



**2025 AUDITED FINANCIAL
STATEMENTS**

**IBW FINANCIAL
CORPORATION
AND SUBSIDIARY**

**IBW FINANCIAL CORPORATION
4812 GEORGIA AVE NW
WASHINGTON, DC 20011**

Independent Auditor's Report

Board of Directors and Shareholders
IBW Financial Corporation and Subsidiary
Washington, DC

Opinion

We have audited the accompanying financial statements of IBW Financial Corporation and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024, and the results of its operations and its 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. 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 available to be issued.

elliottdavis.com

"Elliott Davis" is the brand name under which Elliott Davis, LLC (doing business in North Carolina and D.C. as Elliott Davis, PLLC) and Elliott Davis Advisory, LLC and its subsidiary entities provide professional services. Elliott Davis, LLC and Elliott Davis Advisory, LLC and its subsidiary entities practice as an alternative practice structure in accordance with the AICPA Code of Professional Conduct and applicable law, regulations and professional standards. Elliott Davis, LLC is a licensed independent CPA firm that provides attest services to its customers. Elliott Davis Advisory, LLC and its subsidiary entities provide tax and business consulting services to their customers. Elliott Davis Advisory, LLC and its subsidiary entities are not licensed CPA firms. The entities falling under the Elliott Davis brand are each individual firms that are separate legal and independently owned entities and are not responsible or liable for the services and/or products provided by any other entity providing services and/or products under the Elliott Davis brand. Our use of the terms "our firm" and "we" and "us" and terms of similar import, denote the alternative practice structure conducted by Elliott Davis, LLC and Elliott Davis Advisory, LLC.

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

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

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

Elliott Davis, PLLC

Raleigh, North Carolina
April 30, 2026

CONSOLIDATED BALANCE SHEETS
December 31, 2025 and 2024

(dollars in thousands)

2025
2024
ASSETS

Cash and due from banks	\$ 3,510	\$ 4,339
Interest-bearing deposits with banks	42,593	61,435
Total cash and cash equivalents	<u>46,103</u>	<u>65,774</u>
Short-term investments	2,967	2,907
Investment securities available-for-sale, at fair value	294,041	258,020
Equity investments	945	875
Restricted stock, at cost	2,919	532
Loans held for sale	377	-
Loans receivable, net of unearned income and deferred fees	411,932	407,485
Less: Allowance for credit losses	<u>(12,622)</u>	<u>(9,841)</u>
Net loans	399,310	397,644
Premises and equipment, net	20,102	19,820
Real estate owned (REO)	157	378
Net deferred income tax	7,523	10,000
Bank owned life insurance (BOLI)	10,378	10,125
Accrued interest receivable	3,032	3,033
Equity securities without readily determinable values	6,867	6,027
Other assets	<u>4,696</u>	<u>6,313</u>
Total assets	<u>\$ 799,417</u>	<u>\$ 781,448</u>

LIABILITIES AND SHAREHOLDERS' EQUITY
LIABILITIES

Non-interest bearing deposits	\$ 136,724	\$ 151,461
Interest bearing deposits	<u>466,716</u>	<u>489,993</u>
Total deposits	603,440	641,454
Short-term borrowings	55,285	3,028
Accounts payable and accrued expenses	<u>6,184</u>	<u>7,405</u>
Total liabilities	<u>664,909</u>	<u>651,887</u>

SHAREHOLDERS' EQUITY

Senior preferred stock:		
Series F - \$1 par value, 81,938 nonvoting issued and outstanding	81,938	81,938
Preferred stock:		
Series D - \$1,000 par value, 8,540 nonvoting issued and outstanding	8,540	8,540
Series E - \$1,000 par value, 4,000 nonvoting issued and outstanding	4,000	4,000
Common stock, \$1 par value; 1,000,000 shares authorized, 645,785 issued and outstanding for 2025 and 2024	646	646
Additional paid-in-capital	6,476	6,476
Retained earnings	46,040	47,452
Accumulated other comprehensive loss	(12,078)	(18,449)
Less: Treasury stock, shares at cost	<u>(1,054)</u>	<u>(1,042)</u>
Total shareholders' equity	<u>134,508</u>	<u>129,561</u>
Total liabilities and shareholders' equity	<u>\$ 799,417</u>	<u>\$ 781,448</u>

CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2025 and 2024

(dollars in thousands)	2025	2024
Interest income:		
Interest and fees on loans	\$ 25,295	\$ 24,887
Interest on investment securities	8,615	8,468
Interest on interest-bearing deposits and short-term investments	2,497	2,967
Total interest income	36,407	36,322
Interest expense:		
Interest on deposits	8,928	8,685
Interest on short-term borrowings	362	15
Total interest expense	9,290	8,700
Net interest income	27,117	27,622
Provision for credit losses	3,378	1,469
Provision for (reversal of) credit losses for unfunded commitments	(289)	615
Net interest income after provision for credit losses	24,028	25,538
Noninterest income:		
Gain on sale of loans	92	4
Service charges and other fees on deposits	1,874	1,987
Other fee income	169	159
Loss on sale of real estate	-	(197)
Grants and awards	380	583
Other income	2,562	2,604
Total non-interest income	5,077	5,140
Noninterest expense:		
Salaries and benefits	16,050	15,672
Occupancy	2,714	2,581
Furniture and equipment	409	511
Data processing and information technology	3,143	2,695
Office expense	702	681
Professional fees	2,157	2,056
Security	832	737
FDIC insurance assessment	337	319
Lending expense	252	355
Core conversion expense	136	242
Other	1,772	2,454
Total non-interest expense	28,504	28,303
Income before income taxes	601	2,375
Income tax expense	169	562
Net income	\$ 432	\$ 1,813
Preferred stock dividends	(1,764)	(886)
Net (loss) income available to common shareholders	\$ (1,332)	\$ 927
Basic and diluted net (loss) income per common share	\$ (2.06)	\$ 1.44
Dividend per common share	\$ 0.12	\$ 0.24
Weighted average number of common shares outstanding	645,785	645,785

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2025 and 2024

(dollars in thousands)	2025	2024
Net income	\$ 432	\$ 1,813
Other comprehensive income:		
Unrealized gain on available-for-sale investment securities	8,849	783
Income tax expense	(2,478)	(219)
Total other comprehensive income	<u>6,371</u>	<u>564</u>
Total comprehensive income	<u>\$ 6,803</u>	<u>\$ 2,377</u>

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years Ended December 31, 2025 and 2024

(dollars in thousands)	Preferred Stock	Common Stock	Additional Paid-in-Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2023	\$ 94,478	\$ 646	\$ 6,476	\$ 46,679	\$ (726)	\$ (19,013)	\$ 128,540
Net income	—	—	—	1,813	—	—	1,813
Preferred stock -							
Series D - \$1.00 per share	—	—	—	(86)	—	—	(86)
Series E - \$1.00 per share	—	—	—	(40)	—	—	(40)
Series F - \$1.00 per share	—	—	—	(760)	—	—	(760)
Common stock - \$0.24 per share	—	—	—	(154)	—	—	(154)
Other comprehensive income	—	—	—	—	—	564	564
Treasury stock, at cost	—	—	—	—	(316)	—	(316)
Balance December 31, 2024	<u>\$ 94,478</u>	<u>\$ 646</u>	<u>\$ 6,476</u>	<u>\$ 47,452</u>	<u>\$ (1,042)</u>	<u>\$ (18,449)</u>	<u>\$ 129,561</u>
Net income	—	—	—	432	—	—	432
Preferred stock -							
Series D - \$1.00 per share	—	—	—	(85)	—	—	(85)
Series E - \$1.00 per share	—	—	—	(40)	—	—	(40)
Series F - \$1.00 per share	—	—	—	(1,639)	—	—	(1,639)
Common stock - \$0.12 per share	—	—	—	(80)	—	—	(80)
Other comprehensive income	—	—	—	—	—	6,371	6,371
Treasury stock, at cost	—	—	—	—	(12)	—	(12)
Balance December 31, 2025	<u>\$ 94,478</u>	<u>\$ 646</u>	<u>\$ 6,476</u>	<u>\$ 46,040</u>	<u>\$ (1,054)</u>	<u>\$ (12,078)</u>	<u>\$ 134,508</u>

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

(dollars in thousands)	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	\$ 432	\$ 1,813
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	648	869
Amortization of deposit intangible	-	8
Provision for credit losses	3,378	1,469
(Reversal) Provision of credit losses for unfunded commitments	(289)	615
Deferred income taxes expense (benefit)	480	(292)
Net amortization of investment securities	726	1,054
Realized gain on equity security	(70)	(11)
Increase in value of BOLI	(253)	(128)
Originations of loans held for sale	(377)	-
Valuation adjustment on REO	221	-
Loss on sale of real estate	-	197
Changes in:		
Decrease in accrued interest receivable	1	203
Decrease in other assets	(287)	(111)
(Decrease) increase in other liabilities	(1,221)	227
Net cash provided by operating activities	3,389	5,913
CASH FLOWS FROM INVESTING ACTIVITIES:		
Net increase in loans receivable, net	(4,755)	(33,432)
Purchases of short-term investments	(60)	(296)
Purchases of investment securities available-for-sale	(50,854)	(18,721)
Purchase of restricted stock	(2,387)	(259)
Proceeds received from maturity and sales of available-for-sale investment securities	23,035	26,740
Proceeds received from redemption of restricted stock	-	1,438
Proceeds received from securities without readily determinable values	504	547
Purchases of premises and equipment	(930)	(1,261)
Proceeds from the sale of premises and equipment	-	792
Net cash used in investing activities	(35,447)	(24,452)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net (decrease) increase in total deposits	(38,014)	58,161
Net increase (decrease) in short-term borrowing	52,257	(25,372)
Cash dividends paid	(1,844)	(1,040)
Repurchase of common stock	(12)	(316)
Net cash (used in) provided by financing activities	12,387	31,433
Net (decrease) increase in cash and cash equivalents	(19,671)	12,894
Cash and cash equivalents at beginning of year	65,774	52,880
Cash and cash equivalents at end of year	\$ 46,103	\$ 65,774

See Notes to Consolidated Financial Statements.

