HERITAGE

BANCSHARES, INC.

Dear Fellow Shareholder:

On behalf of the Board of Directors and employees of your Company, we are pleased to provide you with our 2024 annual report. It is with immense pride and appreciation that we share the progress and achievements that your Bank has accomplished in 2024.

A sustained focus on the Bank's liquidity position has increased total assets 6% year-over-year and total deposits 16% year-over-year, while also ensuring compliance with the changing regulatory environment and enhancing our financial stability. Increases in interest rates have substantially increased the cost of deposits, which in turn decreased the Bank's net interest income, the primary driver of our financial performance. However, the Bank's profitability remains healthy and is estimated to increase in 2025.

Community banking remains the backbone of our local economies. As such, persistent inflation, fluctuating interest rates, and regulatory pressures affected how your Bank operated and performed in 2024. However, you should be assured that we will continue to embrace and promote our Mission Statement: "*We will deliver exceptional personal service to each of our customers. We will offer useful financial products and services that will simplify our customer's lives while building a community bank which is desirable and financially viable for our customers, employees, shareholders, and communities.*"

Moving forward into 2025, there is ambiguity on how the local, national, and international economies will perform due to the changing political environment, which your Bank will monitor diligently and react when appropriate. However, technological advancements continue to change the community banking landscape, so your Bank will have some exciting new features later this year!

We are pleased to report that the significant renovations at our Mannington location have been completed, transforming this branch into a modern and technologically advanced banking experience. Coupled with the openings of our White Hall, Pierpont, and Suncrest locations in prior years, this is an excellent opportunity for you to spread the word about your Bank's progress by referring First Exchange Bank to your family, friends, and business associates. We are confident they will be pleased with our competitive personal products, business solutions, and our qualified, friendly staff.

We strive for total customer satisfaction while giving back to the community. The company and its employees have contributed to multiple causes during 2024, including Tygart Valley United Way, Mannington District Fair, Mon Health Medical Center Foundation (Breast Cancer), the Marion County Humane Society, Mountaineer Area Council, and other various causes.

Recently we were presented the Distinguished Corporate Citizen award from the Scouting America's Mountaineer Area Council, as well as the Bronze Corporate Investment award and the Gleason and Jean Kuhn Growth Innovation Award from the United Way. We are proud to be a community bank that is focused on building better communities.

As regulatory and interest rate environments continue to change, we are well-positioned to adapt to new opportunities and challenges. Our experienced leadership team, and dedication to unparalleled customer care will continue to fuel positive momentum in 2025 and beyond. Lastly, we thank our loyal customers, our capable staff, and our Board of Directors for continuing to rise to the challenge.

Finally, we fondly remember our Board Member, colleague and friend, William (Bill) Yoho, who passed away in 2024. His dedication, knowledge, and kindness left a lasting impact on our team and the communities we serve, and he will be deeply missed by all who had the privilege to know and work with him.

Sincerely,

W F Goettel

William F. Goettel, CPA

President

1 Heritage Way White Hall, WV 26554 Telephone 304-534-7200

Five Year Performance Summary

(unaudited)

$ (thousands, except ratios)	2024	2023	2022	2021	2020
Income and expense:					
Interest income	$ 19,440	$ 15,672	13,274	$ 12,967	$ 14,327
Interest expense	8,667	4,280	1,376	2,102	2,885
Provision for loan losses	911	395	613	1,549	1,120
Noninterest income	2,014	2,108	1,716	1,652	1,462
Noninterest expense	10,616	9,706	9,706	7,914	8,403
Net income	1,261	3,399	3,296	3,055	3,381
Per common share data:					
Net income	$ 1.04	$ 2.81	2.73	$ 2.53	$ 2.79
Book value after AOCI (1)	18.91	18.76	16.76	20.50	20.11
Total Distributions	0.42	1.55	1.60	1.70	2.02
Balance sheet:					
Loans outstanding, net	$ 297,710	$ 300,904	$ 262,118	$ 252,586	$ 252,882
Deposits	340,636	292,799	292,194	287,546	262,715
Total Equity	22,837	22,664	20,246	24,769	24,287
Total Assets	381,740	361,585	324,573	330,503	314,395
Annual Growth - Total Assets	5.57 %	11.40 %	(1.79) %	5.12 %	4.38 %
Operating Ratios:					
Return on average assets	0.33 %	1.00 %	1.01 %	0.93 %	1.09 %
Net interest margin (2)	3.22	3.56	3.99	3.78	4.13
Equity Ratio:					
Return on average shareholder's equity	5.52 %	15.68 %	14.43 %	12.41 %	14.11 %
Equity (after AOCI) to assets (1)	5.98	6.27	6.24	7.49	7.73

Visit our website at www.firstexchangebank.com

(1) Accumulated other comprehensive (loss) income
(2) As a percent of average earning assets

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024

	Page Number
Independent Auditor's Report	1–2
Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Income	4
Consolidated Statements of Comprehensive Income	5
Consolidated Statements of Changes in Shareholders' Equity	6
Consolidated Statements of Cash Flows	7
Notes to Consolidated Financial Statements	8–39

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Heritage Bancshares, Inc.
White Hall, West Virginia

Opinion

We have audited the accompanying consolidated financial statements of Heritage Bancshares, Inc. (an S Corporation) and subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023; 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 accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of 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 audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the 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.

PITTSBURGH, PA
2009 Mackenzie Way • Suite 340
Cranberry Township, PA 16066
(724) 934-0344

PHILADELPHIA, PA
161 Washington Street • Suite 200
Conshohocken, PA 19428
(610) 278-9800

WHEELING, WV
980 National Road
Wheeling, WV 26003
(304) 233-5030

STEUBENVILLE, OH
511 N. Fourth Street
Steubenville, OH 43952
(304) 233-5030

S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

A.R. Anadgross, P.C. d/b/a A.R. Anadgross, A.C.

Cranberry Township, Pennsylvania
March 11, 2025

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 5,014,750	$ 5,346,271
Interest-bearing deposits in other institutions	29,110,506	65,080
Total cash and cash equivalents	34,125,256	5,411,351
Certificates of deposit	100,000	100,000
Investment securities available for sale	27,627,352	31,725,455
Loans	301,802,802	304,923,959
Less allowance for credit losses	(4,092,733)	(4,020,002)
Net loans	297,710,069	300,903,957
Bank premises and equipment, net	12,486,075	12,949,767
Bank-owned life insurance	6,669,671	6,501,471
Federal Home Loan Bank stock	660,300	1,799,000
Accrued interest receivable	1,056,999	1,040,197
Other assets	1,303,796	1,153,589
TOTAL ASSETS	$ 381,739,518	$ 361,584,787
LIABILITIES		
Deposits:		
Noninterest-bearing demand	$ 57,596,838	$ 67,642,265
Interest-bearing demand	283,039,181	225,157,229
Total deposits	340,636,019	292,799,494
Short-term borrowings	5,996,400	31,474,600
Subordinated debentures owed to unconsolidated subsidiary trust	5,671,000	5,671,000
Long-term borrowings	4,246,630	6,485,812
Other liabilities	2,352,264	2,490,050
TOTAL LIABILITIES	358,902,313	338,920,956
SHAREHOLDERS' EQUITY		
Common stock		
Par value $.50 per share; authorized 5,600,000 shares in 2024 and 2023; issued 1,383,575 shares in 2024 and 2023; 1,207,714 and 1,207,964 shares outstanding in 2024 and 2023	691,788	691,788
Capital surplus	4,649,445	4,649,445
Retained earnings	24,891,358	24,137,209
Treasury stock, at cost, 175,861 shares in 2024 and 175,611 shares in 2023	(1,882,907)	(1,874,657)
Accumulated other comprehensive loss	(5,512,479)	(4,939,954)
TOTAL SHAREHOLDERS' EQUITY	22,837,205	22,663,831
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 381,739,518	$ 361,584,787

See accompanying notes to the consolidated financial statements.

