

**RIVERHILLS CAPITAL  
CORPORATION AND  
SUBSIDIARY**

**Vicksburg, Mississippi**

**December 31, 2024**

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## Table of Contents

	Page
Independent Auditors' Report .....	3
Financial Statements:	
Consolidated Balance Sheets .....	5
Consolidated Statements of Income .....	6
Consolidated Statements of Comprehensive Income .....	7
Consolidated Statements of Changes in Stockholders' Equity .....	8
Consolidated Statements of Cash Flows .....	9
Notes to Consolidated Financial Statements .....	11
Supplemental Information:	
Independent Auditors' Report on Supplemental Information .....	35
Schedule 1 – Consolidating Balance Sheets .....	36
Schedule 2 – Consolidating Statements of Income .....	37

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## **Independent Auditors' Report**

To the Board of Directors and Stockholders  
RiverHills Capital Corporation and Subsidiary  
Vicksburg, Mississippi

### **Opinion**

We have audited the accompanying consolidated financial statements of RiverHills Capital Corporation (a Mississippi Corporation) and Subsidiary, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

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

### **Basis for Opinion**

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

### **Responsibilities of Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 RiverHills Capital Corporation and Subsidiary's ability to continue as a going concern within one year after the date the consolidated financial statements are available to be issued.

### **Auditors' Responsibilities for the Audit of the Financial Statements**

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

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

- Exercise professional judgment 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 relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of RiverHills Capital Corporation and Subsidiary's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about RiverHills Capital Corporation and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

*Nail McKinney Professional Association*

Tupelo, Mississippi  
March 4, 2025

Consolidated Balance Sheets

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
<b>Assets</b>		
Cash and due from banks:		
Noninterest-bearing	\$ 5,668,286	\$ 6,535,108
Interest-bearing	25,461,189	23,506,700
Federal funds sold	<u>50,000</u>	<u>1,125,000</u>
Cash and cash equivalents	31,179,475	31,166,808
Interest-bearing time deposits in banks	3,400,000	5,111,000
Securities available for sale, at fair value (amortized cost of \$204,752,460 and \$195,919,114 at December 31, 2024 and 2023, respectively)	201,389,117	190,404,368
Securities held to maturity at amortized cost (fair value of \$21,667,397 and \$23,489,351 at December 31, 2024 and 2023, respectively)	21,992,860	24,225,839
Equity securities at fair value	-	1,044,409
Loans held for investment	155,667,036	147,566,162
Allowance for credit losses	(4,383,039)	(4,337,788)
Equity securities at cost	2,605,215	2,490,715
Accrued interest receivable	2,737,721	2,613,016
Premises and equipment, net	5,633,409	5,720,133
Other investments carried at cost	345,000	382,234
Cash surrender value of life insurance	2,840,529	1,771,970
Foreclosed assets	-	16,015
Other assets	<u>3,510</u>	<u>45,649</u>
Total assets	<u>\$ 423,410,833</u>	<u>\$ 408,220,530</u>
<b>Liabilities and Stockholders' Equity</b>		
Liabilities:		
Deposits:		
Noninterest bearing	\$ 70,843,833	\$ 74,425,667
Interest bearing	<u>285,171,014</u>	<u>269,558,183</u>
Total deposits	356,014,847	343,983,850
Federal funds sold	-	25,000
Other borrowed funds	19,261,497	19,744,387
Deferred compensation	247,341	212,100
Escrow payable	195,363	152,704
Accrued interest payable	610,680	469,679
Other liabilities	<u>200,451</u>	<u>208,938</u>
Total liabilities	<u>376,530,179</u>	<u>364,796,658</u>
Stockholders' equity:		
Common stock - \$2.00 par value; 500,000 shares authorized; 428,790 shares issued	857,580	857,580
Additional paid-in capital	4,352,598	4,345,578
Retained earnings	48,513,634	47,212,774
Accumulated other comprehensive loss	(3,363,343)	(5,514,745)
Common stock in treasury, 38,109 and 38,484 shares at cost at December 31, 2024 and 2023, respectively	<u>(3,479,815)</u>	<u>(3,477,315)</u>
Total stockholders' equity	<u>46,880,654</u>	<u>43,423,872</u>
Total liabilities and stockholders' equity	<u>\$ 423,410,833</u>	<u>\$ 408,220,530</u>

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Income**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

Years ended December 31, 2024 and 2023

	<i>2024</i>	<i>2023</i>
Interest and dividend income:		
Loans, including fees	\$ 10,553,427	\$ 9,136,405
Debt securities	7,383,080	4,325,267
Deposits with financial institutions	1,219,127	1,703,792
Federal funds sold	8,257	34,493
Dividends	175,811	133,981
Total interest and dividend income	19,339,702	15,333,938
Interest expense:		
Deposits	6,763,694	4,664,177
Federal funds purchased	-	25,017
Other borrowed funds	137,839	112,159
Total interest expense	6,901,533	4,801,353
Net interest income	12,438,169	10,532,585
Provision for credit losses	495,329	-
Net interest income after provision for credit losses	11,942,840	10,532,585
Noninterest income:		
Service fees	1,332,096	1,324,150
Net gain (loss) on disposition of debt securities	2,110	(65,884)
Unrealized holding gains on equity securities	-	174,009
Realized gain on disposition of equity securities	289,451	-
Net gain (loss) on disposition of foreclosed assets	(3,624)	6,629
Other noninterest income	512,311	4,575,606
Total noninterest income	2,132,344	6,014,510
Noninterest expenses:		
Salaries and employee benefits	4,483,669	4,369,356
Occupancy expense, net	486,752	490,476
Equipment expenses	266,025	172,265
Data processing fees	743,326	709,429
Advertising	168,203	117,193
Legal and professional	471,088	548,106
Other general and administrative	911,010	2,150,435
Total noninterest expenses	7,530,073	8,557,260
Net income	\$ 6,545,111	\$ 7,989,835

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The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Comprehensive Income**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**  
**Years ended December 31, 2024 and 2023**

	<i>2024</i>	<i>2023</i>
Net income	\$ 6,545,111	\$ 7,989,835
Other comprehensive income :		
Unrealized holding gains on available for sale debt securities	2,148,952	3,733,675
Reclassification adjustment for net losses realized in net income	2,450	65,884
Other comprehensive income	2,151,402	3,799,559
Comprehensive income	\$ 8,696,513	\$ 11,789,394

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The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Changes in Stockholders' Equity**  
**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**  
**Years ended December 31, 2024 and 2023**

	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income</i>	<i>Common Stock in Treasury</i>	<i>Total Stockholders' Equity</i>
Balance, January 1, 2023	\$ 857,580	\$ 4,323,258	\$42,569,475	\$ (9,314,304)	\$ (3,477,315)	\$34,958,694
Net income	-	-	7,989,835	-	-	7,989,835
Other comprehensive income	-	-	-	3,799,559	-	3,799,559
Cumulative effect of a change in accounting principle - CECL	-	-	(200,000)	-	-	(200,000)
Stock-based compensation expense	-	22,320	-	-	-	22,320
Distributions to shareholders	-	-	(3,146,536)	-	-	(3,146,536)
Balance, December 31, 2023	857,580	4,345,578	47,212,774	(5,514,745)	(3,477,315)	43,423,872
Net income	-	-	6,545,111	-	-	6,545,111
Other comprehensive income	-	-	-	2,151,402	-	2,151,402
Stock-based compensation expense	-	7,020	-	-	-	7,020
Purchase of treasury stock	-	-	(7,332)	-	(2,500)	(9,832)
Sale of treasury stock	-	-	7,332	-	-	7,332
Distributions to shareholders	-	-	(5,244,251)	-	-	(5,244,251)
Balance, December 31, 2024	<u>\$ 857,580</u>	<u>\$ 4,352,598</u>	<u>\$48,513,634</u>	<u>\$ (3,363,343)</u>	<u>\$ (3,479,815)</u>	<u>\$46,880,654</u>

The accompanying notes are an integral part of these consolidated financial statements.



Consolidated Statements of Cash Flows

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

Years ended December 31, 2024 and 2023

	<i>2024</i>	<i>2023</i>
<b>Cash flows from operating activities:</b>		
Net income	\$ 6,545,111	\$ 7,989,835
Adjustments to reconcile net income to net cash flows from operating activities:		
Provision for credit losses	495,329	-
Net amortization	189,127	1,217,905
Depreciation of premises and equipment	295,424	287,323
Net (gain) loss on disposition of available for sale debt securities	(2,110)	65,884
Unrealized holding (gains) losses on equity securities	-	(174,009)
Gain from sale of equity securities	(289,451)	-
Stock-based compensation expense	7,020	22,320
Net (gain) loss on disposition of foreclosed and assets	3,624	(6,629)
Stock dividend received	(114,500)	(97,000)
Net change in:		
Accrued interest receivable	(124,705)	(437,534)
Other assets	42,139	42,122
Accrued interest payable and other liabilities	167,755	70,329
	<u>7,214,763</u>	<u>8,980,546</u>
<b>Net cash flows from operating activities</b>	<b><u>7,214,763</u></b>	<b><u>8,980,546</u></b>
<b>Cash flows from investing activities:</b>		
Activity in available for sale securities:		
Sales	1,418,175	4,722,324
Maturities, prepayments, and calls	59,283,972	31,432,818
Purchases	(69,830,087)	(50,655,345)
Activity in held-to-maturity securities:		
Maturities, prepayments, and calls	4,809,351	1,441,705
Purchases	(2,468,796)	(6,137,676)
Redemption (purchase) of time deposits in bank	1,711,000	(842,000)
Loan originations, net	(8,554,952)	(1,819,668)
Purchase of and earnings reinvested in life insurance contracts	(1,068,559)	(43,500)
Redemption of cost basis investments	37,234	30,000
Additions to premises and equipment	(208,700)	-
Proceeds from sales of equity securities	1,333,860	(46,618)
Proceeds from sales of foreclosed and other assets	16,391	7,000
	<u>(13,521,111)</u>	<u>(21,910,960)</u>
<b>Net cash flows from investing activities</b>	<b><u>(13,521,111)</u></b>	<b><u>(21,910,960)</u></b>

The accompanying notes are an integral part of these consolidated financial statements.

