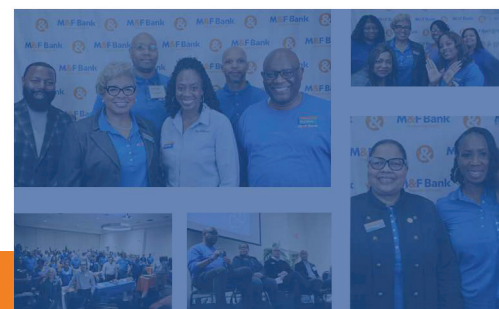


# M&F Bancorp, Inc.

Annual Report | 2024

Empowering Growth



# 2024 ANNUAL REPORT

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This annual report contains certain forward-looking statements with respect to the financial condition, results of operations and business of the Company and the Bank. These forward-looking statements involve risks and uncertainties and are based on the beliefs and assumptions of management of the Company and the Bank and on the information available to management at the time that these disclosures were prepared. These statements can be identified by the use of words like "expect," "anticipate," "estimate" and "believe," variations of these words and other similar expressions. Readers should not place undue reliance on forward-looking statements as a number of important factors could cause actual results to differ materially from those in the forward-looking statements. Neither the Company nor the Bank undertakes an obligation to update any forward-looking statements.

# M&F Bancorp, Inc.

## Chairman and President's Letter

In 2024, M&F Bancorp, Inc. (the "Company") achieved record total assets of \$525.0 million, which is the highest in the Company's history. The earnings achieved were very good, which was a continuation of the excellent performance achieved in 2023. We are pleased to report that we delivered net income of \$4.8 million before preferred dividends, however, earnings available to common shareholders of \$3.6 million was down significantly compared to the \$5.5 million in 2023 as result of higher cost of funds and payment of dividends on the Emergency Capital Investment Program ("ECIP") during 2024. The diluted earnings per share was \$1.81 compared to \$2.72 at the end on 2023, a decrease of 33.46%. The Company achieved a 0.75% return on average assets, which is slightly lower than the industry benchmark of 1.0%, which was difficult for many banks to achieve in 2024 with the significant increase in deposit costs and non-interest expenses. We continue to be one of the strongest bank holding companies in North Carolina with a leverage ratio of 25.63%.

Our continued strong performance allowed us to invest in our business, our communities, and our associates. We are proud to report that we ended the year with \$284.0 million in loans outstanding, which is the highest total in the history of the Company. Our loan growth increased by 5.55% over 2023, which was very good in the high interest environment, which negatively impacted loan opportunities. As part of the ECIP, we are required to lend to underserved and underrepresented communities in North Carolina. We are pleased to report that approximately 70% of the required loans were classified as "deep impact" or loans serving low- and moderate-income communities. For the past two years we have exceeded the required 60% deep lending requirement, which allowed the Company to enter into a formal agreement with the US Treasury to repurchase the shares based on our lending track record. We anticipate consummating this transaction in late 2026 or early 2027 for a significant discount.

We are incredibly proud of how the Company and M&F Bank (the "Bank") have continued to improve over the past many years. Our associates received customer service training with the goal to continue operating all branch locations with excellence. Further, we significantly invested in our physical locations by renovating four branches in 2024. We have continued to invest in technology, products, people, and new capabilities to meet the needs of our customers. In 2024, the Company was named the "Best Bank" in Durham, Raleigh, Greensboro and Charlotte, which highlights the demand for our community banking brand.

We continue to successfully execute our strategic plan to provide access to capital to small- and medium-size businesses in all the markets we serve. Our credit quality remains strong, and we prudently built our reserve levels driven by organic loan growth and higher interest rates in an uncertain economic environment. The Bank's delinquency rate was 0.92% in 2024, although it ticked up from 2023, we have remained under 1.0% for the past seven years.

### *Some key highlights from the past year:*

- Distributed four dividends to shareholders with a planned one-cent-per share per quarter increase in 2025.
- Secured \$65 million in corporate deposits to lend to communities served.
- Secured our 11<sup>th</sup> Bank Enterprise Award totaling \$280 thousand.
- Surpassed the ECIP "deep impact" lending percentage of 60% to minority firms.
- Implemented a new Bank website and financial literacy tool to better serve our customers.
- Launched a \$50 thousand Empowering Growth Small Business Grant Program in all 5 markets.
- Executed our strategy to sell SBA 7A loans on the secondary market, which generated \$146 thousand in gains on sales of SBA loans.

As noted above, we had several major highlights in 2024. Total loans were \$284.0 million as of December 31, 2024, versus \$269.1 million in 2023. Total deposits were \$390.8 million as of December 31, 2024 versus \$320.9 million as of December 31, 2023. Total assets as of December 31, 2024, were \$525.0 million versus \$453.3 million as of December 31, 2023. We finished the year with \$128.1 million in capital.

In closing, we express our gratitude to our management team, associates and directors for their unwavering dedication and support. 2024 was a very good year for the Company in terms of asset growth and consistent dividend performance. Your continued support is instrumental to our success, and we look forward to a prosperous 2025.

Thank you for your continued support.

Sincerely,



James A. Stewart  
Chairman of the Board



James H. Sills, III  
President and Chief Executive Officer



## M&F BANCORP, INC. AND M&F BANK BOARD OF DIRECTORS



**Top left to right:** James A. Stewart (Chair, M&F Bancorp, Inc. and M&F Bank); Willie T. Closs, Jr. (Vice Chair, M&F Bancorp, Inc. and M&F Bank); James H. Sills, III (President and CEO/M&F Bancorp, Inc. and M&F Bank); Emma S. Allen (M&F Bank); Allen M. Chan (M&F Bancorp, Inc. and M&F Bank); Michael L. Lawrence (M&F Bancorp, Inc. and M&F Bank); Cedric L. Russell (M&F Bank); Connie J. White (M&F Bancorp, Inc. and M&F Bank)

## M&F BANK MANAGEMENT TEAM



**Top left to right:** James H. Sills, III (President and Chief Executive Officer); Randall C. Hall (Executive Vice President/Chief Financial Officer); Valerie M. Quiett (Senior Vice President/Chief Legal Officer/Corporate Secretary); Travis C. Rouse (Senior Vice President/Chief Sales & Lending Officer); John T. Saunders (Senior Vice President/Chief Operating Officer); Pete W. Williams (Senior Vice President/Chief Credit Officer)

## Independent Auditor's Report

To the Board of Directors and Shareholders  
M&F Bancorp, Inc. and Subsidiary

### Opinion

We have audited the consolidated financial statements of M&F Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

### Basis for Opinion

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

### Responsibilities of Management for the Financial Statements

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

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

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

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



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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the 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 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.



Raleigh, North Carolina  
February 28, 2025

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED BALANCE SHEETS**

	<b>December 31, 2024</b>	<b>December 31, 2023</b>
<i>(Dollars in thousands except for share and per share data)</i>		
<b>ASSETS</b>		
Cash and cash equivalents:		
Cash and due from banks	\$ 2,681	\$ 4,444
Interest-bearing cash	33,688	41,243
Total cash and cash equivalents	36,369	45,687
Interest-bearing time deposits	2,962	3,455
Investment securities available-for-sale, at fair value	166,093	89,774
Investment securities held-to-maturity (fair value of \$14,243 in 2024 and \$26,749 in 2023)	14,430	26,960
Other invested assets	324	324
Loans, net of unearned income and deferred fees	284,027	269,082
Allowance for credit losses ("ACL")	(3,902)	(3,987)
Loans, net	280,125	265,095
Interest receivable	2,146	1,538
Bank premises and equipment, net	3,712	2,964
Cash surrender value of bank-owned life insurance	10,699	10,370
Other real estate owned ("OREO")	99	-
Deferred tax assets, net	3,313	3,248
Operating lease right-of-use ("ROU") asset	1,071	1,243
Other assets	3,663	2,600
<b>TOTAL ASSETS</b>	<b>\$ 525,006</b>	<b>\$ 453,258</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Deposits:		
Interest-bearing deposits	\$ 295,778	\$ 220,221
Noninterest-bearing deposits	94,986	100,723
Total deposits	390,764	320,944
Other borrowings	24	30
Operating lease liabilities	1,132	1,293
Other liabilities	5,013	5,789
Total liabilities	396,933	328,056
<b>COMMITMENTS AND CONTINGENCIES (Note 18)</b>		
Stockholders' equity:		
Series C Junior Participating Preferred Stock- \$0.01 par value, 21,000 shares authorized, no shares issued or outstanding	-	-
Series D Noncumulative Perpetual Preferred Stock- \$0.01 par value, 20,000 authorized at December 31, 2024 and 2023; 17,302 shares issued and outstanding at December 31, 2024 and 2023	17,302	17,302
Series E Noncumulative Perpetual Preferred Stock- \$0.01 par value, 80,000 authorized at December 31, 2024 and 2023; 80,000 shares issued and outstanding at December 31, 2024 and 2023	80,000	80,000
Common stock, no par value, 10,000,000 shares authorized at December 31, 2024 and 2023; issued and outstanding: 1,983,018 and 1,981,996 at December 31, 2024 and 2023, respectively	9,194	9,000
Retained earnings	31,164	27,907
Accumulated other comprehensive loss ("AOCL")	(9,587)	(9,007)
Total stockholders' equity	128,073	125,202
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 525,006</b>	<b>\$ 453,258</b>

*See notes to consolidated financial statements.*



**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS**

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands except for share and per share data)</i>		
<b>Interest income:</b>		
Loans, including fees	\$ 17,460	\$ 15,080
Investment securities, including dividends		
Taxable	5,325	2,585
Tax-exempt	159	153
Interest-bearing time deposits	128	71
Other	1,821	2,907
Total interest income	<u>24,893</u>	<u>20,796</u>
<b>Interest expense:</b>		
Deposits	5,165	1,656
Total interest expense	<u>5,165</u>	<u>1,656</u>
Net interest income	19,728	19,140
<b>Provision for credit losses:</b>		
Provision for credit losses on loans	797	1,171
Provision for (reversal of) credit losses on unfunded commitments	(199)	98
Total provision for credit losses	<u>598</u>	<u>1,269</u>
Net interest income after provision for credit losses	<u>19,130</u>	<u>17,871</u>
<b>Noninterest income:</b>		
Service charges on deposit accounts	768	820
Other service charges, commissions and fees	538	575
Money services business income	-	1,375
Commissions from sales of financial products	610	1,006
Cash surrender value of life insurance	329	304
Small Business Administration ("SBA") loan sale gains	146	-
Net realized gain (loss) on disposal of Bank premises and equipment	4	(26)
Grant revenue	1,703	1,265
Other income	337	536
Total noninterest income	<u>4,435</u>	<u>5,855</u>
<b>Noninterest expense:</b>		
Salaries and employee benefits	9,501	8,665
Occupancy and equipment	1,546	1,493
Directors compensation	365	283
Money services business expenses	-	753
Marketing	332	337
Professional fees	1,318	918
Information technology	2,273	1,974
FDIC deposit insurance	197	179
OREO (income) expenses, net	(50)	1
Delivery expenses	187	171
Interchange expenses	372	338
Other	1,554	1,322
Total noninterest expense	<u>17,595</u>	<u>16,434</u>
Income before income tax expense	5,970	7,292

*See notes to consolidated financial statements.*

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF OPERATIONS, CONTINUED**

*(Dollars in thousands except for share and per share data)*

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Income tax expense</b>		
Income tax expense related to ordinary operations	1,165	1,597
Income tax expense related to change in tax rate	35	-
Income tax expense	1,200	1,597
<b>Net income</b>	4,770	5,695
Preferred stock dividends	(1,140)	(240)
<b>Net income available to common stockholders</b>	<u>\$ 3,630</u>	<u>\$ 5,455</u>
<b>Basic and diluted income per share of common stock:</b>		
Basic	\$ 1.83	\$ 2.75
Diluted	1.81	2.72
<b>Weighted average shares of common stock outstanding:</b>		
Basic	1,982,511	1,981,392
Diluted	2,000,027	2,003,591

*See notes to consolidated financial statements.*

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	For the Years Ended December 31,	
	2024	2023
<i>(Dollars in thousands)</i>		
Net income	\$ 4,770	\$ 5,695
Other comprehensive income (loss):		
Investment securities:		
Unrealized holding gains (losses) on investment securities available-for-sale	(1,231)	2,369
Tax effect	282	(544)
Reclassification of accumulated comprehensive loss due to tax rate change	(22)	-
Net of tax amount	(971)	1,825
Defined benefit pension plans:		
Net actuarial gains	510	368
Tax effect	(117)	(85)
Reclassification of accumulated comprehensive loss due to tax rate change	(2)	-
Net of tax amount	391	283
Other comprehensive income (loss), net of tax	(580)	2,108
Comprehensive income	\$ 4,190	\$ 7,803

*See notes to consolidated financial statements.*

# M&F BANCORP, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2024 and 2023

(Dollars in thousands except for share data)

	Number of Shares	Common Stock	Preferred Stock-Series D	Preferred Stock-Series E	Retained Earnings	Accumulated Other Comprehensive Loss	Total
<b>Balances as of December 31, 2022</b>	1,979,975	\$ 8,866	\$ 17,302	\$ 80,000	\$ 23,005	\$ (11,115)	118,058
Net income	-	-	-	-	5,695	-	5,695
Effect of adoption of ASU 2016-13 Financial Instruments-Credit Losses	-	-	-	-	(236)	-	(236)
Stock-based compensation	-	122	-	-	-	-	122
Stock options	2,021	12	-	-	-	-	12
Other comprehensive loss, net of tax	-	-	-	-	-	2,108	2,108
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(240)	-	(240)
Dividends declared on common stock (\$.16 per share)	-	-	-	-	(317)	-	(317)
<b>Balances as of December 31, 2023</b>	1,981,996	\$ 9,000	\$ 17,302	\$ 80,000	\$ 27,907	\$ (9,007)	\$ 125,202
Net income	-	-	-	-	4,770	-	4,770
Reclassification of disproportionate tax effect from AOCL	-	-	-	-	24	(24)	-
Stock-based compensation	-	188	-	-	-	-	188
Stock options	1,022	6	-	-	-	-	6
Other comprehensive loss, net of tax	-	-	-	-	-	(556)	(556)
Dividends declared on Series D Noncumulative Perpetual Preferred Stock	-	-	-	-	(300)	-	(300)
Dividends declared on Series E Noncumulative Perpetual Preferred Stock	-	-	-	-	(840)	-	(840)
Dividends declared on common stock (\$0.20 per share)	-	-	-	-	(397)	-	(397)
<b>Balances as of December 31, 2024</b>	1,983,018	\$ 9,194	\$ 17,302	\$ 80,000	\$ 31,164	\$ (9,587)	\$ 128,073

See notes to consolidated financial statements.

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
<b>Cash flows from operating activities:</b>		
Net income	\$ 4,770	\$ 5,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses on loans	797	1,171
Provision for (reversals of) credit losses on unfunded commitments	(199)	98
Depreciation and amortization	325	338
Amortization of discounts/premiums on investment securities available-for-sale, net	(882)	42
Amortization of discounts/premiums on investment securities held-to-maturity, net	(192)	(257)
Amortization of SBA servicing rights	1	-
Gains from sales of SBA loans	(146)	-
SBA loan discount accretion	(1)	-
Increase in cash surrender value of bank-owned life insurance	(329)	(304)
Net gains (losses) on disposal of Bank premises and equipment	(4)	26
Gains at foreclosure	(50)	-
Stock-based compensation	188	122
Net changes in:		
Accrued interest receivable and other assets	(1,076)	(340)
Other liabilities	(525)	1,391
<b>Net cash provided by operating activities</b>	<u>2,677</u>	<u>7,982</u>
<b>Cash flows from investing activities:</b>		
Activity in available-for-sale securities:		
Maturities and calls	16,000	500
Principal collections	11,529	5,327
Purchases	(104,197)	(26,182)
Activity in held-to-maturity securities:		
Maturities and calls	22,500	2,000
Principal collections	1,556	438
Purchases	(11,334)	(4,000)
Proceeds from maturities of interest-bearing time deposits	1,728	1,481
Purchases of interest-bearing time deposits	(1,235)	(1,235)
Federal Home Loan Bank ("FHLB") stock purchases	-	(119)
Proceeds from sales of SBA loans	1,658	-
Net increase in loans	(17,414)	(22,214)
Purchases of Bank premises and equipment	(1,073)	(761)
Proceeds from insurance for equipment	45	-
Proceeds from sale of banks premises and equipment	4	-
<b>Net cash used in investing activities</b>	<u>(80,278)</u>	<u>(44,720)</u>
<b>Cash flows from financing activities:</b>		
Net (decrease) increase in deposits	69,820	(6,451)
Proceeds from other borrowings	377	369
Repayments of other borrowings	(383)	(415)
Issuance of common stock	6	9
Excess tax benefits from stock-based compensation	-	3
Cash dividends	(1,537)	(557)
<b>Net cash provided by (used in) financing activities</b>	<u>68,283</u>	<u>(7,042)</u>
<b>Net decrease in cash and cash equivalents</b>	<u>(9,318)</u>	<u>(43,780)</u>
<b>Cash and cash equivalents as of the beginning of the period</b>	<u>45,687</u>	<u>89,467</u>
<b>Cash and cash equivalents as of the end of the period</b>	<u>\$ 36,369</u>	<u>\$ 45,687</u>

*See notes to consolidated financial statements.*

**M&F BANCORP, INC. AND SUBSIDIARY**

**CONSOLIDATED STATEMENTS OF CASH FLOWS, CONTINUED**

	For the Years Ended	
	December 31,	
	2024	2023
<i>(Dollars in thousands)</i>		
<b>SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:</b>		
Cash paid during period for:		
Interest	\$ 4,515	\$ 1,503
Income taxes	951	1,720
<b>Noncash Transactions:</b>		
Loans transferred to OREO	49	-
Net unrealized gains (losses) on investment securities available-for-sale, net of deferred income tax	(971)	1,825
Adjustments related to defined benefit plans, net of deferred income tax	391	283
Allowance for credit losses - loans recorded upon adoption of ASU 326, net of tax	-	6
Allowance for credit losses - unfunded commitments recorded upon adoption of ASU 326, net of tax	-	230
Accrued dividends at period end	71	-
Reclassification of accumulated comprehensive loss due to tax rate change	24	-

*See notes to consolidated financial statements.*

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

## **1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations** - M&F Bancorp, Inc. (the “Company”) is a bank holding company, and the parent company of Mechanics and Farmers Bank (the “Bank”), a state chartered commercial bank incorporated in North Carolina (“NC”) in 1907, which began operations in 1908. The Bank has seven branches in NC: two in Durham, two in Raleigh, and one each in Charlotte, Greensboro and Winston-Salem. The Company, headquartered in Durham, operates as a single business segment and offers a wide variety of consumer and commercial banking services and products almost exclusively in NC.

