

Consolidated Financial Statements
December 31, 2024 and 2023
Cedar Valley Bankshares, Ltd.

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Independent Auditor's Report

To the Board of Directors
Cedar Valley Bankshares, Ltd.
Charles City, Iowa

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Cedar Valley Bankshares, Ltd. (the Company), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income (loss), comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated financial statements section of our report. We are required to be independent of 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.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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 for 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 GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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.

Eide Bailly LLP

Des Moines, Iowa
April 10, 2025

Cedar Valley Bankshares, Ltd.

Consolidated Balance Sheets

December 31, 2024 and 2023

	2024	2023
Assets		
Cash and due from banks	\$ 26,550,547	\$ 18,048,281
Federal funds sold	2,237,000	5,764,000
Total cash and cash equivalents	28,787,547	23,812,281
Interest-bearing deposits in banks	-	1,225,000
Investment securities, available-for-sale (amortized cost \$152,484,428 in 2024 and \$171,872,468 in 2023, net of allowance for credit losses of \$0 in 2024 and 2023)	140,593,817	158,129,735
Restricted stock	922,400	991,800
Other equity securities	1,006,906	959,401
Loans held for sale	-	184,830
Loans		
Commerical and tax-exempt	37,335,878	35,168,124
Agricultural	43,673,936	48,077,556
Commercial real estate	84,004,378	91,738,994
Agricultural real estate	90,991,383	96,970,760
Residential real estate	93,982,049	91,715,548
Consumer	8,213,113	8,413,198
Total loans	358,200,737	372,084,180
Allowance for credit losses - loans	(5,059,690)	(6,356,010)
Net loans	353,141,047	365,728,170
Property and equipment, net	4,338,800	4,356,096
Accrued interest receivable	4,545,056	4,501,138
Foreclosed assets	-	2,377,313
Bank-owned life insurance	10,036,793	9,799,314
Mortgage servicing rights	440,278	465,595
Goodwill	8,135,151	8,135,151
Intangible assets, net	-	42,000
Deferred income taxes	405,669	635,082
Other assets	2,216,539	1,412,007
	\$ 554,570,003	\$ 582,754,913

Cedar Valley Bankshares, Ltd.
Consolidated Balance Sheets
December 31, 2024 and 2023

	2024	2023
Liabilities and Stockholders' Equity		
Liabilities		
Deposits		
Noninterest bearing	\$ 83,422,819	\$ 92,208,017
Interest bearing	403,641,396	416,416,049
Total deposits	487,064,215	508,624,066
Securities sold under agreements to repurchase	13,054,838	18,529,012
Federal Home Loan Bank advances	3,000,000	6,000,000
Short-term debt	-	2,100,000
Accrued interest payable	361,433	394,899
Deferred compensation payable	908,752	898,178
Other liabilities	1,636,484	814,377
Total liabilities	506,025,722	537,360,532
Stockholders' Equity		
Common stock - par value \$10; 2,000,000 shares authorized; shares issued and outstanding; 2024 and 2023 - 291,272	2,912,720	2,912,720
Additional paid-in capital	7,321,875	7,321,875
Accumulated other comprehensive loss	(11,474,440)	(13,096,824)
Retained earnings	49,784,126	48,256,610
Total stockholders' equity	48,544,281	45,394,381
	\$ 554,570,003	\$ 582,754,913

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Income (Loss)
Years Ended December 31, 2024 and 2023

	2024	2023
Interest and Dividend Income		
Loans		
Taxable	\$ 17,337,488	\$ 16,492,654
Exempt from federal taxes	141,388	166,670
Investment securities		
Taxable	4,970,095	5,602,218
Exempt from federal taxes	477,189	522,423
Dividends	83,950	147,400
Federal funds sold and other	701,622	327,881
Total interest and dividend income	23,711,732	23,259,246
Interest Expense		
Deposits	8,384,095	5,934,206
Short-term debt	132,577	88,473
Federal Home Loan Bank advances and other short-term borrowings	23,853	992,676
Securities sold under agreements to repurchase	119,253	180,016
Total interest expense	8,659,778	7,195,371
Net Interest Income	15,051,954	16,063,875
Provision for Credit Losses - Loans	(1,171,500)	2,919,586
Net Interest Income After Provision for Credit Losses	16,223,454	13,144,289

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Income (Loss)
Years Ended December 31, 2024 and 2023

	2024	2023
Noninterest Income		
Trust and agency services	316,068	275,177
Customer service charges	685,562	690,786
Mortgage servicing income	209,582	227,431
Investment center commissions, net	271,313	311,803
Bank-owned life insurance	237,478	216,290
Loan related fees	400,117	318,338
Debit card fees	346,901	311,651
Realized gains on loans held for sale, net	70,030	65,965
Gain on sale of investment securities, net	-	4,568
Gain (loss) on sale of other assets, net	190,268	(28,174)
Unrealized gain on other equity securities	32,700	129,280
Rent income	335,212	363,469
Other	37,201	77,390
	3,132,432	2,963,974
Noninterest Expenses		
Salaries and employee benefits	9,093,892	8,545,626
Equipment	1,468,565	1,296,547
Occupancy	1,490,223	1,544,279
Data processing, communication and other service charges	2,991,648	2,770,766
Advertising, public relations and donations	468,118	501,634
Directors' compensation	435,005	399,672
Bank and customer supplies	152,885	124,265
FDIC insurance assessments	430,000	432,000
Legal expense	120,791	213,790
Professional fees	393,786	416,788
Impairment loss on foreclosed assets	-	626,518
Other	709,663	725,239
	17,754,576	17,597,124
Income (Loss) Before Income Taxes	1,601,310	(1,488,861)
Income Tax Expense (Benefit)	73,794	(63,029)
Net Income (Loss)	\$ 1,527,516	\$ (1,425,832)

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net Income (Loss)	<u>\$ 1,527,516</u>	<u>\$ (1,425,832)</u>
Other Comprehensive Income (Loss), Net of Income Taxes		
Net holding gain on investment securities	1,622,384	3,038,754
Reclassification of net realized gains	<u>-</u>	<u>(4,344)</u>
Total other comprehensive income	<u>1,622,384</u>	<u>3,034,410</u>
Comprehensive income	<u><u>\$ 3,149,900</u></u>	<u><u>\$ 1,608,578</u></u>

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2024 and 2023

	Common Stock		Additional Paid-in Capital	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total
	Number of Shares	Amount				
Balances as of December 31, 2022	291,272	\$ 2,912,720	\$ 7,321,875	\$ (16,131,234)	\$ 50,647,934	\$ 44,751,295
Cumulative change in accounting principal	-	-	-	-	(476,277)	(476,277)
Net loss	-	-	-	-	(1,425,832)	(1,425,832)
Dividends	-	-	-	-	(489,215)	(489,215)
Other comprehensive income	-	-	-	3,034,410	-	3,034,410
Balances as of December 31, 2023	291,272	2,912,720	7,321,875	(13,096,824)	48,256,610	45,394,381
Net income	-	-	-	-	1,527,516	1,527,516
Other comprehensive income	-	-	-	1,622,384	-	1,622,384
Balances as of December 31, 2024	<u>291,272</u>	<u>\$ 2,912,720</u>	<u>\$ 7,321,875</u>	<u>\$ (11,474,440)</u>	<u>\$ 49,784,126</u>	<u>\$ 48,544,281</u>

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Operating Activities		
Net income (loss)	\$ 1,527,516	\$ (1,425,832)
Adjustments to reconcile net income to net cash provided by operating activities		
Amortization and accretion, net	339,595	370,409
Depreciation	691,967	712,950
Impairment loss on foreclosed assets	-	626,518
Net (gain) loss on foreclosed assets	(114,527)	35,000
Net (gain) loss on disposal of assets	(77,135)	28,175
(Reversal) provision for credit losses - loans	(1,171,500)	2,919,586
Net gain on sale of investment securities	-	(4,568)
Mortgage servicing rights capitalized	(39,770)	(65,938)
Unrealized gain on other equity securities	(32,700)	(129,280)
Deferred income tax benefit	-	(35,000)
Earnings on cash value of life insurance	(237,479)	(216,290)
Proceeds from the sale of loans held for sale	4,825,830	7,222,054
Originations of loans held for sale	(4,641,000)	(7,224,919)
Net realized gain on loans held for sale	-	(65,965)
Changes in		
Accrued interest receivable	(43,918)	(477,235)
Other assets	(225,966)	255,261
Accrued interest payable	(33,465)	299,344
Other liabilities and deferred compensation payable	396,864	(479,950)
Net adjustments	(363,204)	3,770,152
Net Cash from Operating Activities	1,164,312	2,344,320
Investing Activities		
Proceeds from sales of investment securities, available for sale	-	10,331,939
Proceeds from maturities/calls of investment securities, available for sale	19,155,531	17,846,598
Net decrease in interest-bearing deposits in banks	1,225,000	-
Net decrease in restricted stock	69,400	1,396,100
Net decrease in loans	13,679,023	3,971,487
Proceeds from sale of assets	2,472,474	16,576
Purchase of property and equipment	(568,690)	(530,388)
Purchase of other equity securities	(15,129)	-
Capitalized improvements, foreclosed property	(72,630)	(76,896)
Net Cash from Investing Activities	35,944,979	32,955,416

