Benchmark Bankshares, Inc.

2024

Annual Report

elliott davis

Independent Auditor's Report

Board of Directors
Benchmark Bankshares, Inc. and Subsidiary

Opinion

We have audited the consolidated financial statements of Benchmark Bankshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2024 and 2023, 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 (collectively, the "financial statements").

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

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Company's internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations or the Treadway Commission in 2013, and our report dated March 31, 2025, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Elliott Davis, PLLC

Raleigh, North Carolina
March 31, 2025

Benchmark Bankshares, Inc.
Consolidated Statements of Financial Condition

(Dollars in thousands, except per share data)	**December 31, 2024**	December 31, 2023
Assets		
Cash and due from banks	**$ 18,493**	$ 26,601
Federal reserve excess balance account	**43,604**	65,117
Total cash and cash equivalents	**62,097**	91,718
Interest-bearing time deposits with other banks	**499**	5,498
Investment securities, held to maturity	**19,750**	19,750
Investment securities, available for sale	**79,108**	95,024
Trading securities	**5,523**	5,366
Marketable equity securities	**3,156**	2,813
Loans, held for sale	**449**	-
Loans, held for investment	**996,451**	892,227
Less: Allowance for credit losses	**(7,824)**	(7,002)
Net loans, held for investment	**988,627**	885,225
Premises and equipment, net	**22,881**	21,826
Bank owned life insurance	**27,106**	22,861
Other real estate owned	**510**	-
Accrued interest receivable	**4,032**	3,548
Deferred income taxes	**3,794**	3,214
Core deposit intangible asset, net	**1,174**	1,495
Other assets	**4,882**	3,987
Total Assets	**$ 1,223,588**	$ 1,162,325
Liabilities and Stockholders' Equity		
Deposits		
Non-interest bearing demand deposits	**$ 263,089**	$ 261,253
Interest-bearing checking deposits	**376,001**	373,196
Money market deposits	**161,655**	125,197
Savings deposits	**116,900**	118,323
Time deposits	**185,249**	175,660
Total Deposits	**1,102,894**	1,053,629
Borrowings	**790**	1,531
Index retirement plan liability	**2,797**	2,049
Dividends payable	**1,965**	1,798
Accrued interest payable	**936**	993
Other liabilities	**4,772**	3,633
Total Liabilities	**1,114,154**	1,063,633
Stockholders' Equity		
Common stock[(1) (2)]	**938**	943
Additional paid-in capital	**5,915**	5,862
Retained earnings	**108,697**	97,373
Accumulated other comprehensive loss	**(6,116)**	(5,486)
Total Stockholders' Equity	**109,434**	98,692
Total Liabilities and Stockholders' Equity	**$ 1,223,588**	$ 1,162,325

(1) Common Stock, $0.21 par value and 8,000,000 shares authorized. 4,465,501 shares issued and outstanding as of December 31, 2024 and 4,493,890 shares issued and outstanding as of December 31, 2023.

(2) Restricted shares ouststanding are 4,317 as of December 31, 2024 and 4,149 as of December 31, 2023, respectively.

Benchmark Bankshares, Inc.
Consolidated Statements of Operations

(Dollars in thousands, except share and per share data)	Years Ended December 31, **2024**	2023
Interest Income		
Loans, including fees	**$ 56,751**	$ 46,265
Investment securities:		
U. S. Government agencies	**1,443**	2,017
State and political subdivisions	**857**	1,042
Mortgage-backed securities	**796**	161
Corporate debt	**451**	447
Trading securities	**220**	199
Other securities	**36**	30
Time deposits with other banks	**88**	396
Federal funds sold	**2,751**	2,332
Total Interest Income	**63,393**	52,889
Interest Expense		
Interest-bearing checking deposits	**6,526**	3,277
Money market demand deposits	**1,867**	898
Savings deposits	**129**	136
Time deposits	**6,339**	3,755
Borrowings	**55**	83
Total Interest Expense	**14,916**	8,149
Net Interest Income	**48,477**	44,740
Provision for (release of) credit losses	**917**	(3)
Net Interest Income After Provision for Credit Losses	**47,560**	44,743
Other Income		
Service charges on deposit accounts	**1,724**	1,618
Other service charges and fees	**4,165**	4,515
Gain on sale of loans held for sale	**219**	228
Gain (loss) on sale of securities, available-for-sale	**65**	(207)
(Loss) gain on sale of other assets	**(16)**	124
Other operating income	**3,975**	3,081
Total Other Income	**10,132**	9,359
Other Expenses		
Salaries and benefits	**20,558**	18,586
Occupancy and equipment	**3,511**	3,170
Data processing and information systems	**3,048**	3,219
FDIC insurance	**829**	683
Bank franchise taxes	**810**	728
Other operating expenses	**9,038**	8,427
Total Other Expenses	**37,794**	34,813
Income Before Income Taxes	**19,898**	19,289
Provision for income taxes	**4,045**	3,909
Net Income	**$ 15,853**	$ 15,380
Basic Earnings Per Common Share:		
Weighted Average Shares Outstanding	**4,468,381**	4,511,301
Earnings Per Common Share	**$ 3.55**	$ 3.41
Diluted Earnings Per Common Share:		
Weighted Average Shares Outstanding	**4,468,381**	4,511,301
Earnings Per Common Share	**$ 3.55**	$ 3.41

Benchmark Bankshares, Inc.

Consolidated Statements of Comprehensive Income

(Dollars in thousands)	Years Ended December 31, **2024**	2023
Net Income	**$ 15,853**	$ 15,380
Other comprehensive income (loss)		
Unrealized gain (loss) on securities, available-for-sale	**(732)**	2,609
Reclassification of (gains) losses on sale of securities, available-for-sale	**(65)**	207
Tax effect	**167**	(592)
Other comprehensive income (loss), net of tax	**(630)**	2,224
Comprehensive income	**$ 15,223**	$ 17,604

Benchmark Bankshares, Inc.

Consolidated Statements of Changes in Stockholders' Equity

Years Ended December 31, 2024 and 2023

(Dollars in thousands, except share and per share data)	Shares	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance December 31, 2023	4,521,648	$ 949	$ 5,808	$ 86,607	$ (7,710)	$ 85,654
Net income	-	-	-	15,380	-	15,380
Impact of adoption of ASC 326, net of tax	-	-	-	(308)	-	(308)
Other comprehensive income, net of tax	-	-	-	-	2,224	2,224
Stock issued as compensation	4,149	-	95	-	-	95
Stock repurchases	(31,907)	(7)	(40)	(698)	-	(745)
Recognition of vested shares	-	1	(1)	-	-	-
Semi-Annual Cash Dividend Declared						
June 15, 2023; $0.40 per share	-	-	-	(1,810)	-	(1,810)
December 21, 2023; $0.40 per share	-	-	-	(1,798)	-	(1,798)
Balance December 31, 2023	4,493,890	$ 943	$ 5,862	$ 97,373	$ (5,486)	$ 98,692
Net income	**-**	**-**	**-**	**15,853**	**-**	**15,853**
Other comprehensive loss, net of tax	**-**	**-**	**-**	**-**	**(630)**	**(630)**
Stock issued as compensation	**4,317**	**1**	**94**	**-**	**-**	**95**
Stock issued - KSOP	**8,089**	**2**	**10**	**198**	**-**	**210**
Stock repurchases	**(40,795)**	**(9)**	**(50)**	**(888)**	**-**	**(947)**
Recognition of vested shares	**-**	**1**	**(1)**	**-**	**-**	**-**
Semi-Annual Cash Dividend Declared						
June 20, 2024; $0.42 per share	**-**	**-**	**-**	**(1,874)**	**-**	**(1,874)**
December 19, 2024; $0.44 per share	**-**	**-**	**-**	**(1,965)**	**-**	**(1,965)**
Balance December 31, 2024	**4,465,501**	**$ 938**	**$ 5,915**	**$ 108,697**	**$ (6,116)**	**$ 109,434**

Benchmark Bankshares, Inc.
Consolidated Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31, **2024**	2023
Cash Flows from Operating Activities		
Net income	**$ 15,853**	$ 15,380
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	**1,390**	1,414
Provision for (release of) credit losses	**929**	(3)
Deferred tax expense	**(393)**	181
Gain on sale of loans held for sale	**(219)**	(228)
Origination of mortgage loans held for sale	**(9,956)**	(9,448)
Proceeds from mortgage loans held for sale	**9,726**	9,845
Amortization of leases	**73**	(2)
Amortization of core deposit intangible	**321**	359
Income from bank owned life insurance	**(620)**	(439)
Securities gain, net	**(565)**	(318)
Equity based compensation expense	**95**	95
Amortization of (discounts) premiums	**(12)**	106
Changes in assets and liabilities:		
Accrued interest receivable	**(484)**	(294)
Other assets	**(935)**	(996)
Accrued interest payable	**(57)**	806
Other liabilities	**1,112**	(254)
Net cash provided by operating activities	**$ 16,258**	$ 16,204
Cash Flows from Investing Activities		
Proceeds from sale/maturity/calls of AFS securities	**33,177**	70,725
Purchase of investment AFS securities	**(17,981)**	(25,145)
Purchase of restricted securities	**(26)**	-
Net increase in loans held for investment	**(104,841)**	(76,143)
Net increase in index retirement plan	**748**	457
Increase in time deposits with other banks	**4,999**	4,500
Purchase of bank owned life insurance	**(3,625)**	(600)
Purchases of premises and equipment	**(2,445)**	(4,582)
Net cash used in investing activities	**$ (89,994)**	$ (30,788)
Cash Flows from Financing Activities		
Net increase in deposits	**49,265**	24,436
Issuance of common stock to ESOP/401(k) plan	**210**	-
Dividends paid	**(3,672)**	(3,526)
Principal curtailment of borrowings	**(741)**	(1,172)
Repurchase of common stock	**(947)**	(745)
Net cash provided by financing activities	**$ 44,115**	$ 18,993
Net (Decrease) Increase in Cash and Cash Equivalents	**(29,621)**	4,409
Cash and Cash Equivalents - Beginning of Year	**91,718**	87,309
Cash and Cash Equivalents - End of Year	**$ 62,097**	$ 91,718

Benchmark Bankshares, Inc.
Consolidated Statements of Cash Flows, continued

(Dollars in thousands)	Years Ended December 31, **2024**	2023
Supplemental Disclosures of Cash Flow Information		
Interest paid	**$ 14,973**	$ 7,342
Income taxes paid	**3,662**	3,885
Supplemental Disclosures of Noncash Transactions		
Unrealized (loss) gain on securities AFS	**$ (797)**	$ 2,814
Impact of adoption of ASC 326	**-**	308
Transfer of loans to OREO	**510**	-
Recognition of vested shares	**1**	1

1 Significant Accounting Policies and Practices

a. General

Benchmark Community Bankshares, Inc. (the “Company”) is a bank holding company incorporated under the laws of the Commonwealth of Virginia. The Company owns all of the stock of its subsidiary, Benchmark Community Bank (the “Bank”), which is an independent commercial bank chartered under the laws of the Commonwealth of Virginia. The Bank operates 17 banking offices throughout central Southside Virginia and northern North Carolina, offering a full range of retail and commercial deposit and loan products.