**Basis of Presentation** - The Consolidated Financial Statements include the accounts and transactions of the Company and the Bank, the wholly owned subsidiary. All significant inter-company accounts and transactions have been eliminated in consolidation.

**Cash and Cash Equivalents** - The Company considers all highly liquid assets with original maturities of 90 days or less, such as cash on hand, noninterest-bearing and interest-bearing amounts due from banks and federal funds sold, to be “cash equivalents.”

**Interest-bearing Time Deposits in Banks** - Interest-bearing time deposits in banks mature within five years and are carried at cost.

**Investment Securities** - Debt securities that the Company has the positive intent and ability to hold to maturity are classified as “held-to-maturity securities” and reported at amortized cost. Debt securities that are bought and held principally for the purpose of selling in the near term are classified as “trading securities” and reported at fair value with unrealized gains and losses included in consolidated earnings. Debt securities not classified as either held-to-maturity securities or trading securities are classified as “available-for-sale securities” and reported at fair value with unrealized gains and losses excluded from consolidated earnings and reported as a separate component of consolidated stockholders' equity and as an item of other comprehensive income (loss). The unrealized gain or loss of a security is identified and removed from other comprehensive income (loss) when a security is sold, matured, or called. Equity securities are reported at fair value and changes in fair value are included in consolidated earnings. The initial classification of securities is determined at the date of purchase. Gains and losses on investment securities, computed based on specific identification of the adjusted cost of each security, are included in noninterest income. Premiums and discounts on debt securities are recognized in interest income using the interest method over the period to maturity, or when the debt securities are called.

Transfers of securities between classifications, of which there were none in 2024 or 2023, are accounted for at fair value. No securities were classified as trading as of December 31, 2024 and 2023.

**ACL – Securities Held-to-Maturity** – Since its adoption of Accounting Standards Codification 326 (“CECL”), the Company measures expected credit losses on held-to-maturity (“HTM”) debt securities on an individual security basis. At December 31, 2024 and 2023, the Company determined that the expected credit losses associated with HTM debt securities were insignificant. Accrued interest receivable on held-to-maturity debt securities totaled \$108 thousand and \$258 thousand at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

The estimate of credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average for the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary by the remaining lives of each individual security to arrive at a lifetime expected loss amount.

**ACL – Securities Available-for-Sale** – For available-for-sale (“AFS”) securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if it is more likely than not that it will be required to sell security before recovery of the 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 the fair value through income with the establishment of an allowance under CECL compared to a direct write down of the security under previously applicable accounting standard ASC 310-30 (“Incurred Loss”). For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether any decline in fair value is due to credit loss factors. In making this assessment, management considers 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 is compared to the amortized cost basis of the security. If the present value of the 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 ACL under CECL are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when management believes the uncollectability of an AFS security is confirmed or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no ACL related to the AFS portfolio. Accrued interest receivable on available for sale debt securities totaled \$855 thousand and \$240 thousand at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

**Other Invested Assets** – Other invested assets are investments in FHLB stock carried at historical cost, as adjusted for any impairment loss. As of December 31, 2024 and 2023, the Company’s investments in FHLB stock was \$324 thousand.

**Loans** – Loans that are stated at the amount of unpaid principal, net of deferred loan origination fees and costs. Loans (net) are reduced by the ACL. Nonrefundable loan fees associated with the origination or acquisition of loans are deferred and recognized as an adjustment of the loan yield over the life of the loan using the effective interest method. Interest on loans is accrued on the daily balances of unpaid principal outstanding. Interest income is accrued and credited to income only if deemed collectable. Other loan fees and charges, representing service costs for the prepayment of loans, for delinquent payments, or for miscellaneous loan services, are recorded in income when collected.

**SBA Loans Held for Sale and SBA Retained Loan Discount** – Management designates SBA loans as held for sale based on its intent to sell loans, or portions of loans, in established secondary markets or to participant banks and credit unions. Salability requirements of government guaranteed portions include, but are not limited to, full disbursement of the loan commitment amount. Loans held for sale are carried at the lower of cost or estimated fair value.



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Transfers of loans, or portions of loans that meet the definition of a participating interest are accounted for as sales on the transaction settlement date when control has been surrendered. Control is deemed surrendered when the loans have been (1) legally isolated from the Company, (2) the transferee obtains the right to pledge or transfer the loans free of conditions that constrain it from using that right, and (3) the Company does not maintain effective control over the loans through a repurchase agreement or other means. If the transfer is accounted for as a sale, the loans are derecognized from the Company's consolidated balance sheet and a gain or loss is recognized in net gains on sales of loans line item on the consolidated statements of operations. The gain on sale recognized in income is the sum of the premium on the guaranteed loan and the fair value of the servicing assets recognized, less the discount recorded on the unguaranteed portion of the loan retained. If the transfer does not satisfy the aforementioned control criteria, the transaction is recorded as a secured borrowing with the transferred loans remaining on the Company's consolidated balance sheet and proceeds recognized as a liability.

**SBA Servicing Assets** - When the Company sells the guaranteed portion of an SBA loan, the Company continues to perform the servicing on the loan and collects a fee related to the sold portion of the loan. An SBA servicing asset is recorded for the fair value of that fee based on an analysis of discounted cash flows that incorporates estimates of (1) market servicing costs, (2) market-based prepayment rates and (3) market profit margins. SBA servicing assets are included in "Other assets" on the consolidated balance sheets. SBA servicing assets are initially recorded at fair value and amortized against income over the lives of the related loans as a reduction of servicing fee income, generally 10 years. SBA servicing asset amortization expense is recorded in noninterest income as an offset to SBA servicing fees within the line item "Other service charges, commissions and fees" on the consolidated statements of income. SBA servicing assets are tested for impairment at least annually by comparing their estimated fair values, aggregated by year of origination, to the related carrying values. Changes in observable market data relating to market interest rates, loan prepayment speeds, and other factors, could result in impairment or reversal of impairment of these servicing assets and, as such, impact the Company's financial condition and results of operations.

**Non-Performing Loans and Leases** - Generally, all classes of loans and leases are placed on non-accrual status upon becoming contractually past due 90 days or more as to principal or interest (unless loans are adequately secured by collateral, are in the process of collection, and are reasonably expected to result in repayment), or where substantial doubt about full repayment of principal or interest is evident.

When a loan or lease is placed on non-accrual status, regardless of class, the accrued and unpaid interest receivable is reversed, and the loan or lease is accounted for on the cash or cost recovery method until qualifying for return to accrual status. All payments received on non-accrual loans and leases are applied against the principal balance of the loan or lease. Loans may be returned to accrual status when all principal and interest amounts contractually due (including any arrearages) are reasonably assured of repayment within a reasonable period, the borrower has demonstrated payment performance for a minimum of six months in accordance with the original or revised contractual terms of the loan, and when doubt about repayment is resolved.

Generally, for all classes of loans and leases, a charge-off is recorded when it is probable that a loss has been incurred and when it is possible to determine a reasonable estimate of the loss. For all classes of commercial loans and leases, a charge-off is determined on a judgmental basis after due consideration of the debtor's prospects for repayment and the fair value of collateral. For closed-end consumer loans, the entire outstanding balance of the loan is charged-off during the month that the loan becomes 120 days past due as to principal or interest. Consumer loans with non-real estate collateral are written down to the value of the collateral, less estimated costs to sell, if repossession of collateral is assured and in process. For residential mortgage and home equity loan classes, a partial charge-off is recorded at 120 days past due as to principal or interest for the amount that the loan balance exceeds the fair value of the collateral less estimated costs to sell.

**Loan Modifications** - Under certain circumstances, the Company may agree to modify the terms of an existing loan with a borrower for various reasons, including financial difficulties. For those borrowers experiencing financial difficulties, the Company may provide interest rate reductions, principal forgiveness, payment deferrals, term extensions or a combination thereof. A loan that is deferred greater than six months in the preceding twelve months would be considered to be other-than-insignificantly delayed. In such circumstances, the Company must determine whether the modification should be accounted for as an extinguishment of the original loan and a creation of a new loan, or the continuation of the original loan with modifications.

The effect of these modifications is already included in the allowance for credit losses because our estimated allowance represents currently expected credit losses. A change to the allowance for credit losses is generally not recorded upon modification.

**Income Recognition on Individually Analyzed Loans and Non-accrual Loans** - Loans, including individually analyzed loans, are generally classified as non-accrual if they are past due as to maturity, or payment of principal or interest for a period of more than 90 days, unless such loans are well secured and in the process of collection. If a loan or a portion of a loan is classified as doubtful or is partially charged off, the loan is generally classified as non-accrual. Loans that are on a current payment status or past due less than 90 days may also be classified as non-accrual if full repayment of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within a reasonable period of time, and the borrower has demonstrated payment performance for a minimum of six months in accordance with the contractual terms involving payments of cash or cash equivalents.

In the case where a non-accrual loan had been partially charged-off, recognition of interest on a cash basis is limited to that which would have been recognized on the remaining loan balance at the contractual interest rate. Receipts in excess of that amount are recorded as recoveries to the allowance for credit losses until prior charged off balances have been fully recovered.

**ACL - Loans** - The ACL is an estimate that is deducted from the amortized cost basis of the financial asset to present the net carrying value at the amount expected to be collected on the financial assets. The level of the allowance is determined under the CECL methodology and includes management's evaluation of historical default and loss experience, current and projected economic conditions, asset quality trends, known and inherent

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risks in the portfolio, adverse situations that may affect the borrowers' ability to repay a loan (including the timing of future payments), the estimated value of any underlying collateral, composition of the loan portfolio, reasonable and supportable forecasts, and other pertinent factors.

Credit losses are estimated on the amortized cost basis of loans, which includes the principal balance outstanding, purchase discounts and premiums, and deferred loan fees and costs. Accrued interest receivable is presented separately on the consolidated balance sheets and excluded from the estimate of credit losses. Accrued interest receivable totaling \$1.1 million and \$997 thousand at December 31, 2024 and 2023, respectively, was excluded from the estimate of credit losses. Loans are charged off when the Company determines that such financial assets are deemed uncollectible. The ACL is increased through provision for loan losses and decreased by charge-offs, net of recoveries.

The ACL is measured on a collective pool basis when similar risk characteristics exist. Loans with similar risk characteristics are grouped into homogenous segments, or pools, for analysis. The Discounted Cash Flow ("DCF") method is utilized for substantially all pools, with discounted cash flows computed for each loan in a pool based on its individual characteristics (e.g. maturity date, payment amount, interest rate, etc.), and the results are aggregated at the pool level. A probability of default and loss given default, as adjusted for recoveries (as noted above), are applied to the discounted cash flows for each pool, while considering prepayment and principal curtailment effects. The analysis produces a discounted expected cash flow total for each pool, which is then compared to the amortized cost of the pool to arrive at the expected credit loss.

In determining the proper level of default rates and loss given default, management has determined that the loss experience of selected peers provides the best basis for its assessment of expected credit losses. It therefore utilizes peer historical credit loss experience by each loan segment over an economic cycle.

Management considers forward-looking information in estimating expected credit losses. For substantially all segments of collectively evaluated loans, the Company incorporates one or more macroeconomic drivers using a statistical regression modeling methodology. The Company utilizes third-party projections for a quarterly macroeconomic forecast for the United States.

Management has also evaluated the appropriateness of the reasonable and supportable forecast scenarios utilized for each period and has made adjustments as needed. For the contractual term that extends beyond the reasonable and supportable forecast period, the Company reverts to the long-term mean of historical factors over 12 quarters using a straight-line approach. The Company generally utilizes a four-quarter forecast and a 12-quarter reversion period to the long-term average, which is then held static for the remainder of the forecast period.

Included in its systematic methodology to determine its ACL on loans, management considers the need to qualitatively adjust expected credit losses for information not already captured in the loss estimation process. These qualitative adjustments either increase or decrease the quantitative model estimation (i.e., formulaic model results). Each period the Company considers qualitative factors that are relevant within the qualitative framework that includes the following: 1) changes in lending policies, procedures, and strategies, 2) changes in the nature and volume of the portfolio, 3) staff experience, 4) changes in volume and trends in classified loans, delinquencies, and nonaccrual loans, 5) concentration risk, 6) trends in underlying collateral value, 7) external factors, including competition and legal and regulatory factors, 8) changes in the quality of the Company's loan review system, and 9) economic conditions not already captured.

The Company has identified the following portfolio segments and calculates the ACL for each using a DCF methodology at the loan level, with loss rates, prepayment assumptions, and curtailment assumptions driven by each loan's collateral type:

*Commercial* - Risks to this loan category include industry concentration and the inability to monitor the condition of the collateral which often consists of inventory, accounts receivable, and other non-real estate assets. Equipment and inventory obsolescence can also pose a risk. Declines in general economic conditions and other events can cause cash flows to fall to levels insufficient to service debt.

*Real estate - construction (including Faith-based non-profit and residential)* - Risks common to commercial construction loans are cost overruns, changes in market demand for property, inadequate long-term financing arrangements, and declines in real estate values. Residential construction loans are susceptible to those same risks as well as those associated with residential mortgage loans (see below). Changes in market demand for property could lead to longer marketing times resulting in higher carrying costs, declining values, and higher interest rates.

*Commercial real estate (including Faith-based non-profit) – owner occupied and other* - Loans in this category are susceptible to declines in occupancy rates, business failure, and general economic conditions. Also, declines in real estate values and lack of suitable alternative use for the properties are risks for loans in this category.

*Residential real estate – first mortgagee* - Residential mortgage loans are susceptible to weakening general economic conditions and increases in unemployment rates and declining real estate values.

*Residential real estate - home equity* - Risks common to home equity loans and lines of credit are general economic conditions, including an increase in unemployment rates and declining real estate values, which reduce or eliminate the borrower's home equity.

*Consumer* - Risks common to these loans include regulatory risks, unemployment, and changes in local economic conditions as well as the inability to monitor collateral consisting of personal property.

*Other loans* – Loans in this category include risks associated with unemployment, and changes in local economic conditions.

Loans that do not share risk characteristics are analyzed on an individual basis.

When management determines foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is

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expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

When the present value of cash flow method is used to determine the ACL, management discounts future cash flows including estimated prepayments at the loans effective interest rate.

The Company and the Bank are subject to periodic examination by their federal and state regulators and may be required by such regulators to recognize additions to the allowance for credit losses based on their assessment of credit information available to them at the time of their examinations.

**Provision for Credit Losses (Loans and Unfunded Commitments)** - The provision for credit losses represents our current estimate of life of loan credit losses in the loan portfolio and unfunded loan commitments. Our estimate of credit losses under CECL is determined using a complex model that relies on reasonable and supportable forecasts and historical loss information to determine the balance of the ACL and resulting provision for credit losses and provision for unfunded commitments, which represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances. The allowance for unfunded commitments is included in other liabilities in the consolidated balance sheets.

The provision for credit losses was \$598 thousand and \$1.3 million in 2024 and 2023, respectively.

**Bank Premises and Equipment, Net** – Premises and equipment are stated at cost less accumulated depreciation and amortization. For financial reporting purposes, depreciation and amortization are computed by the straight-line method and are charged to operations over the estimated useful lives of the assets, which range from 30-50 years for premises; generally 6-10 years for furniture and equipment, and 3-5 years for information technology equipment and software. Leasehold improvements are amortized over the terms of the respective leases or the useful lives of the improvements, whichever is shorter. Maintenance and repairs are charged to operations as incurred. The Bank reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amounts of such assets may not be recoverable. If the sum of the expected cash flows attributable to an asset is less than the stated amount of the asset, an impairment loss is recognized in the current period and charged to operations. Upon disposition, the asset and related accumulated depreciation and/or amortization are relieved, and any gains or losses are reflected in operations.

**Cash Surrender Value of Life Insurance** – The Bank maintains life insurance on certain current and former officers and directors, of which the Bank is owner and beneficiary. The cash surrender value of the policies at December 31, 2024 and 2023 was \$10.7 and \$10.4 million, respectively. Income from the policies and changes in the net cash surrender value, excluding additional purchases or withdrawals, are recorded in noninterest income.

**OREO** – OREO, which represents real estate acquired through foreclosure, or the transfer of the deed in lieu of foreclosure in satisfaction of commercial and consumer real estate collateralized loans, is initially recorded at fair value less estimated holding and selling costs of the real estate. Loan balances in excess of the fair value of the real estate acquired at the date of the foreclosure are charged to the ACL. Any subsequent operating expenses or income, reduction in estimated fair values, and gains or losses on disposition of such properties are charged or credited to non-interest income or non-interest expense. Valuations are periodically performed by management, and any subsequent write-downs due to the carrying value of a property exceeding its estimated fair value less estimated costs to sell are charged against other non-interest expense. As of December 31, 2024 and 2023, foreclosures totaled \$99 thousand and none, respectively, included in OREO on the Consolidated Balance Sheets. OREO excludes bank-owned property held for Company use. At December 31, 2024, there were no loans collateralized by residential real estate in the process of foreclosure.