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2024	Year Ended December 31, 2023
INTEREST INCOME		
Interest and fees on loans:		
Taxable	$ 17,078,648	$ 14,594,275
Tax-exempt	46,481	29,597
Interest and dividends on securities:		
Taxable	968,513	981,491
Interest on interest-bearing deposits in other institutions	1,341,102	61,335
Interest on certificates of deposit	5,302	5,172
Total interest income	19,440,046	15,671,870
INTEREST EXPENSE		
Interest expense on deposits	6,991,162	2,718,747
Other interest	1,675,716	1,561,055
Total interest expense	8,666,878	4,279,802
NET INTEREST INCOME	10,773,168	11,392,068
Provision for credit losses	910,500	394,500
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	9,862,668	10,997,568
OTHER OPERATING INCOME		
Service fees on deposits	1,748,326	1,755,965
Earnings on bank-owned life insurance	168,200	150,841
Loss on sale of other real estate owned	-	(4,887)
Loss on sale of premises and equipment	(45,769)	(1,449)
Other	143,658	207,235
Total other operating income	2,014,415	2,107,705
OTHER OPERATING EXPENSES		
Salaries and employee benefits	4,831,987	4,685,023
Net occupancy expense	302,430	246,360
Equipment rentals, depreciation, and maintenance	1,302,538	1,275,906
Professional fees	461,092	177,713
Computer expense	1,684,007	1,574,417
FDIC assessment	281,962	195,092
Other	1,751,945	1,551,534
Total other operating expenses	10,615,961	9,706,045
NET INCOME	$ 1,261,122	$ 3,399,228
EARNINGS PER SHARE	$ 1.04	$ 2.81
AVERAGE SHARES OUTSTANDING	1,207,034	1,207,902

See accompanying notes to the consolidated financial statements.

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31, 2024	Year Ended December 31, 2023
Net income	$ 1,261,122	$ 3,399,228
Other comprehensive (loss) income:		
Increase (decrease) in net unrealized losses on available-for-sale securities	(572,525)	891,051
Other comprehensive (loss) income	(572,525)	891,051
Comprehensive income	$ 688,597	$ 4,290,279

See accompanying notes to the consolidated financial statements.

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Capital Surplus	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total
Balance, December 31, 2022	$ 691,788	$ 4,649,445	$ 22,610,294	$ (1,874,657)	$ (5,831,005)	$ 20,245,865
Net income	-	-	3,399,228	-	-	3,399,228
Dividends declared ($1.55 per share)	-	-	(1,872,313)	-	-	(1,872,313)
Sale of treasury stock (2,787 shares)	-	-	-	(87,791)	-	(87,791)
Purchase of treasury stock (2,787 shares)	-	-	-	87,791	-	87,791
Other comprehensive income	-	-	-	-	891,051	891,051
Balance, December 31, 2023	$ 691,788	$ 4,649,445	$ 24,137,209	$ (1,874,657)	$ (4,939,954)	$ 22,663,831
Net income	-	-	1,261,122	-	-	1,261,122
Dividends declared ($.42 per share)	-	-	(506,973)	-	-	(506,973)
Sale of treasury stock (7,225 shares)	-	-	-	196,525	-	196,525
Purchase of treasury stock (7,475 shares)	-	-	-	(204,775)	-	(204,775)
Other comprehensive loss	-	-	-	-	(572,525)	(572,525)
Balance, December 31, 2024	$ 691,788	$ 4,649,445	$ 24,891,358	$ (1,882,907)	$ (5,512,479)	$ 22,837,205

See accompanying notes to the consolidated financial statements.

HERITAGE BANCSHARES, INC. (AN S CORPORATION) AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2024	2023
OPERATING ACTIVITIES		
Net income	$ 1,261,122	$ 3,399,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	754,627	756,126
Provision for credit losses	910,500	394,500
Loss on disposal of premises and equipment	45,769	1,449
Loss on sale of other real estate owned	-	4,887
Increase in accrued interest receivable	(16,802)	(163,296)
Amortization of security premiums and accretion of discounts, net	63,558	69,672
Earnings on bank-owned life insurance	(168,200)	(150,841)
Increase in other assets	(176,207)	(267,946)
Increase in other liabilities	176,302	216,847
Net cash provided by operating activities	2,850,669	4,260,626
INVESTING ACTIVITIES		
Purchases of securities available for sale	3,462,021	4,142,347
Loans made to customers (increase) decrease, net	2,283,388	(39,206,322)
Purchases of premises and equipment	(445,425)	(374,667)
Sale of premises and equipment	108,721	-
Proceeds from sale of other real estate owned	26,000	80,000
Purchase of FHLB stock	(317,300)	(3,420,900)
Redemption of FHLB stock	1,456,000	2,064,300
Net cash provided by (used for) investing activities	6,573,405	(36,715,242)
FINANCING ACTIVITIES		
Net decrease of demand deposits, NOW accounts and savings accounts	(10,992,535)	(29,112,457)
Increase in time deposits	58,829,060	29,717,950
(Decrease) increase from short-term borrowings	(25,478,200)	27,935,400
Increase from long-term borrowings	-	7,000,000
Principal payments on long-term borrowings	(2,239,183)	(952,746)
Dividends paid	(821,061)	(2,053,507)
Purchase of common stock for treasury	(204,775)	(60,015)
Proceeds from sale of common stock from treasury	196,525	60,015
Net cash provided by financing activities	19,289,831	32,534,640
Increase in cash and cash equivalents	28,713,905	80,024
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	5,411,351	5,331,327
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 34,125,256	$ 5,411,351
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash payments for:		
Interest on deposits and borrowings	$ 8,341,766	$ 3,909,511
SUPPLEMENTAL SCHEDULE OF NONCASH INVESTING AND FINANCIAL ACTIVITIES		
Dividends declared but unpaid	$ 96,617	$ 410,707

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business: Heritage Bancshares, Inc. (an S Corporation) (the "Company") is a bank holding company. The subsidiary, First Exchange Bank (the "Bank"), is a commercial bank with locations in Marion County, Wetzel County, and Monongalia County, West Virginia. The Bank provides retail and commercial loan and deposit services to individuals and small businesses in Marion, Wetzel, Monongalia, and the surrounding counties of West Virginia. The Bank is the sole member of First Heritage Insurance Services, LLC, a company incorporated during 2000. First Heritage Insurance Services, LLC had no significant operations during 2024 and 2023.

Basis of financial statement presentation: The accounting and reporting policies of Heritage Bancshares, Inc. (an S Corporation) and its wholly owned subsidiary conform to accounting principles generally accepted in the United States of America and to general practices within the banking industry.

Principles of consolidation: The accompanying consolidated financial statements include the accounts of Heritage Bancshares, Inc. (an S Corporation) and its wholly owned subsidiary, First Exchange Bank, which is also the parent of First Heritage Insurance Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Variable interest entities: In accordance with Accounting Standards Codification (ASC) Topic 810, business enterprises that represent the primary beneficiary of another entity by retaining a controlling interest in that entity's assets, liabilities, and results of operations must consolidate the entity in its financial statements. The Company has determined that the provisions of ASC Topic 810 require deconsolidation of subsidiary trusts that issued guaranteed preferred beneficial interests in subordinated debentures (trust-preferred securities). Heritage Bancshares Statutory Trust I, issued in 2005, has not been consolidated in the Consolidated Balance Sheets. The trust-preferred securities continue to qualify as Tier 1 capital for regulatory purposes. The banking regulatory agencies have not issued any guidance that would change the regulatory capital treatment for the trust-preferred securities based on the adoption of ASC Topic 810. See Note 9 of the Notes to Consolidated Financial Statements for a discussion of the subordinated debentures.

Accounting estimates: The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent events: For the year ended December 31, 2024, we evaluated subsequent events through March 11, 2025.

Presentation of cash flows: For purposes of reporting cash flows, cash and due from banks includes cash on hand and noninterest-bearing balances due from banks (including cash items in process of clearing) and federal funds sold. Cash flows from demand deposits, NOW accounts, savings accounts, interest-bearing deposits, and short-term borrowings are reported net, since their original maturities are less than three months. Cash flows from loans and certificates of deposits and other time deposits are reported net.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Securities classified as held to maturity, available for sale, or trading at the time of purchase of each security and are reevaluated at each reporting date.

The appropriate classification is determined as follows:

Securities held to maturity: Debt securities for which the Bank has the positive intent and ability to hold to maturity are reported at cost and are adjusted for amortization of premiums and accretion of discounts that are recognized using the interest method.

Securities available for sale: Securities not classified as held to maturity or as trading are classified as available for sale. Securities classified as available for sale are those securities the Bank intends to hold for an indefinite period of time, but not necessarily to maturity. Available-for-sale securities are reported at estimated fair value net of unrealized gains or losses, which are adjusted for applicable income taxes, and reported as a separate component of shareholders' equity.

Trading securities: There are no securities classified as trading in the accompanying consolidated financial statements.

Realized gains and losses on sales of securities are recognized on the specific identification method. Amortization of premiums and accretion of discounts are computed using methods that approximate the interest method.