The consolidated financial statements of the Company and the Bank, include the accounts of both companies. All material inter-company balances and transactions have been eliminated in consolidation. The consolidated financial statements have been prepared in conformity with U.S. Generally Accepted Accounting Principles (“GAAP”) and conform to predominant practices within the financial services industry. The more significant of these policies are summarized below.

b. Use of Estimates

The preparation of the consolidated financial statements in conformity with GAAP requires management to make certain estimates and assumptions that directly affect the results of reported assets and liabilities as of the balance sheet date and reported amounts of revenue and expenses during the reporting period. Actual results may differ from these estimates. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, impairment of securities, deferred income taxes, other real estate owned, and fair value measurements.

c. Cash and Due from Banks

For presentation in the Consolidated Statements of Financial Condition, cash and due from banks includes cash on hand and non-interest-bearing balances due from correspondent banks. These bank deposits are subject to Federal Deposit Insurance Corporation (“FDIC”) insurance limitations and are insured for the first $250,000 on deposit with each correspondent bank. As of December 31, 2024, the Company was required to maintain compensating balances of $250 thousand with Community Bankers Bank, $250 thousand with Pacific Coast Bankers Bank and $100 thousand with SouthState Bank. The Company is no longer required to maintain a minimum balance with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

Interest-bearing deposits due from banks as of December 31, 2024 was $43.6 million, consisting of $46 thousand held in the Company’s daily investment account with the Federal Home Loan Bank of Atlanta (“FHLB”), $19.8 million on deposit with the Federal Reserve Bank of Richmond, and $23.8 million held as excess balance federal funds with the Federal Reserve. Management regularly evaluates the credit risk associated with the counterparties to these transactions and believes that the Company is not exposed to any significant credit risks on cash and cash equivalents. Through participation in the “Excess Balance Account” program, the Company’s excess funds are usually deposited directly with the Federal Reserve, eliminating the risk associated with federal funds sold, which are overnight, uncollateralized loans to other financial institutions.

The Company also has $499 thousand in interest-bearing time deposits held with other banks. Although these deposits are all scheduled to mature within one year, they are not considered part of cash and due from banks because they each have original maturity dates in excess of 90 days.

d. Transfers of Financial Assets

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

1 Significant Accounting Policies and Practices, continued

e. Other Real Estate Owned

Real estate acquired through, or in lieu of, foreclosure is held for sale and is initially recorded at the lower of the loan's carrying value or fair value less cost to sell at the date of foreclosure. Following foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Adjustments to carrying value, revenue, and expenses related to holding foreclosed assets are recorded in earnings as they occur. The Company held $510 thousand of Other Real Estate Owned as of December 31, 2024 and did not have any Other Real Estate Owned as of December 31, 2023.

f. Premises and Equipment

Land is carried at cost whereas premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed using both straight-line and accelerated methods over the assets' estimated useful lives. Estimated useful lives range from 10 to 39 years for buildings and improvements, as well as leasehold improvements, and 3 to 7 years for furniture, fixtures and equipment. See Note 4 for additional information.

g. Basic and Diluted Earnings Per Common Share

Basic and diluted earnings per share are calculated by dividing income available to common stockholders by the weighted average number of common shares outstanding during the period. At December 31, 2024 and 2023, the Company had no potentially dilutive securities outstanding. See Note 16 for additional information.

h. Income Taxes

Provision for income taxes is based on amounts reported in the Consolidated Statements of Operations and Comprehensive Income and consists of taxes currently due plus deferred taxes on temporary differences in the recognition of income and expense for tax and financial statement purposes. Deferred tax assets and liabilities are included in the financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Deferred income taxes are reported for temporary differences between items of income or expense reported in the consolidated financial statements and those reported for income tax purposes. Deferred taxes also reflect the impact of unrealized gains and losses related to investment securities. The differences relate principally to the provision for credit losses, depreciation, deferred compensation, deferred loan fees, and the supplemental retirement plan funded by Bank-owned life insurance.

i. Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions significantly affect the estimates. See Note 15 for required fair value disclosures.

j. Comprehensive Income

Comprehensive income reflects the change in the Company's equity during the year arising from transactions and events other than investments by, and distributions to, stockholders. It consists of net income plus certain other changes in assets and liabilities that are reported as separate components of stockholders' equity rather than as income or expense.

k. Revenue from Contracts with Customers

The Company records revenue from contracts with customers in accordance with ASC 606, "Revenue from Contracts with Customers" ("Topic 606") and is primarily included in the Company's other income. The Company's primary sources of revenue are derived from interest and dividends earned on loans, investment securities, and other financial instruments that are not within the scope of Topic 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories, beyond what is presented in the Consolidated Statements of Operations and Comprehensive Income, was not necessary.

1 Significant Accounting Policies and Practices, continued

The Company generally fully satisfies its performance obligations on contracts with customers as services are rendered, and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Service charges on deposits accounts consist of various transaction-based, account maintenance, and overdraft or non-sufficient funds (“NSF”) services. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed since that is the point in time the Company fulfills the customer's request. Account fees, which relate primarily to monthly maintenance fees, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft and NSF fees are recognized at the point in time that the overdraft occurs, or the NSF item is presented. Service charges on deposits are withdrawn from the customer's account balance. The Company also earns interchange fees from debit cardholder transactions conducted through the payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

l. Reclassification

Certain items for prior years may have been reclassified to conform to the 2024 presentation. Such reclassifications had no effect on net income, total assets or stockholders’ equity as previously reported.

m. Adoption of New Accounting Standards

On December 31, 2024, the Company adopted ASU 2023-07, “*Segment Reporting (Topic 280) – Improvements to Reportable Segment Disclosures.*” These amendments required that a public entity disclose, on an annual and interim basis, significant segment expenses that are regularly provided to the chief operating decision maker and included within each reported measure of segment profit or loss, required other segment items by reportable segment to be disclosed and a description of their composition, and required disclosure of the title and position of the chief operating decision maker and an explanation of how they use the reported measure of segment profit or loss in assessing segment performance and deciding how to allocate resources. Operating segments are components of an enterprise where separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to assess performance and allocate resources. While the CEO, who is considered the chief operating decision maker, monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated, on a Company-wide basis using consolidated pretax income. The Company’s operations are all within a single banking segment and, accordingly, all the financial service operations are considered by management to be aggregated in one reporting operating segment. The financial statements presented herein reflect the combined results of all of its operations with that segment. The Company has no foreign operations or customers. The amendments were applied retrospectively to all prior periods presented and did not have a material effect on the Company’s consolidated financial statements.

On January 1, 2023, the Company adopted ASU 2016-13, “Financial Instruments – Credit Losses (“Topic 326”): Measurement of Credit Losses on Financial Instruments”, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) model, which requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to unfunded credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 modified the impairment for available-for-sale debt securities, requiring credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell. It also modified the measurement principles for modifications of loans to borrowers experiencing financial difficulty, including how the allowance for credit losses (“ACL”) is measured for such loans.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (“OBS”) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326. As a result of adopting ASC 326, the Company recorded a net decrease to retained earnings of $308 thousand.

The Company adopted ASC 326 using the prospective transition approach for debt securities. The adoption did not affect the carrying value of debt securities or the amount of unrealized gains and losses recorded in accumulated other comprehensive loss. Upon adoption of ASC 326, the Company did not have any securities included in its portfolio where other-than-temporary-impairments had previously been recognized or that required an ACL.

1 Significant Accounting Policies and Practices, continued

The following table illustrates the impact of ASC 326.

(Dollars in thousands)	December 31, 2022 As Previously Reported (Incurred Loss)	January 1, 2023 Impact of CECL Adoption	 As Reported under CECL
Assets			
Loans			
Construction and land development	$ 368	$ 827	$ 1,195
Residential real estate	4,061	(1,649)	2,412
Multifamily real estate	169	(28)	141
Farmland	5	118	123
Commercial real estate	1,651	529	2,180
Commercial and industrial	152	366	518
Consumer	426	(232)	194
Allowance for Credit Losses on Loans	6,832	(69)	6,763
Liabilities			
Allowance for Credit Losses on Unfunded Credit Exposure	-	458	458
Total Allowance for Credit Losses	$ 6,832	$ 389	$ 7,221

n. Loans Held for Investment

The Company makes commercial, consumer, and mortgage loans. The recorded investment in loans represents the principal amount outstanding, net of deferred origination fees/costs. The deferred origination costs together with loan origination fees are recognized as an adjustment of the related loan yield using the interest method. Interest on loans is credited to operations based on the principal amount outstanding. Management has the intent and ability to hold the loans for the foreseeable future or until maturity or payoff.

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Loans greater than 90 days past due may remain on accrual status if management determines there is adequate collateral to cover the principal and interest and payment is in process of collection. Consumer loans, including credit card loans and loans secured by 1-4 family residential property, are normally left on accrual status even when the loan is 90 or more days past due. For loans carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance (generally six consecutive months) in accordance with the contractual terms of the loan, and there is reasonable assurance the borrower will continue to make payments as agreed. These policies are applied consistently across the loan portfolio.

Advance payments to cover insurance and tax payments are paid into escrow for loans made to purchase 1-4 family residential properties. These accounts are held by the Company as noninterest-bearing deposits until payments are made on behalf of the customer by the Company. The total escrow payments held by the Company amounted to $858 thousand and $748 thousand as of December 31, 2024 and 2023, respectively.

