



2024
Annual Report

PRESIDENT'S LETTER

March 26, 2025

To Our Shareholders, Customers, and Team,

As we reflect on 2024, it was a year that tested our resilience, strengthened our foundation, and set the course for Queensborough's future. Through challenges and change, one thing remained constant - the unwavering commitment of our employees to our customers and communities. Early in the year, we took a significant step in preparing for the future by promoting a wave of veteran bankers into leadership roles. These individuals have dedicated their careers to serving our customers, and their experience and vision will serve the bank well for decades to come.

A major milestone this year was our core conversion - a massive undertaking that touched every aspect of our operations. After 42 years on our previous platform, we successfully transitioned to a modern system that positions us for long-term success. Thanks to meticulous planning and the dedication of our team, the transition was smooth, with minimal disruption to our customers.

Just weeks after the core conversion, our entire footprint was hit by Hurricane Helene, a storm of historic proportions. Many of our customers faced devastating losses. Though many areas were without power for weeks, the Queensborough team yet again stepped up, operating branches on generators to provide banking services to our customers when they needed it most.

I'm proud of our bank's leaders and team members' performance in 2024, a year that no doubt held challenges for many. At yearend, our total loans reached an impressive \$1,185,585,453. Additionally, total assets surged for a second year, landing at \$2,148,042,588.

Our net income for the year increased slightly over the previous year at \$15,828,624, highlighting the persistence and hard work of our institution in today's evolving market.

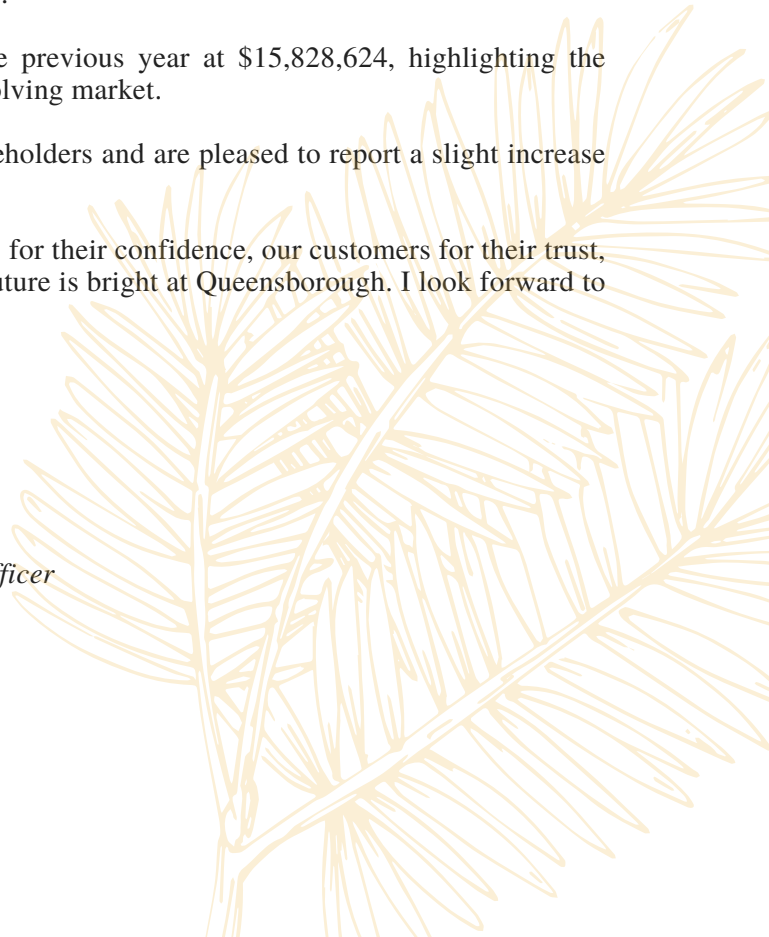
We remain committed to enhancing the value to our shareholders and are pleased to report a slight increase in our earnings per share to \$12.18.

I want to express my deepest gratitude to our shareholders for their confidence, our customers for their trust, and to our employees for their steadfast dedication. The future is bright at Queensborough. I look forward to what we will accomplish in the year ahead.

Warm regards,



William F. Easterlin, III *President and Chief Executive Officer*
bill@qnbtrust.bank | 478.494.0614



A YEAR OF GROWTH

QUEENSBOROUGH ANNOUNCES SEVERAL LEADERSHIP PROMOTIONS

In 2024, Queensborough announced several leadership promotions, signifying the bank's continued commitment to its future growth.

Bill Thompson was promoted to Chief Banking Officer. Thompson has 43 years of banking experience and has been with Queensborough as Chief Lending Officer since 2008. In his new role, Thompson is responsible for managing all traditional banking activities and credit approvals across all bank markets.

Adam Harris was promoted to Augusta Region President and Senior Lending Officer. Harris has been with Queensborough for 18 years overseeing the bank's 11 Augusta-area branches. He is an Augusta native with over 23 years of banking experience and has led a tremendous expansion of the bank's market share in the CSRA.

Mike English was promoted to Coastal Region President and Senior Lending Officer. English has been with the bank for 17 years when he was brought on to lead Queensborough's Coastal expansion. He has an extensive background in commercial banking and is a civic leader in the Savannah market.

Clare Easterlin was promoted to Chief Risk Officer. Easterlin will be responsible for establishing an Enterprise Risk Management program to measure, monitor, and manage risk across the entire organization. Prior to joining the bank in 2020, Easterlin spent ten years with an Atlanta-based wealth management firm serving in business management and human capital capacities.

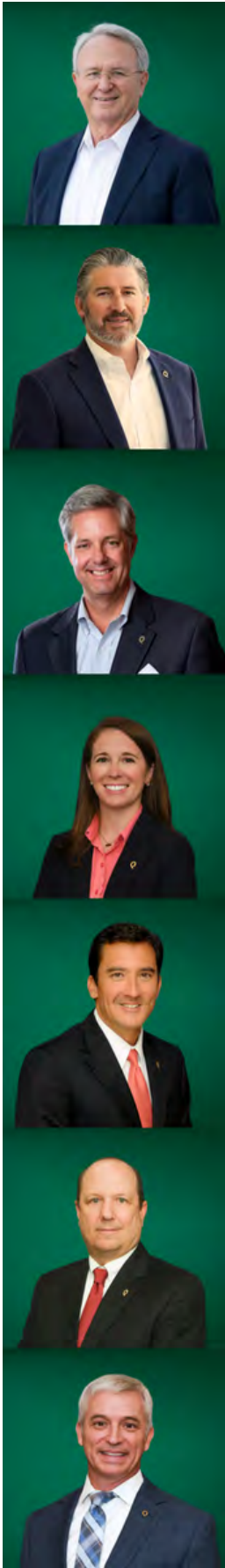
Dagan Sharpe was promoted to Head of Wealth Management and Public Funds Officer. Sharpe has been with the bank for 10 years, when he was brought in to build the bank's internal Wealth Management Department and Financial Literacy efforts. In his new role, he will be responsible for establishing a Public Funds department dedicated to serving the bank's municipal customers as well as leading a continued expansion of Wealth Management.

John Jackson was promoted to Senior Credit Officer. Jackson has been with Queensborough for 27 years. He will continue his work with the loan administration group, serve as point person for the loan review process, and manage loan exceptions and concentration limits.

Tillman Sauls was promoted to Senior Credit Officer. Sauls has been with the bank for 13 years, leading the bank's commercial lending department in Augusta. As Senior Credit Officer, he will manage the credit analyst group and the credit policy administration process.

“AS WE EMBARK ON THIS NEW CHAPTER, PROMOTING THESE SIX VETERAN BANKERS IS NOT JUST A STRATEGIC MOVE; IT'S A COMMITMENT TO OUR COMMUNITY-CENTRIC VALUES.”

Bill Easterlin, President & CEO



RESILIENCE AND PROGRESS

OVERCOMING CHALLENGES IN A DEFINING FOURTH QUARTER

The fourth quarter of the year tested the bank like never before, but through resilience, teamwork, and a commitment to serving our customers, we emerged stronger than ever.

A Historic Core Conversion

After 42 years on the Bankway core platform, Queensborough faced the challenge of transitioning to a new system as our previous provider discontinued support of the product. Led by COO Kim Kirk and a dedicated team known as the “Conversion Crew,” the year-long project impacted every area of the bank—from deposit accounts and loans to online banking and ATMs. After months of preparation, the conversion took place over Labor Day weekend with minimal customer disruption. Thanks to detailed planning and clear communication, the transition was a success.

Weathering Hurricane Helene

Just three weeks after the core conversion, Hurricane Helene struck the bank’s entire footprint, leaving widespread power outages, downed trees, and inaccessible roads. Many of our branches ran on generators, and employees faced personal challenges yet remained committed to reopening quickly. Our emergency response team delivered generators where needed, and

our communications team kept customers informed about branch availability. With businesses relying on cash, we knew how critical it was to serve our communities, and we did just that.

Rising from the Flames in Metter

While Helene recovery efforts continued, our Metter branch faced another unexpected challenge—a major fire in downtown Metter. Though the branch itself did not catch fire, smoke and water damage rendered it inoperable. Turning adversity into opportunity, bank leadership secured a new location on South Lewis Street, and renovations are now underway. In the meantime, we quickly restored banking operations within a week to continue serving our Candler County customers.

Through the obstacles of 2024, Queensborough’s teammates proved their strength, adaptability, and unwavering commitment to the communities we serve. Here’s to a smoother year ahead!



RICHARD PEACOCK RETIRES AFTER 20 YEARS OF DEDICATED SERVICE

After two decades, Richard Peacock, Chief Credit Officer at Queensborough has announced his retirement. Richard leaves a legacy of dedicated community service, steadfast work ethic and unwavering integrity.

Peacock first joined Queensborough as Chief Credit Officer in 2004. During his 20-year tenure, Peacock played a pivotal role in the bank’s growth, overseeing an increase in total assets from \$542 million to over \$2 billion. Peacock is responsible for establishing the bank’s resilient credit culture that carried the bank through both the Great Recession of 2008 and the global pandemic in 2020. Additionally, his reputation and leadership skills fostered a work environment that attracted and retained some of Augusta’s top banking talent, earning the bank recognition of Newsweek’s Best Small Bank in Georgia in 2022.

Beyond his professional achievements, Peacock has been an active and dedicated member of the Augusta community. He currently serves as the treasurer of the Augusta Symphony and is a founding board member of the Miller Theater. His past leadership roles include President of the Augusta Country Club Board of Directors, President of the Shephard Community Blood Center, and President of the Augusta chapter of the American Cancer Society. His commitment to service extends to board service with the United Way, University Hospital Foundation, and Episcopal Day School. He is a graduate of Leadership Georgia and a member of Trinity on the Hill United Methodist Church. In his leisure time, he enjoys tennis, golf, and cherished moments with his wife of 39 years, Angelyn, their daughters Kathryn Jones (Kevin) and Kemper Harrison (Charlie) and their four grandchildren.

IN THE COMMUNITY



Our Swainsboro team volunteered washing laundry for **HURRICANE HELENE** recovery workers.



Our Metter branch was the first home of a **SWIRL LITERACY COUNCIL** book bench.



Eight branches offered free **COMMUNITY SHRED EVENTS**.



Even though the ride was cancelled due to Helene, Team Q raised \$17,902.00 for **PACELINE**- the second highest team total.



We were named **UNITED WAY OF THE CSRA** Campaign Champion for 2023.



Jackson Dowdy, Hannah Posey, and Will McNeely won **COMMUNITY BANK SCHOLARSHIPS**.



Teammates volunteered with **RONALD MCDONALD HOUSE** to help provide a "home away from home" for families with children receiving medical care.