Allowance for Credit Losses (ACL) – Available-for-Sale Securities: The Bank measures expected credit losses on available-for-sale debt securities when the Bank does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

The allowance for credit losses on available-for-sale debt securities is included within investment securities available for sale on the Consolidated Balance Sheets. Changes in the allowance for credit losses are recorded within provision for credit losses on the Consolidated Statements of Income. Losses are charged against the allowance when the Bank believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled $81,551 and $89,859 at December 31, 2024 and 2023, respectively, and is included within accrued interest receivable on the Consolidated Balance Sheets. These amounts are excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable: Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Accrued interest receivable totaled $951,296 and $946,823 at December 31, 2024 and 2023, respectively,and was reported in accrued interest receivable on the Consolidated Balance Sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial, commercial secured by real estate, consumer, and consumer real estate.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans, including individually evaluated loans, generally is either applied against principal or reported as interest income on a cash basis, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months), and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses: The allowance for credit losses is a valuation reserve established and increased through a provision for credit losses charged to expense and reduced by charge-offs, net of recoveries. Loans are charged off against the allowance for credit losses when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance, but do not exceed the aggregate of amounts previously charged off. The Company has elected to exclude accrued interest receivable from the measurement of its allowance for credit losses. The allowance for credit losses is an amount that management believes will be adequate to absorb possible losses on existing loans that may become uncollectible based on management's evaluation of the collectability of loans, in light of historical loss experience, current conditions in the economy and loan portfolio, and forecasts of future economic conditions. This evaluation is inherently subjective and may have significant changes from period to period.

The methodology for determining the allowance for credit losses is calculated quarterly based on two main components: evaluation of expected credit losses for certain groups of homogenous loans that share similar risk characteristics, and individual evaluation of loans that do not share risk characteristics with other loans. Historical credit loss experience is the basis for the estimation of expected credit losses. Historical loss rates are applied over the remaining lifetime of each loan pool. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts of broader economic data like unemployment, changes in housing prices, and gross domestic product, not already reflected in the historical loss information at the Consolidated Balance Sheets date. The qualitative adjustments for current conditions are based upon the Bank's underwriting standard; changes in lending policies and practices; experience and ability of lending staff; quality of the Bank's loan review system; level of delinquent, nonaccrual, and problem loans; growth in loans; the existence of and changes in concentrations; and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued): Individual loans are selected to be evaluated for impairment once a specific loan is identified as no longer sharing similar characteristics with other pooled loans. Loans internally graded as substandard or doubtful or loans that are on nonaccrual are individually evaluated for possible designation as impaired when the balance of the loan exceeds $150,000. Specific reserves are established based on the following three acceptable methods for measuring the allowance for credit losses: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Collateral values for collateral-dependent loans are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures: The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance-sheet credit exposures is adjusted through credit loss expense. 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.

Bank premises and equipment: Land is carried at cost. Bank premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed primarily by the straight-line method over the estimated useful lives of the assets. Repairs and maintenance expenditures are charged to operating expenses as incurred. Major improvements and additions to premises and equipment are capitalized.

Other real estate owned: Other real estate owned consists primarily of real estate held for resale, which was acquired through foreclosure on loans secured by such real estate. At the time of acquisition, these properties are recorded at the lower of cost or estimated fair value with any write-down being charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management, and the real estate is carried at the lower of carrying amount or fair value, less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are recorded to loss on foreclosed real estate as incurred.

Foreclosed assets acquired in settlement of loans carried at fair value less estimated costs to sell are included in the other assets on the Consolidated Balance Sheets. As of December 31, 2024, and 2023, respectively, a total of $0 and $26,000 of residential real estate foreclosed assets were included in other assets. As of December 31, 2024, the Company has initiated no formal foreclosure procedures on consumer residential mortgages.

Federal Home Loan Bank stock: The Bank is a member of the Federal Home Loan Bank (FHLB) system federal funds program. FHLB members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is an equity security, which is included in other assets in the accompanying consolidated financial statements. Such securities are carried at cost since they may only be sold back to the respective issuer or another member at par value. These securities are classified as restricted securities and are periodically evaluated for impairment based on the ultimate recovery of par value. Both cash and stock dividends are reported as income.

Employee benefits: The Bank has a contributory pension plan that covers substantially all employees. Pension costs are approved by the Board of Directors and charged to expense.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income taxes: The Company elected S Corporation status effective January 1, 2009. As an S Corporation, the earnings and losses after that date will be included in the personal income tax returns of the shareholders and taxed depending on their personal tax strategies. Accordingly, the Company will not incur additional income tax obligations, and financial statements will not include a provision for income taxes.

The Company recognizes and measures its unrecognized tax benefits in accordance with Financial Accounting Standards Board (FASB) ASC 740, *Income Taxes*. Under the guidance, the Company assesses the likelihood, based on their technical merit, that tax positions will be sustained upon examination, based on the facts, circumstances, and information available at the end of each period. The measurement of unrecognized tax benefits is adjusted when new information is available or when an event occurs that requires change. There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to the unrecognized tax benefits in other expenses on the Consolidated Statements of Income. The Company's federal and state income tax returns for taxable years ended prior to 2020 are closed for purposes of examination by the Internal Revenue Service and state taxing authorities.

Earnings per share: Basic earnings per common share are computed based upon the weighted-average shares outstanding. The weighted-average shares outstanding were 1,207,034 for 2024 and 1,207,902 for 2023. During the years ended December 31, 2024 and 2023, the Company did not have any potentially dilutive securities.

Bank-owned life insurance: The Company owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including health care. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheets, and any increases in the cash surrender value are recorded as noninterest income on the Consolidated Statements of Income. In the event of the death of an insured individual under these policies, the Company would receive a death benefit, which would be recorded as noninterest income.

Comprehensive income (loss): The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) comprises unrealized holding gains and losses on the available-for-sale securities portfolio.

Transfers of financial assets: Transfers of financial assets, including loan and loan participation sales, 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 Bank; (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Advertising: Advertising costs of $217,525 and $96,749 for 2024 and 2023, were expensed as incurred.

Reclassifications: Certain amounts in the consolidated financial statements, such as reclassification, had no effect on net income or shareholders' equity, as previously presented, and have been reclassified to conform to current-year classifications.

2. REVENUE RECOGNITION

The core principle of Topic 606 is that an entity recognize revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services to a customer. Topic 606 requires entities to exercise more judgment when considering the terms of a contract under Topic 605, *Revenue Recognition*. Topic 606 applies to all contracts with customers to provide goods or services in the ordinary course of business, except for contracts that are specifically excluded from its scope. Topic 606 does not apply to revenue associated with interest income on financial instruments, including loans and securities. Additionally, certain noninterest income streams such as income from bank-owned life insurance and gain and losses on sales of debt and equity securities are out of scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation beyond what is presented in the Consolidated Statements of Income was not necessary.

Service Fees on Deposits

Topic 606 is applicable to noninterest revenue streams, such as service charges on deposit accounts, which consists of monthly service fees, wire transfer fees, ATM fees, and other deposit account related fees. The Company’s performance obligation for account analysis fees and monthly service fees is generally satisfied and the related revenue recognized over the period in which the service is provided. Other deposit account related fees are largely transactional based and, therefore, revenue is recognized upon completion of transaction.

Other Income

Other income within the scope of Topic 606 is primarily comprised of safe deposit box rents and miscellaneous other noninterest income items. Credit life insurance commissions are recognized over time using the monthly outstanding balance method that corresponds to the underlying insurance policy period for which the Company is obligated to perform under contract with the insurance carrier. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that, since rentals and renewals occur consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation. For all other income items, once the performance obligation is satisfied, the related income is recognized.

Gain on Sale of Other Real Estate Owned (OREO)

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer’s obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain (loss) on sale if a significant financing component is present.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

The amortized cost, unrealized gains, unrealized losses, allowance for credit losses, and fair values of investment securities are as follows:

	2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies and corporations	$ 2,208,934	$ -	$ (495,021)	$ -	$ 1,713,913
Mortgage-backed securities – U.S. government agencies and corporations	30,930,896	-	(5,017,457)	-	25,913,439
Total available for sale	$ 33,139,830	$ -	$ (5,512,478)	$ -	$ 27,627,352

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies and corporations	$ 2,205,092	$ -	$ (475,785)	$ -	$ 1,729,307
Mortgage-backed securities – U.S. government agencies and corporations	34,460,317	11,160	(4,475,329)	-	29,996,148
Total available for sale	$ 36,665,409	$ 11,160	$ (4,951,114)	$ -	$ 31,725,455

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Company's debt securities in an unrealized loss position for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023.