In the ordinary course of business, the Company issues commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Statements of Financial Condition when they are funded.

o. Allowance for Credit Losses on Loans

The provision for credit losses on loans is an amount sufficient to bring the allowance to an estimated balance that management considers adequate to absorb expected credit losses in the loan portfolio. The Allowance for Credit Losses on Loans ("ACLL") represents management's estimates of credit losses over the remaining life of the portfolio and is increased by provisions charged to expense and decreased by loan charge-offs, net of recoveries. Loans are fully or partially charged off against the allowance when the Company deems the amount to be uncollectible. General conditions for charge-off include repayment schedules that are deemed to be protracted beyond a reasonable timeframe, the loan has been classified as a loss either internally or by regulators, or the loan is 180 days past due unless well-secured and in the process of collection.

The ACLL is evaluated on a regular basis by management and is based on an evaluation of the composition of the loan portfolio, the value and adequacy of collateral, current economic conditions, historical loan loss experience, reasonable and supportable forecasts, and other risk factors. The ACLL is estimated by pooling loans by call code and similar risk characteristics and applying a loan-level discounted cash flows method for all loans except for its overdrafts. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The Company utilizes a forecast period of one year and then reverts to the mean of historical loss rates on a straight-line basis over the following one-year period. Economic forecasts and recession probabilities from highly recognized third parties are considered to inform the model for loss estimation. For example, the Company considers the national unemployment rate as an external economic variable in developing the ACLL. The quantitative ACLL estimate is sensitive to changes in the unemployment rate forecast over a one-year reasonable and supportable period, with the commercial loan portfolio being the most sensitive to fluctuations in unemployment. Because current economic conditions and forecasts can change and future events are inherently difficult to predict, the anticipated amount of estimated credit losses on loans and therefore the appropriateness of the ACLL, could change significantly. It is difficult to estimate how potential changes in any one economic factor or input might affect the overall level of allowance because changes in those factors and inputs may not occur at the same rate and may not be consistent across all loan types. Additionally, changes in factors and inputs may be directionally inconsistent, such that improvement in one factor may offset deterioration in others. Management also considers qualitative factors when estimating loan losses to consider model limitations. While management uses available information to estimate expected losses on loans, future changes in the ACLL may be necessary based on changes in portfolio composition, portfolio credit quality, and/or economic conditions. Regulatory agencies, as an integral part of their examination process, periodically review the Company's allowance for credit losses and may require the Company to make additions to the allowance based on their judgment about information available to them at the time of their examinations.

Loans that do not share risk characteristics are evaluated on an individual basis. The individual reserve component relates to loans that have shown substantial credit deterioration as measured by risk rating and/or delinquency status. In addition, the practical expedient that would include loans for individual assessment consideration if the repayment of the loan is expected substantially through the operation or sale of collateral because the borrower is experiencing financial difficulty has been elected. If sale of the collateral is the source of repayment, the individual reserve is based on the fair value of the underlying collateral, less selling costs, compared to the amortized cost basis of the loan. If the individual reserve is based on the operation of the collateral, the reserve is calculated by the present value of expected cash flows from the operation of the collateral at the loan's effective interest rate, compared to the amortized cost basis. If the value of a collateral dependent loan is determined to be less than the recorded investment in the loan, the deficiency, or portions thereof, are charged off when deemed uncollectible.

p. Reserve for Unfunded Commitments

Expected credit losses are estimated over the contractual period in which there is an exposure to credit risk due to a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The reserve for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded and is included in Other Liabilities on the Company's Consolidated Statements of Financial Condition.

q. Accrued Interest Receivable

The Company has elected to exclude accrued interest from the amortized cost basis in its determination of the Allowance for Credit Losses on Loans, as well as elected the policy to write-off accrued interest receivable directly through the reversal of interest income. Accrued interest receivable totaled $3.3 million and $2.8 million on loans held for investment at December 31, 2024 and 2023, respectively.

r. Investment Securities

Debt Securities

Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" ("HTM") and recorded at amortized cost. Trading securities are recorded at fair value with changes in fair value included in earnings. Securities not classified as held to maturity or trading are classified as "available for sale" ("AFS") and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income.

Purchase premiums and discounts are recognized in interest income using the effective interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For AFS debt securities in an unrealized loss position, the Company assesses if either (a) the intent is to sell the security or (b) it is more-likely-than-not that it will be necessary to sell the security prior to recovery of its amortized cost. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For AFS securities that do not meet these criteria and HTM debt securities in an unrealized loss position, an assessment must be completed to determine whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors.

If this assessment indicates that a credit loss exists, the present value of expected future cash flows from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

Changes in the allowance for credit losses are recorded as a credit loss expense or reversal. Losses are charged against the allowance when management believes the uncollectability of an investment security is confirmed or when either of the criteria regarding interest or requirement to sell is met. Accrued interest receivable on investment securities is excluded from the estimate of credit losses.

Marketable Equity Securities

Marketable equity securities are recorded at fair value, with changes in fair value presented in other income. The fair value of these securities is based on observable market prices.

s. Restricted Securities

The Company is required to maintain an investment in the capital stock of the Federal Reserve Bank of Richmond, the FHLB, and Community Bankers Bank. No ready market exists for these securities, and they have no quoted market value. The Company's investment in these stocks is recorded at cost. See Note 2 for further discussion of restricted securities. Restricted securities are classified as other assets on the Consolidated Statements of Financial Condition.

t. Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, determined on an individual loan basis, and are sold with the mortgage servicing rights released by the Company. The Company held $449 thousand in loans for sale as of December 31, 2024 and did not hold any for sale as of December 31, 2023. The Company recognized $219 thousand in gains from the sale of these loans for the year ended December 31, 2024. Total gains amounted to $228 thousand for the year ended December 31, 2023.

2 Investment Securities

Debt and equity securities have been classified in the Consolidated Statements of Financial Condition according to management's intent. The carrying amount of securities and their approximate fair values at December 31, 2024 and 2023 follow:

	December 31, 2024			
Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U. S. Government agencies	$ 7,298	$ -	$ (422)	$ 6,876
U. S. Treasury bonds	24,899	13	(1,199)	23,713
Mortgage backed securities	15,296	66	(238)	15,124
Taxable municipal securities	1,259	-	(375)	884
Tax exempt municipal securities	38,098	-	(5,587)	32,511
Total	$ 86,850	$ 79	$ (7,821)	$ 79,108

Held-to-Maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government agencies	$ 8,000	$ -	$ (136)	$ 7,864
Corporate debt	11,750	-	(1,493)	10,257
Total	$ 19,750	$ -	$ (1,629)	$ 18,121

	December 31, 2023			
Available for Sale	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Loss**	**Fair Value**
U. S. Government agencies	$ 7,747	$ 71	$ (456)	$ 7,362
U. S. Treasury bonds	39,835	-	(1,435)	38,400
Mortgage backed securities	14,707	141	(221)	14,627
Taxable municipal securities	1,260	-	(347)	913
Tax exempt municipal securities	38,420	12	(4,710)	33,722
	$ 101,969	$ 224	$ (7,169)	$ 95,024

Held-to-Maturity	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Government agencies	$ 8,000	$ -	$ (213)	$ 7,787
Corporate debt	11,750	-	(1,984)	9,766
Total	$ 19,750	$ -	$ (2,197)	$ 17,553

Trading securities are bought principally for the purpose of selling them in the near term and are reported in the financial statements at fair value. As of December 31, 2024 the Company held $5.5 million in investments classified as trading securities. The Company held $5.4 million in trading securities on December 31, 2023. The investment strategy of the Company is to purchase odd-lot municipal securities at the bid and reoffer at the ask, hold them for a short period of time, and sell them at a gain. Changes in the fair value of trading securities from period to period are reported as a component of net income. The Company recognized a loss of $63 thousand during 2024 compared to a gain of $170 thousand during 2023 on these trading securities.

2 Investment Securities, continued

Other marketable equity securities are reported in the financial statements at fair value. The Company held $3.2 million and $2.8 million in marketable equity securities as of December 31, 2024 and 2023, respectively. Changes in the fair value of trading securities from period to period are reported as a component of net income. The Company recognized a gain of $308 thousand on these securities during 2024. A total gain of $127 thousand was recognized on these securities during 2023.

The maturities of available for sale investment securities at December 31, 2024 were as follows. Expected maturities will differ from contractual maturities because borrowers may have the right to prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Amortized Cost	Fair Value
Three months or less	$ 5,069	$ 5,045
Over three months to twelve months	500	491
Over one year to three years	2,963	2,944
Over three to five years	14,971	13,774
Over five years to fifteen years	14,887	14,090
Over fifteen years	48,460	42,764
Total	$ 86,850	$ 79,108

The maturities of held to maturity investment securities at December 31, 2024 were as follows:

(Dollars in thousands)	Amortized Cost	Fair Value
Over three months to twelve months	$ 5,000	$ 4,998
Over one year to three years	3,000	2,866
Over five years to fifteen years	11,750	10,257
Total	$ 19,750	$ 18,121

As of December 31, 2024, the Company had $22.1 million in securities pledged to secure public deposits. The Company had $17.1 million in securities pledged to secure public deposits as of December 31, 2023.

In the event of the sale of securities, the cost basis of the security, adjusted for the amortization of premium or discounts, will be used when calculating gains or losses. The Company recognized gross gains on the sale of available for sale securities in 2024 of $65 thousand compared to gross losses on the sale of available for sale securities of $207 thousand in 2023.

2 Investment Securities, continued

The following chart represents the gross unrealized losses and fair value by investment category and length of time individual securities have been in a continuous unrealized loss position for which an allowance for credit losses has not been recorded as of the periods presented.