BOARD *of* DIRECTORS

THE QUEENSBOROUGH COMPANY

J. Thomas Battle
L. J. Bowles, III
Gretchen B. Caughman, PhD
Clare Carswell Easterlin
W. Abbot Easterlin
William F. Easterlin, III
Charles Troy Jordan
D. Phil Polhill, CPA
Charles E. Smith, Jr.
Paul G. Trotter, DDS
Dr. Jermaine Whirl

QUEENSBOROUGH NATIONAL BANK & TRUST COMPANY

J. Thomas Battle
L.J. Bowles, III
Gretchen B. Caughman, PhD
Clare Carswell Easterlin
W. Abbot Easterlin
William F. Easterlin, III
Charles Troy Jordan
D. Phil Polhill, CPA
Charles E. Smith, Jr.
Paul G. Trotter, DDS
Dr. Jermaine Whirl

COASTAL ADVISORY BOARD

Troy R. Baird
Wallace "Miller" Glover, Jr.
Timothy "Brett" Goodwin, Jr.
Laura A. Judge
Joseph C. Marchese
Mathew M. McCoy
Paul Mosely, Sr.
Kathryn A. Murph
Scott Rasplicka
Derek White
Gary R. Wiggin
Holly S. Young

HONORARY DIRECTORS

Louisa Abbot
John Roy Clifton, Jr.
Joseph B. Culvern
J. Dudley Gunn
Thomas W. Jones, CPA
William C. McMaster, Jr.
Sam S. Pennington
Dr. James B. Polhill, IV
R. Joseph Pollock
Edith W. Pundt
R. Hubert Reeves, III
E.C. Smith, III
W. Jeffrey Weichsel

EXECUTIVE MANAGEMENT

William F. Easterlin, III President,
Chief Executive Officer
Jeffrey L. Karafa, *Chief Financial Officer*
Kimberly S. Kirk, *Chief Operations Officer*
Sheryl R. Reed, SPHR, SHRM-SCP
Chief Human Resource Officer
William R. Thompson, *Chief Banking Officer*
Julie W. Evans, *Corporate Secretary*

D. Phil Polhill, CPA,
Executive Vice President, Finance
Adam C. Harris, *Augusta Region President*
J. Michael English, *Coastal Region President*
Clare C. Easterlin, *Chief Risk Officer*
Dagan Sharpe, *Head of Wealth*
John L. Jackson, II, *Senior Credit Officer*
B. Tillman Sauls, *Senior Credit Officer*

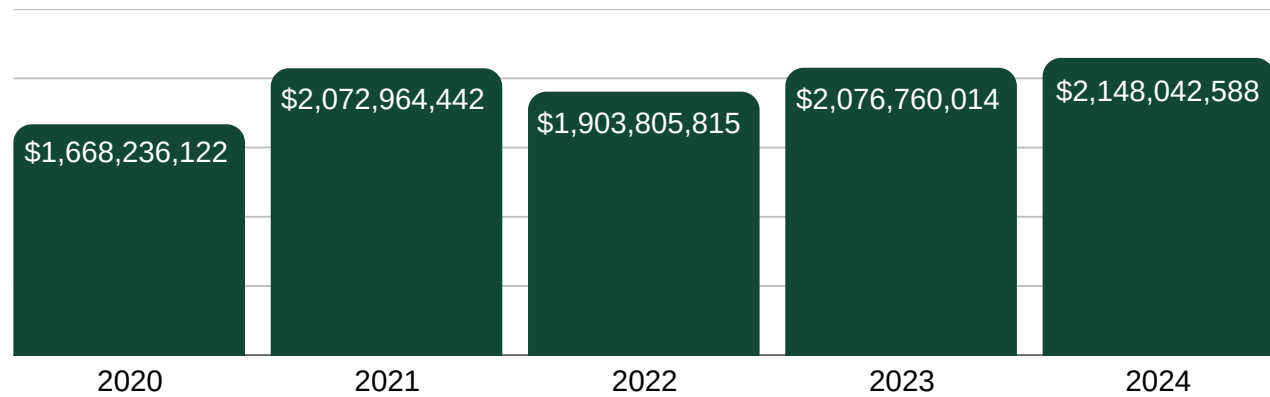


COMPANY FINANCIALS

TOTAL DEPOSITS



TOTAL ASSETS



NET INCOME



NET INCOME PER SHARE OF COMMON STOCK



THE QUEENSBOROUGH COMPANY AND SUBSIDIARY

Consolidated Financial Statements

December 31, 2024 and 2023
(with Independent Auditor's Report thereon)

The Queensborough Company

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Independent Auditor's Report

Board of Directors
The Queensborough Company

Report on the Audit of the Financial Statements

Opinion

We have audited the consolidated financial statements of The Queensborough Company and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (collectively, the "financial statements").

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

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 of the Treadway Commission in 2013, and our report dated March 28, 2025 expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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.



Greenville, South Carolina
March 28, 2025

The Queensborough Company
Consolidated Balance Sheets
December 31, 2024 and 2023

<u>Assets</u>	<u>2024</u>	<u>2023</u>
Cash and due from banks	\$ 55,627,425	45,815,252
Interest-bearing deposits with banks	144,392,413	167,917,572
Cash and cash equivalents	200,019,838	213,732,824
Investment securities available for sale	347,334,683	260,324,701
Investments securities held to maturity (fair value of \$252,059,519 and \$299,202,542, respectively), less allowance for credit losses- Investments of \$209,949 and \$159,949, respectively	298,159,015	346,850,504
Other investments	3,778,969	3,362,762
Loans held for sale	4,579,487	5,029,127
Loans, less allowance for credit losses of \$11,412,886 and \$10,883,320, respectively	1,185,585,453	1,155,055,810
Premises and equipment, net	40,617,496	38,751,356
Goodwill and core deposit intangible	3,388,930	3,388,930
Other real estate	-	26,212
Cash surrender value of life insurance	31,878,328	21,066,303
Accrued interest receivable and other assets	32,700,389	29,171,485
Total assets	<u>\$ 2,148,042,588</u>	<u>2,076,760,014</u>
<u>Liabilities and Shareholders' Equity</u>		
Deposits:		
Noninterest-bearing	\$ 633,414,014	651,518,867
NOW and money market accounts	917,152,322	811,008,064
Savings	95,050,422	91,399,362
Time deposits, \$250,000 or more	137,938,745	117,842,802
Other time deposits	173,631,170	173,875,781
Total deposits	<u>1,957,186,673</u>	<u>1,845,644,876</u>
Subordinated debentures, net	23,890,972	23,749,636
Federal Home Bank Advances	5,000,000	5,000,000
Federal Reserve Bank Advances	-	55,000,000
Junior subordinated debentures	12,372,000	12,372,000
Accrued interest payable and other liabilities	18,436,440	16,882,426
Total liabilities	<u>2,016,886,085</u>	<u>1,958,648,938</u>
Commitments and Contingencies		
Shareholders' equity:		
Common stock, \$1 par value; 10,000,000 shares authorized; 1,296,651 and 1,299,264 shares issued and outstanding at December 31, 2024 and 2023, respectively	1,296,651	1,299,264
Additional paid-in capital	7,179,408	7,398,698
Retained earnings	156,171,164	143,260,006
Accumulated other comprehensive loss	(33,490,720)	(33,846,892)
Total shareholders' equity	<u>131,156,503</u>	<u>118,111,076</u>
Total liabilities and shareholders' equity	<u>\$ 2,148,042,588</u>	<u>2,076,760,014</u>

See accompanying notes to consolidated financial statements.

The Queensborough Company
Consolidated Statements of Earnings
For the Years Ended December 31, 2024 and 2023

	2024	2023
Interest income:		
Interest and fees on loans	\$ 74,708,106	64,856,288
Interest on investment securities:		
Taxable	15,920,562	13,805,316
Tax exempt	775,728	828,071
Other investments	453,698	164,674
Interest on federal funds sold and interest-bearing deposits with banks	9,812,774	4,877,621
Total interest income	101,670,868	84,531,970
Interest expense:		
Deposits:		
NOW and money market accounts	22,702,478	16,230,820
Savings	441,262	476,413
Time	11,482,038	6,452,577
Borrowed funds	2,108,038	377,880
Subordinated debentures	1,433,260	1,440,000
Junior subordinated debentures	943,512	915,629
Total interest expense	39,110,588	25,893,319
Net interest income	62,560,280	58,638,651
Provision for credit losses	1,900,000	1,350,000
Net interest income after provision for credit losses	60,660,280	57,288,651
Other income:		
Service charges on deposit accounts	9,444,332	8,633,980
Mortgage banking income	2,764,208	3,126,841
Net gain (loss) on sale of securities	-	2,222
Net gains on sale of other real estate	8,615	13,212
Investment management fees	1,578,768	1,913,544
Other	1,568,368	2,531,537
Total other income	15,364,291	16,221,336
Other expenses:		
Salaries and employee benefits	36,834,382	33,885,981
Occupancy and equipment	4,327,235	3,910,261
Federal deposit insurance assessment	1,194,239	995,046
Loan expense	285,077	584,470
Data processing	5,491,713	5,452,995
Other	8,056,399	9,361,187
Total other expenses	56,189,045	54,189,940
Earnings before income taxes	19,835,526	19,320,047
Income tax expense	4,006,902	4,155,529
Net earnings	\$ 15,828,624	15,164,518
Net earnings per share:		
Basic	\$ 12.18	11.63
Diluted	\$ 12.16	11.60

See accompanying notes to consolidated financial statements.

The Queensborough Company
Consolidated Statements of Comprehensive Income
For the Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net earnings	\$ <u>15,828,624</u>	<u>15,164,518</u>
Other comprehensive income, net of income taxes:		
Unrealized (losses) gains on investment securities available for sale:		
Holding (losses) gains arising during period	(333,497)	4,350,412
Realized (gains) on investment securities available for sale	-	(2,222)
Reclassification adjustment for amortization of unrealized losses on securities available for sale transferred to held to maturity	<u>813,126</u>	<u>1,085,602</u>
Net gains on securities	<u>479,629</u>	<u>5,433,792</u>
Net effect of taxes	(123,457)	(1,398,659)
Total other comprehensive income, net of tax	<u>356,172</u>	<u>4,035,133</u>
Comprehensive income	\$ <u><u>16,184,796</u></u>	<u><u>19,199,651</u></u>

See accompanying notes to consolidated financial statements.

The Queensborough Company
Consolidated Statements of Changes in Shareholders' Equity
For the Years Ended December 31, 2024 and 2023

	Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)	Total
Balance, December 31, 2022	\$ 1,312,784	8,621,562	130,894,363	(37,882,025)	102,946,684
Adoption of new accounting standard	-	-	(200,347)	-	(200,347)
Common dividends	-	-	(2,598,528)	-	(2,598,528)
Exercise of warrants for 1,088 shares	1,088	77,248	-	-	78,336
Common stock repurchased, 14,608 shares	(14,608)	(1,300,112)	-	-	(1,314,720)
Other comprehensive income, net	-	-	-	4,035,133	4,035,133
Net earnings	-	-	15,164,518	-	15,164,518
Balance, December 31, 2023	\$ 1,299,264	7,398,698	143,260,006	(33,846,892)	118,111,076
Common dividends	-	-	(2,917,466)	-	(2,917,466)
Common stock repurchased, 2,613 shares	(2,613)	(219,290)	-	-	(221,903)
Other comprehensive income, net	-	-	-	356,172	356,172
Net earnings	-	-	15,828,624	-	15,828,624
Balance, December 31, 2024	\$ 1,296,651	7,179,408	156,171,164	(33,490,720)	131,156,503

See accompanying notes to consolidated financial statements.