	2024					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies and corporations	$ -	$ -	$ 1,713,913	$ (495,021)	$ 1,713,913	$ (495,021)
Mortgage-backed securities - U.S. government agencies and corporations	791,973	(10,628)	25,121,466	(5,006,829)	25,913,439	(5,017,457)
Total	$ 791,973	$ (10,628)	$ 26,835,379	$ (5,501,850)	$ 27,627,352	$ (5,512,478)

	2023					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies and corporations	$ -	$ -	$ 1,729,307	$ (475,785)	$ 1,729,307	$ (475,785)
Mortgage-backed securities - U.S. government agencies and corporations	2,546	(78)	29,228,154	(4,475,251)	29,230,700	(4,475,329)
Total	$ 2,546	$ (78)	$ 30,957,461	$ (4,951,036)	$ 30,960,007	$ (4,951,114)

The Company has 139 securities in an unrealized loss position in both December 31, 2024 and 2023, respectively.

The unrealized losses are due to overall increases in market interest rates and not underlying credit concerns of the issuers. The Company has the ability and intent to hold such investments until maturity or market price recovery. At December 31, 2024, unrealized losses on investment securities available for sale have not been recognized into income because the issuer(s) bonds are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bond(s) approach maturity. Accordingly, at December 31, 2024, the Company has concluded that an allowance for credit losses is not required.

Mortgage-backed obligations of U.S. government agencies and corporations are included in securities at December 31, 2024 and 2023. These obligations, having contractual remaining lives to maturities ranging from less than a year to 30 years, are reflected in the following maturity distribution schedules. Accordingly, discounts are accreted, and premiums are amortized over the anticipated average life to maturity of the specific obligation. 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.

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

	Amortized Cost	Fair Value
Due in one year or less	$ 3,650,945	$ 3,161,969
Due after one year through five years	10,671,219	9,109,606
Due after five years through ten years	8,733,818	7,275,089
Due after ten years	10,083,848	8,080,688
Total	$ 33,139,830	$ 27,627,352

Securities carried at amortized costs of $33,113,486 and $3,837,435 at December 31, 2024 and 2023, respectively, with estimated fair values of $27,631,405 and $3,342,103, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

4. LOANS

Major classifications of loans are summarized by portfolio segment as follows:

	2024	2023
Commercial	$ 21,196,521	$ 24,767,583
Commercial real estate	95,926,440	99,520,740
Consumer loans	15,444,231	16,052,950
Consumer real estate	169,235,610	164,582,686
	301,802,802	304,923,959
Less: Allowance for credit losses	4,092,733	4,020,002
Net loans	$ 297,710,069	$ 300,903,957

4. LOANS (Continued)

Nonperforming Loans

The following table present the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2024:

	December 31, 2024				
	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Commercial	$ 143,996	$ -	$ 143,996	$ -	$ 143,996
Commercial real estate					
Construction	-	-	-		-
Secured by real estate	1,430,461	1,332,815	2,763,276	995,145	3,758,421
Consumer					
Auto	78,625	-	78,625	-	78,625
Other	8,864	-	8,864	-	8,864
Consumer real estate	2,193,515	-	2,193,515	-	2,193,515
	$ 3,855,461	$ 1,332,815	$ 5,188,276	$ 995,145	$ 6,183,421

The following table present the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of December 31, 2023:

	December 31, 2023				
	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Commercial	$ 341,769	$ -	$ 341,769	$ -	$ 341,769
Commercial real estate					
Construction	-	-	-	-	-
Secured by real estate	3,218,306	274,152	3,492,458	-	3,492,458
Consumer					
Auto	16,699	-	16,699	-	16,699
Other	27,968	-	27,968	-	27,968
Consumer real estate	1,001,850	-	1,001,850	-	1,001,850
	$ 4,606,592	$ 274,152	$ 4,880,744	$ -	$ 4,880,744

5. ALLOWANCE FOR CREDIT LOSSES

Management has an established methodology to determine the adequacy of the allowance for credit losses that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the allowance for credit losses, the Company has segmented certain loans in the portfolio by product type. Loans are segmented into the following pools: consumer real estate, commercial real estate loans, commercial loans, and consumer loans. A detailed summary of the Company's allowance for credit loss policy and methodology can be found in Note 1.

Certain qualitative factors are then added to the historical allocation percentage to get the adjusted factor to be applied to pooled loans. The qualitative factors are reviewed each quarter and adjusted based upon relevant changes within the portfolio.

Changes in the allowance for credit losses for the years ended December 31, 2024 and 2023, by loan portfolio segment are as follows:

	2024				
	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for credit losses:					
Beginning balance	$ 256,744	$ 1,308,395	$ 156,558	$ 2,298,305	$ 4,020,002
Charge-offs	-	(430,722)	(235,009)	(278,840)	(944,571)
Recoveries	21,736	41,538	40,007	11,858	115,139
Provision	7,767	467,542	161,271	265,583	902,163
Ending balance	$ 286,247	$ 1,386,753	$ 122,827	$ 2,296,906	$ 4,092,733

	2023				
	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for credit losses:					
Beginning balance	$ 506,911	$ 1,759,921	$ 822,758	$ 2,038,671	$ 5,128,261
Adoption of ASC 326	(225,609)	688,001	(727,614)	265,222	-
Charge-offs	(35,091)	(1,123,789)	(168,055)	(264,442)	(1,591,377)
Recoveries	10,000	2,542	41,254	144,928	198,724
Provision (credit)	533	(18,280)	188,215	113,926	284,394
Ending balance	$ 256,744	$ 1,308,395	$ 156,558	$ 2,298,305	$ 4,020,002

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024:

	Collateral Type	
	Real Estate	Business Assets
Commercial	$ -	$ -
Commercial real estate	3,203,774	-
Consumer real estate	491,896	-
Total	$ 3,695,670	$ -

The following table presents the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	Collateral Type	
	Real Estate	Business Assets
Commercial	$ -	$ 907,926
Commercial real estate	5,222,718	-
Consumer real estate	1,349,743	-
Total	$ 6,572,461	$ 907,926

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the Consolidated Balance Sheets date. The Company considers the allowance for credit losses of $4,092,733 and $4,020,002 adequate to cover credit losses inherent in the loan portfolio at December 31, 2024 and 2023, respectively. The following tables present the balance in the allowance for credit losses and the recorded investments in loans by portfolio segments as of December 31:

	Commercial	Real Estate	Consumer	Real Estate	Total
Allowance for credit losses:					
Individually evaluated for credit loss	$ -	$ 154,121	$ -	$ 17,700	$ 171,821
Collectively evaluated for credit loss	286,247	1,232,632	122,824	2,279,206	3,920,909
Total	$ 286,247	$ 1,386,753	$ 122,824	$ 2,296,906	$ 4,092,730
Loans:					
Individually evaluated for credit loss	$ 1,109,704	$ 6,646,796	$ -	$ 1,305,233	$ 9,061,733
Collectively evaluated for credit loss	20,086,817	89,279,644	15,444,231	167,930,377	292,741,069
Total	$ 21,196,521	$ 95,926,440	$ 15,444,231	$ 169,235,610	$ 301,802,802

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the balance in the allowance for credit losses and the recorded investments in loans by portfolio segments as of December 31, 2023:

	2023				
	Commercial	Commercial Real Estate	Consumer	Consumer Real Estate	Total
Allowance for credit losses:					
Individually evaluated for credit loss	$ -	$ 274,152	$ -	$ 378,329	$ 652,481
Collectively evaluated for credit loss	256,744	1,034,243	156,558	1,919,976	3,367,521
Total	$ 256,744	$ 1,308,395	$ 156,558	$ 2,298,305	$ 4,020,002
Loans:					
Individually evaluated for credit loss	$ 907,926	$ 5,222,718	$ -	$ 1,349,743	$ 7,480,387
Collectively evaluated for credit loss	23,859,657	94,298,022	16,052,950	163,232,943	297,443,572
Total	$ 24,767,583	$ 99,520,740	$ 16,052,950	$ 164,582,686	$ 304,923,959

Credit Quality Information

Loans are categorized into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, and current economic trends, among other factors.

GRADE 1 (Superior)
Loans in this category are considered to be of the highest quality. The customer's financial performance provides substantial asset protection. Cash flow is continually very high, relative to all demand. Earnings are always very strong, stable, or increasing, even through economic swings. Leverage, including operating leverage, is very low, relative to the borrower's industry and is stable or decreasing. Overall asset quality is very strong.

GRADE 2 (Excellent)
Loans in this category are considered to be of excellent quality. The borrower is very liquid. Overall, leverage is relatively low and is stable or declining. Cash flow is more than sufficient to meet total demands. Earnings are very strong and stable, but the rate of growth may differ from year to year.