Consolidated Statements of Cash Flows (continued)

(dollars in thousands)	2025	2024
SUPPLEMENTAL DISCLOSURES OF CASH FLOW AND NONCASH INFORMATION:		
Cash paid during the year for:		
Interest on deposits and other borrowings	\$ 9,045	\$ 7,853
Income taxes	804	484
Noncash transactions:		
Change in unrealized gain on investment securities available-for-sale, net	\$ 6,371	\$ 564
Transfer from loans to REO	-	(54)

See Notes to Consolidated Financial Statements.

Notes to Consolidated Statements**Years Ended December 31, 2025 and 2024 (dollars in thousands)**

1. Summary Of Significant Accounting Policies

IBW Financial Corporation (the “Company”) is a one bank holding company for its wholly owned subsidiary, Industrial Bank, (the “Bank”). The Bank wholly owns 96 HST LLC and One Largo LLC which hold property for Bank facilities. The accounting and reporting policies of IBW Financial Corporation and subsidiary (the “Company”) conform to accounting principles generally accepted in the United States of America and prevailing practices within the banking industry. The following summarizes the significant accounting policies.

Consolidation – The consolidated financial statements include the accounts of the Company and the Bank. All significant inter-company transactions and balances have been eliminated.

Nature of Business – The principal business of the Company is to make loans and other investments and to accept time and demand deposits. The Company’s primary market areas are in the District of Columbia and surrounding areas, although the Company’s business development efforts generate business outside of these areas. The Company offers a broad range of banking products, including a full line of business and personal savings and certificates of deposit, and other banking services. The Company funds a variety of loan types including commercial term loans and residential real estate loans, and lines of credit, consumer loans, and letters of credit. The Company’s customers are primarily individuals and small businesses.

The Company also participates in the Community Development Financial Institutions New Markets Tax Credit (“NMTC”) Program. The NMTC Program incentivizes community development and economic growth through the use of tax credits that attract private investment to distressed communities. The NMTC Program attracts private capital into low-income communities by permitting individual and corporate investors to receive a tax credit against their federal income tax in exchange for making equity investments in specialized financial intermediaries called Community Development Entities (“CDEs”). The credit usually totals 39% of the original investment amount and is claimed over a period of seven years.

Use of Estimates – The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates. In addition, there are inherent risks and uncertainties related to the operation of a financial institution, such as credit and interest rate risk. The possibility exists that because of changing economic conditions, unforeseen changes could occur and have an adverse effect on the Company’s financial position.

Material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the allowance for credit losses. Management believes that the allowance for credit losses is sufficient to address the risks in the current loan portfolio. While management uses available information to recognize losses on loans, future additions to the allowance may be necessary based on changes in economic conditions. In addition, various regulatory agencies, as an integral part of their examination processes, periodically review the Bank’s allowance for credit losses. Such agencies may require the Bank to recognize additions to the allowance based on their judgments about information available to them at the time of their examinations.

Other material estimates that are particularly susceptible to significant change in the near-term relate to the determination of the valuation of foreclosed real estate, deferred income taxes and the allowance for credit losses relating to investment securities.

Investment Securities – The Company may segregate its investments securities into the following three categories: trading, held-to-maturity, and available-for-sale. Trading securities are purchased and held principally for the purpose of reselling them within a short period of time. Their unrealized gains and losses are included in earnings.

Securities classified as held-to-maturity are accounted for at amortized cost and require the Company to have both positive intent and ability to hold these securities to maturity. Debt securities not classified as either trading or held-to-maturity are considered to be available-for-sale. Unrealized gains and losses on available-for-sale debt securities are excluded from earnings and reported, net of deferred taxes, as accumulated other comprehensive income, a separate component of shareholders' equity. Premiums are amortized and discounts accreted using the level yield method. For callable debt securities purchased at a premium, the amortization period is shortened to the earliest call date.

An individual debt security is impaired when the fair value of the security is less than its amortized cost. If the Company intends to sell an available-for-sale security in an unrealized loss position or it is more likely than not will be reversed through the provision for credit losses, then the difference between the amortized cost basis of the security and its fair value is recognized in the Company's Consolidated Statements of Income. For impaired debt securities that the Company has both the intent and ability to hold, the securities are evaluated to determine if a credit loss exists. The allowance for credit losses on the investment securities is recognized through the provision for credit losses and limited by the unrealized losses of a security measured as the difference between the security's amortized cost and fair value.

Purchases and sales of securities are recorded on a trade date basis. Realized gains or losses on the sale of investment securities are reported in earnings and determined using the adjusted cost of the specific security sold. Investment in Federal Reserve Bank and Federal Home Loan Bank (FHLB) stock are considered restricted as to marketability. Because no ready market exists for these stocks, the Bank's investment is carried at cost.

Equity Investments — The Company owns a mutual fund security that is considered an equity investment with readily determinable fair value and changes to fair value are recorded in other noninterest income.

The Company's investments in correspondent bank stock (FHLB) and certain other bank holding company stocks are equity investments without readily determinable fair values. Equity investments without readily determinable fair values are measured at cost, less impairment, and are adjusted for observable price changes which is recorded in noninterest income. Additionally, some equity investments are valued by Net Asset Value ("NAV"). NAV is the value of an investment entity's assets minus its liabilities divided by outstanding shares. This represents the total value of an investment entity. Investors, such as the holding company, use NAV to represent the per-share or per-unit price of certain equity investments as of a certain date or time.

The holding company purchased three equity investments without readily determinable values totaling \$6,866 and \$6,027 in 2025 and 2024, respectively. The investments were comprised of one State Small Business Credit Initiative ("SSBIC") investment, one Community and one Community Development Financial Institution ("CDFI") investment and one private equity investment. Two of the investments have been fully funded. A funding commitment of \$772 remains on one of the investments at December 31, 2025.

The Company recorded gain of \$70 and of \$11 during the years ended 2025 and 2024 on the equity investment with readily determinable fair value. The Company recorded no gain or impairment to increase or impair one of the Company's four equity investments without readily determinable fair value in the years ended 2025 or 2024. The Company recorded gain of \$833 on two and loss of \$61 on one of the Company's four equity investments without readily determinable fair value in the year ended December 31, 2025. The Company recorded gain of \$227 on one of the Company's four equity investments without readily determinable fair value in the year ended December 31, 2024.

Loans Receivable – Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest related to loans totaled \$2,000 at December 31, 2025 and \$2,100 at 2024. Accrued interest related to loans was reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

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

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

Purchased Credit Deteriorated ("PCD") Loans – Upon adoption of ASC 326, loans that were designated as Purchase Credit Impaired ("PCI") loans under the previous accounting guidance were classified as PCD loans without reassessment.

In future acquisitions, the Company may purchase loans, some of which have experienced more than insignificant credit deterioration since origination. In those cases, the Company will consider internal loan grades, delinquency status and other relevant factors in assessing whether purchased loans are PCD. PCD loans are recorded at the amount paid. An initial allowance for credit loss is determined using the same methodology as other loans held for investment, but with no impact to earnings. The initial allowance for credit loss determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit loss becomes its initial amortized cost basis. The difference between the

initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent to initial recognition, PCD loans are subject to the same interest income recognition and impairment model as non-PCD loans, with changes to the allowance for credit loss recorded through provision expense.

Allowance for Credit Losses – The allowance for credit losses (“ACL”) is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Recoveries are limited to amounts previously charged off. Accrued interest receivable is excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

Bank Premises and Equipment – Properties and equipment are stated at cost less accumulated depreciation and amortization. Depreciation and amortization are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives range from three to ten years for furniture, fixtures, and equipment; three to five years for software, hardware, and data handling equipment; and ten to forty years for buildings and building improvements. Land is carried at cost and is not depreciated. Land improvements are amortized over a period of fifteen years; and leasehold improvements amortized over the shorter of their estimated useful lives, or the stated duration of the lease plus the optional renewal period, if applicable. Maintenance and repairs are charged to expense as incurred, while improvements which extend the useful life are capitalized and depreciated over the estimated remaining life of the asset.

Leases - The Company is obligated under non-cancelable operating leases for premises for certain branches, other office locations and office equipment. These leases have original terms ranging from two years to over ten years and at December 31, 2025 have remaining terms of up to 6 years. Certain leases contain renewal options and escalation clauses which can increase rental expenses based principally on the consumer price index and fair market rental value provisions. Right-Of-Use Lease Assets are carried on the balance sheet, in other assets, at amortized cost and corresponding lease liabilities are carried on the balance sheet, in other liabilities, at present value of the future minimum lease payments, adjusted for any initial direct costs and incentives. All of the Company's current outstanding leases are classified as operating leases.

Valuation of long-lived assets - The Company accounts for the valuation of long-lived assets under ASC Topic 360 *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Advertising Costs – Advertising costs are generally expensed as incurred. Advertising expenses totaled \$168 and \$170 for the years ended December 31, 2025 and 2024, respectively.