The Queensborough Company
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net earnings	\$ 15,828,624	15,164,518
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Discount accretion and premium amortization, net	891,648	(63,003)
Depreciation	1,776,928	1,684,021
Earnings on BOLI	(1,039,571)	(515,426)
Amortization of intangible assets	-	5,908
Provision for deferred income tax expense	(337,927)	(62,053)
Provision of credit losses	1,900,000	1,350,000
(Gain) loss on sale of securities	-	(2,222)
Loss on disposal of PPE	10,137	-
Net gain on sales of other real estate	(8,615)	(13,212)
Amortization of debt issuance costs	141,336	141,336
Change in:		
Mortgage banking income	449,640	2,758,905
Accrued interest receivable and other assets	(3,314,434)	(1,366,633)
Accrued interest payable and other liabilities	310,076	3,934,200
Net cash provided by operating activities	16,607,842	22,875,003
Cash flows from investing activities:		
Proceeds from pay downs, calls and maturities of securities available for sale	170,736,896	31,908,024
Proceeds from pay downs, calls and maturities of securities held to maturity	50,184,343	38,638,413
Purchases of securities available for sale	(258,724,876)	(59,325,186)
Purchases of securities held to maturity	(976,875)	(11,139,122)
(Purchase) redemption of bank owned life insurance	(9,772,454)	-
Proceeds from sale of securities available for sale	-	24,939,722
Purchases of other investments	(416,207)	(638,699)
Net increase in loans	(31,454,643)	(104,872,427)
Purchases of premises and equipment	(3,653,205)	(3,796,074)
Proceeds from sale of other real estate	34,827	327,229
Net cash used in investing activities	(84,042,194)	(83,958,120)
Cash flows from financing activities:		
Net increase in deposits	111,541,797	92,705,983
Proceeds from FHLB borrowings	-	5,000,000
(Repayments) proceeds from FRB BTFP borrowings	(55,000,000)	55,000,000
Repurchase and retire common stock	(221,903)	(1,314,720)
Exercise of warrants	-	78,336
Cash dividends paid	(2,598,528)	(2,598,528)
Net cash provided by in provided by financing activities	53,721,366	148,871,071
Net change in cash and cash equivalents	(13,712,986)	87,929,290
Cash and cash equivalents at beginning of year	213,732,824	125,803,534
Cash and cash equivalents at end of year	\$ 200,019,838	213,732,824
Supplemental schedule of non-cash financing and investing activities:		
Unrealized gain (loss) on securities available for sale, net	\$ (356,172)	4,432,383
Adoption of ASU 2016-13	-	200,347
Supplemental disclosure of cash flow information:		
Cash paid for interest	38,607,358	22,314,683
Cash paid for income taxes	3,607,500	3,218,000

The Queensborough Company
Notes to Consolidated Financial Statements

(1) Summary of Significant Accounting Policies

Basis of Presentation

The consolidated financial statements include the accounts of The Queensborough Company (“Queensborough”) and its wholly owned subsidiary, Queensborough National Bank and Trust Company (the “Bank”) (collectively the “Company”). The accounts of Queensborough National Bank and Trust Company include the accounts of the Bank and its wholly owned subsidiary, Queensborough Insurance Agency, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

The Company’s primary market is comprised of Jefferson, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, Liberty, McDuffie, Richmond, Screven, Washington and contiguous counties of east central and southeast Georgia. Queensborough National Bank and Trust has its home office in Louisville, Georgia with branch banks in Augusta, Evans, Garden City, Grovetown, Hephzibah, Hinesville, Martinez, Metter, Midville, Millen, Pooler, Rincon, Sandersville, Savannah, Statesboro, Swainsboro, Sylvania, Thomson, Wadley, Waynesboro and Wrens, Georgia. Loan production offices are located in Aiken and Columbia, South Carolina.

The Bank commenced business in 1902 upon receipt of its banking charter from the Office of the Comptroller of the Currency (the “OCC”). The Bank is primarily regulated by the OCC and undergoes periodic examinations by this regulatory agency. The Company is regulated by the Federal Reserve Bank and is also subject to periodic examinations. The Bank provides a full range of commercial and consumer banking services throughout its Georgia trade area.

The accounting principles followed by the Company, and the methods of applying these principles, conform with accounting principles generally accepted in the United States of America (“GAAP”) and with general practices in the banking industry. In preparing the financial statements in conformity with GAAP, management is required to make estimates and assumptions that affect the reported amounts in the financial statements. Actual results could differ significantly from these estimates. Material estimates common to the banking industry that are particularly susceptible to significant change in the near term include, but are not limited to, the determination of the allowance for credit losses, the valuation of fair value of investments, the valuation of collateral dependent individually evaluated loans, the valuation of real estate acquired in connection with or in lieu of foreclosure on loans and valuation allowances associated with the realization of deferred tax assets which are based on future taxable income.

Accounting Standards Adopted In 2023

On January 1, 2023, the Company adopted ASU 2016-13 Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments (ASC 326). This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. CECL requires an estimate of credit losses for the remaining estimated life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and held to maturity debt securities, and some off-balance sheet credit exposures such as unfunded commitments to extend credit. Financial assets measured at amortized cost will be presented at the net amount expected to be collected by using an allowance for credit losses.

In addition, CECL made changes to the accounting for available for sale debt securities. Once such change is to require credit losses to be presented as an allowance rather than as a write-down on available for sale debt securities if management does not intend to sell and does not believe that it is more likely than not they will be required to sell.

The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023, using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included a decrease in the allowance for credit losses on loans of \$398,970, which is presented as a reduction to net loans outstanding, an increase in the allowance for credit losses on unfunded loan commitments of \$535,426, which is recorded within other liabilities. The Company recorded an allowance for credit losses for held to maturity securities of \$132,890, which is presented as a reduction to held to maturity securities outstanding.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

The Company recorded a net decrease to retained earnings of \$200,347 as if January 1, 2023, for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023, are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss").

ASU No. 2022-02, "Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures," eliminates the troubled debt restructuring (TDR) accounting model for creditors that have adopted Topic 326, "Financial Instruments-Credit Losses." ASU No. 2022-02 requires all loan modifications to be accounted for under the general loan modification guidance in Subtopic 310-20. On a prospective basis, entities are subject to new disclosure requirements covering modifications of receivables to borrowers experiencing financial difficulty. The Company adopted ASU No. 2022-02 on January 1, 2023.

Cash and Cash Equivalents

Cash equivalents include due from banks, interest-bearing deposits with banks, time deposits with banks and federal funds sold. Generally, federal funds are sold for one to three day periods and interest-bearing deposits have maturities less than 90 days.

Investment Securities

The Company may classify its securities in one of three categories: trading, available for sale or held to maturity. Trading securities are bought and held principally for the purpose of selling them in the near term. Held to maturity securities are those securities for which the Company has the ability and intent to hold the securities until maturity. All other securities not included in trading or held to maturity are classified as available for sale. At December 31, 2024 and 2023, there were no trading securities.

Available for sale securities are recorded at fair value. Held to maturity securities are recorded at cost, adjusted for the amortization or accretion of premiums or discounts. Unrealized holding gains and losses, net of the related tax effect, on securities available for sale are excluded from earnings and are reported as a separate component of shareholders' equity until realized. Transfers of securities between categories are recorded at fair value at the date of transfer.

Premiums and discounts are amortized or accreted over the life of the related securities as adjustments to the yield. Realized gains and losses for securities classified as available for sale and held to maturity are included in earnings and are derived using the specific identification method for determining the cost of securities sold.

Allowance for Credit Losses - Held to Maturity Securities

Management measures expected credit losses on held to maturity securities on a collective basis by major security type. Accrued interest receivable on held to maturity debt securities totaled \$975,499 and \$1,251,137 at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

The estimate of expected credit losses is based on the ratings assigned to the securities by debt ratings agencies. Certain corporate debt securities which are not rated are also, reviewed internally for credit deterioration. Management classifies the held-to-maturity portfolio into the following major security types: mortgage-backed securities, state and local governments, and subordinated debentures.

A portion of the mortgage-backed securities held by the Company are issued by government-sponsored enterprises and agencies. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and local governments securities held by the Company are highly rated by major rating agencies. As a result, an allowance for credit losses of \$209,949 and \$159,949 was recorded on held to maturity securities at December 31, 2024 and 2023, respectively.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Available for Sale Securities

For available for sale securities, management evaluates all investments in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security, or it more likely than not that the Company will be required to sell the security, the security is written down to fair value, and the entire loss is recorded in earnings.

If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance on any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected is compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any amount of unrealized loss that has not been recorded through an allowance for credit loss is recognized in other comprehensive income.

Changes in the allowance for credit loss are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit loss when management believes an available for sale security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024 and 2023, there was no allowance for credit loss related to the available for sale portfolio.

Accrued interest receivable on available-for-sale debt securities totaled \$1,158,051 and \$616,0232 at December 31, 2024 and 2023, respectively, and was excluded from the estimate of credit losses.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at principal amount outstanding, net of unearned interest and charge offs. Interest on other loans is calculated by using the simple interest method on daily balances of the principal amount outstanding.

The accrual of interest is generally discontinued when a loan becomes 90 days past due and is not well collateralized and in the process of collection, or when management believes, after considering economic and business conditions and collection efforts, that the principal or interest will not be collectible in the normal course of business. Past due status is based on contractual terms of the loan. A loan is considered to be past due when a scheduled payment has not been received 30 days after the contractual due date.

All accrued interest is reversed against interest income when a loan is placed on nonaccrual status. Interest received on such loans is accounted for using the cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current there is a sustained period of repayment performance, and future payments are reasonably assured.

Allowance for Credit Losses-Loans

The allowance for credit losses is a valuation account that is deducted from the loans' principal amount outstanding to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable on loans totaled \$8,639,517 and \$6,952,933 at December 31, 2024 and 2023 respectively, and was excluded from the estimate of credit losses.

The allowance for credit losses represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Loans, continued

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments and calculates the allowance for credit losses for each using a weighted-average remaining maturity (WARM) methodology.

- Commercial, Financial, and Agricultural-Commercial loans consist of loans or lines of credit to finance accounts receivable, inventory or other general business needs, and purchases of equipment, vehicles, or other assets. The primary risk associated with commercial, financial, and agricultural financing loans is the ability of borrowers to achieve business results consistent with those projected at origination. Failure to achieve these projections presents risk the borrower will be unable to service the debt consistent with the contractual terms of the loan.

- Real Estate-Construction - Construction loans consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped land in anticipation of completing construction of a 1-4 family residential property. There is risk the construction and development projects can experience delays and cost overruns exceeding the borrower's financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral. In addition, construction loans consist of loans to finance land for development of commercial or residential real property and construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.

- Real Estate – Commercial – Owner occupied commercial mortgage consist of loans to purchase or refinance owner occupied nonresidential properties. Typically, owner occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Commercial mortgages secured by owner occupied properties are primarily dependent on the ability of borrowers to achieve business results consistent with those projected at loan origination. While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation. Non-owner occupied commercial mortgages consist of loans to purchase or refinance investment nonresidential properties. Typically, non-owner commercial real estate loans are secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate. The primary risk associated with non-owner occupied commercial mortgage loans is the ability of the income-producing property that collateralizes the loan to produce adequate cash flow to service the debt.

While these loans are collateralized by real property in an effort to mitigate risk, it is possible the liquidation of collateral will not fully satisfy the obligation.

- Real Estate – Residential – Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home, home equity loans and are often secured by 1-4 family residential property. Home equity loans are secure by both senior and junior liens on the residential real estate. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.

- Installment Loans to Individuals and Others – Installment loans consist of loans to finance unsecured home improvements, automobiles, revolving lines of credit that can be secured or unsecured, and other uses. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Allowance for Credit Losses – Loans, continued

The Company calculates the allowance for credit losses for each pool of loans using the WARM methodology. Under the WARM methodology, lifetime losses are calculated by determining the remaining life of the loan pool, and then applying a loss rate over this remaining life of the loan. The methodology considers historical loss experience to estimate credit losses for the remaining balance of the loan pool. The calculated loss rate is applied to the contractual term (adjusted for prepayments) to determine the loan pool's current expected credit losses. The Company applies the forecasting adjustment through qualitative factors over a period of 24 months, which immediately reverts to historical losses.

Additionally, the allowance for credit losses calculation includes subjective adjustments for qualitative risk factors that are likely to cause estimated credit losses to differ from historical experience. These qualitative adjustments may increase or reduce reserve levels and include adjustments for lending management experience and risk tolerance, loan review and audit results, asset quality and portfolio trends, loan portfolio growth, industry concentrations, trends in underlying collateral, external factors, and economic conditions not already captured.