**Consolidated Statements of Cash Flows - (Continued)**

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

**Years ended December 31, 2024 and 2023**

	<i>2024</i>	<i>2023</i>
<b>Cash flows from financing activities:</b>		
Net change in deposits	\$ 12,030,997	\$ 7,431,410
Change in escrow liabilities	42,659	(12,229)
Proceeds from borrowings	-	25,000
Principal payments on borrowed funds	(507,890)	(4,838,992)
Payments to acquire treasury stock	(9,832)	-
Proceeds from sales of treasury stock	7,332	-
Distributions to shareholders	(5,244,251)	(3,146,537)
Net cash flows from financing activities	6,319,015	(541,348)
Change in cash and cash equivalents	12,667	(13,471,762)
Cash and cash equivalents at beginning of year	31,166,808	44,638,570
Cash and cash equivalents at end of year	\$ 31,179,475	\$ 31,166,808
<b>Supplementary cash flow information:</b>		
Interest paid on deposits and borrowed funds	\$ 6,760,532	\$ 4,500,596

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The accompanying notes are an integral part of these consolidated financial statements.

**RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY**

December 31, 2024

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

***Principles of Consolidation***

The consolidated financial statements include the accounts of RiverHills Capital Corporation (the Company), and its wholly owned subsidiary, RiverHills Bank (the Bank). All material intercompany balances and transactions have been eliminated in consolidation.

***Nature of Operations***

The Company, through its wholly owned subsidiary, RiverHills Bank, provides financial services to individuals and corporate customers through its offices located in Madison, Claiborne, and Warren counties in Mississippi. The Company is subject to the regulations of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities.

***Use of Estimates***

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ 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 foreclosed assets, other-than-temporary impairment (OTTI) and fair value of financial instruments.

***Significant Group Concentrations of Credit Risk***

Most of the Bank's activities are with customers located in counties in which the Bank's branches are located and surrounding areas. Note 2 discusses the types of securities that the Bank invests in. Note 4 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one customer.

***Cash and Cash Equivalents***

For purposes of the consolidated statements of cash flows, cash and cash equivalents include cash, demand balances due from banks and federal funds sold (if any).

***Debt Securities***

Debt securities are classified as held to maturity when purchased if management has the positive intent and ability to hold the securities to maturity. Held to maturity securities are stated at amortized cost. Presently, the Company has no intention of establishing a trading classification. Securities not classified as held to maturity or trading are classified as available for sale. Available for sale securities are stated at fair value, with the unrealized gains and losses reported in accumulated other comprehensive income within shareholders' equity.

The amortized cost of securities, regardless of classification, is adjusted for amortization of premiums and accretion of discounts. Such amortization and accretion is included in interest income from securities, as is dividend income. Realized gains and losses on sales of securities are separately captioned on the consolidated statements of income. The cost of securities sold is based on the specific identification method.

The Company evaluates its allowance for credit losses on the held to maturity investment portfolio on a quarterly basis in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic ("ASC") 326, "Financial Instruments - Credit Losses" ("ASC 326"; ASC 326 is also referred to as "CECL"). Expected credit losses on debt securities classified as held to maturity are measured on a collective basis by major security type. The estimates of expected credit losses are based on historical default rates, investment grades, current conditions, and reasonable and supportable forecasts about the future. The allowance is increased through provision for credit losses and decreased by charge-offs, net of recoveries of amounts previously charged-off. All of the residential and commercial mortgage-backed securities recorded as held to maturity are issued by U.S. Government

## Notes to Consolidated Financial Statements (continued)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Debt Securities (continued)*

agencies and GSEs. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and political subdivision securities are highly rated by major rating agencies.

The Company also evaluates available for sale investment securities in an unrealized loss position on a quarterly basis. If the Company intends to sell the security or it is more likely than not that it will be required to sell before recovery, the entire unrealized loss is recorded as a loss within noninterest income in the consolidated statements of income with a corresponding adjustment to the amortized cost basis of the security. If the Company does not intend to sell the security and it is not more likely than not that it will be required to sell the security before recovery of its amortized cost basis, the Company evaluates if any of the unrealized loss is related to a potential credit loss. The amount, if any, related to credit loss is recognized in earnings as a provision for credit loss and a corresponding allowance for credit losses is established; each is calculated as the difference between the estimate of discounted future cash flows and the amortized cost basis of the security. A number of qualitative and quantitative factors, including the financial condition of the underlying issuer and current and projected deferrals or defaults, are considered by management in the estimate of the discounted future cash flows. The remaining difference between the fair value and the amortized cost basis of the security is considered the amount related to other market factors and is recognized in other comprehensive income.

Recognition of interest is discontinued on debt securities that are transferred to nonaccrual status. A number of qualitative factors, including the financial condition of the underlying issuer and current and projected deferrals or defaults, are considered by management in the determination of whether the debt security should be transferred to nonaccrual status. The interest on nonaccrual investment securities is accounted for on the cash-basis method until the debt security qualifies for return to accrual status. As a result of the Company's policies requiring reversal of accrued interest on debt securities transferred to nonaccrual status, generally as a result of payment delinquency by the underlying issuer in excess of 90 days, the Company has made an accounting policy election to exclude accrued interest from the measurement of the allowance for credit losses for debt securities. As of December 31, 2024 and 2023, accrued interest receivable for debt securities amounted to approximately \$1,344,512 and \$1,278,388, respectively.

See Note 2, "Debt Securities," for further details regarding the Company's securities portfolio.

#### *Equity Securities at Fair Value*

Equity securities with readily determinable fair values are carried at fair value with changes in fair value recognized in earnings.

#### *Loans*

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their amortized cost or outstanding unpaid principal balances, in either case adjusted for charge-offs and the allowance for credit losses.

Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Generally, the recognition of interest on mortgage and commercial and industrial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer and other retail loans are typically charged-off no later than the time the loan is 120 days past due. In all cases, loans are placed on nonaccrual status or charged-off at an earlier date if collection of principal or interest is considered doubtful. Loans may be placed on nonaccrual regardless of whether or not such loans are considered past due. All interest accrued but not collected, for loans that are placed on nonaccrual or charged-off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. As a result, the Company has made an accounting policy election to exclude accrued interest from the measurement of the allowance for credit

## Notes to Consolidated Financial Statements (continued)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Loans (continued)*

losses. As of December 31, 2024 and 2023, accrued interest receivable for loans amounted to approximately \$1,372,272 and \$1,303,226, respectively.

Restructured loans are those for which concessions have been granted to the borrower due to a deterioration of the borrower's financial condition and are performing in accordance with the new terms. Such concessions may include reduction in interest rates or deferral of interest or principal payments. In evaluating whether to restructure a loan, management analyzes the long-term financial condition of the borrower, including guarantor and collateral support, to determine whether the proposed concessions will increase the likelihood of repayment of principal and interest. Restructured loans that are not performing in accordance with their restructured terms that are either contractually 90 days past due or have been placed on nonaccrual status are reported as nonperforming loans.

The allowance for credit losses is an estimate of expected losses inherent within the Company's loans held for investment portfolio and is maintained at a level believed adequate by management to absorb credit losses inherent in such loan portfolio in accordance with ASC 326. Management evaluates the adequacy of the allowance for credit losses on a quarterly basis. Expected credit losses inherent in non-cancellable off-balance-sheet credit exposures is accounted for as a separate liability included in other liabilities on the consolidated balance sheets. The allowance for credit losses for loans held for investment is adjusted by a provision for credit losses, which is reported in earnings, and reduced by net charge-offs. Loan losses are charged against the allowance for credit losses when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The credit loss estimation process involves procedures to appropriately consider the unique characteristics of the Company's loan portfolio segments. Credit quality is assessed and monitored by evaluating various attributes, and the results of those evaluations are utilized in underwriting new loans and in the Company's process for the estimation of expected credit losses. Credit quality monitoring procedures and indicators can include an assessment of problem loans, the types of loans, historical loss experience, new lending products, emerging credit trends, changes in the size and character of loan categories and other factors, including the Company's risk rating system, regulatory guidance and economic conditions, such as the unemployment rate and GDP growth in the markets in which the Company operates, as well as trends in the market values of underlying collateral securing loans, all as determined based on input from management, loan review staff and other sources. This evaluation is complex and inherently subjective, as it requires estimates by management that are inherently uncertain and therefore susceptible to significant revision as more information becomes available. Similarly, there may be significant changes in the allowance and provision for credit losses in future periods as the estimates and assumptions underlying such estimates are adjusted in light of then-prevailing factors and forecasts. Changes in any of the assumptions involved in the estimation process may result in significant changes in the allowance and provision for credit losses in those future periods. The methodology for estimating the amount of expected credit losses reported in the allowance for credit losses has two basic components: first, a collective (or pooled) component for estimating expected credit losses for pools of loans that share similar risk characteristics; and second, an asset-specific component involving individual loans that do not share risk characteristics with other loans and the measurement of expected credit losses for such individual loans.

#### *Loans Evaluated on a Collective (Pool) Basis*

The allowance for credit losses for loans that share similar risk characteristics with other loans is calculated on a collective or pool basis, where such loans are segregated into loan portfolio segments based upon similarity of credit risk. The company's primary loan portfolio segments are real estate, commercial, and consumer. Construction, 1-4 family mortgages, and commercial mortgages are included within the real estate segment.

