

UNITED BANCORPORATION
OF ALABAMA, INC
AND SUBSIDIARIES

CONSOLIDATED FINANCIAL REPORT
DECEMBER 31, 2024

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Independent Auditor's Report

**To the Board of Directors
United Bancorporation of Alabama, Inc.
Atmore, Alabama**

Opinion on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

We also have audited United Bancorporation of Alabama, Inc. and Subsidiaries' internal control over financial reporting, including controls over the preparation of regulatory financial statements in accordance with the Instructions for Preparation of Consolidated Reports of Condition and Income (Form FFIEC 051), as of December 31, 2024, based on criteria established in the Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, United Bancorporation of Alabama, Inc. and Subsidiaries maintained, in all material respects effective internal control over financial reporting as of December 31, 2024, based on criteria established in Internal Control—Integrated Framework, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of United Bancorporation of Alabama, Inc. and Subsidiaries 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 and Internal Control over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management is also responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control.

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

Auditor's Responsibilities for the Audit of the Financial Statements and Internal Control over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion.

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about United Bancorporation of Alabama, Inc. and Subsidiaries' 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.

Definition and Inherent Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of United Bancorporation of Alabama, Inc. and Subsidiaries' internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and controls over the preparation of schedules equivalent to basic financial statements in accordance with the Federal Financial Institutions Examination Council Instructions for Consolidated Reports of Condition and Income (call report instructions). A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction, of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.



Birmingham, Alabama
March 14, 2025

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS DECEMBER 31, 2024 AND 2023

ASSETS	2024	2023
Cash and due from banks	\$ 30,386,789	\$ 45,450,436
Interest-bearing deposits in banks	126,007,446	175,406,200
Federal funds sold	26,575,000	15,550,000
Cash and short-term investments	182,969,235	236,406,636
Investment in subsidiaries	1,247,403	1,724,474
Securities available for sale, at fair value (amortized cost of \$298,725,865 and \$300,498,374 at December 31, 2024 and 2023, respectively)	264,551,872	266,052,697
Securities held to maturity, at amortized cost (fair value of \$4,144,827 and \$4,776,158 at December 31, 2024 and 2023, respectively)	4,183,929	4,796,239
Restricted equity securities, at cost	2,115,953	2,121,353
Loans held for investment	871,416,223	811,947,933
Less: Allowance for credit losses	12,382,575	11,628,356
Loans, net	859,033,648	800,319,577
NMTC Sub-CDE QLICI loans	3,465,000	3,465,000
Premises and equipment, net	16,585,353	13,839,180
Interest receivable	9,144,905	8,267,365
Bank owned life insurance	24,967,214	22,528,245
Other real estate owned, net	2,841,465	1,100,000
Core deposit intangible	441,728	508,832
Goodwill	6,516,169	6,516,169
Other assets	22,613,837	22,341,253
Total assets	\$ 1,400,677,711	\$ 1,389,987,020
Liabilities and Stockholders' Equity		
Deposits		
Noninterest-bearing	\$ 473,847,530	\$ 513,760,135
Interest-bearing	616,267,643	576,092,609
Total deposits	1,090,115,173	1,089,852,744
Interest payable	1,117,151	788,250
Other borrowings	33,967,719	40,792,438
Allowance for credit losses on off-balance sheet credit exposures	909,341	909,341
Accrued expenses and other liabilities	8,862,316	9,008,263
Total liabilities	1,134,971,700	1,141,351,036
Commitments (Note 18)		
Stockholders' equity		
Preferred stock, par value \$1,000. Authorized 250,000 shares; 123,750 shares issued, in 2024 and 2023	123,750,000	123,750,000
Class A common stock, par value \$0.01. Authorized 5,000,000 shares; 3,370,693 and 3,552,740 issued; 3,370,693 and 3,536,055 shares outstanding in 2024 and 2023, respectively	33,707	35,528
Class B common stock, par value \$0.01. Authorized 250,000 shares; no shares issued	-	-
Additional paid-in capital	22,545,038	30,113,859
Retained earnings	145,295,055	122,158,741
Accumulated other comprehensive loss, net of tax	(25,630,488)	(25,834,256)
	265,993,312	250,223,872
Less unvested restricted stock and unallocated KSOP shares (66,257 in 2023)	287,301	1,587,888
Total stockholders' equity	265,706,011	248,635,984
Total liabilities and stockholders' equity	\$ 1,400,677,711	\$ 1,389,987,020

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Interest income		
Interest and fees on loans	\$ 55,311,562	\$ 49,137,083
Interest on investment securities:		
Taxable securities	8,973,374	8,662,918
Nontaxable securities	825,180	918,620
Total investment income	9,798,554	9,581,538
Other interest income	8,665,402	7,468,104
Total interest income	73,775,518	66,186,725
Interest expense		
Interest on deposits	13,485,362	6,863,008
Interest on other borrowings and note payable	826,638	564,392
Total interest expense	14,312,000	7,427,400
Net interest income	59,463,518	58,759,325
Provision for credit losses	4,360,000	1,115,294
Net interest income after provision for credit losses	55,103,518	57,644,031
Noninterest income:		
Service charges and fees	7,745,837	6,601,942
CDFI award income	10,349,017	15,112,928
New market tax credit sub-allocation and placement fees	1,620,000	2,466,945
Consulting and asset management fees	2,612,600	525,313
Investment securities gains (losses), net	(3,043,818)	(6,804,110)
Mortgage loan and related fees	56,666	107,765
Other	4,601,205	3,033,541
Total noninterest income	23,941,507	21,044,324
Noninterest expense:		
Salaries and benefits	22,651,218	19,236,281
Net occupancy expense	4,213,958	3,360,687
Other	16,085,998	15,124,336
Total noninterest expense	42,951,174	37,721,304
Income before income tax expense	36,093,851	40,967,051
Income tax expense	8,090,591	9,425,916
Net income	28,003,260	31,541,135
Preferred stock dividends	(1,051,875)	-
Net income available to common shareholders	\$ 26,951,385	\$ 31,541,135
Basic earnings per common share	\$ 7.65	\$ 8.81
Basic weighted-average shares outstanding	3,523,312	3,580,793
Diluted earnings per common share	\$ 7.65	\$ 8.81
Diluted weighted-average shares outstanding	3,523,312	3,580,793

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
Net income	\$ 28,003,260	\$ 31,541,135
Other comprehensive income:		
Unrealized holding gains (losses) on securities available for sale arising during the period, net of (tax) benefit of \$693,041 and (\$1,976,153), respectively	(2,079,096)	4,353,791
Reclassification adjustment for losses on securities available for sale realized in net income, net of tax benefit of \$760,954 and \$1,701,028, respectively	2,282,864	5,103,083
Total other comprehensive income	203,768	9,456,874
Comprehensive income	\$ 28,207,028	\$ 40,998,009

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC.
AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
YEARS ENDED DECEMBER 31, 2024 AND 2023

	Preferred Stock		Common Stock		Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Unvested Restricted Stock	Unearned KSOP Shares	Total
	Shares	Amount	Shares	Par Value	Common Stock						
Balance, December 31, 2022, as previously reported	123,750	\$ 123,750,000	3,819,684	\$ 38,197	\$ 34,837,882	\$ 96,560,279	\$ (35,291,130)	\$ (5,395,444)	\$ (220,709)	\$ (1,672,291)	\$ 212,606,784
Change in accounting principal	-	-	(188,537)	(1,885)	(3,768,855)	(1,624,704)	-	5,395,444	-	-	-
Balance, December 31, 2022, as restated	123,750	123,750,000	3,631,147	36,312	31,069,027	94,935,575	(35,291,130)	-	(220,709)	(1,672,291)	212,606,784
Impact of the adoption of ASC 326	-	-	-	-	-	(327,985)	-	-	-	-	(327,985)
Net income	-	-	-	-	-	31,541,135	-	-	-	-	31,541,135
Other comprehensive income	-	-	-	-	-	-	9,456,874	-	-	-	9,456,874
Stock repurchased	-	-	(92,500)	(925)	(1,849,075)	(1,839,500)	-	-	-	-	(3,689,500)
Cash dividend declared (\$0.60 per share)	-	-	-	-	-	(2,150,484)	-	-	-	-	(2,150,484)
Restricted stock grants	-	-	9,465	95	347,934	-	-	-	(348,029)	-	-
KSOP released shares - leveraged	-	-	-	-	372,342	-	-	-	-	347,173	719,515
Stock based compensation	-	-	-	-	-	-	-	-	305,968	-	305,968
Shares issued in accordance with dividend reinvestment plan	-	-	4,628	46	173,631	-	-	-	-	-	173,677
Balance, December 31, 2023	123,750	123,750,000	3,552,740	35,528	30,113,859	122,158,741	(25,834,256)	-	(262,770)	(1,325,118)	248,635,984
Net income	-	-	-	-	-	28,003,260	-	-	-	-	28,003,260
Other comprehensive income	-	-	-	-	-	-	203,768	-	-	-	203,768
Stock repurchased	-	-	(904)	(9)	(26,207)	(11,300)	-	-	-	-	(37,516)
Cash dividend declared (\$1.10 per share)	-	-	-	-	-	(3,803,771)	-	-	-	-	(3,803,771)
Preferred stock dividends	-	-	-	-	-	(1,051,875)	-	-	-	-	(1,051,875)
Restricted stock grants	-	-	10,036	100	413,803	-	-	-	(413,903)	-	-
Exec officer restricted stock forfeiture/retirement	-	-	(274)	(3)	(7,943)	-	-	-	7,946	-	-
KSOP released shares - leveraged	-	-	-	-	2,470,692	-	-	-	-	1,325,118	3,795,810
Stock based compensation	-	-	-	-	-	-	-	-	381,426	-	381,426
Common stock issued	-	-	33	-	1,377	-	-	-	-	-	1,377
ESOP unwind - Purchase of KSOP shares	-	-	(197,718)	(1,977)	(10,724,170)	-	-	-	-	-	(10,726,147)
Shares issued in accordance with dividend reinvestment plan	-	-	6,780	68	303,627	-	-	-	-	-	303,695
Balance, December 31, 2024	123,750	\$ 123,750,000	3,370,693	\$ 33,707	\$ 22,545,038	\$ 145,295,055	\$ (25,630,488)	\$ -	\$ (287,301)	\$ -	\$ 265,706,011

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED DECEMBER 31, 2024 AND 2023

	2024	2023
OPERATING ACTIVITIES		
Net income	\$ 28,003,260	\$ 31,541,135
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Provision for credit losses	4,360,000	1,115,294
Provision for losses on other real estate owned	394,097	462,796
Depreciation of premises and equipment	1,334,734	1,366,901
Net amortization of premium on investment securities available for sale	683,549	961,758
Net amortization of premium on investment securities held to maturity	22,309	32,992
Loss on sales of investment securities available for sale, net	3,043,818	6,804,110
Amortization of core deposit intangible	67,104	67,104
Accretion of discounts on purchased loans	(167,876)	(474,160)
Stock based compensation	381,426	305,968
Release of KSOP shares	3,795,810	719,515
Net (gain) loss on sales of other real estate owned	(9,590)	15,210
Net gain on sales of premises and equipment	(69,002)	(24,322)
Net gain on sales of loans held for sale	-	(90,330)
Originations of loans held for sale	-	(1,897,767)
Proceeds from sales of loans held for sale	-	1,988,097
Earnings on bank owned life insurance	(672,683)	(591,618)
Deferred income taxes	(16,444)	(175,413)
Increase in interest receivable	(877,540)	(2,009,798)
(Increase) decrease in prepaids	(2,738,549)	(181,363)
(Increase) decrease in other assets	2,891,567	(4,702,339)
Increase in interest payable	328,901	611,598
Increase in accrued expenses and other liabilities	(923,885)	3,235,712
Net cash provided by operating activities	39,831,006	39,081,080
INVESTING ACTIVITIES		
Purchases of securities available for sale	(90,340,068)	(48,330,208)
Proceeds from maturities, calls, and principal repayments of investment securities available for sale	29,978,591	31,558,107
Proceeds from maturities, calls, and principal repayments of investment securities held to maturity	590,001	3,855,000
Proceeds from sales of investment securities available for sale	58,406,617	84,173,621
Purchase of bank owned life insurance	(1,766,286)	(675,000)
Net (purchase) redemption of other equity securities	5,400	(375,000)
Net increase in loans	(64,249,766)	(90,044,800)
Purchases of premises and equipment	(5,107,972)	(390,176)
Proceeds from sales of premises and equipment	307,737	593,301
Additions to other real estate owned	(62,071)	-
Proceeds from sales of other real estate owned	68,000	75,000
Net cash used in investing activities	(72,169,817)	(19,560,155)
FINANCING ACTIVITIES		
Net increase (decrease) in deposits	262,429	(79,185,060)
Cash dividends paid - common stock	(3,025,834)	(2,949,336)
Cash dividends paid - preferred stock	(1,051,875)	-
Issuance of common stock	305,072	173,677
Repurchase of stock	(37,516)	(3,689,500)
Purchase of unallocated KSOP shares	(10,726,147)	-
Advances from other borrowings	-	22,842,292
Repayment of other borrowings	(6,824,719)	(988,923)
Net cash used in financing activities	(21,098,590)	(63,796,850)
Net decrease in cash and short-term investments	(53,437,401)	(44,275,925)
Cash and short-term investments at beginning of year	236,406,636	280,682,561
Cash and short-term investments at end of year	\$ 182,969,235	\$ 236,406,636
SUPPLEMENTAL DISCLOSURE		
Cash paid during the year for:		
Interest	\$ 14,640,901	\$ 8,038,997
Income taxes	\$ 8,113,682	\$ 9,759,087
OTHER NONCASH TRANSACTIONS		
Transfer of loans to other real estate owned through foreclosure	\$ 1,343,571	\$ 90,210
Transfer of premises and equipment to other real estate owned	\$ 788,330	\$ 1,562,796

See accompanying notes to consolidated financial statements

Notes To Consolidated Financial Statements

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorporation of Alabama, Inc. (the "Corporation") is a financial holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, United Bank (UB), Town-Country United Bank (TCUB), UB Community Development, LLC (UBCD), UBA CFSA Investment Fund, LLC (CFSA IF) and UBA AMCREF Investment Fund, LLC (AMCREF IF).