Loans that do not share risk characteristics are evaluated on an individual basis. When the borrower is experiencing financial difficulty and repayment is expected to be provided through operation or sale of the collateral, the expected credit losses are based on the fair value of collateral at the reporting date, adjusted for selling costs as appropriate.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for unfunded commitments in the Company's income statements. The allowance for credit losses on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for unfunded commitments is included in other liabilities on the Company's balance sheet.

Derivatives Financial Instruments

ASU 2022-01, Derivatives and Hedging-Fair Value Hedging-Portfolio Layer Method, was issued in March 2022 and amends ASC Topic 815 by allowing non prepayable financial assets also to be included in a closed portfolio hedge using the portfolio layer method. This amendment permits the Company to apply fair value hedging to a stated amount of a closed portfolio of prepayable and non-prepayable financial assets without considering prepayment risk or credit risk when measuring those assets.

The Company is exposed to certain risks relating to its ongoing business operations and uses interest rate derivatives as part of its asset-liability management strategy to help manage its interest rate risk position. The Company records all derivative assets and liabilities on the Consolidated Balance Sheets at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Company has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting in accordance with ASC 815, Derivatives and Hedging. The Company has chosen early adoption of the portfolio layer method of accounting. The Company currently has derivatives that are designed to as qualifying hedging relationships. There are no other derivatives that are not designated as qualifying hedging relationships.

For fair value hedges, the gain or loss on the derivative as well as the offsetting gain or loss on the hedged item are recognized in current earnings as fair value changes. The change in fair value of the hedged item is recorded as a basis adjustment to the hedged assets or liabilities.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Derivative Financial Instruments, continued

For fair value hedges meeting certain specific criteria, the Company applies the shortcut method of hedge accounting. For other derivatives that do not fall under shortcut method, the Company assesses the effectiveness of each hedging relationship by comparing the changes in the cash flows of the derivative hedging instrument with the changes in cash flows of the designated hedged transactions. As of December 31, 2024 and 2023, there are no hedging instruments that do not meet the criteria for the shortcut method.

Other Investments

Other investments include equity investments in the Federal Home Loan Bank ("FHLB"), the Federal Reserve Bank and other equity securities with no readily determinable market value. These investments are carried at cost, which approximates market value.

Loans Held for Sale and Mortgage Banking Income

The Company originates mortgage loans on behalf of third parties. Such loans are originated pursuant to commitments from third parties to acquire the loans that are in place prior to extension of a commitment to make the loan. These loans are carried at the lower of aggregate cost or market value. The amount by which cost exceeds market value is accounted for as a valuation allowance. Changes, if any, in the valuation allowance are included in the determination of net earnings in the period in which the change occurs. As of December 31, 2024 and 2023, the Company has recorded no valuation allowance related to its mortgage loans held for sale as their cost approximates market value. The Company receives revenue from the charges and fees generated in making these loans to borrowers. Gains and losses from the sale of loans are determined using the specific identification method.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Significant additions and improvements are capitalized. Maintenance and repairs are charged to expense. The range of estimated useful lives for premises and equipment are:

Buildings and improvement: 10-40 years

Furniture and fixtures: 5-30 years

Goodwill and Core Deposit Intangible

Goodwill represents the excess of the purchase price over the fair value of the net identifiable assets acquired in a business combination. Goodwill is not amortized but tested for impairment on an annual basis, or more often, if events or circumstances indicate there may be impairment. Goodwill impairment exists when a reporting unit's carrying value of goodwill exceeds its implied fair value, which is initially determined through a qualitative assessment, and following that a quantitative assessment if required.

If the fair value of the reporting unit exceeds its carrying value, no further testing is required. If the carrying value exceeds the fair value, further analysis is required to determine whether an impairment charge must be recorded based upon the implied fair value of goodwill and, if so, the amount of such charge. The Company performs its goodwill testing at least on an annual basis unless it's determined that conditions exist to indicate impairment.

For the Company's annual goodwill impairment evaluation, management bypassed the qualitative assessment for each respective reporting unit and performed Step 1 of the goodwill impairment test. Step 1 of the goodwill impairment test requires a comparison of the fair value of the reporting unit with its carrying amount, including goodwill. Accordingly, management determined the fair value of the reporting unit and compared the fair value to the reporting unit's carrying amount. Management determined that the reporting unit's fair value exceeded its carrying amount and therefore goodwill was not impaired. No events occurred since the last annual goodwill impairment assessment as of December 31, 2024 that would necessitate an interim goodwill impairment assessment.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Goodwill and Core Deposit Intangible, continued

The core deposit intangible represents the value of the acquired core deposit base related to branch acquisitions. Core deposit intangibles are amortized over the estimated useful life of the deposit base, generally on a straight-line basis.

The remaining useful lives of core deposit intangibles are evaluated periodically to determine whether events and circumstances warrant revision of the remaining period of amortization. Core deposit intangible amortization expense is included in other noninterest expense.

Other Real Estate

Other real estate represents properties acquired through or in lieu of loan foreclosure and is initially recorded at fair value less estimated costs to sell. Any write-down to fair value at the time of transfer to other real estate is charged to the allowance for credit losses. Write-downs for a decline in fair value less estimated costs to sell subsequent to acquisition are charged to earnings. Costs of improvements are capitalized, whereas costs relating to holding other real estate are expensed.

Cash Surrender Value of Life Insurance

Life insurance contracts represent single premium life insurance contracts on the lives of certain officers of the Company. The Company is the beneficiary of these policies. These contracts are reported at their cash surrender value and changes in the cash surrender value are included in other noninterest income.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Additionally, the recognition of future tax benefits, such as net operating loss and tax credit carryforwards, is required to the extent that the realization of such benefits is more likely than not to occur. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

In the event the future tax consequences of differences between the financial reporting bases and the tax bases of the assets and liabilities result in deferred tax assets, an evaluation of the probability of being able to realize the future benefits indicated by such asset is required. A valuation allowance is provided for the portion of the deferred tax asset when it is more likely than not that some portion or all of the deferred tax asset will not be realized. In assessing the realizability of the deferred tax assets, management considers the scheduled reversals of deferred tax liabilities, projected future taxable income and tax planning strategies.

The Company currently evaluates income tax positions judged to be uncertain. GAAP requires that a loss contingency reserve be accrued if it is probable that the tax position will be challenged, it is probable that the future resolution of the challenge will confirm that a loss has been incurred, and the amount of such loss can be reasonably estimated.

Accumulated Other Comprehensive Income

At December 31, 2024 and 2023, accumulated other comprehensive income consisted of net unrealized (losses) on investment securities available for sale.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Net Earnings per Share

Net earnings per share is based on the weighted average number of common shares outstanding during the period, while the effects of potential common shares outstanding during the period are included in diluted earnings per share. The average market price during the year is used to compute equivalent shares.

The reconciliations of the amounts used in the computation of both “basic earnings per common share” and “diluted earnings per common share” for the years ended December 31, 2024 and 2023 are as follows:

<u>For the year ended December 31, 2024</u>	<u>Net Earnings</u>	<u>Weighted Average Common Shares</u>	<u>Weighted Average Per Share Amount</u>
Net earnings	\$ <u>15,828,624</u>		
Net earnings available to common shareholders for basic earnings per common share	15,828,624	1,299,150	\$12.18
Effect of dilutive securities – warrants	<u>-</u>	<u>2,596</u>	
Diluted earnings per common share	\$ <u>15,828,624</u>	<u>1,301,746</u>	<u>\$12.16</u>
<u>For the year ended December 31, 2023</u>			
Net earnings	\$ <u>15,164,518</u>		
Net earnings available to common shareholders for basic earnings per common share	15,164,518	1,303,927	\$11.63
Effect of dilutive securities – warrants	<u>-</u>	<u>3,576</u>	
Diluted earnings per common share	\$ <u>15,164,518</u>	<u>1,307,503</u>	<u>\$11.60</u>

Advertising Expenses

Advertising and public relations costs are generally expensed as incurred. External costs incurred in producing media advertising are expensed the first time the advertising takes place. External costs relating to direct mailing costs are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of \$935,816 and \$1,058,672, were included in the Company’s results of operations for 2024 and 2023, respectively.

Off-Balance-Sheet Financial Instruments

In the ordinary course of business, the Company enters into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. These financial instruments are recorded in the financial statements when they become payable by the customer.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

Revenue Recognition

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, "Revenue from Contracts with Customers" ("Topic 606"). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

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 Earnings was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. The Company's accounting policies did not change materially since the principles of revenue recognition from the Accounting Standards Update are largely consistent with existing guidance and current practices applied by our business.

Recently issued accounting pronouncements

The following is a summary of recent authoritative pronouncements.

In December, the FASB published ASU 2023-09, Improvements to Income Tax Disclosures, that addresses requests for improved income tax disclosures from investors, lenders, creditors, and other allocators of capital (collectively, "investors") that use the financial statements to make capital allocation decisions. The ASU improves the transparency of the income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. The amendments are effective for annual reporting periods beginning after December 15, 2025, for the Company. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance.

Other accounting standards that have been issued or proposed by the FASB or other standards-setting bodies are not expected to have a material impact on the Company's financial position, results of operations or cash flows.

Risks and uncertainties:

In the normal course of its business, the Company encounters two significant types of risks: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk and market risk.

The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on a different basis, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from a borrower's inability or unwillingness to make contractually required payments. Market risk reflects changes in the value of collateral underlying loans receivable and the valuation of real estate held by the Company.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(1) Summary of Significant Accounting Policies, continued

The Company is subject to the regulations of various governmental agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances and operating restrictions from the regulators' judgments based on information available to them at the time of their examination.

Reclassifications

Certain captions and amounts in the 2023 consolidated financial statements were reclassified to conform with the 2024 presentation. These reclassifications had no effect on the results of operations or shareholders' equity.

(2) Investment Securities

Investment securities at December 31, 2024 and 2023 are as follows:

Securities Available for Sale		Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>December 31, 2024</u>	Amortized Cost			
State, county and municipals	\$ 8,718,972	-	1,414,907	7,304,065
Mortgage-backed securities	330,162,639	88,764	33,715,214	296,536,189
U. S. Government Agencies	14,245,742	-	1,274,352	12,971,390
U. S. Treasury notes	13,560,910	36,914	461,121	13,136,703
Collateralized loan obligations	14,120,371	-	-	14,120,371
Subordinated debentures	2,941,108	24,857	-	2,965,965
Trust preferred securities	300,000	-	-	300,000
Total	<u>\$ 384,049,742</u>	<u>150,535</u>	<u>36,865,594</u>	<u>347,334,683</u>
<u>December 31, 2023</u>				
State, county and municipals	\$ 8,735,124	74	1,383,036	7,352,162
Mortgage-backed securities	218,382,235	-	32,914,197	185,468,038
U. S. Government Agencies	13,818,854	-	1,377,456	12,441,398
U. S. Treasury notes	43,004,973	-	679,070	42,325,903
Collateralized loan obligations	12,465,076	-	27,876	12,437,200
Trust preferred securities	300,000	-	-	300,000
Total	<u>\$ 296,706,262</u>	<u>74</u>	<u>36,381,635</u>	<u>260,324,701</u>

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(2) Investment Securities, continued

Securities Held to Maturity

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
State, county and municipals	\$ 34,878,449	-	7,159,106	27,719,343	(1,022)
Mortgage-backed securities	166,880,776	142,643	32,887,609	134,135,810	-
U. S. Government Agencies	11,264,446	-	700,832	10,563,614	-
U. S. Treasury notes	22,130,687	-	1,301,859	20,828,828	-
Collateralized loan obligations	25,494,331	-	-	25,494,331	-
Subordinated debentures	37,720,275	-	3,982,784	33,737,491	(208,927)
Total	<u>\$ 298,368,964</u>	<u>142,643</u>	<u>46,032,190</u>	<u>252,479,417</u>	<u>(209,949)</u>

Securities Held to Maturity

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance for Credit Losses
State, county and municipals	\$ 35,097,887	-	6,600,544	28,497,343	(17,582)
Mortgage-backed securities	189,919,202	251,052	32,457,263	157,712,991	(8,938)
U. S. Government Agencies	11,263,953	-	1,036,084	10,227,869	-
U. S. Treasury notes	34,175,454	-	2,171,230	32,004,224	-
Collateralized loan obligations	38,808,498	-	49,934	38,758,564	(38,879)
Subordinated debentures	37,745,459	-	5,584,010	32,161,449	(94,550)
Total	<u>\$ 347,010,453</u>	<u>251,052</u>	<u>47,899,065</u>	<u>299,362,440</u>	<u>(159,949)</u>

The following tables show the gross unrealized losses and estimated fair value of available for sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2024.

