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**Consolidated Financial Statements**

**Years Ended December 31, 2025 and 2024**



**To Our Shareholders:**

At PB Financial Corporation (OTCQX: PBNC), the holding company (the “Company”) for Providence Bank (the “Bank”), we believe strong performance starts with excelling at the fundamentals: ***taking care of our customers, supporting our communities, and managing the Company with discipline and common sense.*** It has been our experience that when we stay true to those priorities, we consistently deliver strong shareholder value.

I am pleased to report that 2025 was a record year for the Company. Our steady approach to growth, combined with a commitment to doing the right things for the right reasons, produced strong earnings and meaningful returns. In the message ahead, I will share key highlights from the year and the principles that guide our success.

**Our Team Members and Community**

Our team members are at the heart of our success. They deliver exceptional service day in and day out, while staying deeply engaged in the communities we serve. We invest in our region by lending to local businesses, families, and individuals, and by supporting organizations that strengthen Eastern and Central North Carolina. Our employees are personally involved in more than 34 community and civic organizations, serving as board members or officers in 27 of those groups. This represented over 770 hours of volunteer service during 2025. Inside the Bank, we work just as hard to create an environment where our people feel valued, supported, and proud of their work.

**Record Financial Performance in 2025**

We delivered record earnings in 2025, building on the trajectory established since our inception. For 17 consecutive years, Providence Bank has been the only North Carolina chartered bank consistently ranked among the top 10 in overall performance by the Bank Performance Report. Furthermore, we have been ranked in the top three for the past 9 years.

The results below illustrate the performance that has positioned us well for the years ahead.

(\$ in Millions)	Loans		Total Assets		Net Income to Common shareholders	
2021	\$550.7	18.62%	\$701.4	19.58%	\$9.819	44.22%
2022	\$687.7	24.89%	\$849.2	21.06%	\$14.254	45.16%
2023	\$827.8	20.37%	\$982.4	15.69%	\$13.916	-2.37%
2024	\$1,129.3	36.43%	\$1,317.2	34.08%	\$15.815	13.64%
2025	\$1,180.2	4.51%	\$1,404.7	6.64%	\$21.572	36.40%

*Note: PB Financial Corporation completed the merger with Coastal Bank & Trust in the second quarter of 2024.*

### **Commitment to Shareholder Value**

Paying consistent cash dividends is an important part of our commitment to enhancing shareholder value. In January, we were pleased to announce a one-time special cash dividend of \$0.34 per share, paid on February 26, 2026, based on our record 2025 results. We also approved our 57th consecutive quarterly cash dividend, increasing the first-quarter 2026 dividend by 7.02% to \$0.61 per share compared to Q1 2025.

Since initiating dividends in 2012, we have increased payments every quarter without exception. That consistency, and our continued focus on long-term value, has led to:

- Annual cash dividends paid in 2025 were \$2.34 per share, which represents an 8.84% increase from the previous year.
- Total life-to-date cash dividends paid through December 31, 2025, were \$12.36 per share. This represents 112% of the \$11 per share paid by investors at the Company's inception.
- Our strong financial performance helped drive shareholder value as our stock had a total return of 28.33% in 2025 (including cash dividends and gains in stock value).

### **Positioned for Continued Success**

Later this year, Providence Bank will celebrate its 20th anniversary, a milestone we are especially proud of in an era marked by rapid consolidation across the banking industry, particularly among community banks. Reaching two decades of consistent performance speaks to the strength of our model and the trust our Board, customers, and shareholders place in us.

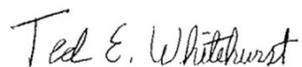
As we look forward, the Board of Directors and Bank management remain confident in the Company's direction. Our record performance was not the result of a single strong year; it reflects a long-standing strategy. With a solid balance sheet, a loyal customer base, and a team dedicated to doing things the right way, we believe the Company is well-positioned to continue generating meaningful, long-term value for our shareholders.

### **Thank You for Your Support**

We appreciate your investment in PB Financial Corporation and hope you will also consider Providence Bank for your personal and business banking needs. If you are not already a customer, we would welcome the opportunity to show you what sets us apart: *comprehensive financial solutions delivered with personal service.*

As always, we value your feedback. Please feel free to reach out with any comments, questions, or suggestions. Thank you for your continued trust and support.

Sincerely,



Ted E. Whitehurst  
President & Chief Executive Officer

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## Independent Auditor's Report

Stockholders and the Board of Directors  
PB Financial Corporation  
Rocky Mount, North Carolina

### ***Opinion***

We have audited the consolidated financial statements of PB Financial Corporation (the "Company"), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of PB Financial Corporation as of December 31, 2025 and 2024, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Responsibilities of Management for the Consolidated 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 the Company's ability to continue as a going concern for the year after the date that these consolidated financial statements are available to be issued.

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

In performing an audit in accordance with GAAS, we:

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

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

**Forvis Mazars, LLP**

**Greenville, North Carolina  
February 26, 2026**

**PB Financial Corporation**  
**Consolidated Balance Sheets**  
**December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
<b>ASSETS</b>		
Cash and due from banks	\$ 10,521,320	\$ 11,444,686
Interest-earning deposits with banks	9,120,170	3,273,838
Federal funds sold	10,065,552	69,930
Certificates of deposit with banks	4,906,837	10,040,837
Investment securities available for sale, at fair value	143,472,179	114,048,258
Loans	1,180,246,364	1,129,336,580
Allowance for credit losses	(10,492,817)	(10,205,481)
Net loans	<u>1,169,753,547</u>	<u>1,119,131,099</u>
Accrued interest receivable	5,442,295	5,177,657
Premises and equipment, net	3,736,774	3,896,581
Stock in Federal Home Loan Bank of Atlanta, at cost	2,109,500	2,265,200
Bank-owned life insurance	21,648,934	21,120,363
Goodwill	9,875,587	9,285,265
Other assets	<u>14,006,580</u>	<u>17,455,845</u>
Total assets	<u><u>\$ 1,404,659,275</u></u>	<u><u>\$ 1,317,209,559</u></u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities:		
Deposits	\$ 1,186,279,198	\$ 1,115,144,587
Accrued interest payable	2,148,561	2,539,928
Accrued expenses and other liabilities	10,037,492	7,741,966
Short-term borrowings	5,000,000	5,123,792
Long-term borrowings	<u>48,120,745</u>	<u>53,372,578</u>
Total liabilities	<u>1,251,585,996</u>	<u>1,183,922,851</u>
Commitments (Note 11)		
Stockholders' equity:		
Preferred stock, Series A, \$1,000 par value, 20,000 shares authorized; 17,923 shares issued and outstanding at December 31, 2025 and 2024	17,923,000	17,923,000
Common stock, \$1.00 par value, 10,000,000 shares authorized; 2,976,761 and 2,911,299 shares issued and outstanding at December 31, 2025 and 2024, respectively	2,976,761	2,911,299
Additional paid-in capital	55,930,232	54,931,939
Retained earnings	80,871,029	66,201,922
Accumulated other comprehensive loss	<u>(4,627,743)</u>	<u>(8,681,452)</u>
Total stockholders' equity	<u>153,073,279</u>	<u>133,286,708</u>
Total liabilities and stockholders' equity	<u><u>\$ 1,404,659,275</u></u>	<u><u>\$ 1,317,209,559</u></u>

**PB Financial Corporation**  
**Consolidated Statements of Operations**  
**Years Ended December 31, 2025 and 2024**

	2025	2024
Interest income:		
Loans	\$ 81,937,742	\$ 72,715,663
Interest-earning deposits in other banks	896,966	1,033,815
Federal funds sold	56,841	153,884
Investment securities	4,982,973	3,658,861
Federal Home Loan Bank dividends	147,266	257,903
Total interest income	<u>88,021,788</u>	<u>77,820,126</u>
Interest expense:		
Money market, NOW and savings deposits	12,191,098	10,446,093
Time deposits	21,941,903	21,570,956
Borrowings	3,041,277	3,798,787
Total interest expense	<u>37,174,278</u>	<u>35,815,836</u>
Net interest income	50,847,510	42,004,290
Provision for credit losses	421,983	1,954,697
Net interest income after provision for credit losses	<u>50,425,527</u>	<u>40,049,593</u>
Non-interest income:		
Deposit and other service charges income	286,869	215,847
Income from bank owned life insurance	528,571	474,323
Loss on sale of investment securities available for sale	-	(37,985)
Other	1,241,212	1,070,951
Total non-interest income	<u>2,056,652</u>	<u>1,723,136</u>
Non-interest expense:		
Salaries and employee benefits	13,365,121	10,821,125
Occupancy and equipment	1,332,566	1,107,406
Advertising and promotion	35,396	89,091
Data processing and outside service fees	2,867,404	2,386,100
Office supplies, printing, and postage	445,047	252,699
Professional services	720,102	603,377
FDIC insurance	649,247	1,040,724
Foreclosed real estate, net	65,479	-
Director fees	430,525	385,500
Core deposit intangible amortization	1,014,280	807,207
Other	2,126,437	1,269,398
Merger related expenses	-	937,420
Total non-interest expense	<u>23,051,604</u>	<u>19,700,047</u>
Income before income taxes	29,430,575	22,072,682
Income taxes	6,604,000	5,155,691
Net income	22,826,575	16,916,991
Preferred stock dividends paid	(1,254,610)	(1,102,118)
Net income available to common shareholders	<u>\$ 21,571,965</u>	<u>\$ 15,814,873</u>
Net income per share-basic	\$ 7.51	\$ 5.74
Net income per share-diluted	\$ 7.11	\$ 5.52
Weighted average common shares outstanding		
Basic	2,872,265	2,753,778
Diluted	3,034,249	2,866,282

See accompanying notes.

**PB Financial Corporation**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
Net income	<b>\$ 22,826,575</b>	\$ 16,916,991
Other comprehensive income:		
Unrealized income on investment securities arising during the period	<b>5,278,221</b>	647,125
Tax effect	<b>(1,224,512)</b>	(148,677)
	<u><b>4,053,709</b></u>	<u>498,448</u>
Reclassification to realized losses (gains)	-	37,985
Tax effect	-	(8,727)
	<u>-</u>	<u>29,258</u>
Other comprehensive income	<u><b>4,053,709</b></u>	<u>527,706</u>
Total comprehensive income	<u><b>\$ 26,880,284</b></u>	<u>\$ 17,444,697</u>

**PB Financial Corporation**  
**Consolidated Statements of Changes in Stockholders' Equity**  
**Years Ended December 31, 2025 and 2024**

	Preferred stock		Common stock		Additional paid-in amount	Retained earnings	Accumulated other comprehensive income (loss)	Total stockholders' equity
	Shares	Amount	Shares	Amount				
Balance at December 31, 2023		\$ -		\$2,495,106	\$ 38,012,362	\$ 56,226,949	\$ (9,209,158)	\$ 87,525,259
Net income			2,495,106			16,916,991		16,916,991
Other comprehensive income						-	527,706	527,706
Issuance of preferred stock	17,923	17,923,000						17,923,000
Non-statutory stock options exercised			3,380	3,380	91,305			94,685
Incentive stock options exercised			7,000	7,000	153,042			160,042
Issuance of restricted stock			2,625	2,625	(2,625)			
Acquisition of Coast Bank & Trust			429,096	429,096	17,163,840			17,592,936
Issuance of stock for director fees			2,296	2,296	92,503			94,799
Stock based compensation					608,862			608,862
Common stock repurchased			(28,204)	(28,204)	(1,187,350)			(1,215,554)
Cash dividends paid on preferred stock						(1,102,118)		(1,102,118)
Cash dividends paid on common stock						(5,839,900)		(5,839,900)
Balance at December 31, 2024		17,923,000		2,911,299	54,931,939	\$ 66,201,922	(8,681,452)	133,286,708
	17,923		2,911,299					
Net income						22,826,575		22,826,575
Other comprehensive income							4,053,709	4,053,709
Non-statutory stock options exercised			23,050	23,050	571,230			594,280
Incentive stock options exercised			10,805	10,805	246,454			257,259
Issuance of restricted stock			44,100	44,100	(44,100)			
Issuance of stock for director fees			2,050	2,050	101,174			103,224
Stock based compensation					835,254			835,254
Common stock repurchased			(14,543)	(14,543)	(711,719)			(726,262)
Cash dividends paid on preferred stock						(1,254,610)		(1,254,610)
Cash dividends paid on common stock						(6,902,858)		(6,902,858)
Balance at December 31, 2025		\$ 17,923,000		\$2,976,761	\$ 55,930,232	\$ 80,871,029	\$ (4,627,743)	\$ 153,073,279
	17,923		2,976,761					

See accompanying notes.