GRADE 3 (Very Good)
Loans in this category are of very good quality. These borrowers have a history of successful performance, but may be susceptible to economic changes. Asset quality is very good. The Consolidated Balance Sheets shows good liquidity, and overall leverage is normal for the industry in which the borrower operates and is stable. Cash flow levels may fluctuate but are sufficient to meet demands.

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information (Continued)

GRADE 4 (Good)
Loans in this category, like risk grade 3, are loans of good quality, with risk levels within the Bank's range of acceptability. The borrower's business may be cyclical, or its customer base may be concentrated. Servicing requirements are higher than those for risk grade 3 loans.

GRADE 5 (Fair)
Loans in this grade are considered to have higher than normal credit risk and servicing needs. Accordingly, a higher than market return is expected. Asset quality is marginally acceptable. Overall leverage may fluctuate, but is not highly volatile, and is frequently at the upper end of the range of what is considered normal for the industry. Cash flow may be marginal but continues to support operating needs. Cash flow is not considered to be highly volatile. The borrower's profitability trend is favorable and the outlook for continued improvement is good. Companies or borrowers in this category would have limited access to other financing sources (to a few banks and/or asset base lenders) and usually at a premium price. Full guaranties on loans to closely held businesses in this risk grade are always required. Collateral is required on all loans, and advances up to the maximum loan to value per policy are often needed.

GRADE 6 (Management Attention)
Loans in this category are considered to have high credit risk and servicing needs. Loans should be in this category, not because they are problem credits, but because they pose a relatively high risk and the Bank needs to follow their performance more closely than other credits with better risk ratings. The borrowers' ability to repay from the primary repayment sources is marginally adequate and is not clearly sufficient to ensure continued performance as contracted. Loans to borrowers in this category are currently performing as contracted, and secondary repayment sources are clearly sufficient to protect against the risk of principal or income loss. It is also reasonable to expect that the circumstances causing repayment capacity to be uncertain will be resolved within six to nine months. Access to alternative financing sources exist, though may be limited to institutions specializing in high-risk financing. Borrowers in this category may have a long-term satisfactory repayment history (i.e., more than 12 consecutive months with no 30+ days past-due status), but financial information is dated, or there is a delay in receiving financials. Borrowers in this category may be operating in an industry that is highly susceptible to downturns in the national or local economies.

GRADE 7 (Special Mention)
Customer's financial condition and position are often unstable. Industry conditions are often troubled or in the process of rapid change. The borrower's ability to repay from primary sources is currently adequate but threatened by potential weakness, which is not checked or corrected, resulting in the Bank being inadequately protected against the risk of principal or income loss at some future date. The borrower is highly susceptible to current economic or market conditions that may adversely affect its ability to repay. The cash flow of these borrowers is currently adequately or slightly inadequate and may not improve in the near future.

Borrowers in this category are experiencing adverse operating trends or operating with unusually high financial leverage, thereby increasing the risk of untimely payment, but not to the extent that liquidation of the loan is jeopardized. This category may include borrowers that have filed bankruptcy and are successfully operating under a plan of reorganization that is provided to the Bank with adequate repayment of debt.

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information (Continued)

GRADE 8 (Substandard)
The Bank is inadequately protected by the current net worth and paying capacity of the customer. Loans in this category are characterized by high debt to worth, negative cash flow, and negative debt service capacity. There is a history of consecutive operating losses and negative cash flow for the business. Customers who have filed bankruptcy and are in the status of initial filing/up to acceptance of reorganization plan are considered Substandard. Collateral securing the debt may be real estate, accounts receivable, inventory, and equipment that have questionable value. Loans in this category may be placed on nonaccrual until such a time as the borrower's financial condition improves. Some loss of principal or income is possible; however, the total amount of such loss should not exceed 25 percent of the outstanding loan balance.

GRADE 9 (Doubtful)
Loans classified in this category are considered partially uncollectible and of such little value that their continuation as bankable assets may not be warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but the estimate principal loss of a loan in this classification will exceed 25 percent of the outstanding loan balance. Any time a credit is placed in this category, it should also assume nonaccrual status. The collateral values securing loans in this category are not sufficient to completely cover the loss, but until certain pending factors, such as liquidation procedures, merger acquisition, capital injection, or additional collateral is completed, determination of total loss is unknown.

GRADE 10 (Loss)
Loans classified in this category are considered uncollectible and the possibility of recovery is unlikely.

The following tables present the recorded investment in commercial and commercial real estate loans by portfolio segment, which are generally evaluated based upon the internal risk ratings defined above as of December 31, 2024 and 2023. Loans classified as Pass below include loans rated as Management Attention or better.

	2024		
		Commercial Real Estate	
	Commercial	Construction	Other
Pass	$ 16,374,206	$ 4,309,313	$ 83,757,351
Special Mention	3,358,277	300,936	790,674
Substandard	1,464,038	121,370	6,646,796
Doubtful	-	-	-
Loss	-	-	-
Total	$ 21,196,521	$ 4,731,619	$ 91,194,821

	2023		
		Commercial Real Estate	
	Commercial	Construction	Other
Pass	$ 23,123,045	$ 4,639,539	$ 86,058,463
Special Mention	390,907	-	3,329,837
Substandard	1,253,631	131,186	5,361,715
Doubtful	-	-	-
Loss	-	-	-
Total	$ 24,767,583	$ 4,770,725	$ 94,750,015

5. ALLOWANCE FOR CEDIT LOSSES (Continued)

Credit Quality Information (Continued)

The following tables present performing and nonperforming residential real estate and consumer loans, by class, based on payment activity for the years ended December 31, 2024 and 2023. Payment activity is reviewed by management on a monthly basis to determine how loans are performing. Loans are considered to be nonperforming when they become 90 days past due or are placed on nonaccrual status.

	2024		
	Performing	Nonperforming	Total
Consumer			
Auto	$ 11,759,782	$ 78,625	$ 11,838,407
Other	3,596,960	8,864	3,605,824
Residential	167,042,095	2,193,515	169,235,610
Total	$ 182,398,837	$ 2,281,004	$ 184,679,841

	2023		
	Performing	Nonperforming	Total
Consumer			
Auto	$ 11,823,110	$ 16,699	$ 11,839,809
Other	4,185,173	27,968	4,213,141
Residential	163,580,836	1,001,850	164,582,686
Total	$ 179,589,119	$ 1,046,517	$ 180,635,636

Loans to related parties: The Bank has had, and may be expected to have in the future, banking transactions in the ordinary course of business with directors, principal officers, their immediate families, and affiliated companies in which they are principal stockholders (commonly referred to as related parties), all of which have been, in the opinion of management, on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others.

The following represents the activity with respect to related-party loans aggregating $60,000 or more to directors and officers and their related business interests during the years ended December 31, 2024 and 2023. Other changes represent additions to and changes in director's status.

	2024	2023
Balance, beginning	$ 1,999,131	$ 2,398,376
Additions	428,556	1,174,581
Amount collected	(145,447)	(879,974)
Other	-	(693,853)
Balance, ending	$ 2,282,240	$ 1,999,130

Concentrations of credit risk: The Bank grants installment, commercial, and residential loans primarily to customers in Marion, Wetzel, Monongalia, and the surrounding West Virginia counties. Although the Bank strives to maintain a diversified loan portfolio, exposure to credit losses can be adversely impacted by downturns in local economic and employment conditions.

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information (Continued)

The Bank accepts chattel paper without recourse from various approved businesses, primarily automobile dealerships, within its lending area. The Bank has sole discretion whether to purchase such paper on a case-by-case basis, which is evaluated substantially under the Bank's normal credit underwriting standards and is generally secured by a first lien on the property purchased by the borrower. At December 31, 2024 and 2023, such loans approximated $5,134,033 and $5,441,044, respectively.

The following are tables that include an aging analysis of the recorded investment of past-due loans, by class, at December 31, 2024 and 2023:

	2024					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans
Commercial	$ 64,407	$ -	$ -	$ 64,407	$ 21,132,114	$ 21,196,521
Commercial - real estate						
Construction	-	-	121,370	121,370	4,610,249	4,731,619
Other	-	-	1,177,130	1,177,130	90,017,691	91,194,821
Consumer						
Auto	211,302	7,038	76,189	294,529	11,543,878	11,838,407
Other	44,978	7,760	-	52,738	3,553,086	3,605,824
Consumer real estate	1,132,088	138,683	696,629	1,967,400	167,268,210	169,235,610
Total	$ 1,452,775	$ 153,481	$ 2,071,318	$ 3,677,574	$ 298,125,228	$ 301,802,802

	2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater	Total Past Due	Current	Total Loans
Commercial	$ -	$ 199,218	$ -	$ 199,218	$ 24,568,365	$ 24,767,583
Commercial - real estate						
Construction	-	-	131,186	131,186	4,639,539	4,770,725
Other	24,613	176,106	-	200,719	94,549,296	94,750,015
Consumer						
Auto	118,422	-	-	118,422	11,721,387	11,839,809
Other	20,689	12,539	13,177	46,405	4,166,736	4,213,141
Consumer real estate	1,847,468	380,922	809,917	3,038,307	161,544,379	164,582,686
Total	$ 2,011,192	$ 768,785	$ 954,280	$ 3,734,257	$ 301,189,702	$ 304,923,959

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Bank modifies loans to borrowers in financial distress by providing term extension, an other-than-insignificant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses.