Real Estate Owned– Real estate owned (REO) represents properties acquired through foreclosures or other proceedings in satisfaction of indebtedness. At the date of acquisition such property is recorded at the fair value less estimated costs to sell. A write-down to fair value, less estimated costs to sell, at the date of acquisition is charged to the allowance for loan losses.

Expenses, and gains or losses on the disposition of real estate are reported in noninterest income. The amounts the Company will ultimately realize on disposition of these properties could differ from management's current estimates.

Transfer of Financial Assets – Transfer of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Fair Value Measurements – The Company follows the guidance of ASC Topic 825, *Financial Instruments* and ASC Topic 820, *Fair Value Measurements*. ASC Topic 825 permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. ASC Topic 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under ASC Topic 820, fair value measurements are not adjusted for transaction costs. ASC topic 820 establishes a fair value hierarchy that prioritizes unadjusted quoted prices in active markets for identical financial assets or liabilities (Level 1 measurements) and gives the lowest priority to unobservable inputs (Level 3 measurements).

Earnings Per Share ("EPS") – Net income (loss) available to common shareholders is adjusted to give effect to dividends on preferred stock. Net income available to common shareholders for basic and diluted EPS purposes is \$(1,332) and \$927 for the years ended December 31, 2025 and 2024, respectively. EPS is computed based on the weighted average number of common shares outstanding during the year, 645,785 for 2025 and 2024. Basic and diluted EPS are the same, as the Company had no dilutive common stock equivalents outstanding as of December 31, 2025 or 2024.

Income Taxes – The Company and its wholly owned subsidiary file a consolidated federal income tax return. Deferred income tax assets and liabilities are computed annually for differences between financial statement and tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on the enacted tax laws and rates applicable to periods in which the differences are expected to affect taxable income.

Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized. Income tax expense is based upon the results of operations, adjusted for permanent differences between items of income or expense reported in the financial statements and those reported for tax purposes. The Company does not have any uncertain tax positions and did not recognize any adjustments for unrecognized tax benefits. With limited exception, the Company is no longer subject to federal income tax examination by taxing authorities for years before 2022.

Preferred Stock - During June 2022, the Company issued 81,938 shares of Series F Senior Preferred Stock. Series F is nonvoting with a liquidation value of \$81,938. Dividends on the Series F Senior Preferred Stock are not cumulative, and holders of the Series F Senior Preferred Stock are entitled to receive, if and as declared by the Company, dividends at the annual rate of 1% of the purchase price per share. Dividend payments for Series F are waived for the first two years began in 2024.

During May 2021, the Company issued 8,540 shares of Series D Preferred Stock with a liquidation value of \$8,540.

During September 2021, the Company issued 4,000 shares of Series E Preferred Stock with a liquidation value of \$4,000.

Emergency Capital Investment Program – On December 14, 2021, the U.S. Department of the Treasury (“Treasury”) informed the Company that the Treasury had reviewed the Company’s application to receive a capital investment from the Treasury under the Emergency Capital Investment Program (“ECIP”), and that the Company would be eligible to receive an ECIP investment in an amount up to \$81,938 in the form of non-dilutive Tier 1 senior perpetual preferred stock. Due to accepting ECIP, the Company is required to meet certain conditions to remain eligible to hold these funds. The Company received \$81,938 from the ECIP as a capital investment on June 28, 2022. Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage Community Development Financial Institutions and Minority Depository Institutions, such as the Bank, to augment their efforts to support low-and moderate-income communities, small businesses and consumers within their communities. Per the agreement, dividend payments on the ECIP investment began on June 28, 2024 at a rate of 2%.

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

Short-term Investments – Short-term investments consist of interest-bearing deposits due from banks with original maturities of more than three months.

Bank Owned Life Insurance - The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policies is classified as noninterest income.

Comprehensive Income - Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet. Such items, along with net income, are components of comprehensive income.

Compensating Balances - Compensating balance arrangements exist with various correspondent banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to \$250 at December 31, 2025 and 2024.

Intangible Assets - Intangible assets consist of core deposit intangibles acquired in connection with business acquisitions. The core deposit intangibles are initially recognized based on a valuation performed as of the consummation date. The core deposit intangibles are amortized over the average remaining life of the acquired customer deposits, or approximately five years, and evaluated for impairment annually. As of December 31, 2024, the core deposit intangible was fully amortized.

Noninterest Income - Specific guidelines are established for recognition of certain noninterest income components related to the Company's consolidated financial statements. In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Company expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, the Company performs the following five steps: (1) identify the contract(s) with a customer; (2) identify the performance obligations in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the Company satisfies a performance obligation.

The Company only applies the five-step model to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Company assesses the goods or services that are promised within each contract and identifies those that contain performance obligations and assesses whether each promised good or service is distinct. The Company then recognizes as revenue the amount of the transaction price that is allocated to the respective performance obligation when (or as) the performance obligation is satisfied. The material groups of noninterest income that this methodology is applied to are defined as follows:

Service charges on deposit accounts: Service charges on deposit accounts primarily consist of account analysis fees, monthly maintenance fees, overdraft fees, and other deposit account related fees. Overdraft fees and certain service charges are fixed and the performance obligation is typically satisfied at the time of the related transaction. The consideration for analysis fees and monthly maintenance fees are variable as the fee can be reduced if the customer meets certain qualifying metrics. The Company's performance obligations are satisfied at the time of the transaction or over the course of a month.

Other noninterest income: Other noninterest income components include debit card interchange fees and miscellaneous transactional fees. Income earned from these revenue streams is generally recognized concurrently with the satisfaction of the performance obligation.

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 to be 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 within that segment. The Company has no foreign operations.

Reclassified

Certain prior year amounts have been reclassified to conform to the current year's method of presentation. None of these reclassifications impacted shareholders' equity or net income.

2. Investment Securities

At December 31, 2025 and 2024, the amortized cost and fair value of investment securities available-for-sale, with gross unrealized gains and losses, are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2025:				
U.S. Treasury securities	\$ 34,955	\$ -	\$ (861)	\$ 34,094
U.S. Government Agencies	4,112	77	(13)	4,176
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	106,556	969	(3,437)	104,088
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	120,412	252	(9,532)	111,132
Municipal securities	39,732	75	(3,702)	36,105
Other debt securities	5,049	-	(603)	4,446
Total available-for-sale	\$ 310,816	\$ 1,373	\$ (18,148)	\$ 294,041
December 31, 2024:				
U.S. Treasury securities	\$ 34,914	\$ -	\$ (2,084)	\$ 32,830
U.S. Government Agencies	6,282	129	(16)	6,395
Mortgage-Backed Securities:				
Pass-through securities:				
Issued by FNMA, GNMA and FHLMC	76,724	327	(4,456)	72,595
Collateralized Mortgage Obligations:				
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	119,860	73	(13,526)	106,407
Municipal securities	40,815	21	(5,533)	35,303
Other debt securities	5,049	5	(564)	4,490
Total available-for-sale	\$ 283,644	\$ 555	\$ (26,179)	\$ 258,020

2. Investment Securities (continued)

Gross unrealized losses and fair value by length of time that the individual available-for-sale investment securities have been in a continuous unrealized loss position at December 31, 2025 and 2024 are as follows:

	Number of Securities	Fair Value	Less than 12 Months	12 months or More	Total Unrealized Losses
December 31, 2025:					
U.S. Treasury Securities	7	\$ 34,094	\$ -	\$ 861	861
U.S. Government Agencies	2	1,249	-	13	13
Mortgage-Backed Securities:					
Pass-through securities:					
Issued by FNMA, GNMA and FHLMC	34	57,824	559	2,877	3,436
Collateralized Mortgage Obligations:					
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	67	90,836	71	9,462	9,533
Municipal securities	26	33,042	-	3,702	3,702
Other Debt Securities	4	4,446	8	595	603
	<u>140</u>	<u>\$ 221,491</u>	<u>\$ 638</u>	<u>\$ 17,510</u>	<u>\$ 18,148</u>
December 31, 2024:					
U.S. Treasury Securities	7	\$ 32,830	\$ -	\$ 2,084	2,084
U.S. Government Agencies	2	1,876	-	16	16
Mortgage-Backed Securities:					
Pass-through securities:					
Issued by FNMA, GNMA and FHLMC	37	48,365	153	4,303	4,456
Collateralized Mortgage Obligations:					
Collateralized by FNMA, FHLMC and GNMA mortgage-backed securities	73	99,589	282	13,244	13,526
Municipal securities	29	33,488	19	5,514	5,533
Other Debt Securities	3	2,485	286	278	564
	<u>151</u>	<u>\$ 218,633</u>	<u>\$ 740</u>	<u>\$ 25,439</u>	<u>\$ 26,179</u>

At December 31, 2025, the entire available-for-sale investment portfolio had a fair value of approximately \$294,041 of which \$221,491 of the securities had some unrealized losses from their purchase price. The securities representing the unrealized losses in the available-for-sale portfolio all have modest duration risk, high credit ratings, and represented 59% of the portfolio carrying value. The unrealized losses that exist are the result of market changes in interest rates since the original purchase and not credit deterioration.

There was no allowance for credit losses relating to investment securities at December 31, 2025 and 2024.