Cedar Valley Bankshares, Ltd.
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023

	2024	2023
Financing Activities		
Net decrease in deposits	(21,559,851)	(1,816,760)
Net (decrease) increase in securities sold under agreements to repurchase	(5,474,174)	11,272,575
Net decrease in federal funds purchased and other short-term borrowings	-	(34,361,000)
Payments on Federal Home Loan Bank advances	(3,000,000)	-
(Payments) advances in short-term debt borrowings, net	(2,100,000)	1,950,000
Payment of dividends	-	(489,215)
	(32,134,025)	(23,444,400)
Net Cash used for Financing Activities	(32,134,025)	(23,444,400)
Net Change in Cash and Cash Equivalents	4,975,266	11,855,336
Cash and Cash Equivalents, Beginning of Year	23,812,281	11,956,945
Cash and Cash Equivalents, End of Year	\$ 28,787,547	\$ 23,812,281
Supplemental Cash Flow Information		
Cash paid (received) during the year for		
Interest	\$ 8,693,243	\$ 6,896,027
Income taxes	\$ 257,088	\$ (184,358)
Noncash Investing and Financing Activities		
Fair value adjustments		
Gains on available for sale securities	\$ 1,852,121	\$ 3,237,514
Deferred income tax asset	(229,737)	(203,104)
	\$ 1,622,384	\$ 3,034,410
Foreclosed real estate and other properties acquired in settlement of loans	\$ 79,600	\$ 195,313
Lease liabilities arising from obtaining right-of-use assets	\$ 578,566	\$ -
Adoption of ASU 2016-13, reclassified from retained earnings to allowance for credit losses	\$ -	\$ 476,277

Note 1 - Principal Business Activity and Significant Accounting Policies

Cedar Valley Bankshares, Ltd. (the “Parent Company”) is a bank holding company, which owns 100% of First Security Bank and Trust Company, Charles City, Iowa (“the Subsidiary Bank”) and Four Keys, LLC, collectively (the “Company”).

The Subsidiary Bank is a state chartered non-member bank and regulated by the Federal Deposit Insurance Corporation (FDIC) and the Iowa Division of Banking and has deposit insurance through the FDIC. The Subsidiary Bank provides banking services to its local respective markets. The Subsidiary Bank has offices in Charles City, Hampton, Dumont, Rockford, Ionia, Riceville, Manly, Nora Springs, Rockwell, and Thornton, Iowa.

Four Keys, LLC was formed by the Parent Company to purchase a foreclosed property from bankruptcy previously financed by the Subsidiary Bank. The Company sold the property in 2024.

The accounting and financial reporting policies of the Company conform with generally accepted accounting principles and prevailing practices within the banking industry. The following is a description of significant accounting policies.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, Subsidiary Bank and Four Keys, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimate that is particularly susceptible to significant changes in the near term relates to the determination of the allowance for credit losses.

Concentrations of Credit Risk

The Company grants agribusiness, commercial and residential loans of which a significant portion is dependent on real estate values and general economic conditions in its lending areas. At December 31, 2024 and 2023, agribusiness production and agricultural real estate loans totaled approximately \$134,665,000 and \$145,048,000, respectively, which represented approximately 38% and 39% of loans at December 31, 2024 and 2023, respectively. A substantial portion of these borrowers' ability to repay their obligations depends on the local and national agricultural industry.

Cash and Cash Equivalents

For the purposes of the statement of cash flows, cash and cash equivalents include cash, due from banks, federal funds sold and interest-bearing deposits with banks with original maturities of three months or less.

The Subsidiary Bank maintains amounts due from banks which, at times, may exceed federally insured limits, and federal funds sold placed with correspondent banks are generally unsecured. Management regularly evaluates the credit risk associated with other financial institutions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents.

Interest-Bearing Deposits in Banks

Deposits are purchased in amounts that are fully insured by the FDIC. Interest-bearing deposits in banks generally mature within five years and are carried at cost.

Investment Securities

The Company classifies its investment securities as available for sale. Securities classified as available for sale are recorded at fair value, with unrealized gains and losses excluded from earnings and reported as other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Allowance for Credit Losses – Available-for-Sale Securities

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

Changes in the allowance for credit losses are recorded as provision for credit loss expense (or reversal). Losses are changed against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale investment securities totaling \$794,725 and \$918,476 at December 31, 2024 and December 31, 2023, respectively, is included in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses.

Fair Value Measurements

The Company determined the fair value of certain assets in accordance with the provisions of FASB Accounting Standards Codification Topic Accounting Standards Codification 820, Fair Value Measurements, which provides a framework for measuring fair value under generally accepted accounting principles.

Fair value is defined as the exchange price that would be received for an asset in the principal or most advantageous market for the asset in an orderly transaction between market participants on the measurement date. It is required that valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The Standard also establishes a fair value hierarchy, which prioritizes the valuation inputs into three broad levels.

Level 1 inputs consist of quoted prices in active markets for identical assets that the reporting entity has the ability to access at the measurement date. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the related asset. Level 3 inputs are unobservable inputs related to the asset.

Restricted Stock

The Bank is a member of the Federal Home Loan Bank (FHLB) system. Members are required to own a certain amount of stock based on the level of borrowing and other factors and may invest 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.

Other Equity Securities

Other equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or similar investment. For other equity securities, the entire amount of impairment is recognized through earnings.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in aggregate. An estimate of fair value is obtained from prospective buyer bid prices based on the terms of the loans held. Net unrealized losses are recognized through a valuation allowance by charges to income.

Loans

Loans are reported at their outstanding unpaid principal balance. Interest income is accrued on the unpaid principal balance. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. Past due status is based on contractual terms of the loan. Loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on non-accrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Accrued interest receivable on loans totaling \$3,791,719 and \$3,552,693 at December 31, 2024 and December 31, 2023, respectively, is included in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses.

The Company has determined that the accounting for nonrefundable fees and costs associated with originating or acquiring loans does not have a material effect on its consolidated financial statements. As such, these fees and costs have been recognized during the period they are collected and incurred, respectively.

Allowance for Credit Losses - Loans

The allowance for credit losses on loans (ACL) is a valuation account that is deducted from, or added to, the amortized cost basis of financial assets to present the net amount expected to be collected over the contractual term of the loans. Loans are charged off against the allowance when management believes the uncollectability of the loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The components of the allowance for credit losses on loans are evaluated as of the end of each reporting period by management and are based upon the effects of past events, current conditions and reasonable and supportable forecasts on the collectability of the bank's financial assets. Management uses relevant forward-looking information and expectations drawn from reasonable and supportable forecasts via the Bankers' Caddy web-based program for pools of loans based on the FFIEC loan types, with individual analysis of collateral-dependent loans. When loans are determined to vary in risk characteristics from the base pool, they will be segmented away from the pool for a specific allocation.

Changes to allowance for credit losses on loans resulting from these evaluations are recorded through increases or decreases to the provision for credit losses on loans. When available information confirms that specific loans are uncollectible, those amounts are written off. Subsequent recoveries, if any, are credited to the allowance. This evaluation is inherently imprecise, as it requires estimates that are susceptible to significant revision as more information becomes available. Management assesses the allowance monthly. This includes processing a current portfolio within Bankers' Caddy and reviewing loans with significant changes in performance and collateral. All collateral-dependent loans are reassessed quarterly.

Bankers' Caddy generates the historical component of losses using a broad peer group and the Weighted Average Remaining Maturity (WARM) method. This proprietary program calculates the forward-looking adjustment, with reversion, that is tied to a Federal Reserve Index that the Bank Subsidiary has chosen based primarily on statistical correlation. The prepayment speeds used are reviewed monthly by management. A custom qualitative factor is assigned to nine economic and internal factors, subject to adjustment due to changes in lending policies and procedures, changes in economic conditions, changes in the nature and volume of the portfolio, changes in the experience, ability and depth of lending management and other relevant staff, changes in the volume and severity of past due, nonaccrual and other adversely graded loans, changes in the loan review system, changes in the value of the underlying collateral for collateral-dependent loans, concentrations of credit, and the effect of other external factors such as competition and legal and regulatory requirements. The custom factors are reviewed annually and could be adjusted in the interim.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. Management will calculate specific allocation components of the allowance for credit losses for collateral-dependent financial assets. In these instances, management expects repayment to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty as of the reporting date. The allowance for credit losses for a collateral-dependent loan is measured using the fair value of collateral, regardless of whether foreclosure is probable. The fair value is adjusted to consider costs to sell if repayment depends on the sale of the collateral, but adjustments for cost to sell are not appropriate when the repayment of a collateral-dependent loan is expected from the operation of the collateral.