The construction loan portfolio consists of loans for the construction of single-family residential properties, multi-family properties and commercial projects. Maturities for construction loans generally range from six to 12 months for residential properties and from 24 to 36 months for non-residential and multi-family properties. The source of repayment of a construction loan comes from refinance into an amortizing loan or the sale or lease of the newly constructed property.

## Notes to Consolidated Financial Statements (continued)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Loans (continued)*

The 1-4 family mortgage portfolio includes loans secured by first or second liens on residential real estate in which the property is the principal residence of the borrower, as well as loans secured by residential real estate in which the property is rented to tenants or is otherwise not the principal residence of the borrower. Finally, this portion of the real estate loan portfolio includes home equity loans or lines of credit and term loans secured by first and second mortgages on the residences of borrowers who elect to use the accumulated equity in their homes for purchases, refinances, home improvements, education and other personal expenditures. The Company attempts to minimize the risk associated with residential real estate loans by scrutinizing the financial condition of the borrower; typically, the maximum loan-to-value ratio is also limited.

The commercial mortgage portfolio (referred to collectively as "commercial real estate loans") are "owner occupied" loans in which the owner develops the property with the intention of locating its business there. Payments on these loans are dependent on the successful development and management of the business as well as the borrower's ability to generate sufficient operating revenue to repay the loan. In some instances, in addition to the mortgage on the underlying real estate of the business, commercial real estate loans are secured by other non-real estate collateral, such as equipment or other assets used in the business. In addition to the owner-occupied commercial real estate loans, the Company offers loans in which the owner develops a property where the source of repayment of the loan will come from the sale or lease of the developed property, for example, retail shopping centers, hotels and storage facilities. These loans are referred to as "non-owner occupied" commercial real estate loans. The company also offers commercial real estate loans to developers of commercial properties for purposes of site acquisition and preparation and other development prior to actual construction (referred to as "commercial land development loans"). Non-owner occupied commercial real estate loans and commercial land development loans are dependent on the successful completion of the project and may be affected by adverse conditions in the real estate market or the economy as a whole.

Commercial and industrial loans are customarily granted to established local business customers in the Company's market area on a collateralized basis to meet their credit needs. Maturities are typically short term in nature and commensurate with the secondary source of repayment that serves as the Company's collateral. Although commercial loans may be collateralized by equipment or other business assets, the repayment of this type of loan depends primarily on the creditworthiness and projected cash flow of the borrower (and any guarantors). Thus, the chief consideration when assessing the risk of a commercial loan are the local business borrower's ability to sell its products/services, thereby generating sufficient operating revenue to repay the Company under the agreed upon terms and conditions and the general business conditions of the local economy or other market that the business serves.

Consumer loans are granted to individuals for the purchase of personal goods. Loss or decline of income by the borrower due to unplanned occurrences represents the primary risk of default to the Company. In the event of default, a shortfall in the value of the collateral may pose a loss in this loan category. Before granting a consumer loan, the Company assesses the applicant's credit history and ability to meet existing and proposed debt obligations. Although the applicant's creditworthiness is the primary consideration, the underwriting process also includes a comparison of the value of the collateral, if any, to the proposed loan amount. The Company obtains a lien against the collateral securing the loan and holds title (if applicable) until the loan is repaid in full.

In determining the allowance for credit losses on loans evaluated on a collective basis, the Company categorizes loan pools based on loan type and/or risk rating. The Company uses a loss rate model based on average historical life-of-loan loss rates. The historical loss rates are adjusted, as necessary, for both internal and external qualitative factors where there are differences in the historical loss data of the Company and current or projected future conditions. Internal factors include loss history, changes in credit quality (including movement between risk ratings) and/or credit concentration and changes in the nature and volume of the respective loan portfolio segments. External factors include current, reasonable and supportable forecasted economic conditions and changes in collateral values. These factors are used to adjust the historical loss rates to ensure that they reflect management's expectation of future conditions based on a reasonable and supportable forecast period. To the extent the lives of the loans in the portfolio extend beyond the period for which a reasonable and supportable forecast can be made, when necessary,

## Notes to Consolidated Financial Statements (continued)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Loans (continued)*

the model immediately reverts back to the historical loss rates adjusted for qualitative factors related to current conditions.

#### *Loans evaluated on an Individual Basis*

For loans that do not share similar risk characteristics with other loans, an individual analysis is performed to determine the expected credit loss. If the respective loan is collateral dependent (that is, when the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral), the expected credit loss is measured as the difference between the amortized cost basis of the loan and the fair value of the collateral. The fair value of the collateral is initially based on external appraisals. Generally, collateral values for loans for which measurement of expected losses is dependent on the fair value of such collateral are updated every twelve months, either from external third parties or in-house appraisers. Third-party appraisals are obtained from a pre-approved list of independent, local appraisal firms. The fair value of the collateral derived from external appraisal is then adjusted for the estimated cost to sell if repayment or satisfaction of a loan is dependent on the sale (rather than only the operation) of the collateral. Other acceptable methods for determining the expected credit losses for individually evaluated loans (typically used when the loan is not collateral dependent) is a discounted cash flow approach or, if applicable, an observable market price. Once the expected credit loss amount is determined, an allowance equal to such expected credit loss is included in the allowance for credit losses.

The Company maintains a separate allowance for credit losses on unfunded commitments, which is included in "other liabilities" on the consolidated balance sheets. Changes in such allowance are recorded in "other noninterest expense" line item on the consolidated statements of income. Management estimates the amount of expected credit losses on unfunded loan commitments by calculating a likelihood of funding over the contractual period for exposures that are not unconditionally cancellable by the Company and applying the loss factors used in the allowance for credit losses on loans methodology described above to the unfunded commitments for each loan type. No credit loss estimates are reported for off-balance-sheet credit exposures that are unconditionally cancellable by the Company.

Pursuant to the regulatory examination process, regulatory authorities can require the Bank to adjust the balance of the allowance for credit losses account to amounts deemed by those authorities to represent an adequate allowance for safety and soundness purposes. Accordingly, the allowance for credit losses represents a material estimate that is susceptible to significant change in the near term.

#### *Off-Balance Sheet Credit Related Financial Instruments*

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under commercial letters of credit and standby letters of credit. Such financial instruments are recorded when they are funded.

#### *First National Bankers Bankshares and Federal Home Loan Bank Stock*

First National Bankers Bankshares and Federal Home Loan Bank stock are required investments for institutions that are members of those systems. The required investment in their common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

#### *Foreclosed Assets*

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

## Notes to Consolidated Financial Statements (continued)

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

#### *Premises and Equipment*

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets, which range from 20 to 40 years for buildings and improvements and range from 5 to 10 years for equipment.

#### *Transfers of Financial Assets*

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

#### *Treasury Stock*

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

#### *Stock-Based Compensation*

The Company is accounting for the stock and incentive compensation under the provisions of FASB ASC 718, "Compensation - Stock Compensation". Under this accounting guidance, compensation expense for option grants is determined based on the estimated fair value of the stock options on the applicable grant or award date and is recognized over the respective awards' vesting period. Expense associated with the Company's stock-based compensation is included under the line item "Salaries and employee benefits" on the consolidated statements of income.

#### *Reclassifications*

Certain prior year amounts have been reclassified to conform to current year's presentation.

#### *Income Taxes*

The Company and the Bank have elected to be taxed under the provisions of subchapter S of the Internal Revenue Code and related state codes. Under those provisions, the Company does not pay federal or state corporate income taxes on its taxable income. Instead, the shareholders are liable for individual federal and state income taxes on their respective shares of the Company's taxable income.

On a continuing basis, management analyzes the Company's tax positions, and, when a tax position meets the measurement and recognition principles outlined in FASB ASC 740, the Company accrues a liability for unrecognized tax benefits. Any related interest and penalties associated with unrecognized tax benefits are included as a component of other non-interest expense.

The Company is subject to income tax reporting in the United States and the State of Mississippi. The Company's federal and state income tax returns are subject to examination by the taxing authorities generally for three years after they are filed. Management has evaluated the tax positions taken and has not identified any positions that are unlikely to be sustained upon examination.

#### *Advertising*

The Bank expenses advertising costs as they are incurred.

#### *Evaluation of Subsequent Events*

In preparing these financial statements, the Company has evaluated events and transactions for potential recognition or disclosure through the date of the Independent Auditors' Report, which is the date the financial statements were available to be issued.



Notes to Consolidated Financial Statements (continued)

**NOTE 2. SECURITIES**

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	<i>December 31, 2024</i>			
	<i>Amortized</i>	<i>Gross Unrealized</i>		<i>Fair</i>
	<i>Cost</i>	<i>Gains</i>	<i>Losses</i>	<i>Value</i>
<u>Securities Available-for-Sale</u>				
U.S. Government and federal agency	\$ 39,427,098	\$ 158,466	\$ (335,206)	\$ 39,250,358
State and municipal	90,259,368	13,721	(2,499,248)	87,773,841
Corporate	10,848,695	24,346	(297,538)	10,575,503
Mortgage-backed	64,217,299	217,729	(645,613)	63,789,415
	<u>\$ 204,752,460</u>	<u>\$ 414,262</u>	<u>\$ (3,777,605)</u>	<u>\$ 201,389,117</u>
<u>Securities Held-to-Maturity:</u>				
State and municipal	\$ 6,422,017	\$ -	\$ (255,489)	\$ 6,166,528
Corporate	1,894,580	29,038	(3,033)	1,920,585
Mortgage-backed	13,676,263	19,720	(115,699)	13,580,284
	<u>\$ 21,992,860</u>	<u>\$ 48,758</u>	<u>\$ (374,221)</u>	<u>\$ 21,667,397</u>
 <i>December 31, 2023</i>				
	<i>Amortized</i>	<i>Gross Unrealized</i>		<i>Fair</i>
	<i>Cost</i>	<i>Gains</i>	<i>Losses</i>	<i>Value</i>
	<u>Securities Available-for-Sale</u>			
U.S. Government and federal agency	\$ 37,599,007	\$ 234,355	\$ (670,194)	\$ 37,163,168
State and municipal	117,154,536	11,950	(4,487,404)	112,679,082
Corporate	12,257,331	8,475	(602,196)	11,663,610
Mortgage-backed	28,908,240	230,864	(240,596)	28,898,508
	<u>\$ 195,919,114</u>	<u>\$ 485,644</u>	<u>\$ (6,000,390)</u>	<u>\$ 190,404,368</u>
<u>Securities Held-to-Maturity:</u>				
State and municipal	\$ 8,140,296	\$ 839	\$ (480,259)	\$ 7,660,876
Corporate	1,413,608	-	(5,993)	1,407,615
Mortgage-backed	14,671,935	10,525	(261,600)	14,420,860
	<u>\$ 24,225,839</u>	<u>\$ 11,364</u>	<u>\$ (747,852)</u>	<u>\$ 23,489,351</u>