2. Investment Securities (continued)

The following is a summary of the amortized cost and approximate fair value of debt and equity securities available-for-sale by contractual maturity as of December 31, 2025 and 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2025		2024	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury securities maturing				
Due 1 year or less	29,959	29,353	-	-
Due after 1 year through 5 years	\$ 4,996	\$ 4,742	\$ 34,914	\$ 32,830
Due after 5 years through 10 years	-	-	-	-
U.S. Government Agency maturing				
Due 1 year or less	-	-	-	-
Due after 1 year through 5 years	1,444	1,443	970	989
Due after 5 years through 10 years	2,285	2,342	4,878	4,964
Due after 10 years	383	391	434	442
Mortgage-backed securities maturing				
Due 1 year or less	-	-	3,885	3,850
Due after 1 year through 5 years	16,215	15,679	14,001	13,471
Due after 5 years through 10 years	19,647	19,256	21,611	19,812
Due after 10 years	191,106	180,285	157,087	141,869
Municipal securities maturing				
Due 1 year or less	-	-	1,001	999
Due after 1 year through 5 years	15,341	14,452	8,545	7,588
Due after 5 years through 10 years	17,710	15,700	23,525	20,117
Due after 10 years	6,681	5,952	7,744	6,599
Other debt securities maturing				
Due after 5 years through 10 years	3,750	3,549	3,750	3,476
Due after 10 years	1,299	897	1,299	1,014
Total	<u>\$ 310,816</u>	<u>\$ 294,041</u>	<u>\$ 283,644</u>	<u>\$ 258,020</u>

There were no sale of securities available-for-sale for the years ended December 31, 2025 and 2024.

Securities of \$245,077 and \$104,135 at December 31, 2025 and 2024, respectively, were pledged as collateral for public deposits and for other purposes required by law. At December 31, 2025 and 2024, the carrying value of securities underlying repurchase agreements were \$7,600 and \$6,600, respectively.

3. Loans Receivable and Allowance for Credit Losses

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans totaled \$2,036 at December 31, 2025 and \$2,067 at December 31, 2024 were reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance.

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

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

Allowance for Credit Losses

The allowance for credit losses represents an estimate of the expected credit losses in the Company's held for investment loan portfolio as of a valuation date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The Allowance for Credit Losses ("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 held for investment loan portfolio. Loans, or portions thereof, are charged off against the allowance for credit losses when they are deemed uncollectible. Expected recoveries are recorded to the extent they do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses.

The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest.

3. Loans Receivable and ACL (continued)

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company calculates the allowance for credit losses using a non-discounted cash flow methodology. Non-discounted cash flow models, being periodic in nature, allow for effective incorporation of a reasonable and supportable forecast in a directionally consistent and objective manner. One of the primary inputs into a non-discounted cash flow model are Probability of Default ("PD"), which analyzes the financial institution's historical loan portfolio to identify defaulted loans, and Loss Given Default ("LGD"), which is the amount of loss a bank or financial institution incurs when a borrower defaults on a loan. For PD, the pooling structure is based on a dual-cohort structure that is broken out by the Federal Financial Institutions Examination Council (FFIEC) call codes and the Company's internal risk ratings. For LGD, the pooling structure is also based on the FFIEC call codes. Given that the LGD dataset includes only defaulted loans, the data set is summarized better by a single factor of loan type/collateral composition through use of the FFIEC call codes.

The Bank currently manages its credit products and exposure to credit losses by the following segments:

Construction and land development – This category includes lending for construction and development of residential properties, multifamily, as well as for the construction of commercial properties, including faith-based properties. Construction and land development lending represents one of the highest risk categories of lending in which the Bank participates. Contractors are subject to cyclical and seasonal fluctuations and innumerable variables outside of their control. Additionally, the very nature of contracting requires the contractor to fix the price for contracted work prior to fully knowing the cost to complete the contract. Most land loans are speculative in nature and must be underwritten from a very conservative posture.

Commercial real estate loans – The Bank originates commercial real estate loans in its market area. These loans are generally larger and involve greater risks than residential real estate loans. Because payments on these loans are often dependent on the successful operation or management of the property, repayment of such loans may be subject to a greater extent to adverse conditions in the real estate market or the economy. The Bank's commercial real estate loans are typically secured by retail or wholesale establishments, service industries, faith-based properties and industrial or warehouse facilities.

Residential real estate – This category includes mortgage loans for the purchase or refinance of one-to-four-family residences. Most of the loans will be for primary residences; however, the Bank will also consider qualifying investment properties or second homes. The majority of loans are originated on properties in the Bank's primary market area. Residential real estate loans are evaluated for the adequacy of repayment sources at the time of approval and eligibility for sale in the secondary market.

Commercial and industrial loans – This category includes secured and unsecured commercial business loans and lines of credit to businesses primarily located in its market area. The security for a business loan depends on the amount borrowed, the business involved, and the strength of the borrower. Commercial business lending entails significant risk, as the payments on such loans may depend upon successful operation or management of the business involved.

Consumer loans – This category of loans includes primarily installment loans. Consumer loans are generally originated at higher interest rates because of their higher risk. The primary considerations for consumer lending are the borrower's continuing financial ability and the sustainability and lasting value of any collateral to support the credit.

3. Loans Receivable and ACL (continued)

Typically, financial institutions use their historical loss experience and trends in losses for each loan segment which are then adjusted for portfolio trends and economic and environmental factors in determining the allowance for credit losses. Due to the fact that limited internal loss history exists in a format to generate statistical significance, management determined it was most prudent to rely on peer data when deriving its best estimate of PD and LGD. These expected default and severity rates are regression-derived and based on peer historical loan-level performance data. As part of the Company's estimation process, management will continue to assess the reasonableness of the data, assumptions, and model methodology utilized to derive its allowance for credit losses.

For each of the modeled loan segments, the Company generates cash flow projections at the instrument level wherein payment expectations are adjusted for estimated prepayment speeds, PD rates, and LGD rates. The modeling of expected prepayment speeds is based on both peer data and internal loan-level historical data. The Company utilizes national unemployment for its reasonable and supportable forecasting of expected default within the cash flow model. To further adjust the allowance for credit losses for expected losses not already within the quantitative component of the calculation, the Company may consider qualitative factors as prescribed in ASC 326. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors and economic conditions not already captured.

The Company's methodology utilized in the estimation of the allowance for credit losses, which is performed at least quarterly, is designed to be dynamic and responsive to changes in its loan portfolio credit quality, composition, and forecasted economic conditions. Information is provided to the Board of Directors on a quarterly basis along with the Company's consolidated financial statements.

Accounting for Individually Assessed Loans

Loans that do not share risk characteristics are evaluated on an individual basis via an impairment analysis. For collateral dependent financial assets where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the financial asset to be provided substantially through the sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the net present value ("NPV") from the operation of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the financial asset exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the financial asset.

3. Loans Receivable and ACL (continued)**Modified Loans**

ASU 2022-22 Financial Instruments – Credit Losses (Topic 326) Troubled Debt Restructurings and Vintage Disclosures eliminated the concept of troubled debt restructurings (“TDRs”) ASU 2022-02 requires additional disclosures for certain loan modifications and disclosures of gross charge-offs by year of origination. Specifically, loan modification disclosures in periods subsequent to the adoption of ASC 326 must be made for modifications of existing loans to borrowers who were experiencing financial difficulties at the time of the modification. The modification type must include a direct change in the timing or amount of a loan’s contractual cash flows. The additional disclosures are applicable to situations where there is: principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, a term extension, or any combination thereof.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The Company records a reserve for unfunded commitments on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit loss expense in its Consolidated Statements of Income. The reserve for unfunded commitments is estimated by call report code segmentation as of the valuation date under the CECL model using the same methodologies as portfolio loans taking utilization rates into consideration. The allowance for unfunded commitments is included in other liabilities on the Company’s consolidated Balance Sheets.

3. Loans Receivable and ACL (continued)

The following is a summary of loan balances by type:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
	<u>Total</u>	<u>Total</u>
Construction and land development	\$ 67,965	\$ 71,051
Real estate mortgage:		
Commercial properties	206,026	204,798
Residential properties	96,338	87,407
Total real estate mortgage	370,329	363,256
Commercial and industrial	42,330	44,762
Consumer	652	762
Total gross loans	413,311	408,780
Less unearned income and deferred fees, net	(1,379)	(1,295)
Loans, net	411,932	407,485
Allowance for credit losses	(12,622)	(9,841)
Loans, net of allowance	<u>\$ 399,310</u>	<u>\$ 397,644</u>

Major loan concentrations are as follows:

	<u>December 31, 2025</u>	<u>December 31, 2024</u>
	<u>Total</u>	<u>Total</u>
Religious organization loans		
collateralized by real estate	\$ 61,550	\$ 70,706
Commercial loans to religious organizations	64	159
Total loans to religious organizations	<u>\$ 61,614</u>	<u>\$ 70,865</u>

Substantially all of the Bank's originated loans have been made to borrowers within the Washington, DC metropolitan, New Jersey and New York areas. Accordingly, the ability of the Bank's borrowers to repay their loans is dependent upon the economy in the Washington, DC metropolitan, New Jersey and New York areas. The acquired loans were primarily made to borrowers in the New Jersey and New York City region. Accordingly, the ability of the Bank's acquired borrowers to repay their loans is dependent upon the economy in the New Jersey / New York metropolitan area.