December 31, 2024	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State, county and municipals	\$ 393,288	16,712	6,910,777	1,398,195	7,304,065	1,414,907
Mortgage-backed securities	113,794,042	2,196,518	160,803,476	31,518,696	274,597,518	33,715,214
U. S. Government Agencies	1,927,892	72,108	10,731,574	1,202,244	12,659,466	1,274,352
U. S. Treasury notes	-	-	8,099,789	461,121	8,099,789	461,121
	<u>\$ 116,115,222</u>	<u>2,285,338</u>	<u>186,545,616</u>	<u>34,580,256</u>	<u>302,660,838</u>	<u>36,865,594</u>

The following tables show the gross unrealized losses and estimated fair value of available for sale securities for which an allowance for credit losses has not been recorded aggregated by category and length of time that securities have been in a continuous unrealized loss position at December 31, 2023.

December 31, 2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
State, county and municipals	\$ -	-	4,447,777	1,383,036	4,447,777	1,383,036
Mortgage-backed securities	295,618	4,878	185,172,420	32,909,319	185,468,038	32,914,197
U. S. Government Agencies	1,453,463	6,560	10,987,935	1,370,896	12,441,398	1,377,456
Collateralized loan obligations	-	-	12,437,200	27,876	12,437,200	27,876
U. S. Treasury notes	34,437,754	28,418	7,888,149	650,652	42,325,903	679,070
	<u>\$ 36,186,835</u>	<u>39,856</u>	<u>220,933,481</u>	<u>36,341,779</u>	<u>257,120,316</u>	<u>36,381,635</u>

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(2) Investment Securities, continued

Management evaluates all available for sale securities in an unrealized loss position for credit-related impairment on a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Management first evaluates whether they intend to sell or more likely than not will be required to sell an impaired security before recovering its amortized cost basis. If either criteria is met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. If the assessment indicates that a credit loss exists, the credit loss is recorded as an allowance for credit losses, limited to the amount the fair value is less than the amortized cost basis.

The market value of available for sale investment securities is based on quoted market values and is significantly affected by the interest rate environment. At December 31, 2024, 10 of 10 available for sale securities issued as state, county and municipal securities contained unrealized losses, compared to 9 of 10 securities as of December 31, 2023. At December 31, 2024, 151 of 156 securities issued as mortgage-backed securities contained unrealized losses, compared to 133 of 133 securities as of December 31, 2023. At December 31, 2024, 5 of 5 available for sale securities issued as U.S. government agencies contained unrealized losses, compared to 4 of 4 securities as of December 31, 2023. At December 31, 2024, no available for sale collateralized loan obligations contained unrealized losses, compared to 8 of 8 as of December 31, 2023. At December 31, 2024, 1 of 2 available for sale securities issued as United States treasury notes contained unrealized losses, compared to 2 of 2 securities as of December 31, 2023. These unrealized losses are considered temporary because of acceptable investment grades on each security and the repayment sources of principal and interest are government backed. The Company does not intend to sell these investment securities at an unrealized loss position at December 31, 2024, and it is more likely than not that the Company will not be required to sell these securities prior to recovery or maturity. Based on management's review, the Company's available for sale securities have no expected credit loss and no related allowance for credit losses has been established.

The following tables show a rollforward of the allowance for credit losses on held to maturity securities for the years ended December 31, 2024 and 2023, respectively.

	State, County, and Municipals	Mortgage- Backed Securities	Collateralized Loan Obligations	Subordinated Debentures	Totals
Balance, at December 31, 2023	\$ 17,582	8,938	38,879	94,550	159,949
Provision for credit losses	(16,560)	(8,938)	(38,879)	114,377	50,000
Charge-offs of securities	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance, at December 31, 2024	\$ 1,022	-	-	208,927	209,949

	State, County, and Municipals	Mortgage- Backed Securities	Collateralized Loan Obligations	Subordinated Debentures	Totals
Balance, at December 31, 2022	\$ -	-	-	-	-
Adjustment for adoption of ASU 2016-13	18,183	25,131	33,597	55,979	132,890
Provision for credit losses	(601)	(16,193)	5,282	38,571	27,059
Charge-offs of securities	-	-	-	-	-
Recoveries	-	-	-	-	-
Balance, at December 31, 2023	\$ 17,582	8,938	38,879	94,550	159,949

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(2) Investment Securities, continued

Expected credit losses on held-to-maturity debt securities are evaluated by major security type. All mortgage-backed securities, U.S. government agencies, U.S. Treasury notes, and collateralized loan obligations held by the Company are issued by government-sponsored corporations. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. As a result, no allowance for credit losses was recorded on held-to-maturity mortgage-backed securities, U.S. government agencies, U.S. Treasury notes, and collateralized loan obligations at December 31, 2024.

The Company monitors the credit quality of the state, county and municipals and subordinated debentures held to maturity securities through the use of credit ratings. The Company monitors the credit ratings on a quarterly basis. The following tables summarize the amortized cost of state, county and municipals and subordinated debentures held to maturity securities at December 31, 2024 and 2023, respectively, aggregated by credit quality indicators.

	<u>December 31, 2024</u>
Aaa	\$ 17,247,718
Aa1, Aa2, Aa3	11,865,575
Baa3	500,000
Not rated	42,985,431
Total	<u>\$ 72,598,724</u>

	<u>December 31, 2023</u>
Aaa	\$ 17,397,137
Aa1, Aa2, Aa3	11,924,691
Baa3	500,000
Not rated	43,021,518
Total	<u>\$ 72,843,346</u>

The amortized cost and estimated fair value of investment securities at December 31, 2024, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities have the right to call or prepay obligations with or without call or prepayment penalties. Therefore, these securities are not included in the maturity categories in the following summary:

<u>Investment Securities with Maturities:</u>	Investment Securities Held to Maturity		Investment Securities Available for Sale	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within 1 year	\$ -	-	-	-
1 to 5 years	43,432,806	40,891,158	25,646,027	24,364,523
5 to 10 years	69,666,521	63,198,344	18,896,230	17,513,588
Over 10 years	18,388,861	14,254,105	9,344,846	8,920,383
Mortgage-backed securities	<u>166,880,776</u>	<u>134,135,810</u>	<u>330,162,639</u>	<u>296,536,189</u>
	<u>\$ 298,368,964</u>	<u>252,479,417</u>	<u>384,049,742</u>	<u>347,334,683</u>

No sales of securities available for sale occurred during 2024. Proceeds from sales of securities available for sale for 2023 were \$24,937,722. Gross gains of \$2,222 were realized on those sales and gross losses were \$0.

Securities with market values of approximately \$366,834,000 were pledged at December 31, 2024 to secure public deposits and for other purposes. Securities with market values of approximately \$435,149,000 were pledged at December 31, 2023 to secure public deposits and Federal Reserve Bank borrowings as required by law and for other purposes.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses

Major classifications of loans at December 31, 2024 and 2023 are summarized as follows:

	2024	2023
Commercial, financial and agricultural	\$ 143,027,700	137,670,599
Real estate – construction	196,653,839	180,985,149
Real estate – commercial	576,820,791	586,889,567
Real estate – residential	262,082,371	241,157,966
Installment loans to individuals and others	18,413,638	19,235,849
Total loans	1,196,998,339	1,165,939,130
Less allowance for credit losses	(11,412,886)	(10,883,320)
	\$ 1,185,585,453	1,155,055,810

The Company grants loans and extensions of credit to individuals and a variety of businesses and corporations located in its general trade area of Jefferson, Bryan, Bulloch, Burke, Candler, Chatham, Columbia, Effingham, Emanuel, Jenkins, McDuffie, Richmond, Screven and Washington County, Georgia and contiguous counties of east central and southeast Georgia. Although the Company has a diversified loan portfolio, a substantial portion of the loan portfolio is collateralized by improved and unimproved real estate and is dependent upon the real estate market.

Portfolio segments utilized by the Company are identified above. Relevant risk characteristics for these portfolio segments generally include debt service coverage, loan-to-value ratios and financial performance on non-consumer loans and credit scores, debt-to-income, collateral type and loan-to-value ratios for consumer loans.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2024.

December 31, 2024	Commercial, financial and agricultural	Real estate- construction	Real estate- commercial	Real estate- residential	Installment loans to individuals and others	Total
Balance, beginning of year	\$ 1,453,114	863,910	5,026,325	3,448,387	91,584	10,883,320
Provision for credit losses	604,083	359,338	381,612	(742,436)	322,403	925,000
Loans charged off	(193,331)	-	-	-	(308,140)	(501,471)
Recoveries	68,159	10,728	6,537	14,681	5,932	106,037
Balance, end of year	<u>\$ 1,932,025</u>	<u>1,233,976</u>	<u>5,414,474</u>	<u>2,720,632</u>	<u>111,779</u>	<u>11,412,886</u>

The following table summarizes the activity related to the allowance for credit losses for the year ended December 31, 2023.

December 31, 2023	Commercial, financial and agricultural	Real estate- construction	Real estate- commercial	Real estate- residential	Installment loans to individuals and others	Total
Balance, beginning of year	\$ 1,589,986	1,002,894	7,016,614	618,911	601,523	10,829,928
Adjustment to allowance for adoption of ASU 2016-13	(58,574)	(36,946)	(258,490)	(22,800)	(22,160)	(398,970)
Provision for credit losses	305,311	(114,526)	(1,795,426)	2,860,256	67,326	1,322,941
Loans charged off	(440,788)	-	-	(109,343)	(564,945)	(1,115,076)
Recoveries	57,179	12,488	63,627	101,363	9,840	244,497
Balance, end of year	<u>\$ 1,453,114</u>	<u>863,910</u>	<u>5,026,325</u>	<u>3,448,387</u>	<u>91,584</u>	<u>10,883,320</u>

ASU 2022-22 eliminated the concept of troubled debt restructurings (“TDRs”) from the accounting standards for companies that have adopted ASC 326. ASU 2022-22 required additional disclosures for certain loan modifications. Specifically, loan modification disclosures in periods subsequent to the adoption of ASC 326 must be made for modifications of existing loans to borrowers who were experiencing financial difficulties at the time of the modification. The modification type must include a direct change in the timing or amount of a loan’s contractual cash flows. The additional disclosures are applicable to situations where there is: principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay (generally, greater than 90 days), a term extension, or any combination thereof.

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination or acquisition. The starting point for the estimate of the allowance for credit losses is historical loss information, which includes losses from modifications of receivables to borrowers experiencing financial difficulty. The Company uses a weighted-average remaining maturity model to determine the allowance for credit losses. An assessment of whether a borrower is experiencing financial difficulty is made on the date of a modification.

Because the effect of most modifications made to borrowers experiencing financial difficulty is already included in the allowance for credit losses because of the measurement methodologies used to estimate the allowance, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The Company did not have any loans that were modified due to the borrowers experiencing financial difficulty for the years ended December 31, 2024 or 2023.