Major categories of loans are further defined by the Company into portfolio segments identified by the Company including commercial and tax-exempt, commercial real estate, agricultural, agriculture real estate, residential real estate, and consumer. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under lending arrangements and standby letters of credit. Such financial instruments are recorded when they are funded.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company – put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation. Depreciation of property and equipment is computed primarily by accelerated methods utilizing estimated useful lives of 7 to 40 years for land improvements, buildings and improvements; 5 to 8 years for furniture and equipment and 3 to 5 years for computer equipment and related software.

Leases

The Company leases certain locations and equipment. The Company records leases with terms greater than 12 months on the balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for such items as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Company could obtain for similar loans as of the commencement or renewal. The Company has elected the option to use the risk-free rate determined using a period comparable to the lease terms as the discount rate for leases where the implicit rate is not readily available. The Company does not record short term leases with an initial lease term of one year or less on the consolidated balance sheets.

At lease inception, the Company determines the lease term by considering the noncancelable lease term and all optional renewal periods that the Company is reasonably certain to renew. The lease term is also used to calculate straight-line lease expense. Leasehold improvements are amortized over the shorter of the useful life and the estimated lease term. The Company's leases do not contain residual value guarantees or material variable lease payments that will impact the Company's ability to pay dividends or cause the Company to incur additional expenses.

Operating lease expense consists of a single lease cost allocated of the remaining lease term on a straight-line basis, variable lease expense, and any impairment of the right-of-use asset. Lease expense is included in occupancy and equipment expense on the Company's consolidated statements of income. The Company's variable lease expense includes rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease.

Bank-Owned Life Insurance

The carrying amount of bank-owned life insurance consists of the premiums paid plus the increase in cash value. Earnings on contracts are generally exempt from income taxes and are based upon the earnings on the cash surrender value less mortality costs.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Any significant expenditures for improvements that increase the value of foreclosed assets are capitalized. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets. As of December 31, 2024 the Company sold the foreclosed property owned by Four Keys, LLC. The Company recognized an impairment loss of \$626,518, and an ending valuation allowance of \$2,873,021, as of December 31, 2023 related to the Four Keys, LLC property.

Mortgage Servicing Rights

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. Generally, purchased servicing rights are capitalized at the cost to acquire the rights. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on its fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The Subsidiary Bank has elected to account for the mortgage servicing rights under the amortization method. Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is recognized through valuation allowance for individual tranches, to the extent that fair value is less than the capitalized amount for the tranches. If the Company later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to income.

Capitalized servicing rights are reported as a separate line item on the consolidated balance sheets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing and ancillary fees are considered immaterial.

Goodwill

Goodwill represents the excess of purchase price over the fair value of net assets of the businesses acquired, including other identifiable intangible assets.

Goodwill is not amortized, rather potential impairment is considered on an annual basis, or more frequently upon the occurrence of an event or when circumstances indicate that the amount of goodwill is greater than its fair value. As of December 31, 2024 and 2023, the carrying value of the Company's goodwill was not considered impaired.

Intangible Assets

Intangible assets with a finite life consist of core deposit intangibles. The Company amortizes the cost of the core deposit intangible over the expected period of benefit which is 10 years.

Trust Assets

Assets held by the Company in fiduciary or agency capacities are not assets of the Company and hence are not included in the consolidated balance sheets.

Income Taxes

The Company with the consent of its stockholders, has elected under the Internal Revenue Code to be taxed as an S Corporation. The stockholders of an S Corporation are taxed on their proportionate share of the Company's taxable income. Therefore, no provision or liability for federal income taxes has been included in the financial statements. Certain specific deductions and credits flow through the Company to its stockholders.

The Company is also subject to Iowa franchise tax and files a franchise tax return in the State of Iowa. Income taxes are provided based on earnings reported for financial reporting purposes. Franchise tax expense of \$73,794 and franchise tax benefit of \$63,029 was recognized for the years ended December 31, 2024 and 2023, respectively.

The Company evaluates its tax positions that have been taken or are expected to be taken on income tax returns to determine if an accrual is necessary for uncertain tax positions. As of December 31, 2024 and 2023, the unrecognized tax benefit accrual was zero. The Company will recognize future accrued interest and penalties related to unrecognized tax benefits in income tax expense if incurred.

Deferred Compensation

Benefits under deferred compensation contracts are accrued over the period of the employee's active employment from the time the contract is signed to the employee's full eligibility date.

Advertising Costs

Advertising costs are recognized as a charge to expense when incurred. Such costs approximated \$424,000 and \$390,000, respectively, for the years ended December 31, 2024 and 2023.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains or losses on securities available for sale.

Revenue Recognition – FASB Accounting Standards Codification Topic 606

The majority of the Subsidiary Bank's revenues come from interest income from loans and investment securities that are outside the scope of Topic 606. The Subsidiary Bank's services that fall within the scope of Topic 606 are presented in noninterest income and are recognized as revenue of the Subsidiary Bank as it has satisfied its obligation to the customer. Services within the scope of Topic 606 include debit card fees, customer service charges, investment center commissions, net, gains on the sale of foreclosed assets and trust and agency fees.

Substantially all of the Subsidiary Bank's noninterest revenue streams inside the scope of Topic 606 are discussed below.

Debit Card Fees (Net): The Subsidiary Bank earns interchange fees from debit and ATM cardholder transactions conducted through the cardholder payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. ATM and debit card income are presented net of payment network expenses and the cost of card issuance.

Customer Service Charges: The Subsidiary Bank earns fees from its deposit customers for transaction-based, account-maintenance, and overdraft services. Transaction-based fees, which include stop payment charges, statement rendering, check orders, ACH, and other deposit related fees, are recognized at the time the transaction is executed as that is the point in time the Subsidiary Bank full fills the customer's request. Transaction based account maintenance fees, which related primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Subsidiary Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Safe deposit rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. Customer service charges on deposits are withdrawn from the customer's account balance.

Investment Center Commissions (Net): The Subsidiary Bank earns commissions from a third-party investment advisor located on the Subsidiary Bank's premises for investment products sold by the investment advisor to the Subsidiary Bank's and other customers. The Subsidiary Bank receives commissions from the third-party service provider on a monthly basis based upon certain percentages of customer activity for the month. The commissions are recognized when received, each month end. Investment Center Commissions are presented net of related overhead costs of the investment center excluding compensation costs.

Gains (Losses) on Sales of Foreclosed Assets: The Subsidiary Bank records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Subsidiary Bank finances the sale of foreclosed asset to the buyer, the Subsidiary Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Subsidiary Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

Trust and Agency Fees (Gross): The Subsidiary Bank earns trust and brokerage fees from its contracts with trust and brokerage customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Subsidiary Bank provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of the assets under management (AUM) at month-end. Fees that are transaction based, including trade execution services, are recognized at the point in time that the transaction is executed, i.e., the trade date. Other related services provided include financial planning services and the fees the Subsidiary Bank earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

Subsequent Events

The Company has evaluated subsequent events through April 10, 2025, the date which the consolidated financial statements were available to be issued.

Note 2 - Restrictions on Cash and Cash Equivalents

Effective March 26, 2020, the Federal Reserve announced the reduction of the reserve requirement ratio to zero percent across all deposit tiers. Depository institutions that were required to maintain deposits in a Federal Reserve Bank account to satisfy reserve requirements will no longer be required to do so and can use the additional liquidity to lend to individuals and businesses. It is our understanding that the Federal Reserve currently has no current plans to reinstate the reserve requirement. However, the Federal Reserve may adjust reserve requirement ratios in the future if conditions warrant.

Note 3 - Investment Securities

As of December 31, 2024 and 2023, all investment securities were designated as available for sale and are reflected in the consolidated balance sheets at estimated fair value, which are \$11,890,611 and \$13,742,733 less than amortized cost, respectively.