3. Loans Receivable and ACL (continued)

The following tables represent by class of loan, an analysis of past-due loans as of December 31:

December 31, 2025	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due & Still Accruing	90 Days or More Past Due	Current Loans	Total Loans
Construction and land development	\$ 1,098	\$ -	\$ -	\$ 6,751	\$ 60,116	\$ 67,965
Commercial real estate	8,369	3,874	172	12,343	181,268	206,026
Residential real estate	1,320	1,439	-	1,624	91,955	96,338
Commercial and industrial	632	412	-	321	40,965	42,330
Consumer	67	97	-	2	486	652
Total	\$ 11,486	\$ 5,822	\$ 172	\$ 21,041	\$ 374,790	\$ 413,311

December 31, 2024	30-59 Days Past Due	60-89 Days Past Due	Loans 90 Days or More Past Due & Still Accruing	90 Days or More Past Due	Current Loans	Total Loans
Construction and land development	\$ 3,397	\$ -	\$ -	\$ -	\$ 67,654	\$ 71,051
Commercial real estate	3,847	1,749	910	5,323	192,969	204,798
Residential real estate	2,111	84	2,147	2,254	80,811	87,407
Commercial and industrial	1,169	88	259	2,125	41,121	44,762
Consumer	65	-	-	-	697	762
Total	\$ 10,589	\$ 1,921	\$ 3,316	\$ 9,702	\$ 383,252	\$ 408,780

Credit quality indicators as of December 31, 2025 and 2024 are as follows:

Internally assigned grade:

Pass – loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

Pass-Watch - loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability but there is also a greater than normal concern that an external factor may impact the viability of the borrower at some later date; or that there is uncertainty because of the lack of financial information available.

Special mention – loans in this category are currently protected but are potentially weak. The credit risk may be relatively minor yet constitute an increased risk considering the circumstances surrounding a specific loan.

Substandard – loans in this category show signs of continuing negative financial trends and unprofitability and therefore, are inadequately protected by the current soundness and paying capacity of the obligor or of the collateral pledged, if any.

Doubtful – loans in this category are illiquid and highly leveraged, have negative net worth, cash flow, and trending serious losses. The possibility of loss is extremely high; however, because of certain important and reasonably specific pending factors which may work to the advantage and strengthening of the asset, its classification as loss is deferred until a more exact status may be determined.

The following tables present the Company's recorded investment in loans by credit quality indicators by year of origination as of December 31, 2025 and 2024:

	Term Loans by Year of Origination					Revolving	Revolving Converted to Term	Total
	2025	2024	2023	2022	2021			
Construction and land development								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 154	\$ -	\$ 154
Pass-Watch	15,216	30,486	10,429	1,749	2,000	-	38	61,060
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	6,751	-	-	-	-	6,751
Doubtful	-	-	-	-	-	-	-	-
Total Construction and land development	\$ 15,216	\$ 30,486	\$ 17,180	\$ 1,749	\$ 2,000	\$ 154	\$ 38	\$ 67,965
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate								
Pass	\$ 797	\$ 97	\$ 2,051	\$ 2,105	\$ 4,142	\$ 17,286	\$ -	\$ 26,478
Pass-Watch	14,880	12,239	44,134	30,445	7,628	42,802	-	152,128
Special Mention	-	-	5,120	-	-	2,891	-	8,011
Substandard	-	2,684	-	4,338	421	11,966	-	19,409
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate	\$ 15,677	\$ 15,020	\$ 51,305	\$ 36,888	\$ 12,191	\$ 74,945	\$ -	\$ 206,026
Current period gross write-offs	-	-	-	-	-	(1,077)	-	(1,077)
Residential real estate								
Pass	\$ -	\$ 603	\$ -	\$ -	\$ 341	\$ 3,393	\$ -	\$ 4,337
Pass-Watch	10,519	7,366	9,919	2,960	12,962	47,585	-	91,311
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	690	-	690
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate	\$ 10,519	\$ 7,969	\$ 9,919	\$ 2,960	\$ 13,303	\$ 51,668	\$ -	\$ 96,338
Current period gross write-offs	-	-	-	-	-	(1)	-	(1)
Commercial and Industrial								
Pass	\$ 7,550	\$ -	\$ 132	\$ 5,501	\$ 7	\$ 3,727	\$ 1,114	\$ 18,031
Pass-Watch	2,137	7,986	7,484	1,018	995	403	1,936	21,959
Special Mention	-	333	-	-	-	-	275	608
Substandard	-	-	412	-	-	1,259	61	1,732
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and Industrial	\$ 9,687	\$ 8,319	\$ 8,028	\$ 6,519	\$ 1,002	\$ 5,389	\$ 3,111	\$ 42,330
Current period gross write-offs	-	-	-	-	-	(667)	-	(667)
Consumer								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pass-Watch	-	30	-	-	-	196	408	634
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	18	-	18
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ -	\$ 30	\$ -	\$ -	\$ -	\$ 214	\$ 408	\$ 652
Current period gross write-offs	-	-	-	-	-	(222)	-	(222)
Total	\$ 51,099	\$ 61,824	\$ 86,432	\$ 48,116	\$ 28,496	\$132,370	\$ 3,557	\$ 413,311

IBW FINANCIAL CORPORATION AND SUBSIDIARY

	Term Loans by Year of Origination					Revolving	Revolving Converted to Term	Total
	2024	2023	2022	2021	2020			
Construction and land development								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 162	\$ -	\$ 162
Pass-Watch	29,514	23,092	8,902	7,381	-	-	2,000	70,889
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-
Total Construction and land development	\$29,514	\$23,092	\$ 8,902	\$ 7,381	\$ -	\$ 162	\$ 2,000	\$ 71,051
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial real estate								
Pass	\$ 99	\$ 1,259	\$ 2,368	\$ 4,279	\$ 1,292	\$ 21,359	\$ -	\$ 30,656
Pass-Watch	14,252	46,503	32,064	6,744	5,038	52,059	1,312	157,972
Special Mention	-	2,254	-	-	-	4,094	-	6,348
Substandard	-	-	-	452	-	9,370	-	9,822
Doubtful	-	-	-	-	-	-	-	-
Total Commercial real estate	\$14,351	\$50,016	\$ 34,432	\$11,475	\$ 6,330	\$ 86,882	\$ 1,312	\$ 204,798
Current period gross write-offs	-	-	-	-	-	(315)	-	(315)
Residential real estate								
Pass	\$ 622	\$ -	\$ -	\$ 492	\$ -	\$ 3,872	\$ -	\$ 4,986
Pass-Watch	7,695	7,128	2,522	13,005	12,677	38,006	678	81,711
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	710	-	710
Doubtful	-	-	-	-	-	-	-	-
Total Residential real estate	\$ 8,317	\$ 7,128	\$ 2,522	\$13,497	\$12,677	\$ 42,588	\$ 678	\$ 87,407
Current period gross write-offs	-	-	-	-	-	-	-	-
Commercial and Industrial								
Pass	\$ 47	\$ 146	\$10,478	\$ 17	\$ 390	\$ 1,993	\$ 1,303	\$ 14,374
Pass-Watch	6,560	7,927	1,157	1,130	68	462	7,219	26,548
Special Mention	-	-	-	-	-	126	-	126
Substandard	-	-	1,000	-	-	2,294	84	3,714
Doubtful	-	-	-	-	-	-	-	-
Total Commercial and Industrial	\$ 6,607	\$ 8,073	\$12,635	\$ 1,147	\$ 458	\$ 4,875	\$ 8,606	\$ 44,762
Current period gross write-offs	-	-	-	-	-	(980)	-	(980)
Consumer								
Pass	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Pass-Watch	12	-	-	-	-	211	438	710
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	52	-	52
Doubtful	-	-	-	-	-	-	-	-
Total Consumer	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ 263	\$ 438	\$ 762
Current period gross write-offs	-	-	-	-	-	(271)	-	(271)
Total	\$58,801	\$88,309	\$ 58,491	\$33,500	\$19,465	\$134,770	\$ 11,044	\$ 408,780

3. Loans Receivable and ACL (continued)

The following tables are a summary of the Company's nonaccrual loans for the periods indicated:

	December 31, 2025		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Construction and land development	\$ -	\$ 6,751	\$ 6,751
Commercial real estate	3,109	11,370	14,479
Residential real estate	368	1,755	2,123
Commercial and industrial	1,034	-	1,034
Consumer	-	49	49
Total	<u>\$ 4,511</u>	<u>\$ 19,925</u>	<u>\$ 24,436</u>

	December 31, 2024		
	Nonaccrual Loans with No Allowance	Nonaccrual Loans with an Allowance	Total Nonaccrual Loans
Construction and land development	\$ -	\$ -	\$ -
Commercial real estate	3,145	2,298	5,443
Residential real estate	2,225	584	2,809
Commercial and industrial	1,113	1,012	2,125
Consumer	-	-	-
Total	<u>\$ 6,483</u>	<u>\$ 3,894</u>	<u>\$ 10,377</u>

The Company recognized \$-0- of interest income on nonaccrual loans during the years ended December 31, 2025 and 2024.

The following table represents the accrued interest receivables written off by reversing interest income during the years ended December 31, 2025 and 2024:

	December 31, 2025	December 31, 2024
Construction and land development	\$ 253	\$ -
Commercial real estate	591	73
Residential real estate	-	2
Commercial and industrial	27	-
Consumer	5	-
Total	<u>\$ 876</u>	<u>\$ 75</u>

3. Loans Receivable and ACL (continued)

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan.

