2024

Annual REPORT

Eagle Financial Services, Inc.

Building Strong Financial Futures

At Bank of Clarke, we are proud to serve as a trusted financial partner dedicated to our customers and the communities we serve. As we reflect on our achievements in 2024, we are reminded of the importance of investing in both financial education and community growth. These milestones underscore our commitment to delivering exceptional service while fostering meaningful connections with our customers, employees, and local organizations.

Bank of Clarke became the first community bank in Virginia to partner with Greenlight, the debit card designed for kids and teens. This partnership has allowed us to enhance financial literacy for children in our community, empowering them to develop positive saving, spending, and investing habits from a young age. By reaching a younger customer base, we are building relationships early and supporting their financial journeys as their needs evolve over time.

For the second consecutive year, Bank of Clarke has been recertified as a Great Place to Work®. In addition to this prestigious recognition, we were honored to be named "Best Bank" by both the Winchester Star Awards and the Best of Ashburn. Alongside these accolades, our Trust Department proudly celebrated its 100th Anniversary in July, marking a century of dedication and service to our customers.

While we consistently demonstrate our commitment to community support and growth, the Bank of Clarke Foundation donated over $232,000 to local organizations in 2024, including the Shenandoah Valley Discovery Museum, the Clarke County Education Foundation, the National Association of Women Business Owners and more than 180 other deserving organizations. Through our #GiveWithBoC campaign, we also raised over $75,000 to support local causes.

We sincerely thank our loyal customers for their continued trust and support, as well as our dedicated staff who work tirelessly to serve our community. As we look ahead to 2025, we remain committed to being your trusted financial partner through both challenges and successes.

Dear Eagle Financial Services, Inc. Shareholders:

Despite ongoing challenges in the banking sector, 2024 was a year of many successes for Bank of Clarke and Eagle Financial Services, Inc. Our commercial and residential lending team achieved net loan growth of $3.8 million, a 0.26% increase over 2023, along with record mortgage and Small Business Administration (SBA) loan income. Additionally, our Trust and Wealth Management division ended the year with $559 million in Assets Under Management (AUM) and contributed over $5.6 million in gross revenue to the Company.

In 2024, Bank of Clarke became the first community bank in Virginia to partner with Greenlight, the debit card for kids and teens. This initiative promotes financial literacy among children in our community, teaching them valuable saving, spending, and investing habits early on. By building these relationships from a young age, we're helping to lay a strong foundation for their financial futures. To support businesses, we introduced Heartland Payroll and Positive Pay, two comprehensive solutions designed to streamline operations, enhance security, and foster growth.

As in previous years, the Bank was honored to receive numerous accolades, including being recertified as A Great Place to Work® and being named "Best Bank" by both the Winchester Star Awards and Best of Ashburn. In July, we also celebrated the 100th Anniversary of our Trust Department, a milestone we cherish.

Community banks are only as strong as the communities they serve, and we have a long-standing tradition of giving back to the region's numerous worthy non-profits. In 2024, through the Bank's branch-based #GiveWithBoC initiative and the Bank of Clarke Foundation, we donated over $334,000 to charities throughout our footprint, a 2.2% increase over 2023. This does not include the many personal hours that were donated by our employees to support local organizations.

We remain focused on our customers, community, and shareholders by combining the customer service of Main Street with the product set of Wall Street. Thanks to our remarkable staff for their tireless work in putting our customers at the center of everything we do, as we strive to be the trusted financial partners for all we serve in the Shenandoah Valley and Northern Virginia. The Company remains well-capitalized and diversified, with strong credit quality and a conservative lending foundation, and is well-poised to face the challenges that 2025 will surely bring.

Results

The Bank saw success across multiple categories in 2024 despite a difficult economic environment. As of December 31, 2024, the Company had total assets of $1.87 billion, net loans of $1.45 billion, total deposits of $1.58 billion, and shareholder equity of $119.0 million.

Annual Dividend $1.21

The Company's annual dividend was $1.21, an increase from $1.20 per share in 2023. This is the 41st year that the Bank has offered a dividend with continued increases every year.

Business Segments

Commercial and Retail

As in 2020 through 2023, our commercial lending group realized the highest growth rates in the history of the organization – a key factor in the institution's strong loan and deposit performance. Commercial and industrial loans were $110.3 million (7.6% of total loans) and $107.8M (7.4% of total loans) as of December 31, 2024, and December 31, 2023, respectively. This represents an increase of $2.5 million or 2.3% for 2024. The Bank actively pursued deposits through marketing and sales efforts, adding $69 million in average balances.

Continued improvements in technology allowed the Bank to grow the online channel, with a 3% increase in mobile banking users and a 655% increase in person-to-person payment users, resulting from the 2023 launch of Zelle®. In addition, continued strides were made in streamlining the personal loan, mortgage, and home equity account opening processes.

Trust and Investments

Bank of Clarke Wealth Management, the Bank's Trust and Financial Advisory division, experienced continued growth in 2024, with total assets under management climbing from $515 million at year end 2023 to $559 million in December 2024. Fee income increased 14.2% versus 2023. We continued to refine procedures in this area, add appropriate staff, and increase marketing.

Non-Interest Income

In addition to strong loan growth, the combination of efforts to expand fee income opportunities and to leverage existing technologies has led to significant year-over-year increases in non-interest income. Just as 2023 saw record levels of total non-interest income at $14.8 million, this trend continued in 2024, with non-interest income reaching $21.60 million, an impressive 46% increase.

The Year Ahead

In 2025, the Bank continues in the unique position of being in high-growth geographies. That, coupled with the past high performance, allows the bank to grow through market expansion and adding new services and technologies. To achieve our goals, we will focus on:

- Offering best-in-class products and services
- Growing tangible book value
- Driving organic fee income growth
- Being the leader in the markets we serve

I would like to thank our shareholders for their confidence in the Company, its Board of Directors, the management team, and our employees. Your continued support of this organization ensures we are able to serve our communities, customers, and employees while providing shareholders with even stronger returns on their investments.

Brandon Lorey
President & CEO

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(Mark One)

☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2024

or

☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission File Number: 001-42512

EAGLE FINANCIAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Virginia	**54-1601306**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
2 East Main Street **P.O. Box 391** **Berryville, Virginia**	**22611**
(Address of principal executive offices)	**(Zip Code)**

(540) 955-2510
(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, Par Value $2.50	EFSI	The Nasdaq Stock Market LLC

Securities registered pursuant to Section 12(g) of the Act: None
(Title of class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (232.405 of this Chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	☐	Accelerated filer	☐
Non-accelerated filer	☒	Smaller reporting company	☒
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☐

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant's executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the voting common equity held by non-affiliates of the registrant at June 28, 2024 was $101,801,103.

The number of shares of the registrant's Common Stock ($2.50 par value) outstanding as of March 21, 2025 was 5,378,653.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement for the 2025 Annual Meeting of Shareholders are incorporated by reference into Part III.

EAGLE FINANCIAL SERVICES, INC.
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PART I

Item 1. Business

General

Eagle Financial Services, Inc. is a bank holding company that was incorporated in 1991. The company is headquartered in Berryville, Virginia and conducts its operations through its subsidiary, Bank of Clarke (the "Bank"). The Bank is chartered under Virginia law. For purposes of this annual report on Form 10-K, the terms the "Company," "our," "us" and "we" refer to Eagle Financial Services, Inc. and our subsidiary as a combined entity, unless this report otherwise indicates or the context otherwise requires.

The Bank has thirteen full-service branches, two loan production offices, one wealth management office and one drive-through only facility. The Bank's main office is located at 2 East Main Street in Berryville, Virginia. The Bank opened for business on April 1, 1881. The Bank has Virginia offices located in Clarke County, Frederick County, Fauquier County, Loudoun County and Fairfax County, as well as the Towns of Leesburg, Ashburn and Purcellville and the City of Winchester. The Bank has a Maryland office located in Frederick. This market area is located in the Shenandoah Valley of Virginia, Northern Virginia and Frederick, Maryland.

The Bank offers a wide range of retail and commercial banking services, including demand, savings and time deposits and consumer, mortgage and commercial loans. The Bank has thirteen ATM locations in its trade area and issues debit cards to deposit customers. These cards can be used to withdraw cash at most ATMs through the Bank's membership in both regional and national networks. The Bank offers telephone banking, internet banking, and mobile banking to its customers. Internet banking also offers online bill payment to consumer and commercial customers. The Bank offers other commercial deposit account services such as ACH origination and remote deposit capture.

The Bank of Clarke Wealth Management Division, a division of the Bank, provides both a full-service trust department and a separate brokerage area. The trust department features a full range of fiduciary expertise, including service as trustee of personal trusts, service as guardian or conservator by court appointment, fiduciary investment management, estate settlement, and agency for trustees. The brokerage area offers advisory services and a broad selection of investment products, including individual retirement accounts, mutual funds, tax-deferred annuities, 529 college savings plans, life insurance, long term care insurance, brokerage certificates of deposit, among other brokerage services. Securities and other property held by the Bank of Clarke Wealth Management Division in a fiduciary or agency capacity are not assets of the Bank and are not included in the accompanying consolidated financial statements. Non-deposit investment products are offered through a third party provider.

The Bank is a member in Bankers Title Shenandoah, LLC, which sells title insurance and is an investor in Bearing Insurance Group, LLC, which serves as the broker for insurance sales through its member banks. The Bank invests in qualified affordable housing projects. The general purpose of these investments is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, provide tax credits and other tax benefits to investors, and to preserve and protect project assets.

Employees

The Company, including the Bank, has 231 full-time equivalent employees at December 31, 2024, representing 75 officers, 150 other, non-officer, full-time employees and 6 part-time employees. None of the Company's employees are represented by a union or covered under a collective bargaining agreement. The Company considers relations with its employees to be excellent, and has obtained its second a *Great Place to Work® certified.* designation for the annual period through June 2025.

Securities and Exchange Commission Filings

The Company maintains an internet website at *www.bankofclarke.bank*. Shareholders of the Company and the public may access, free of charge, the Company's periodic and current reports (including annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, and any amendments to those reports) filed with or furnished to the Securities and Exchange Commission (the "SEC"), through the "Investor Relations" section of the Company's website. The reports are made available on this website as soon as practicable following the filing of the reports with the SEC. The information is free of charge and may be reviewed, downloaded and printed from the Company website or *http://www.sec.gov* at any time. In addition, certain committee charters and the Company's Code of Ethics are available on the Company's website. The information on the Company's website is not a part of, and is not incorporated into, this Annual Report on Form 10-K.

Competition

There is significant competition for both loans and deposits within the Company's trade area. Competition for loans comes from other commercial banks, savings banks, credit unions, mortgage brokers, finance companies, financial technology firms, insurance companies, and other institutional lenders. Competition for deposits comes from other commercial banks, savings banks, credit unions, brokerage firms, and other financial institutions. Based on total deposits at June 30, 2024 as reported to the FDIC, the Bank has 9.60% of the total deposits in its market area. The Company's primary deposit market area includes Clarke County, Frederick County, Loudoun County, Fauquier County and the City of Winchester.

