	20,322	19,511	20,193
Provision for credit losses	-	(360)	(700)
Net interest income after provision for credit losses	<u>20,322</u>	<u>19,871</u>	<u>20,893</u>
NONINTEREST INCOME:			
Service charges on deposit accounts	483	494	509
Income on life insurance policies	453	439	398
Other income	1,140	861	876
Net loss on sales of securities	(121)	(356)	(660)
Total noninterest income	<u>1,955</u>	<u>1,438</u>	<u>1,123</u>
NONINTEREST EXPENSES:			
Salaries and employee benefits	9,225	8,629	8,295
Data processing and electronic banking expenses	1,201	1,178	1,338
Occupancy expense	789	735	745
Equipment expenses	496	501	486
FDIC insurance premiums	311	312	305
Other expenses	2,712	2,597	2,536
Total noninterest expenses	<u>14,734</u>	<u>13,952</u>	<u>13,705</u>
Income before income taxes	7,543	7,357	8,311
Income tax expense	1,851	1,841	2,150
Net income	<u>\$ 5,692</u>	<u>5,516</u>	<u>6,161</u>
Basic net income per common share	\$ 4.76	4.61	5.15
Diluted net income per common share	\$ 4.73	4.58	5.10
Basic weighted average common shares outstanding	1,195,510	1,195,435	1,196,656
Diluted weighted average common shares outstanding	1,202,421	1,203,518	1,207,900

See accompanying notes to consolidated financial statements.

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

(Dollars in thousands)

	Years Ended		
	2025	2024	2023
Net income	\$ 5,692	5,516	6,161
Other comprehensive income, before tax:			
Securities available for sale:			
Net change in unrealized losses	7,307	1,905	5,691
Net losses on sales reclassified into earnings	(121)	(356)	(660)
Other comprehensive income, before tax	7,186	1,549	5,031
Income tax effect	(1,977)	(425)	(1,385)
Other comprehensive income, net of tax	5,209	1,124	3,646
Total comprehensive income	<u>\$ 10,901</u>	<u>6,640</u>	<u>9,807</u>

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2025, 2024 and 2023

(Dollars in thousands, except per share information)

	Common Stock		Additional paid-in capital	Retained Earnings	Accumulated Other Comprehensive	Totals
	Shares	Par Value			Income	
	<hr/>					
Balances at January 1, 2023	1,195,223	\$ 11,952	339	63,754	(20,355)	55,690
Net income	-	-	-	6,161	-	6,161
Other comprehensive income, 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)
<hr/>						
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 option compensation	-	-	-	-	-	-
Stock repurchases	(7,178)	(72)	(302)	-	-	(374)
Cash dividends (\$2.50 per share)	-	-	-	(2,988)	-	(2,988)
<hr/>						
Balances at December 31, 2024	1,195,209	11,952	358	69,450	(15,585)	66,175
Net income	-	-	-	5,692	-	5,692
Other comprehensive income, net of tax	-	-	-	-	5,209	5,209
Restricted stock issued	2,123	21	90	-	-	111
Stock options exercised	2,640	26	70	-	-	96
Stock repurchases	(5,244)	(52)	(230)	-	-	(282)
Cash dividends (\$2.50 per share)	-	-	-	(2,989)	-	(2,989)
<hr/>						
Balances at December 31, 2025	<u>1,194,728</u>	<u>\$ 11,947</u>	<u>288</u>	<u>72,153</u>	<u>(10,376)</u>	<u>74,012</u>