**Leases** – The Company determines if an arrangement is a lease at inception. Operating leases are included in ROU assets and lease liabilities on our Consolidated Balance Sheets. Finance leases are included in bank premises and equipment and other borrowings on our consolidated balance sheets.

ROU assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most of the Company's leases do not provide an implicit rate, an incremental borrowing rate based on the information available at commencement date is used in determining the present value of lease payments. The operating lease ROU asset also includes any lease payments made and excludes lease incentives. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised. Lease expense for lease payments is recognized on a straight-line basis over the lease term.

The Company has lease agreements with lease and non-lease components, which are generally accounted for separately. For certain leases, the Company may account for the lease and non-lease components as a single lease component.

**Revenue from Contracts with Customers** – All of the Company's revenues that are within the scope of ASC 606 are recognized within noninterest income. The following table presents the Company's sources of noninterest income for the years ended December 31, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

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	<b>For the Years Ended</b>	
	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
<b>Noninterest income:</b>		
Service charges on deposit accounts	\$ 768	\$ 820
Other service charges, commission and fees	538	575
Money services business income	-	1,375
Commissions from sales of financial products	610	1,006
Cash surrender value of life insurance (1)	329	304
SBA loan sales gains	146	-
Realized net gain (loss) on disposal of Bank premises and equipment	4	(26)
Grant revenue (1)	1,703	1,265
Other income (2)	337	536
Total noninterest income	<u>\$ 4,435</u>	<u>\$ 5,855</u>

(1) Not within the scope of ASC 606

(2) Portions within the scope of ASC 606, but not material

There were no impairment losses recognized on any receivables or contract assets arising from the Company's contracts with customers during the years ended December 31, 2024 and 2023. While the Company has noninterest income related to rental income, changes in cash surrender value of life insurance and sales of investments, these are not within the scope of ASC 606.

The service charge revenue generated from contracts with customers is noninterest income and relates to fees charged on deposit accounts and certain loan fees. The revenues generated from each of these contracts are recognized when a performance obligation is met, and each obligation is associated with a transaction tied to the account or the opening of the account. Given each of these accounts are transactional and the contract is a day-to-day contract, the performance obligations on these accounts occurs when the contract provision is triggered on the account, which results in the related service charge. Based on the Company's analysis, there are no fees generated for opening account or for a service on the account where the good or service has not been transferred or prior to the performance obligation being met.

The Company earns referral commissions for financial products such as annuities and equity investments. Commissions are earned upon the issuance of the financial product. The Company's performance obligation does not extend beyond the referral.

As of December 31, 2024 and 2023, the Company did not have amounts of material receivables, contract assets or contract liabilities tied to these contracts with customers. The Company believes that while loan and deposit accounts generate service charge income, these contracts do not create receivables, assets or liabilities given the fees associated with these service charges are typically charged and collected once the performance obligation is triggered. In addition, during the years ended December 31, 2024 and 2023, the Company did not recognize revenue that was included in any contract liabilities, and no revenues were recognized related to performance obligations satisfied in prior reporting periods.

The Company analyzes its payment streams associated with contracts with customers on a quarterly basis. As of December 31, 2024 and 2023, the nature of the performance obligations within the contracts generating service charges on deposit, including money services business, and loan accounts have a duration of one year or less. Also, based on the Company's analysis and the nature of the contracts discussed within this note, it was determined that there are no significant judgements associated with the recognition of revenue associated with these contracts.

Based on the Company's analysis, each of the service charge revenues discussed above are associated with the transfer of services through administration of customer's deposit account or through an agreed-upon, fixed amount that is disclosed in the customer's contract and are charged to the customer when the related service is performed on the customer's account. In addition, based on the Company's analysis, none of the contracts discussed above required a material cost to obtain or fulfill the contract, which resulted in no capitalized asset associated with these contracts as of December 31, 2024 and 2023.

**Advertising Costs** – Advertising is expensed as incurred. Advertising costs totaled \$222 thousand and \$248 thousand as of December 31, 2024 and 2023, respectively.

**Income Taxes** – Provisions for income taxes are based on amounts reported in the Consolidated Statements of Operations (after exclusion of non-taxable income such as interest on state and municipal securities) and include changes in deferred income taxes. Deferred tax asset and liability balances reflect temporary differences at the tax rate expected to be in effect when taxes will become payable or receivable. Temporary differences are differences between the tax basis of assets and liabilities and their reported amounts in the Consolidated Financial Statements that will result in taxable or deductible amounts in future years. The effect of a change in tax rates is recognized in income in the period that includes the enactment date. A valuation allowance is recorded for deferred tax assets if the Company determines that it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company regularly reviews its deferred tax assets for recoverability considering historical profitability, projected future taxable income, and the expected timing of the reversals of existing temporary differences and tax planning strategies.

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When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that ultimately would be sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more-likely-than-not that the position will be sustained upon examination, including the resolution of appeals or litigation process, if any. The evaluation of a tax position taken is considered by itself and not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the accompanying Consolidated Balance Sheets along with any associated interest and penalties that would be payable to the taxing authorities upon examination. Interest and penalties associated with unrecognized tax benefits are recognized in income tax expense on the income statement. It is the Company's policy to recognize interest and penalties related to unrecognized tax liabilities within income tax expense in the statements of income. The Company does not have an accrual for uncertain tax positions as of December 31, 2024 and 2023, as deductions taken and benefits accrued are based on widely understood administrative practices and procedures and are based on tax law. The Company's federal and state income tax returns are subject to review and examination by government authorities.

**Earnings Per Share Amounts** – Basic earnings per common share is calculated by dividing net income available to common stockholders by the weighted average number of common shares outstanding during the period, excluding unvested shares of stock options. Diluted earnings per common share is computed by assuming the issuance of common shares for all potentially dilutive common shares outstanding during the reporting period. For the periods presented, the Company's potentially dilutive common stock issuances related to unvested shares of stock options under the Company's equity-based plans.

In computing diluted earnings per common share, adjustments are made to the computation of basic earnings per common shares, as follows. As it relates to stock options, it is assumed that all dilutive stock options are exercised during the reporting period at their respective exercise prices, with the proceeds from the exercises used by the Company to buy back stock in the open market at the average market price in effect during the reporting period. The difference between the number of shares assumed to be exercised and the number of shares bought back is included in the calculation of dilutive securities. If any of the potentially dilutive common stock issuances have an anti-dilutive effect, the potentially dilutive common stock issuance is disregarded.

**Comprehensive Income (Loss)** - Comprehensive income (loss) is the change in the Company's equity during the period from transactions and other events and circumstances from non-owner sources. Total comprehensive income (loss) consists of net income and other comprehensive income (loss). The Company's other comprehensive income (loss) and accumulated other comprehensive loss are comprised of net unrealized gains and losses on certain investments in debt securities and post-retirement plans. Information concerning the Company's other comprehensive income and accumulated comprehensive loss as of and for the years ended December 31, 2024 and 2023 are presented in the Consolidated Statements of Comprehensive Income.

**Fair Values of Financial Instruments** - Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in Note 19. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Generally Accepted Accounting Principles ("GAAP") establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets (observable inputs) and the lowest priority to the Company's assumptions (unobservable inputs). GAAP requires fair value measurements to be separately disclosed by level within the fair value hierarchy. For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities are recorded at fair value on a recurring basis. Additionally, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment and certain other assets.

Under GAAP, the Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. The Company did not have any changes in leveling inputs in 2024.

These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U.S. Treasury ("U.S. Treasuries") U.S. Government agency securities ("U.S. Agencies"), U.S. Government sponsored residential mortgage backed securities ("MBS") and State and Municipal Bonds ("Municipals").

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.



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**Use of Estimates** - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Material estimates that are susceptible to change in the near term relate to the determination of the ACL and the provision for loan losses, the evaluation of impairment of investment securities, accounting for deferred tax assets and related valuation allowances, the determination of the fair values of investment securities and other accounting for incentive compensation, and post-retirement benefits. Actual results could differ from those estimates.

**Reclassification of Prior Year Presentation** – Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no effect on net income.

**Significant Group Concentrations** - Most of the Bank's activities are with customers located within the state of NC. The Bank does have concentrations with respect to loans to and deposits from faith-based non-profit organizations as outlined in Note 6 and in Note 9 to the Consolidated Financial Statements.

**Segment Reporting** - Operating segments are components of an enterprise about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to assess performance and allocate resources. While the CEO, who is considered the chief operating decision maker, monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated, on a Company-wide basis using consolidated pretax income. The Company's operations are all within a single banking segment and, accordingly, all the financial service operations are considered by management to be aggregated in one reporting operating segment. The financial statements presented herein reflect the combined results of all of its operations with that segment. The Company has no foreign operations or customers.

**Emergency Capital Investment Program ("ECIP")** – On June 27, 2022, the U.S. Department of the Treasury ("Treasury") awarded the Company a capital investment from the Treasury under ECIP in the amount of \$80 million in the form of non-dilutive Tier 1 senior perpetual preferred stock. By accepting the investment from the Treasury, the Company is required to fulfill certain conditions established by the Treasury and is subject to certain restrictions, the terms of which are set forth in a series of legal agreements provided by the Treasury. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low-and moderate-income community financial institutions and minority depository institutions such as the Bank to augment their efforts to support small businesses and consumers in their communities.

In November 2024, the U.S. Treasury adopted the ECIP Disposition Policy, which established guidelines for the sale and repurchase of ECIP preferred stock in order to further support ECIP participants with the strongest track record of lending in underserved communities, such as the Company.

On January 8, 2025, entered into a securities purchase option agreement ("option agreement") with the Treasury, which, subject to the terms and conditions of the Option Agreement, gives the Company the option to repurchase the 80,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E previously issued to the U.S. Treasury as part of ECIP.

Pursuant to the option agreement, the Company may repurchase the Series E Preferred Stock from Treasury at a discount to the initial purchase price, provided the Company is in good regulatory standing, has maintained its MDI and/or CDFI status, and satisfies 60% of the deep impact lending threshold, providing loans to low- and moderate-income communities, for 16 consecutive quarters and satisfies certain other customary closing conditions.

As of December 31, 2024, the Company had met this requirement for the past eight consecutive quarters, which qualified the Company as one of the initial 14 ECIP participants to enter into the Option Agreement. Assuming the Company continues to satisfy the ECIP program requirements and the Option Agreement closing conditions, the Company may exercise its option to repurchase the Series E Preferred Stock as early as the fourth quarter of 2026.

**New Accounting Pronouncements –**

In August 2020, the Financial Accounting Standards Board ("FASB") issued guidance to improve financial reporting associated with accounting for convertible instruments and contracts in an entity's own equity. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. These amendments did not have a material effect on the Company's consolidated financial statements.

In June 2022, the FASB issued amendments to clarify the guidance on the fair value measurement of an equity security that is subject to a contractual sale restriction and require specific disclosures related to such an equity security. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. These amendments did not have a material effect on the Company's consolidated financial statements.

In December 2022, the FASB issued amendments to defer the sunset date of the Reference Rate Reform Topic of the Accounting Standards Codification ("ASC") from December 31, 2022 to December 31, 2024, because the current relief in Reference Rate Reform Topic may not cover a period of time during which a significant number of modifications may take place. The amendments were effective upon issuance. These amendments did not have a material effect on the Company's consolidated financial statements.

In March 2023, the FASB amended the *Leases* topic in the ASC to change the guidance for public and private companies to require that leasehold improvements be amortized over the useful life of those improvements to the common control group regardless of the lease term. The amendments are effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years. Early adoption is permitted. These

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amendments did not have a material effect on the Company's consolidated financial statements.

In November 2023, the FASB amended the *Segment Reporting* topic in the ASC to improve disclosures about a public entity's reportable segments and provide more detailed information about a reportable segment's expenses. The amendments are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. Upon adoption, the Company applied the amendments retrospectively to all prior periods presented in the financial statements. These amendments did not have a material effect on the Company's consolidated financial statements.

In December 2023, the FASB amended the *Income Taxes* topic in the ASC to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In March 2024, the FASB issued amendments to the ASC that remove references to various FASB Concepts Statements. The amendments are effective for fiscal years beginning after December 15, 2024. Early adoption is permitted for both interim and annual financial statements that have not yet been issued or made available for issuance. The Company will apply the amendments prospectively to all new transactions recognized on or after the date that the Company first applies the amendments. The Company does not expect these amendments to have a material effect on its financial statements.

In November 2024, the FASB amended the *Income Statement – Reporting Comprehensive Income* topic in the ASC to require public companies to disclose, in interim and annual reporting periods, additional information about certain expenses in the notes to financial statements. The amendments are effective for annual periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. The Company will apply the amendments prospectively to financial statements issued for reporting periods after the effective date. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

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

## 2. INVESTMENT SECURITIES

The main objectives of the Company's investment strategy are to provide a source of liquidity while managing our interest rate risk, and to generate an adequate level of interest income without taking undue risks. The Company's investment policy permits investments in various types of securities, certificates of deposit and federal funds sold in compliance with various restrictions in the policy. As of December 31, 2024 and 2023, investments were classified as either available-for-sale or held-to-maturity.

Available-for-sale securities totaled \$166.1 million and \$89.8 million as of December 31, 2024 and 2023, respectively. Held-to-maturity securities totaled \$14.4 million and \$27.0 million as of December 31, 2024 and 2023, respectively. In the normal course of business, the Company pledges securities to the Federal Reserve Bank of Richmond ("FRB") and to public housing authorities in NC and the NC Department of State Treasurer ("State Treasurer") as collateral for public deposits. The following table shows the amounts pledged:

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Pledged to FRB	\$ 7,127	\$ 7,070
Pledged to public housing authorities	845	974
Pledged to the State Treasurer	25,886	29,098

The Company's investment portfolio consists of the following securities:

- U.S. Treasury securities ("U.S. Treasuries")
- U.S. Government agency securities ("U.S. Agencies")
- U.S. Government sponsored residential mortgage backed securities ("MBS"), and
- Municipal securities ("Municipals")



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The amortized cost, gross unrealized gains and losses and fair values of investment securities at December 31, 2024 and 2023 were:

	Available-for-Sale				Held-to-Maturity			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<i>(Dollars in thousands)</i>								
<b>December 31, 2024</b>								
U.S. Treasuries	\$ 12,842	\$ 4	\$ (208)	\$ 12,638	\$ 3,993	\$ -	\$ (10)	\$ 3,983
U.S. Agencies	12,839	4	(1,019)	11,824	-	-	-	-
MBS	137,554	194	(8,440)	129,308	9,121	17	(181)	8,957
Municipals	14,172	24	(1,873)	12,323	1,316	-	(13)	1,303
<b>Total</b>	<u>\$ 177,407</u>	<u>\$ 226</u>	<u>\$ (11,540)</u>	<u>\$ 166,093</u>	<u>\$ 14,430</u>	<u>\$ 17</u>	<u>\$ (204)</u>	<u>\$ 14,243</u>
<b>December 31, 2023</b>								
U.S. Treasuries	\$ 16,467	\$ 43	\$ (187)	\$ 16,323	\$ 16,437	\$ -	\$ (96)	\$ 16,341
U.S. Agencies	7,500	-	(1,058)	6,442	6,000	2	(3)	5,999
MBS	62,992	175	(7,230)	55,937	3,204	-	(145)	3,059
Municipals	12,898	44	(1,870)	11,072	1,319	31	-	1,350
<b>Total</b>	<u>\$ 99,857</u>	<u>\$ 262</u>	<u>\$ (10,345)</u>	<u>\$ 89,774</u>	<u>\$ 26,960</u>	<u>\$ 33</u>	<u>\$ (244)</u>	<u>\$ 26,749</u>

There were no sales of available-for-sale or held-to-maturity securities during the years ended December 31, 2024 or 2023. There was no allowance for credit losses on available-for-sale or held-to-maturity during the years ended December 31, 2024 and 2023.

The amortized cost and estimated market values of securities as of December 31, 2024 and 2023 by contractual maturities with the exception of MBS, which reflects projected cash flow streams, are shown below. Actual maturities may differ, because borrowers may have the right to call or prepay MBS, collateralized mortgage obligations, agency securities, and municipal bonds with or without call or prepayment penalties. Certain mortgage-backed securities have adjustable interest rates and will reprice within the various maturity ranges. These repricing schedules are not reflected in the following table.

