

CVB Newsletter

CEDAR VALLEY
BANKSHARES, LTD.

January 28, 2025



Welcome Back!

As we step into 2025, we're excited about the opportunities ahead and remain committed to providing the best in banking services and community support. We've got a full year planned and look forward to keeping you informed on key developments, milestones, and initiatives.

Fraud prevention continues to be a top priority for us in 2025. We've taken significant strides to protect our customers and have the numbers to prove it! We encourage all to stay vigilant, and we'll always be here to guide customers through any challenges they may encounter. In addition, we have continued community support through volunteering and donations through the First Security Foundation.

Inside you will find initial information about the April Shareholder's Meeting and Dinner, along with a note to keep an eye out for tax information!

We are thrilled to highlight our board of directors in this and upcoming newsletters. Each quarter, we will spotlight at least one of them to give you an inside look at the individuals guiding our organization.

Here's to a successful year ahead, full of growth, innovation, and strong community partnerships!

CVB Snapshot

| Assets | | Liabilities | |
|-------------------------|-------------------|-------------------|-------------------|
| Cash | 117,020 | Debt | 0 |
| First Security Bank | 47,536,099 | Other Liabilities | 0 |
| Four Keys, LLC | 91,322 | Capital Stock | 2,912,720 |
| Bankers Bank of Madison | 793,800 | Surplus | 7,321,875 |
| Other Investments | 6,040 | Undivided Profits | 49,784,126 |
| | | Bond Appreciation | (11,474,440) |
| Total | 48,544,281 | Total | 48,544,281 |

| Income | | Expenses | |
|--|------------------|-------------------|------------------|
| Dividends- First Security | 250,000 | Director Fees | 202,007 |
| Dividends- Other Investments | 12,950 | Interest Expense | 132,577 |
| Undistributed Earnings- First Security | 1,620,610 | Misc. Expense | 6,138 |
| Unrealized Income- Bankers Bank Stock | 41,640 | Expense | 340,722 |
| Unrealized Loss- Four Keys, LLC | (23,252) | | |
| Interest Income | 1,290 | | |
| Gross Income | 1,903,238 | Net Income | 1,562,516 |

| Year End: | 2022 | 2023 | 2024 |
|------------------|--------|--------|--------|
| Book Value/Share | 153.64 | 155.73 | 166.66 |
| EPS | 6.50 | -5.02 | 5.36 |





A look back, a look ahead

As we look at 2025, we have one overriding goal, and that is to restore the dividend. Accomplishing this will require that we continue to improve earnings. We have already taken several steps to improve earnings and will continue to make additional changes for further improvements. These changes include, but are not limited to, organizational changes, pricing, and credit risk management. We are also focused on improving our employee engagement and job satisfaction to reduce the cost of employee turnover and to improve productivity.

In 2024, we addressed the impact of some loans placed on the books predominantly in 2019 and 2020. We have worked through many of these loans with only minimal charge offs and have reduced our exposure to out-of-area commercial real estate. This represented excellent efforts from both our lending and credit areas. It should be noted that those responsible for originating these loans are no longer with the bank.

We also completed the sale of Union House. Completing this effort has allowed leadership to shift efforts that had previously gone to managing, maintaining, and marketing the property to efforts that are improving our results. While Union House was in an LLC entirely owned by Cedar Valley Bankshares, it nonetheless required time from bank employees to oversee it.

Back-office functions out of two different locations in downtown Charles City were consolidated into a single location. This allowed us to sell a building that we owned, realizing a gain, and to stop paying rent on a second location. Through this consolidation we were able to relocate some lending operations functions to be physically closer to our Charles City lending function as well as our credit department, improving efficiency. We did rent space in Union House from the new owners to have a place for back-office functions including accounting, marketing, and HR.

A loan operations system was implemented that has improved controls, processes, and efficiencies in our lending and credit areas. It also improves our customer experience by decreasing the cycle time on loan decisions and ensuring that we have the proper documentation up front. We continue to make improvements to this system.

In 2024, we brought in a new Chief Lending Officer, Scott Smits. Under his leadership, we've focused more on customer service, improved credit risk management processes, and improving our pricing to ensure that we are compensated for the service that the bank provides as well as the risks we are managing. While the actions were taken in 2024, the benefits will be realized in 2025 and later years.

Operating results are improving and have been since early in Q3 of 2024. Most of the bank's revenue comes from our Net Interest Margin, the difference between what we earn on loans and investments, less what we pay for deposits and wholesale funding.

To provide the foundation to further improve our operating results we updated our stated Core Values. The goal was to develop a set of standards that can be used to hold us accountable, to drive results that improve returns to shareholders, and lift employee engagement. The Senior Team collaborated and developed the following set of Core Values:

- Passion
- Innovation
- Collaboration
- Life-Long Learning
- Service

These values have already been used in making employment decisions as well as other decisions that have been a part of the improvements we are already witnessing in our operating results.