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended		
	2025	2024	2023
OPERATING ACTIVITIES:			
Net Income	\$ 5,692	5,516	6,161
Adjustments to reconcile net income to net cash provided by operating activities:			
Premium amortization on securities	764	805	946
Depreciation and amortization	420	454	456
Provision for credit losses, including unfunded commitments	-	(360)	(700)
Loss on sales of securities	121	356	660
Deferred tax (benefit) expense	(60)	(33)	283
Stock option compensation	-	-	15
Net changes in:			
Accrued interest receivable	(103)	215	(169)
Accrued expenses and other liabilities	(853)	824	1,253
Prepaid expenses	(132)	70	(152)
Other operating activities	(715)	(7)	(583)
Net cash provided by operating activities	<u>5,134</u>	<u>7,840</u>	<u>8,170</u>
INVESTING ACTIVITIES:			
Purchases of securities available-for-sale	(2,000)	-	-
Purchases of securities held-to-maturity	(5,730)	-	-
Proceeds from sales of securities available-for-sale	1,847	3,691	6,660
Proceeds from maturities of securities available-for-sale	2,000	-	-
Principal payments received on securities available-for-sale	12,411	8,350	8,545
Principal payments received on securities held-to-maturity	264	269	257
Net (increase) decrease in loans	(12,016)	12,423	(28,313)
Purchases of FHLB stock	(6)	(28)	-
Proceeds from redemptions of FHLB stock	-	-	86
Purchases of premises and equipment	(980)	(867)	(426)
Net cash (used) provided by investing activities	<u>(4,210)</u>	<u>23,838</u>	<u>(13,191)</u>
FINANCING ACTIVITIES:			
Net increase (decrease) in deposits	44,254	(266)	5,380
Proceeds from borrowings	-	25,000	20,000
Repayment of borrowings	(25,000)	(20,000)	(5,000)
Stock options exercised	96	109	9
Stock repurchases	(282)	(374)	(11)
Dividends paid	(2,989)	(2,988)	(2,993)
Net cash provided by financing activities	<u>16,079</u>	<u>1,481</u>	<u>17,385</u>
Net increase in cash and cash equivalents	17,003	33,159	12,364
Cash and cash equivalents at beginning of year	87,712	54,553	42,189
Cash and cash equivalents at end of year	<u>\$ 104,715</u>	<u>87,712</u>	<u>54,553</u>
Supplemental disclosures:			
Interest payments	\$ 10,602	10,542	6,334
Income tax payments	1,864	1,736	2,061

See accompanying notes to consolidated financial statements.

QUEENSTOWN BANCORP OF MARYLAND, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEARS ENDED DECEMBER 31, 2025, 2024 AND 2023

(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 ("GAAP") and to general practices in the banking industry. Certain reclassifications have been made to amounts previously reported to conform with the classifications made in 2025.

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

Debt securities are classified as held to maturity when management has the intent, and the Company has the ability at the time of purchase to hold them until maturity or on a long-term basis. These securities are carried at cost adjusted for amortization of premium, accretion of discount, and the allowance for credit losses. Gains and losses on the sale of such securities are determined by the specific identification method.

Debt securities to be held for indefinite periods of time and may not be intended to be held to maturity or on a long-term basis are classified as available-for-sale and accounted for at market value on an aggregate basis. These include securities used as part of the Company's asset-liability management strategy and may be sold in response to changes in interest rates, prepayment risk, the need or desire to increase capital, to satisfy regulatory requirements and other similar factors. Unrealized gains or losses are reported as increases or decreases in stockholders' equity, net of the related deferred tax effect. 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 the earliest call date.

Realized gains and losses on securities available-for-sale are included in net securities gains (losses) based on the specific identification method.

Trading securities, which are generally held for the short term in anticipation of market gains, are carried at fair value. Realized and unrealized gains and losses on trading account assets are included in interest income on trading account securities. The Company held no trading securities during the years ended December 31, 2025, and 2024.

Allowance for Credit Losses ("ACL") on Investment Securities

The ACL on investment securities is determined for both the Held to Maturity ("HTM") and Available for Sale ("AFS") classifications of the investment portfolio in accordance with ASC 326 on a quarterly basis. The ACL for HTM investment securities is recorded at the time of purchase or acquisition, representing the Company's best estimate of current expected credit losses ("CECL") as of the date for the consolidated statements of financial condition. The ACL for HTM investment securities is determined on a collective basis, based on shared risk characteristics, and is determined at the individual security level when the Company deems a security to no longer possess shared risk characteristics. For investment securities where the Company has reason to believe the credit loss exposure is remote, a zero-credit loss assumption is applied. Such investment securities typically consist of those guaranteed by the U.S. government or other government enterprises, where there is an explicit or implicit guarantee by the U.S. government, that are highly rated by rating agencies and historically have had no credit loss experience.