The following tables present the aging of the recorded investment in past due loans and nonaccrual loans as of December 31, 2024 and 2023 by class of loans:

	30–89 Days Past Due	> 90 Days Past Due	Total Past Due	Current	Total	Non- Accrual	Recorded Investment > 90 days and Accruing
December 31, 2024							
Commercial, financial and agricultural	\$ 3,484,308	3,268,809	6,753,117	136,274,583	143,027,700	2,337,534	1,146,877
Real estate-construction	2,597,701	14,307	2,612,008	194,041,831	196,653,839	-	14,307
Real estate-commercial	13,419,308	6,771,084	20,190,392	556,630,399	576,820,791	5,216,610	2,071,983
Real estate-residential	3,250,131	136,435	3,386,566	258,695,805	262,082,371	2,148	136,435
Installment loans to individuals and others	192,579	45,006	237,585	18,176,053	18,413,638	53,004	45,006
	<u>\$ 22,944,027</u>	<u>10,235,641</u>	<u>33,179,668</u>	<u>1,163,818,671</u>	<u>1,196,998,339</u>	<u>7,609,296</u>	<u>3,414,608</u>
December 31, 2023							
Commercial, financial and agricultural	\$ 1,564,045	1,645,954	3,209,999	134,460,600	137,670,599	1,828,957	511,599
Real estate-construction	308,220	41,241	349,461	180,635,688	180,985,149	-	41,241
Real estate-commercial	1,267,859	292,321	1,560,180	585,329,387	586,889,567	2,235,795	180,444
Real estate-residential	833,410	363,428	1,196,838	239,961,128	241,157,966	82,892	287,085
Installment loans to individuals and others	265,308	59,975	325,283	18,910,566	19,235,849	-	59,975
	<u>\$ 4,238,842</u>	<u>2,402,919</u>	<u>6,641,761</u>	<u>1,159,297,369</u>	<u>1,165,939,130</u>	<u>4,147,644</u>	<u>1,080,344</u>

Of the loans 90 days past due and accruing approximately \$59,811 and \$48,000, respectively for years ended 2024 and 2023 were 90% guaranteed by government entities. With regards to the loans not government guaranteed past due 90 days and accruing the Company is well-secured and repayment, principal and interest, will be received in full.

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis is performed on a continuous basis. The Company uses the following definitions for its risk ratings:

Other Assets Especially Mentioned

Weaknesses exist that could cause future impairment, including the deterioration of financial ratios, past due status and questionable management capabilities. Collateral values generally afford adequate coverage, but may not be immediately marketable.

Substandard

Specific and well-defined weaknesses exist that may include poor liquidity and deterioration of financial ratios. The loan may be past due and related deposit accounts may be experiencing overdrafts. Immediate corrective action is necessary.

Doubtful

Specific weaknesses characterized as Substandard that are severe enough to make collection in full unlikely. There is no reliable secondary source of full repayment.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

Loans categorized as Loss have the same characteristics as Doubtful; however, probability of loss is certain. Loans classified as such are generally charged-off.

Loans not meeting the criteria above, and that are analyzed individually as part of the above described process, are considered to be pass rated loans. As of December 31, 2024 and 2023, respectively, there were no 1-4 family loans in process of foreclosure. As of December 31, 2024 and 2023, and based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2024	Pass	Special Mention	Substandard	Doubtful/ Loss	Total
Commercial, financial and agricultural	\$ 138,997,964	1,692,202	2,337,534	-	143,027,700
Real estate-construction	196,653,839	-	-	-	196,653,839
Real estate-commercial	556,673,875	6,224,253	13,922,663	-	576,820,791
Real estate-residential	262,020,664	-	61,707	-	262,082,371
Installment loans to individuals and others	18,360,634	-	53,004	-	18,413,638
	<u>\$ 1,172,706,976</u>	<u>7,916,455</u>	<u>16,374,908</u>	<u>-</u>	<u>1,196,998,339</u>
December 31, 2023					
Commercial, financial and agricultural	\$ 135,428,588	413,054	1,828,957	-	137,670,599
Real estate-construction	180,985,149	-	-	-	180,985,149
Real estate-commercial	575,015,615	2,024,131	9,849,821	-	586,889,567
Real estate-residential	239,579,268	1,033,758	544,940	-	241,157,966
Installment loans to individuals and others	19,235,849	-	-	-	19,235,849
	<u>\$ 1,150,244,469</u>	<u>3,470,943</u>	<u>12,223,718</u>	<u>-</u>	<u>1,165,939,130</u>

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2024.

CECL			
December 31, 2024			
	Nonaccrual loans with No Allowance	Nonaccrual loans with an Allowance	Total Nonaccrual Loans
Commercial, financial, and agricultural	\$ 1,081,568	1,255,966	2,337,534
Real estate-commercial	5,216,610	-	5,216,610
Real estate-residential	2,148	-	2,148
Installment loans to individuals and others	53,004	-	53,004
Total loans	<u>\$ 6,353,330</u>	<u>1,255,966</u>	<u>7,609,296</u>

The following table is a summary of the Company's nonaccrual loans by major categories as of December 31, 2023.

CECL			
December 31, 2023			
	Nonaccrual loans with No Allowance	Nonaccrual loans with an Allowance	Total Nonaccrual Loans
Commercial, financial, and agricultural	\$ 428,775	1,400,182	1,828,957
Real estate-commercial	2,235,795	-	2,235,795
Real estate-residential	82,892	-	82,892
Total loans	<u>\$ 2,747,462</u>	<u>1,400,182</u>	<u>4,147,644</u>

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

The Company did not recognize any interest income on nonaccrual loans for the years ending December 31, 2024 or 2023.

The following table represents the accrued interest receivable written off by reversing interest income during the year ended December 31, 2024.

	For the Year Ended December 31, 2024
Commercial, financial, and agricultural	\$ 272,142
Real estate-commercial	400,553
Real estate-residential	12,784
Installment loans to individuals and others	6,381
Total loans	<u>\$ 691,860</u>

The following table represents the accrued interest receivable written off by reversing interest income during the year ended December 31, 2023.

	For the Year Ended December 31, 2023
Commercial, financial, and agricultural	\$ 28,261
Real estate-commercial	3,431
Installment loans to individuals and others	1,644
Total loans	<u>\$ 33,336</u>

The Company has certain loans for which repayment is dependent upon the operation or sale of collateral, as the borrower is experiencing financial difficulty. The underlying collateral can vary based upon the type of loan. The following provides more detail about the types of collateral that secure collateral-dependent loans:

- Commercial, financial, and agricultural loans are primarily secured by business equipment, furniture and fixtures, inventory, and receivables.
- Construction real estate loans are typically secured by commercial and residential lots and 1-4 family homes in process of construction.
- Commercial real estate loans can be secured by either owner-occupied commercial real estate or non-owner occupied investment commercial real estate. Typically, owner-occupied commercial real estate loans are secured by office buildings, warehouses, manufacturing facilities and other commercial and industrial properties occupied by operating companies. Non-owner-occupied commercial real estate loans are generally secured by office buildings and complexes, retail facilities, multifamily complexes, land under development, industrial properties, as well as other commercial or industrial real estate.
- Residential real estate loans are typically secured by first mortgages, and in some cases could be secured by a second mortgage.
- Installment loans are generally secured by automobiles, motorcycles, recreational vehicles and other personal property. Some consumer loans are unsecured and have no underlying collateral.

The following table details the amortized cost of collateral dependent loans:

	December 31, 2024
Commercial, financial, and agricultural	\$ 2,337,534
Real estate-commercial	13,922,663
Real estate-residential	61,707
Installment loans to individuals and others	53,004
Total loans	<u>\$ 16,374,908</u>

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(3) Loans and Allowance for Credit Losses, continued

December 31, 2023	
Commercial, financial, and agricultural	\$ 1,293,362
Real estate-commercial	9,849,821
Real estate-residential	544,940
Total loans	\$ 11,688,123

(4) Premises and Equipment

Major classifications of premises and equipment are summarized as follows:

	2024	2023
Land	\$ 10,506,832	10,356,795
Buildings and improvements	36,827,648	34,387,670
Furniture and fixtures	17,701,257	16,814,247
	65,035,737	61,558,712
Less accumulated depreciation	(24,418,241)	(22,807,356)
	\$ 40,617,496	38,751,356

Depreciation expense amounted to \$1,776,928 and \$1,684,021 in 2024 and 2023, respectively.

(5) Goodwill and Core Deposit Intangible

The following table presents information about our intangible assets at December 31:

	2024		2023	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Indefinite lived intangible asset:				
Goodwill	\$ 3,388,930	\$ -	\$ 3,388,930	\$ -
Finite lived intangible asset:				
Core deposit intangibles	\$ -	\$ -	\$ 608,290	\$ 608,290

Amortization expense of \$5,908 related to the core deposit intangibles was recognized in 2023.

As of December 31, 2024 and 2023, goodwill totaled \$3,388,930. Goodwill is reviewed for impairment annually in accordance with generally accepted accounting principles. The Company's evaluation considers various components, to include economic conditions, industry considerations, financial performance as well as other information. The evaluations were completed as of December 31, 2024 and 2023, management determined that no impairment existed on the goodwill.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(6) Deposits

Maturities of time deposits at December 31, 2024 are as follows:

Year ending December 31,	
2025	\$ 239,122,495
2026	43,498,238
2027	16,395,020
2028	5,778,096
2029	6,580,111
Thereafter	<u>195,955</u>
	<u>\$ 311,569,915</u>

Brokered deposits totaled \$31,422,000 and \$33,514,000 respectively as of December 31, 2024 and 2023. As of December 31, 2024 and 2023, the Company has one depositor whose deposits total more than five percent of total deposits.

(7) Borrowings and Unused Lines of Credit

The Company is a shareholder of the FHLB and as such has access to borrowings from the FHLB. As of December 31, 2024 and 2023, the Company had \$5,000,000 outstanding in loan advances, maturing in May 2025 and an interest rate of 4.55%, from the FHLB. The advances were collateralized by a blanket floating lien agreement on all unencumbered first mortgage residential and commercial real estate loans. Loans qualifying as collateral with a balance of \$194,284,252 and \$188,154,840, respectively, and a discounted value of approximately \$116,533,000 and \$113,392,000, respectively at December 31, 2024 and 2023.

The Company has federal funds accommodations of \$59,000,000 at December 31, 2024 with other financial institutions where the Company may borrow funds on a short-term basis at the market rate in effect at the time of borrowing. There were no federal funds purchased outstanding as of December 31, 2024 or 2023.

On October 9, 2020, the Company entered into a subordinated debt agreement that totaled \$24,000,000. The debt bears an interest rate at a fixed-to SOFR floating rate of 6.00% per annum payable semi-annually in arrears on April 15th and October 15th. The Company may not prepay the debt for five years after issuance and the debt matures on October 15, 2030. The subordinated debt has been structured to fully count as Tier 2 regulatory capital on a consolidated basis. The subordinated debt balance as of December 31, 2024 and 2023 was \$23,890,972 and \$23,749,636, respectively.

Issuance costs associated with the debt are netted against the debt outstanding. The costs are being amortized over five years. The unamortized balance of issuance costs at December 31, 2024 and 2023 totaled \$109,028 and \$250,364, respectively.

The Federal Reserve Bank established the Bank Term Funding Program (BTFP) to make available additional funding to eligible depository institutions in order to help assure banks have the ability to meet the needs of all their depositors. The BTFP was an additional source of liquidity against high quality securities. The BTFP offered advances of up to one year in length to banks pledging any collateral eligible for purchase by the Federal Reserve Banks in open market operations, such as U. S. Treasuries, U. S. agency securities, and U.S. agency mortgage backed securities. These assets were valued at par. The interest rate for term advances under the BTFP was the one-year overnight index swap rate plus 10 basis points. The rate will be fixed for the term of the advance.

As of December 31, 2024, the Company had no loan advances outstanding from the BTFP. As of December 31, 2023, the Company had \$55,000,000 in loan advances outstanding from the BTFP. The advances matured in 2024. The BTFP ended on March 11, 2024. The loans were collateralized by eligible securities safekept at the Federal Reserve Bank. The par value of securities collateralizing BTFP advances was approximately \$65,651,000. Interest rates on the BTFP advances ranged from 4.84% to 5.01% for the year ending December 31, 2024.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(8) Junior Subordinated Debentures

In February 2004 and May 2007, Queensborough formed wholly owned Delaware statutory business trusts, Queensborough Capital Trust II (“Trust II”) and Queensborough Capital Trust III (“Trust III”), respectively (collectively, the “Trusts”). The Trusts each issued \$6 million of guaranteed preferred beneficial interests in Queensborough’s junior subordinated deferrable interest debentures that qualify as Tier I Capital under Federal Reserve Board guidelines. Queensborough owns all of the common securities of the Trusts. The debentures relating to Trust II pay interest at a floating rate, equal to three-month SOFR plus 2.85%. The debentures relating to Trust III pay interest at a floating rate equal to three-month SOFR plus 1.65%.