**PB Financial Corporation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
Cash flows from operating activities:		
Net income	<b>\$ 22,826,575</b>	\$ 16,916,991
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	<b>818,008</b>	898,132
Accretion of acquired loan fair value marks	<b>(2,801,374)</b>	(2,619,222)
Deferred income taxes	<b>(167,636)</b>	488,973
Provision for credit losses	<b>421,983</b>	1,954,697
Impairment of foreclosed real estate	<b>40,617</b>	-
Stock based compensation	<b>938,478</b>	703,661
Income from bank owned life insurance	<b>(528,571)</b>	(474,323)
Net loss on sale of investment securities	-	37,985
Loss on sale of other real estate owned	<b>4,228</b>	-
Change in assets and liabilities:		
Increase in accrued interest receivable	<b>(264,638)</b>	(535,502)
(Increase) decrease in other assets	<b>1,762,787</b>	(1,748,587)
Decrease in accrued interest payable	<b>(391,367)</b>	(195,414)
Increase in accrued expenses and other liabilities	<b>1,320,526</b>	1,578,911
Net cash provided by operating activities	<b>23,979,616</b>	17,006,302
Cash flows from investing activities:		
Net increase in loans	<b>(48,653,674)</b>	(132,076,895)
Purchase of available for sale securities	<b>(51,203,778)</b>	(12,515,542)
Proceeds from maturities, prepayments, and calls of available for sale securities	<b>27,606,470</b>	16,812,895
Proceeds from sale of investment securities available for sale	-	2,986,801
Purchases of bank premises and equipment	<b>(82,456)</b>	(643,034)
Proceeds from sale of bank premises and equipment	<b>11,275</b>	-
Proceeds from sale of foreclosed real estate	<b>365,772</b>	-
Net maturities of certificate of deposits with banks	<b>5,134,000</b>	6,422,000
Net redemptions of Federal Home Loan Bank stock	<b>155,700</b>	942,200
Net cash received from bank acquisition	-	5,369,186
Net cash used by investing activities	<b>(66,666,691)</b>	(112,702,389)

**PB Financial Corporation**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2025 and 2024**

(Continued)

	<u>2025</u>	<u>2024</u>
Cash flows from financing activities:		
Net increase in deposits	<b>71,126,793</b>	111,229,210
Advances from borrowings	<b>33,000,000</b>	100,133,610
Repayments of borrowings	<b>(38,488,939)</b>	(125,485,996)
Stock options exercised	<b>851,539</b>	254,727
Issuance of preferred stock	-	17,923,000
Repurchase and retirement of common stock	<b>(726,262)</b>	(1,215,554)
Cash dividends paid on preferred stock	<b>(1,254,610)</b>	(1,102,118)
Cash dividends paid on common stock	<b>(6,902,858)</b>	(5,839,900)
	<b>57,605,663</b>	95,896,979
Net cash provided by financing activities	<b>57,605,663</b>	95,896,979
	<b>14,918,588</b>	200,892
Net increase in cash and cash equivalents	<b>14,918,588</b>	200,892
Cash and cash equivalents, beginning	<b>14,788,454</b>	14,587,562
Cash and cash equivalents, ending	<b>\$ 29,707,042</b>	\$ 14,788,454
Supplemental disclosures of cash flow information:		
Interest paid	<b>\$ 37,565,645</b>	\$ 36,011,249
Taxes paid	<b>\$ 4,773,000</b>	\$ 5,675,000
Non-Cash Items:		
Unrealized gain on investment securities available for sale, net of tax	<b>\$ 4,053,709</b>	\$ 527,706
Transfers from loans to real estate owned	<b>\$ 410,617</b>	\$ -

See Note 15 regarding non-cash transactions included in the business combination.

## **NOTE 1: ORGANIZATION AND OPERATIONS**

PB Financial Corporation (the “Company”) is a North Carolina Corporation formed in 2017 whose principal business activity consists of the ownership of Providence Bank (the “Bank”). The Bank was incorporated and began banking operations on March 14, 2006. Effective March 12, 2018, the Bank became a wholly owned subsidiary the Company. The Company acquired Coastal Bank & Trust (“Coastal”) on April 9, 2024, see Note 15. The combined bank will operate under the Providence name and is engaged in general commercial and retail banking headquartered in Rocky Mount, North Carolina, and includes ten full-service offices serving North Carolina communities in Holly Ridge, Jacksonville, Morehead City, Nashville, Raleigh, Richlands, Rocky Mount (2 locations), Tarboro and Wilson, with a loan production office in New Bern. On December 16, 2019 the Company’s stock began trading on OTCQX, thus triggering their designation as a public business entity.

## **NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

### ***Principles of Consolidation***

The consolidated financial statements include the accounts and transactions of the Company and its wholly owned subsidiary, the Bank. All significant intercompany balances and transactions have been eliminated in consolidation. In 2018, the Company assumed, through business combination, junior subordinated notes issued by CB Financial Capital Trust I, a Connecticut statutory trust (the “Trust”). The Company has not included the Trust in the consolidated entity. However, the notes issued by the Company and purchased by the Trust are included on the consolidated balance sheets. In addition, the related interest expense is included on the consolidated statements of operations.

### ***Basis of Accounting***

The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). The Financial Accounting Standards Board (FASB) provides authoritative guidance regarding U.S. GAAP through the Accounting Standards Codification (ASC) and related Accounting Standards Updates (ASUs).

### ***Use of Estimates***

The preparation of U.S. GAAP financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and changes therein, and disclosure of contingent assets and liabilities. Actual results could differ from those estimates. Estimates that are particularly susceptible to significant change in the near term are related to allowance for credit losses on loans.

### ***Cash and Cash Equivalents***

For the purpose of presentation in the statement of cash flows, cash and cash equivalents include cash and due from banks, interest-earning deposits with banks, and federal funds sold.

### ***Certificates of Deposit with Banks***

Certificates of deposits with banks currently have original maturities ranging from January 2026 through July 2028 and bear interest at rates ranging from 3.60% to 5.01%. None of the certificates of deposit have maturities of three months or less at the time of origination.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Investment Securities Available for Sale***

Investment securities available for sale are reported at fair value and consist of debt instruments that are not classified as either trading securities or as held to maturity securities. Unrealized holding gains and losses on available for sale securities are reported as a net amount in other comprehensive income, net of tax. Gains and losses on the sale of investment securities available for sale are determined using the specific-identification method.

For those available for sale securities that are in an unrealized loss position, the Company evaluates the securities to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized in the allowance for credit losses ("ACL"), limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the ACL and the adjustment to net income may be reversed if conditions change. However, if the Company intends to sell an impaired available for sale security, or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount will be recognized in earnings with a corresponding adjustment to the security's amortized cost basis. Because the security's amortized cost basis is adjusted to fair value, there is no ACL in such a situation.

In evaluating available for sale securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Company considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors.

Changes in the ACL are recorded as a provision for (or reversal of) credit loss expense. Losses are charged against the ACL when management believes the uncollectability of an available for sale debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable is excluded from the estimate of credit losses.

***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity are reported at their outstanding principal adjusted for any charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans. Loan origination fees and certain direct origination costs are capitalized and recognized as an adjustment of the yield of the related loan. The accrual of interest on impaired loans is discontinued when, in management's opinion, the borrower may be unable to meet payments as they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received.

Loans are deemed uncollectible at the discretion of the Chief Lending Officer, based on a variety of credit, collateral, documentation, and other issues. In the case where a loan is unsecured and in default it is fully charged off.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Purchased Credit Deteriorated Loans***

The Company has purchased loans, some of which have experienced more than insignificant credit deterioration since origination. Purchased credit deteriorated ("PCD") loans are recorded at the amount paid. An allowance for credit losses is determined using the same methodology as other loans held for investment. The initial allowance for credit losses determined on a collective basis is allocated to individual loans. The sum of the loan's purchase price and allowance for credit losses becomes its initial amortized cost basis. The difference between the initial amortized cost basis and the par value of the loan is a noncredit discount or premium, which is amortized into interest income over the life of the loan. Subsequent changes to the allowance for credit losses are recorded through credit loss expense.

***Allowance for Credit Losses on Loans***

Management uses a systematic methodology to determine its ACL for loans. The ACL is a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. Management considers the effects of past events, current conditions, and reasonable and supportable forecasts on the collectability of the loan portfolio. The Company's estimate of its ACL involves a reasonable degree of judgment; therefore, management's process for determining expected credit losses may result in a range of expected credit losses. The Company's ACL recorded in the balance sheet reflects management's best estimate within the range of expected credit losses. The Company recognizes in net income the amount needed to adjust the ACL for management's current estimate of expected credit losses.

The Company defines individually assessed loans as loans that have a nonaccrual status or a past due greater than or equal to 90 days. These loans may be individually assessed and evaluated using Fair Value of Collateral or Discounted Cash Flow to determine their value.

To estimate our ACL, we assess loans on a collective basis unless impaired. Any loans that are potentially impaired are pulled out for individual review and assessment. The Company uses a Probability of Default / Loss Given Default ("PD/LGD") methodology. This method assesses losses on loans in a class based on the forecasted lifetime PD and LGD loss rates for the class.

The primary calculation is the Lifetime PD/LGD analysis using our internal loan data from July 31, 2017 through the most recent year end. This provides a forecast of expected losses for the portfolio which is added to the qualitative reserve to form our base ACL calculation. Furthermore, we process an additional allowance calculation to determine any expected losses based on our balance of purchase discounts/premiums, deferred cost and fees, non-posted and items in-process.

The Company collectively evaluates loans that share similar risk characteristics. In general, management has segmented loans by regulatory call code category. The Company has identified the following portfolio segments: Commercial and Industrial, Agricultural, Real Estate Residential, Personal, Real Estate Multifamily, Municipals, Real Estate Commercial (Construction), Owner Occupied Real Estate and Non-Owner-Occupied Real Estate.

The qualitative factor analysis is based on the interagency policy statement concerning qualitative factors for ACL's with additional factors added for documentation and risk grading. Management considers forward-looking information in estimating expected credit losses. Management has evaluated the appropriateness of the reasonable and supportable forecast for the current period along with the inputs used in the estimation of expected credit losses.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Allowance for Credit Losses on Loans (continued)***

The Company uses a combination of internal and external sources of data for forecasting purposes. External data sources include unemployment data from the US Bureau of Labor Statistics (local and State) as well as the Federal Reserve Unemployment Forecast (National). Federal Reserve information is used to support unemployment forecasts for up to 3 years depending on that date of publication. Management believes unemployment trends are most closely correlated with losses based on prior periods of elevated unemployment. Internal data sources include loan past due history, risk grades, loan to value, loan policy and technical exception reports and loan concentration reports.

Qualitative factors pertaining to our credit review and administration are largely based on our internal credit philosophy scorecard which is updated periodically. Economic trend adjustments are based on an external analysis that accesses risk based on the forecasted changes in local, state, and national unemployment, as well as the projected rate environment. Other factors are directly based on the composition, risk grade, and balance of our loan portfolio.

Under the Lifetime PD/LGD method, any incremental ACL estimated under the qualitative framework is added to the historical lifetime loss rate (i.e. expected loss) calculated by the model. No further reversion adjustments are necessary under this method because the overall loss rate is immediately reverted into historical losses that reflect the contractual term in accordance with ASC 326-20-30-9.

The Company is also required to measure expected credit losses on all financial instruments measured at amortized cost. This would include unfunded commitments, held-to-maturity debt securities, available-for-sale debt securities and any other qualifying assets.

The unfunded commitment liability is estimated from the Company's historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded as a liability on the balance sheet with an offset to other non-interest expense.

The Company is only required to recognize an additional allowance under CECL if the decline in fair value for Available for Sale Securities ("AFS") is driven by a credit loss. The Company makes a quarterly determination regarding credit quality of the municipal bond portfolio and also performs a quarterly analysis of the credit quality of each subordinated debt issuance to make sure that key ratios are within the Company's investment policy. There are no AFS securities with credit losses as of December 31, 2025 and 2024.

While management used the best information available to make evaluations, future adjustments to the allowance may have been necessary if conditions differ substantially from the assumptions used in making the evaluations. In addition, regulatory examiners may have required the Company to recognize changes to the allowance for credit losses based on their judgments about information available to them at the time of their examination.

***Foreclosed real estate***

Real estate acquired through, or in lieu of, loan foreclosure is initially recorded at fair value at the date of foreclosure establishing a new cost basis. After foreclosure, valuations of the property are periodically performed by management, or by a third party at the request of management and the real estate is carried at the lower of cost or fair value minus estimated cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in foreclosed real estate expense.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ***Premises and Equipment***

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is calculated on the straight-line method over the estimated useful lives of the assets, which is 40 years for buildings, 3 to 20 years for furniture and equipment, and 5 years for vehicles. Leasehold improvements are amortized over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Repairs and maintenance costs are charged to operations as incurred and additions and improvements to premises and equipment are capitalized. Upon sale or retirement, the cost and related accumulated depreciation are removed from the accounts and any gains or losses are reflected in current operations.

### ***Stock in Federal Home Loan Bank of Atlanta***

As a requirement for membership, the Company invests in stock of the Federal Home Loan Bank of Atlanta ("FHLB"). This investment is carried at cost. Due to the redemption provisions of the FHLB, the Company estimated that fair value equals cost and that this investment was not impaired at December 31, 2025 and 2024.

### ***Bank Owned Life Insurance***

The Company has purchased, and acquired through acquisitions, life insurance policies on certain key executives. Bank owned life insurance is recorded at its cash surrender value or the amount that can be realized.