The Company has determined no loss (or minimal loss) is expected on the HTM securities, and as such no reserve has been recorded.

For AFS investment securities, the Company performs a qualitative evaluation for securities in an unrealized loss position to determine if, for those investments in an unrealized loss position, the decline in fair value is credit-related or non-credit related. In determining whether a security's decline in fair value is credit related, the Company considers a number of factors including, but not limited to: (i) the extent to which the fair value of the investment is less than its amortized cost; (ii) the financial condition and near-term prospects of the issuer; (iii) downgrades in credit ratings; (iv) payment structure of the security, (v) the ability of the issuer of the security to make scheduled principal and interest payments, and (vi) general market conditions which reflect prospects for the economy as a whole, including interest rates and sector credit spreads. Management estimates credit related impairment using its single best estimate of present value of cash flows expected to be collected from the debt security on an individual basis. Management's best estimate represents the single best estimate based on past events, current conditions, and reasonable and supportable forecasts. The factors supporting management's best estimate are generally qualitative in nature but can be quantitative in nature where the timing of likelihood of possible outcomes is uncertain.

If it is determined that the unrealized loss, or a portion thereof, is credit related, the Company records the amount of credit loss through a charge to provision for credit losses in current period earnings. However, the amount of credit loss recorded in the current period earnings is limited to the amount of the total unrealized loss on the security, which is measured as the amount by which the security's fair value is below its amortized cost. If it is likely the Company will be required to sell the security in an unrealized loss position, the total amount of the loss is recognized in the current period earnings. Unrealized losses deemed non-credit related are recorded, net of tax, in accumulated other comprehensive income.

The Company does not measure credit losses on an investment's accrued interest receivable, but rather promptly reverses from current period earnings the amount of accrued interest that is no longer deemed collectable. Accrued interest receivable for investment securities is included in accrued interest receivable balances in the consolidated balance sheets. Accrued interest for held-to-maturity and available-for-sale debt securities totaled approximately \$532,000 and \$536,000 for 2025 and 2024, respectively.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Overdrafts are included in loans outstanding. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled \$1.51 million and \$1.46 million on December 31, 2025 and December 31, 2024, respectively, and was reported in accrued interest receivable on the consolidated balance sheets and excluded from the allowance for credit loss-loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Generally, consumer loans are not placed on nonaccrual, but are charged off when they are over 100 days past due. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

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

ACL on Loans

The ACL for loans is a valuation account that is deducted from the loans amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The Company's ACL model forecasts expected credit losses over the life of the loan, using the average charge off method derived from historical loss rates and peer data if no historical loss data exists. Adjustments to historical loss information are made for differences in current loan specific risk characteristics, such as differences in underwriting standards, portfolio mix, delinquency levels, loan terms as well as changes in environmental conditions, such as unemployment rates, collateral values, or other relevant factors.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan modification will be executed with an individual borrower, or the extension or renewal options are included in the original or modified at the reporting date are not unconditionally cancellable by the Company.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified portfolio segments and measures the allowance for credit losses using FDIC Call Report codes. The Company utilizes an Average Charge Off model to calculate the expected loss for each pool. Qualitative adjustments are a combination of forward-looking projections for each pool based on objective economic data and forecasts and custom qualitative factors as determined by the Company, such as economic trends, and conditions and underwriting standards. The total loss rate is the lifetime loss rate plus the total qualitative factor adjustments.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

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 2025 and 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 fair value minus estimated costs of disposal. 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 credit 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 components of comprehensive income (loss).

Noninterest Income

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 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.

Federal Home Loan Bank ("FHLB") Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Bank Owned Life Insurance ("BOLI")

The Bank has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Recent Accounting Pronouncements

In November 2025, the FASB issued ASU 2025-08, Financial Instruments-Credit Losses (Topic 326): Purchased Loans which will modify the accounting for loans acquired after the effective date. The ASU requires entities to apply a gross-up approach for purchased loans, whereby the amortized cost basis of the loan is increased by the allowance for expected credit losses at acquisition, with a corresponding charge to credit loss expense.