	December 31, 2024			
	Available-for-Sale		Held to Maturity	
	Fair Value	Amortized Cost	Fair Value	Amortized Cost
<i>(Dollars in thousands)</i>				
U.S. Treasuries				
Due within one year	\$ 2,446	\$ 2,442	\$ -	\$ -
Due after one year through five years	10,192	10,400	3,983	3,993
Total U.S. Treasuries	<u>\$ 12,638</u>	<u>\$ 12,842</u>	<u>\$ 3,983</u>	<u>\$ 3,993</u>
U.S. Agencies				
Due after one year through five years	\$ 5,210	\$ 5,500	\$ -	\$ -
Due after five years through ten years	6,614	7,339	-	-
Total U.S. Agencies	<u>\$ 11,824</u>	<u>\$ 12,839</u>	<u>\$ -</u>	<u>\$ -</u>
MBS				
Due within one year	\$ 1,915	\$ 1,926	\$ -	\$ -
Due after one year through five years	73,755	75,111	8,957	9,121
Due after five years through ten years	53,638	60,517	-	-
Total MBS	<u>\$ 129,308</u>	<u>\$ 137,554</u>	<u>\$ 8,957</u>	<u>\$ 9,121</u>
Municipals				
Due after one year through five years	\$ 2,850	\$ 3,181	\$ -	\$ -
Due after five years through ten years	5,289	6,134	-	-
Due after ten years	4,184	4,857	1,303	1,316
Total Municipals	<u>\$ 12,323</u>	<u>\$ 14,172</u>	<u>\$ 1,303</u>	<u>\$ 1,316</u>

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**December 31, 2023**

*(Dollars in thousands)*

	<b>Available-for-Sale</b>		<b>Held-to-Maturity</b>	
	<b>Fair Value</b>	<b>Amortized Cost</b>	<b>Fair Value</b>	<b>Amortized Cost</b>
<b>U.S. Treasuries</b>				
Due within one year	\$ 14,563	\$ 14,520	\$ 16,341	\$ 16,437
Due after one year through five years	1,760	1,947	-	-
<b>Total U.S. Treasuries</b>	<b>\$ 16,323</b>	<b>\$ 16,467</b>	<b>\$ 16,341</b>	<b>\$ 16,437</b>
<b>U.S. Agencies</b>				
Due within one year	\$ -	\$ -	\$ 2,002	\$ 2,000
Due after one year through five years	3,176	3,500	3,997	4,000
Due after five years through ten years	3,266	4,000	-	-
<b>Total U.S. Agencies</b>	<b>\$ 6,442</b>	<b>\$ 7,500</b>	<b>\$ 5,999</b>	<b>\$ 6,000</b>
<b>MBS</b>				
Due after one year through five years	21,481	22,280	3,059	3,204
Due after five years through ten years	34,456	40,712	-	-
<b>Total MBS</b>	<b>\$ 55,937</b>	<b>\$ 62,992</b>	<b>\$ 3,059</b>	<b>\$ 3,204</b>
<b>Municipals</b>				
Due after one year through five years	\$ 1,815	\$ 2,018	\$ -	\$ -
Due after five years through ten years	5,222	6,158	-	-
Due after ten years	4,035	4,722	1,350	1,319
<b>Total Municipals</b>	<b>\$ 11,072</b>	<b>\$ 12,898</b>	<b>\$ 1,350</b>	<b>\$ 1,319</b>

As of December 31, 2024 and 2023, the fair value of securities with gross unrealized losses by length of time that the individual securities have been in an unrealized loss position is as follows:

**Investment Securities**

*(Dollars in thousands)*

	<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>December 31, 2024</b>						
U.S. Treasuries	\$ 10,386	\$ (53)	\$ 1,796	\$ (165)	\$ 12,182	\$ (218)
U.S. Agencies	3,314	(25)	5,506	(994)	8,820	(1,019)
MBS	69,285	(968)	43,024	(7,653)	112,309	(8,621)
Municipals	3,102	(37)	9,752	(1,849)	12,854	(1,886)
<b>Total</b>	<b>\$ 86,087</b>	<b>\$ (1,083)</b>	<b>\$ 60,078</b>	<b>\$ (10,661)</b>	<b>\$ 146,165</b>	<b>\$ (11,744)</b>

*(Dollars in thousands)*

	<b>Less Than 12 Months</b>		<b>12 Months or Greater</b>		<b>Total</b>	
	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>	<b>Fair Value</b>	<b>Unrealized Losses</b>
<b>December 31, 2023</b>						
U.S. Treasuries	\$ -	\$ -	\$ 18,101	\$ (283)	\$ 18,101	\$ (283)
U.S. Agencies	4,997	(3)	5,443	(1,058)	10,440	(1,061)
MBS	-	-	48,893	(7,375)	48,893	(7,375)
Municipals	-	-	9,759	(1,870)	9,759	(1,870)
<b>Total</b>	<b>\$ 4,997</b>	<b>\$ (3)</b>	<b>\$ 82,196</b>	<b>\$ (10,586)</b>	<b>\$ 87,193</b>	<b>\$ (10,589)</b>

All securities owned as of December 31, 2024 and 2023 were investment grade. The Company evaluates securities for impairment at least on a quarterly basis. Consideration is given to the financial condition and near-term prospects of the issuer, the extent to which the fair value has been less than cost, and our intent and ability to retain our investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value. As of December 31, 2024 and 2023, the Company held 150 and 102 investment positions, respectively, with unrealized losses of \$11.7 million and \$10.6 million, respectively. These investments were in U.S. Treasuries, U.S. Agencies, MBS and Municipals. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and industry analysts' reports. Management has determined that all declines in the market value of are not indications of impairment and will not be likely required to sell.

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### 3. FHLB STOCK

To be a member of the FHLB System, the Bank is required to maintain an investment in capital stock of the FHLB. Periodically, the FHLB recalculates the Bank's required level of holdings, and the Bank either buys more stock or redeems a portion of the stock at cost. The carrying value of FHLB stock, which is included in other invested assets, as of December 31, 2024 and 2023 was \$324 thousand. No ready market exists for the FHLB stock, and it has no quoted market value; however, management believes that the cost approximates the market value as of December 31, 2024 and 2023. Management has reviewed its investment in FHLB stock for impairment and does not believe it is impaired as of December 31, 2024 or 2023. The FHLB of Atlanta in which the Company owns stock has been profitable in each of the years ended December 31, 2024 and 2023.

### 4. RECONCILIATIONS OF BASIC AND DILUTED EARNINGS PER SHARE ("EPS")

**Earnings Per Share** - Earnings per share are calculated on the basis of the weighted average number of shares of common stock outstanding for the purpose of computing the basic earnings per share and the weighted average number of shares of common stock outstanding plus dilutive common stock equivalents, such as stock options, for the purpose of computing diluted earnings per share.

	For the Years Ended December 31,					
	2024			2023		
	Income (Numerator)	Shares (Denominator)	Per Share Amount	Income (Numerator)	Shares (Denominator)	Per Share Amount
<i>(Dollars in thousands except share and per share amounts)</i>						
Basic EPS:						
Net income available to common shareholders	\$ 3,630	1,982,511	\$ 1.83	\$ 5,455	1,981,392	\$ 2.75
Effect of dilutive securities	-	17,516		-	22,199	
Diluted EPS per common share	\$ 3,630	2,000,027	\$ 1.81	\$ 5,455	2,003,591	\$ 2.72

### 5. ACCUMULATED OTHER COMPREHENSIVE LOSS

Comprehensive loss includes net income and all other changes to the Company's equity, with the exception of transactions with stockholders. The Company's other comprehensive loss and accumulated other comprehensive loss are comprised of unrealized gains and losses on certain investments in debt securities and defined benefit plan adjustments.

#### CHANGES IN ACCUMULATED OTHER COMPREHENSIVE LOSS BY COMPONENT

For the Years Ended December 31, 2024 and 2023

*(Dollars in thousands)*

	Unrealized Losses on Available-for- Sale Securities	Defined Benefit Pension Plans	Total
Balance as of December 31, 2022	\$ (9,591)	\$ (1,524)	\$ (11,115)
Other comprehensive gains before reclassifications	1,825	283	2,108
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive income	1,825	283	2,108
Balance as of December 31, 2023	\$ (7,766)	\$ (1,241)	\$ (9,007)
Balance as of December 31, 2023	\$ (7,766)	\$ (1,241)	(9,007)
Other comprehensive gains (losses) before reclassifications	(949)	393	(556)
Reclassification of accumulated comprehensive loss due to tax rate change	(22)	(2)	(24)
Amounts reclassified from accumulated other comprehensive loss	-	-	-
Net current-period other comprehensive income (loss)	(971)	391	(580)
Balance as of December 31, 2024	\$ (8,737)	\$ (850)	\$ (9,587)

All amounts are net of tax.

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There were no reclassification adjustments from accumulated other comprehensive loss during the years ended December 31, 2024 and 2023.

## **6. LOANS AND ACL**

The ACL amounted to \$3.9 million and \$4.0 million at December 31, 2024 and 2023, respectively.

The ACL reflects our estimate of life of loan expected credit losses that will result from the inability of our borrowers to make required loan payments. We established the incremental increase in the ACL at adoption date through equity and subsequently record amounts needed to adjust the ACL for our current estimate of expected credit losses through a provision for credit losses charged to earnings. We record loans charged off against the ACL in the period in which such loans, in management's opinion, become uncollectible. Subsequent recoveries, if any, increase the ACL when they are recognized.

We use systematic methodologies to determine the ACL for loans and the allowance for certain off-balance-sheet credit exposures. The ACL is a valuation account that is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loan portfolio. The allowance for unfunded commitments represents expected losses on unfunded loan commitments that are expected to result in outstanding loan balances and is included in other liabilities in the consolidated balance sheets.

We consider the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. Our estimate of the ACL involves a high degree of judgment. Therefore, the process for determining expected credit losses may result in a range of expected credit losses. The ACL is calculated using collectively evaluated pools for loans with similar risk characteristics applying the DCF method. When a loan no longer shares similar risk characteristics with its segment, the loan is analyzed on an individual basis applying a cash flow or asset approach for collateral-dependent loans. Refer to Note 1 of the consolidated financial statements for a discussion of our CECL methodology used to determine the ACL and allowance for unfunded commitments.

Our assessment of the ACL involves uncertainty and judgment and is subject to change in future periods. The amount of any changes could be significant if the assessment of loan quality or collateral values changes substantially with respect to one or more loan relationships or portfolios or if there is a significant change in the reasonable and supportable forecast used to model our expected credit losses. The allocation of the ACL is based on reasonable and supportable forecasts, historical data, subjective judgment, and estimates and therefore, may not be predictive of the specific amounts or loan categories in which charge-offs may ultimately occur. In addition, bank regulatory authorities, as part of their periodic examination of the Bank, may require adjustments to the provision for loan losses in future periods if, in their opinion, the results of their review warrant such additions.

We strive to maintain our loan portfolio in accordance with what management believes are conservative loan underwriting policies that result in loans specifically tailored to the needs of our market areas. Every effort is made to identify and minimize the credit risks associated with such lending strategies. We have no foreign loans, few agricultural loans, and we do not engage in significant lease financing or highly leveraged transactions. Commercial loans are diversified among a variety of industries. The majority of loans captioned in the Loan Portfolio Composition table in the below "Loans" section as "real estate" loans are personal and commercial loans where cash flow from the borrower's occupation or business is the primary repayment source, with the real estate pledged providing a secondary repayment source. Collateral for the majority of these loans is located within our principal market area.

Loans are generally placed on non-accrual status when the scheduled payments reach 90 days past due. Loans are charged-off, with Board of Directors' approval, when the Chief Credit Officer and his staff determine that all reasonable means of collection of the outstanding balances, except foreclosure, have been exhausted. The Company continues its collection efforts subsequent to charge-off, which historically has resulted in some recoveries each year.

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The composition of the loan portfolio, net of deferred fees and costs, by loan classification as of December 31, 2024 and 2023:

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Commercial	\$ 54,715	\$ 55,813
Commercial real estate:		
Construction	9,728	4,223
Owner occupied	41,311	49,886
Other	33,497	29,132
Faith-based non-profit:		
Construction	539	(3) *
Owner occupied	55,837	55,482
Other	279	234
Residential real estate:		
First mortgage	35,437	31,233
Multifamily	31,014	31,521
Home equity	10,580	9,337
Construction	2,591	643
Consumer	8,428	1,500
Other loans	71	81
Loans, net of deferred fees	284,027	269,082
ACL	(3,902)	(3,987)
Loans, net of ACL	<u>\$ 280,125</u>	<u>\$ 265,095</u>

\*Denotes net deferred fees/costs

Also included Commercial in the table above are SBA loans, generally originated under the SBA 7A program, with additional information on these loans presented in the table below.

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Guaranteed portion of SBA loans included in the table above	\$ 26,623	\$ 27,773
Unguaranteed portions of SBA loans included in table above	8,780	6,808
Total SBA loans included in table above	<u>\$ 35,403</u>	<u>\$ 34,581</u>
Sold portions of SBA loans with servicing retained - not included in the table above	<u>\$ 1,486</u>	<u>-</u>

At December 31, 2024 and December 31, 2023, there were remaining unaccreted discounts on retained portion of sold SBA loans amounting to \$41 thousand and none, respectively.

The Bank has a concentration of loans to faith-based non-profit organizations, in which the Bank has specialized lending experience. At December 31, 2024 and 2023, the percentage of loans in this segment, which included construction, owner occupied real estate secured and other loans, comprised 19.95% and 20.70%, respectively, of the total loan portfolio. The reserve allocated for these loans at December 31, 2024 and 2023 was 8.35% and 10.84%, respectively, of the total ACL. Historically the Bank has experienced low levels of loan losses in this segment; however, repayment of these loans is generally dependent on voluntary contributions, some of which had been adversely affected during the economic downturn.

Management has identified its loan-related disclosure classifications in its financial reports to present portfolio segments. A portfolio segment is defined as the level at which an entity develops and documents a systematic methodology to determine its ACL under the CECL methodology. The following table presents the reported ACL as of December 31, 2024 and 2023:

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**For the Year Ended December 31, 2024**

(Dollars in thousands)

ACL:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Faith- Based Non- Profit</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Other Loans</u>	<u>Total</u>
Total ending ACL balances as of December 31, 2023	\$ 1,574	\$ 781	\$ 432	\$ 1,105	\$ 71	\$ 24	\$ 3,987
For the year ended December 31, 2024							
Charge-offs	(907)	-	-	-	(39)	(34)	(980)
Recoveries	88	-	-	-	6	4	98
Provision for loan losses	438	243	(106)	82	117	23	797
Total ending ACL balances as of December 31, 2024	<u>\$ 1,193</u>	<u>\$ 1,024</u>	<u>\$ 326</u>	<u>\$ 1,187</u>	<u>\$ 155</u>	<u>\$ 17</u>	<u>\$ 3,902</u>

**For the Year Ended December 31, 2023**

(Dollars in thousands)

ACL:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Faith- Based Non- Profit</u>	<u>Residential Real Estate</u>	<u>Consumer</u>	<u>Other Loans</u>	<u>Total</u>
Total ending ALLL balances as of December 31, 2022	\$ 453	\$ 813	\$ 827	\$ 729	\$ 30	\$ 11	\$ 2,863
Adjustment for implementation of CECL	338	(87)	(472)	177	41	(3)	(6)
For the year ended December 31, 2023							
Charge-offs	-	-	-	-	(11)	(38)	(49)
Recoveries	1	-	-	-	2	5	8
Provision for credit losses	782	55	77	199	9	49	1,171
Total ending ACL balances as of December 31, 2023	<u>\$ 1,574</u>	<u>\$ 781</u>	<u>\$ 432</u>	<u>\$ 1,105</u>	<u>\$ 71</u>	<u>\$ 24</u>	<u>\$ 3,987</u>

Approximately, \$589 thousand of charge-offs in the Commercial category during 2024 was attributable to a single relationship. The loss did not represent deterioration within this category of the portfolio, but rather an isolated situation.

In addition to the ACL on loans, the Company maintains an allowance for lending-related commitments such as unfunded loan commitments and letters of credit. Under CECL, the Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for lending-related commitments on off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the ACL on loans and are discussed in Note 1. The ACL for unfunded loan commitments of \$255 thousand and \$454 thousand at December 31, 2024 and 2023, respectively, is separately classified on the consolidated balance sheets within the line items "Other Liabilities."

The following table presents the balance and activity in the ACL for unfunded loan commitments for December 31, 2024 and 2023.

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
Beginning ACL balance	\$ 454	\$ 43
Adjustment for implementation of CECL	-	313
Provision for (reversal of) credit losses on changes in unfunded commitments	(199)	98
Ending ACL balance	<u>\$ 255</u>	<u>\$ 454</u>

For the years ended December 31, 2024 and 2023 the allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon asset origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a probability

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of default/loss given default model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

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

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. For the real estate 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: a term extension, principal forgiveness, and interest rate reduction.

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.

The Company closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts.

There were no loans modified to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

There were no loans modified in the 12 months before default to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2024 and 2023:

	<b>December 31, 2024</b>		
	<b>Nonaccrual Loans with No Allowance</b>	<b>Nonaccrual Loans with an Allowance</b>	<b>Total Nonaccrual Loans</b>
<i>(Dollars in thousands)</i>			
Commercial	\$ -	\$ 552	\$ 552
Commercial real estate:			
Construction	-	519	519
Faith-based non-profit:			
Owner occupied	511	-	511
Residential real estate:			
First mortgage	300	-	300
Home equity	225	-	225
Total	<u>\$ 1,036</u>	<u>\$ 1,071</u>	<u>\$ 2,107</u>
	<b>December 31, 2023</b>		
	<b>Nonaccrual Loans with No Allowance</b>	<b>Nonaccrual Loans with an Allowance</b>	<b>Total Nonaccrual Loans</b>
<i>(Dollars in thousands)</i>			
Commercial	\$ -	\$ 159	\$ 159
Commercial real estate:			
Owner occupied	49	-	49
Faith-based non-profit:			
Owner occupied	-	597	597
Total	<u>\$ 49</u>	<u>\$ 756</u>	<u>\$ 805</u>

Non-accrual loans and loans past due over 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Loans from which principal or interest is in default for 90 days or more are classified as a non-accrual unless they are well secured and in process of collection. Loans past due over 90 days still accruing were matured loans that were well secured and in process of collection. Borrowers have continued to make payments on these loans while administrative and legal due processes are proceeding which will enable the Bank to extend or modify maturity dates.



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Unrecognized income on non-accrual loans for the years ended December 31, 2024 and 2023 was \$111 thousand and \$16 thousand, respectively.