As we went through the second half of the year, yields on loans and investments were rising even as our funding costs began to decline. As a result, we have seen meaningful improvement in our operating results.

As we work to continue to build on the legacy of the nearly 122-year history of First Security Bank and Trust, and by extension, Cedar Valley Bankshares, we are grateful for the trust you have placed in us. The results that the 110 employees of the bank are achieving are improving and we look forward to restarting your dividend.

Brad Miller
President/CEO

Kurt Herbrechtsmeyer
FSBT Chairman of the Board



Investments with Bobbi: Key Retirement & Tax Numbers for 2025

Every year, the Internal Revenue Service announces cost-of-living adjustments that affect contribution limits for retirement plans and various tax deduction, exclusion, exemption, and threshold amounts. Here are a few of the key adjustments for 2025.

Estate, gift, and generation-skipping transfer tax

- The annual gift tax exclusion (and annual generation-skipping transfer tax exclusion) for 2025 is \$19,000, up from \$18,000 in 2024.
- The gift and estate tax basic exclusion amount (and generation-skipping transfer tax exemption) for 2025 is \$13,990,000, up from \$13,610,000 in 2024.

Standard deduction

A taxpayer can generally choose to itemize certain deductions or claim a standard deduction on the federal income tax return. In 2025, the standard deduction is:

- \$15,000 (up from \$14,600 in 2024) for single filers or married individuals filing separate returns
- \$30,000 (up from \$29,200 in 2024) for married joint filers
- \$22,500 (up from \$21,900 in 2024) for heads of households

The additional standard deduction amount for the blind and those age 65 or older in 2025 is:

- \$2,000 (up from \$1,950 in 2024) for single filers and heads of households
- \$1,600 (up from \$1,550 in 2024) for all other filing statuses

Special rules apply for an individual who can be claimed as a dependent by another taxpayer.

IRAs

The combined annual limit on contributions to traditional and Roth IRAs is \$7,000 in 2025 (the same as in 2024), with individuals aged 50 or older able to contribute an additional \$1,000. The limit on contributions to a Roth IRA phases out for certain modified adjusted gross income (MAGI) ranges. For individuals who are active participants in an employer-sponsored retirement plan, the deduction for contributions to a traditional IRA also phases out for certain MAGI ranges. The limit on nondeductible contributions to a traditional IRA is not subject to phaseout based on MAGI.

(Note: The 2025 phaseout range is \$236,000–\$246,000 (up from \$230,000–\$240,000 in 2024) when the individual making the IRA contribution is not covered by a workplace retirement plan but is filing jointly with a spouse who is covered. The phaseout range is \$0–\$10,000 when the individual is married filing separately and either spouse is covered by a workplace plan.)

Employer-sponsored retirement plans

- Employees who participate in 401(k), 403(b), and most 457 plans can defer up to \$23,500 in compensation in 2025 (up from \$23,000 in 2024); employees age 50 or older can defer up to an additional \$7,500 in 2025 (the same as in 2024), increased to \$11,250 in 2025 for ages 60 to 63.
- Employees participating in a SIMPLE retirement plan can defer up to \$16,500 in 2025 (up from \$16,000 in 2024), and employees age 50 or older can defer up to an additional \$3,500 in 2025 (the same as in 2024), increased to \$5,250 in 2025 for ages 60 to 63.

Kiddie tax: child's unearned income

- Under the kiddie tax, a child's unearned income above \$2,700 in 2025 (up from \$2,600 in 2024) is taxed using the parents' tax rates.



Annual Shareholder's Meeting & Supper



Save the Date! The annual Shareholder's Meeting and Dinner will be held on April 21st. Invitations will be sent out soon, and menu selections will need to be made at that time. If you have any questions, please let Hannah know!

2024 Taxes: K-1 Expectations

2024 Taxes are currently being processed and reviewed. We would expect K-1's to be to you around the end of February-Mid March, as usual. If you would like to sign up for a copy to be emailed to you this year, please let Hannah Chambers and Melissa Jones know!

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First Security Foundation

A look at the most recent donations presented to the First Security Foundation

| | | |
|------------------------------|---------------------------------------|---------------------|
| Comprehensive Systems | WanderGuard System | \$1,000 |
| Marble Rock Park Board | Splash Pad | \$10,000 |
| Charles City Library | Updates to Zastrow Room | \$6,000 |
| City of Floyd | Pickleball Court | \$10,000 |
| CC Center of Performing Arts | Auditorium | Pledge \$100,000 |
| Little Cats Daycare | Expansion/Addition to current daycare | \$25,000 |
| Grow Together Rockford | New walking trail near river | \$10,000 |

Fraud Talks

With fraud being ever-present in our lives, we began tracking when customers have fraud happen and when we prevent them from sending funds to fraudsters.