Upon adoption, the Company will apply the guidance prospectively to loans purchased after the effective date. The adoption will not result in a cumulative-effect adjustment to retained earnings. The ASU is effective for fiscal years beginning after December 15, 2026, and interim periods within fiscal years beginning after December 15, 2026. Early adoption is permitted and the ASU should be applied prospectively. The adoption of the ASU is not expected to have a material impact on the Company's consolidated balance sheet or results of operations.

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

2. SECURITIES

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

	December 31, 2025			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Available for sale				
U.S. treasuries and government agencies	\$ 18,500	11	943	17,568
State and municipal	26,260	-	2,755	23,505
Mortgage backed	81,205	6	10,384	70,827
Corporate debt	5,486	10	262	5,234
Totals	\$ 131,451	27	14,344	117,134

	December 31, 2024			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Available for sale				
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

There is no allowance for credit losses on available for sale securities as of December 31, 2025 and 2024

	December 31, 2025			
	Amortized Cost	Gross	Gross	Fair Value
		Unrealized Gains	Unrealized Losses	
Held to maturity				
Mortgage backed	\$ 7,198	-	135	7,063
Corporate debt	1,000	-	9	991
Totals	\$ 8,198	-	144	8,054

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

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, 2025 and 2024.

	Less than 12 months		12 months or more		Totals	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
	Value	Loss	Value	Loss	Value	Loss
As of December 31, 2025						
Available for sale						
U.S. treasuries and government agencies	\$ 384	1	14,368	942	14,752	943
State and municipal	-	-	22,275	2,755	22,275	2,755
Mortgage backed	-	-	71,009	10,384	71,009	10,384
Corporate debt	-	-	5,113	262	5,113	262
Totals	\$ 384	1	112,765	14,343	113,149	14,344
Held to maturity						
Mortgage backed	\$ 4,669	48	2,395	87	7,064	135
Corporate debt	991	9	-	-	991	9
Totals	\$ 5,660	57	2,395	87	8,055	144

	Less than 12 months		12 months or more		Totals	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
As of December 31, 2024						
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	<u>\$ 2,570</u>	<u>20</u>	<u>120,129</u>	<u>21,499</u>	<u>122,699</u>	<u>21,519</u>
Held to maturity						
Mortgage backed	\$ -	-	2,570	161	2,570	161

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, 2025 and 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.

The Company monitors the credit quality of HTM securities through the use of credit ratings which are monitored quarterly.

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	As of December 31, 2025			
less than one to five years	\$ 22,655	21,416	\$ -	-
Five to ten years	22,769	20,589	1,000	991
After ten years	4,822	4,302	-	-
	<u>50,246</u>	<u>46,307</u>	<u>1,000</u>	<u>991</u>
Mortgage backed	81,205	70,827	7,198	7,063
Totals	<u>\$ 131,451</u>	<u>117,134</u>	<u>\$ 8,198</u>	<u>8,054</u>

	Available for Sale		Held to Maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
	As of December 31, 2024			
One to five years	\$ 23,095	21,149	\$ -	-
Five to ten years	24,412	20,666	-	-
After ten years	6,405	5,633	-	-
	<u>53,912</u>	<u>47,448</u>	<u>-</u>	<u>-</u>
Mortgage backed	92,651	77,612	2,731	2,570
Totals	<u>\$ 146,563</u>	<u>125,060</u>	<u>\$ 2,731</u>	<u>2,570</u>

For the years ended December 31, 2025, 2024 and 2023 , the Company recognized losses from the sales of securities of \$121 thousand, \$ 356 thousand and \$ 660 thousand ,respectively.

At December 31, 2025 and 2024, securities with a carrying value of \$67,321 thousand and \$75,850 thousand respectively, were pledged as collateral for certain government deposits and for other purposes.