The amortized cost, fair value, and allowance for credit losses of securities, with gross unrealized gains and losses of December 31, 2024 and 2023 is as follows:

	2024				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
U.S. Government treasuries	\$ 5,055,255	\$ -	\$ (467,521)	\$ -	\$ 4,587,734
U.S. Government agencies	1,249,417	-	(3,477)	-	1,245,940
States and municipalities	77,287,847	-	(8,172,683)	-	69,115,164
Mortgage-backed	47,400,872	6,623	(2,647,324)	-	44,760,171
Corporate bonds	9,050,000	-	(569,285)	-	8,480,715
Corporate mortgage and asset-backed	12,441,037	46,200	(83,144)	-	12,404,093
Total	\$ 152,484,428	\$ 52,823	\$ (11,943,434)	\$ -	\$ 140,593,817

	2023				
	Amortized Cost	Gross Unrealized Gain	Gross Unrealized Losses	Allowance for Credit Losses	Estimated Fair Value
U.S. Government treasuries	\$ 5,070,628	\$ -	\$ (519,984)	\$ -	\$ 4,550,644
U.S. Government agencies	2,751,713	-	(61,499)	-	2,690,214
States and municipalities	78,271,673	758	(8,279,954)	-	69,992,477
Mortgage-backed	61,268,926	122	(3,610,219)	-	57,658,829
Corporate bonds	9,050,000	-	(1,027,983)	-	8,022,017
Corporate mortgage and asset-backed	15,459,528	11,954	(255,928)	-	15,215,554
Total	\$ 171,872,468	\$ 12,834	\$ (13,755,567)	\$ -	\$ 158,129,735

As of December 31, 2024 and 2023, investment securities with a fair value of approximately \$57,446,000 and \$65,230,000, respectively, were pledged as security for various borrowing arrangements and public deposits.

The following tables show the gross unrealized losses and fair value of the Company's securities with unrealized losses for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position. Securities at December 31, 2024 are as follows.

	Less than 12 months		12 months or more		December 31, 2024	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Government treasuries	\$ -	\$ -	\$ 4,587,734	\$ 467,521	\$ 4,587,734	\$ 467,521
U.S. Government agencies	-	-	1,245,940	3,477	1,245,940	3,477
State and municipalities	1,058,334	6,666	67,996,830	8,166,017	69,055,164	8,172,683
Mortgage-backed	857,195	3,378	41,012,662	2,643,946	41,869,857	2,647,324
Corporate bonds	-	-	8,180,715	569,285	8,180,715	569,285
Corporate mortgage and asset-backed	652,421	593	7,479,355	82,551	8,131,776	83,144
Total	\$ 2,567,950	\$ 10,637	\$ 130,503,236	\$ 11,932,797	\$ 133,071,186	\$ 11,943,434

Securities at December 31, 2023 are as follows.

	Less than 12 months		12 months or more		December 31, 2023	
	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses	Estimated Fair Value	Gross Unrealized Losses
U.S. Government treasuries	\$ -	\$ -	\$ 4,550,644	\$ 519,984	\$ 4,550,644	\$ 519,984
U.S. Government agencies	-	-	2,690,214	61,499	2,690,214	61,499
State and municipalities	4,534,343	45,700	64,687,376	8,234,254	69,221,719	8,279,954
Mortgage-backed	10,418	94	55,641,414	3,610,125	55,651,832	3,610,219
Corporate bonds	-	-	7,722,017	1,027,983	7,722,017	1,027,983
Corporate mortgage and asset-backed	-	-	11,840,228	255,928	11,840,228	255,928
Total	\$ 4,544,761	\$ 45,794	\$ 147,131,893	\$ 13,709,773	\$ 151,676,654	\$ 13,755,567

There were 252 investment securities in a continuous loss position for 12 months or more as of December 31, 2024. Unrealized losses on available-for-sale securities are composed of securities that are directly or implicitly guaranteed by the U.S. government or are issued by state and political subdivisions and corporations that are highly rated by major rating agencies with a history of no credit losses. Timely payments of principal and interest are expected. All issuers continue to make timely principal and interest payments and financial statements are periodically reviewed as part of post-purchase analysis. The decline in value in any of these securities is deemed to be temporary and not attributable to credit losses. Furthermore, the Company does not intend to sell, and it is likely that management will not be required to sell, these securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions.

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2024, follows:

	Amortized Cost	Estimated Fair Value
Due in one year or less	\$ 3,669,399	\$ 3,640,562
Due from one to five years	39,616,375	37,223,210
Due from five to ten years	47,545,814	41,085,238
Due after ten years	1,810,931	1,480,545
	<u>92,642,519</u>	<u>83,429,555</u>
Mortgage and asset-backed securities	59,841,909	57,164,262
	<u>\$ 152,484,428</u>	<u>\$ 140,593,817</u>

There were no sales of available-for-sale securities during the year ended December 31, 2024. Proceeds from the sale of available-for-sale securities during the year ended December 31, 2023 were \$10,336,507 resulting in gross realized gains of \$76,089 and gross unrealized losses of \$71,521.

Note 4 - Other Equity Securities

Other equity investments as of December 31, 2024 and 2023 were as follows:

	2024	2023
Bankers' Bank	\$ 793,800	\$ 752,160
Federal Agricultural Mortgage Corp Stock	207,066	201,201
Other	6,040	6,040
Total	<u>\$ 1,006,906</u>	<u>\$ 959,401</u>

Note 5 - Loans and Allowance for Credit Losses on Loans

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2024 and 2023:

	2024				
	Beginning of year	Provision for Credit Losses - Loans	Loan Loss Recoveries	Loans Charged Off	End of Year
Commercial and tax exempt	\$ 1,393,755	\$ (254,366)	\$ 9,725	\$ (14,866)	\$ 1,134,248
Agricultural	579,181	221,661	-	(39,000)	761,842
Commercial real estate	2,795,529	(1,175,740)	33,414	(15,195)	1,638,008
Agricultural real estate	546,791	(41,356)	-	-	505,435
Residential real estate	909,050	48,112	11,908	(72,172)	896,898
Consumer	131,704	30,189	14,606	(53,240)	123,259
Totals	\$ 6,356,010	\$ (1,171,500)	\$ 69,653	\$ (194,473)	\$ 5,059,690

	2023					
	Beginning of year prior to adoption of ASC 326	Impact of adopting ASC 326	Provision for Credit Losses - Loans	Loan Loss Recoveries	Loans Charged Off	End of Year
Commercial and tax exempt	\$ 1,265,815	\$ 303,502	\$ 494,970	\$ 37,782	\$ (708,314)	\$ 1,393,755
Agricultural	416,121	109,169	57,270	-	(3,379)	579,181
Commercial real estate	1,475,873	281,124	2,330,449	146,459	(1,438,376)	2,795,529
Agricultural real estate	512,914	(74,048)	101,741	6,184	-	546,791
Residential real estate	696,930	374,596	(31,354)	13,431	(144,553)	909,050
Consumer	211,268	5,831	(33,490)	32,031	(83,936)	131,704
Unallocated	523,897	(523,897)	-	-	-	-
Totals	\$ 5,102,818	\$ 476,277	\$ 2,919,586	\$ 235,887	\$ (2,378,558)	\$ 6,356,010

Cedar Valley Bankshares, Ltd.
Notes to Consolidated Financial Statements
December 31, 2024 and 2023

The following tables summarize, by portfolio segment, the aging of the amortized cost basis in past-due loans as of December 31, 2024 and 2023:

2024						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and tax exempt	\$ 328,852	\$ -	\$ -	\$ 328,852	\$ 37,007,026	\$ 37,335,878
Agricultural	-	-	-	-	43,673,936	43,673,936
Commercial real estate	160,373	40,047	-	200,420	83,803,958	84,004,378
Agricultural real estate	52,067	-	-	52,067	90,939,316	90,991,383
Residential real estate	43,473	49,123	-	92,596	93,889,453	93,982,049
Consumer	47,902	7,197	-	55,099	8,158,014	8,213,113
Total	\$ 632,667	\$ 96,367	\$ -	\$ 729,034	\$ 357,471,703	\$ 358,200,737

2023						
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial and tax exempt	\$ 44,000	\$ 117,000	\$ -	\$ 161,000	\$ 35,007,124	\$ 35,168,124
Agricultural	39,000	15,035	-	54,035	48,023,521	48,077,556
Commercial real estate	-	43,212	-	43,212	91,695,782	91,738,994
Agricultural real estate	-	300,467	-	300,467	96,670,293	96,970,760
Residential real estate	360,055	47,786	-	407,841	91,307,707	91,715,548
Consumer	20,805	10,987	-	31,792	8,381,406	8,413,198
Total	\$ 463,860	\$ 534,487	\$ -	\$ 998,347	\$ 371,085,833	\$ 372,084,180

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024 and 2023.

	2024		
	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
	Commercial and tax exempt	\$ 17,684	\$ 107,324
Agricultural	-	-	-
Commercial real estate	-	165,305	-
Agricultural real estate	-	-	-
Residential real estate	76,803	94,038	-
Consumer	-	21,322	-
Total	\$ 94,487	\$ 387,989	\$ -
	2023		
	Nonaccrual With No Allowance For Credit Loss	Nonaccrual	Loans Past Due Over 89 Days Still Accruing
Commercial and tax exempt	\$ 15,266	\$ -	\$ -
Agricultural	-	14,439	-
Commercial real estate	-	3,050,861	-
Agricultural real estate	-	-	-
Residential real estate	168,343	482,049	-
Consumer	-	-	-
Total	\$ 183,609	\$ 3,547,349	\$ -

The Company recognized \$5,859 and \$21,611 of interest income on nonaccrual loans during the years ended December 31, 2024 and 2023, respectively.