UB is a commercial bank with headquarters in Atmore, Alabama. UB provides a full range of banking services in its primary market areas of Baldwin, Escambia, Monroe, Mobile and Jefferson Counties, Alabama, and Santa Rosa County, Florida. UB wholly-owns United Insurance Services (UIS), a subsidiary entity, allowing bank-employed licensed agents to offer non-deposit insurance products to bank customers and non-customers.

TCUB was a commercial bank with operations in Camden, Alabama. TCUB was acquired by the Corporation on July 26, 2021. On September 30, 2024, United Bank and Town-Country United Bank merged, with United Bank being the surviving entity.

Throughout the statements, UB is referred to as "the Bank."

UBCD is an entity established to manage allocations of New Markets Tax Credits (NMTC) from funds administered by the U.S. Department of Treasury as well as oversee other community development initiatives. UBCD operates from Atmore, Alabama.

In September 2019, the Corporation became a NMTC equity investor via CFSA IF by pre-funding a \$3.5 million transaction. The Corporation will receive \$1,365,000 in tax benefits over a seven-year compliance period. CFSA IF is wholly-owned by the Corporation and is the 99.9% member of UBCD Sub-CDE Uniform Golf, LLC. UBCD is the 0.01% member and manages the Sub-CDE for the investment fund.

In August 2020, the Corporation entered into its second NMTC transaction as equity investor. Through AMCREF IF, the Corporation made a \$705,994 contribution that will result in \$882,492 of tax credits taken over a seven-year compliance period. AMCREF IF is wholly-owned by the Corporation and is the 99.99% member of AMCREF Fund 63, LLC. AMCREF Fund 63, LLC is managed by the 0.01% member, an entity external to the Corporation's organizational structure.

Principles of Consolidation

The accompanying consolidated financial statements include the financial statements of United Bancorporation of Alabama, Inc., UB, UBCD, CFSA IF and AMCREF IF collectively referred to as "the Corporation." Significant inter-company balances and transactions have been eliminated in consolidation.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Basis of Presentation and Accounting Estimates**

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the balance sheet and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, the valuation of other real estate owned and deferred taxes, the valuation of impairment for investment securities, and the fair value of financial instruments.

The Corporation has evaluated all transactions, events, and circumstances for consideration or disclosure through March 14 2025, the date these financial statements were available to be issued and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash and Short-Term Investments

The Corporation considers cash and due from banks, interest-bearing deposits in banks, and federal funds sold to be cash and short-term investments. Federal funds are generally sold for one-day periods.

Investment Securities

Investment securities are classified in one of two portfolios: securities available for sale or securities held to maturity. Investment securities available for sale are stated at fair value with any unrealized gains and losses reported in a separate component of stockholders' equity, net of tax effect, until realized. Once realized, gains and losses on investment securities available for sale are reflected in current period earnings. Investment securities held to maturity are stated at amortized cost adjusted for amortization of premiums and accretion of discounts.

Net gains and losses on the sale of investment securities available for sale are recorded at trade date. The net gains and losses are computed using the specific identification method and are shown separately in noninterest income in the consolidated statements of income. Accretion of discounts and amortization of premiums are calculated on the effective interest method over the anticipated life of the security.

An investment security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for an investment security placed on nonaccrual status is reversed against interest income. There was no accrued interest related to investment securities reversed against interest income for the years ended December 31, 2024 or 2023.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Investment Securities (Continued)**

The Corporation evaluates investment securities available for sale in an unrealized loss position to determine if credit-related impairment exists. The Corporation first evaluates whether it intends to sell, or more likely than not will be required to sell, an impaired security before recovering its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the investment security's amortized cost basis is written down to fair value through income. If either of the above criteria is not met, the Corporation evaluates whether the decline in fair value is attributable to credit losses or resulted from other factors. In making this assessment, management considers the extent to which fair values 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 credit-related impairment exists, the Corporation recognizes an allowance for credit losses, limited to the amount by which 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, net of tax. Accrued interest receivable on investment securities available for sale totaled \$1,609,186 and \$1,798,618 at December 31, 2024 and 2023, respectively, and was reported in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

The Corporation uses a systematic methodology to determine its allowance for credit losses for investment securities held to maturity considering the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the portfolio. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the held to maturity portfolio. The Corporation monitors the held to maturity portfolio on a quarterly basis to determine whether a valuation account would need to be recorded. As of December 31, 2024 and 2023, the Corporation had \$4,183,929 and \$4,796,239 in investment securities held to maturity, respectively, and no related valuation account. Accrued interest receivable on investment securities held to maturity totaled \$52,630 and \$61,839 at December 31, 2024 and 2023, respectively, and was reported in interest receivable on the consolidated balance sheets and is excluded from the estimate of credit losses.

Restricted Equity Securities

The Corporation is required to maintain an investment in capital stock of various entities. Based on redemption provisions of these entities, these stocks have no quoted market value and are carried at cost. At their discretion, these entities may declare dividend on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in these stocks.

Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value (LOCOM). For loans carried at LOCOM, gains and losses on loan sales (sales proceeds minus carrying value) are recorded in noninterest income upon sale of the loan. The estimated fair value of loans held for sale is based on independent third party quoted prices. The Corporation had no loans held for sale as of December 31, 2024 or 2023.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding unpaid principal balances less the allowance for credit losses, and unamortized premiums or unaccreted discounts on purchased loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are recognized at the time the loan is placed on the books.

The accrual of interest on loans is discontinued when there is a clear indication that the borrower may not be able to meet payments as they become due, which is generally when a loan is 90 days past due. When a loan is placed on nonaccrual status, all previously accrued and unpaid interest is reversed. Interest income is subsequently recognized on a cash basis as long as the remaining book balance of the asset is deemed to be collectible. If collectability is questionable, then cash payments are applied to principal. A loan is placed back on accrual status when both principal and interest are current and it is probable that the Corporation will be able to collect all amounts due (both principal and interest) according to the terms of the loan agreement.

Allowance for Credit Losses – Loans

The Bank adopted Accounting Standards Update (ASU) 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* effective January 1, 2023, which uses the current expected credit loss (CECL) model to determine the allowance for credit losses (ACL).

The CECL methodology recognizes lifetime expected credit losses immediately when a loan is originated or purchased. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis of loans, excluding interest receivable, to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the allowance when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, credit quality, or term, as well as for changes in macroeconomic conditions, such as changes in unemployment rates, property values or other relevant factors.

The allowance for credit losses is comprised of reserves measured on a collective (pool) basis based on a lifetime loss-rate model when similar risk characteristics exist. For purposes of determining the pool-basis reserve, representing all loans not assigned an individual reserve, loans are segregated by portfolio segment, then by class, to recognize differing risk profiles. There are six primary loan portfolio segments that include real estate, agriculture, commercial, consumer, state and political subdivisions and other loans. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include construction and land loans, farmland, 1-4 family residential mortgages, multifamily, and commercial. The portfolio segments of all other non-real estate loans have not been further segregated by class. Each class is assigned a historical loss rate. These historical loss rates are then modified to incorporate a reasonable and supportable forecast of future losses at the loan class level, as well as any necessary qualitative adjustments. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve. The qualitative adjustments are utilized to address factors that are not present in historical loss rates and are otherwise unaccounted for in the quantitative process. Even though portions of the allowance may be allocated to specific loans, the entire allowance is available for any credit that, in management's judgment, should be charged off.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Allowance for Credit Losses – Loans (Continued)**

The following describe risk characteristics relevant to each of the portfolio segments and classes:

Real Estate - As discussed below, the Corporation offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Construction and land loans are repaid through cash flow related to the operation, sale or refinance of the underlying property. This portfolio class includes extensions of credit to real estate developers or investors where repayment is dependent on the sale of the real estate or income generated from the real estate collateral.
- 1-4 family residential mortgages and farmland loans are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Commercial and multifamily loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the business. Real estate loans for income-producing multifamily properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.

Agricultural and Commercial - These loans include those loans to agricultural and commercial customers for use in normal business operations to finance working capital needs, crop production, equipment purchases, or expansion projects. Loans are repaid by business and farming cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the borrowers' business operations.

Consumer - The consumer loan portfolio segment includes direct consumer installment loans, overdrafts and other revolving credit loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

State and Political Subdivisions - The state and political subdivision loan portfolio segment includes loans to local municipalities to support municipal operations and projects. Loans are repaid generally from tax revenues collected in those municipalities.

Other Loans - The other loans portfolio segment includes loans to non-related bank holding companies to invest in subordinated-debt. Loans are interest only, fixed rate with interest payable semi-annually.

In the event that collection of principal becomes uncertain, the Corporation has policies in place to reverse accrued interest in a timely manner. Therefore, the Corporation has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in interest receivable on the consolidated balance sheets and totaled \$7,483,089 and \$6,392,617 at December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Corporation.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Allowance for Credit Losses – Loans (Continued)**

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, or when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the difference between the fair value of the collateral and the amortized cost basis of the asset as of the measurement date. Fair value is generally calculated based on the value of the underlying collateral less estimated selling costs.

Off-Balance Sheet Credit Exposure

The Corporation also has off-balance sheet financial instruments, which include unfunded loan commitments and letters of credit. The Corporation minimized these risks through underwriting guidelines and prudent risk management techniques. For off-balance sheet instruments, the allowance for credit losses is calculated in accordance with Topic 326, representing expected credit losses over the contractual period for which the Corporation is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Corporation has the unconditional right to cancel the obligation. The allowance is reported as a component of total liabilities within the consolidated balance sheets. Adjustments to the allowance for credit losses for unfunded commitments are reported in the income statement as a component of provision for credit losses. At both December 31, 2024 and 2023, \$909,341 in allowance for credit losses has been recognized on off-balance sheet financial instruments.

Modifications to Borrowers Experiencing Financial Difficulty

The Corporation periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, which ranges from three to forty years.

Other Real Estate Owned

Other real estate owned represents property acquired through foreclosure or deeded to the Corporation in lieu of foreclosure on real estate mortgage loans on which borrowers have defaulted. Other real estate owned is carried at the lower of cost or fair value, adjusted for estimated selling costs. Reductions in the balance of other real estate owned at the date of foreclosure are charged to the allowance for credit losses. Subsequent valuation decreases in the carrying value of other real estate owned as well as costs to carry other real estate owned are recognized as charges to noninterest expense.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Business Combinations**

The Corporation accounts for business combinations under the acquisition method of accounting in accordance with Accounting Standards Codification (ASC) 805, *Business Combinations*. The Corporation recognizes the full fair value of the assets acquired and liabilities assumed and immediately expenses transaction costs. There is no separate recognition of the acquired allowance for the credit losses on the acquirer's balance sheet as credit-related factors are incorporated directly into the fair value of the net tangible and intangible assets acquired. If the amount of consideration exceeds the fair value of assets purchased less the fair value of liabilities assumed, goodwill is recorded. Alternatively, if the amount by which the fair value of assets purchased exceeds the fair value of liabilities assumed and consideration paid, a gain ("bargain purchase gain") is recorded. Fair values are subject to refinement for up to one year after the closing date of an acquisition as information relative to closing date fair values becomes available. Results of operations of the acquired business are included in the statement of earnings from the effective date of the acquisition.

Goodwill and Intangible Assets

Goodwill represents the excess of cost over the fair value of the net assets purchased in business combinations. Goodwill is required to be tested annually for impairment or whenever events occur that may indicate that the recoverability of the carrying amount is not probable. In the event of impairment, the amount by which the carrying amount exceeds the fair value is charged to earnings. The Corporation performs its annual test for impairment in the fourth quarter of each year.

Intangible assets consist of core deposit premiums acquired in connection with business combinations and are based on the established value of acquired customer deposits. The core deposit premium is initially recognized based on a valuation performed as of the consummation date and is amortized over an estimated useful life of three to ten years. Amortization periods are reviewed annually in connection with the annual impairment testing of goodwill.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance, FASB ASC 740, *Income Taxes*. The Corporation applies the accounting guidance related to accounting for uncertainty in income taxes, which sets out a consistent framework to determine the appropriate level of tax reserves to maintain for uncertain tax positions.

Income tax accounting results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Corporation determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

NOTE 1.**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)****Income Taxes (Continued)**

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Stock Based Compensation

At December 31, 2024 and 2023, the Corporation had restricted stock and other equity awards outstanding as defined by a stock based employee compensation plan, which is described more fully in Note 11.

The Corporation accounts for its stock-based compensation plan under stock compensation accounting guidance, FASB ASC 718, *Compensation - Stock Compensation*. This guidance requires that the compensation cost relating to share-based payment transactions be recognized in the financial statements. That cost will be measured based on the grant date fair value of the equity or liability instruments issued. The stock compensation accounting guidance covers a wide range of share-based compensation arrangements including stock options, restricted share plans, performance-based awards, share appreciation rights, and employee share purchase plans.

The stock compensation accounting guidance requires that compensation cost for all stock awards be calculated and recognized over the employees' service period, generally defined as the vesting period. For awards with graded-vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. A Black-Scholes model is used to estimate the fair value of stock options, while the market price of the Corporation's common stock at the date of grant is used for restricted stock awards and stock grants.