	Year Ended December 31, 2024					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U. S. Government agencies	$ 4,280	$ 18	$ 2,596	$ 404	$ 6,876	$ 422
U. S. Treasury bonds	7,811	174	13,895	1,025	21,706	1,199
Mortgage backed securities	3,980	13	2,309	225	6,289	238
Taxable municipal securities	-	-	884	375	884	375
Tax exempt municipal securities	1,695	29	29,741	5,558	31,436	5,587
Total available for sale	$ 17,766	$ 234	$ 49,425	$ 7,587	$ 67,191	$ 7,821

	Year Ended December 31, 2023					
	Less Than 12 Months		More Than 12 Months		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available for sale						
U. S. Government agencies	$ 2,466	$ 6	$ 2,559	$ 450	$ 5,025	$ 456
U. S. Treasury bonds	4,982	8	33,418	1,427	38,400	1,435
Mortgage backed securities	4,567	221	-	-	4,567	221
Taxable municipal securities	-	-	913	347	913	347
Tax exempt municipal securities	3,243	23	28,598	4,687	31,841	4,710
Total available for sale	$ 15,258	$ 258	$ 65,488	$ 6,911	$ 80,746	$ 7,169

The Company concluded no allowance for credit losses should be recognized as of December 31, 2024 and 2023, based primarily on changes in market value related to changes in market interest rates and not credit concerns of the issuers, one hundred percent of the Company’s investment portfolio is considered investment grade, the Company intends to hold these investments to maturity, does not expect to be required to sell these securities, and expects to recover the entire amortized cost of all securities.

Restricted securities, not shown previously and included as Other Assets on the Consolidated Statements of Financial Condition, consist of the following:

(Dollars in thousands)	**2024**	**2023**
Federal Reserve Bank stock	$ 87	$ 87
Federal Home Loan Bank stock	859	832
Community Bankers Bank stock	110	110
Bankers' Title, LLC stock	113	109
Other equity securities	14	15
Total	$ 1,183	$ 1,153

No ready market exists for these securities, and there is no quoted market value. Federal Reserve Bank stock, FHLB stock, and Community Bankers Bank stock are all carried at cost. Other equity securities consist of an investment in a real estate investment trust. The Bankers’ Title, LLC value reflects the Company’s 9.68% ownership stake in the company. The real estate investment trust is also carried at cost, as there is no market for this investment.

FHLB stock is generally viewed as a long-term investment and as a restricted investment security which is carried at cost, because there is no market for the stock other than the FHLB or member institutions. Therefore, when evaluating FHLB stock for impairment, its value is based on ultimate recoverability of the par value rather than by recognizing temporary declines in value. Other equity securities represent a joint ownership interest that is carried at the year-end equity position of the Company.

3 Loans Held for Investment and the Allowance for Credit Losses on Loans

On January 1, 2023, the Company adopted ASC 326. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables. The Company's accounting policies and policy elections related to the accounting standard update are described in Note 1 – Significant Accounting Policies and Practices. All loan information presented is in accordance with ASC 326.

A summary of loans held for investment is presented below:

(Dollars in thousands)	**2024**	**2023**
Construction and land development	**$ 179,409**	$ 139,739
Residential real estate	**411,036**	384,067
Residential real estate - home equity lines	**19,008**	15,518
Multifamiliy real estate	**34,391**	21,168
Farmland	**16,928**	22,431
Commercial real estate	**252,269**	238,140
Commercial and industrial	**67,402**	53,653
Consumer	**16,008**	17,511
Total	**$ 996,451**	$ 892,227

Net deferred loan fees of $2.3 million and $2.2 million on December 31, 2024 and 2023, respectively, are also included in total loans. Checking and savings account overdrafts amounting to $170 thousand on December 31, 2024 and $122 thousand on December 31, 2023 have been reclassified as loans for reporting purposes.

Past Due Loans

All loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due in accordance with the contractual terms of the underlying loan agreement.

The following schedule is an aging of past due loans receivable, including those on nonaccrual status, by portfolio segment as of the periods presented.

	December 31, 2024				
(Dollars in thousands)	**30-89 Days Past Due**	**90 Days or Greater and Accruing**	**Non-Accrual Loans**	**Current Loans**	**Total Loans**
Construction and land development	$ 371	$ -	$ 335	$ 178,703	$ 179,409
Residential real estate	4,223	646	117	406,050	411,036
Residential real estate - home equity lines	-	-	-	19,008	19,008
Multifamily real estate	54	-	-	34,337	34,391
Farmland	113	1,809	190	14,816	16,928
Commercial real estate	-	-	143	252,126	252,269
Commercial and industrial	302	-	55	67,045	67,402
Consumer	155	11	-	15,842	16,008
Total	$ 5,218	$ 2,466	$ 840	$ 987,927	$ 996,451

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

(Dollars in thousands)	December 31, 2023 30-89 Days Past Due	90 Days or Greater and Accruing	Non-Accrual Loans	Current Loans	Total Loans
Construction and land development	$ 393	$ -	$ 667	$ 138,679	$ 139,739
Residential real estate	3,451	891	-	379,725	384,067
Residential real estate - home equity lines	50	-	56	15,412	15,518
Multifamily real estate	59	-	-	21,109	21,168
Farmland	-	-	239	22,192	22,431
Commercial real estate	150	-	258	237,732	238,140
Commercial and industrial	213	-	9	53,431	53,653
Consumer	189	1	-	17,321	17,511
Total	$ 4,505	$ 892	$ 1,229	$ 885,601	$ 892,227

Non-Accrual Loans

Loans are placed on non-accrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on non-accrual status regardless of whether such loans are considered past due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

The following table shows the Company's amortized cost basis of loans on non-accrual status and loans past due 90 days and accruing by class of loan as of the periods indicated.

(Dollars in thousands)	December 31, 2024	Nonaccrual with no ACL	90 Days and still Accruing
Construction and land development	$ 335	$ 335	$ -
Residential real estate	117	117	646
Farmland	190	190	1,809
Commercial real estate	143	143	-
Commercial and industrial	55	55	-
Consumer	-	-	11
Total	$ 840	$ 840	$ 2,466

(Dollars in thousands)	December 31, 2023	Nonaccrual with no ACL	90 Days and still Accruing
Construction and land development	$ 667	$ 527	$ -
Residential real estate	-	-	891
Residential real estate - home equity lines	56	-	-
Farmland	239	239	-
Commercial real estate	258	157	-
Commercial and industrial	9	-	-
Consumer	-	-	1
Total	$ 1,229	$ 923	$ 892

The Company recognized $13,000 in interest income on loans on nonaccrual status as of December 31, 2024, and had $16,000 of reversals of interest income upon placing loans on nonaccrual status during the year ended December 31, 2024.

The Company's loan portfolio may include certain loans modified, where concessions have been granted to borrowers who are experiencing financial difficulties. These concessions typical result from loss mitigation activities and may include reduction in interest rate below current market rates for customers with similar risk profiles, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. The Company closely monitors the performance of modified loans and if it is determined all or a portion of a modified loan is uncollectable, that amount is charged against the allowance for credit losses. The Company did not grant any such modifications during 2024 or 2023.

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

Allowance for Credit Losses on Loans

The ACLL is a material estimate for the Company and is estimated on a quarterly basis. The Company models the ACLL using loan classes identified based on similar risk characteristics.

The identified loan class and associated characteristics are as follows:

- **Real estate-construction and land development:** Construction loans carry risks that the project will not be finished according to schedule, the project will not be finished according to budget and the value of the collateral may at any point in time be less than the principal amount of the loan. Construction loans also bear the risk that the general contractor, who may or may not be the loan customer, may be unable to finish the construction project as planned because of financial pressure unrelated to the project.

- **Real estate-residential, including home equity lines:** Residential mortgage loans and equity lines of credit carry risks associated with the continued creditworthiness of the borrower and changes in the value of the collateral.

- **Real estate-commercial, multi-family, and farmland:** Commercial real estate loans carry risks associated with the successful operation of a business if owner occupied. If non-owner occupied, the repayment of these loans may be dependent upon the profitability and cash flow from rent receipts.

- **Commercial and industrial:** Commercial and industrial loans carry risks associated with the successful operation of a business or project, in addition to other risks associated with the ownership of a business. The repayment of these loans may be dependent upon the profitability and cash flows of the business. In addition, there is risk associated with the value of collateral other than real estate which may depreciate over time and cannot be appraised with as much precision.

- **Consumer loans:** Consumer loans carry risks associated with the continued creditworthiness of the borrowers and the value of the collateral. Consumer loans are more likely than real estate loans to be immediately adversely affected by job loss, divorce, illness or personal bankruptcy.

The following tables presents the activity in the ACLL by portfolio class for the years ended December 31, 2024 and 2023.

	December 31, 2024							
(Dollars in thousands)	Construction	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Farmland	Commercial and Industrial	Consumer	Total
Beginning balance	$ 1,283	$ 2,831	$ 94	$ 2,026	$ 72	$ 363	$ 333	$ 7,002
Provisions for credit losses	320	300	74	120	(9)	15	109	929
Charge offs	-	(20)	-	-	-	(29)	(141)	(190)
Recoveries	-	4	-	-	-	19	60	83
Ending balance	$ 1,603	$ 3,115	$ 168	$ 2,146	$ 63	$ 368	$ 361	$ 7,824

	December 31, 2023							
(Dollars in thousands)	Construction	Residential Real Estate	Multifamily Real Estate	Commercial Real Estate	Farmland	Commercial	Consumer	Total
Beginning balance	$ 368	$ 4,061	$ 169	$ 1,651	$ 5	$ 152	$ 426	$ 6,832
Day 1 impact of adoption of CECL	827	(1,649)	(28)	529	118	366	(232)	(69)
Provisions for credit losses	88	387	(47)	(154)	(51)	(150)	278	351
Charge offs	-	(1)	-	-	-	(13)	(200)	(214)
Recoveries	-	33	-	-	-	8	61	102
Ending balance	$ 1,283	$ 2,831	$ 94	$ 2,026	$ 72	$ 363	$ 333	$ 7,002

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

The following table presents a breakdown of the provision for (release of) credit losses for the periods indicated.

(Dollars in thousands)	For the Years Ended December 31, 2024	2023
Provision for (release of) credit losses:		
Provision for loans	$ 929	$ 351
Release of unfunded commitments	(12)	(354)
Total	$ 917	$ (3)

Credit quality indicators are utilized to help estimate the collectability of each loan. The Company's internal risk rating definitions are:

- **Pass:** These loans are the strongest loans in the Company with extremely reliable sources of repayment and usually have 3 to 5 years of positive financial trends and earnings. In addition, this category includes loans to companies and individuals with strong financial statements and cash flow that is more than adequate to service all debt payments. Primary and secondary sources of repayment are well-defined and more than adequate to repay the loan. Loans in this category present the lowest risk to the Company and conform fully to the Company's policy and regulatory guidelines with no material credit or documentation exceptions.