Supervision and Regulation

General. As a bank holding company, the Company is subject to regulation under the Bank Holding Company Act of 1956, as amended, and the examination and reporting requirements of the Board of Governors of the Federal Reserve System (the "Federal Reserve"). As a state-chartered commercial bank, the Bank is subject to regulation, supervision and examination by the Virginia State Corporation Commission's Bureau of Financial Institutions. It is also subject to regulation, supervision and examination by the Federal Reserve. Other federal and state laws, including various consumer and compliance laws, govern the activities of the Bank, the investments that it makes and the aggregate amount of loans that it may grant to one borrower.

The following sections summarize some of the significant federal and state laws applicable to the Company and its subsidiary. To the extent that statutory or regulatory provisions are described, the description is qualified in its entirety by reference to that particular statutory or regulatory provision.

The Bank Holding Company Act. Under the Bank Holding Company Act, the Company is subject to periodic examination by the Federal Reserve and is required to file periodic reports regarding its operations and any additional information that the Federal Reserve may require. Activities at the bank holding company level are limited to the following:

- banking, managing or controlling banks;
- furnishing services to or performing services for its subsidiaries; and
- engaging in other activities that the Federal Reserve has determined by regulation or order to be so closely related to banking as to be a proper incident to these activities.

Some of the activities that the Federal Reserve has determined by regulation to be closely related to the business of a banking include making or servicing loans and specific types of leases, performing specific data processing services and acting in some circumstances as a fiduciary or investment or financial adviser.

With some limited exceptions, the Bank Holding Company Act requires every bank holding company to obtain the prior approval of the Federal Reserve before:

- acquiring substantially all the assets of any bank;
- acquiring direct or indirect ownership or control of any voting shares of any bank if after such acquisition it would own or control more than 5% of the voting shares of such bank (unless it already owns or controls the majority of such shares); or
- merging or consolidating with another bank holding company.

In addition, and subject to some exceptions, the Bank Holding Company Act and the Change in Bank Control Act, together with their regulations, require Federal Reserve approval prior to any person or company acquiring 25% or more of any class of voting securities of the bank holding company. Prior notice to the Federal Reserve is required if a person acquires 10% or more, but less than 25%, of any class of voting securities of a bank or bank holding company and either the institution has registered securities under Section 12 of the Securities Exchange Act of 1934 or no other person owns a greater percentage of that class of voting securities immediately after the transaction.

In November 1999, Congress enacted the Gramm-Leach-Bliley Act ("GLBA"), which made substantial revisions to the statutory restrictions separating banking activities from other financial activities. Under the GLBA, bank holding companies that are well-capitalized and well-managed and meet other conditions can elect to become "financial holding companies." As financial holding companies, they and their subsidiaries are permitted to acquire or engage in previously impermissible activities such as insurance underwriting, securities underwriting and distribution, travel agency activities, insurance agency activities, merchant banking and other activities that the Federal Reserve determines to be financial in nature or complementary to these activities. Financial holding companies continue to be subject to the overall oversight and supervision of the Federal Reserve, but the GLBA applies the concept of functional regulation to the activities conducted by subsidiaries. For example, insurance activities would be subject to supervision and regulation by state insurance authorities. Although the Company has not elected to become a financial holding company in order to exercise the broader activity powers provided by the GLBA, the Company may elect do so in the future.

Payment of Dividends. The Company is organized under the Virginia Stock Corporation Act, which prohibits the payment of a dividend if, after giving it effect, the corporation would not be able to pay its debts as they become due in the usual course of business or if the corporation's total assets would be less than the sum of its total liabilities plus the amount that would be needed, if the corporation were to be dissolved, to satisfy the preferential rights upon dissolution of any preferred shareholders. In addition, the Federal Reserve has indicated that a bank holding company should generally pay dividends only if its current earnings are sufficient to fully fund the dividends, and the prospective rate of earnings retention appears consistent with the organization's capital needs, asset quality and overall financial condition.

The Company is a legal entity separate and distinct from its subsidiary. Its ability to distribute cash dividends will depend primarily on the ability of the Bank to pay dividends to it, and the Bank is subject to laws and regulations that limit the amount of dividends that it can pay. As a state member bank, the Bank is subject to certain restrictions imposed by the reserve and capital requirements of federal and Virginia banking statutes and regulations. Under Virginia law, a bank may not declare a dividend in excess of its undivided profits. Additionally, the Bank may not declare a dividend if the total amount of all dividends, including the proposed dividend, declared by it in any calendar year exceeds the total of its retained net income of that year to date, combined with its retained net income of the two preceding years, unless the dividend is approved by the Federal Reserve.

The Federal Reserve, the FDIC and the state of Virginia have the general authority to limit the dividends paid by insured banks if the payment is deemed an unsafe and unsound practice. These regulators have indicated that paying dividends that deplete a bank's capital base to an inadequate level would be an unsound and unsafe banking practice. The Bank may also not declare or pay a dividend without the approval of its board and two-thirds of its shareholders if the dividend would exceed its undivided profits, as reported to the Federal Reserve.

The Company does not expect that any of these laws, regulations or policies will materially affect the Bank's ability to pay dividends to the Company. During 2024, the Company paid total dividends of $4.3 million, including cash dividends that were reinvested in Company stock.

Insurance of Accounts, Assessments and Regulation by the FDIC. The Bank's deposits are insured up to applicable limits by the FDIC. In July 2010, the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") permanently raised the standard maximum deposit insurance amount to $250,000. The FDIC has implemented a risk-based assessment system in which assessment rates for insured institutions with under $10 billion in assets are calculated based on supervisory evaluations and certain other financial measures. The assessment base is an institution's average consolidated total assets less average tangible equity, and the initial base assessment rates are currently between 5 and 32 basis points depending on the institution's composite rating, and subject to potential adjustment based on certain long-term unsecured debt. Progressively lower assessment rate schedules will take effect once the FDIC's reserve ratio reaches 2.0% or greater, and again once the reserve ratio reaches 2.5% or greater.

Capital Requirements. The Federal Reserve and the other federal banking agencies have issued risk-based and leverage capital guidelines applicable to U.S. banking organizations. Those regulatory agencies may from time to time require that a banking organization maintain capital above the minimum levels because of its financial condition or actual or anticipated growth. Pursuant to the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement, qualifying bank holding companies with total consolidated assets of less than $3 billion, such as the Company, are not subject to consolidated regulatory capital requirements.

Effective January 1, 2015, the Federal Reserve adopted capital rules intended to revise and strengthen its risk-based and leverage capital requirements and its method for calculating risk-weighted assets. The rules implemented the Basel III regulatory capital reforms from the Basel Committee on Banking Supervision and certain provisions of the Dodd-Frank Act.

Under these risk-based capital requirements of the Federal Reserve, the Bank is required to maintain a minimum ratio of total capital (which is defined as core capital and supplementary capital less certain specified deductions from total capital such as reciprocal holdings of depository institution capital instruments and equity investments) to risk-weighted assets of at least 8.0%. At least 6.0% of risk-weighted assets is required to be "Tier 1 capital," which consists principally of common and certain qualifying preferred shareholders' equity (including grandfathered trust preferred securities) as well as retained earnings, less certain intangibles and other adjustments. The "Tier 2 capital" consists of cumulative preferred stock, long-term perpetual preferred stock, a limited amount of subordinated and other qualifying debt (including certain hybrid capital instruments), and a limited amount of the allowance for credit losses, including reserves for off-balance sheet commitments. A common equity Tier 1 capital ratio of 4.5% of risk-weighted assets also was added with the rules effective January 1, 2015.

Each of the federal bank regulatory agencies also has established a minimum leverage capital ratio of Tier 1 capital to average adjusted assets ("Tier 1 leverage ratio"). The guidelines require a minimum Tier 1 leverage ratio of 3.0% for financial holding companies and banking organizations with the highest supervisory rating. All other banking organizations are required to maintain a minimum Tier 1 leverage ratio of 4.0% unless a different minimum was specified by an appropriate regulatory authority. In addition, for a depository institution to be considered "well capitalized" under the regulatory framework for prompt corrective action, its Tier 1 leverage ratio must be at least 5.0%. Banking organizations that have experienced internal growth or made acquisitions are expected to maintain strong capital positions substantially above the minimum supervisory levels without significant reliance on intangible assets. The Federal Reserve has not advised the Company or the Bank of any specific minimum leverage ratio applicable to either entity.

The capital requirements that became effective January 1, 2015 were phased in over a four-year period. As fully phased in effective January 1, 2019, the rules require the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity Tier 1 ratio, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0%); (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%); (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%); and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

The capital conservation buffer requirement was phased in beginning January 1, 2016, at 0.625% of risk-weighted assets, increasing by the same amount each year until fully implemented at 2.5% effective January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with a ratio of common equity Tier 1 to risk-weighted assets above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall.

The Federal Reserve's final rules also revised the "prompt corrective action" regulations pursuant to Section 38 of the FDIA by (i) introducing a common equity Tier 1 capital ratio requirement at each level (other than critically undercapitalized), with the required ratio being 6.5% for well-capitalized status; (ii) increasing the minimum Tier 1 capital ratio requirement for each category, with the minimum ratio for well-capitalized status being 8.0%; and (iii) eliminating the provision that provided that a bank with a composite supervisory rating of 1 may have a 3.0% Tier 1 leverage ratio and still be well-capitalized. These thresholds were effective for the Bank as of January 1, 2015. The minimum total capital to risk-weighted assets ratio (10.0%) and minimum leverage ratio (5.0%) for well-capitalized status were unchanged by the final rules.

As directed by the Economic Growth, Regulatory Relief and Consumer Protection Act (the "Economic Growth Act"), the federal banking regulators jointly issued a final rule in 2019 that permits qualifying banks that have less than $10 billion in total consolidated assets to elect to be subject to a 9% "community bank leverage ratio." A qualifying bank that has chosen the proposed framework is not required to calculate the existing risk-based and leverage capital requirements and would be considered to have met the capital ratio requirements to be "well capitalized" under prompt corrective action rules, provided it has a community bank leverage ratio greater than 9%. The Bank has not opted into the CBRL framework at December 31, 2024 as its leverage ratio was 8.79%.

Other Safety and Soundness Regulations. There are a number of obligations and restrictions imposed on bank holding companies and their depository institution subsidiaries by federal law and regulatory policy that are designed to reduce potential loss exposure to the depositors of such depository institutions and to the FDIC insurance funds in the event that the depository institution is insolvent or is in danger of becoming insolvent. For example, under the requirements of the Federal Reserve with respect to bank holding company operations, a bank holding company is required to serve as a source of financial strength to its subsidiary depository institutions and to commit resources to support such institutions in circumstances where it might not do so otherwise. In addition, the "cross-guarantee" provisions of federal law require insured depository institutions under common control to reimburse the FDIC for any loss suffered or reasonably anticipated by the FDIC as a result of the insolvency of commonly controlled insured depository institutions or for any assistance provided by the FDIC to commonly controlled insured depository institutions in danger of failure. The FDIC may decline to enforce the cross-guarantee provision if it determines that a waiver is in the best interests of the deposit insurance funds. The FDIC's claim for reimbursement under the cross guarantee provisions is superior to claims of shareholders of the insured depository institution or its holding company but is subordinate to claims of depositors, secured creditors and nonaffiliated holders of subordinated debt of the commonly controlled insured depository institutions.