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023.

	2024			
	Real Estate	Equipment	Automobile	Other
Commercial and tax exempt	\$ 865,859	\$ 3,494	\$ 250,897	\$ 1,187,867
Agricultural	1,713,927	-	-	493,410
Commercial real estate	4,163,841	-	-	-
Agricultural real estate	349,696	-	-	-
Residential real estate	4,117,884	-	-	-
Consumer	-	-	26,535	11,929
Total	\$ 11,211,207	\$ 3,494	\$ 277,432	\$ 1,693,206

	2023			
	Real Estate	Equipment	Automobile	Other
Commercial and tax exempt	\$ 1,077,987	\$ 397,876	\$ 96,845	\$ 969,994
Agricultural	138,360	-	-	196,308
Commercial real estate	12,222,090	-	-	-
Agricultural real estate	-	-	-	-
Residential real estate	6,901,666	-	-	86,591
Consumer	-	-	-	9,741
Total	\$ 20,340,103	\$ 397,876	\$ 96,845	\$ 1,262,634

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extensions, other-than-insignificant payment delays or interest rate reductions. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as interest rate reduction, may be granted. For the loans included in the “combination” columns below, multiple types of modifications have been made on the same loan within the current reporting period. The combination is at least two of the following: principal forgiveness, a term extension, an other-than-insignificant payment delay and/or an interest rate reduction.

Cedar Valley Bankshares, Ltd.
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December 31, 2024 and 2023

The following tables present the amortized cost basis of loans at December 31, 2024 and 2023 that were both experiencing financial difficulty and modified during the years ended December 31, 2024 and 2023, by class and by type of modification. The percentage of amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below.

	2024						
	Principal Foregiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Foregiveness	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial and tax exempt	\$ -	\$ -	\$ 1,266,882	\$ -	\$ -	\$ 419,673	4.52%
Agricultural	-	-	879,910	-	-	-	2.01%
Commercial real estate	-	-	-	-	-	-	0.00%
Agricultural real estate	-	-	-	-	-	-	0.00%
Residential real estate	-	-	42,513	-	-	-	0.05%
Consumer	-	-	-	-	-	-	0.00%
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,189,305</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 419,673</u>	<u>0.73%</u>
	2023						
	Principal Foregiveness	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Principal Foregiveness	Combination Term Extension and Interest Rate Reduction	Total Class of Financing Receivable
Commercial and tax exempt	\$ -	\$ -	\$ 125,906	\$ 18,201	\$ -	\$ -	0.41%
Agricultural	-	-	-	-	-	-	0.00%
Commercial real estate	-	-	-	-	-	-	0.00%
Agricultural real estate	-	-	-	-	-	-	0.00%
Residential real estate	-	-	430,989	-	-	-	0.47%
Consumer	-	-	-	-	-	-	0.00%
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 556,895</u>	<u>\$ 18,201</u>	<u>\$ -</u>	<u>\$ -</u>	<u>0.15%</u>

The Company has not committed to lend additional amounts to the borrowers included in the previous tables.

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tables present the performance of such loans that have been modified in the last 12 months.

	2024			
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
	Commercial and tax exempt	\$ 328,852	\$ -	\$ -
Agricultural	-	-	-	-
Commercial real estate	-	-	-	-
Agricultural real estate	-	-	-	-
Residential real estate	-	-	-	-
Consumer	-	-	-	-
	<u>\$ 328,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,852</u>
Total	<u>\$ 328,852</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 328,852</u>
	2023			
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due
Commercial and tax exempt	\$ -	\$ -	\$ -	\$ -
Agricultural	-	-	-	-
Commercial real estate	-	-	-	-
Agricultural real estate	-	-	-	-
Residential real estate	-	-	183,625	183,625
Consumer	-	-	-	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,625</u>	<u>\$ 183,625</u>
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 183,625</u>	<u>\$ 183,625</u>

There were zero loans that had a payment default and were modified in the twelve months prior to the default to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

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.

Credit Quality Indicators

The general description of the risk ratings are as follows:

- Pass rated loans represent loans that are evaluated and are performing under the stated terms. Pass rated assets are analyzed by the paying capacity, the current net worth, and the value of the loan collateral of the obligor.
- Watch loans demonstrate weaknesses and exhibit signs of a higher-than-normal degree of repayment risk. If the weaknesses are not corrected, the loans may experience deterioration that could negatively impact ultimate repayment and result in migration to substandard or doubtful risk rating.
- Substandard loans may not be adequately protected by the repayment capacity of the borrower or of the value of the collateral pledged, if any. Loans so classified have well-defined weaknesses that jeopardize liquidation of the loans and are characterized by the distinct possibility that some loss will occur if the deficiencies are not corrected.
- Doubtful loans have the weaknesses of those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans in this category are allocated a specific reserve based on the estimated discounted cash flows from the loan (or collateral value less cost to sell for collateral dependent loans) or are charged off if deemed uncollectible.

Loans are subject to individual risk assessment using internal borrower objective and subjective quality ratings. The Criticized risk rating category includes substandard and doubtful risk ratings. Based on the most recent analysis performed, the risk category of loans by portfolio segment as of 2024 and 2023 was as follows.

	2024				
	Risk Category				Total
	Pass	Watch	Substandard	Doubtful	
Commercial and tax exempt	31,881,213	\$ 2,927,671	\$ 2,526,994	\$ -	\$ 37,335,878
Agricultural	40,615,587	800,240	2,258,109	-	43,673,936
Commercial real estate	66,639,556	6,647,764	10,717,058	-	84,004,378
Agricultural real estate	85,512,008	5,129,678	349,697	-	90,991,383
Residential real estate	86,352,126	3,668,380	3,872,966	88,577	93,982,049
Consumer	8,168,754	11,184	33,175	-	8,213,113
Total	<u>\$ 319,169,244</u>	<u>\$ 19,184,917</u>	<u>\$ 19,757,999</u>	<u>\$ 88,577</u>	<u>\$ 358,200,737</u>

	2023				
	Risk Category				Total
	Pass	Watch	Substandard	Doubtful	
Commercial and tax exempt	\$ 29,254,968	\$ 3,356,492	\$ 2,556,664	\$ -	\$ 35,168,124
Agricultural	44,318,467	2,318,474	1,440,615	-	48,077,556
Commercial real estate	58,600,790	2,464,635	30,673,569	-	91,738,994
Agricultural real estate	89,733,124	7,237,636	-	-	96,970,760
Residential real estate	80,995,514	3,906,333	6,725,124	88,577	91,715,548
Consumer	7,795,825	586,021	31,352	-	8,413,198
Total	<u>\$ 310,698,688</u>	<u>\$ 19,869,591</u>	<u>\$ 41,427,324</u>	<u>\$ 88,577</u>	<u>\$ 372,084,180</u>

Residential real estate and consumer loans are risk rated at origination; however, the risk ratings are generally not adjusted and are shown in the pass loan category unless they become delinquent, watch, criticized or impaired.

The recorded investment in residential consumer mortgage loans secured by residential real estate property that are in process of foreclosure as of December 31, 2024 and 2023 was \$98,747 and \$119,924, respectively.

The following table presents loans purchased and/or sold during the year by portfolio segment.

	2024		2023	
	Purchased	Sold	Purchased	Sold
Commercial and tax exempt	\$ 488,364	\$ 3,423,383	\$ -	\$ -
Agricultural	-	-	-	-
Commercial real estate	3,758,188	-	94,920	-
Agricultural real estate	-	-	-	-
Residential real estate	-	4,551,407	-	6,428,016
Consumer	-	-	-	-
Total	<u>\$ 4,246,552</u>	<u>\$ 7,974,790</u>	<u>\$ 94,920</u>	<u>\$ 6,428,016</u>

Note 6 - Mortgage Servicing Rights

Loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage servicing rights relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balance of loans serviced for others was approximately \$93,807,000 and \$97,330,000 at December 31, 2024 and 2023.

The fair value of these rights was \$987,175 and \$1,064,549 at December 31, 2024 and 2023, respectively. The fair value of servicing rights at December 31, 2024 was determined using discount rates ranging from 9.63 percent to 12.63 percent, prepayment speeds ranging from 4.52 percent to 42.25 percent, depending on the stratification of the specific right, and anticipated credit losses ranging from 0.22 to 0.80 percent.