- **Special Mention:** These loans have potential weaknesses and downward trends that require the Company to closely monitor. If left uncorrected, these potential weaknesses may at some future date result in the deterioration of the repayment ability of the borrower and ultimately the Company's credit position. These credits do not expose the Company to enough risk to warrant further adverse classification.

- **Substandard:** A substandard loan is inadequately protected by the current sound net worth and paying capacity of the borrower or collateral pledged. Substandard loans require more intensive supervision by management as well as by the account officer and can exhibit one or more well-defined credit weaknesses that may jeopardize repayment of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

- **Doubtful:** Loans classified doubtful have all the weaknesses inherent in a substandard asset with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

- **Loss:** Loans classified loss are considered uncollectible and of such little value that their continuance as a bankable asset is not warranted. This classification does not mean that the asset has absolutely no recovery or salvage value, but rather it is not practical or desirable to defer writing off this basically worthless asset even though partial recovery may be received in the future.

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

The following is a schedule of the credit quality of loans receivable, by portfolio segment, originated as of December 31, 2024.

	December 31, 2024							
	Term Loans Amortized Cost Basis by Origination Year							
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans	Total
Construction and land development								
Pass	$ 78,509	$ 40,474	$ 37,146	$ 10,473	$ 5,525	$ 5,103	$ 1,596	$ 178,826
Special Mention	-	-	-	36	-	-	-	36
Substandard	-	242	-	-	62	243	-	547
Total Construction and land development	$ 78,509	$ 40,716	$ 37,146	$ 10,509	$ 5,587	$ 5,346	$ 1,596	$ 179,409
Residential real estate								
Pass	$ 91,818	$ 74,315	$ 86,002	$ 49,107	$ 22,498	$ 80,080	$ 20,565	$ 424,385
Special Mention	24	212	-	32	-	560	-	828
Substandard	-	463	88	1,460	352	2,468	-	4,831
Total Residential real estate	$ 91,842	$ 74,990	$ 86,090	$ 50,599	$ 22,850	$ 83,108	$ 20,565	$ 430,044
Multifamily real estate								
Pass	$ 10,991	$ 11,229	$ 4,040	$ 5,144	$ 1,680	$ 1,253	$ -	$ 34,337
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	54	-	54
Total Multifamily real estate	$ 10,991	$ 11,229	$ 4,040	$ 5,144	$ 1,680	$ 1,307	$ -	$ 34,391
Farmland								
Pass	$ 520	$ 645	$ 5,633	$ 1,527	$ 672	$ 3,366	$ 1,842	$ 14,205
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	218	303	1,809	393	-	2,723
Total Farmland	$ 520	$ 645	$ 5,851	$ 1,830	$ 2,481	$ 3,759	$ 1,842	$ 16,928
Commercial real estate								
Pass	$ 46,092	$ 51,246	$ 80,026	$ 21,994	$ 15,248	$ 24,634	$ 5,714	$ 244,954
Special Mention	156	-	919	907	-	-	-	1,982
Substandard	1,687	666	1,177	153	1,083	567	-	5,333
Total Commercial real estate	$ 47,935	$ 51,912	$ 82,122	$ 23,054	$ 16,331	$ 25,201	$ 5,714	$ 252,269
Commercial and industrial								
Pass	$ 13,023	$ 8,247	$ 4,323	$ 1,108	$ 3,376	$ 7,868	$ 28,995	$ 66,940
Special Mention	69	12	2	9	-	-	-	92
Substandard	206	78	84	-	2	-	-	370
Total Commercial non real estate	$ 13,298	$ 8,337	$ 4,409	$ 1,117	$ 3,378	$ 7,868	$ 28,995	$ 67,402
Consumer								
Pass	$ 7,699	$ 3,970	$ 1,972	$ 719	$ 89	$ 1,536	$ -	$ 15,985
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	7	8	8	-	-	-	23
Total Consumer	$ 7,699	$ 3,977	$ 1,980	$ 727	$ 89	$ 1,536	$ -	$ 16,008
Total	**$ 250,794**	**$ 191,806**	**$ 221,638**	**$ 92,980**	**$ 52,396**	**$ 128,125**	**$ 58,712**	**$ 996,451**

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

The following is a schedule of the credit quality of loans receivable, by portfolio segment, originated as of December 31, 2023.

	December 31, 2023							
	Term Loans Amortized Cost Basis by Origination Year							
(Dollars in thousands)	**2023**	**2022**	**2021**	**2020**	**2019**	**Prior**	**Revolving Loans**	**Total**
Construction and land development								
Pass	$ 64,294	$ 40,615	$ 18,474	$ 6,703	$ 2,196	$ 4,795	$ 1,373	$ 138,450
Special Mention	13	-	-	166	-	-	-	179
Substandard	197	166	371	-	5	371	-	1,110
Total Construction and land development	$ 64,504	$ 40,781	$ 18,845	$ 6,869	$ 2,201	$ 5,166	$ 1,373	$ 139,739
Residential real estate								
Pass	$ 93,378	$ 103,025	$ 58,681	$ 27,003	$ 20,296	$ 74,268	$ 17,476	$ 394,127
Special Mention	-	115	-	-	-	-	-	115
Substandard	317	55	200	356	412	3,947	56	5,343
Total Residential real estate	$ 93,695	$ 103,195	$ 58,881	$ 27,359	$ 20,708	$ 78,215	$ 17,532	$ 399,585
Multifamily real estate								
Pass	$ 7,486	$ 4,523	$ 5,395	$ 1,785	$ 687	$ 1,195	$ 38	$ 21,109
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	59	-	59
Total Multifamily real estate	$ 7,486	$ 4,523	$ 5,395	$ 1,785	$ 687	$ 1,254	$ 38	$ 21,168
Farmland								
Pass	$ 2,685	$ 5,792	$ 1,998	$ 736	$ 3,962	$ 4,437	$ -	$ 19,610
Special Mention	-	-	-	-	-	-	-	-
Substandard	-	263	361	1,778	-	419	-	2,821
Total Farmland	$ 2,685	$ 6,055	$ 2,359	$ 2,514	$ 3,962	$ 4,856	$ -	$ 22,431
Commercial real estate								
Pass	$ 65,327	$ 90,891	$ 24,711	$ 18,057	$ 12,234	$ 17,406	$ 4,902	$ 233,528
Special Mention	-	1,066	-	-	-	-	-	1,066
Substandard	773	108	1,023	899	102	641	-	3,546
Total Commercial real estate	$ 66,100	$ 92,065	$ 25,734	$ 18,956	$ 12,336	$ 18,047	$ 4,902	$ 238,140
Commercial and industrial								
Pass	$ 14,596	$ 7,941	$ 2,691	$ 4,405	$ 4,953	$ 5,827	$ 13,069	$ 53,482
Special Mention	-	5	-	1	-	-	-	6
Substandard	70	84	2	6	3	-	-	165
Total Commercial non real estate	$ 14,666	$ 8,030	$ 2,693	$ 4,412	$ 4,956	$ 5,827	$ 13,069	$ 53,653
Consumer								
Pass	$ 8,448	$ 4,795	$ 2,178	$ 280	$ 119	$ 1,665	$ -	$ 17,485
Special Mention	-	-	-	-	-	-	-	-
Substandard	18	8	-	-	-	-	-	26
Total Consumer	$ 8,466	$ 4,803	$ 2,178	$ 280	$ 119	$ 1,665	$ -	$ 17,511
Total	**$ 257,602**	**$ 259,452**	**$ 116,085**	**$ 62,175**	**$ 44,969**	**$ 115,030**	**$ 36,914**	**$ 892,227**

3 Loans Held for Investment and the Allowance for Credit Losses on Loans, continued

The following table details gross charge-offs by year of origination for the periods indicated.

	December 31, 2024							
	Current Period Charge-offs by Origination Year							
(Dollars in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Total
Residential real estate	$ -	$ -	$ -	$ -	$ -	$ 20	$ -	$ 20
Commercial and industrial	2	9	12	-	6	-	-	29
Consumer	105	19	1	2	-	14	-	141
Total	$ 107	$ 28	$ 13	$ 2	$ 6	$ 34	$ -	$ 190

	December 31, 2023							
	Current Period Charge-offs by Origination Year							
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Total
Residential real estate	$ -	$ -	$ -	$ -	$ -	$ 1	$ -	$ 1
Commercial and industrial	-	-	-	-	-	-	13	13
Consumer	133	52	11	2	1	1	-	200
Total	$ 133	$ 52	$ 11	$ 2	$ 1	$ 2	$ 13	$ 214

As of December 31, 2024 and 2023, the Company did not have any collateral dependent loans where repayment was expected to be derived substantially through the operation or sale of the collateral and where the borrower is experiencing financial difficulty.

4 Premised and Equipment, Net

Major classifications of these assets are summarized as follows:

(Dollars in thousands)	**2024**	2023
Land	**$ 3,777**	$ 3,753
Buildings and improvements	**26,336**	24,989
Furniture and equipment	**7,305**	6,808
Leasehold improvements	**470**	487
Construction in progress	**382**	4
Total	**$ 38,270**	$ 36,041
Less: Accumulated depreciation	**(15,389)**	(14,215)
Net premises and fixed assets	**$ 22,881**	$ 21,826

Depreciation expense amounted to $1.4 million for each of the years ended December 31, 2024 and 2023, respectively. No capitalized interest was recognized in the years ended December 31, 2024 and 2023.

5 Intangible Assets

The Company's intangible assets consist of a core deposit asset arising from the acquisition of a branch office in September 2022. Core deposit intangibles are being amortized over the period of expected benefit, which ranges from 4 to 10 years, using an accelerated method. Information concerning intangible assets is presented in the following table:

5 Intangible Assets, continued

(Dollars in thousands)	December 31, 2024 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit intangibles	**$ 1,950**	**$ 776**	**$ 1,174**

(Dollars in thousands)	December 31, 2023 Gross Carrying Value	Accumulated Amortization	Net Carrying Value
Core deposit intangibles	$ 1,950	$ 455	$ 1,495

Amortization expense of intangibles for the year ended December 31, 2024 and 2023 was $321 thousand and $359 thousand, respectively. As of December 31, 2024, the estimated remaining amortization expense of intangibles for the years ended is as follows (dollars in thousands):

2025	$	282
2026		243
2027		205
2028		166
2029		127
Thereafter		151
Total remaining amortization expense	$	1,174

6 Leases

As of December 31, 2024, the Company leased three offices under various operating lease agreements. The lease agreements have maturity dates ranging from May 31, 2026 to October 31, 2029, some of which included options for 1-, 3, or 5- year extensions. The weighted average life of the terms for these leases was 35.0 months as of December 31, 2024.