Earnings Per Common Share

Basic earnings per common share is computed by dividing income available to common shareholders by the weighted-average number of shares of common stock outstanding for the period. Diluted EPS reflects the potential dilution that could occur if dilutive stock options were exercised and resulted in the issuance of common stock.

Unvested share-based payment awards, which include the right to receive non-forfeitable dividends, are considered participating securities and therefore considered to be outstanding in the computation of earnings per share. For the years ended December 31, 2024 and 2023, earnings per common share is calculated using the two class method, under which calculations (1) exclude from the numerator any dividends paid or owed on participating securities and any undistributed earnings considered to be attributable to participating securities and (2) exclude from the denominator the dilutive impact of the participating securities.

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**Comprehensive Income**

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

Fair Value of Financial Instruments

Fair values of financial instruments are estimates using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

NOTE 2. CASH AND DUE FROM BANKS

The Bank may be required by the Federal Reserve Bank to maintain daily cash balances. The Bank was required to maintain reserve balances in cash or on deposit with the Federal Reserve Bank based on a percentage of deposits. On March 15, 2020, the Federal Reserve System Board announced an interim final rule amending Regulation D to lower all transaction account reserve requirement ratios to zero percent, thereby eliminating all reserve requirements, although it did reserve the right to require a reserve requirement at a future date.

NOTE 3. INVESTMENT SECURITIES

The amortized cost and fair value of investment securities available for sale at December 31, 2024 and 2023 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities Available for Sale				
December 31, 2024:				
U.S. Treasury securities	\$ 968,392	\$ -	\$ (11,204)	\$ 957,188
U.S. government sponsored agencies	68,530,089	132,505	(5,169,089)	63,493,505
State and political subdivisions	64,934,106	6,955	(12,492,656)	52,448,405
Corporate bonds	6,160,975	-	(732,689)	5,428,286
Mortgage-backed securities	158,132,303	125,651	(16,033,466)	142,224,488
	<u>\$ 298,725,865</u>	<u>\$ 265,111</u>	<u>\$ (34,439,104)</u>	<u>\$ 264,551,872</u>
December 31, 2023:				
U.S. Treasury securities	\$ 3,913,176	\$ -	\$ (26,926)	\$ 3,886,250
U.S. government sponsored agencies	76,079,141	274,049	(5,659,915)	70,693,275
State and political subdivisions	82,747,660	33,403	(12,456,026)	70,325,037
Corporate bonds	8,210,549	-	(1,100,408)	7,110,141
Mortgage-backed securities	129,547,848	217,436	(15,727,290)	114,037,994
	<u>\$ 300,498,374</u>	<u>\$ 524,888</u>	<u>\$ (34,970,565)</u>	<u>\$ 266,052,697</u>

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

The amortized cost and fair value of investment securities held to maturity at December 31, 2024 and 2023 were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
Securities Held to Maturity				
December 31, 2024:				
State and political subdivisions	\$ 4,183,929	\$ 756	\$ (39,858)	\$ 4,144,827
	<u>\$ 4,183,929</u>	<u>\$ 756</u>	<u>\$ (39,858)</u>	<u>\$ 4,144,827</u>
December 31, 2023:				
State and political subdivisions	\$ 4,796,239	\$ 472	\$ (20,553)	\$ 4,776,158
	<u>\$ 4,796,239</u>	<u>\$ 472</u>	<u>\$ (20,553)</u>	<u>\$ 4,776,158</u>

At December 31, 2024 and 2023, no ACL was established for investment securities, and no investment securities held to maturity were determined to be collateral dependent. Substantially all the unrealized losses on investment securities were the result of changes in market interest rates compared to the date the securities were acquired rather than the credit quality of the issuers or underlying loans.

Those investment securities classified as available for sale which have an unrealized loss position at December 31, 2024 and 2023 are detailed below:

	<u>Less Than Twelve Months</u>		<u>Over Twelve Months</u>		<u>Total</u>	
	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
December 31, 2024:						
U.S. Treasury securities	\$ -	\$ -	\$ (11,204)	\$ 957,188	\$ (11,204)	\$ 957,188
U.S. government sponsored agencies	(64,583)	16,488,818	(5,104,506)	34,538,465	(5,169,089)	51,027,283
State and political subdivisions	(211,332)	6,370,996	(12,281,324)	43,371,282	(12,492,656)	49,742,278
Corporate bonds	-	-	(732,689)	5,428,286	(732,689)	5,428,286
Mortgage-backed securities	(1,006,283)	66,933,716	(15,027,183)	61,158,713	(16,033,466)	128,092,429
Total securities	<u>\$ (1,282,198)</u>	<u>\$ 89,793,530</u>	<u>\$ (33,156,906)</u>	<u>\$ 145,453,934</u>	<u>\$ (34,439,104)</u>	<u>\$ 235,247,464</u>
December 31, 2023:						
U.S. Treasury securities	\$ -	\$ -	\$ (26,926)	\$ 3,886,250	\$ (26,926)	\$ 3,886,250
U.S. government sponsored agencies	(22,271)	2,150,236	(5,637,644)	51,303,443	(5,659,915)	53,453,679
State and political subdivisions	(19,695)	2,677,967	(12,436,331)	63,718,600	(12,456,026)	66,396,567
Corporate bonds	-	-	(1,100,408)	7,110,141	(1,100,408)	7,110,141
Mortgage-backed securities	(9,586)	3,946,232	(15,717,704)	90,768,407	(15,727,290)	94,714,639
Total securities	<u>\$ (51,552)</u>	<u>\$ 8,774,435</u>	<u>\$ (34,919,013)</u>	<u>\$ 216,786,841</u>	<u>\$ (34,970,565)</u>	<u>\$ 225,561,276</u>

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

Those investment securities classified as held to maturity which have an unrealized loss position at December 31, 2024 and 2023 are detailed below:

	Less Than Twelve Months		Over Twelve Months		Total	
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value
December 31, 2024:						
State and political subdivisions	\$ (90)	\$ 724,910	\$ (39,768)	\$ 2,169,161	\$ (39,858)	\$ 2,894,071
Total securities	<u>\$ (90)</u>	<u>\$ 724,910</u>	<u>\$ (39,768)</u>	<u>\$ 2,169,161</u>	<u>\$ (39,858)</u>	<u>\$ 2,894,071</u>
December 31, 2023:						
State and political subdivisions	\$ (5,093)	\$ 1,747,174	\$ (15,460)	\$ 2,053,512	\$ (20,553)	\$ 3,800,686
Total securities	<u>\$ (5,093)</u>	<u>\$ 1,747,174</u>	<u>\$ (15,460)</u>	<u>\$ 2,053,512</u>	<u>\$ (20,553)</u>	<u>\$ 3,800,686</u>

The unrealized losses on 263 investment securities available for sale and 9 investment securities held to maturity at December 31, 2024 were attributable to changes in market interest rates since the securities were purchased. Because the Corporation does not currently intend to sell the investment securities and it is not more likely than not that the Corporation will be required to sell the investment securities before recovery of their amortized cost bases, which may be maturity, the Corporation does not consider these investment securities to be impaired at December 31, 2024.

The amortized cost and fair value of investment securities as of December 31, 2024 categorized by contractual maturity are shown below. Expected maturities may differ from contractual maturities of mortgage-backed securities because borrowers have the right to call or prepay obligations with or without penalties. Therefore, these securities are not presented by maturity class.

	Securities Available for Sale		Securities Held to	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	\$ 480,567	\$ 480,199	\$ 1,275,000	\$ 1,271,759
Due after one year through five years	9,944,930	9,650,209	1,980,894	1,948,572
Due after five years through ten	43,693,420	38,219,000	475,000	474,995
Due after ten years	86,474,645	73,977,976	453,035	449,501
Mortgage-backed securities	158,132,303	142,224,488	-	-
	<u>\$ 298,725,865</u>	<u>\$ 264,551,872</u>	<u>\$ 4,183,929</u>	<u>\$ 4,144,827</u>

The gross gains and gross losses realized by the Corporation from sales of investment securities available for sale for the years ended December 31, 2024 and 2023 were as follows:

	Years Ended December 31,	
	2024	2023
Gross gains	\$ 121	\$ 45,960
Gross losses	(3,043,939)	(6,850,070)
Net realized losses	<u>\$ (3,043,818)</u>	<u>\$ (6,804,110)</u>

Investment securities with carrying values of \$94,242,695 and \$103,123,699 at December 31, 2024 and 2023, respectively, were pledged to secure federal funds lines, Federal Home Loan Bank advances, and public and trust deposits as required by law and for other purposes.

NOTE 3. INVESTMENT SECURITIES (CONTINUED)

Restricted equity investment securities consist of the following as of December 31, 2024 and 2023:

	December 31,	
	2024	2023
Federal Home Loan Bank of Atlanta	\$ 1,179,400	\$ 1,184,800
First National Banker's Bankshares, Inc.	893,900	893,900
Central Alabama Title Center, LLC	30,000	30,000
First Community, LP	2,500	2,500
Federal Agricultural Mortgage Corporation	10,153	10,153
	<u>\$ 2,115,953</u>	<u>\$ 2,121,353</u>

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES**Portfolio Segments and Classes**

At December 31, 2024 and 2023, the composition of the loan portfolio was as follows:

	December 31,	
	2024	2023
Real estate:		
Construction and land loans	\$ 174,303,525	\$ 119,359,972
Farmland	44,678,160	43,377,938
1-4 family residential mortgages	110,892,636	104,726,572
Multifamily	30,373,653	22,805,731
Commercial	161,763,781	163,670,766
Agricultural	47,389,035	45,409,497
Commercial	202,424,146	219,131,104
Consumer	39,646,436	38,212,484
States and political subdivisions	51,568,589	46,968,439
Other loans	8,376,262	8,285,430
Total	<u>\$ 871,416,223</u>	<u>\$ 811,947,933</u>

Credit Risk Management

The Corporation assigns a risk rating to each loan when approved. The rating categories are based on information about the ability of borrowers to service the debt. Such information includes, among other things, current financial information, payment history, credit documentation and current economic conditions. Loan Officers are expected and required to initiate recommendations for changes in assigned risk ratings according to changes in the overall levels of risk in each loan in their portfolio no less than monthly. The current risk rating will be reviewed from time to time by the Chief Credit Officer and the Special Assets Officer for concurrence. The Corporation uses the following guidelines in determining the appropriate risk rating:

Grade 1: Investment Grade – There is an absence of credit risk. Loans in this category are fully secured by the Corporation certificates of deposit or savings accounts (demand deposit accounts are not eligible as collateral). The certificate should be sufficient in amount to cover principal and interest.

Grade 2: Minimal Credit Risk – The overall financial condition is very strong. Businesses should have high liquidity, a history of stable and predictable earnings, a strong management team and the primary source of repayment is clear and subject to little risk. Customers should have a substantial net worth in liquid assets with a well-defined source of repayment.

NOTE 4.**LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)****Credit Risk Management (Continued)**

Grade 3: Attractive Credit Risk – The overall financial condition is good. Financial statements are current and show satisfactory income, profits, cash flow, and debt service coverage, debt to worth ratio and credit history. Loans in this category are properly structured and documented and require only minimal supervision.

Grade 4: Average Risk – The overall financial condition is average. Credit history has been satisfactory. Refinancing could be obtained with normal effort. Financial statements are current and show some volatility in income, profits, cash flow, debt service coverage or credit history. The volatility is easily identifiable and has been addressed and does not constitute an unwarranted level of risk.

Grade 5: Acceptable Risk – The overall financial condition of the business or individual is acceptable. There is more than average credit risk and the credit should be more closely watched but there is little chance of loss. While acceptable, loans in this category may warrant close monitoring for any number of reasons including inconsistent earnings, leveraged balance sheet, economic conditions, collateral requiring close supervision, financial information that is stale or incomplete or irregular payment record.

Grade 6: Special Mention – This asset has potential weakness and deserves management attention. If left uncorrected the potential weakness may result in deterioration of the overall financial condition. There is no room for debt expansion, and they are fully leveraged. If liquidation were to take place there could be a minimal loss.

Grade 7: Substandard – This asset is inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Loans in this category involve more than a normal risk. There is limited opportunity to refinance. If liquidation were to take place there could be some recognized loss exposure. If the loan is determined to be impaired, an analysis will be performed to determine the amount of reserve, if any, to be recognized.

Grade 8: Doubtful – A loss is highly likely, and there probably will be a default. There is no ability to refinance. At this point collection efforts should be in full process. Loans in this category will be reserved at a specific amount in line with the impairment analysis performed if the loan is determined to be impaired. There are no loans with a doubtful rating in the Corporation's portfolio as of December 31, 2024 or 2023.

Grade 9: Loss – The loan is no longer a bankable asset. This classification does not mean that the loan has no recovery or salvage value, but rather that it is more practical and desirable to write the loan off at this time. There would be continued collection efforts with the anticipation that there would be a recovery of some amount. A 100% reserve amount will be shown for loans in this grade. There are no loans with a loss rating in the Corporation's portfolio as of December 31, 2024 or 2023.

These risk ratings are summarized into categories as follows: Pass includes loans with Grades 1-5, Special Mention includes loans with Grade 6, and Substandard includes loans with Grade 7.