3. LOANS

At December 31, 2025 and 2024, loans are as follows:

	2025	2024
Real estate:		
Construction and land development	\$ 24,785	26,480
Secured by farmland	26,333	30,654
Commercial	156,523	158,147
Residential	230,047	211,690
Commercial and agricultural	15,024	12,605
Consumer	4,417	5,502
Totals	<u>\$ 457,129</u>	<u>445,078</u>

Unamortized net deferred loan costs amounted to \$560 thousand and \$591 thousand at December 31, 2025 and 2024. A summary of current, past due, and nonaccrual loans as of December 31, 2025 and 2024 was as follows:

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Total
As of December 31, 2025					
Real estate:					
Construction and land development	\$ 24,715	-	70	-	24,785
Secured by farmland	26,333	-	-	-	26,333
Commercial	156,501	-	22	-	156,523
Residential	228,597	1,278	172	-	230,047
Commercial and agricultural	14,539	-	-	485	15,024
Consumer	4,407	10	-	-	4,417
Totals	<u>\$ 455,092</u>	<u>1,288</u>	<u>264</u>	<u>485</u>	<u>457,129</u>

	Current	30-89 Days Past Due	90 Days or more Past Due and accruing	Nonaccrual	Totals
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	<u>\$ 443,135</u>	<u>1,260</u>	<u>133</u>	<u>550</u>	<u>445,078</u>

Loans on which the accrual of interest has been discontinued totaled \$485 thousand and \$550 thousand at December 31, 2025 and 2024 respectively. Interest that would have been accrued on these loans totaled \$30 thousand for the years ended December 31, 2025 and 2024 respectively. At December 31, 2025 there were \$ 212 thousand of residential mortgages in the process of foreclosure.

4. ALLOWANCE FOR CREDIT LOSSES

Changes in the allowance for credit losses for the year ended December 31, 2025 and 2024 were as follows:

	Real estate construction	Real estate residential	Real estate commercial and farmland	Commercial and agriculture	Consumer	Totals
As of December 31, 2025						
Beginning Balance	\$ 299	1,758	3,856	603	36	6,552
Provision for credit losses	-	-	-	-	-	-
Net charge-offs:						
Charge-offs	-	-	-	(49)	(4)	(53)
Recoveries	-	27	55	-	6	88
Net (charge-offs) recoveries	-	27	55	(49)	2	35
Ending balance	\$ 299	1,785	3,911	554	38	6,587
As of December 31, 2024						
Beginning Balance	\$ 243	1,724	4,129	615	23	6,734
Provision for credit 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

Although the above allocation is performed, the allowance for credit 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 Agricultural, 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, Farmland, and Commercial Mortgages. Pooled loan segments are reviewed and analyzed quarterly using the Bank's annualized net charge-offs since January 1, 2016, to the most recent quarter-end. Peer loss data is utilized if no historical loss data exists for a particular pool. 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 ASC 326 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 credit losses inherent in the loan portfolio as of December 31, 2025 and 2024.

The following table summarizes the loan risk ratings applied to the Company's real estate mortgages and commercial loans as of December 31, 2025 and 2024. 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, 2025					
Pass	\$ 24,715	228,660	179,726	14,539	447,640
Criticized accrual	70	1,387	3,130	-	4,587
Criticized nonaccrual	-	-	-	485	485
Total	<u>\$ 24,785</u>	<u>230,047</u>	<u>182,856</u>	<u>15,024</u>	<u>452,712</u>
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
Totals	<u>\$ 26,480</u>	<u>211,690</u>	<u>188,801</u>	<u>12,605</u>	<u>439,576</u>

Loan Modifications to Borrowers Experiencing Financial Difficulty

From time to time the Company may extend, restructure, or otherwise modify the terms of existing loans, on a case-by-case basis, to remain competitive and retain certain customers, as well as assist other customers who may be experiencing financial difficulties. Prior to 2023, a loan was classified as a troubled debt restructuring (TDR) loan if the borrower was experiencing financial difficulties, and a concession has been made at the time of such modification.

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

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. The Company did not modify loans to borrowers experiencing financial difficulty during 2025 and 2024.

Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

5. PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	December 31	
	2025	2024
Land	\$ 2,738	2,738
Leasehold improvements	161	161
Buildings and land improvements	8,367	7,568
Furniture and equipment	4,202	4,021
	<u>15,468</u>	<u>14,488</u>
Accumulated depreciation and amortization	(8,289)	(7,869)
Premises and equipment – net	<u>\$ 7,179</u>	<u>6,619</u>

Depreciation expense was \$420 thousand, \$454 thousand and \$456 thousand for each of the years ended December 31, 2025, 2024 and 2023, respectively.

Rent expense applicable to operating leases amounted to \$81 thousand for 2025, \$78 thousand for 2024, and \$72 thousand for 2023. The Bank has short-term lease obligations for office locations. Future minimum lease payments subsequent to 2025 are \$24 thousand for 2026.

6. DEPOSITS

A breakdown of interest bearing deposits at December 31, 2025 and 2024, by type of account is as follows:

	2025	2024
Savings and money market	\$ 150,534	146,563
Interest bearing demand	78,195	76,134
Time deposits through \$250,000	177,797	159,811
Time deposits of more than \$250,000	56,645	42,949
Total interest bearing deposits	<u>\$ 463,171</u>	<u>425,457</u>

At December 31, 2025, the scheduled maturities of time deposits are as follows:

2026	\$ 210,737
2027	19,244
2028	1,115
2029	740
2030	2,606
	<u>\$ 234,442</u>

Interest on deposits for the years ended December 31, 2025, 2024 and 2023 consisted of the following:

	2025	2024	2023
Savings and money market	\$ 973	809	738
Interest bearing demand	1,656	1,452	1,329
Time deposits more than \$ 250,000	1,658	1,517	1,042
Other time deposits	6,353	5,860	3,950
Total interest on deposits	<u>\$ 10,640</u>	<u>9,638</u>	<u>7,059</u>

7. BORROWINGS AND CREDIT FACILITIES

Short-term borrowings consist of advances from the Federal Home Loan Bank of Atlanta ("FHLB") with original maturities of up to one year and advances from the Federal Reserve Bank of Richmond Discount Window . There were no advances outstanding from either lender at December 31, 2025. There was a \$25 million advance outstanding from the Federal Reserve Bank of Richmond Discount Window at December 31, 2024. The advance matured in January 2025 with an interest rate of 4.76%.

At December 31, 2025, credit available under the FHLB credit facility approximates \$87 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 \$527 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 \$302 million at December 31, 2025. Securities pledged to the Federal Reserve Bank of Richmond Discount Window have approximate principal balances of \$49 million at December 31, 2025. Credit available from the Federal Reserve Bank of Richmond Discount Window approximates \$ 42 million at December 31, 2025.

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 90,990 shares at December 31, 2025.

Cash dividends paid to the holding company by its wholly owned subsidiary, Queenstown Bank of Maryland were \$3,241 thousand for 2025.

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 certain 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, 2025, the capital levels of the Company and the Bank exceed all capital adequacy requirements to which they are subject.

As of December 31, 2025, 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, 2025				
Total capital (to risk weighted assets):				
Company (consolidated)	\$ 90,167	19.52%	8%	
Bank	89,761	19.45%	8%	10%
Tier I capital (to risk weighted assets):				
Company (consolidated)	84,388	18.27%	6%	
Bank	83,982	18.20%	6%	8%
Common equity tier I				
Company (consolidated)	84,388	18.27%	4.50%	
Bank	83,982	18.20%	4.50%	6.50%
Tier I capital (to average assets):				
Company (consolidated)	84,388	11.57%	4%	
Bank	83,982	11.52%	4%	5%

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%

9. INCOME TAXES

Applicable income taxes on net income for 2025, 2024 and 2023 consist of the following:

	2025	2024	2023
Current income tax expense:			
Federal	\$ 1,354	1,351	1,325
State	557	523	542
	1,911	1,874	1,867
Deferred income tax (benefit) expense :			
Federal	(38)	(42)	200
State	(22)	9	83
	(60)	(33)	283
Total income tax expense	\$ 1,851	1,841	2,150

Components of deferred income tax (benefit) expense for 2025, 2024 and 2023 consist of the following:

	2025	2024	2023
Provision for credit losses	\$ (10)	50	203
Loan fees and costs	(8)	(2)	14
Deferred compensation	(55)	(54)	(36)
Depreciation and amortization	(5)	(59)	23
Interest income	18	32	47
Stock based compensation	-	-	32
Total deferred income tax (benefit) expense	<u>\$ (60)</u>	<u>(33)</u>	<u>283</u>

A reconciliation of income taxes computed at the maximum statutory federal tax rate to total income taxes for the years ended December 31, 2025, 2024, and 2023 follows:

	2025		2024		2023	
	Amount	Percent	Amount	Percent	Amount	Percent
Tax computed at statutory rate	\$ 1,584	21.0%	1,545	21.0%	1,745	21.0%
Increase (decrease) resulting from						
Tax-exempt interest income	(36)	-0.5%	(37)	-0.5%	(20)	-0.2%
Bank owned life insurance income	(95)	-1.3%	(92)	-1.3%	(84)	-1.0%
State income tax, net of federal income tax benefit	432	5.7%	420	5.7%	494	5.9%
Other	(34)	-0.4%	5	0.1%	15	0.2%
Total income taxes	<u>\$ 1,851</u>	<u>24.5%</u>	<u>1,841</u>	<u>25.0%</u>	<u>2,150</u>	<u>25.9%</u>

Significant components of the Company's deferred tax assets and liabilities at December 31, 2025 and 2024 are as follows:

	2025	2024
Deferred tax assets:		
Allowances for credit losses	\$ 1,838	1,828
Deferred compensation	849	794
Interest income	103	123
Others	2	2
Unrealized loss on securities available-for-sale	3,940	5,918
Total deferred tax assets	<u>6,732</u>	<u>8,665</u>
Deferred tax liabilities:		
Accumulated depreciation and amortization	274	279
Loan fees and costs	154	164
Total deferred tax liabilities	<u>428</u>	<u>443</u>
Net deferred tax assets	<u>\$ 6,304</u>	<u>8,222</u>

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, 2022.

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 2025, 2024 and 2023 were \$235 thousand, \$228 thousand, and \$220 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, \$154 thousand, and \$122 thousand, for 2025, 2024 and 2023, 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 2025, 2024 and 2023 were \$363 thousand, \$338 thousand, and \$333 thousand, respectively. The accrued liability for deferred compensation agreements were \$2,617 thousand at December 31, 2025 and \$2,437 thousand at December 31, 2024.

The Company provides retirement benefits to directors. The agreements provide for annual benefit payments for ten years after retirement, or a lump sum equivalent upon retirement. Benefit payments were \$153 thousand, \$35 thousand and \$125 thousand for 2025, 2024 and 2023, 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 2025, 2024 and 2023, were \$144 thousand, \$50 thousand and \$44 thousand, respectively. The accrued liability for deferred compensation for directors was \$318 thousand at December 31, 2025 and \$327 thousand at December 31, 2024.

The Bank is the owner and designated beneficiary on life insurance policies in the face amount of approximately \$35,871 thousand maintained on certain of its officers. At December 31, 2025, the cash surrender value of these policies was approximately \$16,560 thousand.

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:

	2025		2024		2023	
	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price	Options Outstanding	Weighted Average Exercise price
Balance, January 1	17,265	\$ 36.85	21,165	\$ 37.12	21,405	\$ 37.11
Options granted	-	-	-	-	-	-
Options exercised	(2,640)	36.27	(2,900)	37.72	(240)	38.26
Options forfeited	-	-	-	-	-	-
Options expired	-	-	(1,000)	40.00	-	-
Balance, December 31	14,625	\$ 36.95	17,265	\$ 36.85	21,165	\$ 37.12
Options exercisable, December 31	14,625	\$ 36.95	17,265	\$ 36.85	21,165	\$ 37.12

Stock options outstanding at December 31, 2025 were as follows:

	Issued and Outstanding Options			Exercisable (Vested) Options		
	Weighted Average Number Outstanding	Weighted Average Remaining Life (years)	Weighted Average Exercise Price	Weighted Average Number Exercisable	Weighted Average Remaining Life (years)	Weighted Average Exercise Price
<u>Exercise Price Range</u>						
\$0.00 through \$34.99	7,425	1.34	\$ 34.00	7,425	1.34	\$ 34.00
\$35.00 through \$54.99	7,200	2.28	\$ 40.00	7,200	2.28	\$ 40.00
Totals:	14,625	1.80	\$ 36.95	14,625	1.80	\$ 36.95

The maximum term of stock options granted under the plans is 10 years. There were no options granted in 2025, 2024 or 2023.