The following provides more detail about the types of collateral that secure collateral-dependent loans:

- The Company's construction and land development loans are usually secured by real property where the loan funds will be used to acquire land and to construct or improve appropriately zoned real property for the creation of income producing or owner-occupied commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 24 months.
- Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.20 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 5 to 7 years, with amortization to a maximum of 25 years.
- Residential real estate loans are secured by the improved real property (normally the primary or secondary residence) of the borrower and are usually underwritten with a term of 1 to 5 years but may be underwritten with terms up to 30 years.
- The Company also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment, and accounts receivable financing. These loans are generally secured by inventory, improved real estate, other fixed assets or by an external guarantee such as the SBA.
- Consumer loans are generally secured by personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

	December 31, 2025	December 31, 2024
Construction and land development	\$ 6,751	\$ -
Commercial real estate	25,231	12,747
Residential real estate	6,566	3,299
Commercial and industrial	1,732	2,714
Consumer	49	-
Total	<u>\$ 40,329</u>	<u>\$ 18,760</u>

3. Loans Receivable and ACL (continued)

The following tables summarize the activity related to the allowance for credit losses for the years ended December 31, 2025 and 2024 under the CECL methodology:

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, December 31, 2024	\$ 2,467	\$ 3,636	\$ 1,065	\$ 2,656	\$ 17	\$ 9,841
Loans charged off	-	(1,077)	(1)	(667)	(222)	(1,967)
Recoveries	-	285	14	965	106	1,370
Provision for credit losses	1,087	2,354	58	(278)	157	3,378
Balance, December 31, 2025	<u>\$ 3,554</u>	<u>\$ 5,198</u>	<u>\$ 1,136</u>	<u>\$ 2,676</u>	<u>\$ 58</u>	<u>\$ 12,622</u>

	Construction and Land Development	Commercial Real Estate	Residential Real Estate	Commercial and Industrial	Consumer	Total
Balance, December 31, 2023	\$ 2,074	\$ 3,232	\$ 887	\$ 2,456	\$ 17	\$ 8,666
Loans charged off	-	(315)	-	(980)	(271)	(1,566)
Recoveries	-	664	14	475	119	1,272
Provision for credit losses	393	55	164	705	152	1,469
Balance, December 31, 2024	<u>\$ 2,467</u>	<u>\$ 3,636</u>	<u>\$ 1,065</u>	<u>\$ 2,656</u>	<u>\$ 17</u>	<u>\$ 9,841</u>

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 of default/loss given default model to determine the allowance for credit losses.

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.

3. Loans Receivable and ACL (continued)

The following tables show the amortized cost basis as of December 31, 2025 and 2024 of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of loans and type of concession granted and describes the financial effect of the modifications made to borrowers experiencing financial difficulty:

	Modifications 2025		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Construction and land development	\$ -	-	
Commercial real estate	3,080	1.49%	Past due interest payments were deferred and will be due at maturity.
Residential real estate	-	-	
Commercial and industrial	-	-	
Consumer	-	-	
Total	\$ 3,080		

	Modifications 2024		
	Amortized Cost Basis	% of Total Loan Type	Financial Effect
Construction and land development	\$ -	-	
Commercial real estate	110	0.05%	Reduced interest rate was reduced from 10% to 7.01%. One half of the late fees were waived. Past due principal payments were deferred and will be due at maturity.
Residential real estate	126	0.14%	Maturity was extended five years. The amortization period was extended by 5 years to lower the monthly payments.
	232	0.27%	Past due payments were deferred to the back end of the loan and will be paid at maturity. The modification has allowed the borrower to be current.
	123	0.14%	Past due payments were deferred to the back end of the loan and will be paid at maturity. The modification has allowed the borrower to be current.
Commercial and industrial	151	0.34%	Maturity was extended ten years. The amortization period was extended by five years to lower the monthly payments. Granted a one year payment change to interest only. The deferred principal payments will increase the balloon payment due at maturity per original terms.
Consumer	-	-	
Total	\$ 742		

3. Loans Receivable and ACL (continued)

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

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.

There was no default in the last 12 months by the borrowers whose loans were modified due to experiencing financial difficulty.

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. The following table depicts the performance of loans that have been modified in the last 12 months:

	Payment Status (Amortized Cost Basis)		
	Current	30-89 Days Past Due	90+ Days Past Due
Construction and land development	\$ -	-	-
Commercial real estate	3,080	-	-
Residential real estate	-	-	-
Commercial and industrial	-	-	-
Consumer	-	-	-
Total	<u>\$ 3,080</u>	<u>-</u>	<u>-</u>

The Company maintains a separate reserve for credit losses on off-balance-sheet credit exposures, including unfunded loan commitments, which is included in other liabilities on the consolidated balance sheet. The reserve for credit losses on off-balance-sheet credit exposures is adjusted as a provision for credit losses in the income statement. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life, utilizing the same models and approaches for the Company's other loan portfolio segments described above, as these unfunded commitments share similar risk characteristics as its loan portfolio segments. The Company has identified the unfunded portion of certain lines of credit as unconditionally cancellable credit exposures, meaning the Company can cancel the unfunded commitment at any time. No credit loss estimate is reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company or for undrawn amounts under such arrangements that may be drawn prior to the cancellation of the arrangement.

The liability for credit losses on off-balance-sheet credit exposures included in other liabilities was \$508 at December 31, 2025 and \$797 at December 31, 2024.

4. Premises and Equipment

The major categories of premises and equipment are as follows:

	2025	2024
Land	\$ 2,050	\$ 2,050
Bank premises	15,293	15,293
Furniture, fixtures and equipment	11,492	11,420
Leasehold improvements	1,051	1,051
Construction in process	6,004	5,146
Total	35,890	34,960
Accumulated depreciation and amortization	(15,788)	(15,140)
Premises and equipment, net	<u>\$ 20,102</u>	<u>\$ 19,820</u>

Construction in process contains all expenses incurred on various assets until they are converted into working condition. The construction in process account primarily contained expenses related to building renovations. The properties are owned and leased by the Bank.

Depreciation expense for the years ended December 31, 2025 and 2024 was \$648 and \$869, respectively.

5. Intangible Assets

Acquired intangible assets from the CNB transaction consisted of a core deposit intangible with a gross carrying amount of \$610 on November 1, 2019. Accumulated amortization was \$610 at December 31, 2025 for a net carrying amount of \$0. Amortization expense for the year ended December 31, 2025 and 2024 was \$0 and \$8, respectively.

6. Deposits

At December 31, 2025 and 2024, certificates of deposit of \$250 or more totaled \$30,707 and \$27,017, respectively. These deposit totals do not include certificates of deposit held through the Certificate of Deposit Account Registry Service (CDARS) program which holds reciprocal balances at less than \$250. At December 31, 2025 and 2024, the Bank held certificates of deposit through the CDARS program which totaled \$93,906 and \$91,496, respectively. At December 31, 2025, the scheduled maturities of certificates of deposits are as follows:

2026	\$ 143,591
2027	5,823
2028	986
2029	330
2030 and thereafter	148
	<u>\$ 150,878</u>

Deposit overdrafts totaling \$214 at December 31, 2025 and \$158 at December 31, 2024 were reclassified to the appropriate loan classification on the balance sheet.

The Bank has a relationship with one state agency which held deposits totaling 3.8% of total deposits at December 31, 2025 and which held deposits totaling 4.7% of total deposits at December 31, 2024. The relationship has been with the Bank since March 1990. The deposits are primarily secured by treasury and/or agency bonds. Additionally, the Bank has a relationship with a large financial institution and shareholder which held deposits totaling 4.1% of total deposits at December 31, 2025 and which held deposits totaling 3.9% of total deposits at December 31, 2024. The relationship has been with the Bank since May 2024. The deposits are secured by a reciprocal deposit program.

At December 31, 2025 and 2024, the Bank held brokered deposits totaling \$21,703 and \$26,855, respectively, as determined by regulatory guidance. The guidance states that an agent institution may except reciprocal deposits from treatment as brokered deposits up to the lesser of \$5 billion or an amount equal to 20 percent of the agent institution's total liabilities. An agent institution that holds reciprocal deposits in excess of the general cap should report such excess deposits as brokered deposits. As defined, the deposits were fully insured by the FDIC.

7. Short-Term Borrowing

The following table summarizes information for short-term borrowings for the years ended December 31:

	2025		2024	
	Amount	Rate	Amount	Rate
At year end:				
Federal Home Loan Bank advances	\$ 50,000	3.51%	\$ -	
Retail repurchase agreements	5,285	0.17%	3,028	0.05%
Total	<u>\$ 55,285</u>		<u>\$ 3,028</u>	
Average for the year:				
Federal Home Loan Bank advances	\$ 9,726	3.56%	\$ 82	5.54%
Retail repurchase agreements	5,001	0.30%	3,929	0.05%
Total	<u>\$ 14,727</u>		<u>\$ 4,011</u>	
Maximum month end balance:				
Federal Home Loan Bank advances	\$ 50,000		\$ -	
Retail repurchase agreements	13,096		4,648	
Total	<u>\$ 63,096</u>		<u>\$ 4,648</u>	

Securities sold under agreements to repurchase are securities sold to customers, at the customers' request, under a "roll-over" contract that matures in one business day. The underlying securities sold are Government agency securities which are segregated in the Bank's custodial accounts from other investment securities.

The Bank periodically borrows under a secured line of credit from the Federal Home Loan Bank of Atlanta to meet short-term liquidity needs. At December 31, 2025 and 2024, advances totaled \$50,000 and \$0-, respectively, from the Federal Home Loan Bank of Atlanta and were secured by a blanket lien on the Bank's qualifying commercial and residential mortgages and investment securities. The Bank's only FHLB advance during 2025 and shown at December 31, 2025 was drawn under FHLB's 3-year Fixed Rate Credit ("FRC") Program.

At December 31, 2025, the Company had a \$224,000 line of credit facility with the FHLB, of which \$50,000 was used for advances and \$13,150 was used for letters of credit to secure public deposits. At December 31, 2024, the Company had a \$187,000 line of credit facility with the FHLB, of which \$0 was used for advances and \$14,750 was used for letters of credit to secure public deposits. The Bank normally borrows in short term increments of 90 days or less maturities at fixed rates; however, varied rates and term products are available to the Bank. In October 2025, the Bank decided to borrow \$50,000 of a 3-year FRC advance which was used to purchase various bonds which have a 3-year weighted average life. The bonds were purchased to add to the Bank's revenue.