### ***Goodwill***

Goodwill represents the excess of the purchase price over the sum of the estimated fair values of the tangible and identifiable intangible assets acquired less the estimated fair value of the liabilities assumed in a business combination. At December 31, 2025 and December 31, 2024, the balance of goodwill was \$9.9 million and \$9.3 million, respectively. Goodwill has an indefinite useful life and is evaluated for impairment annually or more frequently if events and circumstances indicate that the asset might be impaired. An impairment loss is recognized to the extent that the carrying amount exceeds the asset's fair value.

ASU No. 2017-04 simplifies the accounting for goodwill impairment for all entities by requiring impairment charges to be based on Step 1 of the previous accounting guidance's two-step impairment test under ASC Topic 350. Under this guidance, if a reporting unit's carrying amount exceeds its fair value, an entity will record an impairment charge based on that difference. The impairment charge will be limited to the amount of goodwill allocated to that reporting unit. The standard eliminates the requirement to calculate a goodwill impairment charge using Step 2 which involved calculating an implied fair value of goodwill for each reporting unit for which the first step indicated impairment. The standard does not change the guidance on completing Step 1 of the goodwill impairment test. An entity will still be able to perform today's optional qualitative goodwill impairment assessment before determining whether to proceed to the quantitative step of determining whether the reporting unit's carrying amount exceeds its fair value.

Goodwill has been evaluated as of our annual evaluation dates as well as for triggering events, and it was determined that no impairment was required as of December 31, 2025 and 2024.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Core Deposit Intangibles***

The Company considers its core deposits to be an intangible asset with finite lives. Core deposit intangibles are amortized using the effective interest method over their expected life of seven to ten years.

Core deposit intangibles were as follows:

	<u>2025</u>	<u>2024</u>
Core deposit intangible	\$ 5,800	\$ 5,800
Accumulated amortization	(1,821)	(807)
Net carrying value	<u>\$ 3,979</u>	<u>\$ 4,993</u>

The amortization expense of core deposit intangibles totaled \$1.0 million and \$807 thousand for the years ended December 31, 2025 and 2024, respectively.

Estimated amortization expense for the each of the next five years:

2026	\$ 899
2027	784
2028	669
2029	554
2030	439
Thereafter	634
Total	<u>\$ 3,979</u>

***Variable Interest Entity***

The Bank holds a financial interest in a company that is considered to be a variable interest entity (VIE) for accounting purposes. Due to the nature and amount of the Bank's financial obligations with respect to this company, the Bank is not considered to financially control or be the primary beneficiary and, thus, is not required to consolidate it in these consolidated financial statements. At December 31, 2025 and 2024, the total commitment of \$1.5 million is classified on the consolidated balance sheets in other assets of which \$975 thousand and \$600 thousand, respectively, has been funded. The exposure to loss in the VIE is limited to the funded amounts of \$975 thousand and \$600 thousand at December 31, 2025 and December 31, 2024, respectively.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Income Taxes***

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are also recognized for operating loss carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates in effect for the year in which the temporary differences are expected to be recovered or settled. Deferred tax assets are reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Uncertainty in income taxes is accounted for in accordance with the Income Taxes topic of the FASB Accounting Standards Codification, which clarifies the accounting for the recognition and measurement of the benefits of individual tax positions in the financial statements. Tax positions must meet a recognition threshold of more-likely-than-not in order for the benefit of those tax positions to be recognized in the Company's consolidated financial statements. The Company has determined that it does not have any material unrecognized tax benefits or obligations as of December 31, 2025 and 2024. Interest and penalties related to income tax assessments, if any, are reflected in income taxes in the accompanying consolidated statements of operations.

***Comprehensive Income***

The Company reports as comprehensive income all changes in stockholders' equity during the year from sources other than stockholders. Other comprehensive income refers to all components (revenues, expenses, gains, and losses) of comprehensive income that are excluded from net income. The Company's only component of other comprehensive income is unrealized gains on investment securities available for sale, net of applicable income taxes. There were no realized gains or net losses for the year ended December 31, 2025. There were realized net losses of \$38 thousand for the year ended December 31, 2024.

***Stock Repurchase Plan***

During 2025, the Board of Directors approved a modification to the existing Stock Repurchase Plan. This allows the Company to repurchase and retire issued and outstanding shares of common stock in an aggregate amount not to exceed 108,265 shares. In 2025, the Company repurchased 14,543 shares of common stock at a cost of approximately \$726 thousand. At December 31, 2025 there are 93,722 shares available to be repurchased. In 2024, the Company repurchased 28,204 shares of its common stock at a cost of approximately \$1.22 million. The repurchased shares must be in accordance with the terms of the plan and repurchases cannot be executed that would result in the Bank having less than well-capitalized status with regulatory capital ratios.

***Stock Based Compensation***

The Company recognizes the cost of employee services received in exchange for an award of equity instruments in the consolidated financial statements over the period the employee is required to perform the services in exchange for the award (presumptively the vesting period). The cost of employee services received in exchange for an award is measured based on the grant-date fair value of the award. Excess tax benefits are reported as financing cash inflows, rather than as a reduction of taxes paid, which is included within operating cash flows.

In 2022, the Company adopted a Directors' Stock Option Purchase Plan. Pursuant to this Plan, the Company shall make quarterly offerings of Company's shares of Common Stock to Participating Directors. A Participating Director shall be entitled to purchase shares up to the amount of the quarterly fees.

## NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

### ***Per Share Results***

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per share reflect additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate to outstanding stock options, and unvested restricted stock and are determined using the treasury stock method. There were 22,400 and 78,980 stock options that were anti-dilutive for the years ended December 31, 2025 and December 31, 2024, respectively.

### ***Revenue Recognition***

The Company generally acts in a principal capacity, on its own behalf, in its contracts with customers. In these transactions, revenues are recognized with related costs to generate those revenues on a gross basis. Descriptions of noninterest revenue-generating activities are as follows.

*Bank Owned Life Insurance ("BOLI")* - The Company has purchased life insurance policies on certain key employees. BOLI is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

*Service Charges on Deposit Accounts* - Service charges on personal and business demand deposit accounts consist of insufficient funds fees, monthly service fees, check orders, and other deposit account related fees. The Company's performance obligations include maintaining customer's deposit account(s), executing transactions, providing interest per the terms of the various account agreements, and making funds available upon maturity or at customer demand. For all revenue streams, transaction prices are disclosed with a single performance obligation applicable to each transaction. The Company has determined the service fees are recognized at a point in time and monthly service fees are earned over the statement period.

*Other Fees and Income* - Other fees and income primarily consist of debit and credit card income, automated teller machines ("ATM") fees, merchant services income, and other service charges. Debit and credit card income primarily consists of interchange fees earned whenever the Company's debit and credit cards are processed through card payment networks such as Visa. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM or a non-Company cardholder uses a Company ATM. Merchant service income mainly represents fees charged to merchants to process their debit and credit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, bill pay service, cashier's checks, and other services. The Company's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Other fees and income also include other recurring revenue streams such as safety deposit rental fees and other miscellaneous revenue streams. Safe deposit boxes rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. The Company determined that since rentals and renewals occur consistent over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

*Sale of Foreclosed Real Estate* - Income derived from contractual sales of Foreclosed Real Estate primarily consist of revenues derived from the exchange of the foreclosed asset for consideration. The Company's performance obligation is to provide access and transfer control of the specified properties to the buyer. Transaction prices are agreed upon purchase prices as stated within contracts. The transaction price is allocated entirely to the performance obligation, which is satisfied at a point in time upon the date of sale.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

***Reportable Operating Segment***

While the chief decision-makers monitor the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on a Company-wide basis. Business components are aggregated into one as operating results for all business components are similar. Accordingly, all of the business components are considered by management to be aggregated in one reportable operating segment.

***Subsequent Events***

Management has evaluated subsequent events through the date that the consolidated financial statements were available to be issued, February 26, 2026. On January 30, 2026, the Board of Directors approved a one-time special cash dividend of \$0.34 per share on common stock outstanding to shareholders of record at the close of business on February 11, 2026. The dividend is payable on February 26, 2026, and is a non-recurring dividend. No subsequent events occurring after this date have been evaluated for inclusion in these consolidated financial statements.

**NOTE 3: INVESTMENT SECURITIES**

The amortized cost and fair value of securities available for sale, with gross unrealized gains and losses, are as follows:

	December 31, 2025			
Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value	
(in thousands)				
Securities available for sale:				
U.S. Treasury securities	\$ 1,956	\$ 18	\$ -	\$ 1,974
Mortgage-backed securities	79,680	1,091	(3,167)	77,604
Corporate securities	30,380	137	(940)	29,577
U.S. agency securities	7,930	22	(90)	7,862
Municipal securities	29,521	186	(3,252)	26,455
	<u>\$ 149,467</u>	<u>\$ 1,454</u>	<u>\$ (7,449)</u>	<u>\$ 143,472</u>

**NOTE 3: INVESTMENT SECURITIES (Continued)**

	December 31, 2024			Fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
	(in thousands)			
Securities available for sale:				
U.S. Treasury securities	\$ 4,885	\$ 12	\$ (16)	\$ 4,881
Mortgage-backed securities	54,417	39	(4,775)	49,681
Corporate securities	22,986	13	(2,001)	20,998
U.S. agency securities	14,380	9	(298)	14,091
Municipal securities	28,654	56	(4,313)	24,397
	<u>\$ 125,322</u>	<u>\$ 129</u>	<u>\$ (11,403)</u>	<u>\$ 114,048</u>

The Company realized no gross gains or losses in its earnings from the sale of available for sales securities in 2025. The Company realized \$38 thousand of gross losses in its earnings from the sale of available for sales securities in 2024.

The amortized cost and fair value of investment securities at December 31, 2025, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Available for sale:		
Due in one year or less	\$ 6,456	\$ 6,455
Due after one but within five years	7,956	7,912
Due after five but within ten years	48,821	45,271
After ten years	86,234	83,834
	<u>\$ 149,467</u>	<u>\$ 143,472</u>

For the purposes of the maturity table, mortgage-backed securities, which are not due at a single maturity date, have been allocated over maturity groupings based on the weighted-average contractual maturities of underlying collateral. The mortgage-backed securities may mature earlier than their weighted-average contractual maturities because of principal payments.

There were no securities pledged to secure customer repurchase agreements at December 31, 2025. Securities with an amortized cost of \$1.2 million and a fair value of \$1.0 million were pledged to secure customer repurchase agreements at December 31, 2024.

**NOTE 3: INVESTMENT SECURITIES (Continued)**

The following tables show gross unrealized losses and fair values of investment securities, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position at December 31, 2025 and 2024. At December 31, 2025, the unrealized losses relate to ninety-seven securities. At December 31, 2024, the unrealized losses relate to ninety-four securities. The unrealized losses relate to debt securities that have incurred fair value reductions due to higher market interest rates since the securities were purchased. The unrealized losses are not likely to reverse unless and until market interest rates decline to the levels that existed when the securities were purchased.

Management evaluates securities for impairment where there has been a decline in fair value below the amortized cost basis of a security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. All debt securities available for sale in an unrealized loss position as of December 31, 2025 continue to perform as scheduled and management does not believe that there is a credit loss or that a provision for credit losses is necessary. Also, as part of management's evaluation of its intent and ability to hold investments for a period of time sufficient to allow for any anticipated recovery in the market, management considers its investment strategy, cash flow needs, liquidity position, capital adequacy and interest rate risk position. Management does not currently intend to sell the securities within the portfolio and it is not more-likely-than-not that securities will be required to be sold. See "Note 2 – Summary of Significant Account Policies" for further discussion.

	December 31, 2025					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
Mortgage-backed securities	\$ 10,651	\$ (79)	\$ 20,259	\$ (3,088)	\$ 30,910	\$ (3,167)
Corporate securities	5,811	(53)	12,213	(887)	18,024	(940)
U.S. agency securities	-	-	6,410	(90)	6,410	(90)
Municipal securities	1,265	(17)	17,564	(3,235)	18,829	(3,252)
	<u>\$ 17,727</u>	<u>\$ (149)</u>	<u>\$ 56,446</u>	<u>\$ (7,300)</u>	<u>\$ 74,173</u>	<u>\$ (7,449)</u>

**NOTE 3: INVESTMENT SECURITIES (Continued)**

	December 31, 2024					
	Less Than 12 Months		12 Months or More		Total	
	Fair value	Unrealized losses	Fair value	Unrealized losses	Fair value	Unrealized losses
	(in thousands)					
Securities available for sale:						
U.S. Treasury securities	\$ -	\$ -	\$ 2,962	\$ (16)	\$ 2,962	\$ (16)
Mortgage-backed securities	19,617	(295)	22,058	(4,480)	41,675	(4,775)
Corporate securities	805	(195)	18,694	(1,806)	19,499	(2,001)
U.S. agency securities	-	-	8,198	(298)	8,198	(298)
Municipal securities	4,280	(59)	16,580	(4,254)	20,860	(4,313)
	<u>\$ 24,702</u>	<u>\$ (549)</u>	<u>\$ 68,492</u>	<u>\$ (10,854)</u>	<u>\$ 93,194</u>	<u>\$ (11,403)</u>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Following is a summary of loans at December 31, 2025 and 2024 (in thousands):

	2025	2024
Real estate loans:		
1-4 family residential	\$ 104,183	\$ 102,991
Multi-family residential and commercial	726,474	666,666
Construction	204,302	212,254
Home equity lines of credit	39,799	34,392
Total real estate loans	<u>1,074,758</u>	<u>1,016,303</u>
Other loans:		
Commercial and industrial	81,438	88,999
Consumer	24,051	24,034
Total other loans	<u>105,489</u>	<u>113,033</u>
Total loans	<u>1,180,247</u>	<u>1,129,336</u>
Less:		
Allowance for credit losses	<u>10,493</u>	<u>10,205</u>
Total loans, net	<u>\$ 1,169,754</u>	<u>\$ 1,119,131</u>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

At December 31, 2025, the loans presented above are net of unamortized loan fees of \$1.72 million and net of unamortized discount total related to loans acquired of \$3.65 million. At December 31, 2024, the loans presented above are net of unamortized loan fees of \$1.15 million and net of unamortized discount total related to loans acquired of \$6.45 million.