Federal Reserve System. In 1980, Congress enacted legislation that imposed reserve requirements on all depository institutions that maintain transaction accounts or nonpersonal time deposits. NOW accounts, money market deposit accounts and other types of accounts that permit payments or transfers to third parties fall within the definition of transaction accounts and are subject to these reserve requirements, as are any nonpersonal time deposits at an institution.

The reserve percentages are subject to adjustment by the Federal Reserve. Because required reserves must be maintained in the form of vault cash or in a non-interest-bearing account at, or on behalf of, a Federal Reserve Bank, the effect of the reserve requirement is to reduce the amount of the institution's interest-earning assets.

However, in March 2020, in an unprecedented move, the Federal Reserve announced that the banking system had ample reserves, and, as reserve requirements no longer played a significant role in this regime, it reduced all reserve tranches to zero percent, thereby freeing banks from the reserve maintenance requirement. The action permits the Bank to loan or invest funds that were previously unavailable. The Federal Reserve has indicated that it expects to continue to operate in an ample reserves regime for the foreseeable future.

Transactions with Affiliates. Transactions between banks and their affiliates are governed by Sections 23A and 23B of the Federal Reserve Act. An affiliate of a bank is any bank or entity that controls, is controlled by or is under common control with such bank. Generally, Sections 23A and 23B (i) limit the extent to which the Bank or its subsidiaries may engage in "covered transactions" with any one affiliate to an amount equal to 10% of such institution's capital stock and surplus, and maintain an aggregate limit on all such transactions with affiliates to an amount equal to 20% of such capital stock and surplus, and (ii) require that all such transactions be on terms substantially the same, or at least as favorable, to the association or subsidiary as those provided to a nonaffiliate. The term "covered transaction" includes the making of loans, purchase of assets, issuance of a guarantee and similar other types of transactions.

Transactions with Insiders. The Federal Reserve Act and related regulations impose specific restrictions on loans to directors, executive officers and principal shareholders of banks. Under Section 22(h) of the Federal Reserve Act, loans to a director, an executive officer and to a principal shareholder of a bank, and some affiliated entities of any of the foregoing, may not exceed, together with all other outstanding loans to such person and affiliated entities, the bank's loan-to-one borrower limit. Loans in the aggregate to insiders and their related interests as a class may not exceed two times the bank's unimpaired capital and unimpaired surplus until the bank's total deposits equal or exceed $100,000,000, at which time the aggregate is limited to the bank's unimpaired capital and unimpaired surplus. Section 22(h) also prohibits loans, above amounts prescribed by the appropriate federal banking agency, to directors, executive officers and principal shareholders of a bank or bank holding company, and their respective affiliates, unless such loan is approved in advance by a majority of the board of directors of the bank with any "interested" director not participating in the voting. The FDIC has prescribed the loan amount, which includes all other outstanding loans to such person, as to which such prior board of director approval is required, as being the greater of $25,000 or 5% of capital and surplus (up to $500,000). Section 22(h) requires that loans to directors, executive officers and principal shareholders be made on terms and underwriting standards substantially the same as offered in comparable transactions to other persons.

The Dodd-Frank Act also provides that banks may not "purchase an asset from, or sell an asset to" a bank insider (or their related interests) unless (i) the transaction is conducted on market terms between the parties, and (ii) if the proposed transaction represents more than 10 percent of the capital stock and surplus of the bank, it has been approved in advance by a majority of the bank's non-interested directors.

Community Reinvestment Act. Under the Community Reinvestment Act and related regulations, depository institutions have an affirmative obligation to assist in meeting the credit needs of their market areas, including low and moderate-income areas, consistent with safe and sound banking practice. The Community Reinvestment Act directs each bank to maintain a public file containing specific information, including all written comments received from the public for the current year and each of the previous two calendar years that specifically relate to the bank's performance in helping to meet community credit needs. Depository institutions are periodically examined for compliance with the Community Reinvestment Act and are periodically assigned ratings in this regard. Banking regulators consider a depository institution's Community Reinvestment Act rating when reviewing applications to establish new branches, undertake new lines of business, and/or acquire part or all of another depository institution. An unsatisfactory rating can significantly delay or even prohibit regulatory approval of a proposed transaction by a bank holding company or its depository institution subsidiaries.

In October 2023, the Office of the Comptroller of the Currency ("OCC"), the Federal Reserve System Board and the FDIC finalized comprehensive revisions to their CRA regulations. The objectives in issuing the final rule include strengthening the achievement of the core purpose of the statute, adapting to changes in the banking industry, including the expanded role of mobile and online banking, tailoring performance standards to account for differences in bank size and business models and local conditions, confirming that CRA and fair lending responsibilities are mutually reinforcing, and promoting a consistent regulatory approach that applies to banks regulated by all three agencies. The final rule is expected to go into effect on April 1, 2024, but most provisions of the rule, including the new tests, the need to define retail lending assessment areas, and the data collection requirements, will become applicable on January 1, 2026. Reporting of the collected data will not be required until 2027. In addition to numerous technical revisions, the final rule introduces major changes to the CRA regulations in four key areas: (A) the delineation of assessment areas; (B) the overall evaluation framework and performance standards and metrics; (C) the definition of community development activities; and (D) data collection and reporting. The new evaluation framework is “tailored” based on the size of the bank.

Fair Lending; Consumer Laws. In addition to the Community Reinvestment Act, other federal and state laws regulate various lending and consumer aspects of the banking business. Governmental agencies, including the Department of Housing and Urban Development, the Federal Trade Commission and the Department of Justice, have become concerned that prospective borrowers experience discrimination in their efforts to obtain loans from depository and other lending institutions. These agencies have brought litigation against depository institutions alleging discrimination against borrowers. Many of these suits have been settled, in some cases for material sums, short of a full trial.

These governmental agencies have clarified what they consider to be lending discrimination and have specified various factors that they will use to determine the existence of lending discrimination under the Equal Credit Opportunity Act and the Fair Housing Act, including evidence that a lender discriminated on a prohibited basis, evidence that a lender treated applicants differently based on prohibited factors in the absence of evidence that the treatment was the result of prejudice or a conscious intention to discriminate, and evidence that a lender applied an otherwise neutral non-discriminatory policy uniformly to all applicants, but the practice had a discriminatory effect, unless the practice could be justified as a business necessity.

Banks and other depository institutions are also subject to numerous consumer-oriented laws and regulations. These laws, which include the Truth in Lending Act, the Truth in Savings Act, the Real Estate Settlement Procedures Act, the Electronic Funds Transfer Act, the Funds Availability Act, the Equal Credit Opportunity Act, and the Fair Housing Act, require compliance by depository institutions with various disclosure requirements and requirements regulating the availability of funds after deposit or the making of some loans to customers.

Privacy Regulations. The GLBA contains extensive customer privacy protection provisions. Under these provisions, a financial institution must provide to its customers, both at the inception of the customer relationship and on an annual basis, the institution’s policies and procedures regarding the handling of customers’ nonpublic personal financial information. The law provides that, except for specific limited exceptions, an institution may not provide such personal information to unaffiliated third parties unless the institution discloses to the customer that such information may be so provided and the customer is given the opportunity to opt out of such disclosure. An institution may not disclose to a non-affiliated third party, other than to a consumer reporting agency, customer account numbers or other similar account identifiers for marketing purposes. The GLBA also provides that the states may adopt customer privacy protections that are more strict than those contained in the act.

Regulation P provides an exception under which financial institutions that meet certain conditions are not required to provide annual privacy notices to customers. To qualify for this exception, a financial institution must not share nonpublic personal information about customers except as described in certain statutory exceptions. In addition, the rule requires that the financial institution must not have changed its policies and practices with regard to disclosing nonpublic personal information from those that the institution disclosed in the most recent privacy notice it sent. As part of its implementation, the CFPB also amended Regulation P to provide timing requirements for delivery of annual privacy notices in the event that a financial institution that qualified for this annual notice exception later changes its policies or practices in such a way that it no longer qualifies for the exception. The CFPB further removed the Regulation P provision that allowed for use of the alternative delivery method for annual privacy notices because the CFPB believes the alternative delivery method will no longer be used in light of the annual notice exception.

In October 2024, the CFPB adopted a new rule that requires financial service providers, such as the Bank, to make certain data available to consumers upon request regarding the products or services they obtain from the provider. The rule is intended to give consumers control over their financial data, including with whom it is shared, and encourage competition in the provision of consumer financial products and services. Compliance is required beginning April 1, 2028 for depository institutions with at least $3 billion in total assets and beginning April 1, 2029 for depository institutions with at least $1.5 billion in total assets.

Anti-Money Laundering Laws and Regulations. The Bank is subject to several federal laws that are designed to combat money laundering, terrorist financing, and transactions with persons, companies or foreign governments designated by U.S. authorities (“AML laws”). This category of laws includes the Bank Secrecy Act of 1970, the Money Laundering Control Act of 1986, the USA PATRIOT Act of 2001, and the Anti-Money Laundering Act of 2020. The Anti-Money Laundering Act of 2020, the most sweeping anti-money laundering legislation in 20 years, requires various federal agencies to promulgate regulations implementing a number of its provisions.

The AML laws and their implementing regulations require insured depository institutions, broker-dealers, and certain other financial institutions to have policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing. The AML laws and their regulations also provide for information sharing, subject to conditions, between federal law enforcement agencies and financial institutions, as well as among financial institutions, for counter-terrorism purposes. Federal banking regulators are required, when reviewing bank holding company acquisition and bank merger applications, to take into account the effectiveness of the anti-money laundering activities of the applicants. To comply with these obligations, the Company has implemented appropriate internal practices, procedures, and controls.

Cybersecurity. The federal banking agencies have adopted guidelines for establishing information security standards and cybersecurity programs for implementing safeguards under the supervision of a financial institution's board of directors. These guidelines, along with related regulatory materials, increasingly focus on risk management and processes related to information technology and the use of third parties in the provision of financial products and services. The federal banking agencies expect financial institutions to establish lines of defense and ensure that their risk management processes also address the risk posed by compromised customer credentials, and also expect financial institutions to maintain sufficient business continuity planning processes to ensure rapid recovery, resumption and maintenance of the institution's operations after a cyber-attack. If the Bank fails to meet the expectations set forth in this regulatory guidance, it could be subject to various regulatory actions and any remediation efforts may require significant resources of the Bank. In addition, all federal and state bank regulatory agencies continue to increase focus on cybersecurity programs and risks as part of regular supervisory exams.