When customers present their fraud case to us, employees fill out a form describing the type of fraud, the dollars involved, and a summary of the situation. In some cases, customers don't tell the bank they are being defrauded until after they have sent funds, which results in a customer loss. In other cases, due to regulation stipulations, it will result in a bank loss. Here is a summary of the dollars we have proudly saved customers from losing in 2024:

| | | |
|--|--------------|-------|
| Total \$ From Fraud Forms Submitted | \$744,331.23 | % |
| Customer Loss | \$88,051.05 | 11.8% |
| Bank Loss | \$8,000.00 | 1.1% |
| Saved Dollars | \$648,280.18 | 87.1% |

Director Spotlight

Meet David Klaus!

David Klaus is a director of Cedar Valley Bankshares, Ltd, and has been since January 2003.



Current Occupation, or former if retired:

I'm retired. I worked for almost 30 years for the World Bank, an international agency that works with developing countries. It lends them money, at interest, for projects in various sectors: agriculture, transportation, education, health, water supply, forestry, etc. I had a series of different jobs there: education specialist, education economist, loan officer, country officer, agricultural economist, etc. The World Bank also supplies technical knowledge and supervision so that the projects are carried out successfully. I often led multinational teams of multidisciplinary specialists on trips to the developing countries to solve problems, supervise on-going projects, and evaluate completed projects.

What drew you to this field, and how did you get started? I served two years in the Peace Corps in Brazil. I lived in a village and worked, mainly with poor people, at setting up a community development organization. Having grown up in the U.S., I hadn't seen real poverty before. People living in grass huts with dirt floors. Illiteracy. Lack of access to running water and health care. Constant disease. So, I became caught up in the drama of poverty in the world and decided I wanted a career through which I could do something about it.

What has most significantly influenced your success?

To begin with, I had supportive parents. They encouraged me to study hard and get a broad education. They also took me on trips to learn more about the rest of the country and the rest of the world. I grew up in a small town with friendly people. I had supportive teachers who encouraged me to study hard and be curious about everything.

What key areas of expertise do you bring to the board of directors?

Perhaps an ability to see the broader picture and ask questions which make us think about what we're doing and where we're going.

Tell us about your career path that led you to become a bank director?

I became a director mainly because I own stock in the bank. It may have helped that I was working in a bank (the World Bank), although a very different type of bank. I was familiar with the process of evaluating potential loans, careful accounting, and auditing.

Tell us about your personal life:

I married a Frenchwoman I met in graduate school. She also had a career in the World Bank. We have two daughters, both in their forties, and both married. I have two grandsons and one granddaughter. We had cats at home when my daughters were growing up. My main hobby for many years was singing classical music in various choirs and choruses, in other countries when I lived abroad (Switzerland, Brazil, Iran) as well as here in the U.S. I am still relatively fluent in English, French, Spanish, Portuguese, and German. Some years ago, I was also relatively fluent in Persian (Iran) and Malay (Malaysia and Indonesia). I traveled a lot to developing countries for my work and have continued to travel in retirement. I have memorized the U.S. Constitution although it is so long, I have to keep repeating sections of it so that I don't forget.

What are you most passionate about outside of work?

The future of the U.S. World peace. The environment. A better life for the billions who live in poverty.

What organizations are you involved in, or passionate about?

I resigned from four or five choral groups when my voice aged and I could no longer sing well. I'm a very active member of the Rotary Club of Washington, D.C. We do all kinds of good work in the local community and in the wider world. We also occasionally travel together. I'm also a member of a United Methodist Church here in Washington, D.C. We have an active outreach program to the needy in the community.

If you could travel anywhere in the world, where would you go and why?

I try to get to my three favorite countries (Brazil, France, and Scotland) once a year, but Covid messed up that schedule. I also try to get to two new countries (new to me, at least) a year but haven't managed to do that, either. Still on my bucket list: Greece, Japan, Egypt, Antarctica. I find different cultures unfailingly fascinating.

Do you have a favorite quote or motto that you live by?

The Rotary Four-Way test comes to mind, as well as many verses from the New Testament. Also, "Leave the world a better place than it was when you came into it."

Quote of the Quarter:



In the middle of difficulty lies opportunity.



-Albert Einstein

Our Directors

Cedar Valley Bankshares

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William G. Herbrechtsmeyer
David A. Klaus
John M. Klaus
J.R. Herbrechtsmeyer
Ralph A. Smith

First Security Bank & Trust

Kurt W. Herbrechtsmeyer- President
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QUESTIONS? CONTACT US

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