Loans are primarily made in Carteret, Edgecombe, Nash, Onslow, Wake, Wilson, and surrounding counties, North Carolina. Real estate loans can be affected by the condition of the local real estate market. Commercial and industrial loans can be affected by the local economic conditions.

Outstanding loans for hotels are approximately 16% and 13% of the total loan portfolio at December 31, 2025 and December 31, 2024 respectively, included within multi-family residential and commercial real estate loans. Outstanding loans for residential rental properties are approximately 7% and 8% of the total loan portfolio at December 31, 2025 and December 31, 2024 respectively.

The Company has had loan transactions with its directors and executive officers. Such loans were made in the ordinary course of business and on substantially the same terms and collateral as those for comparable transactions prevailing at the time and did not involve more than the normal risk of collectability or present other unfavorable features. A summary of related party loan transactions is as follows (in thousands):

	<u>2025</u>	<u>2024</u>
Balance at beginning of year	\$ 1,368	\$ 1,333
Loan disbursements	1,380	865
Loan repayments	<u>(1,362)</u>	<u>(830)</u>
Balance at end of year	<u>\$ 1,386</u>	<u>\$ 1,368</u>

As of December 31, 2025 and 2024, the Company had pre-approved but unused lines of credit totaling approximately \$1.2 million and \$1.0 million, respectively, to executive officers, directors and their related interests.

The following describes the risk characteristics relevant to each of the portfolio segments.

***Real estate***

Commercial and residential real estate secured loans are underwritten utilizing independent appraisal or evaluations and financial analysis of the borrowers. These loans are either cash flow loans or development loans paid from the real estate sale and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher risk and higher loan principal amounts and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in real estate markets or the general economy. The properties securing the Company's commercial real estate portfolio are principally secured by non-owner occupied and owner-occupied buildings including professional practices, office and industrial properties, hotels and multi-family properties. Management monitors and evaluates commercial real estate loans based on collateral, market area and risk grade criteria. Residential real estate loans are secured by non-owner occupied and owner-occupied one 1-4 family properties with the combined loan-to-value ratio which is usually 90% or less. Construction loans are generally based upon estimates of costs and value associated with the project as completed. Construction loans often involve the disbursement of funds with the repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans or sales of developed property.

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

***Real estate (continued)***

These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, general economic conditions, availability of long-term financing and government regulation of real property.

***Commercial and industrial***

Non-real estate secured commercial and industrial loans are underwritten after analyzing the borrowers' financial condition and ability to generate profits sufficient to support the loans. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower and the guarantors, as applicable. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable, inventory or equipment and usually incorporate a personal guaranty. In the case of loans secured by accounts receivable, the availability of the funds for repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

***Consumer***

Consumer loans consist of home equity lines of credit, unsecured consumer, and secured consumer loans. Consumer loans are typically underwritten after analyzing the borrowers' personal financial condition and ability to generate income sufficient to support the loans and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not materialize as expected and the collateral securing these loans may fluctuate in value. The combined loan value on these loans generally does not exceed 90%. In connection with consumer lending in general, the success of our loan collection efforts is highly dependent on the continuing financial stability of our borrowers, and our collection of consumer installment loans may be more likely to be adversely affected by a borrower's job loss, illness, personal bankruptcy or other change in personal circumstances than is the case with other types of loans.

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following tables present analyses of the ACL on loans by segment for December 31, 2025 and 2024 (in thousands).

	<b>December 31, 2025</b>				<b>Total Allowance for Credit Losses</b>
	<b>Expected Losses</b>	<b>Individually Assessed</b>	<b>Qualitative Adjustments</b>	<b>Additional Allowance</b>	
Real estate loans:					
1-4 family residential	\$ 76	\$ 239	\$ 724	\$ (4)	\$ 1,035
Multi-family residential and commercial	1,093	1,059	5,048	(28)	7,172
Construction	-	-	1,439	(7)	1,432
Home equity lines of credit	24	-	275	-	299
Commercial and industrial	3	6	503	(1)	511
Consumer	8	-	36	-	44
	<u>8</u>	<u>-</u>	<u>36</u>	<u>-</u>	<u>44</u>
Total	<u>\$ 1,204</u>	<u>\$ 1,304</u>	<u>\$ 8,025</u>	<u>\$ (40)</u>	<u>\$ 10,493</u>
	<b>December 31, 2024</b>				<b>Total Allowance for Credit Losses</b>
	<b>Expected Losses</b>	<b>Individually Assessed</b>	<b>Qualitative Adjustments</b>	<b>Additional Allowance</b>	
Real estate loans:					
1-4 family residential	\$ 78	\$ 303	\$ 703	\$ (10)	\$ 1,074
Multi-family residential and commercial	772	770	5,178	(39)	6,681
Construction	-	296	1,263	(5)	1,554
Home equity lines of credit	24	-	246	-	270
Commercial and industrial	3	21	560	(1)	583
Consumer	9	-	34	-	43
	<u>9</u>	<u>-</u>	<u>34</u>	<u>-</u>	<u>43</u>
Total	<u>\$ 886</u>	<u>\$ 1,390</u>	<u>\$ 7,984</u>	<u>\$ (55)</u>	<u>\$ 10,205</u>

**PB Financial Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The ending balances of loans and the related allowance presented by portfolio class and allowance methodology as of December 31, 2025 is as follows (in thousands):

	December 31, 2025						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
<b>Allowance for credit losses:</b>							
Beginning balance	\$ 1,074	\$ 6,681	\$ 1,554	\$ 270	\$ 583	\$ 43	\$ 10,205
Charge-offs	(133)	-	-	-	-	(6)	(139)
Recoveries	5	-	-	-	-	-	5
Provision	89	491	(122)	29	(72)	7	422
Ending balance	<u>\$ 1,035</u>	<u>\$ 7,172</u>	<u>\$ 1,432</u>	<u>\$ 299</u>	<u>\$ 511</u>	<u>\$ 44</u>	<u>\$ 10,493</u>
Ending balance: individually evaluated for impairment	\$ 239	\$ 1,059	\$ -	\$ -	\$ 6	\$ -	\$ 1,304
Ending balance: collectively evaluated for impairment	796	6,113	1,432	299	505	44	9,189
<b>Financing receivables:</b>							
Ending balance	\$ 104,183	\$ 726,474	\$ 204,302	\$ 39,799	\$ 81,438	\$ 24,051	\$ 1,180,247
Ending balance: individually evaluated for impairment	1,342	7,526	-	25	24	-	8,917
Ending balance: collectively evaluated for impairment	102,841	718,948	204,302	39,774	81,414	24,051	1,171,330

**PB Financial Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The ending balances of loans and the related allowance presented by portfolio class and allowance methodology as of December 31, 2024 is as follows (in thousands):

	December 31, 2024						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
<b>Allowance for credit losses:</b>							
Beginning balance	\$ 517	\$ 4,327	\$ 1,267	\$ 147	\$ 460	\$ 25	\$ 6,743
PCD loans acquired in merger of Coastal							
Charge-offs						(4)	(4)
Recoveries							1,509
Provision	318	883	304	(17)	3	1	-
Ending balance	<u>\$ 1,074</u>	<u>\$ 6,681</u>	<u>\$ 1,554</u>	<u>\$ 270</u>	<u>\$ 583</u>	<u>\$ 43</u>	<u>\$ 10,205</u>
	3236	1,471	-	120	122	22	3,954
Ending balance: individually evaluated for impairment	\$ 303	\$ 770	\$ 296	\$ -	\$ 21	\$ -	\$ 1,390
Ending balance: collectively evaluated for impairment							
<b>Financing receivables:</b>							
Ending balance	\$ 771 102,991	\$ 5,911 666,666	\$ 1,258 212,254	\$ 270 34,392	\$ 562 88,999	\$ 43 24,034	\$ 8,815 1,129,336
Ending balance: individually evaluated for impairment							
Ending balance: collectively evaluated for impairment	1,605	5,599	2,066	40	40	-	9,350
	101,386	661,067	210,188	34,352	88,959	24,034	1,119,986

#### **NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

##### ***Risk Grade Definitions***

###### Superior

Credits in this category are fully secured by cash equivalents or high grade, readily marketable securities.

###### Minimal

Credits in this category are to a borrower of unquestionable financial strength. Financial information exhibits superior earnings, leverage and liquidity positions, which firmly establish a repayment source, that is substantial in relation to debt. These borrowers would generally have access to national credit and equity markets.

###### Average

Credits in this category are to borrowers of satisfactory financial strength. Earnings performance is consistent with primary and secondary sources of repayment well defined and adequate to retire the debt in a timely and orderly fashion. These businesses would generally exhibit satisfactory asset quality and liquidity with moderate leverage, average performance to their peer group and experienced management in key positions. This risk grade classification may also include a loan in which strong reliance for a secondary repayment source is placed on a guarantor who exhibits the ability and willingness to repay.

###### Acceptable

Credits in this category are sound and collectible but contain risk. Although asset quality remains acceptable, the borrower could have a smaller and/or less diverse asset base, lower liquidity and limited debt capacity. The borrower may also have the following characteristics:

- Earnings performance is satisfactory but the borrower might not be strong enough to sustain major setbacks.
- Limited management experience and depth.

These credits may have a reliance for a secondary repayment source placed on a guarantor who exhibits the ability and willingness to repay. These credits may need supervision by the lender and covenants structured to ensure adequate protection. These credits may also include satisfactory borrowers/guarantors in industries with a higher than normal credit risk.

###### Special Mention

Credits in this category are potentially weak credits. Assets rated Special Mention are currently protected but potentially weak. These assets constitute an undue and unwarranted credit risk, but not to the point of justifying a classification of Substandard. Loans in this category have potential weaknesses, which may, if not corrected, weaken the asset, or inadequately protect the Company's credit position at some future date.

###### Substandard

Assets classified Substandard have a well-defined weakness(es) in the credit that jeopardize the repayment of all principal and interest in accordance with the contractual terms of the credit. Substandard assets are inadequately protected by the current net worth and paying capacity of the obligor or the collateral that is pledged.

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

***Risk Grade Definitions (continued)***

Doubtful

An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. The possibility of loss is extremely high, but because of certain factors that may work to the advantage and strengthening of the asset, its classification as an estimated loss is deferred until its more exact status may be determined.

Loss

Assets classified loss are considered uncollectible and of such little value that their continuance as bankable assets are not warranted.

***Credit Risk Profile by Internally Assigned Grade***

The loan portfolio is reviewed, both internally and through the use of independent external sources, to validate the credit risk on a periodic basis. Also, loans are monitored for credit quality on a monthly basis through evaluation of past due status. The composition of the loans outstanding at December 31, 2025 and 2024 by credit quality indicator is provided below. The credit quality indicators used are dependent on the portfolio segment to which the loan relates.

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

Loan credit quality indicators for all loans within the portfolio are developed through review of individual borrowers on an ongoing basis. The indicators represent the rating for loans as of the date presented based on the most recent assessment performed. These credit quality indicators are defined below (in thousands).