In November 2021, the federal banking agencies approved a final rule effective on April 1, 2022 that, among other things, requires banking organizations to notify their primary regulator within 36 hours of becoming aware of a "computer-security incident" that rises to the level of a "notification incident." The rule also requires bank service providers to notify their banking organization customers as soon as possible after becoming aware of similar incidents.

In 2023, the SEC issued a final rule that requires disclosure of material cybersecurity incidents, as well as cybersecurity risk management, strategy and governance. Under this rule, banking organizations that are SEC registrants must generally disclose information about a material cybersecurity incident within four business days of determining it is material with periodic updates as to the status of the incident in subsequent filings as necessary.

Sarbanes-Oxley Act of 2002. The Sarbanes-Oxley Act implemented a number of laws affecting corporate governance, accounting obligations and corporate reporting. The Sarbanes-Oxley Act is applicable to all companies with equity securities registered or that file reports under the Securities Exchange Act of 1934. In particular, the Sarbanes-Oxley Act established: (i) requirements for audit committees, including independence, expertise, and responsibilities; (ii) responsibilities regarding financial statements for the Chief Executive Officer and Chief Financial Officer of the reporting company; (iii) standards for auditors and regulation of audits; (iv) disclosure and reporting obligations for reporting companies and their directors and executive officers; and (v) civil and criminal penalties for violations of the securities laws. Because the Company's common stock is registered with the SEC, it is currently subject to these requirements.

Incentive Compensation. In June 2010, the Federal Reserve issued a final rule on incentive compensation policies intended to ensure that the incentive compensation policies of banking organizations do not undermine the safety and soundness of such organizations by encouraging excessive risk-taking. Banking organizations are instructed to review their incentive compensation policies to ensure that they do not encourage excessive risk-taking and implement corrective programs as needed. The Federal Reserve will review, as part of the regular, risk-focused examination process, the incentive compensation arrangements of banking organizations, such as the Bank, that are not "large, complex banking organizations." These reviews will be tailored to each organization based on the scope and complexity of the organization's activities and the prevalence of incentive compensation arrangements. The findings of the supervisory initiatives will be included in reports of examination. Deficiencies will be incorporated into the organization's supervisory ratings, which can affect the organization's ability to make acquisitions and take other actions.

Dodd-Frank Act. In July 2010, the Dodd-Frank Act was signed into law, incorporating numerous financial institution regulatory reforms. The Dodd-Frank Act implements far-reaching reforms of major elements of the financial landscape, particularly for larger financial institutions. Many of its provisions do not directly impact community-based institutions like the Bank. For instance, provisions that regulate derivative transactions and limit derivatives trading activity of federally-insured institutions, enhance supervision of "systemically significant" institutions, impose new regulatory authority over hedge funds, limit proprietary trading by banks, and phase-out the eligibility of trust preferred securities for Tier 1 capital are among the provisions that do not directly impact the Bank either because of exemptions for institutions below a certain asset size or because of the nature of the Bank's operations. Certain aspects of the Dodd-Frank Act remain subject to rulemaking and interpretation and will take effect over several years, and their impact on the Company or the financial industry is difficult to predict before such regulations or interpretations are adopted.

In May 2018, the Economic Growth Act was enacted to modify or remove certain regulatory financial reform rules and regulations, including some of those implemented under the Dodd-Frank Act. While the Economic Growth Act maintains most of the regulatory structure established by the Dodd-Frank Act, it amends certain aspects of the regulatory framework for small depository institutions with assets of less than $10 billion, such as the Bank, and for large banks with assets of more than $50 billion.

Among other matters, the Economic Growth Act expands the definition of qualified mortgages which may be held by a financial institution with total consolidated assets of less than $10 billion, exempts community banks from the Volcker Rule, and includes additional regulatory relief regarding regulatory examination cycles, call reports, mortgage disclosures and risk weights for certain high-risk commercial real estate loans.

Future Legislation and Regulation. Congress may enact legislation from time to time that affects the regulation of the financial services industry, and state legislatures may enact legislation from time to time affecting the regulation of financial institutions chartered by or operating in those states. Federal and state regulatory agencies also periodically propose and adopt changes to their regulations or change the manner in which existing regulations are applied. The substance or impact of pending or future legislation or regulation, or the application thereof, cannot be predicted, although enactment of the proposed legislation could impact the regulatory structure under which the Company and the Bank operate and may significantly increase costs, impede the efficiency of internal business processes, require an increase in regulatory capital, require modifications to business strategy, and limit the ability to pursue business opportunities in an efficient manner. A change in statutes, regulations or regulatory policies applicable to the Company or the Bank could have a material, adverse effect on the business, financial condition and results of operations of the Company and the Bank. Future legislation, regulation, and government policy could affect the banking industry as a whole, including the business and results of operations of the Company and the Bank, in ways that are difficult to predict. The Company fully expects that the financial institution industry will remain heavily regulated in the near future and that additional laws or regulations may be adopted further regulating specific banking practices.

Item 1A. Risk Factors

The Company is subject to many risks that could adversely affect its future financial condition and performance and, therefore, the market value of its securities. The risk factors applicable to the Company include, but are not limited to the following:

Credit Risks

The Company’s concentration in loans secured by real estate may increase its credit losses, which would negatively affect our financial results.

At December 31, 2024, loans secured by real estate totaled $1.1 billion and represented 75.1% of the Company’s loan portfolio, net of net deferred loan costs and premiums. If we experience adverse changes in the local real estate market or in the local or national economy, borrowers’ ability to pay these loans may be impaired, which could impact the Company’s financial performance. The Company attempts to limit its exposure to this risk by applying good underwriting practices at origination, evaluating the appraisals used to establish property values, and routinely monitoring the financial condition of borrowers. If the value of real estate serving as collateral for the loan portfolio were to decline materially, a significant part of the loan portfolio could become under-collateralized. If the loans that are secured by real estate become troubled when real estate market conditions are declining or have declined, in the event of foreclosure, the Company may not be able to realize the amount of collateral that was anticipated at the time of originating the loan. In that event, the Company might have to increase the provision for credit losses, which could have a material adverse effect on its operating results and financial condition.

An inadequate allowance for credit losses would reduce our earnings.

Our earnings are significantly affected by our ability to properly originate, underwrite and service loans. We maintain an allowance for credit losses on loans based upon many factors, including the following:

- actual loan loss history;
- nature, terms, and volume of the loan portfolio;
- the amount and trends of problems loans and non-performing loans;
- the effect of changes in the local real estate market on collateral values;
- the legal and regulatory environment;
- lending policies and procedures;
- credit administrations and lending staff;
- concentrations of credit;
- the loan review function;
- the effect of current economic conditions on a borrower’s ability to pay; and
- other factors deemed relevant by management.

These determinations are based upon estimates that are inherently subjective, and their accuracy depends on the outcome of future events; therefore, realized losses may differ from current estimates. Changes in economic, operating, and other conditions, including changes in interest rates, which are generally beyond our control, could increase actual loan losses significantly. As a result, actual losses could exceed our current allowance estimate. We cannot provide assurance that our allowance for credit losses is sufficient to cover actual loan losses should such losses differ significantly from the current estimates.

Technology Risks

The Company’s operations may be adversely affected by cybersecurity risks.

In the ordinary course of business, the Company collects and stores sensitive data, including proprietary business information and personally identifiable information of its customers and employees in systems and on networks of the Company and its customers and third-party service providers. The secure processing, maintenance, and use of this information is critical to the Company's operations and business strategy. In addition, the Company relies heavily on communications and information systems to conduct its business. Any failure, interruption, or breach in security or operational integrity of these systems could result in failures or disruptions in the Company's customer relationship management, general ledger, deposit, loan, and other systems. The Company has invested in accepted technologies, and continually reviews processes and practices that are designed to protect its networks, computers, and data from damage or unauthorized access. To date, the Company has not experienced a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, but the Company’s systems and those of its customers and third-party service providers are under constant threat and it is possible that the Company could experience a significant event in the future. Risks and exposures related to cybersecurity attacks are expected to remain high for the foreseeable future due to the rapidly evolving nature and sophistication of these threats, as well as due to the expanding use of Internet banking, mobile banking and other technology-based products and services by the Company and its customers. The Company's computer systems and infrastructure may be vulnerable to attacks by hackers or breached due to employee error, malfeasance, or other disruptions. A breach of any kind could compromise systems and the information stored there could be accessed, damaged, or disclosed. A breach in security or other failure could result in legal claims, regulatory penalties, disruption in operations, increased expenses, loss of customers and business partners, and damage to the Company's reputation, which could adversely affect its business and financial condition. Furthermore, as cyber threats continue to evolve and increase, the Company may be required to expend significant additional financial and operational resources to modify or enhance its protective measures, or to investigate and remediate any identified information security vulnerabilities.

Failure to keep pace with technological change could adversely affect our business.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions and other firms to better serve customers and to reduce costs. The pace of these technological changes has increased in the "Fintech" environment, in which industry changing products and services are often introduced and adopted, including innovative ways that customers can make payments, access products, and manage accounts. Our future success depends, in part, upon our ability to address the needs of our customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in our operations. Many of our competitors have substantially greater resources to invest in technological improvements. We may not be able to effectively implement new technology-driven products and services, which could entail significant time, resources and additional risk to develop or adopt, or be successful in marketing these products and services to our customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on our business and, in turn, our financial condition and results of operations.

Liquidity and Interest Rate Risks

The Company's success depends upon its ability to manage interest rate risk.

The profitability of the Company depends significantly on its net interest income, which is the difference between the interest earned on loans, securities and other interest-earning assets, and the interest paid on deposits and borrowings. Changes in interest rates will affect the rates earned on securities and loans and rates paid on deposits and other borrowings. These factors include competition, federal economic, monetary and fiscal policies, and general economic conditions.

In addition, changes in interest rates may negatively affect both the returns on and market value of the Company's investment securities. Interest rate changes can reduce unrealized gains or increase unrealized losses in its portfolio and thereby negatively impact its accumulated other comprehensive income and equity levels. Further, such losses could be realized into earnings should liquidity and/or business strategy necessitate the sales of securities in a loss position. Additionally, actual investment income and cash flows from investment securities that carry prepayment risk, such as mortgage-backed securities and callable securities, may materially differ from those anticipated at the time of investment or subsequently as a result of changes in interest rates and market conditions. These occurrences could have a material adverse effect on the Company's net interest income or our results of operations.

The Company relies substantially on deposits obtained from customers in its target markets to provide liquidity and support growth.

The Company requires sufficient liquidity to fund asset growth, meet customer loan requests, customer deposit maturities and withdrawals, make payments on its debt obligations as they come due and other cash commitments. The Company's business strategy is based primarily on access to funding from local customer deposits. Deposit levels may be affected by a number of factors, including interest rates paid by competitors, general interest rate levels, returns available to customers on alternative investments, changes in the liquidity needs of our depositors and general economic conditions that affect savings levels and the amount of liquidity in the economy, including government stimulus efforts in response to economic crises. If market interest rates rise or our competitors raise the rates they pay on deposits, the Company's funding costs may increase, either because we raise our rates to avoid losing deposits or because we lose deposits and must rely on more expensive sources of funding. Either of these factors could reduce the Company's net interest margin and net interest income and could have a material adverse effect on the Company's business, financial condition, results of operations, liquidity and cash flows from operations.