The following tables present loans not past due, and the aging of past due loans as of December 31, 2024 and 2023 by class of loans:

<b>December 31, 2024</b> <i>(Dollars in thousands)</i>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days Or More Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total</b>
Commercial	\$ 51	\$ -	\$ 552	\$ 603	\$ 54,112	\$ 54,715
Commercial real estate:						
Construction	-	-	-	-	9,728	9,728
Owner occupied	-	-	-	-	41,311	41,311
Other	108	-	-	108	33,389	33,497
Faith-based non-profit:						
Construction	-	-	-	-	539	539
Owner occupied	511	-	-	511	55,326	55,837
Other	-	-	-	-	279	279
Residential real estate:						
First mortgage	55	-	300	355	35,082	35,437
Multifamily	-	-	-	-	31,014	31,014
Home equity	66	113	30	209	10,371	10,580
Construction	-	-	-	-	2,591	2,591
Consumer	173	-	-	173	8,255	8,428
Other loans	-	-	-	-	71	71
<b>Total</b>	<b>\$ 964</b>	<b>\$ 113</b>	<b>\$ 882</b>	<b>\$ 1,959</b>	<b>\$ 282,068</b>	<b>\$ 284,027</b>

<b>December 31, 2023</b> <i>(Dollars in thousands)</i>	<b>30-59 Days Past Due</b>	<b>60-89 Days Past Due</b>	<b>90 Days Or More Past Due</b>	<b>Total Past Due</b>	<b>Current</b>	<b>Total</b>
Commercial	\$ 679	\$ 33	\$ 186	\$ 898	\$ 54,915	\$ 55,813
Commercial real estate:						
Construction	-	-	-	-	4,223	4,223
Owner occupied	-	-	115	115	49,771	49,886
Other	-	-	-	-	29,132	29,132
Faith-based non-profit:						
Construction	-	-	-	-	(3)	(3)
Owner occupied	-	-	-	-	55,482	55,482
Other	-	-	-	-	234	234
Residential real estate:						
First mortgage	306	-	-	306	30,927	31,233
Multifamily	-	-	-	-	31,521	31,521
Home equity	146	85	-	231	9,106	9,337
Construction	-	-	-	-	643	643
Consumer	-	-	-	-	1,500	1,500
Other loans	-	-	-	-	81	81
<b>Total</b>	<b>\$ 1,131</b>	<b>\$ 118</b>	<b>\$ 301</b>	<b>\$ 1,550</b>	<b>\$ 267,532</b>	<b>\$ 269,082</b>

The Company designates individually analyzed loans on nonaccrual status as collateral dependent loans, as well as other loans that management of the Company designates as having higher risk. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the ACL. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the ACL on the fair value of collateral. The ACL is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for liquidation costs/discounts, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

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The following table presents an analysis of collateral-dependent loans of the Company as of December 31, 2024 and 2023:

	December 31, 2024		
	Real Property	Business Assets	Total Collateral-Dependent Loans
<i>(Dollars in thousands)</i>			
Commercial	\$ -	\$ 113	\$ 113
Residential real estate:			
First mortgage	300	-	300
Home equity	225	-	225
Total	<u>\$ 525</u>	<u>\$ 113</u>	<u>\$ 638</u>
	December 31, 2023		
	Business Assets	Commercial Property	Total Collateral-Dependent Loans
<i>(Dollars in thousands)</i>			
Commercial	\$ 26	\$ -	\$ 26
Commercial real estate:			
Owner occupied	-	49	49
Total	<u>\$ 26</u>	<u>\$ 49</u>	<u>\$ 75</u>

The Company does not believe that there is significant over-coverage of collateral for any of the loan types noted above.

The following tables display all non-accrual loans and loans 90 or more days past due and still on accrual for the periods ended December 31, 2024 and 2023.

December 31, 2024		
<i>(Dollars in thousands)</i>		
	Amount	Number
Loans past due over 90 days still on accrual	<u>\$ -</u>	<u>-</u>
Non-accrual loans past due		
Less than 30 days	\$ 655	3
30-59 days	512	1
60-89 days	58	1
90+ days	882	6
Non-accrual loans	<u>\$ 2,107</u>	<u>11</u>
December 31, 2023		
<i>(Dollars in thousands)</i>		
	Amount	Number
Loans past due over 90 days still on accrual	<u>\$ 93</u>	<u>2</u>
Non-accrual loans past due		
Less than 30 days	\$ 597	1
30-59 days	-	-
60-89 days	-	-
90+ days	208	3
Non-accrual loans	<u>\$ 805</u>	<u>4</u>

The Company tracks credit quality based on its internal risk ratings. Upon origination, a loan is assigned an initial risk grade, which is generally based on several factors such as the borrower's credit score, the loan-to-value ratio, the debt-to-income ratio, etc. Loans that are risk-graded as substandard during the origination process are declined. After loans are initially graded, they are monitored regularly for credit quality based on many factors, such as payment history, the borrower's financial status, and changes in collateral value. Loans can be downgraded or upgraded depending on management's evaluation of these factors. Internal risk-grading policies are consistent throughout each loan type.

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The following describes the Company's internal risk grades in ascending order of likelihood of loss:

Risk	Grade	Description
Pass:	1	Loans with virtually no risk, including cash secured loans.
	2	Loans with documented significant overall financial strength. These loans have minimum chance of loss due to the presence of multiple sources of repayment – each clearly sufficient to satisfy the obligation.
	3	Loans with documented satisfactory overall financial strength. These loans have a low loss potential due to presence of at least two clearly identified sources of repayment – each of which is sufficient to satisfy the obligation under the present circumstances.
	4	Loans to borrowers with acceptable financial condition. These loans could have signs of minor operational weaknesses, lack of adequate financial information, or loans supported by collateral with questionable value or marketability.
	5	Loans that represent above average risk due to minor weaknesses and warrant closer scrutiny by management. Collateral is generally required and felt to provide reasonable coverage with realizable liquidation values in normal circumstances. Repayment performance is satisfactory.
Special Mention:	6	Existing loans with defined weaknesses in primary source of repayment that, if not corrected, could cause a loss to the Company.
Substandard:	7	An existing loan inadequately protected by the current sound net worth and paying capacity of the obligor or the collateral pledged, if any. These loans have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt.
Doubtful:	8	Loans that have a well-defined weakness that make the collection or liquidation in full highly questionable and improbable. Loss appears imminent, but the exact amount and timing is uncertain.
Loss:	9	Loans that are considered uncollectible and are in the process of being charged-off. This grade is a temporary grade assigned for administrative purposes until the charge-off is completed.

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The following table presents the Company's recorded investment in loans by credit quality indicators by year of origination or renewal as of December 31, 2024 and 2023:

	Term Loans by Year of Origination							Revolving Loans Converted to Term	
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving		Total
December 31, 2024									
Commercial									
Pass	\$ 32,034	\$ 8,431	\$ 7,521	\$ 907	\$ 1,041	\$ 3,727	\$ 1	\$ 38	\$ 53,700
Substandard	1,002	13	-	-	-	-	-	-	1,015
Total commercial	33,036	8,444	7,521	907	1,041	3,727	1	38	54,715
Commercial real estate:									
Construction									
Pass	189	6,599	2,421	-	-	-	-	-	9,209
Doubtful	92	427	-	-	-	-	-	-	519
Total construction	281	7,026	2,421	-	-	-	-	-	9,728
Owner-occupied									
Pass	11,536	15,682	5,195	5,072	1,884	962	190	313	40,834
Special Mention	243	-	-	-	234	-	-	-	477
Total owner-occupied	11,779	15,682	5,195	5,072	2,118	962	190	313	41,311
Other:									
Pass	7,358	1,450	10,751	8,940	4,303	-	517	135	33,454
Special Mention	43	-	-	-	-	-	-	-	43
Total other	7,401	1,450	10,751	8,940	4,303	-	517	135	33,497
Faith-based non-profit:									
Construction									
Pass	-	539	-	-	-	-	-	-	539
Total construction	-	539	-	-	-	-	-	-	539
Owner-occupied									
Pass	11,359	12,142	12,584	9,337	6,150	501	-	-	52,073
Special Mention	1,441	-	1,646	-	-	-	-	-	3,087
Substandard	-	166	511	-	-	-	-	-	677
Total owner-occupied	12,800	12,308	14,741	9,337	6,150	501	-	-	55,837
Other:									
Pass	86	190	-	-	-	-	3	-	279
Total other	86	190	-	-	-	-	3	-	279
Residential real estate:									
Construction:									
Pass	40	2,351	200	-	-	-	-	-	2,591
Total construction	40	2,351	200	-	-	-	-	-	2,591
First Mortgage									
Pass	6,707	9,599	9,461	6,488	2,374	158	57	-	34,844
Special Mention	-	-	293	-	-	-	-	-	293
Substandard	-	-	-	-	-	300	-	-	300
Total first mortgage	6,707	9,599	9,754	6,488	2,374	458	57	-	35,437
Multifamily:									
Pass	926	2,561	15,515	11,152	341	512	-	-	31,007
Special Mention	-	-	-	-	-	7	-	-	7
Total multifamily	926	2,561	15,515	11,152	341	519	-	-	31,014
Home equity									
Pass	818	45	446	-	-	-	8,369	667	10,345
Special Mention	-	-	-	-	-	-	10	-	10
Substandard	-	-	136	-	-	-	30	59	225
Total home equity	818	45	582	-	-	-	8,409	726	10,580
Consumer:									
Pass	7,416	134	360	27	-	-	489	2	8,428
Total home equity	7,416	134	360	27	-	-	489	2	8,428
Other loans									
Pass	-	-	-	-	-	71	-	-	71
Total other loans	-	-	-	-	-	71	-	-	71
Total	\$ 81,290	\$ 60,329	\$ 67,040	\$ 41,923	\$ 16,327	\$ 6,238	\$ 9,666	\$ 1,214	\$ 284,027
Current Period Gross Charge-offs	\$ (69)	\$ (745)	\$ -	\$ (83)	\$ -	\$ (47)	\$ (33)	\$ (3)	\$ (980)

At December 31, 2024, as derived from the table above, the Company had \$3.9 million in loans graded as Special Mention, \$2.2 million in loans graded as Substandard, which includes non-accrual loans and \$519 thousand graded as doubtful. In the table above, substantially all of the "Substandard Loans" have grades of 7 or Doubtful, with those categories having similar levels of risk. The amount of revolving lines of credit that converted to term loans was \$1.2 million.

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**Term Loans by Year of Origination**

(Dollars in thousands)

	2023	2022	2021	2020	2019	Prior	Revolving	Revolving Loans Converted to Term	Total
<b>December 31, 2023</b>									
<b>Commercial</b>									
Pass	\$ 17,849	\$ 15,333	\$ 9,993	\$ 4,145	\$ 4,173	\$ 3,079	\$ 1	\$ 6	\$ 54,579
Special Mention	588	-	-	469	-	-	-	-	1,057
Substandard	18	-	-	-	58	101	-	-	177
Total commercial	18,455	15,333	9,993	4,614	4,231	3,180	1	6	55,813
<b>Commercial real estate:</b>									
<b>Construction</b>									
Pass	3,305	918	-	-	-	-	-	-	4,223
Total construction	3,305	918	-	-	-	-	-	-	4,223
<b>Owner-occupied</b>									
Pass	19,790	6,485	15,271	2,246	3,592	1,758	695	-	49,837
Substandard	-	49	-	-	-	-	-	-	49
Total owner-occupied	19,790	6,534	15,271	2,246	3,592	1,758	695	-	49,886
<b>Other:</b>									
Pass	1,360	11,221	10,167	4,638	447	800	77	-	28,710
Substandard	422	-	-	-	-	-	-	-	422
Total other	1,782	11,221	10,167	4,638	447	800	77	-	29,132
<b>Faith-based non-profit:</b>									
<b>Construction</b>									
Pass	(3)	-	-	-	-	-	-	-	(3)
Total construction	(3)	-	-	-	-	-	-	-	(3)
<b>Owner-occupied</b>									
Pass	15,254	13,833	9,495	7,293	2,723	1,762	-	-	50,360
Special Mention	1,516	1,667	-	-	-	-	-	-	3,183
Substandard	205	597	1,137	-	-	-	-	-	1,939
Total owner-occupied	16,975	16,097	10,632	7,293	2,723	1,762	-	-	55,482
<b>Other:</b>									
Pass	207	-	23	-	-	-	4	-	234
Total other	207	-	23	-	-	-	4	-	234
<b>Residential real estate:</b>									
<b>Construction:</b>									
Pass	369	208	66	-	-	-	-	-	643
Total construction	369	208	66	-	-	-	-	-	643
<b>First Mortgage</b>									
Pass	11,613	10,178	5,284	2,656	1,147	54	-	-	30,932
Special Mention	-	301	-	-	-	-	-	-	301
Total first mortgage	11,613	10,479	5,284	2,656	1,147	54	-	-	31,233
<b>Multifamily:</b>									
Pass	1,726	16,745	11,469	356	855	360	-	-	31,511
Special Mention	-	-	-	-	-	10	-	-	10
Total multifamily	1,726	16,745	11,469	356	855	370	-	-	31,521
<b>Home equity</b>									
Pass	181	471	-	-	-	-	8,318	127	9,097
Special Mention	-	146	-	-	-	-	9	85	240
Total home equity	181	617	-	-	-	-	8,327	212	9,337
<b>Consumer:</b>									
Pass	363	445	57	4	2	3	620	6	1,500
Total home equity	363	445	57	4	2	3	620	6	1,500
<b>Other loans</b>									
Pass	-	-	-	-	-	81	-	-	81
Total other loans	-	-	-	-	-	81	-	-	81
<b>Total</b>	<u>\$ 74,763</u>	<u>\$ 78,597</u>	<u>\$ 62,962</u>	<u>\$ 21,807</u>	<u>\$ 12,997</u>	<u>\$ 8,008</u>	<u>\$ 9,724</u>	<u>\$ 224</u>	<u>\$ 269,082</u>
Current Period Gross Charge-offs	\$ (3)	\$ -	\$ -	\$ -	\$ (3)	\$ (38)	\$ (2)	\$ (3)	\$ (49)

At December 31, 2023, as derived from the table above, the Company had \$4.8 million in loans graded as Special Mention and \$2.6 million in loans graded as Substandard, which includes non-accrual loans. In the table above, substantially all of the "Substandard Loans" have grades of 7 or Doubtful, with those categories having similar levels of risk. The amount of revolving lines of credit that converted to term loans was \$224 thousand.

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**7. BANK PREMISES AND EQUIPMENT**

The following is a summary of bank premises and equipment, net as of December 31, 2024 and 2023:

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>	<u>December 31, 2023</u>
Land	\$ 327	\$ 312
Buildings and leasehold improvements	6,180	5,953
Furniture and equipment	3,312	3,180
Finance leases	224	215
Construction in progress	689	60
Bank premises and equipment	<u>10,732</u>	<u>9,720</u>
Less: accumulated depreciation and amortization	(7,020)	(6,756)
Bank premises and equipment, net	<u><u>\$ 3,712</u></u>	<u><u>\$ 2,964</u></u>

Total depreciation expense was \$325 thousand and \$338 thousand for the years ended December 31, 2024 and 2023, respectively.

**8. SERVICING ASSETS**

On January 1, 2024, the Company began selling guaranteed portions of select SBA loans. The Company continues to perform the servicing on the loans and collects a fee related to the sold portion of the loans. Loans serviced for others are not included in the consolidated balance sheets. See Note 6 for further details about balances of loans serviced for others requiring recognition of a servicing asset.

The following table presents the change in SBA servicing assets for each period indicated.

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>
Beginning balance, net	\$ -
Add: New servicing assets	27
Less: Amortization expense and impairment charges	(1)
Ending Balance, net	<u><u>\$ 26</u></u>

See Note 19 for further details about servicing assets measured at fair value.

**9. DEPOSITS**

Deposits are the Bank's primary source of funds for making loans and purchasing investments. The Bank offers a variety of deposit account products to commercial and consumer customers. The total deposits that were re-classified to loans due to overdrafts were \$60 thousand and \$69 thousand at December 31, 2024 and 2023, respectively. The Bank has a concentration of deposits related to the faith-based industry. At December 31, 2024 and 2023, faith-based deposits totaled \$27.3 million and \$30.6 million, respectively.

The following shows the maturity schedule of all time deposits:

<i>(Dollars in thousands)</i>	<u>Amount</u>
2025	\$ 152,272
2026	2,292
2027	358
2028	54
2029	533
Thereafter	-
Total	<u><u>\$ 155,509</u></u>

Principal maturities of time deposits of \$250 thousand or more as of December 31, 2024 and 2023 were as follows:

<i>(Dollars in thousands)</i>	<u>December 31, 2024</u>		<u>December 31, 2023</u>	
	<u>Amount</u>	<u>Average Rate</u>	<u>Amount</u>	<u>Average Rate</u>
Three months or less	\$ 14,401	3.20 %	\$ 3,949	0.97 %
Over three months to six months	5,733	2.94	4,389	1.72
Over six months to twelve months	2,341	0.39	12,977	3.12
Over one year to five years	1,496	0.52	2,073	0.34
Total	<u><u>\$ 23,971</u></u>	<u><u>2.70 %</u></u>	<u><u>\$ 23,388</u></u>	<u><u>2.25 %</u></u>

For the years ended December 31, 2024 and 2023, the Bank had \$620 thousand and \$190 thousand, respectively, in interest expense for time deposits greater than \$250 thousand.

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In the normal course of business, certain directors and executives of the Company and the Bank, including their immediate families and companies in which they have an interest, are deposit customers. These relationships had aggregate deposits of \$2.2 million and \$2.1 million as of December 31, 2024 and 2023, respectively.

As of December 31, 2024, the Bank had one deposit relationship with balances in excess of five percent of total deposits totaling \$25.0 million compared to none at December 31, 2023.

**10. LEASES**

As of December 31, 2024, the Company had operating and finance leases for facilities, land and equipment. Leases have remaining lease terms of 0.7 year to 16.8 years, some of which include options to extend the leases for up to an additional 5 years.

The components of lease expense are as follows:

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
<b>Lease Cost:</b>		
Finance lease cost:		
Amortization of ROU asset	\$ 13	\$ 46
Interest on lease liabilities	-	1
Operating lease cost	235	260
Short-term lease cost	17	19
Variable lease cost	1	1
Total lease cost	<u>\$ 266</u>	<u>\$ 327</u>

ROU asset totaled \$1.1 million and \$1.2 million at December 31, 2024 and 2023, respectively.