	December 31, 2025						
	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
<b>Grade:</b>							
Superior	\$ -	\$ -	\$ -	\$ 11	\$ 1,804	\$ 1,259	\$ 3,074
Minimal	1,111	4,845	-	2,119	1,431	8	9,514
Average	63,249	341,774	97,224	22,843	26,901	2,958	554,949
Acceptable	40,215	381,580	108,216	14,495	51,298	19,853	615,657
Special Mention	336	669	-	75	-	-	1,080
Substandard	146	1,068	-	25	24	-	1,263
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	<u>\$ 105,057</u>	<u>\$ 729,936</u>	<u>\$ 205,440</u>	<u>\$ 39,568</u>	<u>\$ 81,458</u>	<u>\$ 24,078</u>	1,185,537
Overdrafts							80
Net deferred fees and unamortized discount							<u>(5,370)</u>
Total							<u>\$ 1,180,247</u>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

December 31, 2024

	1 – 4 Family Residential Real Estate	Multi Family Residential and Commercial - Real Estate	Construction Real Estate	Home Equity Lines of Credit	Commercial & Industrial	Consumer	Total
<b>Grade:</b>							
Superior	\$ -	\$ -	\$ -	\$ 23	\$ 2,111	\$ 889	\$ 3,023
Minimal						9	9,514
Average	1,353 57,064	5,184 307,872	- 89,105	1,895 18,665	1,073 31,193		507,183
Acceptable	45,755	356,685	123,908	13,562	54,805	3,284 19,907	614,622
Special Mention							
Substandard	358 -	697	124	-	-	-	1,179
Doubtful	-	1,299	-	40	40	-	1,379
Loss	-	-	-	-	-	-	-
Total	<u>\$ 104,530</u>	<u>\$ 671,737</u>	<u>\$ 213,137</u>	<u>\$ 34,185</u>	<u>\$ 89,222</u>	<u>\$ 24,089</u>	1,136,900
Overdrafts							34
Net deferred fees and unamortized discount							(7,598)
Total							<u>\$ 1,129,336</u>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table presents year-to-date gross charge-offs by year of origination as of December 31, 2025 (in thousands):

	2025	2024	2023	2022	2021	2020 & Prior	Total
<b>Allowance for credit losses on loans:</b>							
1-4 Family Residential Real Estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Multi-Family Residential and Commercial Real Estate	-	-	-	-	-	133	133
Construction Real Estate	-	-	-	-	-	-	-
Home Equity Lines of Credit	-	-	-	-	-	-	-
Commercial & Industrial	-	-	-	-	-	-	-
Consumer	-	5	1	-	-	-	6
<b>Total</b>	<b>\$ -</b>	<b>\$ 5</b>	<b>\$ 1</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 133</b>	<b>\$ 139</b>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table presents the credit risk profile by risk grade for commercial real estate, commercial, residential real estate, and consumer loans by renewal/origination year as of December 31, 2025 (in thousands):

	2025	2024	2023	2022	2021	2020 & Prior	Grand Total
<b>1-4 Family Residential</b>							
1 - Superior	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 - Minimal	-	-	-	1,111	-	-	1,111
3 - Average	<b>22,607</b>	10,153	8,001	10,642	9,852	1,994	63,249
4 - Acceptable	<b>6,334</b>	6,399	6,884	13,756	3,149	3,693	40,215
5 - Special	-	223	-	69	44	-	336
6 - Substandard	-	-	-	-	-	146	146
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
Total	<b>28,941</b>	16,775	14,885	25,578	13,045	5,833	105,057
<b>Multi-Family Residential &amp; Commercial</b>							
1 - Superior	-	-	-	-	-	-	-
2 - Minimal	-	1,444	371	-	-	3,030	4,845
3 - Average	<b>114,595</b>	71,677	38,541	62,390	42,483	12,088	341,774
4 - Acceptable	<b>101,104</b>	37,385	80,674	82,772	40,572	39,073	381,580
5 - Special	<b>326</b>	-	-	-	314	29	669
6 - Substandard	-	707	-	-	361	-	1,068
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
Total	<b>216,025</b>	111,213	119,586	145,162	83,730	54,220	729,936
<b>Construction Real Estate</b>							
1 - Superior	-	-	-	-	-	-	-
2 - Minimal	-	-	-	-	-	-	-
3 - Average	<b>75,668</b>	9,510	7,586	2,200	2,260	-	97,224
4 - Acceptable	<b>63,750</b>	19,168	15,084	10,205	9	-	108,216
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	-	-	-
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
Total	<b>139,418</b>	28,678	22,670	12,405	2,269	-	205,440

**PB Financial Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

**Home Equity Line of Credit**

1 - Superior	-	-	-	-	-	11	11
2 - Minimal	<b>975</b>	21	262	253	180	428	2,119
3 - Average	<b>8,208</b>	3,508	2,958	2,681	1,950	3,538	22,843
4 - Acceptable	<b>2,031</b>	4,090	1,844	2,911	1,014	2,605	14,495
5 - Special	-	75	-	-	-	-	75
6 - Substandard	-	-	-	-	-	25	25
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>11,214</b>	7,694	5,064	5,845	3,144	6,607	39,568

**Commercial & Industrial**

1 - Superior	<b>1,790</b>	-	14	-	-	-	1,804
2 - Minimal	<b>525</b>	52	-	854	-	-	1,431
3 - Average	<b>10,083</b>	8,055	1,190	2,405	69	5,099	26,901
4 - Acceptable	<b>23,650</b>	15,356	2,806	6,810	225	2,451	51,298
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	24	-	24
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>36,048</b>	23,463	4,010	10,069	318	7,550	81,458

**Loans to Individuals**

1 - Superior	<b>937</b>	237	59	24	2	-	1,259
2 - Minimal	-	2	-	-	-	6	8
3 - Average	<b>763</b>	303	1,370	404	67	51	2,958
4 - Acceptable	<b>6,249</b>	3,805	6,086	3,287	21	405	19,853
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	-	-	-
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>7,949</b>	4,347	7,515	3,715	90	462	24,078

<b>Total</b>	<b>\$ 439,595</b>	<b>\$ 192,170</b>	<b>\$ 173,730</b>	<b>\$ 202,774</b>	<b>\$ 102,596</b>	<b>\$ 74,672</b>	<b>\$ 1,185,537</b>
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Overdrafts							80
Net deferred fees and unamortized discount							(5,370)
<b>Total</b>							<b>\$ 1,180,247</b>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

The following table presents the credit risk profile by risk grade for commercial real estate, commercial, residential real estate, and consumer loans by renewal/origination year as of December 31, 2024 (in thousands):

	2024	2023	2022	2021	2020	2019 & Prior	Grand Total
<b>1-4 Family Residential</b>							
1 - Superior	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2 - Minimal	186	-	-	-	-	1,167	1,353
3 - Average	11,368	11,211	12,477	11,906	4,231	5,871	57,064
4 - Acceptable	5,655	7,906	12,304	4,504	3,406	11,980	45,755
5 - Special	-	-	-	-	-	358	358
6 - Substandard	-	-	-	-	-	-	-
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>17,209</b>	<b>19,117</b>	<b>24,781</b>	<b>16,410</b>	<b>7,637</b>	<b>19,376</b>	<b>104,530</b>
<b>Multi-Family Residential &amp; Commercial</b>							
1 - Superior	-	-	-	-	-	-	-
2 - Minimal	-	-	1,472	-	1,040	2,672	5,184
3 - Average	68,471	48,390	81,539	46,558	20,924	41,990	307,872
4 - Acceptable	20,383	77,164	94,460	60,637	39,867	64,174	356,685
5 - Special	-	-	-	-	-	697	697
6 - Substandard	-	411	-	382	-	506	1,299
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>88,854</b>	<b>125,965</b>	<b>177,471</b>	<b>107,577</b>	<b>61,831</b>	<b>110,039</b>	<b>671,737</b>
<b>Construction Real Estate</b>							
1 - Superior	-	-	-	-	-	-	-
2 - Minimal	-	-	-	-	-	-	-
3 - Average	30,980	34,724	15,604	6,963	453	381	89,105
4 - Acceptable	19,636	18,583	58,540	25,142	1,571	436	123,908
5 - Special	116	-	-	-	-	8	124
6 - Substandard	-	-	-	-	-	-	-
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>50,732</b>	<b>53,307</b>	<b>74,144</b>	<b>32,105</b>	<b>2,024</b>	<b>825</b>	<b>213,137</b>

**PB Financial Corporation**  
**Notes to Consolidated Financial Statements**

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

**Home Equity Line of Credit**

1 - Superior	-	-	-	-	-	23	23
2 - Minimal	53	839	226	130	-	647	1,895
3 - Average	3,679	3,916	4,553	2,617	660	3,240	18,665
4 - Acceptable	3,699	2,624	2,578	1,103	732	2,826	13,562
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	-	40	40
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>7,431</b>	<b>7,379</b>	<b>7,357</b>	<b>3,850</b>	<b>1,392</b>	<b>6,776</b>	<b>34,185</b>

**Commercial & Industrial**

1 - Superior	514	1	114	488	21	973	2,111
2 - Minimal	63	-	966	17	27	-	1,073
3 - Average	8,258	3,116	4,111	7,663	5,669	2,376	31,193
4 - Acceptable	16,264	5,866	9,874	951	19,319	2,531	54,805
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	-	40	40
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>25,099</b>	<b>8,983</b>	<b>15,065</b>	<b>9,119</b>	<b>25,036</b>	<b>5,920</b>	<b>89,222</b>

**Loans to Individuals**

1 - Superior	587	140	121	5	4	32	889
2 - Minimal	-	-	-	-	-	9	9
3 - Average	509	1,972	586	106	57	54	3,284
4 - Acceptable	5,534	8,954	4,431	45	692	251	19,907
5 - Special	-	-	-	-	-	-	-
6 - Substandard	-	-	-	-	-	-	-
7 - Doubtful	-	-	-	-	-	-	-
8 - Loss	-	-	-	-	-	-	-
<b>Total</b>	<b>6,630</b>	<b>11,066</b>	<b>5,138</b>	<b>156</b>	<b>753</b>	<b>346</b>	<b>24,089</b>

<b>Total</b>	<b>\$ 195,955</b>	<b>\$ 225,817</b>	<b>\$ 303,956</b>	<b>\$ 169,217</b>	<b>\$ 98,673</b>	<b>\$ 143,282</b>	<b>\$ 1,136,900</b>
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Overdrafts							34
Net deferred fees and unamortized discount							(7,598)
<b>Total</b>							<b>\$ 1,129,336</b>

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

***Age Analysis of Past Due Financing Receivables***

The aging of the outstanding loans by class at December 31, 2025 and 2024 is provided in the table below (in thousands). The calculation of days past due begins on the day after payment is due and includes all days through which all required interest or principal have not been paid. Loans less than 30 days past due are considered current due to certain grace periods that allow borrowers to make payments within a stated period after the due date and still remain in compliance with the loan agreement.

	<u>30-59 Days Past Due</u>	<u>60-89 Days Past Due</u>	<u>Greater than 90 Days Past Due</u>	<u>Total Past Due</u>	<u>Current</u>	<u>Total Loans</u>
<b><u>December 31, 2025</u></b>						
1 - 4 Family Residential Real Estate	\$ 172	\$ -	\$ -	\$ 172	\$ 104,011	\$ 104,183
Multi-Family Residential and Commercial Real Estate	-	-	-	-	726,474	726,474
Construction Real Estate	100	-	-	100	204,202	204,302
Home Equity Lines of Credit	-	-	-	-	39,799	39,799
Commercial & Industrial	-	-	-	-	81,438	81,438
Consumer loans	7	-	-	7	24,044	24,051
Total	<u>\$ 279</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 279</u>	<u>\$ 1,179,968</u>	<u>\$ 1,180,247</u>
<b><u>December 31, 2024</u></b>						
1 - 4 Family Residential Real Estate	\$ 69	\$ 99	\$ -	\$ 168	\$ 102,823	\$ 102,991
Multi-Family Residential and Commercial Real Estate	972	-	-	972	665,694	666,666
Construction Real Estate	-	-	-	-	212,254	212,254
Home Equity Lines of Credit	-	-	-	-	34,392	34,392
Commercial & Industrial	-	-	-	-	88,999	88,999
Consumer loans	11	-	-	11	24,023	24,034
Total	<u>\$ 1,052</u>	<u>\$ 99</u>	<u>\$ -</u>	<u>\$ 1,151</u>	<u>\$ 1,128,185</u>	<u>\$ 1,129,336</u>

There were no loans greater than 90 days past due and accruing interest as of December 31, 2025 and 2024.

**NOTE 4: LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

***Financing Receivables on Nonaccrual Status***

The recorded investment, by class, in loans on nonaccrual status at December 31, 2025 and 2024 is as follows (in thousands):

	<u>2025</u>	<u>2024</u>
1 – 4 Family Residential Real Estate	\$ 171	\$ -
Multi-Family Residential & Commercial – Real Estate	707	918
Home Equity Lines of Credit	-	15
	<u>\$ 878</u>	<u>\$ 933</u>

At December 31, 2025, nonaccrual loans consisted of acquired loans totaling \$25 thousand. At December 31, 2024, none of the nonaccrual loans consisted of acquired loans. There were no loan modifications to borrowers experiencing financial difficulties in 2025 or 2024.

***Purchased Credit Deteriorated Loans***

The Company has purchased loans, for which there was, at acquisition, evidence of more than insignificant deterioration of credit quality since origination, see Note 15. The carrying amount of those loans was \$7.6 million and \$8.5 million at December 31, 2025 and 2024, respectively.

**NOTE 5: PREMISES AND EQUIPMENT**

Following is a summary of premises and equipment at December 31, 2025 and 2024 (in thousands):

	<u>2025</u>	<u>2024</u>
Land	\$ 1,455	\$ 1,455
Buildings	1,890	1,668
Furniture and equipment	1,155	1,146
Vehicles	73	68
Leasehold improvements	970	970
	<u>5,543</u>	<u>5,307</u>
Accumulated depreciation and amortization	<u>(1,806)</u>	<u>(1,410)</u>
Total	<u>\$ 3,737</u>	<u>\$ 3,897</u>

Depreciation and amortization amounting to \$231 thousand and \$165 thousand for the years ended December 31, 2025 and 2024, respectively is included in occupancy and equipment expense, data processing and outside service fees, and other expenses.