The Bank obtained a secured line of credit totaling \$32,000 with the Federal Reserve Bank under its Discount Window Program during 2025. The line is secured by investment securities. The \$32,000 line was drawn for one day to test during 2025. There was \$-0-outstanding on the line of credit at December 31, 2025.

The Bank also had an unsecured line of credit of \$3,000 with a correspondent available for overnight borrowing during 2025 and 2024. The \$3,000 line was drawn for one day to test during 2025 and 2024. There was \$-0-outstanding on the line of credit at December 31, 2025 or December 31, 2024.

8. Leases

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches, office locations and office equipment rentals with terms extending through July 2031. All of the Company's leases are classified as operating leases.

The following table provides information with respect to the Company's operating leases:

	2025	2024
Operating lease cost	\$ 474	\$ 716
Short-term lease cost	1	61
Total lease cost	<u>\$ 475</u>	<u>\$ 777</u>

Cash paid for amounts included in the measurement of lease liabilities:

Operating cash flows from leases	\$ 917	\$ 884
Weighted-average remaining lease term in years	5	5
Weighted-average discount rate	1.93%	1.94%

ROU assets are held in other assets and ROU liabilities are held in accounts payable and accrued expenses on the balance sheet. The following table presents the unamortized balance of the Company's ROU assets and lease liabilities on the consolidated balance sheets at December 31, 2025 and 2024:

	2025	2024
Total operating lease right-of-use assets	<u>\$ 1,690</u>	<u>\$ 2,164</u>
Total operating lease liabilities	<u>\$ 1,760</u>	<u>\$ 2,243</u>

At December 31, 2025, maturities of lease liabilities were as follows:

	Operating Leases
2026	\$ 498
2027	392
2028	329
2029	241
2030	248
Years thereafter	147
Total future minimum lease payments	\$ 1,855
Amounts representing interest	(95)
Total operating lease liabilities	<u>\$ 1,760</u>

9. Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and the Bank's financial statements. 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 Bank's capital amounts and its classification under the regulatory framework for prompt corrective action are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

In August 2018, the Federal Reserve updated the Small Bank Holding Company Policy Statement (the "Statement"), in compliance with the Economic Growth, Regulatory Relief and Consumer Protection Act of 2018 ("EGRRCPA"). The Statement, among other things, exempts bank holding companies with consolidated total assets of less than \$3 billion from being subject to regulatory capital requirements on a consolidated basis.

The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (the Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. As a part of the new requirements, the Common Equity Tier 1 Capital ratio is calculated and utilized in the assessment of capital for all institutions. The Company has made an election to not have the net unrealized gain or loss on available-for-sale securities included in computing regulatory capital. Under the Basel III rules, the Bank must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. Management believes as of December 31, 2025 and 2024, the Bank meets all capital adequacy requirement to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2025 and 2024, the most recent regulatory notification categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

(dollars in thousands)	Actual		Minimum Required for Capital Adequacy Purposes		To be Categorized as Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2025:						
Total capital (to risk-weighted assets)	\$ 125,532	26.77%	\$ 49,236	10.500%	\$ 46,891	10.00%
Tier 1 capital (to risk-weighted assets)	119,588	25.50%	39,858	8.500%	37,513	8.00%
CET1 (to risk-weighted assets)	119,588	25.50%	32,824	7.000%	30,479	6.50%
Tier 1 capital (to average assets)	119,588	15.09%	51,527	6.500%	39,636	5.00%
As of December 31, 2024:						
Total capital (to risk-weighted assets)	\$ 126,070	27.54%	\$ 48,068	10.500%	\$ 45,780	10.00%
Tier 1 capital (to risk-weighted assets)	120,295	26.28%	38,913	8.500%	36,624	8.00%
CET1 (to risk-weighted assets)	120,295	26.28%	32,046	7.000%	29,757	6.50%
Tier 1 capital (to average assets)	120,295	15.62%	50,049	6.500%	38,500	5.00%

10. Income Taxes

The provision for income taxes consists of the following for the years ended December 31:

	2025	2024
Current income tax expense		
Federal	\$ 682	\$ 111
State	(33)	159
Total current income tax expense	649	270
Deferred income tax benefit:		
Federal income tax	\$ (367)	\$ 221
State income tax	(113)	71
Total deferred income tax (benefit) expense	(480)	292
Total income tax expense	\$ 169	\$ 562

The components of the deferred tax benefit resulting from net temporary differences are as follows for the years ended December 31:

	2025	2024
Income before taxes	\$ 601	\$ 2,375
Federal income tax rate	21%	21%
Tax expense at statutory rate	126	499
Differences resulting from:		
State tax expense, net of federal	(45)	137
Bank owned life insurance	(53)	(52)
Tax-exempt interest	(40)	(40)
Nondeductible expenses	16	19
True ups and other	165	(1)
Provision for income taxes	\$ 169	\$ 562

The major components of deferred tax assets and (liabilities) are summarized at December 31, 2025 and 2024, as follows:

	2025	2024
Accrued bonus and retirement benefits	\$ 43	\$ 108
Acquisition accounting adjustments	27	161
Allowance for credit losses	3,460	2,697
Deferred loan costs	429	767
Depreciation	(1,183)	(1,320)
Impairment of equity securities	-	34
Lease liability	482	615
Nonaccrual interest income	585	267
Right-of-use asset	(463)	(593)
Unrealized losses on AFS securities	4,697	7,175
Unrealized losses on equity securities	(125)	41
True ups and other	(429)	48
Net deferred tax asset	\$ 7,523	\$ 10,000

11. Profit Sharing Plan

The Company has a profit sharing plan, qualifying under Section 401(k) of the Internal Revenue Code, for those employees who meet the eligibility requirements set forth in the plan. The plan does not require the Company to match the participants' contributions. The Company contributions to the plan were \$395 for the year 2025 and \$365 for year 2024.

12. Employee Stock Ownership Plan

In 1986, the Bank implemented an Employee Stock Ownership Plan ("ESOP") that covered substantially all full-time employees. No contributions were made in 2025 or 2024. Shares held by the ESOP participants totaled 10,752 or 1.7% of the Company's stock at December 31, 2025 and 2024, respectively. Information for the Company's ESOP is obtained retrospectively.

13. Commitments and Contingencies

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit, which are not shown in the accompanying consolidated financial statements (dollars in thousands). The Company does not anticipate any material losses as a result of these transactions. At December 31, 2025 and 2024 the Bank had commitments to fund loans outstanding for approximately \$55,758 and \$70,495, respectively. The Bank also had standby letters of credit outstanding at December 31, 2025 and 2024 in the amount of \$1,142 and \$1,055 respectively. Such commitments and standby letters of credit are subject to the Bank's normal underwriting standards. Since many of the commitments are expected to expire without being completely drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments

The Company has adopted FASB ASC Topic 820, "Fair Value Measurements" which provides a framework for measuring and disclosing fair value under generally accepted accounting principles. FASB ASC Topic 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, impaired loans).

FASB ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. FASB ASC Topic 820 also establishes a fair value hierarchy, which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

The Company utilizes fair value measurements to record fair value adjustments to certain assets and to determine fair value disclosures. Securities available for sale and loans held 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 impaired loans and REO. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or write-downs of individual assets.

Under FASB ASC Topic 820, 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 the fair value.

These hierarchy levels are:

Level 1 Valuation for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for Market transactions involving identical assets or liabilities.

Level 2 Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

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

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by FASB ASC Topic 820, the Company does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations and certain physical commodities.

Such instruments are generally classified within Level 2 of the fair value hierarchy. Level 3 is for positions that are not traded in actual markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence, management's best estimate is used.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The following table sets forth assets of the Company for which fair values are determined on a recurring basis as of December 31, 2025 and 2024:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total Fair Value
December 31, 2025				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	\$ 34,094	\$ -	\$ -	\$ 34,094
U.S. Government Agency	-	4,176	-	4,176
Mortgage-Backed Securities	-	104,088	-	104,088
Collateralized Mortgage Obligations	-	111,132	-	111,132
Municipal securities	-	36,105	-	36,105
Other debt securities	-	-	4,446	4,446
Total	<u>\$ 34,094</u>	<u>\$ 255,501</u>	<u>\$ 4,446</u>	<u>\$ 294,041</u>
Equity investments with readily determinable fair value	<u>\$ -</u>	<u>\$ 945</u>	<u>\$ -</u>	<u>\$ 945</u>
December 31, 2024				
Assets:				
Investments securities available-for-sale :				
U.S. Treasury Securities	\$ 32,830	\$ -	\$ -	\$ 32,830
U.S. Government Agency	-	6,395	-	6,395
Mortgage-Backed Securities	-	72,595	-	72,595
Collateralized Mortgage Obligations	-	106,407	-	106,407
Municipal securities	-	35,303	-	35,303
Other debt securities	-	-	4,490	4,490
Total	<u>\$ 32,830</u>	<u>\$ 220,700</u>	<u>\$ 4,490</u>	<u>\$ 258,020</u>
Equity investments with readily determinable fair value	<u>\$ -</u>	<u>\$ 875</u>	<u>\$ -</u>	<u>\$ 875</u>

There were no transfers, sales, paydowns or reclassifications of Level 3 assets in 2025 or 2024 other than the fair value adjustment.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The following table sets forth the Company's financial assets that were accounted for or disclosed at fair value on a nonrecurring basis as of December 31, 2025 and 2024:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Credit Losses
December 31, 2025				
Assets:				
Collateral dependant loans	\$ -	\$ -	\$ 41,083	\$ 5,493
REO	-	-	157	221
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 41,240</u>	<u>\$ 5,714</u>
December 31, 2024				
Assets:				
Collateral dependant loans	\$ -	\$ -	\$ 19,514	\$ 4,037
REO	-	-	378	378
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,892</u>	<u>\$ 4,415</u>

The following table presents quantitative information about level 3 fair value measurements for assets measured at fair value on a nonrecurring basis at December 31, 2025 and 2024:

	Fair Value	Significant Other Valuation Techniques	Unobservable Inputs	Weighted Average Range
December 31, 2025				
Assets:				
Collateral dependant loans	\$ 41,083	Market comparables	Discount applied to market comparables ⁽¹⁾	10% - 20%
REO	157	Market comparables	Discount applied to market comparables ⁽¹⁾	10% - 20%
Total	<u>\$ 41,240</u>			
December 31, 2024				
Assets:				
Collateral dependant loans	\$ 19,514	Market comparables	Discount applied to market comparables ⁽¹⁾	10% - 20%
REO	378	Market comparables	Discount applied to market comparables ⁽¹⁾	10% - 20%
Total	<u>\$ 19,892</u>			

⁽¹⁾ A discount percentage is applied based on age of independent appraisals, selling costs, current market conditions, and experience within the local market.