At December 31, 2024 and 2023, securities with a carrying value of approximately \$106,319,736 and \$101,691,028, respectively, were pledged to secure public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of debt securities by contractual maturity at December 31, 2024 follows:

Notes to Consolidated Financial Statements (continued)

NOTE 2. SECURITIES (continued)

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Amortized Cost</i>	<i>Fair Value</i>	<i>Amortized Cost</i>	<i>Fair Value</i>
Within 1 year	\$ 42,845,872	\$ 42,356,620	\$ 4,674,000	\$ 4,521,902
Over 1 year through 5 years	55,756,760	53,867,123	2,280,667	2,193,288
Over 5 years through 10 years	14,465,019	14,304,738	-	-
Over 10 years	27,467,510	27,071,221	1,361,930	1,371,923
	140,535,161	137,599,702	8,316,597	8,087,113
Mortgage backed securities	64,217,299	63,789,415	13,676,263	13,580,284
	<u>\$ 204,752,460</u>	<u>\$ 201,389,117</u>	<u>\$ 21,992,860</u>	<u>\$ 21,667,397</u>

Proceeds and related gross realized gains and losses from the disposition of debt securities follows:

	<i>Available-for-Sale</i>		<i>Held-to-Maturity</i>	
	<i>Year Ended December 31, 2024</i>	<i>Year Ended December 31, 2023</i>	<i>Year Ended December 31, 2024</i>	<i>Year Ended December 31, 2023</i>
Proceeds from dispositions	\$ 60,702,147	\$ 36,155,142	\$ 4,809,351	\$ 1,441,705
Gross gains	\$ 9,573	\$ 985	\$ -	\$ -
Gross losses	(7,463)	(66,869)	-	-
	<u>\$ 2,110</u>	<u>\$ (65,884)</u>	<u>\$ -</u>	<u>\$ -</u>

Substantially all dispositions of held-to-maturity securities were maturities, paydowns, or calls, or met the conditions outlined in FASB ASC 320-10-25.

Information pertaining to securities with gross unrealized losses aggregated by investment category and length of time that individual securities have been in a continuous loss position follows:

	<i>December 31, 2024</i>			
	<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>	
	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>	<i>Gross Unrealized Losses</i>	<i>Fair Value</i>
<u>Securities Available-for-Sale</u>				
U.S. Government and federal agency	\$ (209,319)	\$ 18,115,994	\$ (125,887)	\$ 8,754,106
State and municipal	(355,489)	8,876,326	(2,143,759)	75,972,616
Corporate	(88)	481,007	(297,450)	7,029,789
Mortgage-backed	(540,468)	28,011,432	(105,145)	8,192,321
	<u>\$ (1,105,364)</u>	<u>\$ 55,484,759</u>	<u>\$ (2,672,241)</u>	<u>\$ 99,948,832</u>
<u>Securities Held-to-Maturity:</u>				
State and municipal	\$ -	\$ -	\$ (255,489)	\$ 6,166,528
Corporate	(3,033)	470,005	-	-
Mortgage-backed	(13,692)	1,979,794	(102,007)	8,970,580
	<u>\$ (16,725)</u>	<u>\$ 2,449,799</u>	<u>\$ (357,496)</u>	<u>\$ 15,137,108</u>

**Notes to Consolidated Financial Statements (continued)**

**NOTE 2. SECURITIES (continued)**

	<i>December 31, 2023</i>			
	<i>Less than Twelve Months</i>		<i>Over Twelve Months</i>	
	<i>Gross</i>		<i>Gross</i>	
	<i>Unrealized</i>	<i>Fair</i>	<i>Unrealized</i>	<i>Fair</i>
	<i>Losses</i>	<i>Value</i>	<i>Losses</i>	<i>Value</i>
<u>Securities Available-for-Sale</u>				
U.S. Government and federal agency	\$ (20,344)	\$ 5,709,469	\$ (649,850)	\$ 17,245,195
State and municipal	(19,774)	2,904,526	(4,467,630)	109,055,304
Corporate	(21,802)	3,385,519	(580,394)	7,234,999
Mortgage-backed	(60,159)	11,900,608	(180,437)	5,767,372
	<u>\$ (122,079)</u>	<u>\$ 23,900,122</u>	<u>\$ (5,878,311)</u>	<u>\$ 139,302,870</u>
<u>Securities Held-to-Maturity:</u>				
State and municipal	\$ -	\$ -	\$ (480,259)	\$ 7,197,741
Corporate	-	-	(5,993)	1,407,615
Mortgage-backed	(79,819)	5,102,589	(181,781)	8,392,294
	<u>\$ (79,819)</u>	<u>\$ 5,102,589</u>	<u>\$ (668,033)</u>	<u>\$ 16,997,650</u>

The Company had 355 and 433 securities in an unrealized loss position at December 31, 2024 and 2023, respectively. The Company does not intend to sell any of the securities in an unrealized loss position, and it is not more likely than not that the Company will be required to sell any such security prior to the recovery of its amortized cost basis, which may be maturity. Furthermore, even though a number of these securities have been in a continuous unrealized loss position for a period greater than twelve months, the Company is collecting principal and interest payments from the respective issuers as scheduled. Based upon its review of securities with unrealized losses as of December 31, 2024, the Company determined that all such losses resulted from factors not deemed credit related. As a result, the Company did not record any impairment for the years ended December 31, 2024 and 2023.

At December 31, 2024 and 2023, the allowance for credit losses on held to maturity securities was \$0. The Company monitors the credit quality of debt securities held to maturity using bond investment grades assigned by third party ratings agencies. Updated investment grades are obtained as they become available from the agencies.

**NOTE 3. FAIR VALUE**

“Fair value” is defined by FASB Accounting Standards Codification (“ASC”) 820, as 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. FASB ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. Observable inputs are inputs that market participants would use in pricing the asset or liability developed based on market data obtained from sources independent of the Company. Unobservable inputs are inputs that reflect the Company’s assumptions about the assumptions that market participants would use in pricing the asset or liability developed based on the best information available under the circumstances. The hierarchy is broken down into the following three levels, based on the reliability of inputs:

- Level 1      Unadjusted quoted prices in active markets for identical assets or liabilities that are accessible at the measurement date.
  
- Level 2      Significant other observable inputs other than Level 1 prices, such as 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.

**Notes to Consolidated Financial Statements (continued)**

**NOTE 3. FAIR VALUE (continued)**

Level 3 Significant unobservable inputs for the asset or liability that reflect the reporting entity's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

***Determination of fair value***

The Company uses the valuation methodologies listed below to measure different financial instruments at fair value. An indication of the level in the fair value hierarchy in which each instrument is generally classified is included. Where appropriate, the description includes details of the valuation models, the key inputs to those models as well as any significant assumptions.

***Debt securities***

Available for sale securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are determined by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. The Company's available-for-sale securities that are traded on an active exchange, if any, such as the New York Stock Exchange, are classified as Level 1. Available-for-sale securities valued using matrix pricing are classified as Level 2. Available for sale securities carried at amortized cost basis, if any, are classified as Level 3. Held to maturity securities are only subject to market valuation in the event such securities are deemed to be impaired. Such adjustments are based on estimated liquidation value of the underlying instruments and are classified as Level 3.

***Equity securities at fair value***

Equity securities with readily determinable fair values are generally traded on an active exchange, such as the New York Stock Exchange. The Company's investments in equity securities with readily determinable fair values are classified as Level 1.

***Impaired loans***

Loans considered impaired under FASB ASC 310, are loans for which, based on current information and events, it is probable that the creditor will be unable to collect all amounts due according to the contractual terms of the loan agreement. Impaired loans are subject to nonrecurring fair value adjustments to reflect (1) partial write-downs that are based on the observable market price or current appraised value of the collateral, or (2) the full charge-off of the loan carrying value. All of the Company's impaired loans are classified as Level 3.

***Foreclosed assets***

Foreclosed assets are carried at the lower of cost or estimated fair value, less estimated selling costs and is subjected to nonrecurring fair value adjustments. Estimated fair value is determined on the basis of independent appraisals, risk-adjusted discounted cash flow analyses, and other relevant factors. All of the Company's foreclosed assets are classified as Level 3.

**Assets and Liabilities Recorded at Fair Value on a Recurring Basis**

The following table presents the balances of assets measured at fair value on a recurring basis:

	<i>December 31, 2024</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Securities available-for-sale	\$ -	\$ 201,389,117	\$ -	\$ 201,389,117
	<u>\$ -</u>	<u>\$ 201,389,117</u>	<u>\$ -</u>	<u>\$ 201,389,117</u>
	<i>December 31, 2023</i>			
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Securities available-for-sale	\$ -	\$ 190,404,368	\$ -	\$ 190,404,368
Marketable equity securities	1,044,409	-	-	1,044,409
	<u>\$ 1,044,409</u>	<u>\$ 190,404,368</u>	<u>\$ -</u>	<u>\$ 191,448,777</u>

**Notes to Consolidated Financial Statements (continued)**

**NOTE 3. FAIR VALUE (continued)**

There were no changes in Level 3 assets measured at fair value on a recurring basis for the year ended December 31, 2024.