Further, if local customer deposits are not sufficient to fund the Company's normal operations and growth, we may rely on secondary sources of liquidity, such as borrowings from the Federal Home Loan Bank of Atlanta ("FHLB"), and federal funds lines of credit with larger institutions; however, there can be no assurance that these arrangements will be available to us when needed on favorable terms, or at all, or that they will be sufficient to meet future liquidity needs. For example, the Company's ability to access borrowings from the FHLB will be dependent upon whether and the extent to which we can provide collateral to secure FHLB borrowings. In addition, the availability of these funding sources is highly dependent upon the perception of the liquidity and creditworthiness of the financial institution, and such perception can change quickly in response to market conditions or circumstances unique to a particular company. The Company also may need to raise funds through the issuance of shares of our debt or equity securities, or the sale of investment securities or loans, as additional sources of liquidity. If the Company is unable to access funding sufficient to support our business operations and growth strategies or are unable to access such funding on attractive terms, the Company may not be able to implement our business strategies or satisfy our obligations.

The Company depends on the Bank for cash flow, and the Bank's ability to make cash distributions is restricted, which could impact the Company's ability to satisfy its obligations.

The Company is a bank holding company with no material activities other than activities incidental to holding the common stock of the Bank. The Company's principal source of funds to pay distributions on its common stock and service any of its obligations, other than further issuances of securities, is dividends received from the Bank. The holding company, Eagle Financial Services, Inc., is a legal entity separate and distinct from the Bank. Furthermore, the Bank is not obligated to pay dividends to the Company, and any dividends paid to the Company would depend on the earnings or financial condition of the Bank, various business considerations, and applicable law and regulation. As is generally the case for banking institutions, the profitability of the Bank is subject to the fluctuating cost and availability of money, changes in interest rates, and economic conditions in general. In addition, various federal statutes and regulations limit the amount of dividends that the Bank may pay to the Company without regulatory approval.

Market Risks

The Company's success depends upon its ability to compete effectively in the banking industry.

The Company's banking subsidiary faces competition from banks and other financial institutions, including savings and loan associations, savings banks, finance companies and credit unions for deposits, loans and other financial services in our market area. Certain divisions within the banking subsidiary face competition from wealth management and investment brokerage firms. A number of these banks and other financial institutions are significantly larger and have substantially greater access to capital and other resources, as well as larger lending limits and branch systems, and offer a wider array of banking services. In addition, the Company faces competition from market place lenders and other financial technology firms, which may provide competitive services quickly and in innovative ways and may have fewer regulatory constraints and lower cost structures. This competition may reduce or limit our margins and our market share and may adversely affect our results of operations and financial condition.

The Company could be adversely affected by economic conditions in its market area.

The Company's branches are located in the counties of Clarke, Frederick, Fauquier, and Loudoun, the towns of Purcellville, Leesburg and Ashburn, and the City of Winchester. The Company also operates loan production offices in the counties of Fairfax (Virginia) as well as Frederick (Maryland). Because our lending is concentrated in these markets, we will be affected by the general economic conditions in these areas. Changes in the economy may influence the growth rate of our loans and deposits, the quality of the loan portfolio and loan and deposit pricing. Over the past several years, the growth in economic activity and in the demand for goods and services, coupled with labor shortages, supply chain disruptions and other factors, has contributed to rising inflationary pressures, the Federal Reserve's responsive interest rate hikes, and the risk of recession. A decline in general economic conditions caused by inflation, recession, unemployment or other factors beyond our control would impact the demand for banking products and services generally, which could negatively affect our financial condition and performance.

The soundness of other financial institutions could adversely affect us.

Our ability to engage in routine funding transactions could be adversely affected by the actions and commercial soundness of other financial institutions. Financial services institutions are interrelated as a result of trading, clearing, counterparty or other relationships. We have exposure to many different industries and counterparties, and we routinely execute transactions with counterparties in the financial industry. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Many of these transactions expose us to credit risk in the event of default of our counterparty or client. In addition, our credit risk may be exacerbated when the collateral held by us cannot be realized upon or is liquidated at prices not sufficient to recover the full amount of the financial instrument exposure due us. There is no assurance that any such losses would not materially and adversely affect our results of operations.

In addition, financial challenges at other banking institutions could lead to depositor concerns that spread within the banking industry. In March 2023, Silicon Valley Bank and Signature Bank experienced large deposit outflows coupled with insufficient liquidity to meet withdrawal demands, resulting in the institutions being placed into FDIC receiverships. In the aftermath, there was substantial market disruption and concern that diminished depositor confidence could spread across the banking industry, leading to deposit outflows that could destabilize other institutions. While public confidence in the banking system has stabilized, deposit outflows caused by reputational concerns or events affecting the banking industry generally could adversely affect the Company’s liquidity, financial condition, and results of operations.

Operational Risks

Our exposure to operational risk may adversely affect our business.

We are exposed to many types of operational risk, including reputational risk, legal and compliance risk, the risk of fraud or theft by employees or outsiders, unauthorized transactions by employees or operational errors, including clerical or record-keeping errors or those resulting from faulty or disabled computer or telecommunications systems.

Reputational risk, or the risk to our earnings and capital from negative public opinion, could result from our actual alleged conduct in any number of activities, including lending practices, corporate governance, regulatory compliance or the occurrence of any of the events or instances mentioned below, or from actions taken by government regulators or community organizations in response to that conduct. Negative public opinion could also result from adverse news or publicity that impairs the reputation of the financial services industry generally.

Further, if any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be adversely affected. We depend on internal systems and outsourced technology to support these data storage and processing operations. Our inability to use or access these information systems at critical points in time could unfavorably impact the timeliness and efficiency of our business operations. We could be adversely affected if one of our employees causes a significant operational break-down or failure, either as a result of human error or where an individual purposefully sabotages or fraudulently manipulates our operations or systems. We are also at risk of the impact of natural disasters, terrorism and international hostilities on our systems or for the effects of outages or other failures involving power or communications systems operated by others.

If any of the foregoing risks materialize, it could have a material adverse affect on our business, financial condition and results of operations.

The Company may not be able to successfully manage its growth or implement its growth strategy, which may adversely affect results of operations and financial condition.

A key component of the Company’s business strategy is to continue to grow and expand. The Company’s ability to grow and expand depends upon its ability to open new branch locations, attract new deposits to the existing and new branch locations, and identify attractive loan and investment opportunities. The Company may not be able to implement its growth strategy if it is unable to identify attractive markets or branch locations. Once identified, successfully managing growth will depend on integrating the new branch locations while maintaining adequate capital, cost controls and asset quality. As this growth strategy is implemented, the Company will incur construction costs and increased personnel, occupancy and other operating expenses. Because these costs are incurred before new deposits and loans are generated, adding new branch locations will initially decrease earnings, despite efficient execution of this strategy. In addition, the Company could experience difficulties expanding into new markets or product lines. The Company’s lack of history and familiarity with those markets, clients and lines of business may lead to unexpected challenges or difficulties that inhibit its success and adversely affect the Company’s results of operations.

Severe weather, natural disasters, acts of war or terrorism, geopolitical instability, public health issues, and other external events could significantly impact the Company's business.

Severe weather, natural disasters, acts of war or terrorism, geopolitical instability, public health issues, and other adverse external events could have a significant impact on the Company's ability to conduct business. In addition, such events could affect the stability of the Company’s deposit base, cause economic or market uncertainty, negatively impact consumer confidence, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue, and/or cause the Company to incur additional expenses. The Company is also at risk of the impact of natural disasters, terrorism, and international hostilities on its systems and from the effects of cyberattacks, outages or other failures involving power or communications systems operated by others, which may give rise to disruption of service to customers and to financial loss or liability. The occurrence of any such events in the future and the economic impact from such events could have a material adverse effect on the Company's business, which, in turn, could have a material adverse effect on its financial condition and results of operations.

The Company relies heavily on its senior management team and the unexpected loss of key officers could adversely affect operations.

The Company believes that its growth and success depends heavily upon the skills of its senior management team. The Company also depends on the experience of its subsidiary’s officers and on their relationships with the customers they serve. The loss of one or more of these officers could disrupt the Company’s operations and impair its ability to implement its business strategy, which could adversely affect the Company’s financial condition and performance.

Legal, Regulatory and Compliance Risks

The Company operates in a highly regulated industry, and the laws and regulations that govern the Company’s operations, including changes in them or the Company’s failure to comply with them, and regulatory actions implementing such laws and regulations, may adversely affect the Company.

The Company is subject to extensive regulation and supervision that govern almost all aspects of its operations. These laws and regulations are generally intended to benefit consumers, borrowers and depositors, but not investors. Our success depends on our ability to maintain compliance with existing and new laws and regulations. Changes to laws, regulations, or regulatory policies, or supervisory guidance, including changes in interpretation or implementation of laws, regulations, policies, or supervisory guidance, could affect the Company in substantial and unpredictable ways. Regulatory responses in connection with unforeseen stress events, including failures of banks and other financial institutions, often lead to increased regulatory scrutiny and heightened supervisory expectations and could adversely impact the Company’s business, financial condition, and results of operations, or alter or disrupt the Company’s planned future strategies and actions. Compliance with laws and regulations, and regulatory actions implementing such laws and regulations, can be difficult and costly, and changes to laws and regulations could make compliance more difficult or expensive or otherwise adversely affect the Company’s business and financial condition.

The Company expects that the Trump administration will seek to implement a regulatory agenda that is significantly different than that of the Biden administration, impacting the rulemaking, supervision, examination, and enforcement priorities of the federal banking agencies. At this time, it is unclear what laws, regulations, and policies may change and whether future changes or uncertainty surrounding future changes will adversely affect the Company’s operating environment and therefore its business, financial condition, and results of operations.

The Bank is subject to stringent capital and liquidity requirements as a result of the Basel III regulatory capital reforms and the Dodd-Frank Act.

The Bank is subject to capital adequacy guidelines and other regulatory requirements specifying minimum amounts and types of capital which it must maintain. From time to time, regulators implement changes to these regulatory capital adequacy guidelines. Under the Dodd-Frank Act, the federal banking agencies have established stricter capital requirements and leverage limits for banks and bank holding companies that are based on the Basel III regulatory capital reforms. The Basel III Capital Rules require banking organizations to maintain significantly more capital and adopted more demanding regulatory capital risk weightings and calculations. While the recently passed Economic Growth Act requires that federal banking regulators establish a simplified leverage capital framework for smaller banks, these more stringent capital requirements could, among other things, limit banking operations and activities, and growth of loan portfolios, in order to focus on retention of earnings to improve capital levels. The Bank believes that it maintains sufficient levels of Tier 1 and Common Equity Tier 1 capital to comply with the Basel III Final rules. However, if the Bank fails to meet these minimum capital guidelines and/or other regulatory requirements, the Bank could be subject to regulatory restrictions, including limitations on paying dividends to the holding company for shareholder dividends and share repurchases and paying discretionary bonuses, or experience other adverse consequences that could cause its financial condition to be materially and adversely affected.