The discount rate used in determining the lease liability for each individual lease was the FHLB fixed advance rate which corresponded with the remaining lease term as of January 1, 2019 for leases that existed at adoption and as of the lease commencement date for leases subsequently entered into. The weighted average discount rate for these leases was 4.03% as of December 31, 2024.

Total operating lease costs were $253 thousand and $283 thousand for years ended December 31, 2024 and 2023, respectively. The right-of-use asset, included in Other Assets, amounted to $438 thousand and $406 thousand as of December 31, 2024 and 2023, respectively. Lease liabilities, included in Other Liabilities, were $444 thousand and $417 thousand as of December 31, 2024 and 2023, respectively. The right-of-use asset and lease liability are recognized at lease commencement by calculating the present value of lease payments over the lease term.

Maturities of lease liabilities as of December 31, 2024 were as follows:

(Dollars in thousands)		Lease
2025	$	219
2026		136
2027		46
2028		39
2029		33
Thereafter		-
Total undiscounted lease payments	$	473
Discount effect of cash flows		(29)
Total lease liability		444

7 Time Deposits

The maturities of time deposits are as follows:

(Dollars in thousands)	$250,000 or Less	Greater than $250,000	Total
Time deposits with a remaining maturity or repricing of:			
3 months or less	$ 47,697	$ 3,227	$ 50,924
Over 3 months through 12 months	82,274	14,111	96,385
Over 1 year through 3 years	23,414	5,118	28,532
Over 3 years	8,029	1,379	9,408
Total	$ 161,414	$ 23,835	$ 185,249

As of December 31, 2024 and 2023, the Company did not hold any brokered deposits. Time deposits greater than $250,000 meet or exceed the FDIC insurance limit of $250,000.

8 Income Taxes

The Company files tax returns in the U.S. federal jurisdiction. With few exceptions, the Company is no longer subject to U.S. federal tax examinations by tax authorities for years prior to 2021.

Net deferred tax assets consist of the following components as of year-end:

(Dollars in thousands)	December 31, 2024	December 31, 2023
Deferred Tax Assets:		
Unrealized loss - AFS securities	$ 1,626	$ 1,458
Allowance for credit losses	1,643	1,471
Supplemental retirement plan	587	430
Deferred compensation	115	115
Deferred loan fees	473	452
Post-retirement benefit plan	46	46
Compensated absences	19	19
Core deposit intangible asset	102	61
Interest on non-accrual loans	9	7
Foreclosed assets	107	-
Other	59	-
Deferred tax assets	$ 4,786	$ 4,059
Deferred Tax Liabilities:		
Depreciation	$ 992	$ 845
Deferred tax liabilities	$ 992	$ 845

The provision for income taxes charged to operations for years ended December 31, 2024 and 2023 consists of the following:

(Dollars in thousands)	Years Ended December 31, 2024	Years Ended December 31, 2023
Current tax expense	$ 4,438	$ 3,728
Deferred tax expense (benefit)	(393)	181
Provision for income taxes	4,045	3,909

8 Income Taxes, continued

The income tax provision differs from the amount of income tax determined by applying the U.S. federal income tax rate to pretax income for the years ended December 31, 2024 and 2023, due to the following:

	Years Ended December 31,	
(Dollars in thousands)	2024	2023
Statutory rates	21%	21%
Computed tax expense	$ 4,179	$ 4,051
Increase (decrease) due to:		
Tax-exempt income	(212)	(252)
Other, net	78	110
Total	$ 4,045	$ 3,909

The Company has analyzed the tax positions taken or expected to be taken in its tax returns and concluded it has no liability related to uncertain tax positions in accordance with accounting guidance on Income Taxes.

The Company has evaluated the need for a deferred tax valuation allowance for the year ended December 31, 2024 in accordance with ASC 740, Income Taxes. Based on this analysis, the Company believes that it is more likely than not that the deferred tax assets are realizable; therefore, no allowance is required.

The Company is also subject to a Bank Franchise Tax that is imposed by the Commonwealth of Virginia. This tax is not an income tax; therefore, the cost is included in other expenses. Bank franchise tax amounted to $810 thousand in 2024 and $728 thousand in 2023.

The Company is also subject to income taxes in the State of North Carolina. For 2024, the Company has incurred an expense of $227 thousand for income taxes payable to the State of North Carolina. The Company incurred income tax expense of $212 thousand for the tax year ended December 31, 2023.

9 Benefit Plans

401(k) Plan

The Company provides for a retirement program for all qualified employees through a 401(k) plan. The plan offers employees the opportunity to contribute up to 90% of their W-2 compensation, less incentive pay, to the plan, with total contributions limited to the $23,000 IRS limit in 2024. The plan also has a proportional matching feature by the Company, whereby the Company will match 100% of the first 5% of salary.

During 2024 and 2023, Company payments through matching contributions totaled $658 thousand and $550 thousand, respectively.

The 401(k) plan was amended during 2020 to include a stock ownership feature, and the plan name was changed to the Benchmark Community Bank 401(k) Profit Sharing Plan and Trust (“KSOP”). See Note 14.

The Company also expensed $328 thousand to the KSOP during 2024, providing cash to accommodate future share redemptions within the KSOP or stock repurchase requests from existing stockholders.

Supplemental Executive Retirement Plan

The Company has adopted a non-tax qualified retirement plan for certain officers to supplement their retirement benefits. The plan is funded through split dollar insurance instruments that provide retirement as well as a death benefit. The Company recorded income in the amount of $620 thousand during 2024 and $439 thousand during 2023 from these policies. The Company has contracted with an outside agency to administer and monitor the plan.

9 Benefit Plans, continued

Changes to the benefit liability are detailed in the chart below:

(Dollars in thousands)	2024	2023
Beginning liability balance	$ 2,049	$ 1,592
Plan expenses	1,199	1,169
Payments to grantor trust	(302)	(562)
Benefits paid to retirees	(149)	(150)
Ending benefit obligation	$ 2,797	$ 2,049

Split-Dollar Life Insurance Plan

In 2006, the Financial Accounting Standards Board (FASB) ratified the Emerging Issues Task Force (ETIF) consensus on *Issue 06-4, Accounting for Deferred Compensation and Post-Retirement Benefit Aspects of Endorsement Split Dollar Life Insurance Arrangements*. The rules require that when an employer provides an insurance benefit post-retirement, the employer must recognize a liability during the employee's working years. The amount of the liability must be equal to the present value of the cost of the post-retirement benefit and must be recognized over the employee's working years.

Upon retirement, the Company will begin reversing the liability into income until the earlier of the participant's death or projected mortality date. The Company elected to apply "Approach A" under this standard to value the liability. Under this approach, the present value of the annual cost of insurance required to keep the policy in force during the post-retirement years was used.

Changes to the benefit liability are detailed in the chart below:

(Dollars in thousands)	2024	2023
Beginning liability balance	$ 267	$ 282
Plan expenses	(18)	(15)
Ending benefit obligation	$ 249	$ 267

Post-Retirement Health Insurance Plan

During 2011, the Board of Directors voted to implement a Post-Retirement Health Insurance Plan ("PRHP"). This plan is designed to provide a tax-free benefit that can be used during the retired or disabled life of a Company employee and/or spouse to pay for policies of health or long-term care insurance. Due to changes brought forth by the Affordable Care Act, the PRHP was cancelled and replaced by a new benefit in 2016. The five retirees covered by the PRHP at the time it was cancelled will be paid per the original benefit agreement.

As of December 31, 2024, the Company had fully funded the benefits for these five retirees with a liability balance of $40 thousand. Changes to the benefit liability are detailed in the chart below.

(Dollars in thousands)	2024	2023
Beginning liability balance	$ 43	$ 46
Plan expenses	-	-
Benefits paid	(3)	(3)
Ending benefit obligation	$ 40	$ 43

Post-Retirement Service Award

The Post-Retirement Service Award ("PRSA") adopted by the Board of Directors to take the place of the PRHP that was discontinued in 2016. All full-time employees may become eligible to receive the PRSA upon retirement from the Company. Retirement is defined as termination of employment after attainment of age 62 with a minimum of 20 years of service or age 55 with a minimum of 25 years of service. There is no disability benefit under this plan. The targeted benefit amount will be equal to a 40% percent of final salary at the time of retirement, payable in a lump sum within thirty days after retirement.

9 Benefit Plans, continued

By reallocating the resources previously dedicated to the PRHP to this new benefit, no additional expenses were incurred beyond what was already budgeted for the original PRHP.

Changes to the benefit liability are detailed in the chart below.

(Dollars in thousands)	2024	2023
Beginning liability balance	$ 174	$ 168
Plan expenses	22	22
Benefits paid	(17)	(16)
Ending benefit obligation	$ 179	$ 174

Incentive Compensation

The Company offers its employees incentive compensation and/or bonus arrangements based on the Company's annual financial performance and other criteria such as length of service and officer classification. The Company incurred expenses for incentive compensation of $1.4 million and $1.2 million for the years ended December 31, 2024 and 2023, respectively.

Deferred Compensation Plan

The Company offers a non-qualified deferred compensation plan to the board of directors and executive officers. The plan allows for elective salary and bonus deferrals. Investments for this plan are held in a Rabbi trust. These investments are included in Other Assets and the related liability is included in Other Liabilities. Changes to the benefit liability are detailed in the chart below:

(Dollars in thousands)	2024	2023
Beginning balance	$ 549	$ 648
Plan earnings, net	11	(99)
Ending benefit obligation	$ 560	$ 549

10 Other Income and Expenses

The principal components of other operating income shown in the Consolidated Statements of Operations and Comprehensive Income are:

(Dollars in thousands)	2024	2023
Financial services income	$ 1,280	$ 1,034
Income - BOLI	620	439
Document prep fees - loans	273	290
Credit card income	331	312
Mark-to-market gain	245	296
Other *	1,226	710
Total other income	$ 3,975	$ 3,081

*Other income includes no items in excess of 1% of total revenue

10 Other Income and Expenses, continued

The principal components of other operating expenses shown in the Consolidated Statements of Operations and Comprehensive Income are:

(Dollars in thousands)	2024	2023
ATM/Debit Card expense	$ 2,818	$ 2,915
Communications	521	650
Franchise taxes	810	728
FDIC insurance expense	829	683
Other *	4,060	3,451
Total other expenses	$ 9,038	$ 8,427

*Other expenses include no items in excess of 1% of total revenue

11 Off-Balance-Sheet Instruments/Credit Concentrations

Litigation

In the normal course of business, the Company is involved in various legal proceedings. After consultation with legal counsel, management believes that any liability resulting from such proceedings will not be material to the consolidated financial statements.