Mortgage servicing rights and the related valuation allowance for the years ended December 31, 2024 and 2023, are summarized as follows:

	2024	2023
Mortgage servicing rights at beginning of year	\$ 465,595	\$ 480,383
Additions	39,770	65,938
Amortization	(65,087)	(80,726)
Mortgage servicing rights at end of year	440,278	465,595
Valuation allowance at beginning of year	\$ -	\$ -
Reductions	-	-
Valuation allowance at end of year	-	-
Mortgage servicing rights, net	\$ 440,278	\$ 465,595
Estimated fair value of servicing rights, beginning of period	\$ 1,064,549	\$ 1,000,517
Estimated fair value of servicing rights, end of period	\$ 987,175	\$ 1,064,549

The estimated future amortization of mortgage servicing rights is as follows:

Years ending December 31:	
2025	\$ 63,924
2026	58,004
2027	52,077
2028	46,151
2029	40,225
Thereafter	179,897
	\$ 440,278

Projections of amortization are based on existing balances and the existing interest rate environment as of December 31, 2024. The Company's actual experiences may be significantly different depending upon changes in mortgage rates and other market conditions.

Note 7 - Property and Equipment

The components of property and equipment as of December 31, 2024 and 2023 are as follows:

	2024	2023
Land and improvements	\$ 262,727	\$ 281,481
Buildings	6,231,581	6,403,508
Leasehold improvements	455,152	172,241
Furniture, fixtures and equipment	5,416,929	5,433,053
	12,366,389	12,290,283
Accumulated depreciation	(8,027,589)	(7,934,187)
Total property and equipment, net	\$ 4,338,800	\$ 4,356,096

Note 8 - Bank Owned Life Insurance

The Company is the owner and the beneficiary of life insurance policies on certain current and former management and board members of the Company, with aggregate death benefits of approximately \$18,678,000 and \$18,681,000 as of December 31, 2024 and 2023. The cash surrender value on the policies amounted to \$10,036,793 and \$9,799,314 as of December 31, 2024 and 2023.

Note 9 - Leases

The Company enters into leases in the normal course of business primarily for business locations and equipment. The Company's leases have remaining terms ranging from 1 to 9 years.

The right-of-use asset and lease liability was \$578,566 at December 31, 2024, and is included in other assets and other liabilities on the balance sheet.

All leases are recognized as operating leases. Total operating lease costs for the year ended December 31, 2024 was \$66,962. The weighted average remaining lease terms for operating leases were 7.81 years with a weighted average discount rate of 3.93%.

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024 are as follows:

Years ending December 31:	
2025	\$ 100,643
2026	96,771
2027	96,928
2028	80,622
2029	55,024
Thereafter	241,102
Total undiscounted lease payments	671,090
Less: imputed interest	(92,524)
	\$ 578,566

Note 10 - Intangible Assets and Goodwill

Intangible assets as of December 31, 2024 and 2023 consist of the following:

	Cost	Accumulated Amortization	Net
Balance, December 31, 2024			
Core Deposit	\$ 1,575,612	\$ 1,575,612	\$ -
Balance, December 31, 2023			
Core Deposit	\$ 1,575,612	\$ 1,533,612	\$ 42,000

Amortization expense for the years ended December 31, 2024 and 2023 was \$42,000 and \$56,000.

At December 31, 2024 and 2023, goodwill was \$8,135,151. No impairment losses to goodwill were recognized in 2024 and 2023. As December 31, 2024 goodwill of \$7,882,481 is deductible for income tax purposes over 15 years and the remaining tax basis of goodwill is \$1,056,794.

Note 11 - Deposits

A summary of deposits is as follows:

	2024	2023
Non-interest bearing checking	\$ 83,422,819	\$ 92,208,017
Interest bearing checking	163,126,260	166,026,157
Savings and money market accounts	139,164,760	143,199,214
Certificates of deposit, \$250,000 and over	8,069,130	20,492,253
Other certificates of deposit	93,281,246	86,698,425
	\$ 487,064,215	\$ 508,624,066

As of December 31, 2024, the scheduled maturities of certificates of deposit included in the balance sheet with interest bearing deposits are as follows:

2025	\$ 66,760,323
2026	9,690,485
2027	11,657,015
2028	1,511,127
2029	11,731,426
	\$ 101,350,376

Total brokered deposits were \$28,408,000 and \$22,000,000 as of December 31, 2024 and 2023, respectively.

Note 12 - Short-Term Borrowings

Revolving Line of Credit

The Company has available a revolving line of credit of \$6,500,000 with Bankers' Bank. The note is due on demand and if no demand is made, mature June 17, 2025. The interest rate of the note is variable at the prime rate with a floor of 4.50%. The applicable interest rate was 7.50% at December 31, 2024. Collateral on the note consists of the outstanding common shares of the Subsidiary Bank. The loan agreement includes various covenants which restrict the payment of dividends without prior approval, capital stock transactions, pledging of assets, and certain restrictive covenants that require the Subsidiary Bank to maintain certain financial ratios. As of December 31, 2024 the Company was in compliance with all restrictive covenants. The amount outstanding was \$0 and \$2,100,000 as of December 31, 2024 and December 31, 2023, respectively.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within one day of the transaction date. The securities pledged to collateralize these arrangements were delivered to custodial safekeeping agents. The average interest rate under these agreements was 2.45% and 3.08% at December 31, 2024 and 2023, respectively, and estimated fair value of the U.S. Government agency securities underlying the agreements at December 31, 2024 and 2023 were \$16,396,000 and \$18,974,000, respectively.

Federal Funds Purchased and Other Short-Term Borrowings

The Subsidiary Bank has an \$11,000,000 federal funds purchased line of credit with Bankers' Bank. The Bankers' Bank line of credit is unsecured and bears the rate of interest prevailing at the time the line is drawn upon. There was no amount outstanding under the line of credit as of December 31, 2024 and December 31, 2023.

There was no amount advanced on a Federal Home Loan Bank of Des Moines line of credit as of December 31, 2024 and December 31, 2023. See Note 13 for additional information on Federal Home Loan Bank advances.

Note 13 - Federal Home Loan Bank Advances

The Subsidiary Bank has entered into various financing arrangements with the Federal Home Loan Bank of Des Moines. The notes payable bear fixed rates of interest ranging from 0.71 percent to 0.77 percent and have various maturities ranging from June 17, 2025 through December 16, 2025. The weighted average rate of remaining maturities is 0.74. Repayment terms are principal due at maturity and interest payable monthly. Several of the notes contain put or prepayment options permitting the Subsidiary Bank to prepay the obligation prior to the contractual maturity date. The term notes payable are subject to the terms and conditions of the Federal Home Loan Bank Credit Policy and Agreement for Advances, Pledge and Security Agreement. Under the agreement, the Subsidiary Bank has pledged their investment in Federal Home Loan Bank stock of \$922,400, and one to four family residential, commercial and agricultural real estate mortgage loans and mortgage-backed securities of approximately \$103,071,000 and \$108,633,000 as of December 31, 2024 and 2023, respectively.

Note 14 - Related Party Transactions

In the ordinary course of business, the Subsidiary Bank has granted loans to its principal officers, directors, principal shareholders, and their affiliates. The aggregate amount of loans to such related parties was approximately \$6,205,000 and \$2,644,000 as of December 31, 2024 and 2023, respectively.

Deposits from related parties held by the Subsidiary Bank at December 31, 2024 and 2023, amounted to approximately \$2,406,000 and \$4,027,000.

Note 15 - Income Taxes

Income tax expense for the years ended December 31, 2024 and 2023 is as follows:

	2024	2023
Current	\$ 73,794	\$ (28,029)
Deferred	-	(35,000)
Total income tax expense (benefit)	\$ 73,794	\$ (63,029)

The composition of the Company's deferred tax asset as of December 31, 2024 and 2023, respectively are as follows:

	2024	2023
Deferred tax asset		
Allowance for credit losses - loans	\$ 208,000	\$ 208,000
Accrued expenses	44,000	44,000
Deferred revenue	2,000	2,000
Other	3,001	-
Net unrealized holding losses on investment securities available for sale	416,171	645,909
Total deferred tax assets	673,172	899,909
Deferred tax liabilities		
Goodwill and core deposit intangible	(219,000)	(219,000)
Property and equipment	(24,000)	(24,000)
Mortgage servicing rights	(15,000)	(15,000)
Net unrealized holding gains on other equity securities	(9,503)	(6,827)
Total deferred tax liabilities	(267,503)	(264,827)
Net deferred tax asset	\$ 405,669	\$ 635,082

In assessing the realizability of deferred income tax assets, management considers whether it is more likely than not that some portion or all of the deferred income tax assets will not be realized. The ultimate realization of deferred income tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of temporary differences, projected future taxable income and tax planning strategies in making this assessment. No valuation allowance was deemed necessary as of December 31, 2024 and 2023.