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Risk Management (Continued)

The following tables present the amortized cost basis of loans by loan class, risk category and origination year, and the current year gross write-off by loan segment and origination year, based on the analysis performed as of December 31, 2024 and 2023:

	Term Loans Amortized Cost Basis by Origination Year					Revolving Loans	Total
	2024	2023	2022	2021	Prior		
(Dollars in thousands)							
As of December 31, 2024							
Real Estate							
Construction and land loans							
Pass	\$ 31,250	\$ 77,464	\$ 24,888	\$ 19,508	\$ 4,184	\$ 979	\$ 158,273
Special Mention	-	5,286	6	-	5,419	-	10,711
Substandard	-	-	-	5,320	-	-	5,320
Total construction and land loans	\$ 31,250	\$ 82,750	\$ 24,894	\$ 24,828	\$ 9,603	\$ 979	\$ 174,304
Current period gross write-offs	\$ -	\$ -	\$ 29	\$ -	\$ -	\$ -	\$ 29
Farmland							
Pass	\$ 8,315	\$ 4,337	\$ 5,208	\$ 7,026	\$ 8,978	\$ 182	\$ 34,046
Special Mention	1,483	2,600	868	2,496	1,488	-	8,935
Substandard	-	-	295	268	1,134	-	1,697
Total farmland	\$ 9,798	\$ 6,937	\$ 6,371	\$ 9,790	\$ 11,600	\$ 182	\$ 44,678
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1-4 family residential mortgages							
Pass	\$ 17,694	\$ 13,463	\$ 15,709	\$ 15,619	\$ 35,426	\$ 3,806	\$ 101,717
Special Mention	874	735	185	580	1,795	-	4,169
Substandard	2,692	204	674	287	1,150	-	5,007
Total 1-4 family residential mortgages	\$ 21,260	\$ 14,402	\$ 16,568	\$ 16,486	\$ 38,371	\$ 3,806	\$ 110,893
Current period gross write-offs	\$ -	\$ -	\$ 26	\$ -	\$ 31	\$ -	\$ 57
Multifamily							
Pass	\$ 4,381	\$ 4,801	\$ 8,069	\$ 5,777	\$ 7,346	\$ -	\$ 30,374
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Total multifamily	\$ 4,381	\$ 4,801	\$ 8,069	\$ 5,777	\$ 7,346	\$ -	\$ 30,374
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial							
Pass	\$ 18,367	\$ 21,842	\$ 29,889	\$ 18,324	\$ 63,122	\$ 1,203	\$ 152,747
Special Mention	687	325	2,028	1,729	2,960	-	7,729
Substandard	339	-	138	46	765	-	1,288
Total commercial	\$ 19,393	\$ 22,167	\$ 32,055	\$ 20,099	\$ 66,847	\$ 1,203	\$ 161,764
Current period gross write-offs	\$ -	\$ 47	\$ -	\$ -	\$ -	\$ -	\$ 47

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Risk Management (Continued)

	Term Loans Amortized Cost Basis by Origination Year					Revolving	Total
	2024	2023	2022	2021	Prior	Loans	
(Dollars in thousands)							
As of December 31, 2024							
Agricultural							
Pass	\$ 10,230	\$ 2,610	\$ 2,217	\$ 1,380	\$ 2,602	\$ 20,295	\$ 39,334
Special Mention	2,650	1,246	254	349	422	791	5,712
Substandard	922	365	-	47	834	175	2,343
Total agricultural	<u>\$ 13,802</u>	<u>\$ 4,221</u>	<u>\$ 2,471</u>	<u>\$ 1,776</u>	<u>\$ 3,858</u>	<u>\$ 21,261</u>	<u>\$ 47,389</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Commercial							
Pass	\$ 26,005	\$ 46,138	\$ 27,254	\$ 25,884	\$ 38,807	\$ 17,513	\$ 181,601
Special Mention	424	445	7,362	1,260	4,515	1,359	15,365
Substandard	865	338	417	293	3,545	-	5,458
Total commercial	<u>\$ 27,294</u>	<u>\$ 46,921</u>	<u>\$ 35,033</u>	<u>\$ 27,437</u>	<u>\$ 46,867</u>	<u>\$ 18,872</u>	<u>\$ 202,424</u>
Current period gross write-offs	<u>\$ 4</u>	<u>\$ 1,640</u>	<u>\$ 75</u>	<u>\$ 1,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,421</u>
Consumer							
Pass	\$ 16,744	\$ 7,980	\$ 4,538	\$ 1,882	\$ 1,514	\$ 4,690	\$ 37,348
Special Mention	113	232	205	154	59	-	763
Substandard	209	606	473	114	133	-	1,535
Total consumer	<u>\$ 17,066</u>	<u>\$ 8,818</u>	<u>\$ 5,216</u>	<u>\$ 2,150</u>	<u>\$ 1,706</u>	<u>\$ 4,690</u>	<u>\$ 39,646</u>
Current period gross write-offs	<u>\$ 68</u>	<u>\$ 309</u>	<u>\$ 78</u>	<u>\$ 32</u>	<u>\$ 59</u>	<u>\$ -</u>	<u>\$ 546</u>
States and political subdivisions							
Pass	\$ 1,154	\$ 16,839	\$ 8,692	\$ 8,856	\$ 7,055	\$ 7,662	\$ 50,258
Special Mention	-	-	-	1,310	-	-	1,310
Substandard	-	-	-	-	-	-	-
Total states and political subdivisions	<u>\$ 1,154</u>	<u>\$ 16,839</u>	<u>\$ 8,692</u>	<u>\$ 10,166</u>	<u>\$ 7,055</u>	<u>\$ 7,662</u>	<u>\$ 51,568</u>
Current period gross write-offs	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Other loans							
Pass	\$ 2	\$ -	\$ 3,500	\$ 134	\$ 4,725	\$ -	\$ 8,361
Special Mention	15	-	-	-	-	-	15
Substandard	-	-	-	-	-	-	-
Total other loans	<u>\$ 17</u>	<u>\$ -</u>	<u>\$ 3,500</u>	<u>\$ 134</u>	<u>\$ 4,725</u>	<u>\$ -</u>	<u>\$ 8,376</u>
Current period gross write-offs	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ -</u>	<u>\$ 9</u>

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**Credit Risk Management (Continued)**

	Term Loans Amortized Cost Basis by Origination Year				Revolving	
	2023	2022	2021	Prior	Loans	Total
	(Dollars in Thousands)					
As of December 31, 2023						
Real Estate						
Construction and land loans						
Pass	\$ 36,849	\$ 43,267	\$ 28,736	\$ 3,879	\$ 690	\$ 113,421
Special Mention	326	-	17	5,457	-	5,800
Substandard	-	37	-	102	-	139
Total construction and land loans	\$ 37,175	\$ 43,304	\$ 28,753	\$ 9,438	\$ 690	\$ 119,360
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 400	\$ -	\$ 400
Farmland						
Pass	\$ 6,947	\$ 6,466	\$ 9,416	\$ 14,387	\$ 237	\$ 37,453
Special Mention	869	461	2,606	1,382	-	5,318
Substandard	-	172	-	435	-	607
Total farmland	\$ 7,816	\$ 7,099	\$ 12,022	\$ 16,204	\$ 237	\$ 43,378
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
1-4 family residential mortgages						
Pass	\$ 15,631	\$ 18,325	\$ 19,458	\$ 42,837	\$ 4,149	\$ 100,400
Special Mention	-	-	212	983	-	1,195
Substandard	635	176	276	2,045	-	3,132
Total 1-4 family residential mortgages	\$ 16,266	\$ 18,501	\$ 19,946	\$ 45,865	\$ 4,149	\$ 104,727
Current period gross write-offs	\$ -	\$ -	\$ 32	\$ 200	\$ -	\$ 232
Multifamily						
Pass	\$ 2,816	\$ 4,761	\$ 6,367	\$ 8,862	\$ -	\$ 22,806
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Total multifamily	\$ 2,816	\$ 4,761	\$ 6,367	\$ 8,862	\$ -	\$ 22,806
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial						
Pass	\$ 34,757	\$ 35,972	\$ 21,930	\$ 65,968	\$ 400	\$ 159,027
Special Mention	267	254	347	801	-	1,669
Substandard	61	145	55	2,714	-	2,975
Total commercial	\$ 35,085	\$ 36,371	\$ 22,332	\$ 69,483	\$ 400	\$ 163,671
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 255	\$ -	\$ 255

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**Credit Risk Management (Continued)**

	Term Loans Amortized Cost Basis by Origination Year				Revolving	
	2023	2022	2021	Prior	Loans	Total
	(Dollars in Thousands)					
As of December 31, 2023						
Agricultural						
Pass	\$ 9,021	\$ 3,473	\$ 1,765	\$ 6,557	\$ 21,775	\$ 42,591
Special Mention	1,026	21	517	307	931	2,802
Substandard	-	-	-	16	-	16
Total agricultural	\$ 10,047	\$ 3,494	\$ 2,282	\$ 6,880	\$ 22,706	\$ 45,409
Current period gross write-offs	\$ -	\$ 8	\$ -	\$ -	\$ -	\$ 8
Commercial						
Pass	\$ 60,752	\$ 41,593	\$ 33,685	\$ 50,017	\$ 20,232	\$ 206,279
Special Mention	1,042	530	2,086	3,266	500	7,424
Substandard	531	556	303	4,028	10	5,428
Total commercial	\$ 62,325	\$ 42,679	\$ 36,074	\$ 57,311	\$ 20,742	\$ 219,131
Current period gross write-offs	\$ -	\$ 94	\$ 69	\$ 41	\$ -	\$ 204
Consumer						
Pass	\$ 16,897	\$ 8,754	\$ 4,138	\$ 2,589	\$ 4,282	\$ 36,660
Special Mention	109	258	97	166	-	630
Substandard	380	214	180	148	-	922
Total consumer	\$ 17,386	\$ 9,226	\$ 4,415	\$ 2,903	\$ 4,282	\$ 38,212
Current period gross write-offs	\$ 50	\$ 152	\$ 65	\$ 29	\$ -	\$ 296
States and political subdivisions						
Pass	\$ 17,255	\$ 9,630	\$ 10,517	\$ 7,916	\$ 241	\$ 45,559
Special Mention	-	-	1,409	-	-	1,409
Substandard	-	-	-	-	-	-
Total states and political subdivisions	\$ 17,255	\$ 9,630	\$ 11,926	\$ 7,916	\$ 241	\$ 46,968
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Other loans						
Pass	\$ -	\$ 3,500	\$ 259	\$ 4,515	\$ -	\$ 8,274
Special Mention	11	-	-	-	-	11
Substandard	-	-	-	-	-	-
Total other loans	\$ 11	\$ 3,500	\$ 259	\$ 4,515	\$ -	\$ 8,285
Current period gross write-offs	\$ 5	\$ 4	\$ -	\$ -	\$ -	\$ 9

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**Credit Risk Management (Continued)****Collateral Dependent Loans**

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Corporation has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Corporation expects repayment of the loans to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The following table presents the amortized cost basis of collateral dependent loans, by primary collateral type, which are individually evaluated to determine expected credit losses, and the related ACL allocated to these loans as of December 31, 2024 and 2023:

	<u>Real Estate</u>	<u>Equipment</u>	<u>Other</u>	<u>Total</u>	<u>ACL</u>
December 31, 2024:	<i>(Dollars in Thousands)</i>				
Real estate mortgages:					
Construction and land loans	\$ 5,418	\$ -	\$ -	\$ 5,418	\$ 765
Farmland	1,525	172	-	1,697	-
1-4 family residential mortgages	4,837	-	-	4,837	27
Multifamily	-	-	-	-	-
Commercial	875	-	-	875	-
Agricultural	-	337	2,063	2,400	346
Commercial	-	1,597	3,436	5,033	489
Consumer	-	-	730	730	113
States and political subdivisions	-	-	-	-	-
Other loans	-	-	-	-	-
Total:	<u>\$ 12,655</u>	<u>\$ 2,106</u>	<u>\$ 6,229</u>	<u>\$ 20,990</u>	<u>\$ 1,740</u>
	<u>Real</u>	<u>Equipment</u>	<u>Total</u>	<u>ACL</u>	
December 31, 2023:	<i>(Dollars in Thousands)</i>				
Real estate mortgages:					
Construction and land loans	\$ 29	\$ -	\$ 29	\$ -	
Farmland	607	-	607	-	
1-4 family residential mortgages	1,311	-	1,311	50	
Multifamily	-	-	-	-	
Commercial	1,687	-	1,687	65	
Agricultural	-	-	-	-	
Commercial	-	4,316	4,316	20	
Consumer	-	124	124	17	
States and political subdivisions	-	-	-	-	
Other loans	-	-	-	-	
Total:	<u>\$ 3,634</u>	<u>\$ 4,440</u>	<u>\$ 8,074</u>	<u>\$ 152</u>	

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)
Past Due Loans

The table below provides an age analysis of past due loans as of December 31, 2024 and 2023:

<div>Past Due Status (Accruing Loans)</div>									
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual without ACL	Nonaccrual with ACL	Total	
December 31, 2024	(Dollars in Thousands)								
Real estate:									
Construction and land									
loans	\$ 168,842	\$ 136	\$ -	\$ 6	\$ 142	\$ 14	\$ 5,306	174,304	
Farmland	43,565	615	-	345	960	153	-	44,678	
1-4 family residential									
mortgages	108,978	1,131	79	107	1,317	598	-	110,893	
Multifamily	30,374	-	-	-	-	-	-	30,374	
Commercial	160,270	1,127	48	83	1,258	236	-	161,764	
Agriculture	45,614	274	-	250	524	75	1,176	47,389	
Commercial	197,246	618	124	206	948	3,661	569	202,424	
Consumer	37,950	635	290	87	1,012	461	223	39,646	
State and political									
subdivisions	51,568	-	-	-	-	-	-	51,568	
Other loans	8,376	-	-	-	-	-	-	8,376	
Total:	\$ 852,783	\$ 4,536	\$ 541	\$ 1,084	\$ 6,161	\$ 5,198	\$ 7,274	\$ 871,416	
<div>Past Due Status (Accruing Loans)</div>									
	Current	30-59 Days	60-89 Days	90+ Days	Total Past Due	Nonaccrual without ACL	Nonaccrual with ACL	Total	
December 31, 2023	(Dollars in Thousands)								
Real estate:									
Construction and land									
loans	\$ 119,281	\$ 35	\$ 9	\$ -	\$ 44	\$ 35	\$ -	\$ 119,360	
Farmland	43,058	305	15	-	320	-	-	43,378	
1-4 family residential									
mortgages	102,759	1,094	235	367	1,696	272	-	104,727	
Multifamily	22,806	-	-	-	-	-	-	22,806	
Commercial	162,236	772	86	-	858	476	101	163,671	
Agriculture	45,346	63	-	-	63	-	-	45,409	
Commercial	217,747	443	297	18	758	504	122	219,131	
Consumer	37,032	632	151	48	831	262	87	38,212	
State and political									
subdivisions	46,968	-	-	-	-	-	-	46,968	
Other loans	8,279	1	4	1	6	-	-	8,285	
Total:	\$ 805,512	\$ 3,345	\$ 797	\$ 434	\$ 4,576	\$ 1,549	\$ 310	\$ 811,947	

The Corporation recognized no interest income on nonaccrual loans during the years ended December 31, 2024 or 2023.