Supplemental balance sheet information related to leases are as follows:

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
<b>Finance Leases:</b>		
Finance leases	\$ 224	\$ 215
Accumulated depreciation	(204)	(192)
Finance leases, net	<u>\$ 20</u>	<u>\$ 23</u>
<b>Other Borrowings:</b>		
Total finance lease liabilities	<u>\$ 24</u>	<u>\$ 30</u>

**Weighted Average Remaining Lease Term:**

Finance leases	2.0 years	2.3 years
Operating leases	9.3 years	8.9 years

**Weighted Average Discount Rate:**

Finance leases	2.79%	1.41%
Operating leases	3.86%	3.86%



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Estimated lease payments for the Company's operating leases with the initial term of one year or more as of December 31, 2024 were as follows:

<i>(Dollars in thousands)</i>	<b>Estimated Amortization Expense</b>
2025	\$ 237
2026	243
2027	240
2028	76
2029	46
Thereafter	513
Total estimated lease payments	1,355
Less effect of discounting	(223)
Present value of estimated lease payments (lease liability)	<u>\$ 1,132</u>

Estimated lease payments for the Company's finance leases with the initial term of one year or more as of December 31, 2024 were as follows:

<i>(Dollars in thousands)</i>	<b>Estimated Depreciation Expense</b>
2025	\$ 15
2026	6
2027	4
2028	-
2029	-
Thereafter	-
Total estimated lease payments	25
Less effect of discounting	(1)
Present value of estimated lease payments (lease liability)	<u>\$ 24</u>

The minimum lease payments do not include common area maintenance ("CAM") charges or real estate taxes, which are also required contractual obligations under our operating leases. CAM charges and real estate taxes are not fixed and are subject to fluctuation. Total CAM charges for the years ended December 31, 2024 and 2023 were \$71 thousand and \$70 thousand, respectively.

## 11. BORROWINGS

Borrowings as of December 31, 2024 and 2023 consisted of finance leases of \$24 thousand and \$30 thousand, respectively, with weighted average interest rates of 2.79% and 1.41%, respectively. See Note 10 for details on leases. Interest expense on advances from FHLB for the years ended December 31, 2024 and 2023 was none. The maximum FHLB advances outstanding at any month end during the year ended December 31, 2024 and 2023 was none. As of December 31, 2024 and 2023, the Bank had the borrowing availability of an additional \$35.0 million and \$28.8 million, respectively, from the FHLB. Pursuant to collateral agreements with the FHLB, advances are secured by FHLB stock, and qualifying loans totaling \$35.0 million and \$28.8 million as of December 31, 2024 and 2023, respectively.

The Company has federal funds lines of credit with correspondent banks totaling \$26.0 million at December 31, 2024 and 2023. No borrowings were outstanding on these lines of credit at December 31, 2024 or 2023. The Company periodically tests its federal funds lines of credit with its correspondent banks. These lines were tested quarterly during the year ended December 31, 2024.

## 12. INCOME TAXES

The components of the income tax expense for the years ended December 31, 2024 and 2023 were as follows:

<i>(Dollars in thousands)</i>	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
Income tax expense		
Current	\$ 1,084	\$ 1,867
Deferred	116	(270)
Total	<u>\$ 1,200</u>	<u>\$ 1,597</u>

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A reconciliation of reported income tax expense for the years ended December 31, 2024 and 2023 to the amount of tax expense computed by multiplying income before income taxes by the statutory federal income tax rate follows:

	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
Statutory federal income tax rate	21%	21%
Tax provision at statutory rate	\$ 1,254	\$ 1,531
<b>Increase in income taxes resulting from:</b>		
State income taxes net of federal benefit	101	98
Tax exempt interest income	(33)	(32)
Disallowed interest expense	3	1
Change in deferred tax valuation allowance	(7)	1
Cash surrender value of life insurance	(69)	(64)
Revaluation of deferred tax assets and liabilities due to change in state income tax rate	35	-
Other	(84)	62
Total	<u>\$ 1,200</u>	<u>\$ 1,597</u>

The tax effect of the cumulative temporary differences and carry forwards that gave rise to the deferred tax assets and liabilities as of December 31, 2024 and 2023 within the Consolidated Balance Sheets were as follows:

	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>		
<b>Deferred tax assets:</b>		
Adjustments, defined benefit plans	\$ 250	\$ 369
Excess book over tax provision for loan loss expense	947	1,020
State net economic loss carry forward	45	73
Premises and equipment	154	181
Unrealized losses on securities available for sale, net	2,577	2,317
Other, net	56	72
Total deferred tax assets	4,029	4,032
Valuation allowance for deferred tax assets	(45)	(73)
Net of valuation allowance deferred tax asset	<u>3,984</u>	<u>3,959</u>
<b>Deferred tax liabilities:</b>		
Accrued pension	(312)	(313)
Deferred loan fees	(342)	(384)
Other	(17)	(14)
Total deferred tax liabilities	<u>(671)</u>	<u>(711)</u>
Deferred tax assets, net	<u>\$ 3,313</u>	<u>\$ 3,248</u>

The Company measures deferred income tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid.

The last tax year audited by the Internal Revenue Service was 2006; tax years 2021 – present are open for audit under the statute of limitations. The Company has analyzed the tax position taken or expected to be taken in its tax returns and has concluded it has no uncertain tax positions.

### 13. EMPLOYEE BENEFIT PLANS

The Bank sponsors a noncontributory defined benefit cash balance pension plan (the “Cash Balance Plan”), covering all employees who qualify under length of service and other requirements. Under the Cash Balance Plan, retirement benefits are based on years of service and average earnings. The Bank’s funding policy is to contribute amounts to the Cash Balance Plan sufficient to meet the minimum funding requirements set forth in the Employee Retirement Income Security Act of 1974, as amended (“ERISA”), plus such additional amounts as the Bank may determine to be appropriate. No contributions were made to the Cash Balance Plan during the years ended December 31, 2024 and 2023. The Cash Balance Plan was fully funded as of December 31, 2024. The measurement date for the Cash Balance Plan is December 31 and prior service costs and benefits are amortized on a straight-line basis over the average remaining service period of active participants.

It is expected that the Bank will not contribute to the Cash Balance Plan during 2025.

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The following table shows the type of assets held in the Cash Balance Plan:

<b>Asset Category</b>	<b>Cash Balance Plan As of December 31,</b>	
	<b>2024</b>	<b>2023</b>
Equity securities	55.2%	55.6%
Debt securities	41.9%	40.6%
All other assets	2.9%	3.8%
Total	<u>100.0%</u>	<u>100.0%</u>

The Bank sponsors a nonqualified Supplemental Executive Retirement Plan (“SERP”). The SERP, which is unfunded, provides certain individuals with pension benefits, outside the Bank’s noncontributory defined-benefit Cash Balance Plan, based on average earnings, years of service and age at retirement. Participation in the SERP is at the discretion of the Bank’s Board of Directors. The Company and Bank purchased bank owned life insurance (“BOLI”) in 2002 in the aggregate amount of approximately \$12.9 million face value covering all the participants in the SERP. Increases in the cash surrender value of BOLI policies totaled \$329 thousand and \$304 thousand for the years ended December 31, 2024 and 2023, respectively. The cash surrender value of the BOLI owned by the Bank was \$10.7 million and \$10.4 million as of December 31, 2024 and 2023, respectively. The Bank has the ability and the intent to keep this life insurance in force indefinitely. The insurance proceeds may be used, at the sole discretion of the Bank, to fund the benefits payable under the SERP.

Since there are no assets in the SERP, contributions are equal to the benefits paid. It is expected that \$154 thousand will be paid in benefits during 2025.

The SERP and the Cash Balance Plan service cost components of the net periodic benefit cost reflected in salaries and employee benefits expense and the remaining net periodic benefit cost components reflected in other expenses for the years ended December 31, 2024 and December 31, 2023 were:

	<b>Cash Balance Plan</b>		<b>SERP</b>		<b>Total</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>						
<b>Components of Net Periodic Pension Cost:</b>						
Service cost	\$ 78	\$ 80	\$ -	\$ -	\$ 78	\$ 80
Interest cost	209	207	61	67	270	274
Expected return on plan assets	(397)	(372)	-	-	(397)	(372)
Amortization of prior service cost and recognized net actuarial gain	194	141	26	24	220	165
Net periodic pension cost	<u>\$ 84</u>	<u>\$ 56</u>	<u>\$ 87</u>	<u>\$ 91</u>	<u>\$ 171</u>	<u>\$ 147</u>

The following table shows the change in the projected benefit obligations and plan assets for the years ended December 31, 2024 and 2023:

	<b>Cash Balance Plan</b>		<b>SERP</b>		<b>Total</b>	
	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>	<b>2024</b>	<b>2023</b>
<i>(Dollars in thousands)</i>						
<b>Change in Projected Benefit Obligations:</b>						
Benefit obligation at beginning of year	\$ 4,817	\$ 4,742	\$ 1,430	\$ 1,495	\$ 6,247	\$ 6,237
Service cost	78	80	-	-	78	80
Interest cost	209	207	61	67	270	274
Actuarial (gain) loss	(171)	113	(26)	22	(197)	135
Settlements	(530)	(58)	-	-	(530)	(58)
Benefits and expenses paid	(265)	(267)	(154)	(154)	(419)	(421)
Benefit obligation at end of year	<u>4,138</u>	<u>4,817</u>	<u>1,311</u>	<u>1,430</u>	<u>5,449</u>	<u>6,247</u>
<b>Change in Plan Assets:</b>						
Fair value of plan assets at beginning of year	6,100	5,713	-	-	6,100	5,713
Actual return on plan assets	490	712	-	-	490	712
Employer contributions	-	-	154	154	154	154
Settlements	(530)	(58)	-	-	(530)	(58)
Benefits and expenses paid	(265)	(267)	(154)	(154)	(419)	(421)
Fair value of plan assets at year end	<u>5,795</u>	<u>6,100</u>	<u>-</u>	<u>-</u>	<u>5,795</u>	<u>6,100</u>
Funded status	<u>\$ 1,657</u>	<u>\$ 1,283</u>	<u>\$ (1,311)</u>	<u>\$ (1,430)</u>	<u>\$ 346</u>	<u>\$ (147)</u>

The Bank had a prepaid asset for the Cash Balance Plan of \$1.7 million and \$1.3 million at December 31, 2024 and 2023, respectively. The prepaid

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asset is carried in Other Assets within the Consolidated Balance Sheets. The accrued liability and accumulated benefits obligations for the SERP was \$1.3 million and \$1.4 million at December 31, 2024 and 2023, respectively. The balance is included in Other Liabilities within the Consolidated Balance Sheets.

The amounts in accumulated other comprehensive loss that have not been recognized as components of net periodic pension cost were:

	Cash Balance Plan		SERP		Total	
	2024	2023	2024	2023	2024	2023
<i>(Dollars in thousands)</i>						
Unrecognized net actuarial loss	\$ 772	\$ 1,230	\$ 328	\$ 380	\$ 1,100	\$ 1,610
Unrecognized prior service cost	-	-	-	-	-	-
<b>Total amount included in accumulated other comprehensive loss</b>	<b>\$ 772</b>	<b>\$ 1,230</b>	<b>\$ 328</b>	<b>\$ 380</b>	<b>\$ 1,100</b>	<b>\$ 1,610</b>

**Weighted average assumptions as of December 31:**

Discount rate	5.25%	4.75%	5.25%	4.50%
Expected return on plan assets	7.00%	7.00%	n/a	n/a
Rate of compensation increase	3.00%	3.00%	n/a	n/a

Amounts in accumulated other comprehensive loss expected to be recognized in net periodic costs in 2025:

	Cash Balance Plan	SERP	Total
<i>(Dollars in thousands)</i>			
Net actuarial loss	\$ 27	\$ 23	\$ 50
Prior service cost	-	-	-
Total expected to be recognized	<u>\$ 27</u>	<u>\$ 23</u>	<u>\$ 50</u>
<b>Assets expected to be returned to the Company in 2025</b>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

The estimated expected benefits payments for the Cash Balance Plan and SERP are:

*(Dollars in thousands)*

For the Years Ending December 31:

	Cash Balance Plan	SERP	TOTAL
2025	\$ 499	\$ 154	\$ 653
2026	355	149	504
2027	439	143	582
2028	405	138	543
2029	452	132	584
2030-2034	1,845	562	2,407
Total	<u>\$ 3,995</u>	<u>\$ 1,278</u>	<u>\$ 5,273</u>

**Retirement Plan Assets**— In general, the Cash Balance Plan's investment management organizations make reasonable efforts to control market fluctuations through appropriate techniques including, but not limited to, adequate diversification. The specific investment strategy adopted by the plan referred to as the Long-Term Growth of Capital Strategy, attempts to achieve long-term growth of capital with little concern for current income. Typical investors in this portfolio have a relatively aggressive investment philosophy, seeking long-term growth, and are not looking for current dividend income.

Prohibited investments include commodities and futures contracts, private placements, options, transactions which would result in unrelated business taxable income, and other investments prohibited by ERISA.

The target range of allocation percentages for each major category of plan assets was:

Asset Category	Target Weight	Minimum Weight	Maximum Weight
Cash	2%	0%	15%
Equities:			
US	49%	35%	63%
Non-US	6%	0%	12%
Fixed Income	43%	31%	59%

Equity investments must be listed on the New York, American, NASDAQ, or other similar stock exchanges traded in the over-the-counter market with the requirement that such stocks have adequate liquidity relative to the size of the investment.

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Fixed income investments must have a credit rating of B or better from Standard and Poor's or Moody's. The fixed income portfolio should be constructed so as to have an average maturity not exceeding 10 years. No more than 5% of the fixed income portfolio should be invested in any one issuer. U.S. Treasury and Agency securities are exempt from this restriction.

Cash and equivalent instruments that are acceptable are repurchase agreements, bankers' acceptances, U.S. treasury bills, money market funds, and certificates of deposit.

The portfolio shall be structured to meet financial objectives over a period of 11 or more years. Over that time horizon, the total rate of return should equal at least 103% of the applicable blended benchmark returns and place in the top half of group performance. Benchmarks which may be used for portfolio performance comparison are as follows:

- U.S. Large Cap Equities: S&P 500, Russell 1000, Russell 1000 Value, Russell 1000 Growth, S&P 500/Citi Value, and S&P 500/Citi Growth
- U.S. Mid Cap Equities: S&P 400 Mid Cap, Russell Mid Cap Value, Russell Mid Cap Growth, S&P MidCap 400 Value, and S&P MidCap 400 Growth
- U.S. Small Cap Equities: Russell 2000, Russell 2000 Value, Russell 2000 Growth, S&P SmallCap 600, S&P SmallCap 600 Value, and S&P SmallCap 600 Growth
- Non-U.S. Equities: MSCI EAFE, and MSCI EM
- Fixed Income: Barclays Capital Intermediate Govt/Corp, Barclays Capital U.S. Aggregate Bond, Barclays Capital U.S. Govt. Intermediate, BarCap U.S. Corporate High Yield and ML Global Govt.
- Real Estate: FTSE NAREIT All REITs
- Cash: U.S. 3-Month Treasury Bill

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels were:

<b>December 31, 2024</b> <i>(Dollars in thousands)</i>	<b>Level 1</b> <b>Quoted Prices in</b> <b>Active Markets for</b> <b>Identical Assets</b> <b>(Level 1)</b>	<b>Level 2</b> <b>Significant Other</b> <b>Observable</b> <b>Inputs</b> <b>(Level 2)</b>	<b>Level 3</b> <b>Significant</b> <b>Unobservable</b> <b>Inputs</b> <b>(Level 3)</b>
<b>Asset Category</b>			
Cash	\$ 73	\$ -	\$ -
Money market fund	-	93	-
Equity Security:			
Large-Cap	1,542	-	-
Mid-Cap	789	-	-
Small-Cap	548	-	-
Global and International	321	-	-
Fixed Income – Bonds	-	1,446	-
Other	983	-	-
<b>Total</b>	<b>\$ 4,256</b>	<b>\$ 1,539</b>	<b>\$ -</b>

<b>December 31, 2023</b> <i>(Dollars in thousands)</i>	<b>Level 1</b> <b>Quoted Prices in</b> <b>Active Markets for</b> <b>Identical Assets</b> <b>(Level 1)</b>	<b>Level 2</b> <b>Significant Other</b> <b>Observable</b> <b>Inputs</b> <b>(Level 2)</b>	<b>Level 3</b> <b>Significant</b> <b>Unobservable</b> <b>Inputs</b> <b>(Level 3)</b>
<b>Asset Category</b>			
Cash	\$ 15	\$ -	\$ -
Money market fund	-	217	-
Equity Security:			
Large-Cap	1,613	-	-
Mid-Cap	854	-	-
Small-Cap	540	-	-
Global and International	386	-	-
Fixed Income – Bonds	-	1,420	-
Other	1,055	-	-
<b>Total</b>	<b>\$ 4,463</b>	<b>\$ 1,637</b>	<b>\$ -</b>

**401(k) Plan** —The Bank sponsors a 401(k) plan. Participation in the 401(k) plan is voluntary. Employees become eligible after completing 90 days service and attaining age 21. Employees may elect to contribute up to 80% of their compensation to the 401(k) plan. The Bank matches 100% of each employee's contribution, up to a maximum of 6% of compensation. The Bank's contribution to the 401(k) plan was \$259 thousand and \$227 thousand in each of the years ended December 31, 2024 and 2023, respectively.

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**Post-retirement Benefits** —The Bank provides certain post-retirement benefits to select former executive officers. As of December 31, 2024 and 2023, the amount of the liability for these benefits was approximately \$77 thousand and \$100 thousand, respectively.

**Split Dollar Benefits** —In 2002, upon investing in BOLI policies, the Company granted certain executives a split dollar life benefit by which the beneficiaries of the executive would receive a portion of the non-cash surrender value death benefit of the BOLI upon the executive's demise. Thereafter, amounts are accrued by a charge to employee benefits. As of December 31, 2024 and 2023, \$147 thousand and \$161 thousand, respectively, was recorded in Other Liabilities for the split dollar benefit.