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The following table shows the amortized cost basis at December 31, 2024, that was experiencing financial difficulty and modified during the year ended December 31, 2024, by class and by type of modification of the loans modified to borrowers experiencing financial difficulty, disaggregated by class of financing receivable and type of concession granted (in thousands):

Loan Modifications Made to Borrowers Experiencing Financial Difficulty

	Term Extension	
	Amortized Cost Basis at December 31, 2024	% of Total Class of Financing Receivable
Commercial real estate		
Construction	$ -	0.00 %
Other	1,521,463	1.67
Consumer		
Auto	39,702	0.34
Other	1,637	0.05
Consumer real estate	-	0.00
Total	$ 1,562,802	

The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2024:

Term Extension

Loan Type	Financial Effect
Commercial real estate	
Other	Payment due date advanced 24 months
Consumer	
Auto	Payment due date advanced 1 month
Consumer real estate	Payment due date advanced 3-7 months

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

The Bank had no defaults of the loans that were modified to borrowers experiencing financial difficulty during the year 2024.

The Bank 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 (in thousands):

	December 31, 2024				
	Current	31–60 Days Past Due	61–90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Commercial real estate					
Construction	$ -	$ -	$ -	$ -	$ -
Other	1,521,463	-	-	-	-
Consumer					
Auto	39,702	-	-	-	-
Other	1,637	-	-	-	-
Consumer real estate	-	-	-	-	-
Total	$ 1,562,802	$ -	$ -	$ -	$ -

6. BANK PREMISES AND EQUIPMENT

Major classifications of Bank premises and equipment are summarized as follows:

	2024	2023
Land	$ 4,321,586	$ 4,475,004
Buildings and improvements	10,731,911	10,407,669
Furniture and equipment	3,463,552	3,681,657
Construction in progress	-	37,724
	18,517,049	18,602,054
Less accumulated depreciation	6,030,974	5,652,287
Bank premises and equipment, net	$ 12,486,075	$ 12,949,767

Depreciation charged to operations was $754,627 in 2024 and $756,126 in 2023.

7. DEPOSITS

The following is a summary of interest-bearing deposits by type as of December 31, 2024 and 2023:

	2024	2023
NOW and MMDA accounts	$ 69,896,183	$ 64,743,108
Savings accounts	55,672,135	61,772,318
Certificates of deposit	150,295,043	92,505,885
Individual retirement accounts	7,175,820	6,135,918
Total	$ 283,039,181	$ 225,157,229

Time certificates of deposit in denominations of $100,000 or more totaled $77,128,443 and $49,284,301 at December 31, 2024 and 2023, respectively. Interest paid on such time certificates totaled $2,994,334 and $1,299,205 for the years ended December 31, 2024 and 2023, respectively.

Time certificates of deposit in denominations of $250,000 or more totaled $35,454,288 and $20,880,331 at December 31, 2024 and 2023, respectively.

A summary of the maturities on time deposits, which includes certificates of deposit and certain individual retirement accounts, for each of the next five years and thereafter follows:

Years Ending December 31,	Amount
2025	$ 119,106,765
2026	24,078,687
2027	12,782,385
2028	824,963
2029	498,217
Thereafter	179,846
Total	$ 157,470,863

8. BORROWINGS

Federal Home Loan Bank Advances

The Bank is a member of the Federal Home Loan Bank (FHLB) of Pittsburgh. As a member, the Bank obtained an Open Repo Plus Commitment from the FHLB to finance loan growth and/or meet liquidity needs. The maximum credit available under this agreement is equal to 50 percent of the maximum borrowing capacity available, calculated as a percentage of collateral pledged to the FHLB. Any borrowing bears interest at the interest rate posted by the FHLB on the day of the borrowing and is subject to change daily. The interest rate at December 31, 2024 and 2023, was 4.71 and 5.68 percent, respectively. This line of credit is secured by a blanket lien on all unpledged and unencumbered assets of the Bank. The Bank's maximum borrowing capacity under the credit arrangement with the FHLB as of December 31, 2024, was approximately $154.3 million. The Bank also has total outstanding letters of credit at December 31, 2024, with the FHLB of $5,645,000.

8. BORROWINGS (Continued)

Federal Home Loan Bank Advances (Continued)

The Company has obtained a line of credit from a financial institution in the amount of $5,000,000. The interest rate on this line of credit is equal to the Wall Street Journal Prime with a floor of 4.49 percent. This line of credit is secured by a first lien assignment and security interest in First Exchange Bank's common stock equal to a loan/value of no less than 70 percent. There was no outstanding balance on this line of credit at December 31, 2024 and 2023.

A summary of short-term borrowings as of December 31, 2024 and 2023, follows:

	2024 FHLB Borrowings	2024 Line of Credit
Outstanding at year-end	$ 5,996,400	$ -
Average amount outstanding	17,045,343	-
Maximum amount outstanding at any month-end	36,131,800	-
Weighted-average interest rate at year-end	4.71 %	- %
Weighted-average interest rate paid during the year	5.71 %	- %

	2023 FHLB Borrowings	2023 Line of Credit
Outstanding at year-end	$ 31,474,600	$ -
Average amount outstanding	18,484,941	-
Maximum amount outstanding at any month-end	31,474,600	-
Weighted-average interest rate at year-end	5.68 %	- %
Weighted-average interest rate paid during the year	5.66 %	- %

9. LONG-TERM BORROWINGS

Subordinated debentures: On November 10, 2005, the Company formed Heritage Bancshares Statutory Trust I. The Trust is a 100 percent-owned subsidiary of the Company and exists for the purpose of (1) issuing trust-preferred capital securities (Capital Securities) and (2) using the proceeds from the sale of the Capital Securities to acquire subordinated debentures issued by the Company. The debentures are the sole assets of the Trust and the Company's payments under the debentures are the sole source of revenue of the Trust. Five thousand-five hundred Capital Securities ($1,000 liquidation value per Capital Security) were issued in the aggregate liquidation amount of $5,500,000, and 171 common securities were also issued in the aggregate amount of $171,000.

The Company has irrevocably and unconditionally guaranteed, with respect to the Capital Securities and to the extent not paid by the Trust, accrued and unpaid distributions on the Capital Securities and the redemption price payable to the holders of the Capital Securities. The Company has the option to defer payment of the distributions for an extended period up to five years, so long as the Company is not in default of the terms of the debentures.

9. LONG-TERM BORROWINGS (Continued)

The Capital Securities term is 30 years; however, the Capital Securities and debentures are redeemable, in whole or in part, at any distribution payment date on or after the distribution payment date of December 2011, at the redemption price. In addition, the debentures may be redeemed at a special redemption price, in whole but not in part, at any distribution payment date, upon the occurrence of and continuation of a special event within 120 days following the occurrence of such special event at the special redemption price, upon not less than 30 nor more than 60 days notice to holders of such debentures so long as such special event is continuing. Interest is payable quarterly during the 30-year term. Interest will be equal to the three-month LIBOR plus 1.50 percent. The interest rate at December 31, 2024 and 2023, was 6.45 percent and 7.15 percent, respectively.

FHLB long-term borrowings: As a member of the FHLB, the Bank obtained borrowings from the FHLB under various lending programs to finance loan growth and/or meet liquidity needs as necessary. All such borrowings are secured by a lien on all unpledged and unencumbered assets of the Bank.