The Company has no liabilities measured at fair value on a recurring basis.

**Assets and Liabilities Recorded at Fair Value on a Nonrecurring Basis**

The following table presents the balances of assets measured at fair value on a nonrecurring basis:

	<i>December 31, 2024</i>				<i>Total Gains (Losses)</i>
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	
Impaired loans	\$ -	\$ -	\$ 1,893,209	\$ 1,893,209	\$ (161,535)
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,893,209</u>	<u>\$ 1,893,209</u>	<u>\$ (161,535)</u>
	<i>December 31, 2023</i>				
	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>	<i>Total Gains (Losses)</i>
Impaired loans	\$ -	\$ -	\$ 5,543,627	\$ 5,543,627	\$ (29,125)
Foreclosed assets	-	-	16,015	16,015	-
	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,543,627</u>	<u>\$ 5,543,627</u>	<u>\$ (29,125)</u>

The Company has no liabilities measured a fair value on a nonrecurring basis.

**NOTE 4. LOANS**

The Bank's loan and lease portfolio is disaggregated into the following segments: real estate; commercial (including agricultural); and consumer. A summary of gross loans and leases, by segment follows:

	<i>December 31,</i>	
	<i>2024</i>	<i>2023</i>
Real estate loans	\$ 122,305,357	\$ 114,159,105
Commercial loans	27,397,254	28,387,829
Consumer and other	5,964,425	5,019,228
Total loans	155,667,036	147,566,162
Less: Allowance for credit losses	(4,383,039)	(4,337,788)
Loans, net	<u>\$ 151,283,997</u>	<u>\$ 143,228,374</u>

**Notes to Consolidated Financial Statements (continued)**

**NOTE 4. LOANS (continued)**

The following table provides details regarding the Bank's nonaccrual loan and lease portfolio net of unearned income, by segment at the dates indicated:

	<i>December 31,</i>					
	<i>2024</i>		<i>2023</i>		<i>2022</i>	
	<i>Total</i>	<i>Amount with no Allowance</i>	<i>Total</i>	<i>Amount with no Allowance</i>	<i>Total</i>	<i>Amount with no Allowance</i>
Real estate loans	\$ 433,207	\$ 375,781	\$ 3,288,573	\$ 1,003,236	\$ 1,233,957	\$ 1,143,607
Commercial loans	567,817	355,096	1,162,014	1,159,768	100,807	95,807
Consumer and other	12,208	65	28,009	5,026	9,157	5,526
	<u>\$ 1,013,232</u>	<u>\$ 730,942</u>	<u>\$ 4,478,596</u>	<u>\$ 2,168,030</u>	<u>\$ 1,343,921</u>	<u>\$ 1,244,940</u>

Interest income recognized on nonaccrual loans during the years ended December 31, 2024 and 2023 was immaterial.

The following table provides details regarding the Bank's delinquent loan and lease portfolio, net of unearned income by segment as of the dates indicated:

	<i>December 31,</i>					
	<i>2024</i>		<i>2023</i>		<i>2022</i>	
	<i>30-89 Days</i>	<i>Over 90 Still Accruing</i>	<i>30-89 Days</i>	<i>Over 90 Still Accruing</i>	<i>30-89 Days</i>	<i>Over 90 Still Accruing</i>
Real estate loans	\$ 2,644,431	\$ 1,519,860	\$ 2,922,242	\$ 885,194	\$ 2,155,108	\$ 64,875
Commercial loans	148,665	86,980	164,293	322,401	196,472	-
Consumer and other	110,886	20,269	104,829	969	64,460	4,122
	<u>\$ 2,903,982</u>	<u>\$ 1,627,109</u>	<u>\$ 3,191,364</u>	<u>\$ 1,208,564</u>	<u>\$ 2,416,040</u>	<u>\$ 68,997</u>

The Bank utilizes an internal loan classification system that is perpetually updated to grade loans according to certain quality indicators. Those quality indicators include, but are not limited to, recent credit performance, delinquency, liquidity, cash flows, debt coverage ratios, collateral type and loan-to-value ratios. The Bank's internal loan classification system is compatible with classifications used by the Federal Deposit Insurance Corporation as well as other regulatory agencies. Loans may be classified as follows:

Pass: Loans which are performing as agreed with few or no signs of weakness. These loans show sufficient cash flow, capital and collateral to repay the loans as agreed.

Watch: Loans where potential weaknesses have developed which could cause a more serious problem if not corrected.

Substandard: Loans where well-defined weaknesses exist that require corrective action to prevent further deterioration.

Doubtful: Loans having all the characteristics of Substandard and which have deteriorated to a point where collection and liquidation in full is highly questionable.

Loss: Loans that are considered uncollectible or with limited possible recovery.

**Notes to Consolidated Financial Statements (continued)**

**NOTE 4. LOANS (continued)**

Impaired: Loans for which it is probable that the Bank will be unable to collect all amounts due according to the contractual terms of the loan agreement and for which a specific impairment reserve has been considered.

The following tables provide details of the Bank's loan and lease portfolio, net of unearned income, by segment and internally assigned grade:

<i>December 31, 2024</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$119,993	\$ 38	\$ 846	\$ -	\$ -	\$ 1,428	\$122,305
Commercial loans	26,783	-	-	-	-	614	27,397
Consumer and other	5,942	11	-	-	-	12	5,965
	<u>\$152,718</u>	<u>\$ 49</u>	<u>\$ 846</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,054</u>	<u>\$155,667</u>
<i>December 31, 2023</i>							
	<i>Pass</i>	<i>Watch</i>	<i>Sub- standard</i>	<i>Doubtful</i>	<i>Loss</i>	<i>Impaired</i>	<i>Total</i>
	<i>(in thousands)</i>						
Real estate loans	\$109,750	\$ -	\$ 76	\$ -	\$ -	\$ 4,333	\$114,159
Commercial loans	27,176	-	-	-	-	1,212	28,388
Consumer and other	4,973	-	18	-	-	28	5,019
	<u>\$141,899</u>	<u>\$ -</u>	<u>\$ 94</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,573</u>	<u>\$147,566</u>

The Bank evaluates relationships graded internally as substandard, doubtful, and loss for impairment. Generally, impairment is measured as the excess of the Bank's recorded investment in the underlying loans in excess of the loan collateral, less estimated costs to sell. The following tables provide details of the Bank's impaired loans and leases, net of unearned income, by segment:

<i>December 31, 2024</i>					
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 1,428	\$ 1,428	\$ 1,371	\$ 57	\$ 1
Commercial loans	614	614	401	213	156
Consumer and other	12	12	-	12	4
	<u>\$ 2,054</u>	<u>\$ 2,054</u>	<u>\$ 1,772</u>	<u>\$ 282</u>	<u>\$ 161</u>
<i>December 31, 2023</i>					
	<i>Unpaid Principal Balance</i>	<i>Recorded Investment</i>	<i>Investment with no Allowance</i>	<i>Investment with Allowance</i>	<i>Related Allowance for Losses</i>
	<i>(in thousands)</i>				
Real estate loans	\$ 4,333	\$ 4,333	\$ 4,269	\$ 64	\$ 5
Commercial loans	1,212	1,212	1,210	2	1
Consumer and other	28	28	5	23	23
	<u>\$ 5,573</u>	<u>\$ 5,573</u>	<u>\$ 5,484</u>	<u>\$ 89</u>	<u>\$ 29</u>

**Notes to Consolidated Financial Statements (continued)**

**NOTE 4. LOANS (continued)**

The Bank's average recorded investment in impaired loans was approximately \$3,813,000 during the year ended December 31, 2024 and approximately \$3,674,000 during the year ended December 31, 2023. Interest income recognized on impaired loans during the years ended December 31, 2024 and 2023 was immaterial. No additional funds are committed to be advanced in connection with impaired loans.

The following tables present the balance in the allowance for credit losses and the recorded investment in loans based on portfolio segment and impairment method:

<i>December 31, 2024</i>					
<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>	
<i>(in thousands)</i>					
Loans evaluated for impairment:					
Individually	\$ 1,248	\$ 614	\$ 12	\$ -	\$ 1,874
Collectively	<u>121,057</u>	<u>26,783</u>	<u>5,953</u>	<u>-</u>	<u>153,793</u>
	<u>\$ 122,305</u>	<u>\$ 27,397</u>	<u>\$ 5,965</u>	<u>\$ -</u>	<u>\$ 155,667</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 1	\$ 156	\$ 4	\$ -	\$ 161
Collectively	<u>2,371</u>	<u>390</u>	<u>163</u>	<u>1,298</u>	<u>4,222</u>
	<u>\$ 2,372</u>	<u>\$ 546</u>	<u>\$ 167</u>	<u>\$ 1,298</u>	<u>\$ 4,383</u>
<i>December 31, 2023</i>					
<i>Real Estate Loans</i>	<i>Commercial Loans</i>	<i>Consumer Loans</i>	<i>Unallocated</i>	<i>Total</i>	
<i>(in thousands)</i>					
Loans evaluated for impairment:					
Individually	\$ 4,333	\$ 1,212	\$ 28	\$ -	\$ 5,573
Collectively	<u>109,826</u>	<u>27,176</u>	<u>4,991</u>	<u>-</u>	<u>141,993</u>
	<u>\$ 114,159</u>	<u>\$ 28,388</u>	<u>\$ 5,019</u>	<u>\$ -</u>	<u>\$ 147,566</u>
Allowance for losses evaluated for impairment:					
Individually	\$ 5	\$ 1	\$ 23	\$ -	\$ 29
Collectively	<u>2,147</u>	<u>345</u>	<u>104</u>	<u>1,713</u>	<u>4,309</u>
	<u>\$ 2,152</u>	<u>\$ 346</u>	<u>\$ 127</u>	<u>\$ 1,713</u>	<u>\$ 4,338</u>