As shown in the table above, certain assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-fair value accounting or write-downs of individual assets after they are individually evaluated. The primary assets accounted for at fair value on a nonrecurring basis are related to collateral-dependent loans that are individually assessed and other real estate owned. For the collateral-dependent loans and other real estate owned, the Company measures the fair value utilizing a market valuation approach, based on an appraisal conducted by an independent, licensed appraiser. Management may discount the value from the appraisal in determining the fair value if, based on its understanding of the market conditions, the collateral had been impaired below the appraised value (Level 3). For loans that are not collateral dependent, the Company uses an income approach, specifically, the discounted cash flow method. The continuing payments are discounted over the expected life at the loan's original contract rate and include adjustments for risk of default.

REO is adjusted to fair value upon transfer of the loans to foreclosed properties. Subsequently, foreclosed properties are carried at the lower of carrying value or fair value. The estimated fair value for REO included in Level 3 is determined by independent market based appraisals and other available market information, less cost to sell, that may be reduced further based on market expectations or an executed sales agreement. If fair value of the collateral deteriorates subsequent to initial recognition, the Company records the foreclosed properties as a nonrecurring Level 3 adjustment. Valuation techniques are consistent with those techniques applied in prior periods. Costs to sell are estimated to be 10-20% of the fair value.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

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

Cash and Cash Equivalents

The carrying amount of cash and cash equivalents approximates their fair value.

Short-term investments

The carrying amount of short-term investments approximates its fair value.

Equity investments

The fair values of equity investments were based upon quoted market prices.

Investment Securities Available-for-Sale

The fair values of securities were based upon quoted market prices.

Restricted Stock

The carrying amount of restricted stock approximates its fair value.

Loans Held for Sale

The fair values of loans held for sale were based upon quoted market prices for loans with similar interest rates and terms to maturity.

Loans Receivable, net

The fair value of the loan portfolio, with the exception of the adjustable rate portfolio, was calculated by discounting the scheduled cash flows through the estimated maturity using anticipated prepayment speeds and using discount rates that reflect the credit and interest rate risk inherent in each loan portfolio. The fair value of the adjustable loan portfolio was estimated by grouping the loans with similar characteristics and comparing the characteristics of each group to the prices quoted for similar types of loans in the secondary market. The fair value disclosures for both the fixed and adjustable rate portfolios were adjusted to reflect the exit price amount anticipated to be received from the sale of the portfolio in an open market transaction as required upon adoption of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* beginning in the first quarter of 2018.

Bank Owned Life Insurance

The fair value of bank owned life insurance is the current cash surrender value, which is the carrying value.

Equity Investments with Readily Determinable Fair Value

The fair value of the Company's equity investment with readily determinable fair value is comprised of a mutual fund, the fair value for which is obtained from unadjusted quoted prices in active markets on the date of measurement.

Accrued Interest Receivable

The carrying amount of accrued interest receivable approximates its fair value since it is short-term in nature and does not present unanticipated credit concerns.

Equity Investments without Readily Determinable Fair Value

Equity securities without readily determinable fair values are investments (e.g., private company shares) that lack active exchange market prices. Under ASC 321, they are typically measured at cost minus impairment, adjusted upward or downward for observable price changes in orderly transactions for identical or similar investments. Initial Measurement is shown at cost. Subsequent Measurement is adjusted to fair value only when an "observable price change" occurs—a transaction for identical or similar, non-marketable equity from the same issuer. A qualitative assessment is performed each reporting period for impairment or appreciation. Impairment or appreciation of the investment is written up or down to fair value, with the gain or loss recorded in net income.

Deposits

The fair value of demand deposits, savings accounts and certain money market account deposits is the amount payable on demand at the reporting date. The fair value of fixed maturity certificates of deposit is estimated using the rates currently offered for deposits of similar remaining maturities. The fair value disclosures for all of the deposits were adjusted to reflect the exit price amount anticipated to be received from the sale of the deposits in an open market transaction as required upon adoption of ASU 2016-01, *Financial Instruments – Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities* beginning in the first quarter of 2018.

Short-term Borrowings

The carrying amounts of federal funds purchased, borrowings under repurchase agreements, and other short-term borrowings, generally maturing within ninety days, approximate their fair values.

Accrued Interest Payable

The carrying amount of accrued interest payable approximates its fair value since it is short-term in nature.

Limitations

The fair value estimates are made at a discrete point in time based on relevant market information and information about the financial

instruments. Fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors.

These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates. Further, the foregoing estimates may not reflect the actual amount that could be realized if all or substantially all of the financial instruments were offered for sale.

14. Fair Value Measurements and Estimated Fair Value of Financial Instruments (continued)

The estimated fair values of the Company's financial instruments at December 31, 2025 and 2024 are as follows:

			Fair Value Measurements as of December 31, 2025		
			Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Value	Estimated Fair Value			
Financial Assets:					
Cash and cash equivalents	\$ 46,103	\$ 46,103	\$ 46,103	\$ -	\$ -
Short-term investments	2,967	2,967	2,967	-	-
Investment securities available-for-sale	294,041	294,041	34,095	255,500	4,446
Equity investments	945	945	-	945	-
Restricted stock	2,919	2,919	-	2,919	-
Loans held for sale					
Loans receivable, net	399,310	398,740	-	-	398,740
Accrued interest receivable	3,032	3,032	-	3,032	-
Equity investments without readily determined values	6,866	6,866	-	-	6,866
Financial Liabilities:					
Deposits	603,440	552,359	-	552,359	-
Short-term borrowings	55,285	55,149	-	55,149	-
Accrued interest payable	1,556	1,556	-	1,556	-

			Fair Value Measurements as of December 31, 2024		
			Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
	Carrying Value	Estimated Fair Value			
Financial Assets:					
Cash and cash equivalents	\$ 65,774	\$ 65,774	\$ 65,774	\$ -	\$ -
Short-term investments	2,907	2,907	2,907	-	-
Investment securities available-for-sale	258,020	258,020	32,830	220,700	4,490
Equity investments	875	875	-	875	-
Restricted stock	532	532	-	532	-
Loans receivable, net	397,644	385,748	-	-	385,748
Accrued interest receivable	3,033	3,033	-	3,033	-
Equity investments without readily determined values	6,027	6,027	-	-	6,027
Financial Liabilities:					
Deposits	641,454	589,076	-	589,076	-
Short-term borrowings	3,028	3,028	-	3,028	-
Accrued interest payable	1,312	1,312	-	1,312	-

15. Related Party Transactions

In the normal course of banking business, loans are made to officers and directors on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with non-related parties and do not involve more than normal risk of collectability or present other unfavorable features. The following table presents an analysis of activity for loans to related parties at December 31, 2025 and 2024:

	2025	2024
Balance, beginning of year	\$ 9,978	\$ 1,499
Principal additions	1,623	8,566
Principal payments	(105)	(87)
Relationship change	(8,567)	-
Balance, end of year	<u>\$ 2,929</u>	<u>\$ 9,978</u>

At December 31, 2025 and 2024, related party deposits totaled \$17,226 and \$18,541, respectively.

16. Revenue Recognition - Noninterest Income

The following table presents the Company's noninterest income for the years ended December 31, 2025 and 2024 with identification of revenue streams in-scope and out-of-scope of Topic 606:

	2025	2024
Service charges on deposit accounts	\$ 1,874	\$ 1,987
Net gains on sales of loans ⁽¹⁾	92	4
Loss on sale of real estate	-	(197)
Grants and awards ⁽¹⁾	380	583
Other:		
Debit card interchange fees	807	815
Bank-owned life insurance income ⁽¹⁾	253	248
Other noninterest income	1,671	1,700
	<u>\$ 5,077</u>	<u>\$ 5,140</u>

(1) Not within the scope of ASC Topic 606

Contract balances and contract acquisition costs: The Company does not typically enter into long-term revenue contracts with customers and therefore, does not experience significant contract balances. As of December 31, 2025 and 2024, the Company did not have any significant contract balances. As of December 31, 2025 and 2024, the Company did not capitalize any contract acquisition costs.

17. 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, including the estimates inherent in the process of preparing financial statements. Non-recognized 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.

Management has reviewed the events occurring through April 30, 2026, the date the financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.