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**Allowance for Credit Losses**

The following tables detail activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2024 and 2023. Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

	Beginning Balance	Impact of Adoption of ASC 326	Charge offs	Recoveries	Provision (Credit) Allocation	Ending Balance
			<i>(Dollars in Thousands)</i>			
December 31, 2024:						
Real estate	\$ 6,674	\$ -	\$ (133)	\$ 289	\$ (311)	\$ 6,519
Agriculture	345	-	-	12	847	1,204
Commercial	3,218	-	(3,421)	69	3,516	3,382
Consumer	659	-	(546)	126	513	752
States and political subdivisions	656	-	-	-	(179)	477
Other loans	76	-	(9)	8	(26)	49
Total:	<u>\$ 11,628</u>	<u>\$ -</u>	<u>\$ (4,109)</u>	<u>\$ 504</u>	<u>\$ 4,360</u>	<u>\$ 12,383</u>
	Beginning Balance	Impact of Adoption of ASC 326	Charge offs	Recoveries	Provision (Credit) Allocation	Ending Balance
			<i>(Dollars in Thousands)</i>			
December 31, 2023:						
Real estate	\$ 7,024	\$ 98	\$ (887)	\$ 43	\$ 396	\$ 6,674
Agriculture	545	14	(8)	6	(212)	345
Commercial	3,256	27	(204)	130	9	3,218
Consumer	668	163	(296)	193	(69)	659
States and political subdivisions	504	-	-	-	152	656
Other loans	108	-	(9)	1	(24)	76
Total:	<u>\$ 12,105</u>	<u>\$ 302</u>	<u>\$ (1,404)</u>	<u>\$ 373</u>	<u>\$ 252</u>	<u>\$ 11,628</u>

NOTE 4. LOANS AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)**Modified Loans**

The Corporation offers modifications of loans to borrowers experiencing financial difficulty by providing principal forgiveness, interest rate reductions, term extensions, other than insignificant payment delays, or any combination of these.

During the year ended December 31, 2024, the Bank modified one auto loan. The loan was modified with term extensions and/or payment delays to interest only payments. The loan had an amortized cost of \$9,102 or 0.04% of auto loans at December 31, 2024.

During the year ended December 31, 2023, the Company modified two 1-4 family residential mortgages. Both loans were modified with term extensions and/or payment delays to interest only payments. The first loan had an amortized cost of \$588,270 or 0.53% of 1-4 family residential mortgages at December 31, 2023. The second loan had an amortized cost of \$120,640 or 0.12% of 1-4 family residential mortgages at December 31, 2023. There was no forgiveness of principal for either of the loans.

There were three loans that were modified in the previous twelve months (i.e., the twelve months prior to default) that defaulted during the year ended December 31, 2024. The three loans were placed on nonaccrual status and the book balance of the modified loans in nonaccrual status totaled \$40,462. There were no loans that defaulted within twelve months of modification during the year ended December 31, 2023. For purposes of this disclosure, default is defined as 90 days past due and still accruing or placement on nonaccrual status.

The Corporation has not committed to lending additional amounts to the borrowers included in the previous table.

The Corporation closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. Two of the six loans totaling \$16,528 modified under ASU 2022-02 were past due as of December 31, 2024. No loans modified under ASU 2022-02 were past due as of December 31, 2023.

Related Party Transactions

In the ordinary course of business, certain executive officers and directors of the Corporation, including their families and companies with which they are associated, have been granted loans. The interest rates on these loans were substantially the same as rates prevailing at the time of the transaction and repayment terms are customary for the type of loan.

Changes in related party loans for the years ended December 31, 2024 and 2023 are as follows:

	Years Ended December 31,	
	2024	2023
Balance, beginning of year	\$ 8,564,486	\$ 8,563,684
Advancements	4,742,265	4,044,913
Repayments	(4,867,169)	(4,044,111)
Change in Director	(121,053)	-
Balance, end of year	<u>\$ 8,318,529</u>	<u>\$ 8,564,486</u>

NOTE 5. OTHER REAL ESTATE OWNED

The table below presents a summary of the activity related to other real estate owned for the years ended December 31, 2024 and 2023, respectively.

	Years Ended December 31,	
	2024	2023
Balance, beginning of year	\$ 1,100,000	\$ -
Additions	2,193,972	1,653,006
Sales proceeds	(68,000)	(75,000)
Net gain (loss) on sales of other real estate owned	9,590	(15,210)
Provision for losses on other real estate owned	(394,097)	(462,796)
Balance, end of year	<u>\$ 2,841,465</u>	<u>\$ 1,100,000</u>

Other real estate owned by type is as follows:

	December 31,	
	2024	2023
Farmland	\$ 1,165,161	\$ -
Residential real estate	120,000	-
Commercial real estate	2,413,196	1,562,796
ORE valuation allowance	(856,892)	(462,796)
	<u>\$ 2,841,465</u>	<u>\$ 1,100,000</u>

Expenses related to other real estate owned for the year ended December 31, 2024 and 2023 are as follows:

	Years Ended December 31,	
	2024	2023
Net (gain) loss on sales of other real estate owned	\$ (9,590)	\$ 15,210
Operating expenses, net of lease income	412,325	483,129
	<u>\$ 402,735</u>	<u>\$ 498,339</u>

NOTE 6. PREMISES AND EQUIPMENT

At December 31, 2024 and 2023 premises and equipment were as follows:

	December 31,	
	2024	2023
Land	\$ 3,955,939	\$ 4,968,923
Buildings and leasehold improvements (depreciated over 5 to 50 years)	24,792,131	20,472,257
Furniture, fixtures, and equipment (depreciated over 3 to 10 years)	15,343,332	14,777,208
Automobiles (depreciated over 3 years)	204,717	204,717
	<u>44,296,119</u>	<u>40,423,105</u>
Accumulated depreciation	(27,710,766)	(26,583,925)
	<u>\$ 16,585,353</u>	<u>\$ 13,839,180</u>

Depreciation expense for the years ended December 31, 2024 and 2023 was \$1,334,734 and \$1,366,901, respectively.

NOTE 7. DEPOSITS

At December 31, 2024 and 2023, deposits were as follows:

	December 31,	
	2024	2023
Noninterest-bearing accounts	\$ 473,847,530	\$ 513,760,135
NOW accounts	138,295,990	146,022,844
Money market investment accounts	123,736,991	112,617,261
Savings accounts	102,252,942	106,266,732
Time deposits:		
Time deposits less than \$250,000	177,852,100	155,883,183
Time deposits equal to or greater than \$250,000	74,129,620	55,302,589
Total deposits	<u>\$ 1,090,115,173</u>	<u>\$ 1,089,852,744</u>

At December 31, 2024, the contractual maturities of time deposits are as follows:

2025	\$ 219,359,471
2026	21,560,128
2027	3,509,968
2028	2,598,565
2029	4,953,588
	<u>\$ 251,981,720</u>

At December 31, 2024 and 2023, overdraft demand and savings deposits reclassified to loans totaled \$646,017 and \$249,139, respectively.

NOTE 8. PARTICIPATION IN U.S. TREASURY PROGRAMS**New Market Tax Credits**

On October 28, 2022, UBCD was awarded a \$45,000,000 allocation of 2021 New Markets Tax Credits from the CDFI Fund. UBCD deploys these tax credits to qualified projects. As of December 31, 2024, \$39,500,000 has been deployed to qualified projects and the remaining \$5,500,000 will close into a qualified project in the first quarter of 2025.

On September 22, 2023, UBCD was awarded a \$65,000,000 allocation of 2022 New Markets Tax Credits from the CDFI Fund. UBCD deploys these tax credits to qualified projects. As of December 31, 2024, \$28,000,000 has been deployed to qualified projects, \$20,000,000 will close into qualified projects in the first half of 2025, and \$17,000,000 is available for use in projects expected to close in 2025 and 2026.

On September 19, 2024, UBCD was awarded a \$65,000,000 allocation of 2023 New Markets Tax Credits from the CDFI Fund. UBCD will deploy these tax credits to qualified projects. As of December 31, 2024, \$65,000,000 is available for use in projects expected to close in 2025 and 2026. UB Community Development, LLC has applied for a 2024 allocation of New Markets Tax Credits, to be awarded in the third quarter of 2025.

NOTE 8.**PARTICIPATION IN U.S. TREASURY PROGRAMS (CONTINUED)****Community Development Financial Institutions Income (CDFI)**

On October 17, 2024, the Corporation received \$64,017 from the Bank Enterprise Award Program (BEA) for the 2024 award allocation, administered by the CDFI Fund. The BEA Program is a performance-based grant program that provides monetary awards to FDIC insured depository institutions that successfully demonstrate an increase in their investments in mission driven lenders known as CDFIs, or in their own lending, or service activities in highly distressed communities. The BEA Program awards help offset some of the risks and/or costs associated with investing in these highly distressed communities and provide an incentive to increase their investments.

On October 23, 2024, the Corporation received notification of an award of \$9,000,000 from the U.S. Department of Treasury's Capital Magnet Fund (CMF) program, administered by the CDFI Fund. The award will be used to develop projects aimed at providing better housing options for low-income families and creating new economic opportunities. The Corporation received the funds on December 27, 2024.

On November 5, 2024, the Corporation received notification that they were awarded \$1,285,000 from the Financial Assistance (FA) program 2023/2024 round, administered by the CDFI Fund. The FA Award will be used to expand financial assistance in the Corporation's target market.

On June 16, 2023, the Corporation received \$717,900 from the Financial Assistance (FA) program 2022 round, administered by the CDFI Fund. The FA Award is earmarked to fund affordable housing lending.

On October 17, 2023, the Corporation received \$4,957,678 from the Equitable Recovery Program (ERP) 2022 round, administered by the CDFI Fund. ERP funds are a one-time award to help the communities most impacted, recover from the COVID-19 pandemic.

On November 3, 2023, the Corporation received an award of \$437,350 from the Bank Enterprise Award Program (BEA) for the 2022 award allocation, administered by the CDFI Fund.

On November 28, 2023, the Corporation received an award of \$9,000,000 from the U.S. Department of Treasury's Capital Magnet Fund (CMF) program, administered by the CDFI Fund. The award will be used to develop projects aimed at providing better housing options for low-income families and creating new economic opportunities.

Emergency Capital Investment Program

In July 2022, through the US Department of Treasury's Emergency Capital Investment Program (ECIP), the Corporation issued 123,750 shares in senior preferred stock totaling \$123.75 million. The ECIP funds are meant to support and strengthen underserved and low-income communities that struggled through the pandemic. Dividends will not accrue for the first two years and will begin accruing at 2.0%, maximum. Based on increases in certain types of lending, the rate could decrease. In 2024, \$1,051,875 of preferred dividends were paid to the Treasury.

NOTE 9. OTHER BORROWINGS

Other borrowings consist of the following:

	December 31,	
	2024	2023
Federal Home Loan Bank Advances	\$ 4,435,123	\$ 5,104,196
USDA Re-Lending Program	26,968,146	33,123,792
NMTC Leverage Loans	2,564,450	2,564,450
Total other borrowings	<u>\$ 33,967,719</u>	<u>\$ 40,792,438</u>

At December 31, 2024, other borrowings are due as follows:

2026	\$ 214,285
2027	-
2028	-
2029	942,149
Thereafter	32,811,285
	<u>\$ 33,967,719</u>

Federal Home Loan Bank Advances

The Corporation's advances from the Federal Home Loan Bank of Atlanta bear interest rates ranging from 1.99% to 2.17% at December 31, 2024. These advances are due at various dates through 2034. The weighted average interest rate as of December 31, 2024 and 2023 was 2.11% and 2.10%, respectively.

At December 31, 2024, Federal Home Loan Bank advances were collateralized by 1-4 family first mortgages of \$10,337,718, Home Equity Lines of Credit on first mortgages of \$985,182 and investment securities of \$17,499,550.

USDA Re-Lending Program

During 2016, the Corporation entered into a \$40,000,000 promissory note with the United States Department of Agriculture's Community Facilities Direct Loan program, with a 40-year maturity, which will allow it to re-lend funds to eligible borrowers in rural areas in Alabama and Florida on a fixed rate structure. The outstanding balance under this note agreement was \$26,968,146 and \$33,123,792 as of December 31, 2024 and 2023, respectively.

NMTC Leverage Loans

As a party to NMTC transactions, Investment Funds make qualified equity investments (QEI) in special purpose subsidiaries that make low-interest loans to qualified businesses in low-income communities. The QEIs are funded with investor equity from the tax credit recipient and leverage loans made by a respective lender in the transaction.