**NOTE 5: PREMISES AND EQUIPMENT (Continued)**

**Lease Commitments**

The Company has six operating leases for various branches and a loan production office. These leases have remaining lease terms of 1 year to 8 years, some of which may include options to extend the leases for up to 10 years. Lease expense for operating leases during 2025 and 2024 was \$547 thousand and \$404 thousand, respectively.

Amounts recognized as right-of-use assets related to the operating leases are included in other assets while lease liabilities are included in accrued expenses and other liabilities. As of December 31, 2025, the right-of-use assets totaled \$1.81 million and lease liabilities related to operating lease totaled \$1.98 million, respectively. As of December 31, 2024, the right-of-use assets totaled \$1.70 million and lease liabilities related to operating lease totaled \$1.81 million, respectively

Other information related to leases for the years ended December 31, 2025 and 2024 are as follows (in thousands):

	<u>2025</u>	<u>2024</u>
Supplemental Cash Flow Information		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 374	\$ 264
Right-of-use assets obtained in exchange for lease obligations		
Operating leases	\$ 470	\$ 1,952
Weighted average remaining lease term	<b>6.87 years</b>	10.34 years
Weighted average discount rate	<b>3.93%</b>	4.04%

Future minimum lease payments under non-cancellable operating leases as of December 31, 2025, were as follows (in thousands):

2026	\$ 434
2027	381
2028	254
2029	233
2030	240
Thereafter	764
Total future minimum lease payments	<u>2,306</u>
Less imputed interest	(322)
Present value of lease liabilities	<u>\$ 1,984</u>

**NOTE 6: DEPOSITS**

Deposits consist of the following (in thousands):

	<u>2025</u>	<u>2024</u>
Non-interest bearing demand	\$ 181,655	\$ 168,318
Savings	15,755	19,405
Money market and NOW	524,112	430,203
Time	<u>464,757</u>	<u>497,219</u>
Total	<u>\$ 1,186,279</u>	<u>\$ 1,115,145</u>

The aggregate amount of time deposits in denominations that may exceed FDIC insurance limits of \$250 thousand or more at December 31, 2025 and 2024 was \$132.5 million and \$104.7 million, respectively. Interest expense on such deposits aggregated to approximately \$5.1 million and \$3.8 million, respectively, in 2025 and 2024.

At December 31, 2025, the scheduled maturities of time deposits are as follows (in thousands):

	<u>Less than \$250,000</u>	<u>\$250,000 or more</u>	<u>Total</u>
2026	\$ 273,684	\$ 115,552	\$ 389,236
2027	44,551	16,140	60,691
2028	13,103	825	13,928
2029	216	-	216
2030	686	-	686
Thereafter	-	-	-
Total	<u>\$ 332,240</u>	<u>\$ 132,517</u>	<u>\$ 464,757</u>

**NOTE 7: BORROWINGS**

Borrowings consist of the following (in thousands):

Type	Maturing in Year Ending	Interest Rate	December 31,	
			2025	2024
<b>Short-term borrowings:</b>				
FHLB advances:				
Fixed rate hybrid	2026	4.230%	\$ 5,000	\$ -
Fixed rate hybrid	2025	4.350%	-	5,000
Total FHLB advances			5,000	5,000
Repurchase agreements			-	124
Total short-term borrowings			\$ 5,000	\$ 5,124
<b>Long-term borrowings:</b>				
FHLB advances:				
Fixed rate hybrid	2026	4.230%	\$ -	\$ 5,000
Fixed rate hybrid	2027	4.070%	5,000	5,000
Fixed rate hybrid	2028	3.990%	5,000	5,000
Fixed rate hybrid	2028	4.290%	10,000	10,000
Total FHLB advances			20,000	25,000
Subordinate debt			23,593	23,891
Junior subordinate debt			4,528	4,467
Term loan			-	15
Total long-term borrowings			\$ 48,121	\$ 53,373

Pursuant to collateral agreements with the Federal Home Loan Bank (“FHLB”) at December 31, 2025 and 2024, advances are secured by pledged loans with a carrying amount of \$88.4 million and \$95.7 million, respectively. At December 31, 2025 and 2024, the Company’s maximum borrowing availability was equal to 30% of total assets.

The Company enters into agreements with customers to transfer excess funds in demand deposit accounts into a repurchase agreement. Under the repurchase agreement, the Company sells the customer an interest in securities that are United States government agencies. The customer’s interest in the underlying security shall be repurchased by the Company at the opening of the next banking day. The rate fluctuates monthly and is based on current deposit rates of the Company. As of December 31, 2025, the Company had no balance outstanding, under these repurchase agreements, and as of December 31, 2024, the Company had a balance outstanding of \$0.1 million.

**NOTE 7: BORROWINGS (Continued)**

Through the business combination of CB Financial Corporation, the Company assumed \$5.0 million of the Trust's floating rate preferred securities (the "trust preferred securities") and \$155,000 in common securities (the "Common Securities"), adjusted for fair value. Prior to the merger, CB Financial Capital Trust I, (the "Trust") was formed for the sole purpose of issuing trust preferred securities and investing the proceeds from the sale of such trust preferred securities in junior subordinated debentures (the "debentures"). The debentures held by the Trust are its sole assets. The Company owns 100% of the Trust's outstanding common securities and unconditionally guarantees the Trust financial obligations. Prior to 2023, the debentures and the trust preferred securities of the Trust bear an interest rate of LIBOR (London Inter-Bank Offered Rate) plus 1.85%. The trust preferred securities generally rank equal to the trust common securities in priority of payment, but will rank prior to trust common securities if, and so long as, the Company fails to make principal or interest payment on the debentures. The dividends paid to holders of the trust preferred securities, which are recorded as interest expense, are deductible for income tax purposes. Beginning in 2023, the debentures and the trust preferred securities of the trust bear an interest rate of the 3-month CME (Chicago Mercantile Exchange) term SOFR (Secure Overnight Financing Rate) plus applicable tenor spread adjustment plus 1.85%. The debentures and trust preferred securities each have 30-year lives and are callable by the Trust without penalty after July 31, 2010. The trust preferred securities issued the Trust presently qualify as Tier 1 regulatory capital.

The Company has available lines of credit with various credit facilities to provide additional liquidity if and as needed. These include available lines of credit with correspondent banks totaling \$101 million and \$73.5 million at December 31, 2025 and 2024, respectively. There were no federal funds purchased outstanding under these lines of credit at December 31, 2025 and 2024.

Subordinated debt in the amount of \$12.0 million was issued on January 27, 2023. The subordinated debt requires payments of interest semi-annually on February 1st and August 1st, at the annual fixed rate of 3.50% through February 1, 2027, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on February 1, May 1, August 1, and November 1 of each year until the principal is repaid. The subordinated debt matures on February 1, 2032 and can be prepaid any time after January 27, 2027. Of the Company's outstanding balance of this subordinated debt, \$50 thousand is held by executive officers, directors and other related interests at December 31, 2025 and 2024.

Subordinated debt in the amount of \$12.0 million was issued on December 18, 2019. The subordinated debt requires payments of interest semi-annually on January 15th and July 15th, at the annual fixed rate of 5.375% through January 15, 2025, at which point the applicable interest rate becomes floating, subject to being reset on a quarterly basis, and scheduled interest payments are to occur on January 15, April 15, July 15, and October 15 of each year until the principal is repaid. The subordinated debt matures on January 15, 2030 and can be prepaid any time after December 18, 2024. In 2025, \$350 thousand was repaid, and the balance as of December 31, 2025 is \$11.65 million. Of the Company's outstanding balance of subordinated debt, \$1 million is held by executive officers, directors and other related interests at December 31, 2025 and 2024.

The Company entered into a zero percent, \$84,000 term loan with an individual on February 5, 2020. The scheduled maturity date of the loan is January 5, 2026, with monthly principal-only payments of \$1,167 starting March 5, 2020 and a final payment of \$1,143 due at maturity. The agreement is unsecured. As of December 31, 2025, the outstanding principal balance of the loan is zero.

**NOTE 8: CAPITAL RAISE**

In 2024, the Company issued 17,923 shares of 7.00% Cumulative Perpetual Preferred Stock, Series A (the "Series A Preferred Stock"), no par value, at \$1,000 per share to select accredited investors. The Series A Preferred Stock will have a stated liquidation value of \$1,000 per share and will rank senior to the Issuer's common stock with respect to dividends and liquidation rights. The dividend rate is \$70 per share, per annum, payable quarterly on the last business day of each calendar quarter. The Series A Preferred Stock is not convertible into any other securities of the Company.

**NOTE 9: INCOME TAXES**

The significant components of the provision for income taxes for the years ended December 31, 2025 and 2024 are as follows (in thousands):

	<u>2025</u>	<u>2024</u>
Current tax provision		
Federal	\$ 6,217	\$ 4,140
State	554	527
Total current tax provision	<u>6,771</u>	<u>4,667</u>
Deferred tax (benefit) expense		
Federal	(201)	418
State	34	71
Total deferred tax (benefit) expense	<u>(167)</u>	<u>489</u>
Provision for income tax expense	<u>\$ 6,604</u>	<u>\$ 5,156</u>

The difference between the provision for income taxes and the amounts computed by applying the statutory federal income tax rate of 21% to income before income taxes for the years ended December 31, 2025 and 2024, respectively, is summarized below (in thousands):

	<u>2025</u>	<u>2024</u>
Tax expense computed at the statutory federal rate	\$ 6,180	\$ 4,635
Increase (decrease) resulting from:		
State income taxes, net of federal tax effect	437	417
Incentive stock options	56	9
Tax exempt interest	(48)	(33)
Cash surrender value of life insurance	(111)	(99)
Capital loss expiration	-	84
Deferred rate change	58	34
Other	32	109
Provision for income taxes	<u>\$ 6,604</u>	<u>\$ 5,156</u>

**NOTE 9: INCOME TAXES (Continued)**

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of deferred tax positions at December 31, 2025 and 2024 are as follows (in thousands):

	<b>2025</b>	2024
Deferred tax assets relating to:		
Allowance for credit losses	\$ 2,356	\$ 2,502
Stock based compensation	446	276
Deferred compensation	569	541
Federal NOL carryforward	678	856
State NOL carryforward	-	12
Lease liability	313	362
Accrued expenses	483	301
Fair value mark, net	559	1,060
Unrealized loss on available for sale securities	1,367	2,593
Other	10	15
Total deferred tax assets	<u>6,781</u>	<u>8,518</u>
Deferred tax liabilities relating to:		
Deferred loan fees	(323)	(326)
Prepaid expenses	(62)	(30)
Right-of-use lease asset	(297)	(386)
Property and equipment	(94)	(145)
Other	(29)	(9)
Total deferred tax liabilities	<u>(805)</u>	<u>(896)</u>
Net recorded deferred tax asset	<u>\$ 5,976</u>	<u>\$ 7,622</u>

The Company paid net income taxes to the following jurisdictions for the years ended December 31, 2025 and 2024, respectively, (in thousands):

	<b>2025</b>	2024
Federal	\$ 4,305	\$ 5,030
North Carolina	468	645
Net income taxes paid	<u>\$ 4,773</u>	<u>\$ 5,675</u>

The Company has approximately \$3.2 million of federal net operating losses. Approximately \$2 million will begin to expire in 2029 and \$1.2 million have indefinite lives. The Company has approximately \$112 thousand of North Carolina net operating losses which will have no value in 2030 when the North Carolina corporation tax is eliminated.

**NOTE 9: INCOME TAXES (Continued)**

FASB ASC 740, Accounting for Uncertainty in Income Taxes clarifies the account for uncertain tax positions. Based on an evaluation of uncertain tax positions, management is required to measure potential liabilities that could have a risk of greater than 50% likely of being realized upon settlement. As of December 31, 2025, and 2024, management has determined that the Company does not have any material uncertain tax positions.

The Company's has federal and North Carolina net operating losses from prior tax years. Income tax jurisdictions have the ability to examine tax years in which net operating losses were created when those tax losses are actually utilized.

The Company's federal and state tax returns for the years ended December 31, 2024, 2023, and 2022 are open and subject to examination by taxing authorities.

**NOTE 10: REGULATORY MATTERS**

The Bank, as a North Carolina banking corporation, may pay cash dividends only out of undivided profits as determined pursuant to the North Carolina General Statutes. However, regulatory authorities may limit payment of dividends by any bank when it is determined that such limitation is in the public interest and is necessary to ensure financial soundness of a bank.