The proceeds received by the Company from the sale of the junior subordinated debentures were used to infuse capital into the Bank to improve its capital position and for other general corporate purposes. The debentures represent the sole asset of each of the Trusts. The Trusts are not included in these consolidated financial statements.

The trust preferred securities accrue and pay quarterly distributions based on the liquidation value of \$50,000 per capital security at the respective floating or fixed interest rate, which at December 31, 2024 was 7.77% for Trust II and 6.27% for Trust III. The Company has guaranteed distributions and other payments due on the trust preferred securities to the extent the Trusts have funds with which to make the distributions and other payments. The net combined effect of all the documents entered into in connection with the trust preferred securities is that the Company is liable to make the distributions and other payments required on the trust preferred securities.

The trust preferred securities are mandatorily redeemable upon maturity of the debentures on April 7, 2034 for Trust II and June 15, 2037 for Trust III, or upon earlier redemption as provided in the indentures. The Company has the right to redeem the debentures purchased by the Trusts, in whole or in part, at a redemption price equal to the principal amount and any accrued but unpaid interest.

(9) Income Taxes

The components of income tax expense in the consolidated statements of operations are as follows:

	2024	2023
Current income tax expense	\$ 4,344,829	4,217,582
Deferred income tax expense	(337,927)	(62,053)
Total income tax expense	\$ 4,006,902	4,155,529

The differences between the provision for income taxes and the amount computed by applying the statutory federal income tax rate of 21% in 2024 and 2023, respectively, to earnings before income taxes are as follows:

	2024	2023
Pretax income at statutory rate	\$ 4,165,460	4,057,210
Add (deduct):		
Tax-exempt interest income	(268,016)	(171,769)
Non-deductible expenses	141,111	112,822
State taxes and credits, net of federal benefit	(13,168)	144,244
Federal tax credit amortization	205,906	-
Federal tax credit	(250,000)	-
Other	25,609	13,023
	\$ 4,006,902	4,155,529

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(9) Income Taxes, continued

The following summarizes the components of the net deferred tax asset. The deferred tax asset is included as a component of other assets at December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Deferred income tax assets:		
Allowance for credit losses	\$ 2,914,851	2,779,600
Reserve for HTM securities	53,621	40,851
Reserve for unfunded commitments	372,993	136,748
Writedown of investment	46,968	46,968
Stock benefit plan	292,433	238,799
Net unrealized loss on debt securities	<u>11,608,553</u>	<u>11,732,009</u>
Total gross deferred income tax assets	<u>15,289,419</u>	<u>14,974,975</u>
Deferred income tax liabilities:		
Premises and equipment	(2,868,883)	(2,796,854)
Intangible asset	<u>(452,345)</u>	<u>(424,401)</u>
Total gross deferred income tax liabilities	<u>(3,321,228)</u>	<u>(3,221,255)</u>
Net deferred income tax asset	<u>\$ 11,968,191</u>	<u>11,753,720</u>

Deferred tax assets represent the future benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. After review of all positive and negative factors and potential tax planning strategies, as of December 31, 2024 and 2023, management has determined that a valuation allowance is not necessary. Management has determined that it is more likely than not that the net deferred tax asset at December 31, 2024 will be realized. 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 applicable regulations.

(10) Related Party Transactions

The Company has entered into transactions with certain directors, executive officers and their affiliates. The following summary reflects related party loan activity during the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
Beginning balance	\$ 8,896,529	12,009,520
New loans	5,032,040	12,124,907
Repayments	<u>(1,473,405)</u>	<u>(15,237,898)</u>
Ending balance	<u>\$ 12,455,164</u>	<u>8,896,529</u>

The Company had deposits from related parties totaling approximately \$11,398,000 and \$11,102,000 as of December 31, 2024 and 2023, respectively.

The Bank leases office space from a company that has several common shareholders with the Company under an annual lease arrangement. Rent expense for 2024 and 2023, which is deemed to approximate the normal market rate, was approximately \$90,000, each year. The lease is renewed annually and is approved by the Board of Directors of the Company for each annual renewal.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(11) Commitments

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

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

In most cases, the Company does require collateral to support financial instruments with credit risk.

	Contractual Amount	
	2024	2023
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	\$ 292,151,589	266,750,000
Standby letters of credit	\$ 9,938,852	5,402,000

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 may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Company, upon extension of credit is based on management's credit evaluation. Collateral held varies but may include unimproved and improved real estate, certificates of deposit or personal property.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company holds collateral supporting these commitments for which collateral is deemed necessary.

The Company maintains an allowance for off-balance sheet credit exposures such as unfunded balances for existing lines of credit, commitments to extend future credit, as well as standby letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for off-balance sheet credit exposures is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in Note 3. The allowance for credit losses for unfunded loan commitments of \$1,460,426 and \$535,426 at December 31, 2024 and 2023, respectively, is separately classified on the balance sheet within Other Liabilities.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(11) Commitments , continued

The following table presents the balance and activity in the allowance for credit losses for unfunded loan commitments for the years ended December 31, 2024 and 2023.

		Total Allowance for Credit Losses- Unfunded Commitments
Balance, December 31, 2023	\$	535,426
Provision for unfunded commitments		925,000
Balance, December 31, 2024	\$	1,460,426
		Total Allowance for Credit Losses- Unfunded Commitments
Balance, December 31, 2022	\$	-
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13		535,426
Provision for unfunded commitments		-
Balance, December 31, 2023	\$	535,426

(12) Stock Options, Warrants, and Repurchase

In 1998, the Company adopted The Queensborough Company Stock Incentive Plan, which provides that certain officers, key employees, directors and consultants of the Company may be granted stock options to purchase shares of common stock of the Company. The plan limits the total number of shares which may be awarded to 120,000. The options are granted at the market value of the shares on the date of grant, vest over four years and are exercisable within ten years of grant. At December 31, 2024, options for 107,700 shares remain available for future grants.

There were no options granted, forfeited or exercised in 2024 or 2023. As of December 31, 2024 and 2023, there were no stock options outstanding.

In 2017, the Company completed a private placement of its common stock. 62,830 shares were sold and issued at an average price of \$55.64 per share for a total of \$3,496,000. Along with the common shares there were two warrants issued for every ten shares purchased. The warrants allow the holder to purchase additional common shares of the Company at a price of \$72.00 per share through February 1, 2027, at which date the warrants will expire if not exercised. A total of 12,566 warrants were issued. During 2024, 0 warrants were exercised. During 2023, 1,088 warrants were exercised at a price of \$72.00. As of December 31, 2024 and 2023, there were 9,078 warrants outstanding.

On February 15, 2023, the Company announced a stock repurchase program approved by its Board of Directors, whereby the Company will purchase and retire up to 16,600 shares of its common stock. Subsequently, the Company notified all common stockholders of its intent to repurchase up to 16,600 shares and prescribed the manner and method for shareholders to participate in the program. The Company repurchased 14,608 shares under the program at \$90 per share for a total of \$1,314,780 in 2023.

During 2024, the Company repurchased 2,613 shares independent of a stock repurchase program at an average price \$84 per share and a total of \$221,903. These shares were available for purchase by other stockholders on the shareholder platform, MyPrivateShares, a minimum of four weeks before the decision was made by management to repurchase the shares.

(13) Benefit Plan

The Company has a 401(k) profit sharing plan which is available to employees subject to certain age and service requirements. The plan covers substantially all employees and allows for employee pre-tax and post-tax contributions. Contributions to the plan by the Company are determined under a matching formula. The Company, at its discretion, may contribute additional amounts. For the years ended December 31, 2024 and 2023, contributions of \$977,799 and \$902,968, respectively, were expensed to salaries and employee benefits.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(14) Fair Value of Financial Instruments

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, impaired loans, real estate acquired in lieu of foreclosure and certain other assets. These nonrecurring fair value adjustments typically involve application of the lower of cost or market accounting or write-downs of individual assets.

Fair Value Hierarchy

The Company groups assets and liabilities at fair value in three levels, based on the markets in which the assets and liabilities are traded and the reliability of the assumptions used to determine fair value. These levels are:

Level 1 – Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2 – Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3 – Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect estimates of assumptions that market participants would use in pricing the asset or liability. Valuation techniques include use of option pricing models, discounted cash flow models and similar techniques.

Following is a description of valuation methodologies used for assets and liabilities which are either recorded or disclosed at fair value.

Investment Securities

Investment securities available for sale are recorded at fair value on a recurring basis. For securities available for sale as well as securities held to maturity, fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques, such as the present value of future cash flows adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, and U.S. Treasury securities that are traded by dealers or brokers in active over-the-counter market funds. Level 2 securities include mortgage-backed securities issued by government sponsored enterprises and state, county and municipal bonds. Securities classified as Level 3 include asset-backed securities in less liquid markets and trust preferred securities.

Derivative Financial Instruments

The fair value of the interest rate derivatives, characterized as fair value hedges, are calculated based on a discounted cash flow model. All future floating rate cash flows are projected and both floating rate and fixed rate cash flows are discounted to the valuation date. The benchmark interest rate curve utilized for projecting cash flows and applying appropriate discount rates is built by obtaining publicly available third party market quotes for various swap maturity terms. The components of the valuation were observable or could be corroborated by observable market data and, therefore, were classified within Level 2 of the valuation hierarchy.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(14) Fair Value of Financial Instruments, continued

Collateral Dependent Loans

The Company does not record loans at fair value on a recurring basis. However, from time to time, a loan may be considered individually evaluated and an allowance for credit losses may be established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures the impairment in accordance with FASB ASC 326. The fair value of individually evaluated loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, and liquidation value. Those individually evaluated loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. In accordance with FASB ASC 820, "Fair Value Measurement and Disclosures," individually evaluated loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company considers the individually loan as nonrecurring Level 2. The Company's current loan and appraisal policies require the Company to obtain updated appraisals on an "as is" basis at renewal, or in the case of an individually evaluated loan, on an annual basis, either through a new external appraisal or an appraisal evaluation. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company considers the individually evaluated loan as nonrecurring Level 3.

Loans Held for Sale

Loans held for sale, generally consisting of first-lien residential mortgages recently originated and intended for sale in the secondary market, are carried at the lower of cost or estimated fair value. The estimated fair value of loans held for sale is approximated by the carrying value, given the short-term nature of the loans and similarity to what secondary markets are currently offering for portfolios of loans with similar characteristics. The Company records loans held for sale as recurring Level 2.

Other Real Estate

Other real estate properties are adjusted to fair value upon transfer of the loans to other real estate. Subsequently, other real estate assets are carried at fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the other real estate as nonrecurring Level 2. When the fair value is based on an appraised value or management's estimation of the value of the collateral, the Company records the other real estate asset as nonrecurring Level 3.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(14) Fair Value of Financial Instruments, continued

Assets Recorded at Fair Value on a Recurring Basis

The table below presents the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023, respectively.

Assets		Level 1	Level 2	Level 3	Total
Balance at December 31, 2024					
State, county and municipals	\$	-	7,304,065	-	7,304,065
Mortgage-backed securities		-	296,536,189	-	296,536,189
U. S. Government agencies		-	12,971,390	-	12,971,390
U. S. Treasury notes		-	13,136,703	-	13,136,703
Trust preferred securities		-	-	300,000	300,000
Collateralized loan obligations		-	14,120,371	-	14,120,371
Subordinated debentures		-	2,965,965	-	2,965,965
Loans held for sale		-	4,579,487	-	4,579,487
Derivative asset		-	361,505	-	361,505
Total assets measured at fair value on a recurring basis	\$	-	351,975,675	300,000	352,275,675
Balance at December 31, 2023					
State, county and municipals	\$	-	7,352,162	-	7,352,162
Mortgage-backed securities		-	185,468,038	-	185,468,038
U. S. Government agencies		-	12,441,398	-	12,441,398
U. S. Treasury notes		-	42,325,903	-	42,325,903
Trust preferred securities		-	-	300,000	300,000
Collateralized loan obligations		-	12,437,200	-	12,437,200
Loans held for sale		-	5,029,127	-	5,029,127
Total assets measured at fair value on a recurring basis	\$	-	265,053,828	300,000	265,353,828
Liabilities					
Derivative Liability	\$	-	534,944	-	534,944

As of December 31, 2024, there were no liabilities measured at fair value on a recurring basis.