A summary of the Company's FHLB borrowings at December 31, 2024 and 2023, follows:

	2024	2023
Note payable, dated January 2019, to FHLB at 2.96 percent. Interest due monthly. The borrowing matures January 2024.	$ -	$ 21,504
Note payable, dated September 2023, to FHLB at 5.65 percent. Interest due monthly. The borrowing matures September 2025.	911,361	1,949,486
Note payable, dated September 2023, to FHLB at 5.46 percent. Interest due monthly. The borrowing matures September 2026.	1,168,085	1,757,579
Note payable, dated September 2023, to FHLB at 5.31 percent. Interest due monthly. The borrowing matures September 2027.	851,931	1,132,218
Note payable, dated September 2023, to FHLB at 5.18 percent. Interest due monthly. The borrowing matures September 2028.	1,315,253	1,625,025
	$ 4,246,630	$ 6,485,812

A summary of the maturities of FHLB borrowings over the next four years follows:

Years Ending December 31,	Amount
2025	$ 2,155,615
2026	1,200,683
2027	606,506
2028	283,826
Total	$ 4,246,630

10. COMMITMENTS AND CONTINGENT LIABILITIES

Financial Instruments with Off-Balance-Sheet Risk

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

Financial Instruments Whose Contract Amounts Represent Credit Risk	Contract Amount 2024	Contract Amount 2023
Commitments to extend credit	$ 5,989,683	$ 12,093,003
Unused open business lines of credit	12,003,694	12,694,516
Unused open home equity and personal lines of credit	8,198,684	7,092,275
Standy letters of credit and financial guarantees	50,000	50,000
Remaining commitments on construction loans	3,796,827	8,411,456
Overdraft protection commitments	5,322,088	5,474,501
Total	$ 35,360,976	$ 45,815,751

The Bank implemented an overdraft privilege product to qualified individual transaction account holders providing automatic payment of overdrafts up to a specified amount based on the type of account, charging the standard overdraft fee.

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

Contingent Liabilities

Due to the nature of the Bank's business, which involves the collection of loans and the enforcement and validity of liens, security interests and mortgages, the Bank is plaintiff in various routine legal proceedings, the outcome of which is not expected to have a material effect on the Company's financial position.

Employment Contracts

The Company and its subsidiary have employment contracts with certain executive officers. Under the terms of these agreements, each officer has the option to terminate employment in the event of a merger or the acquisition of the Company or the Bank by another financial institution or company, and receive cash payments, plus health benefits, for periods specified, in the agreements. The aggregate estimated commitment under these agreements approximated $67,935 and $748,335 at December 31, 2024 and 2023, respectively.

11. EMPLOYEE BENEFITS

The Bank maintains a voluntary retirement savings plan that is comprised of two components; the employee Stock Ownership and 401(k) Plan (KSOP). The KSOP benefits employees with at least six months of service, who are 20 ½ years of age or older. The Bank may fund the ESOP with contributions of cash or stock, and may fund the 401(k) Plan with contributions of cash. Participation in the plan is available upon attaining the age of 20 ½ years and completion of six months service. Participants are permitted to contribute up to the maximum dollar amount allowed by the Internal Revenue Service, which is $23,000 for 2024. The Bank matches contributions made by the participants on a dollar-for-dollar basis, up to a maximum of 5 percent of the employee's compensation. In addition, the Bank may elect to make additional contributions, as prescribed by the Plan, not to exceed certain limitations by the Internal Revenue Service regulations.

The participants' contributions are fully vested upon payment while the employer portions are subject to certain vesting requirements if an employee terminates prior to normal retirement age. Employer contributions are fully vested after six years. Plan participants are entitled to receive Plan benefits upon termination of employment, death, disability, or retirement, at an age not earlier than 59 ½, with ten years of service, with age 65 being normal retirement age. For the years ended December 31, 2024 and 2023, the Bank charged to operations $134,281 and $140,380, respectively, for matching contributions. The Plan is designed to provide liquidity for the participants. However, the plan includes a put option, whereby the Company must purchase the participant's shares of stock at current fair value, subject to certain restrictions if that liquidity is not available. At December 31, 2024 and 2023, participants of the KSOP held 146,082 and 150,442 shares of Company stock, respectively. The fair value of these shares was $3.6 million and $3.9 million for December 31, 2024 and 2023, respectively.

<u>Phantom Stock Plan</u>

The Bank has an Executive Phantom Stock Appreciation Plan and a Director Phantom Stock Appreciation Plan (Director Plan and Executive Plan) that provide for the issuance of phantom stock awards to directors and an executive of the Bank. A committee authorized by the Bank's Board of Directors has authority to administer the Director Plan and Executive Plan subject to the approval of the Bank's Board of Directors. For each of the years ended December 31, 2024 and 2023, the Bank charged $(23,042) and $41,369 to operations for the phantom stock plan and awarded 0 and 2,504 shares, respectively.

<u>Executive Plans</u>

The value of each phantom share award will be, at the date of the grant award, equal to a percentage of the executive's base salary divided by the appraised value of the common stock of Heritage Bancshares of January 1 of the award year, providing pre-established goals, as established by the Board of Directors, have been met. The executive shall vest in the account balance in equal annual increments.

Upon retirement, voluntary termination and involuntary termination without cause, the executive is subject to a one-year non-compete clause in consideration for phantom share awards.

<u>Director Plan</u>

The value of each phantom share award will be, at the date of the grant award, (a) 100 percent of the Annual Incentive Compensation Award divided by the appraised value of the Common Stock of Heritage Bancshares of January 1 of the award year, (b) the amount of the Annual Income Compensation Award shall be equal to 25 percent of the annual director's fees, including the retainer paid to the director, providing pre-established goals, as established by the Board of Directors, have been met. The director is immediately vested in the plan. In the event of death, disability, or separation of service, the director will receive his or her net book value in a lump sum payment.

12. REGULATORY MATTERS

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically under-capitalized, 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. As of December 31, 2024, the most recent regulatory notifications 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.

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than $10 billion in total consolidated assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The community bank leverage ratio framework was effective on January 1, 2020. The Bank has elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020.

In April 2020, the federal banking regulatory agencies modified the original community bank leverage ratio (CBLR) framework and provided that, as of the second quarter 2020, a banking organization with a leverage ratio of 8 percent or greater and that meets the other existing qualifying criteria may elect to use the community bank leverage ratio framework. The modified rule also states that the community bank leverage ratio requirement will be greater than 8 percent for the second through fourth quarters of calendar year 2020, greater than 8.5 percent for calendar year 2021, and greater than 9 percent thereafter. The transition rule also maintains a two-quarter grace period for a qualifying community banking organization whose leverage ratio falls no more than 100 basis points below the applicable community bank leverage ratio requirement.

The leverage ratios of the Bank at December 31, 2024 and 2023, are as follows:

As of December 31, 2024	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
First Exchange Bank						
Tier 1 leverage	$ 33,804	8.83 %	$ 15,316	4.00 %	$ 19,145	5.00 %

As of December 31, 2023	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
(Dollars in thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
First Exchange Bank						
Tier 1 leverage	$ 33,358	9.51 %	$ 14,027	4.00 %	$ 17,534	5.00 %

Heritage Bancshares, Inc. is a small bank holding company and is exempt from regulatory capital requirements administered by the federal banking agencies.

13. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data, when available.

The following tables present the assets reported on a recurring basis on the Consolidated Balance Sheet at their fair value as of December 31, 2024 and 2023, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

	December 31, 2024			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agencies and corporations	$	$ 1,713,913	$ -	$ 1,713,913
Mortgage-backed securities – U.S. government agencies and corporations	-	25,913,439	-	25,913,439
Total	$ -	$ 27,627,352	$ -	$ 27,627,352

	December 31, 2023			
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
U.S. government agencies and corporations	$ -	$ 1,729,307	$ -	$ 1,729,307
Mortgage-backed securities – U.S. government agencies and corporations	-	29,996,148	-	29,996,148
Total	$ -	$ 31,725,455	$ -	$ 31,725,455

13. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheets at December 31, 2024 and 2023, by level within the fair value hierarchy. Collateral-dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the impaired loans include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

Certain assets, such as other real estate owned (OREO) acquired through foreclosure, are initially recorded at fair value of the property, at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure. The real estate is then valued and subsequently carried at the lesser of the appraised value or the loan balance, including interest receivable at the time of foreclosure, less an estimate of costs to sell the property. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company, using observable market data or on a recent sales offer (Level II). However, if the acquired property is a house or building in the process of construction, or if an appraisal of the real estate property is over two years old, then the fair value is considered Level III. The estimate of costs to sell the property is based on historical transactions of similar holdings.

	December 31, 2024			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Collateral-dependent loans:				
Commercial real estate	$ -	$ -	$ 974,506	$ 974,506
Consumer real estate	-	-	209,678	209,678
Other real estate owned	-	-	-	-
Total	$ -	$ -	$ 1,184,184	$ 1,184,184

	December 31, 2023			
	Level I	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Collateral-dependent loans:				
Commercial real estate	$ -	$ -	$ 900,281	$ 900,281
Consumer real estate	-	-	234,069	234,069
Other real estate owned	-	-	26,000	26,000
Total	$ -	$ -	$ 1,160,350	$ 1,160,350

13. FAIR VALUE MEASUREMENTS (Continued)

Collateral-Dependent Loans

Loans are designated as collateral dependent when collection of principal and interest is expected to be collected through the operation or sale of its collateral. The value of the collateral is typically determined utilizing an income or market valuation approach, based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data. The fair value of collateral-dependent loans reported below is based on the total loans with a specific allowance for credit loss allocation, less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for credit losses for impaired loans carried at fair value were $148,631 at December 31, 2024. Specific allocations to the allowance for credit losses for impaired loans carried at fair value were $311,942 at December 31, 2023.