**Notes to Consolidated Financial Statements (continued)**

**NOTE 4. LOANS (continued)**

The following tables summarize the changes in the allowance for credit losses by segment for the periods indicated:

<i>Year ended December 31, 2024</i>					
<i>Balance at Beginning of Period</i>	<i>Charge- Offs and Transfers</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>	
<i>(in thousands)</i>					
Real estate loans	\$ 2,152	\$ (191)	\$ 257	\$ 154	\$ 2,372
Commercial loans	346	(546)	75	671	546
Consumer loans	127	(50)	5	85	167
Unallocated	1,713	-	-	(415)	1,298
	<u>\$ 4,338</u>	<u>\$ (787)</u>	<u>\$ 337</u>	<u>\$ 495</u>	<u>\$ 4,383</u>

  

<i>Year ended December 31, 2023</i>					
<i>Balance at Beginning of Period</i>	<i>Charge- Offs and Transfers</i>	<i>Recoveries</i>	<i>Provision</i>	<i>Balance at End of Period</i>	
<i>(in thousands)</i>					
Real estate loans	\$ 1,215	\$ (259)	\$ 26	\$ 1,170	\$ 2,152
Commercial loans	293	(394)	3	444	346
Consumer and other	46	(22)	2	101	127
Unallocated	3,428	-	-	(1,715)	1,713
	<u>\$ 4,982</u>	<u>\$ (675)</u>	<u>\$ 31</u>	<u>\$ -</u>	<u>\$ 4,338</u>

In the normal course of business, management will sometimes grant concessions, which normally would not otherwise be considered, to borrowers that are experiencing financial difficulty. The concessions granted most frequently involve reductions or delays in required payments of principal and interest for a specified period, the rescheduling of payments in accordance with a bankruptcy plan, the charge-off of a portion of the loan, or a reduction in the rate of interest charged. In most cases, the conditions of the credit also warrant nonaccrual status, even after the restructure occurs. As part of the credit approval process, the restructured loans are evaluated for adequate collateral protection in determining the appropriate accrual status at the time of restructure. Loans modified for debtors experiencing financial difficulty may be returned to accrual status if there has been at least a six-month period of sustained repayment performance by the borrower. There were no modifications accounted for a restructurings during the years ended December 31, 2024 and 2023.

The Company is not committed to loan material additional funds to debtors with financial difficulty whose terms were previously modified.

**NOTE 5. EQUITY SECURITIES AT COST**

Equity securities without readily determinable fair values are maintained at historical cost basis minus impairment (if any) plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments of the same issuer. The Company performs a qualitative impairment assessment of each underlying security periodically and has determined that no impairment was observed for any of the underlying securities. Equity securities at cost consist of the following:

**Notes to Consolidated Financial Statements (continued)**

**NOTE 5. EQUITY SECURITIES AT COST (continued)**

	<i>December 31,</i>	
	<u>2024</u>	<u>2023</u>
Federal Home Loan Bank stock	\$ 2,202,500	\$ 2,088,000
First National Banker's Bankshares stock	356,800	356,800
First Commercial Bank stock	35,860	35,860
Financial Institution Services Corporation stock	10,055	10,055
	<u>\$ 2,605,215</u>	<u>\$ 2,490,715</u>

**NOTE 6. OTHER INVESTMENTS CARRIED AT COST**

The Company maintains an investment in certain rental real estate partnerships and certain other entities at historical cost basis consisting of the following:

	<i>December 31,</i>			
	<u>2024</u>		<u>2023</u>	
	<i>Historical Cost</i>	<i>Ownership Percentage</i>	<i>Historical Cost</i>	<i>Ownership Percentage</i>
Rockstep Scottsbluff, LLC	\$ 135,000	3.33%	\$ 135,000	3.33%
Rockstep Opelousas, LLC	65,000	3.33%	65,000	3.33%
Rockstep Willmar, LLC	140,000	2.35%	140,000	2.35%
Rockstep Capital Opportunity Fund I	-	4.35%	37,234	4.35%
Other miscellaneous	5,000		5,000	
	<u>\$ 345,000</u>		<u>\$ 382,234</u>	

The Company's cost basis in these investments is reduced by any distributions deemed to represent a return of capital or any impairment recognized during the reporting period.

**NOTE 7. BANK PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment follows:

	<i>December 31,</i>	
	<u>2024</u>	<u>2023</u>
Land	\$ 1,780,956	\$ 1,780,956
Buildings & improvements	6,242,388	6,199,182
Equipment	3,896,085	3,854,997
Construction in progress	22,600	-
	11,942,029	11,835,135
Less: accumulated depreciation and amortization	<u>(6,308,620)</u>	<u>(6,115,002)</u>
	<u>\$ 5,633,409</u>	<u>\$ 5,720,133</u>

Depreciation expense for the years ended December 31, 2024 and 2023, amounted to \$295,424 and \$287,323, respectively.

The Company is the lessor of certain commercial real estate under terms accounted for as an operating lease. Leased property is included in premises and equipment and includes land, buildings and improvements totaling approximately \$324,000 and \$324,000 at December 31, 2024 and 2023, respectively, and related accumulated depreciation of approximately \$82,000 and \$66,000 at December 31, 2024 and 2023, respectively. The term of the lease is seven years and includes a buyout option after the first sixty months, or at March 2024. The buyout is equal to one year's base rental amount.

## Notes to Consolidated Financial Statements (continued)

### NOTE 7. BANK PREMISES AND EQUIPMENT (continued)

The Company, as lessee, leases certain property accounted for as short-term leases. The Company elects to account for short-term lease costs as expense on the straight line basis over the term of the lease in the period in which the obligation for the payment is incurred. Total rental expenses associated with these leasing arrangements amounted to \$4,290 and \$3,960 during the years ended December 31, 2024 and 2023, respectively.

### NOTE 8. DEPOSITS

A summary of deposits follows:

	<i>December 31,</i>	
	<u>2024</u>	<u>2023</u>
Demand	\$ 70,843,833	\$ 74,425,670
Interest-bearing demand	141,218,113	131,508,984
Money market	8,144,161	7,850,318
Savings	21,440,975	24,875,624
Certificates of deposit	<u>114,367,765</u>	<u>105,323,254</u>
	<u>\$ 356,014,847</u>	<u>\$ 343,983,850</u>

The aggregate amount of time deposits in denominations exceeding FDIC insurance limits at December 31, 2024 and 2023 was approximately \$34,298,000 and \$30,347,000, respectively.

One customer relationship accounted for 22% and 22% of total deposits at December 31, 2024 and 2023, respectively.

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

2025	\$ 103,487,891
2026	7,471,754
2027	1,969,902
2028	1,304,863
2029	<u>133,355</u>
	<u>\$ 114,367,765</u>

Demand deposit accounts reclassified as loans in the form of overdrafts amounted to approximately \$684,462 and \$215,565 at December 31, 2024 and 2023, respectively.

### NOTE 9. OTHER BORROWED FUNDS

The Bank has entered into a blanket floating lien security agreement with the Federal Home Loan Bank (FHLB) of Dallas. Under the terms of this agreement, the Bank is required to maintain sufficient collateral to secure borrowings in an aggregate amount of the lesser of 75% of the book value (unpaid principal balance) of the Bank's one to four family residential first mortgages, small business, and small farm loans or 35% of the Bank's assets.

The Bank also maintained stock in the Federal Home Loan Bank as indicated in Note 5 at December 31, 2024 and 2023 respectively, which is required to be held by the Bank in order to secure future advances. Dividends received by the Bank relating to this stock during 2024 and 2023 were \$114,500 and \$97,000, respectively.

The Bank's fixed-rate, long-term debt of \$1,761,497 and \$2,244,387 at December 31, 2024 and 2023, respectively, represented advances under that blanket floating lien security agreement with the Federal Home Loan Bank. There are no conversion or call features or specific restrictive covenants associated with the Federal Home Loan Bank borrowings; however, there are penalties in the event of prepayment.

## Notes to Consolidated Financial Statements (continued)

### NOTE 9. OTHER BORROWED FUNDS (continued)

At December 31, 2024, the interest rates on fixed-rate, long-term debt ranged from 2.095 percent to 3.069 percent. At December 31, 2024, the weighted average interest rate on fixed-rate, long-term debt was 2.61 percent.

The Company has issued subordinated debt totaling \$17,500,000 pursuant to its participation in the Emergency Capital Investment Program (ECIP) with the U.S. Department of the Treasury. Under the terms of the related agreements, the subordinated debt accrued no interest for the initial 24 months following the Treasury Department's investment date of June 14, 2022. Thereafter the interest adjusts based on a sliding scale depending on the Bank's qualifying loan growth under the ECIP program with a ceiling of 2.00% and a floor of 0.50% payable in quarterly installments. The maturity date of the subordinated debenture is June 14, 2052 and the Company can redeem the subordinated debt on or after the fifth anniversary of issuance, subject to regulatory approval. The subordinated debentures contain provisions that restrict dividends and share repurchases by the Company if interest payments required by the debentures are in deferral for a specified period of time under the terms of the program. In addition, the subordinated debentures require the Company and its covered officers and employees to comply with rules and regulations of Treasury with respect to restrictions on executive compensation. Deferral of payments can be invoked if the Company fails to be classified as well capitalized by its primary regulator, the Company fails to achieve positive net income for the most recently completed quarter, or the Company is subject to distribution limitations under the capital rules applicable to it.