Note 16 - Employee Benefit Plans

401(k) and Profit Sharing Plan

The Company has a qualifying profit sharing and 401(k) plan covering substantially all employees. The profit sharing plan provides for discretionary contributions as determined by the Board of Directors of the Subsidiary Bank. The 401(k) feature of the plan allows employees of the Subsidiary Bank to contribute a portion of salary to the plan. Under the plan, the Subsidiary Bank matches 50% of the employee deferrals up to 8% of the employee's salary. Profit sharing and 401(k) expense for the years ended December 31, 2024 and 2023 was approximately \$195,000 and \$241,000, respectively.

Deferred Compensation Agreements

The Subsidiary Bank maintains nonqualified deferred compensation plans covering an officer ("Officer Plan") and certain members of the Subsidiary Bank's board of directors ("Directors' Plan"). The Officer Plan grants awards based upon reaching specified financial performance measures at the Subsidiary Bank. The Directors' Plan provides benefits to participants based on directors fees deferred into the plan.

The deferred compensation plans provide for guaranteed benefit amounts to the participants upon reaching normal retirement age of 65 for the Officer Plan and age 70 for the Directors' Plan. The future benefit amounts of the Officer Plan are subject to the performance of Subsidiary Bank and awards granted as a result. Interest accrues on vested deferrals at a rate of 6 percent. The future benefit amounts of the Directors' Plan are subject to monthly directors' fees deferred into the plan which accrue at a rate of 8.5 percent.

The amounts accrued under the Officer Plan were \$318,743 and \$300,226 as of December 31, 2024 and 2023 respectively. The amounts accrued under the Directors' Plan were \$590,009 and \$597,952 as of December 31, 2024 and 2023, respectively. The liabilities for the Officer Plan and Directors' Plan are included in deferred compensation in the consolidated balance sheets. Deferred compensation expense under the Officer Plan was \$18,517 and \$17,442 for the years ended December 31, 2024 and 2023, respectively. Deferred compensation expense for the Directors' Plan was \$53,477 and \$53,910 for the years ended December 31, 2024 and 2023, respectively. Benefits payments under the Directors' Plan were \$61,420 and \$42,843 for the years ended December 31, 2024 and 2023, respectively.

Note 17 - Accumulated Other Comprehensive Income (Loss)

A reconciliation of the components of accumulated other comprehensive income (loss) as of December 31, 2024 and 2023 is as follows:

	2024	2023
Investment securities, available-for-sale		
Gross unrealized gains	\$ 52,823	\$ 12,834
Gross unrealized losses	(11,943,434)	(13,755,567)
Net pretax unrealized loss	(11,890,611)	(13,742,733)
Deferred income tax asset	416,171	645,909
Total accumulated other comprehensive loss	\$ (11,474,440)	\$ (13,096,824)

Note 18 - Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Subsidiary Bank to maintain minimum amounts and ratios of Common Equity Tier 1 Capital (“CET1”), Tier 1 Capital, Total Capital and leverage ratio of Tier 1 Capital as follows:

- 4.5% based upon CET1
- 6.0% based upon tier 1 capital
- 8.0% based on total capital
- Leverage ratio of Tier 1 Capital assets equal to 4%

BASEL III Capital Rules additionally require in situations to retain a capital conservation buffer of 2.5% above these required minimum capital ratio levels. Banking organizations that fail to maintain the minimum 2.5% capital conservation buffer could face restrictions on capital distributions or discretionary bonus payments to executive officers.

As of December 31, 2024 and 2023, management believes the Subsidiary Bank met all capital adequacy requirements to which they are subject. As of December 31, 2024, the most recent notification from the Federal Deposit Insurance Corporation categorized the Subsidiary Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Subsidiary Bank’s category.

Cedar Valley Bankshares, Ltd.
Notes to Consolidated Financial Statements
December 31, 2024 and 2023

The Company's and the Subsidiary Bank's actual capital amounts and ratios as of December 31, 2024 and 2023 are also presented.

As of December 31, 2024	<u>Actual</u>		<u>For Capital Adequacy</u>		<u>To Be Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total Risk-Based Capital						
Consolidated	\$ 56,980,000	14.64%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 55,393,000	14.26%	\$ 31,068,400	≥ 8%	\$ 38,835,500	≥ 10%
Common Equity Tier 1 Capital						
Consolidated	\$ 52,123,000	13.39%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 50,536,000	13.01%	\$ 17,475,975	≥ 4.5%	\$ 25,243,075	≥ 6.5%
Tier I Risk-Based Capital						
Consolidated	\$ 52,123,000	13.39%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 50,536,000	13.01%	\$ 23,301,300	≥ 6.0%	\$ 31,068,400	≥ 8.0%
Tier I Leverage Capital						
Consolidated	\$ 52,123,000	9.29%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 50,536,000	9.02%	\$ 22,416,040	≥ 4%	\$ 28,020,050	≥ 5%
As of December 31, 2023	<u>Actual</u>		<u>For Capital Adequacy</u>		<u>To Be Well Capitalized</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
Total Risk-Based Capital						
Consolidated	\$ 55,935,000	13.25%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 54,785,000	13.10%	\$ 33,452,240	≥ 8%	\$ 41,815,300	≥ 10%
Common Equity Tier 1 Capital						
Consolidated	\$ 50,694,000	12.01%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 49,544,000	11.85%	\$ 18,816,885	≥ 4.5%	\$ 27,179,945	≥ 6.5%
Tier I Risk-Based Capital						
Consolidated	\$ 50,694,000	12.01%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 49,544,000	11.85%	\$ 25,089,180	≥ 6.0%	\$ 33,452,240	≥ 8.0%
Tier I Leverage Capital						
Consolidated	\$ 50,694,000	8.60%	N/A	N/A	N/A	N/A
First Security Bank and Trust Company	\$ 49,544,000	8.56%	\$ 23,138,360	≥ 4%	\$ 28,922,950	≥ 5%

Note 19 - Off Balance Sheet Financial Instruments

As a financial institution, the Subsidiary Bank engages in off-balance sheet activities to meet financing needs of customers located within their trade areas. Such activities consist principally of commitments to extend credit and commercial and standby letters of credit and are not for trading purposes. These financial instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheet.

The contractual commitments to extend credit under these financial instruments at December 31, 2024 and 2023 are as follows:

	2024	2023
Commitments to extend credit	\$ 67,038,822	\$ 75,460,378
Commercial and standby letters of credit	2,227,458	2,565,209

Contractual commitments to extend credit are legally binding agreements to lend money to customers at predetermined interest rates for a specific period of time. Such commitments may require payment of a fee. Since many of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Commercial and standby letters of credit are conditional commitments issued on behalf of bank customers in connection with contracts between the customers and third parties. Under commercial and standby letters of credit, a bank assures that the third party will not suffer a loss if the bank customer fails to meet the contractual obligation. Those guarantees are primarily issued to support private borrowing arrangements between the bank customers and their suppliers.

In order to make commitments to extend credit, collateral may be obtained if deemed necessary by management's credit evaluation and underwriting criteria. Collateral held varies, but may include receivables, inventory, equipment, or real estate.

Exposure to credit losses is represented by the contractual amounts of the commitments to extend credit, and credit losses may be incurred when a customer fails to perform in accordance with the contractual terms. The Subsidiary Bank uses the same credit underwriting standards in making commitments as they do for on-balance sheet lending activities, and periodically reassess the credit worthiness of customers through ongoing credit reviews.

Note 20 - Fair Value of Assets and Liabilities

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

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

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

- Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
- Level 2: Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.
- Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities may include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following table sets forth the balance of investment securities measured at fair value on a recurring basis at December 31, 2024 and 2023:

	Total	Quoted Prices in Active Markets (Level 1)	Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
December 31, 2024				
Other equity securities	\$ 1,006,906	\$ 207,066	\$ 799,840	-
U.S. government treasuries	4,587,734	4,587,734	-	-
U.S. government agencies	1,245,940	-	1,245,940	-
States and municipalities	69,115,165	-	69,115,165	-
Mortgage-backed	44,760,170	-	44,760,170	-
Corporate bonds	8,480,715	-	8,180,715	300,000
Corporate mortgage and asset-backed	12,404,093	-	12,404,093	-
	<u>\$ 141,600,723</u>	<u>\$ 4,794,800</u>	<u>\$ 136,505,923</u>	<u>\$ 300,000</u>
December 31, 2023				
Other equity securities	\$ 959,401	\$ 201,201	\$ 758,200	-
U.S. government treasuries	4,550,644	4,550,644	-	-
U.S. government agencies	2,690,214	-	2,690,214	-
States and municipalities	69,992,477	-	69,992,477	-
Mortgage-backed	57,658,829	-	57,658,829	-
Corporate bonds	8,022,017	-	7,722,017	300,000
Corporate mortgage and asset-backed	15,215,554	-	15,215,554	-
	<u>\$ 159,089,136</u>	<u>\$ 4,751,845</u>	<u>\$ 154,037,291</u>	<u>\$ 300,000</u>

The following is a reconciliation for Level 3 assets measured on a recurring basis:

	2024	2023
Balance, beginning of the year	\$ 300,000	\$ 300,000
Purchases, sales and settlements, net	-	-
Balance, end of year	<u>\$ 300,000</u>	<u>\$ 300,000</u>

Certain assets are measured at fair value on a nonrecurring basis. These assets are subject to fair value adjustments in certain circumstances, which generally is when there is evidence of impairment. These assets are described in the following.