Financial Instruments with Off-Balance-Sheet Risk

The Company is 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. These instruments involve, to varying degrees, credit risk in excess of the amounts recognized in the Consolidated Statements of Financial Condition.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments.

The Company uses the same credit policies in making commitments and conditional obligations as for on balance-sheet instruments. A summary of commitments on December 31, 2024 and 2023 is as follows:

(Dollars in thousands)	2024	2023
Commitments secured by 1-4 family residential (Home Equity Lines)	$ 31	$ 30
Financial standby letters of credit	1	1
Credit card lines of credit	9	8
Commitments to fund commercial real estate, construction, and land development loans secured by:		
1-4 family residential construction loan commitments	47	35
Commercial real estate, other construction/development commitments	22	38
Other than real estate	5	4
Commercial and industrial loans	13	36
Other unused commitments	6	8
Total	$ 134	$ 160

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Company evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary upon extension of credit,

11 Off-Balance-Sheet Instruments/Credit Concentrations, continued

is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. Collateral held varies as specified above and is required in instances which the Company deems necessary.

Concentrations

The Company has no concentrations of credit concerning an individual borrower or economic segment. The Company generally confines its lending activities to within its local geographic areas. The concentrations of credit by loan type are set forth in Note 3. Regulatory requirements limit the Company's aggregate loans to any one borrower to a level of approximately $18.4 million.

Certain cash deposits maintained by the Company with other financial institutions are secured by federal depository insurance. At times during the year these accounts may exceed the FDIC insured limit of $250,000. The Company has not experienced losses in such accounts and believes it is not exposed to significant credit risk on cash and cash equivalents.

12 Borrowings

The Company has credit availability with FHLB that is secured by 1-4 family residential real estate loans of the Company. As of December 31, 2024, loans with a carrying value of $307.5 million were pledged to the FHLB as collateral for borrowings. Following collateral discounts applied by the FHLB, the Company has lendable collateral of $172.2 million and total credit availability of $256.7 million. The Company did not have an outstanding balance as of December 31, 2024 or December 31, 2023.

The Company also has a $45.0 million letter of credit issued on its behalf by the Federal Home Loan Bank of Atlanta. This letter of credit, secured by the Company's 1-4 family residential real estate loans, is pledged to the Treasury Board of Virginia to secure public unit deposits held at the Company.

In addition to the available credit from the FHLB, the Company also has unsecured lines of credit with correspondent banks totaling $86.0 million available for overnight borrowings. There were no outstanding balances on these lines of credit as of December 31, 2024 and 2023.

The Company renewed a $15.0 million line of credit with another financial institution in April 2024 for a term of two years. The line is secured by 400,000 shares (100%) of the Bank's stock. Management plans to utilize this line of credit during the normal course of business as either a short-term credit planning tool for the Company or to support the Company's current common stock repurchase program. The line had an outstanding balance of $790 thousand as of December 31, 2024.

13 Related Party Transactions

In the ordinary course of business, the Company grants loans to directors, executive officers, and their affiliates ("related parties"). These loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unaffiliated persons and do not involve more than normal risk of collectability. As of December 31, 2024, no director or executive officer had outstanding loans in excess of 5.0% of stockholders' equity.

Officers, directors, and their affiliates had loans of $9.0 million as of December 31, 2024 and $4.3 million as of December 31, 2023. Changes in these loans are detailed below:

(Dollars in thousands)		**2024**		**2023**
Loans outstanding	$	4,343	$	4,063
New loans		13,843		6,151
Loan repayments		(9,146)		(5,871)
Total loans outstanding	$	9,040	$	4,343

As of December 31, 2024 and 2023, the Company held deposits of related parties amounting to $6.5 million and $5.5 million, respectively.

14 Capital

Pursuant to the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement, qualifying bank holding companies with total consolidated assets of less than $3 billion are not subject to consolidated regulatory capital requirements. The adequacy of the Company's capital is reviewed by management on an ongoing basis with reference to the size, composition, and quality of the Company's asset and liability levels and consistent with regulatory requirements and industry standards. Management seeks to maintain a capital structure that will assure an adequate level of capital to support anticipated asset growth and absorb potential losses. The Company meets eligibility criteria of a small bank holding company in accordance with the Federal Reserve Board's Small Bank Holding Company Policy Statement issued in February 2015 and is no longer obligated to report consolidated regulatory capital.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of Total Capital, Tier 1 Capital, and Tier 1 Common Equity Capital to risk-weighted assets, and of Tier 1 Leverage Capital to average assets, as all those terms are defined in the regulations. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Company on January 1, 2015, with full compliance with all of the requirements being phased in over a multi-year schedule. Basel III rules were fully phased in as of January 1, 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2024, the Bank meets all capital adequacy requirements to which they are subject.

Basel III Capital Rules require the Company and the Bank to maintain (i) a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% Common Equity Tier 1 capital ratio), effectively resulting in a minimum ratio of Common Equity Tier 1 capital to risk-weighted assets of at least 7.0%, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio), effectively resulting in a minimum Tier 1 capital ratio of 8.5%, (iii) a minimum ratio of total capital (Tier 1 plus Tier 2) to risk-weighted assets of at least 8.0%, plus the capital conservation buffer (which is added to the 8.0% total capital ratio), effectively resulting in a minimum total capital ratio of 10.5%, and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average quarterly assets.

14 Capital, continued

There are no conditions or events since that date that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios are presented in the table below (in thousands except for percentages):

	December 31, 2024					
			Regulatory Minimum with Capital Conservation Buffer		Capital Required to be Considered Well-Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital						
to Risk-Weighted Assets	$ 122,852	12.93%	$99,743	10.50%	$94,994	10.00%
Tier 1 Capital						
to Risk-Weighted Assets	114,934	12.10%	80,744	8.50%	75,995	8.00%
Tier 1 Common Equity						
to Risk-Weighted Assets	114,934	12.10%	66,495	7.00%	61,746	6.50%
Tier 1 Capital						
to Average Assets	114,934	9.28%	49,564	4.00%	61,955	5.00%

	December 31, 2023					
			Regulatory Minimum with Capital Conservation Buffer		Capital Required to be Considered Well-Capitalized	
(Dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital						
to Risk-Weighted Assets	$ 111,296	13.72%	$85,187	10.50%	$81,130	10.00%
Tier 1 Capital						
to Risk-Weighted Assets	104,188	12.84%	68,961	8.50%	64,904	8.00%
Tier 1 Common Equity						
to Risk-Weighted Assets	104,188	12.84%	56,791	7.00%	52,735	6.50%
Tier 1 Capital						
to Average Assets	104,188	9.27%	44,965	4.00%	56,206	5.00%

Stock Repurchase Plan

Each year, the Board of Directors reviews the Company's capital levels to make decisions regarding the Company's stock repurchase plan and dividends to stockholders. The Board has authorized management to repurchase up to 50,000 shares of stock annually; however, the Board will review, and may approve, transactions that cause the Company to exceed this amount. Through the repurchase program, the Company bought back 40,795 shares, totaling $947 thousand, during the year ended December 31, 2024. A total of 31,907 shares, amounting to $745 thousand, were repurchased during 2023.

Equity Compensation

For 2024, the Company paid directors in both cash and common stock. Stock-based compensation accounting requires that the compensation cost relating to stock-based payment transactions be recognized in financial statements. That cost is measured based on the grant date fair value of the equity or liability instruments issued. During 2024, the Company issued a total of 4,317 shares to the Company's outside directors and recognized an expense of $95 thousand. During 2023, the Company issued a total of 4,149 shares to the Company's outside directors and recognized an expense of $95 thousand.

The Company does not offer any stock option plans to employees or directors.

14 Capital, continued

Benchmark Community Bank 401(k) Profit Sharing Plan and Trust (“KSOP”)

The 401(k) plan was amended during 2020 to include a stock ownership feature, and the plan name was changed to the Benchmark Community Bank 401(k) Profit Sharing Plan and Trust (“KSOP”). In June 2021, employees had the opportunity to redirect up to 25% of their existing 401(k) balances towards the purchase of common stock of the Company. A total of 3,965 new shares of common stock were issued as part of this process, providing $77,401 in capital to the holding company. No such option was offered during the following years.

In addition, 51% of the Company’s matching contribution (Note 9), stock dividends, and interest will be used to purchase common stock of the Company for plan participants. During 2024, a total of 8,089 new shares of common stock were issued, providing $210 thousand in capital to the holding company. During 2023, there were no new shares of common stock issued.

Preferred Stock

The Company is authorized to issue 200,000 shares of preferred stock with a par value of $25.00. To date, no preferred stock has been issued by the Company. Currently, management has no plans to utilize this second class of stock.

15 Fair Value of Financial Instruments

Fair Value Measurements and Disclosures, FASB ASC Topic 820 (“ASC 820”) provides a framework for measuring and disclosing fair value under GAAP. ASC 820 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods following initial recognition, whether the measurements are made on a recurring basis, such as with available-for-sale investment securities, or on a nonrecurring basis, as with impaired loans.

The fair value of net loans is based on estimated cash flows using the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities. This does not include consideration of liquidity that market participants would use to value such loans. The estimated fair values of deposits are based on estimated cash flows discounted at market interest rates.

The fair value of off-balance sheet financial instruments is considered immaterial. These off-balance sheet financial instruments are commitments to extend credit and are either short-term in nature or subject to immediate repricing.

Fair Value Hierarchy

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

Level 1: Quoted prices in active markets for identical assets or liabilities. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U. S. Treasury, other U. S. Government and agency mortgage-backed debt securities that are highly liquid and are actively traded in over-the-counter markets.