In January 2020, CFSA Investment Fund (CFSA IF) leveraged its \$3,500,000 total qualified equity investment (QEI) in UBCD Sub-CDE Uniform Golf, LLC with a \$2,564,450 leverage loan, payable to The Community Foundation of South Alabama (CFSA). The loan carries a 1.00% interest rate and CFSA IF will make interest-only payments until September 2026, when the Corporation (investor) and CFSA (project sponsor) will execute a put/call option to unwind the transaction. Upon successful execution of the put/call option, any remaining assets and liabilities of CFSA IF would transfer to the project sponsor.

NOTE 9. OTHER BORROWINGS (CONTINUED)**NMTC Leverage Loans (Continued)**

In August 2020, AMCREF Investment Fund (AMCREF IF) leveraged its \$2,262,800 total QEI in AMCREF Fund 63, LLC with a \$1,842,179 leverage loan, payable to UB. The loan carries a 4.00% interest rate and AMCREF IF will make interest-only payments over the seven-year compliance period and a balloon payment in August of 2027, at which time the investment fund will dissolve and any remaining assets of AMCREF IF would transfer to the Corporation (the sole member investor in the transaction). The AMCREF IF leveraged loan is eliminated upon consolidation.

NOTE 10. INCOME TAXES

The components of income tax expense are as follows:

	Years Ended December 31,	
	2024	2023
Current:		
Federal	\$ 6,849,816	\$ 7,920,823
State	1,615,350	1,916,460
Total	8,465,166	9,837,283
Deferred:		
Federal	(299,989)	(332,523)
State	(74,586)	(78,844)
Total	(374,575)	(411,367)
Income tax expense	\$ 8,090,591	\$ 9,425,916

Total income tax expense differed from the amount computed by applying the statutory federal income tax rate of 21% to pretax income is as follows:

	Years Ended December 31,	
	2024	2023
Income tax expense at federal statutory rate	\$ 7,579,709	\$ 8,603,081
Increase (decrease) resulting from:		
Tax exempt interest	(585,199)	(600,892)
Interest disallowance	38,809	20,887
State income tax, net of federal benefit	1,217,203	1,451,717
Premium amortization on tax exempt investment securities	57,383	80,371
Cash surrender value of life insurance	(141,263)	(124,103)
Other, net	(76,051)	(5,145)
Total income tax expense	\$ 8,090,591	\$ 9,425,916

NOTE 10. INCOME TAXES (CONTINUED)

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and deferred tax liabilities at December 31, 2024 and 2023 are as follows:

	December 31,	
	2024	2023
Deferred tax assets:		
Loans, principally due to the allowance for credit losses	\$ 3,477,308	\$ 3,330,061
Other real estate, principally due to difference in carrying	254,196	155,227
Deferred compensation	397,274	374,910
Accrued expenses	518,148	452,008
Lease liability	39,732	79,900
Restricted stock units	28,577	36,919
Premise and equipment	279,083	211,260
Investment securities available for sale	8,543,506	8,611,420
Other	-	138,483
	<u>13,537,824</u>	<u>13,390,188</u>
Deferred income tax liabilities:		
Discount accretion	4,028	-
Intangible assets	87,549	108,998
Right of use - lease asset	39,732	79,900
Investments	10,575	10,575
New Market Tax Credit	147,698	120,824
Other	229,821	-
	<u>519,403</u>	<u>320,297</u>
Net deferred income tax assets	<u>\$ 13,018,421</u>	<u>\$ 13,069,891</u>

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the scheduled reversal of deferred tax liabilities, projected future taxable income, and tax planning strategies. Based upon the level of historical taxable income and projection for future taxable income over the periods which the temporary differences resulting in the deferred tax assets are deductible, management believes it is more likely than not that the Corporation will realize the benefits of these deductible differences.

The federal and state income tax returns of the Corporation for 2022, 2023, and 2024 are subject to examination, generally for three years after they were filed.

NOTE 11. STOCK BASED COMPENSATION**Stock Options****2018 Equity Incentive Plan**

The United Bancorporation of Alabama, Inc. 2018 Equity Incentive Plan (formerly the 2007 Equity Incentive Plan) provides for the grant of stock options, stock appreciation rights, restricted stock awards, performance units, or any combination thereof to officers, directors, and employees of the Corporation to purchase up to an aggregate of 308,000 shares of Class A Stock. As of December 31, 2024, 223,470 shares of stock could be granted in the future. There are no outstanding stock options for years ending December 31, 2024 or 2023.

Restricted Stock

As of December 31, 2024, the Corporation has awarded stock grants in two formats to two distinct classes. Directors have been awarded grants that 100% vest as of the grant date. The second type of grant has been awarded to senior officers of the Corporation. These grants have three-year terms with one-third of the award shares vesting on each grant date anniversary. The expense of these awards is recorded on a straight-line bases over the 36-month term.

	Restricted Shares	Weighted- Average Grant Price Per Share
Balance at December 31, 2022	11,372	\$ 27.73
Granted	9,465	36.77
Surrendered	-	-
Vested	(9,357)	29.82
Balance at December 31, 2023	11,480	\$ 29.29
Granted	10,036	43.85
Surrendered	(274)	29.00
Vested	(10,046)	38.68
Balance at December 31, 2024	11,196	\$ 38.28

As of December 31, 2024, there was \$287,301 of total unrecognized compensation cost related to non-vested restricted stock, to be recognized over weighted average remaining period of 1.7 years.

NOTE 12. DIVIDEND REINVESTMENT AND SHARE PURCHASE PLAN

The Corporation sponsors a dividend reinvestment and share purchase plan. Under the plan, all holders of record of common stock are eligible to participate in the plan. Participants in the plan may direct the plan administrator to invest cash dividends declared with respect to all or any portion of their common stock. Participants may also make optional cash payments that will be invested through the plan. All cash dividends paid to the plan administrator are invested within 30 days of cash dividend payment date. Cash dividends and optional cash payments will be used to purchase common stock of the Corporation in the open market, from newly-issued shares, from shares held in treasury, in negotiated transactions, or in any combination of the foregoing. The purchase price of the shares of common stock is based on the average market price. All administrative costs are borne by the Corporation.

For the year ended December 31, 2024, 6,780 shares were purchased under the Plan. Regular cash dividends of \$1.10 per share were declared in 2024. For the year ended December 31, 2023, 4,628 shares were purchased under the Plan. Regular cash dividends of \$0.60 per share were declared in 2023.

NOTE 13. EMPLOYEE BENEFIT PLANS

401(k) Employee Stock Ownership Plan

During 2017, the Corporation amended its 401(k) Savings Plan and adopted a 401(k) Employee Stock Ownership Plan (the "KSOP"), which covers substantially all employees over 20.5 years of age with at least three months of service. Employees may defer an elected percentage of their compensation bi-weekly. The Bank makes bi-weekly discretionary matching contributions of up to 5.5% of the employees' contributions, not to exceed 5.5% of the participating employees' compensation. The Corporation may also make additional discretionary contributions to the KSOP which is unrelated to any employer matching contributions. For the years ended December 31, 2024 and 2023, the Corporation expensed \$579,993 and \$538,284, respectively, for matching discretionary contributions to this Plan. Shares of Corporation common stock owned by the KSOP plan total 0 and 131,461 as of December 31, 2024 and 2023 with a fair value of \$0 and \$5,468,778, respectively. All KSOP shares have been fully allocated to the participants.

During the second quarter of 2019, the KSOP leveraged \$2.0 million from the Corporation to purchase 100,000 shares in the Corporation's private placement. The shares were securitized by a note held by the Corporation and paid by the Bank with an interest rate of 3.15%, annual principal and interest payments of \$234,559 that were due at December 31 each year until maturity of December 31, 2028. The shares were placed in a reserve account, and as principal payments were made, a corresponding amount of shares were released and allocated to participants' accounts. As a result, the KSOP reserve shares were excluded from equity until the shares were paid in full and no longer encumbered. The balance of shares in the KSOP Reserve for the years ended December 31, 2024 and 2023 was 0 and 16,685 with a fair value of \$0 and \$694,096, respectively.

During the third quarter of 2021, the KSOP entered into an internal loan (employer loan) with UB to purchase 69,705 shares. The shares, being already issued and outstanding, were placed in the KSOP's account as unallocated KSOP shares. The shares were securitized by a note held by UB with an interest rate of 2.15%, annual principal and interest payments of \$154,075 that were due at December 31 each year until maturity of December 31, 2030. As principal payments were made, a corresponding amount of shares were released and allocated to participant's accounts. As a result, the shares were excluded from equity until the shares were paid in full and no longer encumbered. The balance of shares on hold in the KSOP's account for years ended December 31, 2024 and 2023 was 0 and 49,572 with a fair value of \$0 and \$2,062,195.

On November 15, 2024, the Corporation amended its 401(k) Savings Plan and terminated the Employee Stock Ownership Plan, returning to a traditional 401(k). The Corporation repurchased all the shares held by the KSOP. The purchase price was \$54.25 per share for a total transaction cost of \$10.7 million. Under the amended 401(k) Savings Plan, employees may defer an elected percentage of their compensation bi-weekly. The Bank makes bi-weekly discretionary matching contributions of up to 5.5% of the employees' contributions, not to exceed 5.5% of the participating employees' compensation. The Corporation may also make additional discretionary contributions to the 401(k) Savings Plan which is unrelated to any employer matching contributions.

Profit-Sharing Plan

The Corporation also maintains a profit-sharing plan for eligible employees. Eligibility requirements for this plan are the same as the 401(k) Employee Incentive Savings Plan. Benefits paid under the Plan are subject to approval by the Board of Directors each year. Contributions to the Plan charged to expense during 2024 and 2023 were \$156,300 and \$138,000, respectively.

NOTE 13. EMPLOYEE BENEFIT PLANS (CONTINUED)

Salary and Fee Continuation Plans

The Corporation provides a salary continuation plan for certain executive officers and a fee continuation plan for certain directors providing for death and/or retirement benefits. The present value of the estimated amounts to be paid under the plans are being accrued over the remaining service period of the executives and directors. The expense recognized for the salary and fee continuation plans amounted to \$386,830 and \$318,965 for the years ended December 31, 2024 and 2023 respectively. The balance of the liability for the salary and fee continuation plans included in other liabilities at December 31, 2024 and 2023 totaled \$1,988,883 and \$1,635,788, respectively.

The cost of the salary continuation plan described above is being offset by earnings from bank owned life insurance policies on the executives. The balance of the policy surrender values totaled \$24,967,214 and \$22,528,245 at December 31, 2024 and 2023, respectively. Income recognized from the increase in cash surrender value on these policies totaled \$672,683 and \$591,618 for the years ended December 31, 2024 and 2023, respectively.

Employee Stock Purchase Plan

The Corporation sponsors an employee stock purchase plan which is available to all employees subject to certain minimum service requirements. The Plan is administered by a Board appointed committee which designates the offering period in which employees may purchase shares and the offering price. All administrative costs are borne by the Corporation. No shares were purchased under the Plan for the years ended December 31, 2024 or 2023.

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS

The Corporation uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with the Fair Value Measurements and Disclosures topic (FASB ASC 820), the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Corporation's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

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

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value Hierarchy

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

Level 1 – Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 – Valuation is based on inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 – Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

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

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Securities Available for Sale

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities would include highly liquid government bonds, mortgage products and exchange traded equities. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. agency securities, mortgage-backed agency securities, obligations of states and political subdivisions and certain corporate, asset backed and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities would be classified within Level 3 of the hierarchy.

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets Measured at Fair Value on a Recurring Basis (Continued)

The following tables present financial assets measured at fair value on a recurring basis as of December 31, 2024 and 2023 respectively:

		Fair Value Measurements at December 31, 2024		
		Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
Assets Measured at Fair Value December 31, 2024				
Securities available for sale				
U.S. Treasury securities	\$ 957,188	\$ 957,188	\$ -	\$ -
U.S. government sponsored agencies	63,493,505	-	63,493,505	-
State and political subdivisions	52,448,405	-	52,448,405	-
Corporate bonds	5,428,286	-	5,428,286	-
Mortgage-backed securities	142,224,488	-	142,224,488	-
	<u>\$ 264,551,872</u>	<u>\$ 957,188</u>	<u>\$ 263,594,684</u>	<u>\$ -</u>
		Fair Value Measurements at December 31, 2023		
		Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservabl Inputs (Level 3)
Assets Measured at Fair Value December 31, 2023				
Securities available for sale				
U.S. Treasury securities	\$ 3,886,250	\$ 3,886,250	\$ -	\$ -
U.S. government sponsored agencies	70,693,275	-	70,693,275	-
State and political subdivisions	70,325,037	-	70,325,037	-
Corporate bonds	7,110,141	-	7,110,141	-
Mortgage-backed securities	114,037,994	-	114,037,994	-
	<u>\$ 266,052,697</u>	<u>\$ 3,886,250</u>	<u>\$ 262,166,447</u>	<u>\$ -</u>

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Collateral Dependent Loans

Loans considered collateral dependent under ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, are loans for which, based on current information and events, it is probable that the Corporation will be unable to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement. Collateral dependent loans can be measured based on the present value of expected payments using the loan's original effective rate as the discount rate, the loan's observable market price, or the fair value of the collateral less estimated selling costs if the loan is collateral dependent.

The fair value of collateral dependent loans is primarily measured based on the value of the collateral securing these loans. Impaired loans are typically classified within level 3 of the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory, and/or accounts receivable. The Corporation determines the value of the collateral based on independent appraisals performed by qualified licensed appraisers. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Appraised values are discounted for costs to sell and may be discounted further based on management's historical knowledge, changes in market conditions from the date of the most recent appraisal, and/or management's expertise and knowledge of the customer and the customer's business. Such discounts by management are subjective and are typically significant unobservable inputs for determining fair value. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors discussed above.