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory - and possibly additional discretionary - actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classifications 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 Bank to maintain minimum amounts and ratios, as prescribed by regulations, of total and Tier I capital to risk-weighted assets and of Tier I capital to average assets. Management believes, as of December 31, 2025 and 2024 that the Bank meets all capital adequacy requirements to which it is subject, as set forth below:

	Actual		Minimum for capital adequacy purposes		Minimum to be well capitalized under prompt corrective action provision	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
	(Dollars in thousands)					
<b>December 31, 2025</b>						
Total Capital (to Risk-Weighted Assets)	\$ 181,243	14.20%	\$ 134,007	10.50%	\$ 127,626	10.00%
Tier I Capital (to Risk-Weighted Assets)	170,177	13.33%	108,482	8.50%	102,101	8.00%
Common Equity (to Risk-Weighted Assets)	170,177	13.33%	89,338	7.00%	82,957	6.50%
Tier I Capital (to Average Assets)	170,177	12.28%	55,424	4.00%	69,280	5.00%
<b>December 31, 2024</b>						
Total Capital (to Risk-Weighted Assets)	\$ 163,986	13.76%	\$ 125,143	10.50%	\$ 119,184	10.00%
Tier I Capital (to Risk-Weighted Assets)	153,333	12.87%	101,306	8.50%	95,347	8.00%
Common Equity (to Risk-Weighted Assets)	153,333	12.87%	83,429	7.00%	77,470	6.50%
Tier I Capital (to Average Assets)	153,333	11.69%	52,466	4.00%	65,582	5.00%

**NOTE 11: OFF-BALANCE SHEET RISK**

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the balance sheet. The contract or notional amounts of those instruments reflect the extent of involvement the Company has in particular classes of financial instruments. The Company uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. In management's opinion, these commitments represent no more than normal lending risk to the Company and will be funded from normal sources of liquidity.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of conditions established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since some of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation of the borrower. Collateral obtained varies but may include real estate, stocks, bonds, and certificates of deposit.

An unfunded commitment liability is estimated from the Company's historical loan-level loss rates and utilization rates in comparison to its balance of unfunded commitments. The expected losses associated with these exposures within the unfunded portion of the expected credit loss will be recorded as a liability on the balance sheet with an offset to other non-interest expense. As of December 31, 2025 and 2024, the unfunded commitment liability was \$573 thousand \$488 thousand, respectively.

A summary of the contract amount of the Company's exposure to off-balance sheet risk as of December 31, 2025 is as follows (in thousands):

Financial instruments whose contract amounts represent credit risk:		
Undisbursed lines of credit	\$	79,023
Commitments to extend credit		157,014
Letters of credit		898

**NOTE 12: DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS**

Fair value estimates are made at a specific moment in time, based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular financial instrument. Because no active market readily exists for a portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and, therefore, cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

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

***Cash and Due from Banks, Interest-Earning Deposits with Banks, and Federal Funds Sold***

The carrying amounts reported in the balance sheet for these instruments approximate their fair values due to the short-term nature of these instruments.

## **NOTE 12: DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

### ***Certificates of Deposit with Banks***

The fair value of certificates of deposit with other banks is estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

### ***Investment Securities***

Fair value for investment securities equals quoted market price if such information is available. If a quoted market price is not available, level 2 fair value is estimated using quoted market prices for similar securities, or other inputs that are observable or can be corroborated by observable market data. Level 3 securities are valued utilizing various assumptions such as valuation multiples, discounts for lack of marketability or illiquidity, and default rates.

### ***Accrued Interest***

The carrying amount of accrued interest approximates fair value.

### ***Loans***

The valuation of loans was impacted by the adoption of ASU 2016-01, "Recognition and Measurement of Financial Assets and Liabilities". Prior to adopting the amendments included in the standard, the Company was allowed to measure fair value under an entry price notion. The entry price notion previously applied by the Company used a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument. The exit price notion uses the same approach, but also incorporates other factors, such as enhanced credit risk, illiquidity risk and other market factors.

### ***Federal Home Loan Bank Stock***

The carrying amount is a reasonable estimate of fair value.

### ***Deposits and Borrowings***

The fair value of demand deposits and savings, money market and NOW accounts are the amount payable on demand at the reporting date. The fair value of time deposits and borrowings are estimated based on discounting cash flows using the rates currently offered for instruments of similar remaining maturities.

### ***Financial Instruments with Off-Balance Sheet Risk***

With regard to financial instruments with off-balance sheet risk it is not practicable to estimate the fair value of future financing commitments.

**NOTE 12: DISCLOSURES ABOUT FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)**

The carrying amounts and estimated fair values of financial instruments, none of which are held for trading purposes, are as follows at December 31, 2025 and 2024:

	2025		2024	
	Carrying amount	Estimated fair value	Carrying amount	Estimated fair value
	(Dollars in thousands)			
Financial assets:				
Cash and due from banks	\$ 10,521	\$ 10,521	\$ 11,445	\$ 11,445
Interest-earning deposits with banks	9,120	9,120	3,274	3,274
Federal funds sold	10,066	10,066	70	70
Certificates of deposit with banks	4,907	4,939	10,041	10,034
Investment securities available for sale	143,472	143,472	114,048	114,048
Loans, net	1,169,754	1,170,976	1,119,131	1,110,306
Federal Home Loan Bank Stock	2,110	2,110	2,265	2,265
Accrued interest receivable	5,442	5,442	5,178	5,178
Financial liabilities:				
Deposits	1,186,279	1,188,476	1,115,145	1,117,736
Accrued interest payable	2,149	2,149	2,540	2,540
Short term borrowings	5,000	5,000	5,124	5,119
Long term borrowings	48,121	46,442	53,373	51,014

**NOTE 13: FAIR VALUE MEASUREMENT**

The FASB has issued authoritative guidance regarding fair value measurements, which defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. Fair value as defined under generally accepted accounting principles is an exit price, representing 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. The Company utilizes market data or assumptions that market participants would use in pricing the asset or liability. Generally accepted accounting principles establishes a three-tier fair value hierarchy, which prioritizes the inputs used in measuring fair value. These tiers include: Level 1, defined as observable inputs such as quoted prices in active markets; Level 2, defined as inputs other than quoted prices in active markets that are either directly or indirectly observable; and Level 3, defined as unobservable inputs about which little or no market data exists, therefore requiring an entity to develop its own assumptions.

***Recurring Basis Measurements***

The following tables set forth by level within the fair value hierarchy the Company's assets and liabilities accounted for at fair value on a recurring basis as of December 31, 2025 and 2024. Assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment, and may affect the valuation of fair value assets and liabilities and their placement within the fair value hierarchy levels.

**NOTE 13: FAIR VALUE MEASUREMENT (Continued)**

Fair values of assets and liabilities measured on a recurring basis are as follows (in thousands):

Description	Fair Value	Fair Value Measurements at December 31, 2025		
		(Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	\$ 1,974	\$ -	\$ 1,974	\$ -
Mortgage-backed securities	77,604	-	77,604	-
Corporate Securities	29,577	-	29,127	450
U.S. agency securities	7,862	-	7,862	-
Municipal securities	26,455	-	26,455	-
Total securities available for sale	\$ 143,472	\$ -	\$ 143,022	\$ 450

Description	Fair Value	Fair Value Measurements at December 31, 2024		
		(Level 1)	(Level 2)	(Level 3)
Assets:				
Investment securities available for sale:				
U.S. Treasury Securities	\$ 4,881	\$ -	\$ 4,881	\$ -
Mortgage-backed securities	49,681	-	49,681	-
Corporate Securities	20,998	-	19,576	1,422
U.S. agency securities	14,091	-	14,091	-
Municipal securities	24,397	-	24,397	-
Total securities available for sale	\$ 114,048	\$ -	\$ 112,626	\$ 1,422

The valuation methodologies used for assets and liabilities recorded at fair value on a recurring basis are as follows.

***Investment Securities Available for Sale***

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted and money prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions.

## **NOTE 13: FAIR VALUE MEASUREMENT (Continued)**

### ***Investment Securities Available for Sale (continued)***

There were \$0.4 million in assets that were measured at fair value on a recurring basis as Level 3 assets and no liabilities measured at fair value on a recurring basis as of December 31, 2025. During 2025, one of the level 3 securities was called at par value of \$1.0 million. There were \$1.4 million in assets that were measured at fair value on a recurring basis recorded as Level 3 assets and no liabilities measured at fair value on a recurring basis as of December 31, 2024.

The fair value of the level 3 securities is determined using a market approach. Under this approach, the Company estimates fair value by comparing the security to similar or “like” securities with comparable maturity terms, interest rates, credit characteristics, and structural features that are available in the market.

### ***Nonrecurring Basis Measurements***

Certain other financial assets are measured at fair value on a nonrecurring basis, that is, the instruments are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when there is evidence of impairment).

There are no liabilities measured at fair value on a nonrecurring basis.

The valuation methodologies used for assets recorded at fair value on a nonrecurring basis are as follows.

### ***Loans***

We do not record loans at fair value on a recurring basis. However, from time to time a loan may be individually evaluated for expected credit losses if it no longer shares similar risks characteristics with other pooled loans. Once a loan is identified as an individual individually evaluated loan, management measures expected credit losses using estimated fair value methodologies. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, liquidation value and discounted cash flows. Those individually evaluated loans not requiring an ACL represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Individually evaluated loans, where an allowance is established based on the fair value of collateral, requires classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, we consider the impaired loan as nonrecurring Level 2. When an appraisal value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, we consider the individually evaluated loan as nonrecurring Level 3. Significant unobservable inputs used in the valuation include management discounts on appraised values of weighted average discount of 24.08%.

At December 31, 2025 there was \$1.3 million of individually evaluated loans which were subjected to fair value adjustments and at December 31, 2024, there was \$791 thousand of individually evaluated loans which were subjected to fair value adjustments.

## **NOTE 14: EMPLOYEE AND DIRECTOR BENEFIT PLANS**

### ***Employment Contracts***

The Company has entered into employment agreements with three executive officers to ensure a stable and competent management base. The agreements provide for a term ranging from two to three years, which extends automatically for an additional year unless terminated by the Company or the executive. The agreements provide for benefits as spelled out in the contracts and cannot be terminated by the Board of Directors, except for cause, without prejudicing the officers' right to receive certain vested rights, including compensation. In the event of a change in control of the Company and in certain other events, as defined in the agreements, the Bank or any successor to the Company will be bound to the terms of the contracts.

### ***401(k) Retirement Plan***

The Company has a 401(k) retirement plan that covers all eligible employees. The Company makes discretionary contributions, determined on an annual basis, to the retirement plan. During 2025 and 2024, the Company matched 100% of employee contributions on the first 6% of each employee's covered compensation. A participant vests in the Company's matching contributions 20% annually over five years of service. Matching expenses and discretionary contributions totaled approximately \$576 thousand for the year ended December 31, 2025 and matching expenses totaled approximately \$387 thousand for the year ended December 31, 2024.

### ***Incentive Bonus Plan***

In 2017, the Company adopted an employee incentive bonus plan that covers all eligible employees. The bonus is calculated based on percentages of salary designations, which are defined within the plan. The bonus is accrued for monthly and paid out subsequent to year end. Bonus expenses totaled approximately \$1.93 million and \$1.41 million for the years ended December 31, 2025 and 2024, respectively.

### ***Stock Appreciation Right Plan***

In 2025, the Company adopted a Stock Appreciation Right Plan ("SAR") to attract and retain key employees and advisors by providing participation rights, through the granting of SARs. These were granted on July 1, 2025 based on the market value of the Company's common stock for a three-year period. The payout will be the difference between the market price in three years and the market price at time of grant multiplied by the number of SARs granted. The SAR expense totaled approximately \$224 thousand for the year ended December 31, 2025.

### ***Salary Continuation Agreement***

In 2012, the Company adopted a salary continuation agreement to provide benefits for members of management. The associated liability was calculated by discounting the anticipated future cash flows at 4.5%, resulting in an accrued liability for this obligation totaling \$2.5 million and \$2.4 million, respectively, at December 31, 2025 and 2024.

### ***Stock Based Compensation***

During 2017, the Company adopted, with shareholder approval, the 2017 Omnibus Stock Incentive Plan (the "Plan"). In 2021, the Plan was amended to increase by 150,000 shares the size of the pool of authorized but unissued shares of the Company's common stock available for issuance under the Plan. In 2024, the Plan was amended to increase by 150,000 shares the size of the pool of authorized but unissued shares of the Company's common stock available for issuance under the Plan. The Plan allows for grants in the form of incentive stock options, non-statutory stock options, restricted stock, stock bonuses, and purchase rights. Employees and Directors are both eligible to receive grants under the Plan. As of December 31, 2025, there are 77,100 shares reserved and available for future grants.

**NOTE 14: EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)**

**Stock Options**

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model. The risk-free interest rate is based on the U.S. Treasury rate for the expected life at the time of grant.

Volatility has been determined based upon the Company's trading history. The expected life and forfeiture assumptions are based on historical data. Dividend yield is based on the yield at the time of the option grant.

The fair value of options granted was determined using the following weighted-average assumptions as of grant date.

	2025	2024
Assumptions in Estimating Option Values		
Weighted-average volatility	16.93%	16.53%
Expected dividend yield	5.00%	5.00%
Risk-free interest rate	4.17%	4.35%
Expected life (years)	9.0	9.0

A summary of option activity under the stock option plans during the years ended December 31, 2025 and 2024 is presented below.

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term
Outstanding December 31, 2023	174,275	30.63	6.40 years
Granted	30,000	40.75	
Exercised	(10,380)	24.54	
Forfeited	(600)	36.62	
Expired	-	-	
Outstanding December 31, 2024	193,295	\$ 32.51	6.12 years
<b>Granted</b>	<b>22,400</b>	<b>48.39</b>	
<b>Exercised</b>	<b>(33,855)</b>	<b>25.15</b>	
<b>Forfeited</b>	<b>(2,775)</b>	<b>32.52</b>	
<b>Expired</b>	<b>-</b>	<b>-</b>	
Outstanding December 31, 2025	<b>179,065</b>	<b>\$ 35.89</b>	<b>6.08 years</b>
Exercisable December 31, 2025	<b>98,435</b>	<b>\$ 30.36</b>	<b>4.50 years</b>

**NOTE 14: EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)**

For the years ended December 31, 2025 and 2024, the fair value of options that contractually vested amounted to \$97 thousand and \$85 thousand, respectively. Stock based compensation has been presented in the consolidated statements of cash flows as an adjustment to reconcile net income to net cash provided by operating activities.