The following table presents additional qualitative information about assets measured on a nonrecurring basis and how the Company has utilized Level III inputs to determine fair value:

2024				
	Fair Value Estimate	**Valuation Techniques**	**Unobservable Input**	**Range**
Collateral-dependent loans:				
Commercial real estate	974,506	Appraisal of collateral	Selling costs	8% – 12% dscount
Consumer real estate	209,678	Appraisal of collateral	Selling costs	7% discount

2023				
	Fair Value Estimate	**Valuation Techniques**	**Unobservable Input**	**Range**
Collateral-dependent loans:				
Commercial real estate	900,281	Appraisal of collateral	Selling costs	15% discount
Consumer real estate	234,069	Appraisal of collateral	Selling costs	25% – 100% discount
Other real estate owned	26,000	Appraisal of collateral	Management adjustments for liquidation expenses	20% – 85% discount

14. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss, net of tax, for the years ended December 31, 2024 and 2023:

		Net Unrealized Gains (Losses) on Investment Securities (a)
Accumulated other comprehensive loss, December 31, 2022	$	(5,831,005)
Unrealized holding gains on available-for-sale securities before reclassification		891,051
Accumulated other comprehensive loss, December 31, 2023		(4,939,954)
Unrealized holding losses on available-for-sale securities before reclassification		(572,525)
Accumulated other comprehensive loss, December 31, 2024	$	(5,512,479)

(a) Amounts in parenthesis indicate debits

There were no amounts reclassified from accumulated other comprehensive loss during either period ended December 31, 2024 and 2023.

15. PARENT COMPANY FINANCIAL STATEMENTS

The investment of the Company in its wholly owned subsidiary is presented on the equity method of accounting. Information relative to the Company's Consolidated Balance Sheets at December 31, 2024 and 2023, and the related Consolidated Statements of Income and Cash Flows for the years ended December 31, 2024 and 2023, are presented below:

CONDENSED BALANCE SHEET

	2024	2023
ASSETS		
Cash	$ 199,811	$ 218,159
Investment in bank subsidiary, eliminated	28,291,581	28,418,180
TOTAL ASSETS	$ 28,491,392	$ 28,636,339
LIABILITIES AND SHAREHOLDERS' EQUITY		
Interest payable	$ 17,571	$ 21,802
Long-term borrowings	5,500,000	5,500,000
Other liabilities	136,616	450,706
TOTAL LIABILITIES	5,654,187	5,972,508
TOTAL SHAREHOLDERS' EQUITY	22,837,205	22,663,831
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$ 28,491,392	$ 28,636,339

CONDENSED STATEMENTS OF INCOME

	Year Ended December 31, 2024	2023
Dividends from subsidiary bank	$ 1,340,000	$ 2,600,000
Interest expense	(409,939)	(405,120)
Expenses – operating	(114,866)	(53,923)
Income before undistributed income	815,195	2,140,957
Equity in undistributed net income of subsidiary	445,927	1,258,271
NET INCOME	$ 1,261,122	$ 3,399,228
COMPREHENSIVE INCOME	$ 688,597	$ 4,290,279

15. PARENT COMPANY FINANCIAL STATEMENTS (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2024	2023
OPERATING ACTIVITIES		
Net income	$ 1,261,121	$ 3,399,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(445,927)	(1,258,271)
(Decrease) increase in other liabilities	(4,231)	9,494
Net cash provided by operating activities	810,963	2,150,451
FINANCING ACTIVITIES		
Proceeds from sale of treasury stock	196,525	87,791
Purchase of common stock	(204,775)	(87,791)
Cash dividends paid	(821,061)	(2,053,507)
Net cash used for financing activities	(829,311)	(2,053,507)
Change in cash and cash equivalents	(18,348)	96,944
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	218,159	121,215
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 199,811	$ 218,159
SUPPLEMENTAL DISCLOSURE OF CASH FLOW		
Dividends declared but unpaid	$ 96,617	$ 410,707

15. PARENT COMPANY FINANCIAL STATEMENTS (Continued)

Heritage Bancshares, Inc. accounts for its investments in its bank subsidiary by the equity method. During the years ended December 31, 2024 and 2023, changes were as follows:

Number of shares owned – First Exchange Bank	56,000
Percent of shares owned – First Exchange Bank	100 percent

Balance at December 31, 2022	$	26,268,858
Add (deduct):		
Equity in net income		1,258,271
Change in net unrealized gains on securities		891,051
Balance at December 31, 2023		28,418,180
Add (deduct):		
Equity in net income		445,927
Change in net unrealized losses on securities		(572,525)
Balance at December 31, 2024	$	28,291,582

DIRECTORS

Directors of Heritage Bancshares, Inc.

J. Adam Boyers .... Businessman - President, Middletown Tractor Sales
James A. Boyers .... Pharmacist - Consultant, Owner - Paradise Valley Farm,
Member – Quantum Enterprises, LLC,
Chairman – Heritage Bancshares, Inc.
William F. Goettel .... President/Chief Executive Officer - First Exchange Bank
R. William Kent.. Executive Vice President - Capital Markets, CBRE, Inc. (Retired)
Mark A. Mangano .... President and CEO - West Virginia Bankers Association
Michael C. Seese .... Co-Founder and Financial Advisor - Commonwealth
Financial Services
Kevin Wilfong .... President - Middletown Properties, Real Estate Developer/
Property Management

Directors of First Exchange Bank

J. Adam Boyers .... Businessman - President, Middletown Tractor Sales
James A. Boyers .... Pharmacist - Consultant, Owner - Paradise Valley Farm,
Member – Quantum Enterprises, LLC,
Chairman – Heritage Bancshares, Inc.
William F. Goettel .... President/Chief Executive Officer - First Exchange Bank
David Goldberg .... President/CEO - Mon Health System and Davis Health System,
Vandalia Health North; Executive VP - Vandalia Health
R. William Kent.. Executive Vice President - Capital Markets, CBRE, Inc. (Retired)
Mark A. Mangano .... President and CEO - West Virginia Bankers Association
Michael C. Seese .... Co-Founder and Financial Advisor, Commonwealth
Financial Services
Kevin Wilfong .... President - Middletown Properties, Real Estate Developer/
Property Management
Seth Wilson .... Attorney – Partner, Bowles Rice LLP

IN MEMORIAM

William J. Yoho

WHEREAS, William (Bill) J. Yoho, who departed this life on the 31st day of August, 2024, became a director in the year 1989.

WHEREAS, Bill, as he was affectionately known by his many friends and associates, served this bank as a director for more than 35 years with fidelity, industry and integrity; and

WHEREAS, Heritage Bancshares, Inc and First Exchange Bank has lost a faithful and valuable director; and

WHEREAS, the Cities of Mannington and Fairmont, Marion County, West Virginia have lost an esteemed and venerable citizen:

NOW, THEREFORE, THESE RESOLUTIONS FURTHER WITNESSETH: BE IT RESOLVED, the Board of Directors, in regular meeting assembled at White Hall, West Virginia, at the banking house of First Exchange Bank, this 10th day of September, 2024, does express its deepest regrets and sympathy to his family, friends and associates along with our profound thanks for sharing him with us.

first Exchange Bank

Current Branch Locations

White Hall Office/Corporate Headquarters
1 Heritage Way
White Hall, WV 26554
Phone (304) 534-7200 Fax (304) 986-1125

Mannington Office
11 West Main Street, P.O. Box 388
Mannington, WV 26582
Phone (304) 986-1700 Fax (304) 986-1711

Fairmont Office
216 Fairmont Avenue
Fairmont, WV 26554
Phone (304) 367-1700 Fax (304) 367-1779

Hundred Office
Route 250, P.O. Box 780
Hundred, WV 26575
Phone (304) 775-1700 Fax (304) 775-1702

Fairview Office
309 Main Street
Fairview, WV 26570
Phone (304) 449-1700 Fax (304) 449-1967

Suncrest Office
3051 University Avenue
Morgantown, WV 26505
Phone (304) 225-2600 Fax (304) 225-2605

Pierpont Office
1000 Mid Atlantic Drive
Morgantown, WV 26508
Phone (304) 284-1700 Fax (304) 284-1706