Other Real Estate Owned

Other real estate owned is adjusted to fair value upon transfer from the loan portfolio. Subsequently, other real estate assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the other real estate as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the other real estate as nonrecurring Level 3.

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)**Assets Measured at Fair Value on a Nonrecurring Basis (Continued)**

The following tables present the assets carried on the consolidated balance sheets by caption and by level within the (FASB ASC 820) valuation hierarchy (as described above) as of December 31, 2024 and 2023, for which a nonrecurring change in fair value has been recorded during the years ended December 31, 2024 and 2023, respectively.

		Carrying Value at December 31, 2024		
	Assets Measured at Fair Value December 31,	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 6,356,110	\$ -	\$ -	\$ 6,356,110
Other real estate	2,841,465	-	-	2,841,465

		Carrying Value at December 31, 2023		
	Assets Measured at Fair Value December 31,	Quoted Prices In Active Markets for Identical (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	\$ 1,591,000	\$ -	\$ -	\$ 1,591,000
Other real estate	1,100,000	-	-	1,100,000

Quantitative Disclosures for Level 3 Fair Value Measurements

The Corporation had no Level 3 assets measured at fair value on a recurring basis at December 31, 2024 or 2023.

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2024, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Collateral dependent loans	\$ 6,356,110	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	2,841,465	Appraisal	Appraisal discounts (%)	10-20 %

For Level 3 assets measured at fair value on a nonrecurring basis as of December 31, 2023, the significant unobservable inputs used in the fair value measurements are presented below.

	Carrying Amount	Valuation Technique	Significant Unobservable Input	Weighted Average of Input
Nonrecurring:				
Collateral dependent loans	\$ 1,591,000	Appraisal	Appraisal discounts (%)	15-20 %
Other real estate owned	1,100,000	Appraisal	Appraisal discounts (%)	10-20 %

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)

Fair Value of Financial Instruments

The assumptions used in estimating the fair value of the Corporation's financial instruments are explained below. Where quoted market prices are not available, fair values are based on estimates using discounted cash flow and other valuation techniques. Discounted cash flows can be significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. The following fair value estimates cannot be substantiated by comparison to independent markets and should not be considered representative of the liquidation value of the Corporation's financial instruments, but rather a good faith estimate of the fair value of financial instruments held by the Corporation. FASB ASC 820 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements.

The following methods and assumptions were used by the Corporation in estimating the fair value of its financial instruments:

Cash and Short-Term Investments: Fair value approximates the carrying value of such assets.

Investment Securities and Other Securities: The fair value of investment securities is based on quoted market prices. The fair value of other securities, which includes Federal Home Loan Bank stock and other correspondent stocks, approximates their carrying value.

Loans: The fair value of loans is calculated using discounted cash flows and excludes lease-financing arrangements. The discount rates used to determine the present value of the loan portfolio are estimated market discount rates that reflect the credit and interest rate risk inherent in the loan portfolio. The estimated maturities are based on the Corporation's historical experience with repayments adjusted to estimate the effect of current market conditions.

Deposits: The fair value of deposits with no stated maturity, such as non-interest bearing demand deposits, NOW accounts, savings and money market deposit accounts, approximates the carrying value. Certificates of deposit have been valued using discounted cash flows. The discount rates used are based on estimated market rates for deposits of similar remaining maturities.

The fair value estimates in the table below do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Other Borrowings: The fair value of the Corporation's revolving line of credit approximates the carrying value of such liabilities. The fair value of FHLB advances have been valued using discounted cash flows. The discount rates used are based on estimated market rates for borrowings of similar remaining maturities.

Accrued Interest: The fair value of accrued interest receivable and payable approximates their carrying value.

Commitments to Extend Credit and Standby Letters of Credit: There is no market for the commitment to extend credit and standby letters of credit and they were issued without explicit cost. Therefore, it is not practical to establish their fair value.

NOTE 14. FAIR VALUATION OF FINANCIAL INSTRUMENTS (CONTINUED)**Fair Value of Financial Instruments (Continued)**

The carrying value and estimated fair value of the Corporation's financial instruments at December 31, 2024 and 2023 are as follows:

		Fair Value Measurements at December 31, 2024			
		Carrying Amount	Level 1	Level 2	Level 3
		(Dollars in Thousands)			
Financial assets:					
Cash and short-term investments	\$	182,969	\$ 182,969	\$ -	\$ -
Securities available for sale		264,552	957	263,595	-
Securities held to maturity		4,184	-	4,145	-
Loans held for investment, net of allowance for credit losses		859,034	-	856,704	6,356
Bank owned life insurance		24,967	-	24,967	-
Restricted equity securities		2,116	-	-	2,116
Other real estate owned		2,842	-	-	2,842
Interest receivable		9,145	-	9,145	-
Financial liabilities:					
Deposits		1,090,115	-	1,088,424	-
Other borrowings		33,968	-	33,968	-
Interest payable		1,117	-	1,117	-
		Fair Value Measurements at December 31, 2023			
		Carrying Amount	Level 1	Level 2	Level 3
		(Dollars in Thousands)			
Financial assets:					
Cash and short-term investments	\$	236,407	\$ 236,407	\$ -	\$ -
Securities available for sale		266,053	3,886	262,167	-
Securities held to maturity		4,796	-	4,776	-
Loans held for investment, net of allowance for credit losses		800,320	-	777,579	1,591
Bank owned life insurance		22,528	-	22,528	-
Restricted equity securities		2,121	-	-	2,121
Other real estate owned		1,100	-	-	1,100
Interest receivable		8,267	-	8,267	-
Financial liabilities:					
Deposits		1,089,853	-	1,132,597	-
Other borrowings		40,792	-	40,792	-
Interest payable		788	-	788	-

NOTE 15. GOODWILL AND INTANGIBLE ASSETS

Changes to the carrying amount of goodwill are provided in the following table.

	December 31,	
	2024	2023
Balance at beginning of year	\$ 6,516,169	\$ 6,516,169
Balance at end of year	<u>\$ 6,516,169</u>	<u>\$ 6,516,169</u>

A summary of core deposit intangible assets is set forth below.

	Years Ended December 31,	
	2024	2023
Gross carrying amount	\$ 508,832	\$ 575,936
Less: accumulated amortization	(67,104)	(67,104)
Net carrying amount	<u>\$ 441,728</u>	<u>\$ 508,832</u>

The core deposit intangible is amortized using a straight-line method over ten years from the date of the acquisition. Amortization expense for each of the years ended December 31, 2024 and 2023 was \$67,104.

Estimated amortization expenses related to the core deposit intangible assets for the next five years are as follows:

2025	\$ 67,104
2026	67,104
2027	67,104
2028	67,104
2029	67,104
Thereafter	106,208
	<u>\$ 441,728</u>

NOTE 16. DIVIDENDS FROM SUBSIDIARIES

Dividends paid by the Bank is the primary source of funds available to the Corporation for payment of dividends to its stockholders and for other needs. Applicable federal and state statutes and regulations impose restrictions on the amounts of dividends that may be declared by the Bank. In addition, the subsidiary bank is also required to maintain minimum amounts of capital to both total "risk-weighted" assets and total average assets, as defined by banking regulators. Capital adequacy considerations could further limit the availability of dividends from the subsidiary bank. The payment of dividends from the Bank is regulated by the Alabama State Banking Department and may be limited based on earnings and credit losses. Future payments of dividends by the Bank to the Corporation will be dependent on earnings, credit losses and compliance with applicable regulations of the Alabama State Banking Department and applicable federal regulators.

UBCD also has the discretion to provide dividends to the Corporation. The payment of dividends from UBCD is not regulated by the Alabama State Banking Department nor applicable federal regulators.

NOTE 17. LITIGATION

The Corporation is involved in various legal proceedings arising in connection with their business. In the opinion of management, the ultimate resolution of these proceedings is not expected to have a material adverse effect upon the financial statements of the Corporation.

NOTE 18. COMMITMENTS

The Corporation leases certain property and equipment for use in its business. These leases have lease terms generally not in excess of five years. The Corporation is not committed to any operating leases, which have initial or remaining non-cancelable lease terms in excess of one year as of December 31, 2024.

Rental expense for all operating leases charged to earnings aggregated \$193,919 and \$124,573 for the years ended December 31, 2024 and 2023, respectively.

The Corporation 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. Such instruments involve elements of credit risk in excess of the amounts recognized in the consolidated financial statements.

The Corporation'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 these instruments. The Corporation uses the same credit policies in making conditional obligations as it does for on-balance sheet instruments.

The financial instruments whose contractual amounts represent credit risk as of December 31, 2024 and 2023 are approximately as follows:

	December 31,	
	2024	2023
Commitments to extend credit	\$ 199,686,922	\$ 204,062,650
Standby letters of credit	2,113,236	3,737,102
	<u>\$ 201,800,158</u>	<u>\$ 207,799,752</u>

Standby letters of credit are commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation holds various assets as collateral supporting those commitments for which collateral is deemed necessary.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

NOTE 18. COMMITMENTS (CONTINUED)

The Corporation maintains an allowance for credit losses on off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for credit losses on off-balance sheet credit exposures is adjusted as a provision for credit losses expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. The allowance for credit losses on off-balance sheet credit exposures is classified on the consolidated balance sheets as a separate component of total liabilities.

The following table presents the balance and activity in the allowance for credit losses on off-balance sheet credit exposures for the year ended December 31, 2024.

	Allowance for credit losses on off-balance sheet credit exposures	
Beginning balance	\$	909,341
Change in unfunded commitments		-
Ending balance	\$	909,341

NOTE 19. REVENUE FROM CONTRACTS WITH CUSTOMERS

All of the Corporation's revenue from contracts with customers in the scope of ASC 606 organized within noninterest income for the twelve months ended December 31, 2024 and 2023. Items outside of the scope of ASC 606 are noted as such (a).

	Years Ended December 31,	
	2024	2023
Noninterest income:		
Service charges and fees	\$ 7,745,837	\$ 6,601,942
CDFI award income	10,349,017	15,112,928
New market tax credit sub-allocation and placement fees	1,620,000	2,466,945
Consulting and asset management fees	2,612,600	525,313
Investment securities gains (losses), net ^(a)	(3,043,818)	(6,804,110)
Mortgage loan and related fees ^(a)	56,666	107,765
Other	4,601,205	3,033,541
Total noninterest income	<u>\$ 23,941,507</u>	<u>\$ 21,044,324</u>

(a) Not within scope of ASC 606.

NOTE 19. REVENUE FROM CONTRACTS WITH CUSTOMERS (CONTINUED)

A description of the Corporation's significant revenue streams accounted under ASC 606 follows:

Service charges and fees: Revenue from service charges on deposit accounts is earned through cash management, wire transfer, overdraft, non-sufficient funds and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customer's accounts. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts and other card-related services. Interchange rates are generally set by credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

CDFI award income: The Corporation received awards from the U.S. Department of Treasury's CDFI Fund for both the Capital Magnet Fund (CMF), Financial Assistance (FA), Bank Enterprise Award (BEA) and Equitable Recovery Program (ERP) programs. The awards are recognizable upon receipt with no contractual terms associated with the award.

New market tax credit sub-allocation and placement fees: Revenues from New Market Tax Credit (NMTC) sub-allocation and placement fees are earned in connection with the closing of each NMTC transaction. Placement Fees are received from the Investment Fund and sub-allocation fees from the Sub-CDE level in the transaction. All fees are documented in a Fee Agreement at the closing of the transaction. As stated in ASC 606, "an entity shall recognize revenue when the entity satisfies a performance obligation by transferring a promised good or service to a customer". The Fee Agreement is a negotiated document that states the Corporation (or its subsidiaries) has performed the services necessary to earn the Sub-Allocation and Placement Fee. The fees are earned when the Corporation (or its subsidiaries) has transferred NMTC allocation to the Sub-CDE and has helped the Investment Fund successfully deploy its Qualified Equity Investment (QEI) into the Sub-CDE such that the tax credit investor is able to begin utilizing tax credits and the Sub-CDE is able to fulfill its lending obligations. Through the Fee Agreement, the payor parties agree to pay the Corporation (or its subsidiaries) for these completed services, satisfying all conditions precedent to recognize the Sub-Allocation and Placement fee revenue.

Consulting and asset management fees: The Corporation (or its subsidiaries) provides consulting services to a client when NMTC expertise is needed to structure a transaction. These fees are earned when the Corporation (or its subsidiaries) assists in sourcing NMTC allocation for the project, structuring the transaction, securing an investor to purchase the credits, and assisting in the overall transaction closing. Fees are documented in a Fee Agreement with the client and are recognized when the NMTC transaction closes. Asset Management (A/M) Fees are earned by the Corporation (or its subsidiaries) for managing activity throughout the seven-year compliance period for the Investor, Investment Fund, and/or the Sub-CDE in a transaction. UBCD is the Corporation's subsidiary responsible for the management and thus receives the fees. Investor and Investment Fund A/M fees are typically received upon the closing of a transaction. Sub-CDE A/M fees are typically received quarterly throughout the seven-year period. UBCD manages activity for all three entity types in some transactions, but not in all. In some transactions, UBCD only manages for the Investor and Investment Fund and in others only for the Sub-CDE. The management fees are documented in a negotiated Fee Agreement along with agreed upon responsibilities of the manager.

Other income: Other operating income primarily consist of revenues generated from ATM fees and safe deposit box rentals. ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rentals income are recognized on a monthly basis as the Corporation's performance obligation for these services is satisfied.