A summary of the status of the Company's non-vested stock options as of December 31, 2025 and 2024, and changes during the years then ended is presented below:

	<u>Shares</u>	<u>Weighted Average grant date fair value</u>
Non-vested – December 31, 2023	76,300	\$ 4.06
Granted	30,000	4.08
Vested	(23,260)	3.66
Forfeited	-	-
Non-vested – December 31, 2024	83,040	\$ 4.17
Granted	<b>22,400</b>	<b>5.54</b>
Vested	<b>(23,930)</b>	<b>4.04</b>
Forfeited	<b>(880)</b>	<b>3.88</b>
Non-vested – December 31, 2025	<b>80,630</b>	<b>\$ 4.60</b>

As of December 31, 2025, and 2024, unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the stock option plan was \$371 thousand and \$295 thousand, respectively.

**NOTE 14: EMPLOYEE AND DIRECTOR BENEFIT PLANS (Continued)**

***Restricted Stock***

A summary of the status of the Company's non-vested restricted stock as of December 31, 2025 and 2024, and changes during the years then ended is presented below:

	<u>Shares</u>	<u>Weighted Average grant date fair value</u>
Non-vested – December 31, 2023	52,300	\$ 40.20
Granted	2,625	40.75
Vested	-	-
Forfeited	-	-
	<hr/>	<hr/>
Non-vested – December 31, 2024	54,925	\$ 40.23
Granted	<b>44,100</b>	<b>49.02</b>
Vested	<b>(4,000)</b>	<b>35.00</b>
Forfeited	-	-
	<hr/>	<hr/>
Non-vested – December 31, 2025	<b>95,025</b>	<b>\$ 44.53</b>

Restricted stock is issued and will vest at vary vesting dates ranging from 1.5 years to 15 years, as long as, the employee is employed at vesting date. As of December 31, 2025, and 2024, unrecognized compensation cost related to non-vested restricted stock compensation arrangements granted under the plans was \$2.75 million and \$1.29 million, respectively. At December 31, 2025, the weighted-average period over which non-vested restricted stock are expected to be recognized is 5.17 years.

**NOTE 15: BUSINESS COMBINATIONS**

At the close of business on April 9, 2024, the Company acquired Coastal Bank & Trust (“Coastal”). Under the acquisition method, the assets and liabilities of Coastal, as of the effective date of the acquisition, were recorded at their respective fair values. For the acquisition of Coastal, estimated fair values of assets acquired and liabilities assumed were based on the information that was available, and the Company believes that information provided a reasonable basis for determining fair values at December 31, 2024. During the year ended December 31, 2025, management completed its valuation of Coastal’s assets and liabilities.

Under the terms of the agreement, Coastal shareholders elected to receive either \$10.00 in cash or 0.2222 shares of PB Financial common stock for each share of Coastal common stock that is exchanged in the merger. Cash was paid in lieu of fractional shares. The total value of the transaction was approximately \$24.0 million in the aggregate, based on 2,575,468 shares of Coastal common stock outstanding.

Coastal’s results of operations were included in the Company’s results beginning April 10, 2024. Acquisition-related costs of \$937,420 is included in other in the Company’s consolidated statements of operations for the year ended December 31, 2024. The fair value of the common shares issued as part of the consideration paid for Coastal was determined in the basis of the closing price of the Company’s common shares on the acquisition date.

Goodwill of \$5,221,384 arising from the acquisition consisted largely of geographic expansion and new market opportunities. Goodwill is not deductible for U.S. income tax purposes and is not amortized.

**NOTE 15: BUSINESS COMBINATIONS (Continued)**

The following table summarizes the consideration paid for Coastal and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date (Dollars in thousands):

<b>Consideration</b>	
Cash	\$ 6,443
Equity instruments	17,593
Total consideration	<u>\$ 24,036</u>
<b>Recognized amounts of identifiable assets acquired and liabilities assumed</b>	
Cash and due from banks	\$ 11,812
Certificate of deposit with banks	6,072
Investments	22,312
Net loans	165,329
Accrued interest receivable	581
Premises and equipment, net	1,012
Bank owned life insurance	3,915
Deferred tax assets	2,499
Core deposit intangible	5,800
Other assets	1,030
Total assets acquired	<u>220,362</u>
Deposits	(200,278)
Accrued interest	(478)
Accrued expenses and other liabilities	(791)
Total liabilities assumed	<u>(201,547)</u>
Total identifiable net assets	<u>18,815</u>
<b>Goodwill</b>	<u>\$ 5,221</u>

The fair value of net assets acquired includes fair value adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value and gross contractual amounts receivable of \$156.7 million and \$165.1 million on the date of acquisition.

The fair value of purchased financial assets with credit deterioration was \$8.6 million on the date of acquisition. The gross contractual amounts receivable relating to the purchased financial assets with credit deterioration was \$10.8 million. The Company estimates, on the date of acquisition, that \$2.2 million of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected, which consisted of an allowance for credit losses of \$1.5 million and a discount attributable to other fair value considerations totaling \$700 thousand.

During 2025, the Company recognized a Measurement Period Adjustment ("MPA") to adjust tax assets acquired through the business combination. This MPA reflected new information that was subsequently obtained regarding facts and circumstances that existed as of the date of the acquisition of Coastal. As a result of the MPA, an increase of \$590 thousand was recorded to goodwill.

**NOTE 16: PARENT COMPANY FINANCIAL DATA**

The following is a summary of the condensed parent-only financial statements of the Company as of and for the year ended December 31, 2025 and 2024:

**Condensed Balance Sheets  
December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
	<b>(Dollars in thousands)</b>	
<b>Assets</b>		
Cash and due from banks	\$ 2,650	\$ 3,735
Other assets	155	155
Investment in subsidiary	179,404	158,930
	<u>\$ 182,209</u>	<u>\$ 162,820</u>
<b>Liabilities and Stockholders' Equity</b>		
Borrowings	\$ 28,748	\$ 29,045
Other liabilities	388	488
	<u>29,136</u>	<u>29,533</u>
<b>Stockholders' Equity:</b>		
Preferred stock	17,923	17,923
Common stock	2,977	2,911
Additional paid-in-capital	55,930	54,932
Retained earnings	80,871	66,202
Accumulated other comprehensive loss	(4,628)	(8,681)
	<u>153,073</u>	<u>133,287</u>
	<u>\$ 182,209</u>	<u>\$ 162,820</u>

**Condensed Statements of Operations  
Years Ended December 31, 2025 and 2024**

	<b>2025</b>	<b>2024</b>
	<b>(Dollars in thousands)</b>	
Equity in undistributed earnings of subsidiary	\$ 15,585	\$ 16,841
Dividend from Bank	9,000	1,600
Interest expense	(1,782)	(1,540)
Miscellaneous income	24	16
	<u>22,827</u>	<u>16,917</u>
Net income	22,827	16,917
Preferred stock dividends paid	1,255	1,102
	<u>1,255</u>	<u>1,102</u>
Net income available to common shareholders	<u>\$ 21,572</u>	<u>\$ 15,815</u>

**NOTE 17: SEGMENT INFORMATION**

The Company's reportable segment is determined by the Chief Executive Officer, who is the designated chief operating decision maker, based upon information provided about the Company's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business which are then aggregated if operating performance, products/services, and customers are similar. The chief operating decision maker will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results are used in assessment performance and in establishing compensation. Loans, investments, and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses, and payroll provide the significant expenses in the banking operation. All operations are domestic.

Accounting policies for segments are the same as those described in Note 2. Segment performance is evaluated using consolidated net income. Information reported internally for performance assessment by the chief operating decision maker follows, inclusive of reconciliations of significant segment totals to the financial statements:

	<b>Banking Segment</b>	
	<b>2025</b>	<b>2024</b>
	<b>(Dollars in thousands)</b>	
Interest income	\$ 88,022	\$ 77,820
Interest expense	37,174	35,816
Net interest income	50,848	42,004
Provision for credit losses	422	1,955
Noninterest income	2,057	1,724
Noninterest expense		
Salaries and employee benefits	13,365	10,821
Occupancy and equipment	1,333	1,107
Data processing and communications expenses	2,867	2,386
Other expenses	5,487	5,386
Total noninterest expense	23,052	19,700
Income before income tax expense	29,431	22,073
Income tax expense	6,604	5,156
Net income	\$ 22,827	\$ 16,917
Total assets	\$ 1,404,659	\$ 1,317,210
Goodwill	\$ 9,876	\$ 9,285

**PB Financial Corporation**  
**Board of Directors**

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**Richard C. Anderson**

*Chairman of the Board of PB Financial Corporation / Providence Bank, Senior Managing  
Partner of Anderson Farms of Edgecombe County, Tarboro, North Carolina and  
Chairman of the Board of Glenco Industrial Properties, LLC, Tarboro, North Carolina*

**Ted E. Whitehurst**

*President & Chief Executive Officer, PB Financial Corporation / Providence Bank  
Rocky Mount, North Carolina*

**Michael W. Boddie**

*President of Boddie Noell Enterprises  
Rocky Mount, North Carolina*

**Joseph B. Brewer III**

*Secretary of PB Financial Corporation / Providence Bank  
President of Brewer Foods, Inc.  
Rocky Mount, North Carolina*

**Dr. Vanessa J. Ervin**

*President and CEO of Carobell, Inc.,  
Hubert, North Carolina*

**William F. Davis**

*Retired Vice President/CFO of Barnhill Contracting Company  
Rocky Mount, North Carolina*

**Wiley B. Gillam III**

*A Farmer and Owner of Gillam & Mason, Inc.,  
Harrellsville, North Carolina*

**Douglas K. Martin**

*Entrepreneur and Business Consultant  
Henrico, North Carolina*

**Bryan T. Mayo**

*Vice President Sales and Production of Mayo Knitting Mills  
Tarboro, North Carolina*

**Melvin M. Mitchell**

*President of Melvin M. Mitchell Agency, Inc., Exclusive Agency Allstate Insurance  
Company  
Rocky Mount, North Carolina*

***PB Financial Corporation  
Management and Personnel***

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***Executive Officers***

**Ted E. Whitehurst**  
*President & Chief Executive Officer  
PB Financial Corporation / Providence Bank*

**Robert H. Ladd III**  
*Executive Vice President & CRA Officer  
Providence Bank*

**David E. Keul**  
*Executive Vice President, Chief Financial Officer & Treasurer  
PB Financial Corporation / Providence Bank*

# ***PB Financial Corporation General Corporate Information***

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## **Office Locations**

### **Corporate & Commercial Loans**

450 North Winstead Avenue  
Rocky Mount, NC 27804

### **Sunset Avenue Branch**

2401 Sunset Avenue  
Rocky Mount, NC 27804

### **Wilson Branch**

3710 Nash St. North  
Wilson, NC 27896

### **Winstead Avenue Branch**

450 North Winstead Avenue  
Rocky Mount, NC 27804

### **Nashville Branch**

241 West Washington St.  
Nashville, NC 27856

### **Tarboro Branch**

325 Main St.  
Tarboro, NC 27886

### **Raleigh Branch**

3701 Barrett Drive  
Raleigh, NC 27609

### **Jacksonville Branch**

2414 N Marine Blvd  
Jacksonville, NC 28546

### **Holly Ridge Branch**

300 US Highway 17 N  
Holly Ridge, NC 28445

### **Morehead City Branch**

4737-G Arendell St.  
Morehead City, NC 28557

### **Loan Production Office**

242 Middle St.  
New Bern, NC 28560

### **Richlands Branch**

8800 Richlands Hwy  
Richlands, NC 28574

### ***Regulatory and Securities Counsel***

Wyrick Robbins Yates & Ponton LLP  
4101 Lake Boone Trail  
Suite 300  
Raleigh, NC 27607

### **Stock Transfer Agent**

Broadridge Financial Solutions, Inc.  
51 Mercedes Way  
Edgewood, NY 11717

### **Independent Auditors**

Forvis Mazars, LLP  
1003 Red Banks Road  
Greenville, NC 27858

## ***Annual Stockholders Meeting***

The Annual Meeting of the stockholders of PB Financial Corporation will be held at 4:00 p.m. on April 23, 2026 at 100 Southern Boulevard, Rocky Mount, North Carolina.

## ***Common Stock***

The Company's outstanding shares of common stock were held by approximately 539 holders of record (excluding shares held in street name) as of January 31, 2026.

## ***Market for the Common Stock***

The Company's common stock is traded on the OTCQX under the symbol "PBNC". The closing price on December 31, 2025 was \$55.37 per share.

*This Annual Report serves as the annual financial disclosure statement furnished pursuant to the Federal Deposit Insurance Corporation's rules and regulations. This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.*