Changes in accounting standards could impact reported earnings and capital.

The authorities that promulgate accounting standards, including the Financial Accounting Standards Board (the "FASB"), the SEC, and other regulatory authorities, periodically change the financial accounting and reporting standards that govern the preparation of the Company's consolidated financial statements. These changes are difficult to predict and can materially impact how the Company records and reports its financial condition and results of operations. In some cases, the Company could be required to apply a new or revised standard retroactively, resulting in the restatement of financial statements for prior periods. Such changes could also impact the capital levels of the Bank, or require the Company to incur additional personnel or technology costs.

Increasing scrutiny and evolving expectations from customers, regulators, investors, and other stakeholders with respect to environmental, social and governance ("ESG") practices may impose additional costs on the Company or expose it to new or additional risks.

Companies are facing increasing scrutiny from customers, regulators, investors, and other stakeholders related to ESG practices and disclosures especially as they relate to climate risk, hiring practices, the diversity of the work force, racial and social justice issues, support for local communities, and corporate governance and transparency. New rules and regulations also could result in new or more stringent forms of ESG oversight and reporting, diligence, and disclosure. Complying with ESG-related rules, regulations and/or stakeholder expectations could result in increases to the Company's overall operational costs and increased management time and attention. Further, failure to adapt to or comply with regulatory requirements or investor or stakeholder expectations and standards or to act responsibly in these areas could negatively impact the Company's reputation, ability to do business with certain partners, and stock price. Conversely, if efforts around diversity and inclusion and other ESG-related areas are perceived as too ambitious, the Company may be subject to investigations, litigation and other proceedings and its reputation may be damaged. Adverse incidents could impact the value of the Company's brand, the cost of its operations and/or relationships with customers, investors or employees, any of which could adversely affect its business and results.

Climate change and related legislative and regulatory initiatives may result in operational changes and expenditures that could significantly impact the Company's business.

The current and anticipated effects of climate change are creating an increasing level of concern for the state of the global environment. As a result, political and social attention to the issue of climate change has increased. Federal and state legislatures and regulatory agencies have continued to propose and advance numerous legislative and regulatory initiatives seeking to mitigate the effects of climate change. The federal banking agencies have emphasized that climate-related risks are faced by banking organizations of all types and sizes and are in the process of enhancing supervisory expectations regarding banks' risk management practices. In December 2021, the OCC published proposed principles for climate risk management by banking organizations with more than $100 billion in assets. The OCC also has appointed its first ever Climate Change Risk Officer and established an internal climate risk implementation committee in order to assist with these initiatives and to support the agency's efforts to enhance its supervision of climate change risk management. Similar and even more expansive initiatives are expected, including potentially increasing supervisory expectations with respect to banks' risk management practices, accounting for the effects of climate change in stress testing scenarios and systemic risk assessments, revising expectations for credit portfolio concentrations based on climate-related factors and encouraging investment by banks in climate-related initiatives and lending to communities disproportionately impacted by the effects of climate change. To the extent that these initiatives lead to the promulgation of new regulations or supervisory guidance applicable to the Company, the Company would likely experience increased compliance costs and other compliance-related risks.

The lack of empirical data surrounding the credit and other financial risks posed by climate change render it impossible to predict how specifically climate change may impact the Company's financial condition and results of operations; however, the physical effects of climate change may also directly impact the Company. Specifically, unpredictable and more frequent weather disasters may adversely impact the value of real property securing the loans in the Bank's loan portfolio. Additionally, if insurance obtained by borrowers is insufficient to cover any losses sustained to the collateral, or if insurance coverage is otherwise unavailable to borrowers, the collateral securing loans may be negatively impacted by climate change, which could impact the Company's financial condition and results of operations. Further, the effects of climate change may negatively impact regional and local economic activity, which could lead to an adverse effect on customers and impact the communities in which the Company operates. Overall, climate change, its effects and the resulting, unknown impact could have a material adverse effect on the Company's financial condition and results of operations.

Risks Relating to an Investment in Our Common Stock

There can be no assurances concerning continuing dividend payments.

Our common stockholders are only entitled to receive the dividends declared by our Board of Directors out of funds legally available for such payments. Although we have historically paid quarterly dividends on our common stock, there can be no assurances that we will be able to continue to pay regular quarterly dividends or an annual stock dividend or that any dividends we do declare will be in any particular amount. The primary source of money to pay our cash dividends comes from dividends paid to the Company by the Bank. The Bank’s ability to pay dividends to the Company is subject to, among other things, its earnings, financial condition and applicable regulations, which in some instances limit the amount that may be paid as dividends. In addition, the Company and the Bank are required to maintain a capital conservation buffer of 2.5% of Common Equity Tier 1 Capital on top of minimum risk-weighted asset ratios to pay dividends without additional restrictions. Any change in the level of dividends or the suspension of the payment thereof could have an adverse effect on the market price of our common stock.

There is a limited trading market for our common shares, and you may not be able to resell your shares at or above the price you paid for them.

Although our common shares are listed for trading under the symbol “EFSI,” the trading in our common shares has substantially less liquidity than many other publicly traded companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the market of willing buyers and sellers of our common shares at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which we have no control. We cannot assure you that volume of trading in our common shares will increase in the future.

The market price of our common stock may be volatile, and we may not be able to meet investor or analyst expectations. You may not be able to resell your shares at or above the price you paid and may lose part or all of your investment as a result.

Our stock price has fluctuated from a low of $27.90 to a high of $36.40 between January 3, 2024 and January 2, 2025. On February 10, 2025, the Company completed a public offering increasing its common shares outstanding by 1,796,875 shares, or 50.2%, at a price of $32.00. Volatility in the market price of our common stock may negatively impact the price at with our common stock may be sold and may also negatively impact the timing of any sale. The market price of our common stock may continue to fluctuate widely in response to a variety of factors including the risk factors described herein and, among other things:

- actual or anticipated variations in quarterly or annual operating results, financial conditions, or credit quality;
- changes in business or economic conditions;
- changes in accounting standards, policies, guidance, interpretations, or principles;
- prevailing interest rates;
- changes in recommendations or research reports about us or the financial services industry in general published by securities analysts;
- the failure of securities analysts to cover, or to continue to cover, us;
- changes in financial estimates or publication of research reports and recommendations by financial analysts or actions taken by rating agencies with respect to us or other financial institutions;
- news reports relating to trends, concerns, and other issues in the financial services industry;
- reports related to the impact of natural or man-made disasters in our market;
- perceptions in the marketplace regarding us and our competitors;
- sudden increases in the demand for our common stock, including as a result of any "short squeezes";
- significant acquisitions or business combinations, strategic partnerships, joint ventures, or capital commitments by or involving us or our competitors;
- additional investments from third parties;
- additions or departures of key personnel;
- future sales or issuance of additional shares of our common stock;
- fluctuations in the market price of our competitors' common stock and the operating results of our competitors;
- changes or proposed changes in laws or regulations, or differing interpretations thereof, affecting our business, or enforcement of these laws or regulations, including as a result of the 2024 U.S. presidential election;
- new technology used, or services offered, by competitors;

- additional investments from third parties; or
- geopolitical conditions such as acts or threats of terrorism, pandemics, or military conflicts.

In particular, the realization of any of the risks described in this section under Item IA. Risk Factors, could have an adverse effect on the market price of our common stock and cause the value of your investment to decline. In addition, the stock market in general has experienced extreme volatility that has often been unrelated to the operating performance of particular companies. These broad market fluctuations may adversely affect the market price of our common stock over the short, medium or long term, regardless of our actual performance.

If securities or industry analysts do not publish research or publish inaccurate or unfavorable research about our business, or change their recommendations regarding our common stock or if our operating results do not meet their expectations, the market price of our common stock and trading volume could decline.

The trading market for our common stock depends in part on the research and reports that securities or industry analysts publish about us or our business. If one or more of the analysts who covers us downgrades common stock or publishes inaccurate or unfavorable research about our business, or our operating results do not meet their expectations, either absolutely or relative to our competitors, the market price of our common stock would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports about us regularly, (1) we would lose visibility in the financial markets, which in turn could cause the market price of our common stock or trading volume to decline and (2) demand for our common stock could decrease, which could cause the market price of our common stock and trading volume to decline. If we fail to meet the expectation of analysts for our operating results, the market price of our common stock would likely decline.

Virginia law and the provisions of the Company's articles of incorporation and amended and restated bylaws may have an anti-takeover effect, and there are substantial regulatory limitations on changes of control of bank holding companies.

Certain provisions of the Company's articles of incorporation and amended and restated bylaws, as well as Virginia law, and the Bank Holding Company Act, and Change in Bank Control Act, could delay or prevent a change of control that you may favor. The Company's articles of incorporation and amended and restated bylaws include certain provisions that could delay a takeover or change in control of the Company, including: a staggered board of directors, the exclusive right of the Company's board to fill any director vacancy; and advance notice requirements for shareholder proposals and director nominations.

Virginia law contains two antitakeover statutes: the Affiliated Transactions Statute and the Control Share Acquisitions Statute, each of which could make it more difficult for another party to acquire the Company without the approval of the Company's board of directors. These provisions are expected to discourage specific types of coercive takeover practices and inadequate takeover bids as well as to encourage persons seeking to acquire control to first negotiate with the Company. Although these provisions may have the effect of delaying, deferring or preventing a change in control, the Company believes that the benefits of increased protection through the potential ability to negotiate with the proponent of an unfriendly or unsolicited proposal to acquire or restructure the Company outweigh the disadvantages of discouraging these proposals because, among other things, negotiation of such proposals could result in an improvement of their terms.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

Risk Management and Strategy

Cybersecurity risks are constantly evolving and becoming increasingly pervasive across all industries. To mitigate these risks and protect sensitive customer data, financial transactions, and our information systems, the Company has implemented a comprehensive Information Security Program ("Program") which is a component of its overarching enterprise risk management program. The Program is achieved through a collaborative effort involving operations, technology, compliance, risk, and senior management. Cybersecurity is a critical component of this program, given the increasing reliance on technology and potential cyber threats.

Key components of the risk management program include:

- A risk assessment process that identifies and prioritizes material risks; defines and evaluates the effectiveness of controls to mitigate the risks; and reports results to executive management and the Board of Directors.
- Third-party managed detection and response service, which monitors the security of our information systems around-the-clock, including intrusion detection and alerting.
- A patch management system that safeguards our environment by keeping software up-to-date and resilient against threats.
- Internal and external penetration testing that is conducted and reviewed either by independent third parties or qualified employees.
- A third-party risk management program that is designed to ensure our vendors meet our cybersecurity requirements.
- A training and awareness program that educates employees about cybersecurity risks and how to protect themselves from cyberattacks.
- An incident response plan that outlines the steps the Company will take to respond to a cybersecurity incident, which is tested at least annually.