The contractual maturities of long-term debt at December 31, 2024, are as follows:

2025	\$	439,663
2026		355,765
2027		292,581
2028		240,614
2029		228,975
Thereafter		<u>17,703,899</u>
	\$	<u>19,261,497</u>

In addition to the aforementioned long-term financing arrangements, at December 31, 2024, the Bank had established informal federal funds borrowings lines of credit aggregating \$8,800,000.

The Company also has a line of credit of \$2,500,000 with another financial institution that is secured by 5,000 shares of RiverHills Bank stock, bearing interest at a rate equal to New York Prime Rate and maturing in 2027. The Company did not make any draws against this line during 2024 and 2023.

### NOTE 10. RETIREMENT PLANS

#### *Employee Stock Ownership plan*

The Company has an Employee Stock Ownership Plan (ESOP) covering substantially all employees. Discretionary contributions are determined by the Board of Directors. At December 31, 2024 and 2023, the plan held 11,528 and 10,790 shares of common stock, respectively. For the years ended December 31, 2024 and 2023, expenses attributable to the plan amounted to \$75,875 and \$66,870, respectively.

#### *401(k) Plan*

The Company has a defined contribution 401(k) plan covering substantially all employees. Employees may contribute up to 15% of their compensation to this plan. The plan limits the Company matching contribution to the following: 100% of the first 3% of the employee's contribution and 50% of the next 3% of the employee's contribution, subject to 6% limit. For the years ended December 31, 2024 and 2023, employer contributions charged to expense were \$124,955 and \$126,756, respectively.

**Notes to Consolidated Financial Statements (continued)**

**NOTE 11. RELATED PARTY TRANSACTIONS**

The Bank makes loans to its officers and directors as well as other related parties. Loans to related parties amounted to approximately \$3,105,000 and \$3,162,000 at December 31, 2024 and 2023, respectively. During 2024, new loans to such related parties amounted to \$196,000 and repayments amounted to \$253,000.

Deposits from related parties held by the Bank at December 31, 2024 amounted to approximately \$3,441,000.

**NOTE 12. OFF-BALANCE SHEET ACTIVITIES**

***Credit-Related Financial Instruments***

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial statements include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2024 and 2023, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<i>Years Ended December 31,</i>	
	<i>2024</i>	<i>2023</i>
	<i>(in thousands)</i>	
Unfunded commitments under lines of credit	\$ 32,239	\$ 19,823
Standby letters of credit	\$ 418	\$ 612

Unfunded commitments under commercial lines-of-credit, revolving credit lines and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines-of-credit are collateralized in conformity with bank lending practices, may not contain a specified maturity date and might not be drawn upon to the total extent to which the Bank is committed.

Standby letters-of-credit are conditional lending commitments issued by the Bank to guarantee the performance of a customer to a third party. Those letters-of-credit are primarily issued to support public and private borrowing arrangements. Generally, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters-of-credit is essentially the same as that involved in extending loan facilities to customers. The Bank typically holds collateral supporting those commitments, the value of which is deemed by management to be sufficient to limit the Bank's exposure to credit risk associated with issuing the guaranty. Premiums charged in issuing the guarantees are not material to the financial statements taken as a whole.

The Bank maintains an allowance for credit losses on unfunded loan commitments that is included in other liabilities in the consolidated balances sheets. The following table provides a roll-forward of the allowance for credit losses on unfunded commitments for the periods presented.

	<i>Years Ended December 31,</i>	
	<i>2024</i>	<i>2023</i>
Beginning balance	\$ 200,000	\$ -
Provision for credit losses (included in other noninterest expenses)	-	-
Cumulative effect adjustment - CECL implementation	-	200,000
Ending balance	\$ 200,000	\$ 200,000

## Notes to Consolidated Financial Statements (continued)

### NOTE 13. DUE FROM BANKS

The Company had funds on hand and on deposit with other banks at December 31, 2024 in excess of or not subject to FDIC insurance of \$4,563,967.

### NOTE 14. LEGAL CONTINGENCIES

Various legal claims arise from time to time in the normal course of business, which, in the opinion of management, will have no material effect on the Bank's consolidated financial statements.

### NOTE 15. MINIMUM REGULATORY CAPITAL REQUIREMENTS

The Company 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 adverse effect on the Company's financial statements.

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

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios (risk-based capital ratios). All banking companies are required to have core capital ("Tier 1") of at least 4% of risk-weighted assets, total capital of at least 8% of risk-weighted assets, Common Equity Tier 1 capital of at least 4.5% and a minimum Tier 1 leverage ratio of 4% of adjusted average assets. The regulations also define well capitalized levels of Common Equity Tier 1 capital, Tier 1 capital, total capital and Tier 1 leverage ratio as 6.5%, 8%, 10% and 5%, respectively. Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject and is not aware of any conditions or events that may have changed the bank's category.

The Company has opted into the community bank leverage ratio (CBLR) framework. The CBLR framework allows qualifying community banking organizations to calculate a leverage ratio to measure capital adequacy. A qualifying community banking organization is defined as having less than \$10 billion in total consolidated assets, a leverage ratio greater than 9%, off-balance sheet exposures of 25% or less of total consolidated assets, and trading assets and liabilities of 5% or less of total consolidated assets. A CBLR bank is deemed to have met the "well capitalized" ratio requirements and be in compliance with the generally applicable capital rule. The Company's actual capital amounts and ratios under the CBLR framework as of December 31, 2024 and 2023 are also presented in the table:

	2024		2023	
	<i>Amount</i>	<i>Ratio</i>	<i>Amount</i>	<i>Ratio</i>
	<i>(dollar amounts in thousands)</i>			
Tier 1 leverage capital (to average assets)				
RiverHills Capital Corporation	50,248	11.9%	48,940	12.1%
RiverHills Bank	50,635	12.4%	45,470	11.5%

### NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. 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 income, are components of comprehensive income.

**Notes to Consolidated Financial Statements (continued)**

**NOTE 16. ACCUMULATED OTHER COMPREHENSIVE INCOME** (continued)

The components of accumulated other comprehensive income, included in stockholders' equity, are as follows:

	<i>Years Ended December 31,</i>	
	<i>2024</i>	<i>2023</i>
Net unrealized losses on securities available-for-sale	\$ (3,363,343)	\$ (5,514,745)

**NOTE 17. RESTRICTIONS ON DIVIDENDS**

Federal and state banking regulations place certain restrictions on dividends paid. The total amount of dividends that may be paid at any date is generally limited to the retained earnings of the Bank. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements and are subject to increasingly stringent limitations with respect to capital distributions and discretionary bonus payments to executive officers as regulatory capital conservation buffers approach zero percent.

**NOTE 18. INCENTIVE COMPENSATION PLANS**

***Time-Vested Awards***

The Company's time-vested awards are granted to the certain Bank executives. 2,000 shares have been authorized by the Company to be awarded over a 5-year period and the executives become vested in each award on the fifth anniversary of the grant date of such award. Time-vested awards are valued utilizing the fair value of the Company's stock at the grant date. These awards are recognized on the straight-line method over the requisite service period. Compensation expense for time-vested awards for the years ended December 31, 2024 and 2023, totaled \$7,020 and \$22,320, respectively.

The following table summarized time-vested awards activities for the years ended December 31:

	<i>2024</i>		<i>2023</i>	
	<i>Shares</i>	<i>Weighted Average Exercise Price</i>	<i>Shares</i>	<i>Weighted Average Exercise Price</i>
Non-vested shares, beginning of year	400	\$ 86.25	800	\$ 83.25
Granted	2,000	117.00	-	-
Released from restrictions	(400)	86.25	(400)	80.25
Forfeited	-	-	-	-
Non-vested shares, end of year	<u>2,000</u>	<u>\$ 117.00</u>	<u>400</u>	<u>\$ 86.25</u>

**NOTE 19. DEFERRED COMPENSATION ARRANGEMENTS**

The Bank has entered into defined benefit deferred compensation arrangements in order to provide supplemental benefits for certain executives of the Bank. The defined benefit plans provide a fixed benefit to certain executives. The plans have vesting schedules, and the Bank has purchased life insurance policies on the executives that are designed by the seller to offset the annual expenses associated with the plans. The Bank is the sole owner of all policies.

The liability reserve account related to these deferred compensation agreements is included on the consolidated balance sheets.

## Notes to Consolidated Financial Statements (continued)

### NOTE 20. REVENUE RECOGNITION

The majority of the Company's revenue streams are governed by other authoritative guidance and, therefore, considered out-of-scope of FASB ASC 606. The Company's revenue streams that are considered in-scope of ASC 606 are discussed below.

ASC 606 requires costs that are incremental to obtaining a contract to be capitalized. ASC 606 has established, and the Company has utilized, a practical expedient allowing costs that, if capitalized, would have an amortization period of one year or less to instead be expensed as incurred.

#### *Service Fees*

Service fees include service charges on deposit accounts such as maintenance fees on accounts, per item charges, account enhancement charges for additional packaged benefits and overdraft fees. The contracts with deposit account customers are day-to-day contracts and are considered to be terminable at will by either party. Therefore, the fees are all considered to be earned when charged and simultaneously collected.

Service fees also include fees related to deposit services, such as ATM fees and interchange fees on debit card transactions. These fees are earned at a point in time as the services are rendered, and therefore the related revenue is recognized as the Company's performance obligation is satisfied.

#### *Sales of Foreclosed Assets*

The Company continually markets the properties included in the foreclosed assets portfolio. The Company will at times, in the ordinary course of business, provide seller-financing on sales of foreclosed assets. In cases where a sale is seller-financed, the Company must ensure the commitment of both parties to perform their respective obligations and the collectability of the transaction price in order to properly recognize the revenue on the sale of foreclosed assets. This is accomplished through the Company's loan underwriting process. In this process the Company considers things such as the buyer's initial equity in the property, the credit quality of the buyer, the financing terms of the loan and the cash flow from the property, if applicable. If it is determined that the contract criteria in ASC 606 have been met, the revenue on the sale of foreclosed assets will be recognized on the closing date of the sale when the Company has transferred title to the buyer and obtained the right to receive payment for the property. In instances where sales are not seller-financed, the Company recognizes revenue on the closing date of the sale when the Company has obtained payment for the property and transferred title to the buyer.