#### **14. STOCK-BASED COMPENSATION**

On October 8, 2021, the Company granted 33,500 stock options to certain Bank officers at a fair market value of \$7.45 per share, which was the closing price of the Company's common stock on that date. On July 25, 2023, the Company granted an additional 41,500 stock options to certain Bank officers at a fair market value of \$20.49 per share, which was the closing price of the Company's common stock on that date. The Company recorded total stock-based compensation expense of \$126 thousand and \$85 thousand for the years ended December 31, 2024 and 2023, respectively. The Company recognized \$29 thousand and \$20 thousand of income tax benefits related to stock-based compensation expense in the income statement for the years ended December 31, 2024 and 2023, respectively.

At December 31, 2024, the sole equity-based compensation plan for the Company was M&F Bancorp, Inc. Long-Term Stock Incentive Plan ("Incentive Plan"), which was approved by shareholders on June 1, 2021. As of December 31, 2024, the Incentive Plan had 68,375 shares remaining available for grants.

The Incentive Plan is intended to serve as a means to attract, retain and motivate key employees and directors and to associate the interests of the plans' participants with those of the Company and its shareholders. The Incentive Plan allows for grants of stock options and other types of equity-based compensation, including stock appreciation rights, restricted stock, restricted performance stock, unrestricted stock, and performance units.

Recent equity awards to employees have been in the form of stock options, which vest 25% per year beginning one year from date of grant. No vested options may be exercised more than 10 years after date of grant. Upon forfeiture, any previously recognized compensation cost is reversed. Upon a change in control (as defined in the Incentive Plan), unless the awards remain outstanding or substitute equivalent awards are provided, the awards become immediately vested.

In addition to employee equity awards, the Company's practice is to grant non-qualified options to non-employee directors. On October 8, 2021, the Company granted 13,000 non-qualified options to the Board of Directors at fair market value of \$7.45 per share, which was the closing price of the Company common stock on that date. On July 25, 2023, the Company granted an additional 18,000 non-qualified options to the Board of Directors at fair market value of \$20.49 per share, which was the closing price of the Company common stock on that date. The Company recorded total stock-based compensation expense of \$63 thousand and \$37 thousand for the years ended December 31, 2024 and 2023, respectively. There was no realized tax benefit related to the non-qualified options expense in the income statement for the years ended December 31, 2024 and 2023. The expense associated with the director grants is grouped with "Directors Compensation" on the Consolidated Statements of Operations.

The Company recognizes compensation expense for stock option and non-qualified options on a straight-line basis over the vesting service period for each incremental award. Compensation expense is based on the estimated number of stock awards that will ultimately vest.

The Company measures the fair value of each option award on the date of grant using the Black-Scholes option-pricing model. The Company determines the assumptions used in the Black-Scholes option pricing model as follows: the risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of the grant; the dividend yield is based on the Company's dividend yield at the time of the grant (subject to adjustment if the dividend yield on the grant date is not expected to approximate the dividend yield over the expected life of the option); the volatility factor is based on the historical volatility of the Company's stock (subject to adjustment if future volatility is reasonably expected to differ from the past); and the weighted-average expected life is based on the historical behavior of employees related to exercises, forfeitures and cancellations. The following table reflects input into the Black-Scholes options valuations:

	2023	2021
Expected dividend yield	0.78%	1.07%
Risk-free interest rate	4.09%	1.20%
Expected life (in years)	6.3	6.2 - 6.3
Expected volatility	57.58%	57.53%

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The following table presents information regarding the activity during the years ended December 31, 2024 and 2023 related to the Company's outstanding stock options.

	Number of Shares	Weighted Average Exercise Price Per Share	Weighted Average Contractual Term (years)	Average Intrinsic Value
Outstanding at December 31, 2022	46,500	\$ 7.45		
Granted	59,500	-		
Exercised	(2,500)	- (1)		
Forfeited	(2,625)	-		
Outstanding at December 31, 2023	100,875	\$ 7.45		
Exercised	(1,500)	7.45 (2)		
Forfeited	(5,250)	17.39		
Outstanding at December 31, 2024	94,125	\$ 15.14	8.14	\$ 465,045
Exercisable at December 31, 2024	42,125	\$ 11.75	6.18	\$ 340,130

(1) 2,021 shares issued; 479 shares forfeited in lieu of exercise price

(2) 1,022 shares issued; 478 shares forfeited in lieu of exercise price

Total unrecognized compensation expense and unrecognized options expense recorded under director fees as of December 31, 2024 and 2023 amounted to \$284 thousand and \$135 thousand, and \$459 thousand and \$198 thousand, respectively. The Company expects to record \$126 thousand and \$60 thousand of compensation expense and options expenses recorded under director compensation, respectively, during the next 12 months related to these nonvested awards that are outstanding at December 31, 2024.

## 15. RELATED PARTY TRANSACTIONS

In the ordinary course of business, certain of the Company's and Bank's directors and executive officers, including immediate family members and companies in which they have an interest, are loan customers. Those transactions do not involve more than the normal risk of collection, nor do they present any unfavorable features. Total loans to such groups totaled \$3.6 million and \$2.7 million as of December 31, 2024 and 2023, respectively. Unused lines available to be drawn were \$176 thousand and \$144 thousand as of December 31, 2024 and 2023, respectively.

(Dollars in thousands)

	December 31, 2024	December 31, 2023
Beginning Balance	\$ 2,673	\$ 2,966
Draws/Advances	1,523	88
Repayments	(610)	(381)
Ending Balance	\$ 3,586	\$ 2,673

The Bank leases land for one of its branch locations from a family of shareholders. Terms and conditions of the lease were based on market conditions. Lease payments totaled \$35 thousand and \$34 thousand during the years ended December 31, 2024 and 2023, respectively.

## 16. REGULATORY MATTERS AND RESTRICTIONS

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements may initiate certain mandatory and the possibility of additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Company and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities and certain off-balance sheet items as calculated under regulatory accounting practices. The capital amounts and classification are subject to qualitative judgments by the regulators about components, risk weightings and other factors. Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total, Tier 1 and common equity Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2024 and 2023, that the Company and the Bank met all capital adequacy requirements to which they are subject. To be categorized as well capitalized, the Bank must maintain minimum common equity Tier 1, total risk-based, Tier 1 risk-based and Tier 1 leveraged ratios as set forth in the table below.



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**December 31, 2024**

*(Dollars in thousands)*

(Dollars in thousands)	Actual			For Capital Adequacy Purposes			To Be Well Capitalized	
	Amount	Ratio		Amount	Ratio		Amount	Ratio
Total capital (to risk weighted assets)								
Company	\$ 141,430	46.61 %		\$ 24,275	8.00 %		n/a	n/a
Bank	75,325	25.00		24,105	8.00		\$ 30,131	10.00 %
Tier 1 (to risk weighted assets)								
Company	\$ 137,633	45.36 %		\$ 18,206	6.00 %		n/a	n/a
Bank	71,554	23.75		18,078	6.00		\$ 24,105	8.00 %
Common Equity Tier 1								
Company	\$ 40,331	13.29 %		\$ 13,655	4.50 %		n/a	n/a
Bank	71,554	23.75		13,559	4.50		\$ 19,585	6.50 %
Tier 1 (to average total assets)								
Company	\$ 137,633	25.63 %		\$ 21,478	4.00 %		n/a	n/a
Bank	71,554	14.09		20,307	4.00		\$ 25,384	5.00 %

**December 31, 2023**

*(Dollars in thousands)*

(Dollars in thousands)	For Capital Adequacy Purposes								To Be Well Capitalized	
	Actual									
	Amount	Ratio		Amount	Ratio		Amount	Ratio		
Total capital (to risk weighted assets)										
Company	\$	137,726	49.09 %	\$	22,442	8.00 %	n/a	n/a		
Bank		72,052	25.78		22,361	8.00	\$	27,951	10.00 %	
Tier 1 (to risk weighted assets)										
Company	\$	134,208	47.84 %	\$	16,832	6.00 %	n/a	n/a		
Bank		68,546	24.52		16,771	6.00	\$	22,361	8.00 %	
Common Equity Tier 1										
Company	\$	36,906	13.16 %	\$	12,624	4.50 %	n/a	n/a		
Bank		68,546	24.52		12,578	4.50	\$	18,168	6.50 %	
Tier 1 (to average total assets)										
Company	\$	134,208	29.61 %	\$	18,131	4.00 %	n/a	n/a		
Bank		68,546	16.44		16,681	4.00	\$	20,851	5.00 %	

Under Basel III standards and capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of our assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Our capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The capital standards require minimum ratios of “Common Equity Tier 1” capital to total risk-weighted assets, “Tier 1” capital to total risk-weighted assets, and total capital to risk-weighted assets of 4.50%, 6.00% and 8.00%, respectively. Common Equity Tier 1 capital is comprised of common stock and related surplus, plus retained earnings, and is reduced by goodwill and other intangible assets, net of associated deferred tax liabilities. Tier 1 capital is comprised of Common Equity Tier 1 capital plus Additional Tier 1 Capital, which for the Company includes non-cumulative perpetual preferred stock and trust preferred securities. Total capital is comprised of Tier 1 capital plus certain adjustments, the largest of which is the ACL. Risk-weighted assets refer to on- and off-balance sheet exposures, adjusted for their related risk levels using formulas set forth in FRB and FDIC regulations.

In addition to the risk-based capital requirements described above, the Company and Bank are subject to a leverage capital requirement, which calls for a minimum ratio of Tier 1 capital (as defined above) to quarterly average total assets of 3.00% to 5.00%, depending upon the institution’s composite ratings as determined by its regulators. Neither the Company nor the Bank has been advised of any requirement specifically applicable to it.

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

**17. HOLDING COMPANY CONDENSED FINANCIAL INFORMATION**

The condensed financial data for the Company (holding company only) was:

**Condensed Balance Sheets:**

*(Dollars in thousands)*

**Assets:**

	<b>December 31,</b>	
	<b>2024</b>	<b>2023</b>
Cash and cash equivalents	\$ 39,412	\$ 42,239
Interest-bearing time deposits	988	988
Investment securities available-for-sale, at fair value	15,474	-
Investment securities held-to-maturity (fair value of \$10,311 in 2024 and \$22,341 in 2023)	10,322	22,437
Investment in subsidiary bank	62,092	59,540
Other assets	283	308
Total Assets	<u>\$ 128,571</u>	<u>\$ 125,512</u>

**Liabilities and Stockholders' Equity:**

Total liabilities	\$ 498	\$ 310
Stockholders' equity	128,073	125,202
Total Liabilities and Stockholders' Equity	<u>\$ 128,571</u>	<u>\$ 125,512</u>

**Condensed Statements of Operations:**

*(Dollars in thousands)*

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
Undistributed net income of subsidiary bank	\$ 4,079	\$ 5,006
Income	1,501	1,353
Expenses, net	(810)	(664)
Net income	<u>\$ 4,770</u>	<u>\$ 5,695</u>

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

**Condensed Cash Flows:**

*(Dollars in thousands)*

	<b>For the Years Ended December 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash Flows from operating activities:</b>		
Net income	\$ 4,770	\$ 5,695
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts/premiums on investment securities available-for-sale	(104)	-
Amortization of discounts/premiums on investment securities held-to-maturity, net	(193)	(256)
Undistributed net income of subsidiary	(4,079)	(5,006)
Stock-based compensation expense	188	122
Net changes in:		
Other assets	25	(109)
Other liabilities	217	183
<b>Net cash provided by operating activities</b>	<b>824</b>	<b>629</b>
<b>Cash flows from investing activities:</b>		
Activity in available-for-sale securities:		
Principal collections	202	-
Purchases	(15,699)	-
Activity in held-to-maturity securities:		
Maturities and Calls	22,500	2,000
Principal collections	1,143	-
Purchases	(11,335)	(4,000)
Proceeds from interest-bearing time deposits	494	494
Purchases of interest-bearing time deposits	(494)	(494)
Dividends from subsidiary	1,069	-
<b>Net cash used in investing activities</b>	<b>(2,120)</b>	<b>(2,000)</b>
<b>Cash flows from financing activities:</b>		
Dividends paid	(1,537)	(557)
Issuance of common stock	6	9
Excess tax benefits from stock-based compensation	-	3
Redemption of common stock	-	-
<b>Net cash used in financing activities</b>	<b>(1,531)</b>	<b>(545)</b>
<b>Net decrease in cash and cash equivalents</b>	<b>(2,827)</b>	<b>(1,916)</b>
<b>Cash and cash equivalents at beginning of year</b>	<b>42,239</b>	<b>44,155</b>
<b>Cash and cash equivalents at end of year</b>	<b>\$ 39,412</b>	<b>\$ 42,239</b>

**18. COMMITMENTS AND CONTINGENCIES**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk beyond the amount recognized on the Consolidated Balance Sheets. The contractual amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

The Bank's exposure to credit losses in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. The Bank utilizes the same credit policies in making commitments and conditional obligations as it does for balance sheet instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is not a violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the counter parties. Collateral varies and may include real estate, accounts receivable, inventory, property, plant and equipment, and income-producing commercial properties.

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. To the extent deemed necessary, collateral of varying types and amounts is held to secure customer performance under certain of those letters of credit outstanding.

Financial instruments whose contract amounts represent credit risk as of December 31, 2024 and 2023, respectively, are commitments to extend credit (including availability of lines of credit), and standby letters of credit. Loan commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral deemed necessary by the Bank is based on management's credit evaluation and underwriting guidelines for the particular loan.

The Bank records a reserve for credit commitments that is adjusted through Other liabilities and Other expense in the Consolidated Balance Sheets and Consolidated Statements of Operations, respectively based on (i) the expected probability of funding and (ii) the loss history by loan type as determined in calculating the ACL. The reserves included in Other liabilities as of December 31, 2024 and 2023 were \$255 thousand and \$454 thousand, respectively.

Commitments outstanding at December 31, 2024 are summarized in the following table:

<i>(Dollars in thousands)</i>	<b>Commercial letters of credit</b>	<b>Other loan commitments</b>	<b>Total commitments</b>
Less than one year	\$ -	\$ 3,755	\$ 3,755
One to three years	57	1,803	1,860
Three to five years	-	1,071	1,071
More than five years	-	11,847	11,847
Total	<u>\$ 57</u>	<u>\$ 18,476</u>	<u>\$ 18,533</u>

## 19. FAIR VALUE MEASUREMENT

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Fair value should be based on the assumptions market participants would use when pricing an asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data. Fair value measurements are required to be separately disclosed by level within the fair value hierarchy. The Company bases fair values on 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.

For assets and liabilities recorded at fair value, the Company maximizes the use of observable inputs and minimizes the use of unobservable inputs when developing fair value measurements, in accordance with the fair value hierarchy.

Fair value measurements for assets and liabilities where there exists limited or no observable market data and, therefore, are based primarily upon estimates, are often calculated based on the economic and competitive environment, the characteristics of the asset or liability and other factors.

Therefore, the results cannot be determined with precision and may not be realized in an actual sale or immediate settlement of the asset or liability. Additionally, there may be inherent weaknesses in any calculation technique, and changes in the underlying assumptions used, including discount rates and estimates of future cash flows, could significantly affect the results of current or future values.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, loans held for investment, OREO, and certain other assets. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 — Valuations for assets and liabilities traded in active exchange markets, such as the New York Stock Exchange.

Level 2 — Valuations are obtained from readily available pricing sources via independent providers for market transactions involving similar assets or liabilities. The Company's principal market for these securities is the secondary institutional markets and valuations are based on observable market data in those markets. Level 2 securities include U. S. Agencies, state and municipal bonds and MBS.

Level 3 — Valuations for assets and liabilities that are derived from other valuation methodologies, including option pricing models, discounted cash flow models and similar techniques, and not based on market exchange, dealer, or broker traded transactions. Level 3 valuations incorporate certain assumptions and projections in determining the fair value assigned to such assets.

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

**Assets and Liabilities Measured on a Recurring Basis:**

**Available-for-sale ("AFS") Investment Securities:** Investment securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using matrix pricing, which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Level 1 securities include those traded on nationally recognized securities exchanges, U.S. Treasury securities, and money market funds. Level 2 securities include U.S. Agencies, MBS issued by government sponsored entities, state and municipal bonds and corporate debt securities. Securities classified as Level 3 include asset-backed securities in less liquid markets. The Company did not hold any Level 1 or Level 3 AFS Investment Securities as of December 31, 2024 and 2023.

Assets measured at fair value on a recurring basis as of December 31, 2024 were as follows:

*(Dollars in thousands)*

Description	December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
U.S. Treasuries	\$ 12,638	\$ -	\$ 12,638	\$ -
U.S. Agencies	11,824	-	11,824	-
MBS	129,308	-	129,308	-
Municipals	12,323	-	12,323	-
Total	<u>\$ 166,093</u>	<u>\$ -</u>	<u>\$ 166,093</u>	<u>\$ -</u>

Assets measured at fair value on a recurring basis as of December 31, 2023 were as follows:

*(Dollars in thousands)*

Description	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Recurring:				
U.S. Treasuries	\$ 16,323	\$ -	\$ 16,323	\$ -
U.S. Agencies	6,442	-	6,442	-
MBS	55,937	-	55,937	-
Municipals	11,072	-	11,072	-
Total	<u>\$ 89,774</u>	<u>\$ -</u>	<u>\$ 89,774</u>	<u>\$ -</u>

**Assets and Liabilities Measured on a Nonrecurring Basis:**

**Individually analyzed loans:** Fair values for individually analyzed loans are measured on a non-recurring basis and are based on (1) the underlying collateral values securing the loans, adjusted for estimated selling costs, or (2) the net present value ("PV") of the cash flows expected to be received for such loans. Collateral may be in the form of real estate or business assets including equipment, inventory and accounts receivable. The vast majority of the collateral is real estate. The value of real estate collateral is generally determined by third-party appraisers using an income or market valuation approach based on an appraisal conducted by an independent, licensed third party appraiser (Level 3). The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable borrower's financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on borrower financial statement balances or aging reports on a discounted basis as appropriate (Level 3). Appraisals used in this analysis are generally obtained at least annually based on when the loans first became impaired, and thus the appraisals are not necessarily as of the period ends presented. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Income.