The following table presents the changes in Level 3 assets measured at fair value on a recurring basis during the years ended December 31:

Level 3 Fair Value Measurements	Trust Preferred Securities	
	2024	2023
Balance at beginning of year	\$ 300,000	300,000
(Sales)/purchases	-	-
Net changes in gain/(loss) realized and unrealized	-	-
Transfers out of Level 3 to other investments	-	-
Balance at end of year	\$ 300,000	300,000

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(14) Fair Value of Financial Instruments, continued

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. Assets measured at fair value on a nonrecurring basis are included in the table below as of December 31, 2024 and 2023, respectively.

<u>Balance at December 31, 2024</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Collateral dependent loans, net	\$ -	-	15,794,313	15,794,313
Total assets at fair value	\$ -	-	15,794,313	15,794,313
<u>Balance at December 31, 2023</u>				
Other real estate owned	\$ -	-	26,212	26,212
Collateral dependent loans, net	-	-	11,643,123	11,643,123
Total assets at fair value	\$ -	-	11,669,335	11,669,335

For Level 3 assets and liabilities measured at fair value on a recurring or non-recurring basis as of December 31, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurements were as follows:

	<u>Fair Value as of December 31, 2024</u>	<u>Valuation Technique</u>	<u>Significant Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
Collateral dependent \$ loans, net of specific reserve	15,794,313	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
	<u>Fair Value as of December 31, 2023</u>	<u>Valuation Technique</u>	<u>Significant Observable Inputs</u>	<u>Significant Unobservable Inputs</u>
Collateral dependent \$ loans, net of specific reserve	11,643,123	Appraisal Value	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost
Other real estate owned	\$ 26,212	Appraisal Value/Comparison Sales/Other estimates	Appraisals and/or sales of comparable properties	Appraisals discounted 15% to 20% for sales commissions and other holding cost

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(15) Regulatory Matters

The Company and the Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary action by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. These capital requirements were modified in 2013 with the Basel III capital rules, which establish a new comprehensive capital framework for U.S. banking organizations. The Company and the Bank became subject to the new rules on January 1, 2015, with a phase-in period for many new provisions. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures for their assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier I and total capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier I capital to average assets (as defined). It is management's opinion, as of December 31, 2024, that the Company and the Bank meet all applicable capital adequacy requirements.

The Basel III capital rule requires banking organizations to maintain a minimum CET1 ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0% to be considered "adequately capitalized." The Basel III capital rule also includes a capital conservation buffer requirement above the minimum risk-based capital ratio requirements that banking organizations must meet in order to avoid limitations on capital distributions (including dividends and repurchases of any Tier 1 capital instrument, including common and qualifying preferred stock) and certain discretionary incentive compensation payments. The multi-year phase-in of the capital conservation buffer requirement began on January 1, 2016, and, for 2017, banking organizations are required to maintain a CET1 capital ratio of at least 5.125%, a Tier 1 capital ratio of at least 6.625%, and a total capital ratio of at least 8.625% to avoid limitations on capital distributions and certain discretionary incentive compensation payments. When fully phased-in on January 1, 2019, banking organizations must maintain a CET1 capital ratio of at least 7.0%, a Tier 1 capital ratio of at least 8.5%, and a total capital ratio of at least 10.5% to avoid limitations on capital distributions and certain discretionary incentive compensation payments.

As of December 31, 2024, the most recent notification from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or event since that notification which management believes have changed the bank's category.

The Queensborough Company

Notes to Consolidated Financial Statements, continued

(15) Regulatory Matters, continued

The Company's and the Bank's actual capital amounts and ratios are presented in the table below (dollars in thousands).

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2024:						
Total Capital (to Risk-weighted Assets)						
Consolidated	210,868	14.60%	115,544	8.00%	N/A	N/A
Bank	208,188	14.43%	115,446	8.00%	144,307	10.00%
Tier I Capital (to Risk-weighted Assets)						
Consolidated	173,786	12.00%	86,658	6.00%	N/A	N/A
Bank	195,106	13.52%	86,584	6.00%	115,446	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	161,786	11.20%	64,993	4.50%	N/A	N/A
Bank	195,106	13.52%	64,938	4.50%	93,800	6.50%
Tier I Leverage (to Average Assets)						
Consolidated	173,786	8.12%	85,418	4.00%	N/A	N/A
Bank	195,106	9.14%	85,276	4.00%	106,595	5.00%

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023:						
Total Capital (to Risk-weighted Assets)						
Consolidated	196,674	14.52%	108,326	8.00%	N/A	N/A
Bank	194,064	14.35%	108,209	8.00%	135,261	10.00%
Tier I Capital (to Risk-weighted Assets)						
Consolidated	161,096	11.90%	81,245	6.00%	N/A	N/A
Bank	182,486	13.49%	81,157	6.00%	108,209	8.00%
Common Equity Tier 1 capital (to risk-weighted assets)						
Consolidated	149,096	11.01%	60,933	4.50%	N/A	N/A
Bank	182,486	13.49%	60,868	4.50%	87,920	6.50%
Tier I Leverage (to Average Assets)						
Consolidated	161,096	8.03%	80,227	4.00%	N/A	N/A
Bank	182,486	9.11%	80,135	4.00%	100,169	5.00%

Dividends paid by the Bank are the primary source of funds available to the Company. Banking regulations limit the amount of dividends that may be paid without prior approval of the regulatory authorities. These restrictions are based on the level of regulatory classified assets, the prior years' net earnings and the ratio of equity capital to total assets.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(16) Derivative Financial Instruments

The Company utilizes interest rate swaps agreements as part of its asset-liability management strategy to help mitigate its interest rate risk. The notional amount of the interest rate swaps does not represent amounts exchanged by the parties. The amount exchanged is determined by reference to the notional amount and other terms of the individual interest rate swap agreements. Derivative financial instruments are recorded in the Consolidated Balance Sheets as either an asset or a liability (in other assets or other liabilities, respectively) and measured at fair value.

The Company presents derivative position gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet as of December 31, 2024 and 2023.

	2024	
	Notional Amount	Fair Value Asset
Included in other assets:		
Derivatives designated as hedges:		
Interest rate swaps related to fair value hedges	\$ 100,000,000	361,505
	2023	
	Notional Amount	Fair Value (Liability)
Included in other liabilities:		
Derivatives designated as hedges:		
Interest rate swaps related to fair value hedges	\$ 75,000,000	(534,944)

Fair Value Hedges

Fair value hedge interest rate swaps mature on various dates in 2026 and 2029 with a combined notional amount of \$100,000,000 at December 31, 2024. The risk management objective with respect to the fair value hedges is to hedge the risk of certain government backed mortgage-backed securities. These fair value hedges convert the fixed rates of the bonds to a 1-month SOFR floating rate. The Company expects these hedges to remain effective during the remaining term of the swap.

The Company has chosen early adoption of the portfolio layer method.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustment for the fair value hedge as of December 31, 2024 and 2023, respectively:

Line Item in the Balance Sheet in which the Hedged item is included		2024 Carrying Value of the Hedged Assets	2023 Carrying Value of the Hedged Assets
Securities available for sale (1)	\$	148,882,633	169,301,691
(1) Carrying amount for AFS debt securities reflects amortized cost, which excludes the hedge accounting basis adjustment.			

Below is information about the interest rate swaps designated as fair value hedges at December 31, 2024 and 2023, respectively:

	2024	2023
Notional amount of fair value hedges	\$100,000,000	\$75,000,000
Weighted average fixed pay rate	4.0766%	4.25225%
Weighted average SOFR	4.49%	5.38%
Weighted average maturity in years	2.15	2.34

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(16) Derivative Financial Instruments, continued

The following table presents the change in fair value for derivatives designated as fair value hedges as well as the offsetting change in fair value on the designated hedged item for the years ended December 31, 2024 and 2023:

	2024	2023
Interest rate contracts: Gain or (Loss)		
Change in fair value of interest rate swaps hedging available for sale securities	\$ 361,505	(534,944)
Change in fair value of hedged portion of available for sale securities	\$ (361,505)	534,944

The effect of fair value hedge accounting on the consolidated statement of earnings for the years ended December 31, 2024 and 2023 are as follows:

	2024 Interest Income	2023 Interest Income
The effects of fair value & cash flow hedging:		
Gain (loss) on fair value hedging relationships:		
Hedged items	\$ 883,256	\$ 315,595

Total amounts of income and expense line items presented in the statement of consolidated income in which the effects of fair value or cash flow hedges are recorded.

(17) Commitments and Contingencies

In the ordinary course of business, the Company may, from time to time, become a party to legal claims and disputes. At December 31, 2024, management, after consultation with legal counsel, is not aware of any pending or threatened litigation or unasserted claims or assessments that could result in losses, if any, would be material to the financial statements.

(18) Subsequent Events

Subsequent events are events or transactions that occur after the balance sheet date but before 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. Nonrecognized 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. In relation to current economic events, management has monitored deposit concentrations through the date the financial statements were issued noting no significant changes to concentrations. In addition, there has been no significant deposit deterioration through the date the financial statements were issued. There has been no significant deterioration in the investment portfolio through the date the financial statements were issued. Management has reviewed events occurring through March 28, 2025 the date the financial statements were available to be issued and no subsequent events occurred requiring disclosure.

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(19) The Queensborough Company (Parent Company Only) Financial Information

Balance Sheets

December 31, 2024 and 2023

	2024	2023
<u>Assets</u>		
Cash	\$ 1,668,957	4,278,449
Investment in Bank	163,961,464	150,984,901
Other assets	5,136,720	2,010,383
Total assets	\$ 170,767,141	157,273,733
<u>Liabilities and Shareholders' Equity</u>		
Other liabilities	\$ 430,201	442,493
Dividends payable	2,917,465	2,598,528
Senior subordinated debentures	23,890,972	23,749,636
Junior subordinated debentures	12,372,000	12,372,000
Total liabilities	39,610,638	39,162,657
Total shareholders' equity	131,156,503	118,111,076
Total liabilities and shareholders' equity	\$ 170,767,141	157,273,733

The Queensborough Company
Notes to Consolidated Financial Statements, continued

(19) The Queensborough Company (Parent Company Only) Financial Information, continued

Statements of Earnings

For the Years Ended December 31, 2024 and 2023

	2024	2023
Dividends from Bank	\$ 4,917,465	5,100,000
Other income	237,430	-
Total income	5,154,895	5,100,000
Interest expense	2,518,108	2,496,965
Other expense	176,419	202,587
Total expenses	2,694,527	2,699,552
Income before income tax benefit and equity in undistributed earnings of Bank	2,460,368	2,400,448
Income tax benefit	747,865	818,235
Income before equity in undistributed earnings of Bank	3,208,233	3,218,683
Equity in undistributed earnings of Bank	12,620,391	11,945,835
Net earnings	\$ 15,828,624	15,164,518

Statements of Cash Flows

For the Years Ended December 31, 2024 and 2023

	2024	2023
Cash flows from operating activities:		
Net earnings	\$ 15,828,624	15,164,518
Adjustments to reconcile net earnings to net cash used by operating activities:		
Equity in earnings of Bank	(12,620,391)	(11,945,835)
Change in other	(2,678,356)	(127,126)
Net cash provided by operating activities	529,877	3,091,557
Cash flows from financing activities:		
Dividends paid	(2,917,466)	(2,598,528)
Exercise of warrants	-	78,336
Redemption and retirement of common stock	(221,903)	(1,314,780)
Net cash used by financing activities	(3,139,369)	(3,834,972)
Net change in cash	(2,609,492)	(743,415)
Cash at beginning of year	4,278,449	5,021,864
Cash at end of year	\$ 1,668,957	4,278,449



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