Loans Held For Sale

Loans held for sale are carried at the lower of cost or estimated fair value in aggregate. An estimate of fair value is obtained from secondary market bid prices based on the terms of the loans held.

Collateral Dependent

Loans are evaluated and valued at the time the loan is identified as collateral dependent. Fair value adjustments are made to reflect the value of the collateral securing the loan.

Foreclosed Assets

Foreclosed assets would include foreclosed properties previously securing loans. The properties are adjusted to fair value less costs to sell upon transfer of the loans to foreclosed assets. Fair value is generally based upon appraised values of the properties.

The following table presents the balances of assets measured at fair value on a nonrecurring basis in 2024 and 2023 that were still held in the balance sheet at year end showing the level of valuation assumptions used to determine each adjustment.

	2024			
	Total	Level 1	Level 2	Level 3
Loans (1)	\$ 11,886,689	\$ -	\$ -	\$ 11,886,689
	2023			
	Total	Level 1	Level 2	Level 3
Loans held for sale	\$ 184,830	\$ -	\$ -	\$ 184,830
Loans (1)	19,327,908	-	-	19,327,908
Foreclosed assets (2)	2,377,313	-	-	2,377,313

(1) Represents the carrying value of collateral dependent, net of the associated valuation allowance of \$1,298,650 and \$2,769,550 as of December 31, 2024 and 2023, respectively.

(2) Represents the carrying value of other real estate owned properties that were measured at fair value subsequent to being classified as other real estate owned, net of the associated valuation allowance of \$0 and \$2,873,021 as of December 31, 2024 and December 31, 2023, respectively.

Note 21 - Stockholder Agreements

The Parent Company and electing stockholders as a party to the agreement have executed a Stockholder Agreement which provides the electing stockholder's estate or representative an option to offer the stockholder's stock for redemption by the Parent Company in the event permitted transfers of shares to the Agreement are rejected. The redemption price shall be no greater than the fair market value of the shares as of the end of the fiscal year prior to the closing of the purchase.

Note 22 - Parent Company Financial Information

**Parent Company Balance Sheets
December 31, 2024 and 2023**

	2024	2023
Assets		
Cash and cash equivalents	\$ 116,780	\$ 128,776
Investment in subsidiary bank	47,536,099	44,328,104
Investment in Four Keys, LLC	91,322	2,271,574
Other equity securities	799,840	758,200
Other assets	240	12,000
	\$ 48,544,281	\$ 47,498,654
Liabilities		
Short-term debt	\$ -	\$ 2,100,000
Accrued interest payable	-	4,273
Total liabilities	-	2,104,273
Stockholders' Equity		
Common stock	2,912,720	2,912,720
Additional paid-in capital	7,321,875	7,321,875
Accumulated other comprehensive loss	(11,474,440)	(13,096,824)
Retained earnings	49,784,126	48,256,610
Total stockholders' equity	48,544,281	45,394,381
	\$ 48,544,281	\$ 47,498,654

**Parent Company Statements of Income and Comprehensive Income
Years Ended December 31, 2024 and 2023**

	2024	2023
Income		
Earnings (loss) of Subsidiary Bank	\$ 1,835,610	\$ (321,496)
Loss of Four Keys, LLC	(23,252)	(909,891)
Unrealized gain on other equity securities	41,640	49,080
Other dividends	12,950	11,400
Interest	1,290	1,443
	1,868,238	(1,169,464)
Total income (loss)		
Expenses		
Directors fees	202,007	144,000
Interest, short-term debt	132,577	88,473
Other	5,898	23,675
	340,482	256,148
Total expenses		
Income (Loss) Before Income Taxes	1,527,756	(1,425,612)
Income Tax Expense	240	220
	\$ 1,527,516	\$ (1,425,832)
Net Income (Loss)		
Other Comprehensive Income, Net of Income Taxes		
Subsidiary Bank's net unrealized holding gains on investment securities available for sale	1,622,384	3,034,410
	\$ 3,149,900	\$ 1,608,578
Comprehensive income		

**Parent Company Statements of Cash Flows
Years Ended December 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Operating Activities		
Net income (loss)	\$ 1,527,516	\$ (1,425,832)
Adjustments to reconcile net income to net cash from operating activities		
Unrealized gain on other equity securities	(41,640)	(49,080)
Dividends in excess of earnings of subsidiaries	662,641	1,746,388
Changes in		
Other assets	11,760	9,840
Accrued interest payable	(4,273)	4,213
Net adjustments	<u>628,488</u>	<u>1,711,361</u>
Net Cash from Operating Activities	<u>2,156,004</u>	<u>285,529</u>
Investing Activities		
Investment in Subsidiary Bank	-	(2,000,000)
Investment in Four Keys, LLC	(68,000)	(37,000)
Net Cash (used for) Investing Activities	<u>(68,000)</u>	<u>(2,037,000)</u>
Financing Activities		
(Payments) Advances on short-term debt, net	(2,100,000)	1,950,000
Payment of dividends	-	(489,215)
Net Cash (used for) from Financing Activities	<u>(2,100,000)</u>	<u>1,460,785</u>
Net Change in Cash and Cash Equivalents	(11,996)	(290,686)
Cash and Cash Equivalents, Beginning of Year	<u>128,776</u>	<u>419,462</u>
Cash and Cash Equivalents, End of Year	<u>\$ 116,780</u>	<u>\$ 128,776</u>

Note 23 - Single-Member LLC Financial Information

**Four Keys, LLC Balance Sheets
December 31, 2024 and 2023**

	2024	2023
Assets		
Cash and cash equivalents	\$ 91,322	\$ 143,443
Foreclosed assets	-	2,232,000
Other assets	-	21,042
	\$ 91,322	\$ 2,396,485
Liabilities		
Real estate taxes payable	\$ -	\$ 80,262
Other accounts payable	-	44,649
Total liabilities	-	124,911
Member's Equity		
Member's Equity	4,530,000	6,687,000
Retained earnings	(4,438,678)	(4,415,426)
Total stockholders' equity	91,322	2,271,574
	\$ 91,322	\$ 2,396,485

**Four Keys, LLC Statements of Income (Loss)
Year Ended December 31, 2024 and 2023**

	2024	2023
Income		
Interest	\$ 102	\$ 119
Other income	-	25,000
Rent income	333,691	361,948
Net gain on sale of foreclosed assets	119,133	-
Total income	452,926	387,067
Expenses		
Legal and accounting	3,765	38,990
Property taxes	65,956	94,029
Compensation expense	27,000	36,000
Utilities	45,924	50,586
Maintenance and repairs	98,694	142,800
Insurance expense	47,184	62,031
Depreciation expense	158,542	208,878
Management fee	25,473	28,091
Other	3,640	9,035
Impairment loss	-	626,518
Total expenses	476,178	1,296,958
Net Loss	\$ (23,252)	\$ (909,891)

**Four Keys, LLC Statements of Cash Flows
Year Ended December 31, 2024 and 2023**

	<u>2024</u>	<u>2023</u>
Operating Activities		
Net loss	\$ (23,252)	\$ (909,891)
Adjustments to reconcile net income to net cash from operating activities		
Net gain on sale of foreclosed assets	(119,133)	-
Impairment loss on foreclosed assets	-	626,518
Depreciation	158,542	208,878
Changes in		
Other assets	21,042	195,298
Other liabilities	(80,262)	(21,202)
Real estate taxes payable	(44,649)	(1,225)
	<u>(64,460)</u>	<u>1,008,267</u>
Net Cash (used for) from Operating Activities	<u>(87,712)</u>	<u>98,376</u>
Investing Activities		
Proceeds from sale of foreclosed property	2,265,221	-
Capitalized improvements, foreclosed property	(72,630)	(76,896)
Net Cash from (used for) Investing Activities	<u>2,192,591</u>	<u>(76,896)</u>
Financing Activity		
Equity contribution	68,000	37,000
Payment of dividends	(2,225,000)	-
Net Cash (used for) from Financing Activities	<u>(2,157,000)</u>	<u>37,000</u>
Net Change in Cash and Cash Equivalents	(52,121)	58,480
Cash and Cash Equivalents, Beginning of Year	<u>143,443</u>	<u>84,963</u>
Cash and Cash Equivalents, End of Year	<u>\$ 91,322</u>	<u>\$ 143,443</u>