#### *Other Noninterest Income*

Other noninterest income primarily consists of grants under the Community Development Financial Institution programs awarded by the Department of the Treasury discussed in Note 21.

### NOTE 21: GOVERNMENT GRANTS RECEIVED

The Company received cash awards approximating \$280,000 and \$53,000 in the form of grants through the Department of Treasury's Community Development Financial Institution (CDFI) Bank Enterprise Award (BEA) during the years ended December 31, 2024 and 2023, respectively. The BEA Awards have been recognized as income as received since those awards are for activities already performed by the Company at the award date.

Financial Assistance grants awarded to the Company have a contractual term and performance measurement period of three years for each award. The Company monitors performance goals under the contract on a periodic basis and, when the performance goals have been met for a fiscal period, the Company recognizes income on a straight-line basis over the contract term and therefore Financial Assistance grants represent revenue recognized over a period of time. Financial Assistance grant awards recognized in income during the year ended December 31, 2024 and 2023 amounted to \$219,000 and \$219,000, respectively.

During the year ended December 31, 2023, the Company also received a grant award totaling approximately \$3,718,258 under the Equitable Recovery Program (ERP) from the Department of Treasury as a CDFI. The grants were issued to encourage investment and lending in underserved communities and to provide capital to CDFIs to respond to economic challenges created by the COVID-19 pandemic.



**Notes to Consolidated Financial Statements (continued)**

**NOTE 21: GOVERNMENT GRANTS RECEIVED (continued)**

The ERP grant award included performance goals that required the Company close a specified dollar volume of financial products in eligible and/or approved target markets with benchmarks for minimum dollar volumes over a five-year performance period. The general terms of the award specify that the grantor may require repayment of CDFI ERP assistance under certain circumstances, including failure to meet performance goals in the time period specified in the grant. The Company believes it met all performance goals associated with the award and recognized the entire amount of the ERP award as revenue during the year ended December 31, 2023.

During the year ended December 31, 2024, the Company also received a grant award totaling approximately \$101,554 under the Small Dollar Loan Program from the Department of Treasury as a CDFI. The grants were issued to expand consumer access to financial institutions by providing alternatives to high-cost, small dollar lending. The Company utilized \$15,329 of the grant award to establish a loan loss reserve for future lending related to the program. The remaining \$86,225 of the grant award is a Technical Assistance (TA) award that is to be used for support technology, staff support, and other eligible activities to enable the Company to establish and maintain a small dollar loan program. The grant award includes performance goals that must be met over a three-year performance period. The general terms of the award specify that the grantor may require repayment of the award under certain circumstances, including failure to meet performance goals in the time period specified in the grant. The Company believes it met all performance goals associated with the award and recognized the entire amount of the small dollar loan program award received as revenue during the year ended December 31, 2024.

Grant revenue is include in other noninterest income in the accompanying consolidated statements of income.

## **Supplemental Information**



**NAIL MCKINNEY, P.A.**  
Certified Public Accountants

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**Independent Auditors' Report On  
Supplemental Information**

To the Board of Directors and Stockholders  
RiverHills Capital Corporation and Subsidiary  
Vicksburg, Mississippi

We have audited the consolidated financial statements of RiverHills Capital Corporation and Subsidiary as of and for the year ended December 31, 2024 and our report thereon dated March 4, 2025, which expressed an unmodified opinion on those consolidated financial statements, appears on Page 3. Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information in Schedules 1 and 2 are presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual companies, and they are 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 consolidating 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 consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

*Nail McKinney Professional Association*

Tupelo, Mississippi  
March 4, 2025

## Consolidating Balance Sheet

## RIVERHILLS CORPORATION AND SUBSIDIARY

December 31, 2024

	<i>RiverHills Capital Corporation</i>	<i>RiverHills Bank</i>	<i>Eliminations</i>	<i>Consolidated</i>
<b>Assets</b>				
Cash and due from banks:				
Noninterest-bearing	\$ 3,650,363	\$ 5,665,818	\$ (3,647,895)	\$ 5,668,286
Interest-bearing	-	25,461,189	-	25,461,189
Federal funds sold	-	50,000	-	50,000
Cash and cash equivalents	3,650,363	31,177,007	(3,647,895)	31,179,475
Interest-bearing time deposits in banks	-	3,400,000	-	3,400,000
Securities available for sale	2,661,702	198,727,415	-	201,389,117
Securities held to maturity	10,343,473	11,649,387	-	21,992,860
Investment in subsidiary	47,271,471	-	(47,271,471)	-
Loans held for investment	-	155,667,036	-	155,667,036
Allowance for credit losses	-	(4,383,039)	-	(4,383,039)
Equity securities at cost	35,860	2,569,355	-	2,605,215
Accrued interest receivable	50,185	2,687,536	-	2,737,721
Premises and equipment, net	22,600	5,610,809	-	5,633,409
Other investments carried at cost	345,000	-	-	345,000
Cash surrender value of life insurance	-	2,840,529	-	2,840,529
Other assets	-	3,510	-	3,510
Total assets	<u>\$ 64,380,654</u>	<u>\$ 409,949,545</u>	<u>\$ (50,919,366)</u>	<u>\$ 423,410,833</u>
<b>Liabilities and Stockholders' Equity</b>				
Liabilities:				
Deposits:				
Noninterest bearing	\$ -	\$ 74,491,728	\$ (3,647,895)	\$ 70,843,833
Interest bearing	-	285,171,014	-	285,171,014
Total deposits	-	359,662,742	(3,647,895)	356,014,847
Other borrowed funds	17,500,000	1,761,497	-	19,261,497
Deferred compensation	-	247,341	-	247,341
Escrow payable	-	195,363	-	195,363
Accrued interest payable	-	610,680	-	610,680
Other liabilities	-	200,451	-	200,451
Total liabilities	<u>17,500,000</u>	<u>362,678,074</u>	<u>(3,647,895)</u>	<u>376,530,179</u>
Stockholders' equity:				
Common stock	857,580	500,000	(500,000)	857,580
Additional paid-in capital	4,352,598	-	-	4,352,598
Retained earnings	48,513,634	50,135,803	(50,135,803)	48,513,634
Accumulated other comprehensive income	(3,363,343)	(3,364,332)	3,364,332	(3,363,343)
Common stock in treasury, at cost	(3,479,815)	-	-	(3,479,815)
Total stockholders' equity	<u>46,880,654</u>	<u>47,271,471</u>	<u>(47,271,471)</u>	<u>46,880,654</u>
Total liabilities and stockholders' equity	<u>\$ 64,380,654</u>	<u>\$ 409,949,545</u>	<u>\$ (50,919,366)</u>	<u>\$ 423,410,833</u>

## Consolidating Statement of Income

## RIVERHILLS CAPITAL CORPORATION AND SUBSIDIARY

Year ended December 31, 2024

	<i>RiverHills Capital Corporation</i>	<i>RiverHills Bank</i>	<i>Eliminations</i>	<i>Consolidated</i>
Interest and dividend income:				
Loans, including fees	\$ -	\$ 10,553,427	\$ -	\$ 10,553,427
Debt securities	691,789	6,691,291	-	7,383,080
Deposits with financial institutions	5,207	1,213,920	-	1,219,127
Federal funds sold	-	8,257	-	8,257
Dividends	<u>4,345,879</u>	<u>117,932</u>	<u>(4,288,000)</u>	<u>175,811</u>
Total interest and dividend income	<u>5,042,875</u>	<u>18,584,827</u>	<u>(4,288,000)</u>	<u>19,339,702</u>
Interest expense:				
Deposits	-	6,763,694	-	6,763,694
Other borrowed funds	<u>109,983</u>	<u>27,856</u>	<u>-</u>	<u>137,839</u>
Total interest expense	<u>109,983</u>	<u>6,791,550</u>	<u>-</u>	<u>6,901,533</u>
Net interest income	4,932,892	11,793,277	(4,288,000)	12,438,169
Provision for credit losses	<u>-</u>	<u>495,329</u>	<u>-</u>	<u>495,329</u>
Net interest income after provision for loan losses	<u>4,932,892</u>	<u>11,297,948</u>	<u>(4,288,000)</u>	<u>11,942,840</u>
Noninterest income:				
Service fees	-	1,332,096	-	1,332,096
Net gain on disposition of debt securities	-	2,110	-	2,110
Net gain on disposition of equity securities	289,451	-	-	289,451
Net loss on disposition of foreclosed assets	-	(3,624)	-	(3,624)
Other noninterest income	-	512,311	-	512,311
Equity in earnings of subsidiary	<u>1,463,381</u>	<u>-</u>	<u>(1,463,381)</u>	<u>-</u>
Total noninterest income	<u>1,752,832</u>	<u>1,842,893</u>	<u>(1,463,381)</u>	<u>2,132,344</u>
Noninterest expenses:				
Salaries and employee benefits	44,187	4,439,482	-	4,483,669
Occupancy expense, net of rental income	-	486,752	-	486,752
Equipment expenses	-	266,025	-	266,025
Data processing fees	-	743,326	-	743,326
Advertising	-	168,203	-	168,203
Legal and professional	86,765	384,323	-	471,088
Other general and administrative	<u>9,661</u>	<u>901,349</u>	<u>-</u>	<u>911,010</u>
Total noninterest expenses	<u>140,613</u>	<u>7,389,460</u>	<u>-</u>	<u>7,530,073</u>
Net income	<u>\$ 6,545,111</u>	<u>\$ 5,751,381</u>	<u>\$ (5,751,381)</u>	<u>\$ 6,545,111</u>