**OREO:** Foreclosed assets are adjusted to fair value, less estimated carrying costs and costs to sell, upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of the carrying value or the fair value, less estimated carry costs and costs to sell. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral. The Company records foreclosed assets as nonrecurring Level 3.

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

The table below displays the change in all recurring Level 3 Assets from December 31, 2024 to December 31, 2023.

Assets measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023 were:

*(Dollars in thousands)*

<b>Description</b>	<b>December 31, 2024</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Nonrecurring:				
OREO	\$ 99	\$ -	\$ -	\$ 99
Individually analyzed loans:				
Commercial real estate	293	-	-	293
Faith-based non-profit	511	-	-	511
Residential real estate	525	-	-	525
Servicing asset	26			26
Total	<u>\$ 1,454</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,454</u>

*(Dollars in thousands)*

<b>Description</b>	<b>December 31, 2023</b>	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Significant Other Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>
Nonrecurring:				
Individually analyzed loans:				
Commercial real estate	49	-	-	49
Faith-based non-profit	596	-	-	596
Total	<u>\$ 645</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 645</u>

**Quantitative Information about Level 3 Fair Value Measurements**

*(Dollars in thousands)*

<b>Description</b>	<b>December 31, 2024</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Significant Unobservable Input Value</b>
Nonrecurring:				
OREO	\$ 99	discounted appraisals	collateral discounts discounts to reflect current market conditions, ultimate collectability, and estimated costs to sell	6-20%
Individually analyzed loans	1,329	discounted appraisals; PV of expected cash flows	discount rate	6-20% 13% - 14%
Servicing asset	26	discounted expected cash flows	prepayment speed servicing cost	14% 0.40%
Total	<u>\$ 1,454</u>			

*(Dollars in thousands)*

<b>Description</b>	<b>December 31, 2023</b>	<b>Valuation Technique</b>	<b>Significant Unobservable Inputs</b>	<b>Significant Unobservable Input Value</b>
Nonrecurring:				
Individually analyzed loans	\$ 645	discounted appraisals; PV of expected cash flows	discounts to reflect current market conditions, ultimate collectability, and	6-20%
Total	<u>\$ 645</u>			

The Company discloses estimated fair values for its significant financial instruments. The methodologies for estimating the fair value of financial assets and liabilities that are measured at fair value on a recurring or non-recurring basis are discussed above. The methodologies for other financial assets and liabilities are discussed below.

The Company had no transfers between any of the three levels in 2024 or 2023.

**M&F BANCORP, INC. AND SUBSIDIARY**  
**Notes to Consolidated Financial Statements**

Cash and Cash Equivalents: The carrying amount of cash, due from bank, and federal funds sold approximates fair value, and is therefore considered Level 1 input.

Loans (other than individually analyzed), net of allowances for credit losses: Fair values are estimated for portfolios of loans with similar financial characteristics. The majority of the Company's loans and lending-related commitments are not carried at fair value on a recurring basis on the Consolidated Balance Sheets, nor are they actively traded.

The fair value of performing loans is calculated by discounting scheduled cash flows through their individual contractual maturity, using discount rates that reflect the credit risk, overhead expenses, interest rate earned and again, contractual maturity of each loan less credit component. The maturity is based on contractual maturities for each loan, modified as required by an estimate of the effect of historical prepayments and current economic conditions.

For all loans, assumptions regarding the characteristics and segregation of loans, maturities, credit risk, cash flows, and discount rates are judgmentally determined using specific borrower and other available information, and are therefore considered a Level 3 input.

Accrued Interest Receivable and Payable: The fair value of interest receivable and payable is estimated to approximate the carrying amounts and are therefore considered Level 1 input.

Deposits: The fair value of deposits with no stated maturity, such as demand deposits, checking accounts, savings and money market accounts, is equal to the carrying amount. The fair value of certificates of deposit is based on the discounted value of contractual cash flows, where the discount rate is estimated using the market rates currently offered for deposits of similar remaining maturities and are therefore considered Level 2 input.

Borrowings: The fair value of borrowings is based on the discounted value of estimated cash flows. The discounted rate is estimated using market rates currently offered for similar advances or borrowings and are therefore considered Level 3 input.

Off-Balance Sheet Instruments: Since the majority of the Company's off-balance sheet instruments consist of non-fee producing variable rate commitments, the Company has determined they do not have a distinguishable fair value.

As of December 31, 2024 and December 31, 2023, the carrying amounts and associated estimated fair value of financial assets and liabilities of the Company are as follows:

<b>December 31, 2024</b>					
<i>(Dollars in thousands)</i>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash, cash equivalents and interest-bearing time deposits	\$ 39,331	\$ 39,331	\$ 39,331	\$ -	\$ -
Investment securities available-for-sale	166,093	166,093	-	166,093	-
Investments held-to-maturity	14,430	14,243	-	14,243	-
Loans, net of allowances for credit losses	280,125	279,181	-	-	279,181
Accrued interest receivable	2,146	2,146	2,146	-	-
<b>Liabilities:</b>					
Non-maturity deposits	\$ 235,255	\$ 235,255	\$ 235,255	\$ -	\$ -
Maturity deposits	155,509	154,802	-	154,802	-
Other borrowings	24	23	-	-	23
Accrued interest payable	869	869	869	-	-
<b>December 31, 2023</b>					
<i>(Dollars in thousands)</i>	<b>Carrying Amount</b>	<b>Estimated Fair Value</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets:</b>					
Cash, cash equivalents and interest-bearing time deposits	\$ 49,142	\$ 49,142	\$ 49,142	\$ -	\$ -
Investment securities available-for-sale	89,774	89,774	-	89,774	-
Investments held-to-maturity	26,960	26,749	-	26,749	-
Loans, net of allowances for credit losses	265,095	263,173	-	-	263,173
Accrued interest receivable	1,538	1,538	1,538	-	-
<b>Liabilities:</b>					
Non-maturity deposits	\$ 236,782	\$ 236,782	\$ 236,782	\$ -	\$ -
Maturity deposits	84,162	83,215	-	83,215	-
Other borrowings	30	28	-	-	28
Accrued interest payable	219	219	219	-	-



## **20. PREFERRED STOCK**

### **SERIES C JUNIOR PARTICIPATING PREFERRED STOCK**

In September 2014, the Board of Directors adopted a shareholder rights plan (the “2014 Rights Plan”). In connection with the adoption of the 2014 Rights Plan, the Company created a new series of preferred stock, designated Series C Junior Participating Preferred Stock, with a par value of \$0.01 per share (the “Series C Preferred Stock”). Pursuant to the 2014 Rights Plan, the Company issued one preferred share purchase right (for 1/100th of a share of Series C Preferred Stock) for each share of common stock (the “2014 preferred share purchase rights”). The 2014 Rights Plan (and the 2014 preferred share purchase rights) expired in September 2024, prior to the 2014 preferred share purchase rights becoming exercisable. Accordingly, no shares of Series C Preferred Stock were issued under the 2014 Rights Plan, and no shares of Series C Preferred Stock were issued or outstanding at December 31, 2024 or 2023.

### **SERIES D NON-CUMULATIVE PERPETUAL PREFERRED STOCK**

Series D Preferred Stock has a stated value of \$1,000.00 and is redeemable after five years at the sole option of the Company, carries no voting rights other than those limited voting rights mandated by North Carolina law and has non-cumulative dividend rights that entitle the holder to share in any dividends declared and paid to common shareholders calculated based on a reference price of \$11.538 per share of Common Stock. These passive investments represent a commitment to support economic growth in African American communities by investing in Black-owned banks, which provide consumer and commercial credit along with other banking services to historically underserved communities.

### **SERIES E NON-CUMULATIVE PERPETUAL PREFERRED STOCK**

On June 22, 2022, the Company issued 80,000 shares of Senior Non-Cumulative Perpetual Preferred Stock, Series E, having a liquidation preference of \$1,000 per share (the “Series E Preferred Stock”), to the U.S. Department of the Treasury under the Treasury’s ECIP for an aggregate purchase price of \$80.0 million. The Series E Preferred Stock, which qualifies as Tier 1 capital for regulatory purposes, has limited voting rights, no maturity date and ranks senior to the Company’s common stock with respect to the payment of dividends and distributions and amounts payable upon liquidation, dissolution and winding-up of the Company. The Series E Preferred Stock does not have any mandatory redemption and/or conversion features and is redeemable after five years at the sole option of the Company. No dividends are payable on the Series E Preferred Stock during years 1 and 2. Thereafter, noncumulative dividends are payable at a rate 0.50% to 2.00%, with the actual rate determined during years 3-10 based on the Bank’s annual qualified lending amount and thereafter fixed at a rate based on the Bank’s average qualified lending amount. As of December 31, 2024, the dividend rate is 2.00%. Established by the Consolidated Appropriations Act of 2021, the ECIP was created to encourage low- and moderate-income community financial institutions to enhance their support of small businesses and consumers in their communities.

## **21. SUBSEQUENT EVENTS**

Subsequent events are events or transactions that occur after the balance sheet date, but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet. Nonrecognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet, but arose after that date.

On January 8, 2025, the Company entered into a Preferred Stock ECIP Securities Purchase Option Agreement with the U.S. Treasury (the “Option Agreement”), which, subject to the terms and conditions of the Option Agreement, gives the Company the option to repurchase the shares of Series E Preferred Stock previously issued to Treasury as part of the ECIP (the “ECIP securities”) for an amount equal to the present value of the expected payments on the ECIP securities, together with accrued and unpaid dividends, calculated on the closing date of the sale in accordance with a formula set forth in the Option Agreement. The purchase price payable under the Option Agreement will be calculated shortly before the closing date of any repurchase, when certain variables set forth in the Option Agreement, including the then dividend rate payable on the ECIP securities and the parameters used to calculate the “Cost of Equity” in the purchase price formula are available.

In September 2014, the Board of Directors adopted a shareholder rights plan (the “2014 Rights Plan”). In connection with the adoption of the 2014 Rights Plan, the Company created a new series of preferred stock, designated Series C Junior Participating Preferred Stock, with a par value of \$0.01 per share (“Series C Preferred Stock”). Pursuant to the 2014 Rights Plan, the Company issued one preferred share purchase right (for 1/100<sup>th</sup> of a share of Series C Preferred Stock) for each share of common stock (the “2014 preferred share purchase rights”). The 2014 Rights Plan (and the 2014 preferred share purchase rights) expired in September 2024, prior to the 2014 preferred share purchase rights becoming exercisable. Accordingly, no shares of Series C Preferred Stock were issued under the 2014 Rights Plan. On January 28, 2025, the Company adopted a new shareholder rights plan (the “2025 Rights Plan”) similar to the 2014 Rights Plan. In connection with the adoption of the 2025 Rights Plan, the Company amended and restated the Certificate of Designation of Preferences, Limitations and Relative Rights of the Series C Preferred Stock consistent with the 2025 Rights Plan. As it previously did in connection with the adoption of the 2014 Rights Plan, the Company issued one preferred share purchase right (for 1/100th of a share of Series C Preferred Stock) for each share of common stock outstanding on the new record date of February 14, 2025 (the “2025 preferred share purchase rights”). Under the 2025 Rights Plan, the 2025 preferred share purchase rights will generally become exercisable only if a person or group acquires beneficial ownership of 10 percent or more of the Company’s common stock. Unless and until these rights become exercisable, they will be attached to and trade with the shares of the Company’s common stock.

Management has reviewed events occurring through February 28, 2025, the date the financial statements were available to be issued and noted no additional subsequent events requiring accrual or disclosure.

## **BOARDS OF DIRECTORS & OFFICERS**

### **M&F Bancorp, Inc. Board of Directors**

**James A. Stewart**  
*Chair*  
Broker/Consultant  
Stewart Investment  
Properties Inc.  
Durham, NC

**Willie T. Closs Jr., CPA**  
*Vice Chair*  
Financial Consultant  
Durham, NC

**Allen M. Chan**  
Managing Director  
Diversified Search Group  
Chapel Hill, NC

**Michael L. Lawrence, CPA**  
Chief Financial Officer/Treasurer  
Alamance Farmers' Mutual  
Insurance Company  
Graham, NC

**James H. Sills, III**  
President/CEO  
M&F Bancorp, Inc. and  
Mechanics and Farmers Bank  
Durham, NC

**Connie J. White**  
Retired Management Consultant  
Durham, NC

### **M&F Bank Board of Directors**

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*Chair*  
Broker/Consultant  
Stewart Investment  
Properties Inc.  
Durham, NC

**Willie T. Closs Jr. \*, CPA**  
*Vice Chair*  
Financial Consultant  
Durham, NC

**Emma S. Allen**  
Agent/Owner  
State Farm Insurance  
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**Allen M. Chan**  
Managing Director  
Diversified Search Group  
Chapel Hill, NC

**Michael L. Lawrence\*, CPA**  
Chief Financial Officer/Treasurer  
Alamance Farmers' Mutual  
Insurance Company  
Graham, NC

**Cedric L. Russell**  
Funeral Director and General  
Manager  
Russell Funeral Home  
Winston-Salem, NC

**James H. Sills, III\***  
President/CEO  
M&F Bancorp, Inc. and  
Mechanics and Farmers Bank  
Durham, NC

**Connie J. White\***  
Retired Management Consultant  
Durham, NC

\*Executive Committee Member

## Corporate Officers

**James H. Sills, III**  
President and CEO  
Durham, NC

**Randall C. Hall, CPA, CGMA**  
Executive Vice President/Chief  
Financial Officer  
Durham, NC

**Valerie M. Quiett, Esq.**  
Senior Vice President/Chief Legal  
Officer/Corporate Secretary  
Durham, NC

**Kathy E. Fox, CPA, CGMA**  
Senior Vice President/Controller  
Durham, NC

## Bank Officers

**James H. Sills, III**  
President and CEO  
Durham, NC

**Randall C. Hall, CPA, CGMA**  
Executive Vice President/Chief  
Financial Officer  
Durham, NC

**John T. Saunders**  
Senior Vice President/Chief  
Operating Officer  
Durham, NC

**Percy W. “Pete” Williams**  
Senior Vice President/Chief Credit  
Officer  
Durham, NC

**Travis C. Rouse**  
Senior Vice President/Chief Sales  
and Lending Officer  
Durham, NC

**Valerie M. Quiett, Esq.**  
Senior Vice President/Chief Legal  
Officer/Corporate Secretary  
Durham, NC

**Evelyn P. Acree**  
Senior Vice President/Business  
Development Officer  
Winston-Salem, NC

**Christopher Dickens**  
Senior Vice President/SBA Manager  
Durham, NC

**Kathy E. Fox, CPA, CGMA**  
Senior Vice President/Controller  
Durham, NC

**Lorenzo K. Hardy**  
Senior Vice President/Senior  
Commercial Lender  
Charlotte, NC

**Soberina F. Traywick**  
Senior Vice President/Commercial  
Banking Team Lead  
Raleigh, NC

**Brett J. Ayers**  
Vice President/Credit Underwriting  
Manager  
Durham, NC

**Daniel L. Bellamy**  
Vice President/Senior Commercial  
Banker  
Durham, NC

**David C. Ekstrom**  
Vice President/ IT Director  
Durham, NC

**Damien L. Gorham**  
Vice President/Senior Commercial  
Lender  
Greensboro, NC

**Richard N. “Skipper” Hines, III**  
Vice President/Credit Underwriter  
Manager  
Durham, NC

**Karen A. McMillen**  
Vice President/Training Coordinator  
Durham, NC

**Keira A. Silver**  
Vice President/Data Analytics and  
Insights  
Durham, NC

**Tamica H. Smith**  
Vice President/Loan Operations  
Manager  
Durham, NC

**Cathy C. Beasley, CPA**  
Assistant Vice President/Assistant  
Controller  
Durham, NC

**Eric Powell**  
Assistant Vice President/Retail Sales  
& Operations Manager  
Durham, NC

**Justin R. Sattelberg, CPA**  
Assistant Vice President/Assistant  
Controller  
Charlotte, NC

**Ryan R. Witte, SPHR, SHRM-SCP**  
Assistant Vice President/Human  
Resources Director  
Durham, NC

## Internal Audit & Risk Management

**Karen Fett, CCBIA, CCBRS**  
Assistant Vice President/Audit  
Manager  
Durham, NC

## **SHAREHOLDERS' INFORMATION**

### **Annual Meeting**

M&F Bancorp, Inc., a North Carolina Corporation, will convene its Annual Meeting of Shareholders on Tuesday, June 3, 2025, at 10:00 a.m. in the ballroom of the DoubleTree Hotel by Hilton at Research Triangle Park, 4810 Page Creek Lane, Durham NC. All shareholders are cordially invited.

### **Requests for Information**

Requests for information should be directed to Ms. Valerie M. Quiett, Senior Vice President/Chief Legal Officer at M&F Bancorp, Inc., 2634 Durham Chapel Hill Blvd., Suite 101, Durham, NC 27707.

### **Independent Auditors**

Elliott Davis, PLLC  
4350 Lassiter at North Hills Ave.,  
Suite 200  
Raleigh, North Carolina 27609

### **Stock Transfer Agent**

Equiniti Trust Company, LLC (AST-EQ)  
48 Wall Street, Floor 23  
New York, NY 10005  
800-937-5449

### **General Counsel**

Brooks, Pierce, McLendon,  
Humphrey & Leonard, LLP

### **Mailing Address**

M&F Bancorp, Inc.  
2634 Durham Chapel Hill Blvd.,  
Suite 101  
Durham, North Carolina 27707  
919-687-7800  
800-433-8283

### **Internet Address**

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