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 5,128 shares are available for issuance at December 31, 2025. Restricted stock awards are subject to a three year vesting schedule. Restricted shares granted in 2025 were 1,917 shares, shares vested were 639 shares. The fair market value at the date of grant was \$56 per share. Compensation costs are recognized on a straight line basis over the vesting period.

Stock based compensation costs for 2025, 2024, and 2023, were \$111 thousand, \$139 thousand and \$148 thousand, respectively. As of December 31, 2025, all compensation cost related to the issuance of stock options has been recognized. The intrinsic value for the stock options exercised was \$42 thousand, \$68 thousand, and \$7 thousand, in the years ended December 31, 2025, 2024 and 2023, respectively. The total intrinsic value of outstanding stock options was \$278 thousand at December 31, 2025. The total intrinsic value of exercisable stock options was \$278 thousand at December 31, 2025.

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 \$1,553 thousand at December 31, 2025 and \$2,112 thousand at December 31, 2024. there were no new extensions of credit during 2025. Credit reductions and retirements were \$559 thousand during 2025. Deposit balances of directors and policy making officers were \$2,830 thousand and \$3,056 thousand at December 31, 2025 and 2024, respectively.

14. OTHER EXPENSES

Additional details on other expenses are as follows:

	<u>2025</u>	<u>2024</u>	<u>2023</u>
Consulting fees	\$ 342	323	348
Directors fees	379	268	278
Debit card transaction expenses	225	191	218
Marketing and advertising	173	165	235
Auditing expenses	170	174	152
Postage	131	124	108
Other expenses	1,292	1,352	1,197
Total other expenses	<u>\$ 2,712</u>	<u>2,597</u>	<u>2,536</u>

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 credit losses on unfunded credit commitments of \$92 thousand at December 31, 2025 and 2024. The provisions for credit losses on unfunded commitments were \$68 thousand for 2023. There were no provisions for credit losses on unfunded commitments in 2025 and 2024.

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, 2025 is as follows:

Commitments to extend credit	\$65,442 thousand
Standby letters of credit	\$3,420 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 instruments, 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, 2025 and 2024 are as follows:

	2025		2024	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Financial assets:				
Total Cash and due from banks	\$ 5,442	5,442	\$ 5,876	5,876
Interest bearing deposits with banks	99,273	99,254	81,836	81,733
Investment securities:				
Available for sale	117,134	117,134	125,060	125,060
Held to maturity	8,198	8,054	2,731	2,570
Federal Home Loan Bank stock	527	527	521	521
Loans, net of allowance	450,542	433,492	438,526	412,326
Accrued interest receivable	2,116	2,116	2,013	2,013
Financial liabilities:				
Deposits	635,372	634,350	591,118	590,136
Borrowings	-	-	25,000	25,000
Accrued interest payable	1,075	1,075	1,005	1,005

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, 2025 and 2024:

	<u>2025</u>			Fair
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Securities available for sale				
U.S. treasuries and government agencies	\$ -	17,568	-	17,568
State and municipal	-	23,505	-	23,505
Mortgage backed	-	70,827	-	70,827
Corporate debt	-	5,234	-	5,234
Total available for sale securities	<u>\$ -</u>	<u>117,134</u>	<u>-</u>	<u>117,134</u>

	<u>2024</u>			Fair
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Securities				
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	<u>\$ 3,733</u>	<u>121,327</u>	<u>-</u>	<u>125,060</u>

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, 2025 and 2024:

	<u>2025</u>			Fair
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Nonperforming loans	\$ -	-	749	749
	<u>2024</u>			Fair
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Value</u>
Nonperforming loans	\$ -	-	683	683

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.