Governance and Oversight

The Board of Directors, including its Risk Subcommittee provides oversight of Company cybersecurity risks. The Board of Directors receives periodic reports on cybersecurity threats, awareness training, and key risk indicators related to cybersecurity. Additionally, the Company's Audit Committee provides oversight as it relates to annual audits related to information technology and cybersecurity. Management promptly reviews results of these audits to initiate necessary remediation, which are then reviewed by the Audit Committee.

The Board of Directors has designated the Security Committee and Incident Response Team with responsibilities related to information security and cybersecurity.

The Security Committee is a management committee with representation from operations, technology, compliance, risk, and senior management. The Security Committee monitors, reviews, and makes necessary changes to the Information Security Program. This Committee provides accountability for policies and procedures and reviews incidents that may affect information security.

The Incident Response Team has overall authority and responsibility for preparing and responding to incidents and consists of various sub-teams including representation from operations, technology, risk, compliance, human resources, and marketing. While key personnel have identified roles, this team ensures appropriate reports, statuses, and decisions are presented to the Executive Management and the Board of Directors.

The Company's Chief Technology Officer ("CTO") oversees the Company's information technology programs and investments. The Company's CTO has over 30 years of information technology experience. The Company's Compliance and

Security Officer, who oversees the Company’s information security programs, has over 10 years of experience and reports to the Chief Operating Officer. The Compliance and Security Officer is designated as the program coordinator responsible for coordinating and overseeing the Information Security Program.

Material Effects of Cybersecurity Threats

While cybersecurity risks have the potential to materially affect the Company's business, financial condition, and results of operations, the Company does not believe that risks from cybersecurity threats or attacks, including because of any previous cybersecurity incidents, have materially affected the Company, including its business strategy, results of operations or financial condition. However, the sophistication of cyber threats continues to increase, and the Company’s cybersecurity risk management and strategy may be insufficient or may not be successful in protecting against all cyber incidents. Accordingly, no matter how well designed or implemented the Company’s controls are, it will not be able to anticipate all cyber security breaches, and it may not be able to implement effective preventive measures against such security breaches in a timely manner.

For more information on how cybersecurity risk may materially affect the Company’s business strategy, results of operations or financial condition, refer to Item 1A, Risk Factors of this Form 10-K.

Item 2. Properties

The Company owns or leases buildings which are used in normal business operations. The Company’s corporate headquarters, and that of Bank of Clarke, is located at 2 East Main Street, Berryville, Virginia, 22611. At December 31, 2024, Bank of Clarke operated thirteen full-service branches, one loan production office, and one drive-through only facility in the Virginia communities of Berryville, Winchester, Boyce, Stephens City, Purcellville, Warrenton, Leesburg, Ashburn and Fairfax. The Bank also operated one loan production office in the Maryland community of Frederick. See Note 1 “Nature of Banking Activities and Significant Accounting Policies” and Note 6 “Bank Premises and Equipment, Net” and Note 13 "Leases" in the “Notes to the Consolidated Financial Statements” of this Form 10-K for information with respect to the amounts at which bank premises and equipment are carried and commitments under long-term leases.

All of the Company’s properties are well maintained, are in good operating condition and are adequate for the Company’s present and anticipated future needs.

Item 3. Legal Proceedings

There are no material pending legal proceedings to which the Company is a party or of which the property of the Company is subject.

Item 4. Mine Safety Disclosures

None.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

The Company’s common stock is traded on The Nasdaq Capital Market (the "Exchange") under the symbol “EFSI.” As of March 21, 2025, the Company had approximately 845 shareholders of record. As of that date, the closing price of our common stock on the Exchange was $32.66.

The Company has historically paid dividends on a quarterly basis. The final determination of the timing, amount and payment of dividends on the Common Stock is at the discretion of the Company’s Board of Directors. Some of the factors affecting the payment of dividends on the Company’s common stock are operating results, financial condition, capital adequacy, regulatory requirements and shareholders returns.

Issuer Purchases of Equity Securities for the Quarter Ended December 31, 2024

On September 18, 2024, the Company re-authorized the purchase of up to 150,000 shares of its common stock under its stock repurchase program, which expires on June 30, 2025. During 2024, the Company purchased 7,868 shares of its Common Stock under its stock repurchase program at an average price of $30.08.

The Company did not purchase any of its common stock during the fourth quarter pursuant to the stock repurchase program discussed above and as shown in the following table.

	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan	Maximum Number of Shares that may Yet Be Purchased Under the Plan
October 1 - October 31, 2024	—	$ —	—	148,122
November 1 - November 30, 2024	—	—	—	148,122
December 1 - December 31, 2024	—	—	—	148,122
	—	$ —	—	148,122

Item 6. Reserved

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation

The purpose of this discussion is to focus on the important factors affecting the financial condition, results of operations, liquidity and capital resources of Eagle Financial Services, Inc. (the "Company"). This discussion should be read in conjunction with the Company's Consolidated Financial Statements and the Notes to the Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Data, of this Form 10-K.

GENERAL

The Company is a bank holding company which owns 100% of the stock of Bank of Clarke (the "Bank"). Accordingly, the results of operations for the Company are dependent upon the operations of the Bank. The Bank conducts a commercial banking business which consists of attracting deposits from the general public and investing those funds in commercial, consumer and real estate loans and corporate, municipal and U.S. government agency securities. The Bank also operates a wealth management division, which provides both a full-service trust department and a separate brokerage area. The Bank's deposits are insured by the Federal Deposit Insurance Corporation to the extent permitted by law. At December 31, 2024, the Company had total assets of $1.87 billion, net loans of $1.45 billion, total deposits of $1.58 billion and shareholders' equity of $119.0 million. The Company's net income was $15.3 million for the year ended December 31, 2024.

The following table presents selected financial data, which was derived from the Company's audited financial statements for the periods indicated.

	As of or for the Years Ended December 31,				
	2024	2023	2022	2021	2020
	(dollars in thousands, except per share amounts)				
Income Statement Data:					
Interest and dividend income	$ 91,321	$ 83,093	$ 54,686	$ 42,676	$ 38,908
Interest expense	40,094	32,837	5,473	1,677	3,281
Net interest income	$ 51,227	$ 50,256	$ 49,213	$ 40,999	$ 35,627
Provision for credit losses	2,551	1,649	1,830	1,483	1,457
Net interest income after provision for credit losses	$ 48,676	$ 48,607	$ 47,383	$ 39,516	$ 34,170
Noninterest income	21,557	14,780	13,345	11,320	8,579
Net revenue	$ 70,233	$ 63,387	$ 60,728	$ 50,836	$ 42,749
Noninterest expenses	51,332	52,754	43,057	38,049	29,441
Income before income taxes	$ 18,901	$ 10,633	$ 17,671	$ 12,787	$ 13,308
Applicable income taxes	3,558	1,276	3,150	1,766	2,136
Net Income	$ 15,343	$ 9,357	$ 14,521	$ 11,021	$ 11,172
Performance Ratios:					
Return on average assets	0.85%	0.54%	1.02%	0.90%	1.11%
Return on average equity	13.77%	9.05%	14.06%	10.28%	11.03%
Shareholders' equity to assets	6.38%	5.94%	6.29%	8.46%	9.30%
Dividend payout ratio	28.01%	45.11%	27.58%	34.38%	31.80%
Non-performing loans to total loans	0.14%	0.40%	0.19%	0.28%	0.57%
Non-performing assets to total assets	0.14%	0.34%	0.16%	0.21%	0.47%
Share and Per Share Data:					
Net income, basic	$ 4.32	$ 2.66	$ 4.17	$ 3.20	$ 3.27
Net income, diluted	4.32	2.66	4.17	3.20	3.27
Cash dividends declared	1.21	1.20	1.15	1.10	1.04
Book value	33.52	30.78	29.15	31.93	30.86
Market price	36.40	30.00	35.95	34.65	29.50
Average shares outstanding, basic	3,553,919	3,523,547	3,482,368	3,440,080	3,417,543
Average shares outstanding, diluted	3,553,919	3,523,547	3,482,368	3,440,080	3,417,543
Balance Sheet Data:					
Total securities	$ 128,887	$ 147,011	$ 158,389	$ 193,370	$ 166,222
Total loans	1,467,049	1,462,686	1,323,783	985,720	836,334
Total assets	1,866,215	1,825,597	1,616,717	1,303,038	1,130,152
Total deposits	1,575,156	1,506,322	1,264,075	1,177,235	1,013,087
Shareholders' equity	118,987	108,379	101,729	110,280	105,074

MANAGEMENT'S STRATEGY

The Company strives to be an outstanding financial institution in its market by building solid sustainable relationships with: (1) its customers, by providing highly personalized customer service, a network of conveniently placed branches and ATMs, a competitive variety of products/services and courteous, professional employees, (2) its employees, by providing generous benefits, a positive work environment, advancement opportunities and incentives to exceed expectations, (3) its communities, by participating in local concerns, providing monetary support, supporting employee volunteerism and providing employment opportunities, and (4) its shareholders, by providing sound profits and returns, sustainable growth, regular dividends and committing to our local, independent status.

OPERATING STRATEGY

The Bank is a locally managed financial institution as well as predominantly locally owned. While the Company expanded its ownership to institutional investors though a public offering of its common stock in February 2025, its operating strategy remains the same. The public offering increased the number of shares outstanding by 50% and added approximately $53.5 million in capital. This operating strategy allows the Bank to be flexible and responsive in the products and services it offers and to further grow by lending funds to local residents and businesses at a competitive price that reflects the inherent risk of lending. The Bank strives to fund these loans through deposits gathered from local residents and businesses. The Bank prices its deposits by comparing alternative sources of funds and selecting the lowest cost available. When deposits are not adequate to fund asset growth, the Bank relies on borrowings, both short and long term. The Bank's primary source of borrowed funds is the Federal Home Loan Bank of Atlanta which offers numerous terms and rate structures to the Bank.

As interest rates change, the Bank attempts to maintain its net interest margin. This is accomplished by changing the price, terms, and mix of its financial assets and liabilities. The Bank also earns fees on services provided through the Bank of Clarke Wealth Management Division, which is the Bank's investment management division that offers both trust services and investment sales, mortgage originations and deposit operations. The Bank also incurs noninterest expenses associated with compensating employees, maintaining and acquiring fixed assets, and purchasing goods and services necessary to support its daily operations.

The Bank has a marketing department which seeks to develop new business. This is accomplished through an ongoing calling program whereby account officers contact existing and potential customers to discuss the products and services offered. The Bank conducts advertising through television commercials, radio ads, newspaper ads, printed materials, electronic materials, billboards, emails, and social media posts.

LENDING POLICIES

Administration and supervision over the lending process is provided by the Bank's Credit Administration Department. The principal risk associated with the Bank's loan portfolio is the creditworthiness of its borrowers. In an effort to manage this risk, the Bank's policy gives loan amount approval limits to individual loan officers based on their position and level of experience. Credit risk is increased or decreased, depending on the type of loan and prevailing economic conditions. In consideration of the different types of loans in the portfolio, the risk associated with real estate mortgage loans, commercial loans and consumer loans varies based on employment levels, consumer confidence, fluctuations in the value of real estate and other conditions that affect the ability of borrowers to repay debt.