NOTE 20. OTHER NONINTEREST EXPENSE

Components of other noninterest expense considered significant by the Corporation for the years ended December 31, 2024 or 2023, respectively, include the following:

	Years Ended December 31,	
	2024	2023
Accounting and audit	\$ 849,971	\$ 863,287
Professional fees	1,877,810	2,037,616
Legal fees	320,438	294,518
Advertising	1,203,394	1,117,597
Card-based expense	2,110,265	1,896,395
Network and communications	1,700,249	1,892,474
Internet and mobile banking	397,392	361,163
Core processing	1,182,964	1,272,064
Other data processing	1,145,998	699,223
FDIC deposit insurance	448,098	459,776
Provision for ORE loss	394,097	462,796
Other	4,455,322	3,767,427
	<u>\$ 16,085,998</u>	<u>\$ 15,124,336</u>

NOTE 21. CONCENTRATIONS OF CREDIT RISK

The Corporation originates primarily commercial, agricultural, residential, and consumer loans to customers in its primary market areas. The ability of the majority of the Corporation's customers to honor their contractual loan obligations is dependent on the economy in these areas. As of December 31, 2024 and 2023, approximately 45.3% and 49.9%, respectively, of the Corporation's loans were commercial loans, including those secured by real estate. The Corporation's commercial customers are primarily small to middle market enterprises. The Corporation also specializes in agricultural loans, including loans secured by farmland, which represented approximately 10.6% and 11.1% of the Corporation's total loans at December 31, 2024 and 2023, respectively.

Total loans secured by real estate was approximately 59.9% and 55.9% of the Corporation's loan portfolio at December 31, 2024 and 2023, of which a substantial portion is secured by real estate in the Corporation's market areas. At December 31, 2024 and 2023, real estate construction loans accounted for approximately 20.0% and 14.7%, respectively, of the total loan portfolio, while 1-4 family residential mortgage loans made up approximately 12.7% and 12.9%, respectively, of the loan portfolio. A more complete discussion and analysis of the Corporation's loan types and concentrations and the related credit risk is set forth in Note 4.

The Bank, according to regulatory restrictions, may not generally extend credit to any single borrower or group of related borrowers on a secured basis in excess of 20% of capital, as defined, or approximately \$44,854,000 or on an unsecured basis in excess of 10% of capital, as defined, or approximately \$22,427,000.

NOTE 22. REGULATORY MATTERS

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

The Bank is subject to certain restrictions on the amount of dividends that may be declared without prior regulatory approval. At December 31, 2024, approximately \$51,903,000 of retained earnings were available for dividend declaration without regulatory approval.

Quantitative measures established by regulation to ensure capital adequacy requires the Bank to maintain minimum amounts and ratios of total capital, Tier 1 capital, and common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. In addition, the Bank is subject to an institution-specific capital buffer, which must exceed 2.50% to avoid limitations on distributions and discretionary bonus payments. Management believes, as of December 31, 2024 and 2023, that the Bank met all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the Federal Deposit Insurance Corporation 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 Bank’s category.

The Bank’s actual capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(Dollars in Thousands)</i>						
As of December 31, 2024:						
Total Capital to Risk-Weighted Assets	\$ 217,688	21.320 %	\$ 107,208	10.500 %	\$ 102,103	10.000 %
Tier 1 Capital to Risk-Weighted Assets	\$ 204,919	20.070 %	\$ 86,788	8.500 %	\$ 81,683	8.000 %
CET1 Capital to Risk-Weighted Assets	\$ 204,919	20.070 %	\$ 71,472	7.000 %	\$ 66,367	6.500 %
Tier 1 Capital to Average Total Assets	\$ 204,919	14.464 %	\$ 56,670	4.000 %	\$ 70,838	5.000 %
As of December 31, 2023:						
Total Capital to Risk-Weighted Assets	\$ 163,400	18.439 %	\$ 93,049	10.500 %	\$ 88,618	10.000 %
Tier 1 Capital to Risk-Weighted Assets	\$ 152,321	17.188 %	\$ 75,326	8.500 %	\$ 70,895	8.000 %
CET1 Capital to Risk-Weighted Assets	\$ 152,321	17.188 %	\$ 62,033	7.000 %	\$ 57,602	6.500 %
Tier 1 Capital to Average Total Assets	\$ 152,321	12.479 %	\$ 48,823	4.000 %	\$ 61,029	5.000 %

NOTE 23. CHANGE IN ACCOUNTING PRINCIPLE

During 2024, the Corporation changed its method of accounting for treasury stock to align with Alabama Code 1975§ 10A-2 A-6.31. The effect of the change was to reclassify treasury stock to additional paid-in capital. The financial statements for 2022 have been retroactively restated for such change, which resulted in a decrease in common stock of \$1,885, additional paid-in capital of \$3,768,855 and retained earnings of \$1,624,704 and the removal of treasury stock from the financial statements. This also resulted in the restatement of the number of shares issued.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

We have audited the consolidated financial statements of **United Bancorporation of Alabama, Inc. and Subsidiaries**, as of and for the years ended December 31, 2024 and 2023, and our report thereon dated March 14, 2025, which expressed an unmodified opinion on those consolidated financial statements, appears on page 1 and 2.

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 53 and 54 is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Birmingham, Alabama
March 14, 2025

SUPPLEMENTAL INFORMATION

CONSOLIDATING INFORMATION

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

BALANCE SHEET DECEMBER 31, 2024

Assets	2024							
	UBA	UB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Cash and due from banks	\$ 68,395,304	\$ 30,386,789	\$ 9,577,259	\$ 3,335	\$ 16,251	\$ 108,378,938	\$ (77,992,149)	\$ 30,386,789
Interest-bearing deposits in banks	167	126,007,279	-	-	-	126,007,446	-	126,007,446
Federal funds sold	-	26,575,000	-	-	-	26,575,000	-	26,575,000
Cash and short-term investments	68,395,471	182,969,068	9,577,259	3,335	16,251	260,961,384	(77,992,149)	182,969,235
Investment in subsidiaries	196,374,702	-	25,542	-	2,309,007	198,709,251	(197,461,848)	1,247,403
Securities available for sale, at fair value	2,950,432	261,601,440	-	-	-	264,551,872	-	264,551,872
Securities held to maturity, at amortized cost	-	4,183,929	-	-	-	4,183,929	-	4,183,929
Restricted equity securities, at cost	-	2,115,953	-	-	-	2,115,953	-	2,115,953
Loans held for investment	-	873,258,402	-	-	-	873,258,402	(1,842,179)	871,416,223
Less: Allowance for credit losses	-	12,382,575	-	-	-	12,382,575	-	12,382,575
Loans, net	-	860,875,827	-	-	-	860,875,827	(1,842,179)	859,033,648
NMTC Sub-CDE QLICI Loans	-	-	-	3,465,000	-	3,465,000	-	3,465,000
Premises and equipment, net	-	16,585,353	-	-	-	16,585,353	-	16,585,353
Interest receivable	5,919	9,161,277	-	-	-	9,167,196	(22,291)	9,144,905
Bank owned life insurance	-	24,967,214	-	-	-	24,967,214	-	24,967,214
Other real estate owned, net	-	2,841,465	-	-	-	2,841,465	-	2,841,465
Core deposit Intangible	-	441,728	-	-	-	441,728	-	441,728
Goodwill	-	6,516,169	-	-	-	6,516,169	-	6,516,169
Other assets	3,727,194	19,297,407	116,398	14,947	127,998	23,283,944	(670,107)	22,613,837
Total assets	\$ 271,453,718	\$ 1,391,556,830	\$ 9,719,199	\$ 3,483,282	\$ 2,453,256	\$ 1,678,666,285	\$ (277,988,574)	\$ 1,400,677,711
Liabilities and Stockholders' Equity								
Deposits								
Noninterest-bearing	\$ -	\$ 551,839,679	\$ -	\$ -	\$ -	\$ 551,839,679	\$ (77,992,149)	\$ 473,847,530
Interest-bearing	-	616,267,643	-	-	-	616,267,643	-	616,267,643
Total deposits	-	1,168,107,322	-	-	-	1,168,107,322	(77,992,149)	1,090,115,173
Interest payable	-	1,139,442	-	-	-	1,139,442	(22,291)	1,117,151
Other borrowings	-	31,403,269	-	2,564,450	1,842,179	35,809,898	(1,842,179)	33,967,719
Allowance for credit losses on off-balance sheet credit exposures	-	909,341	-	-	-	909,341	-	909,341
Accrued expenses and other liabilities	5,747,707	3,729,067	51,740	409	3,500	9,532,423	(670,107)	8,862,316
Total liabilities	5,747,707	1,205,288,441	51,740	2,564,859	1,845,679	1,215,498,426	(80,526,726)	1,134,971,700
Commitments (Note 18)								
Stockholders' equity								
Preferred stock	123,750,000	-	-	-	-	123,750,000	-	123,750,000
Class A common stock	33,707	778,000	50,000	1,098,025	706,094	2,665,826	(2,632,119)	33,707
Class B common stock	-	-	-	-	-	-	-	-
Additional paid-in capital	22,545,038	75,745,942	-	-	-	98,290,980	(75,745,942)	22,545,038
Retained earnings	145,295,055	135,361,468	9,617,459	(179,602)	(98,517)	289,995,863	(144,700,808)	145,295,055
Accumulated other comprehensive loss, net of tax	(25,630,488)	(25,617,021)	-	-	-	(51,247,509)	25,617,021	(25,630,488)
	265,993,312	186,268,389	9,667,459	918,423	607,577	463,455,160	(197,461,848)	265,993,312
Less unvested restricted stock	287,301	-	-	-	-	287,301	-	287,301
Total stockholders' equity	265,706,011	186,268,389	9,667,459	918,423	607,577	463,167,859	(197,461,848)	265,706,011
Total liabilities and stockholders' equity	\$ 271,453,718	\$ 1,391,556,830	\$ 9,719,199	\$ 3,483,282	\$ 2,453,256	\$ 1,678,666,285	\$ (277,988,574)	\$ 1,400,677,711

See accompanying notes to consolidated financial statements

UNITED BANCORPORATION OF ALABAMA, INC. AND SUBSIDIARIES

STATEMENT OF INCOME YEAR ENDED DECEMBER 31, 2024

	2024							
	UBA	UB	UBCD	CFSA IF	AMCREF IF	PRECONSOLIDATED	ELIMINATIONS	CONSOLIDATED
Interest income								
Interest and fees on loans	\$ -	\$ 55,350,078	\$ -	\$ 36,397	\$ -	\$ 55,386,475	\$ (74,913)	\$ 55,311,562
Interest on investment securities:								
Taxable securities	288,610	8,684,764	-	-	-	8,973,374	-	8,973,374
Nontaxable securities	-	825,180	-	-	-	825,180	-	825,180
Total investment income	288,610	9,509,944	-	-	-	9,798,554	-	9,798,554
Other interest income	2,638,468	6,036,120	-	-	-	8,674,588	(9,186)	8,665,402
Total interest income	2,927,078	70,896,142	-	36,397	-	73,859,617	(84,099)	73,775,518
Interest expense								
Interest on deposits	-	13,485,362	-	-	-	13,485,362	-	13,485,362
Interest on other borrowings and note payable	-	810,177	-	25,645	74,915	910,737	(84,099)	826,638
Total interest expense	-	14,295,539	-	25,645	74,915	14,396,099	(84,099)	14,312,000
Net interest income	2,927,078	56,600,603	-	10,752	(74,915)	59,463,518	-	59,463,518
Provision for credit losses	-	4,360,000	-	-	-	4,360,000	-	4,360,000
Net interest income after provision for credit losses	2,927,078	52,240,603	-	10,752	(74,915)	55,103,518	-	55,103,518
Noninterest income:								
Service charges and fees	-	7,745,837	-	-	-	7,745,837	-	7,745,837
CDFI award income	-	10,349,017	-	-	-	10,349,017	-	10,349,017
New market tax credit sub-allocation and placement fees	-	-	1,620,000	-	-	1,620,000	-	1,620,000
Consulting and asset management fees	-	-	2,612,600	-	-	2,612,600	-	2,612,600
Investment securities gains (losses), net	-	(3,043,818)	-	-	-	(3,043,818)	-	(3,043,818)
Mortgage loan and related fees	-	56,666	-	-	-	56,666	-	56,666
Other	26,895,722	4,087,714	1,049,100	221	101,318	32,134,075	(27,532,870)	4,601,205
Total noninterest income	26,895,722	19,195,416	5,281,700	221	101,318	51,474,377	(27,532,870)	23,941,507
Noninterest expense:								
Salaries and benefits	477,799	22,029,419	144,000	-	-	22,651,218	-	22,651,218
Net occupancy expense	168	4,213,790	-	-	-	4,213,958	-	4,213,958
Other	1,148,115	14,582,629	867,957	11,071	41,614	16,651,386	(565,388)	16,085,998
Total noninterest expense	1,626,082	40,825,838	1,011,957	11,071	41,614	43,516,562	(565,388)	42,951,174
Income before income tax expense	28,196,718	30,610,181	4,269,743	(98)	(15,211)	63,061,333	(26,967,482)	36,093,851
Income tax expense	193,458	6,835,011	1,063,452	1,799	(3,129)	8,090,591	-	8,090,591
Net income	28,003,260	23,775,170	3,206,291	(1,897)	(12,082)	54,970,742	(26,967,482)	28,003,260
Preferred stock dividends	(1,051,875)	-	-	-	-	-	-	(1,051,875)
Net income available to common shareholders	\$ 26,951,385	\$ 23,775,170	\$ 3,206,291	\$ (1,897)	\$ (12,082)	\$ 54,970,742	\$ (26,967,482)	\$ 26,951,385

See accompanying notes to consolidated financial statements