Level 2: Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts and individually evaluated loans.

15 Fair Value of Financial Instruments, continued

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation. For example, this category generally includes certain private equity investments, retained residual interests in securitizations, residential mortgage servicing rights, and highly structured or long-term derivative contracts.

The following describes the valuation techniques used by the Company to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the consolidated financial statements.

Investment Securities, Available for Sale
Securities available for sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted market prices, when available (Level 1). If quoted market prices are not available, fair values are measured utilizing independent valuation techniques of identical or similar securities for which significant assumptions are derived primarily from or corroborated by observable market data. Third party vendors compile prices from various sources and may determine the fair value of identical or similar securities by using pricing models that considers observable market data (Level 2).

Marketable Equity Securities
Marketable equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon market prices.

Trading Securities
The Company engages in trading activities for its own account. Securities that are held principally for resale in the near future are recorded at fair value with changes in fair value included in earnings.

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2024:

(Dollars in thousands)	December 31, 2024			
	Level 1	**Level 2**	**Level 3**	**Total**
U. S. Government agencies	$ -	$ 6,876	$ -	$ 6,876
U. S. Treasury bonds	-	23,713	-	23,713
Mortgage backed securities	-	15,124	-	15,124
Taxable municipal securities	-	884	-	884
Tax exempt municipal securities	-	32,511	-	32,511
Trading securities	5,523	-	-	5,523
Marketable equity securities	3,156	-	-	3,156
Total assets at fair value measured on a recurring basis	$ 8,679	$ 79,108	$ -	$ 87,787

The following table presents the balances of assets and liabilities measured at fair value on a recurring basis as of December 31, 2023:

(Dollars in thousands)	December 31, 2023			
	Level 1	**Level 2**	**Level 3**	**Total**
U. S. Government agencies	$ -	$ 7,362	$ -	$ 7,362
U. S. Treasury bonds	-	38,400	-	38,400
Mortgage backed securities	-	14,627	-	14,627
Taxable municipal securities	-	913	-	913
Tax exempt municipal securities	-	33,722	-	33,722
Trading securities	5,366	-	-	5,366
Marketable equity securities	2,813	-	-	2,813
Total assets at fair value measured on a recurring basis	$ 8,179	$ 95,024	$ -	$ 103,203

15 Fair Value of Financial Instruments, continued

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the consolidated financial statements:

Other Real Estate Owned

Other real estate owned is recorded at the lower of investment in the loan or fair value at the time of acquisition. During the holding phase, foreclosed assets are carried at the lower of the carrying value or fair value. Fair value is based on independent observable market prices or appraised values of the collateral, which the Company considers to be Level 2 inputs. When the appraised value is not available, or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3. The Company held $510 thousand of other real estate owned measured at fair value as of December 31, 2024. As of December 31, 2023, there was no other real estate owned measured at fair value.

Loans Held for Sale

Loans held for sale include mortgage loans which are saleable into the secondary mortgage markets and their fair values are estimated using observable quoted market or contracted prices or market price equivalents, which would be used by other market participants. These saleable loans are considered Level 2.

Individually Evaluated Loans

Loans are designated as individually evaluated when, in the judgment of management based on current information and events, it is probable that all amounts due according to the contractual terms of the loan agreement will not be collected. The measurement of loss associated with individually evaluated loans can be based on the observable market price of the loan, the fair value of the collateral or by using the discounted cash flow method. Fair value is measured based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. A majority of the collateral is real estate.

The value of real estate collateral is determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company. The Company records individually evaluated loans secured by real estate as Level 3 assets. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant using observable market data. Likewise, values for inventory and accounts receivables collateral are based on financial statement balances or aging reports are recorded as Level 3 assets. Any fair value adjustments are recorded in the period incurred as provision for credit losses on the Consolidated Statements of Operations.

The following table presents quantitative information about Level 3 fair value measurement for assets measured at fair value on a non-recurring basis as of December 31, 2024 and 2023.

	Valuation Technique	Significant Unobservable Inputs	Range of Inputs
Invididually evaluated loans	Appraisal value / discounted cash flows	Discounts to appraisals for cash flows for estimating holding and/or selling costs or age of appraisal	0% - 10%
Other real estate owned	Appraisal value / comparable sales	Discounts to appraisals for estimating holding or selling costs	0% - 6%

15 Fair Value of Financial Instruments, continued

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

(Dollars in thousands)	As of December 31, 2024	Level 1	Level 2	Level 3
Individually evaluated loans	$ 2,627	$ -	$ -	$ 2,627
Loans held for sale	449	-	449	-
Other real estate owned	510	-	-	510
Total assets at fair value measured on a nonrecurring basis	$ 3,586	$ -	$ 449	$ 3,137

	As of December 31, 2023	Level 1	Level 2	Level 3
Individually evaluated loans	$ 3,075	$ -	$ -	$ 3,075
Total assets at fair value measured on a nonrecurring basis	$ 3,075	$ -	$ -	$ 3,075

The following table presents the carrying amounts and fair value of the Company's financial instruments as of December 31, 2024 and 2023 carried on the Consolidated Statements of Financial Condition. FASB Accounting Standards Codification's *Financial Instruments* (ASC 825) defines the fair value of financial instruments as the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale.

	December 31, 2024		December 31, 2023	
(Dollars in thousands)	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets:				
Level 1				
Cash and due from banks	$ 18,493	$ 18,493	$ 26,601	$ 26,601
Interest bearing time deposits with other banks	499	499	5,498	5,498
Federal reserve excess balance account	43,604	43,604	65,117	65,117
Restricted investments	1,183	1,183	1,153	1,153
Level 3				
Loans held for investment, net [(1)]	988,627	968,455	885,225	833,298
Accrued interest receivable	4,032	4,032	3,548	3,548
Financial liabilities:				
Level 1				
Noninterest-bearing demand deposits	263,089	263,089	261,253	261,253
Level 3				
Interest-bearing demand deposits, NOW, savings and money market accounts	654,556	584,911	616,716	541,841
Time deposits	185,249	185,268	175,660	175,828
Borrowings	790	790	1,531	1,531
Accrued interest payable	936	936	993	993

(1) Net of allowance for credit losses.

16 Earnings per Common Share

Earnings per share of common stock are calculated based on the average number of shares outstanding during the period. At December 31, 2024 and 2023, the Company had no potentially dilutive securities outstanding.

	2024								
(Dollars in thousands, except share and per share data)		**Net Income**	**Average Number of Shares**		**Per Share Amounts**		Net Income	Average Number of Shares		Per Share Amounts
Basic earnings per share	**$**	**15,853**	**4,468,381**	**$**	**3.55**	$	15,380	4,511,301	$	3.41
Effect of dilutive stock options		-	-		-		-	-		-
Diluted earnings per share	**$**	**15,853**	**4,468,381**	**$**	**3.55**	$	15,380	4,511,301	$	3.41

17 New Accounting Pronouncements

Newly Issued but Not Effective Accounting Standards

Accounting standards that have been issued or proposed by the FASB or other standard-setting bodies are not expected to have a material impact on the company’s financial statements.

18 Parent Company

Financial statements for Benchmark Bankshares, Inc. (parent company only) are herein presented.

Benchmark Bankshares, Inc.
Statements of Financial Condition

(Dollars in thousands)	As of December 31,	
Assets	**2024**	2023
Cash	**$ 2,184**	$ 1,819
Investment in subsidiary	**109,992**	100,197
Other assets	**14**	15
Total Assets	**$ 112,190**	$ 102,031
Liabilities		
Borrowings	**$ 790**	$ 1,531
Dividends payable	**1,965**	1,798
Accrued interest payable	**1**	10
Total Liabilities	**$ 2,756**	$ 3,339
Stockholders' Equity		
Common stock	**$ 937**	$ 943
Additional paid-in capital	**5,916**	5,862
Retained earnings	**108,697**	97,373
Accumulated other comprehensive loss	**(6,116)**	(5,486)
Total Stockholders' Equity	**109,434**	98,692
Total Liabilities and Stockholders' Equity	**$ 112,190**	$ 102,031

Benchmark Bankshares, Inc.
Statements of Operations and Comprehensive Income

	Years Ended December 31,	
(Dollars in thousands)	**2024**	2023
Income		
Securities gain, net	**$ 1**	$ 1
Dividends from subsidiary	**5,618**	5,085
Total Income	**5,619**	5,086
Expenses		
Interest expense	**55**	83
Director fees	**95**	95
Supplies, printing, and postage	**35**	10
Legal expense	**3**	1
Salaries expense	**18**	7
Income tax benefit	**(33)**	(44)
Miscellaneous	**17**	10
Total expenses	**190**	162
Income Before Equity in Undistributed Income of Subsidiary	**5,429**	4,924
Equity in Undistributed Income of Subsidiary	**10,424**	10,456
Net Income	**$ 15,853**	**$ 15,380**

18 Parent Company, continued

Benchmark Bankshares, Inc.
Statements of Cash Flows

(Dollars in thousands)	Years Ended December 31, 2024	2023
Cash Flows from Operating Activities		
Net income	**$ 15,853**	$ 15,380
Equity based compensation expense	**95**	95
Change in accrued interest payable	**(9)**	(8)
Change in dividends payable	**167**	82
Securities gain, net	**-**	(1)
Net cash provided by operating activities	**16,106**	15,548
Cash Flows from Investing Activities		
Undistributed earnings of subsidiary	**(10,424)**	(10,456)
Net cash used in investing activities	**(10,424)**	(10,456)
Cash Flows from Financing Activities		
Repurchase of common stock	**(947)**	(745)
Issuance of common stock	**210**	-
Proceeds from borrowings	**477**	-
Principal curtailment of borrowings	**(1,218)**	(1,172)
Dividends paid	**(3,839)**	(3,608)
Net cash used in financing activities	**(5,317)**	(5,525)
Net Increase (Decrease) in Cash	**365**	(433)
Cash - Beginning of Year	**1,819**	2,252
Cash - End of Period	**$ 2,184**	$ 1,819

19 Subsequent Event

Subsequent events are events or transactions that occur after the balance sheet date but before consolidated financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date. Management has reviewed events occurring through March 31, 2025, the date the consolidated financial statements were available to be issued, and no subsequent events occurred requiring accrual or disclosure.