The Company has written policies and procedures to help manage credit risk. The Company utilizes a loan review process that includes formulation of portfolio management strategy, guidelines for underwriting standards and risk assessment, procedures for ongoing identification and management of credit deterioration, and regular portfolio reviews to establish loss exposure and to ascertain compliance with the Company's policies.

The Bank uses a tiered approach to approve credit requests consisting of individual lending authorities, joint approval of Co-Approval officers (Executive, Regional Credit Officer, Small Business Credit Officer), and a director loan committee. Lending limits for individuals are set by the Board of Directors and are determined by loan purpose, collateral type, and internal risk rating of the borrower. The highest individual authority (Executive) is assigned to the Bank's President/ Chief Executive Officer, Chief Banking Officer and Chief Credit Officer (approval authority only). Two Executive officers may combine their authority to approve loan requests to borrowers with credit exposure up to $10.0 million on a secured basis and $6.0 million unsecured. Three Executive officers may combine to approve loan requests to borrowers with credit exposure up to $15.0 million on a secured basis and $9.0 million unsecured. Consumer Central Lenders are individual lenders who have been assigned to an Approval Category (A through F) based on their level of experience and job function. Consumer Central Lenders can co-approve consumer, home equity lines of credit and home equity loan requests up to their stated authorities. Officers in Categories A through F have lesser authorities and with approval of an Executive officer may extend loans to borrowers with exposure of $5.0 million on a secured basis and $3.0 million unsecured. Officers in Categories A through F can also utilize the co-approval of the Regional and Small Business Credit Officers to extend loans with exposures up to $2.5 million and $1.5 million, respectively on a secured basis, and up to $1 million and $750 thousand, respectively on an unsecured basis. Loans exceeding $15.0 million and up to the Bank's legal lending limit can be approved by the Risk Committee consisting of four directors (three directors constituting a quorum). The Director's Loan Committee also reviews and approves changes to the Bank's Loan Policy as presented by management. The following sections discuss the major loan categories within the total loan portfolio:

One-to-Four-Family Residential Real Estate Lending

Residential lending activity may be generated by the Bank's loan officer solicitations, referrals by real estate professionals, and existing or new bank customers. Loan applications are taken by a Bank loan officer. As part of the application process, information is gathered concerning income, employment and credit history of the applicant. The valuation of residential collateral is provided by independent fee appraisers who have been approved by the Bank's Directors Loan Committee. In connection with residential real estate loans, the Bank requires title insurance, hazard insurance and, if applicable, flood insurance. In addition to traditional residential mortgage loans secured by a first or junior lien on the property, the Bank offers home equity lines of credit.

Commercial Real Estate Lending

Commercial real estate loans are secured by various types of commercial real estate in the Bank's market area, including multi-family residential buildings, commercial buildings and offices, small shopping centers and churches. Commercial real estate loan originations are obtained through broker referrals, direct solicitation of developers and continued business from customers. In its underwriting of commercial real estate, the Bank's loan to original appraised value ratio is generally 80% or less. Commercial real estate lending entails significant additional risk as compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the repayment of loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or the economy, in general. The Bank's commercial real estate loan underwriting criteria require an examination of debt service coverage ratios, the borrower's creditworthiness, prior credit history and reputation, and the Bank typically requires personal guarantees or endorsements of the borrowers' principal owners.

Construction and Land Development Lending

The Bank makes local construction loans and land acquisition and development loans. The construction loans are secured by residential houses under construction and the underlying land for which the loan was obtained. The average life of most construction loans is less than one year and the Bank offers both fixed and variable rate interest structures. The interest rate structure offered to customers depends on the total amount of these loans outstanding and the impact of the interest rate structure on the Bank's overall interest rate risk. There are two characteristics of construction lending which impact its overall risk as compared to residential mortgage lending. First, there is more concentration risk due to the extension of a large loan balance through several lines of credit to a single developer or contractor. Second, there is more collateral risk due to the fact that loan funds are provided to the borrower based upon the estimated value of the collateral after completion. This could cause an inaccurate estimate of the amount needed to complete construction or an excessive loan-to-value ratio. To mitigate the risks associated with construction lending, the Bank generally limits loan amounts to 80% of the estimated appraised value of the finished property. The Bank also obtains a first lien on the property as security for its construction loans and typically requires personal guarantees from the borrower's principal owners. Finally, the Bank performs inspections of the construction projects to ensure that the percentage of construction completed correlates with the amount of draws on the construction line of credit.

Commercial and Industrial Lending

Commercial business loans generally have more risk than residential mortgage loans but have higher yields. To manage these risks, the Bank generally obtains appropriate collateral and personal guarantees from the borrower's principal owners and monitors the financial condition of its business borrowers. Residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from employment and other income and are secured by real estate whose value tends to be readily ascertainable. In contrast, commercial business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as, accounts receivable, equipment and inventory. As a result, the availability of funds for the repayment of commercial business loans is substantially dependent on the success of the business itself. Furthermore, the collateral for commercial business loans may depreciate over time and generally cannot be appraised with as much precision as residential real estate.

Consumer Lending

The Bank offers various secured and unsecured consumer loans, which include personal installment loans, personal lines of credit, automobile loans, and credit card loans. The Bank generally originates its consumer loans within its geographic market area and these loans are largely made to customers with whom the Bank has an existing relationship. Consumer loans generally entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciable assets such as automobiles. In such cases, any repossessed collateral on a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. Consumer loan collections are dependent on the borrower's continuing financial stability, and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy. Furthermore, the application of various federal and state laws, including federal and state bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

The underwriting standards employed by the Bank for consumer loans include a determination of the applicant's payment history on other debts and an assessment of ability to meet existing obligations and payments on the proposed loan. The stability of the applicant's monthly income may be determined by verification of gross monthly income from primary employment, and from any verifiable secondary income. Although creditworthiness of the applicant is the primary consideration, the underwriting process also includes an analysis of the value of the security in relation to the proposed loan amount.

Marine Lending

The Bank's marine loan portfolio is comprised of originated retail loans. In August 2023, the Company completed a sale of specific assets from its marine lending segment and reduced its workforce associated with the marine lending division, as it ceased accepting new marine lending business. As part of the sale, the Company sold its interest in marine vessel floor plan loans, its rights to service loans that had been sold to secondary market investors prior to the date of sale, and other assets that were not individually significant. Subsequent to the sale the Company retained ownership of its portfolio of marine vessel retail loans, which continue to constitute a significant portion of the Company's assets, revenues, and earnings. At present, the Company expects to hold the retained outstanding loans until they are ultimately repaid. Retail loans were generally limited to premium manufacturers with established relationships with the Company which have a vested interest in the secondary market pricing of their respective brand due to the limited inventory available for resale. Consequently, while not contractually committed, manufacturers will often support secondary resale values which can have the effect of reducing losses from non-performing retail marine loans. Retail borrowers generally have very high credit scores, substantial down payments, substantial net worth, personal liquidity, and excess cash flow.

CRITICAL ACCOUNTING POLICIES

The financial statements of the Company are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). The financial information contained within these statements is, to a significant extent, based on measurements of the financial effects of transactions and events that have already occurred. A variety of factors could affect the ultimate value that is obtained when earning income, recognizing an expense, recovering an asset or relieving a liability. In addition, GAAP itself may change from one previously acceptable method to another method. Although the economics of the transactions would be the same, the timing of events that would impact the transactions could change.

Allowance for Credit Losses on Loans

The Company establishes the allowance for credit losses through charges to earnings in the form of a provision for credit losses. Loan losses are charged against the allowance for credit losses for the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. The allowance represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. The measurement of the allowance for credit losses is based in part on forecasts of unemployment, inflation, as well as the consumer price index, and may also consider other factors, which we believe to be indicative of risk factors related to collectability. Management also assesses the risk of credit losses arising from changes in economic conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances; lending policy and procedures; credit administration and lending staff; loan review; concentrations of credit and the value of underlying collateral in determining the recorded balance of the allowance for credit losses. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available. In evaluating the level of the allowance, we consider a range of possible assumptions and outcomes related to the various factors identified above. Note 1 to the Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Data, of the 2024 Form 10-K, provides additional information concerning the determination of the allowance for credit losses on loans.

NON-GAAP FINANCIAL MEASURES

This report refers to certain financial measures that are computed under a basis other than GAAP ("non-GAAP"). The Company uses certain non-GAAP financial measures, including tax-equivalent net interest income and efficiency ratio, to provide meaningful supplemental information regarding the Company's operational performance and to enhance investors' overall understanding of such financial performance. The methodology for determining these non-GAAP measures may differ among companies. Non-GAAP measures are supplemental and not a substitute for, or more important than, financial measures prepared in accordance with GAAP.

FORWARD LOOKING STATEMENTS

The Company makes forward looking statements in this report that are subject to risks and uncertainties. These forward looking statements include statements regarding our profitability, liquidity, allowance for credit losses, interest rate sensitivity, market risk, growth strategy, and financial and other goals. The words “believes,” “expects,” “may,” “will,” “should,” “projects,” “contemplates,” “anticipates,” “forecasts,” “intends,” or other similar words or terms are intended to identify forward looking statements. These forward looking statements are subject to significant uncertainties because they are based upon or are affected by factors including:

- difficult market conditions in our industry;
- the ability to successfully manage growth or implement growth strategies if the Bank is unable to identify attractive markets, locations or opportunities to expand in the future or if the Bank is unable to successfully integrate new branches, business lines or other growth opportunities into its existing operations;
- competition with other banks and financial institutions, and companies outside of the banking industry, including those companies that have substantially greater access to capital and other resources;
- the successful management of interest rate risk;
- risks inherent in making loans such as repayment risks and fluctuating collateral values;
- changes in general economic and business conditions in the Bank’s market area;
- reliance on the Bank’s management team, including the ability to attract and retain key personnel;
- changes in interest rates and interest rate policies;
- maintaining capital levels adequate to support growth;
- maintaining cost controls and asset qualities as new branches are opened or acquired;
- demand, development and acceptance of new products and services;
- deposit flows;
- the Bank's ability to manage liquidity;
- the cost and availability of secondary funding sources;
- effects of the soundness of other financial institutions;
- problems with technology utilized by the Bank;
- changing trends in customer profiles and behavior;
- geopolitical conditions, including acts or threats of terrorism, international hostilities, or actions taken by the U.S. or other governments in response to acts or threats of terrorism and/or military conflicts, which could impact business and economic conditions in the U.S. and abroad;
- the Company's potential exposure to fraud, negligence, computer theft, and cyber-crime;
- potential impact on us of existing and future legislation and regulations;
- changes in accounting policies and banking and other law and regulations; and
- other factors described in Item 1A., “Risk Factors,” in this annual report on Form 10-K.

Because of these uncertainties, actual future results may be materially different from the results indicated by these forward looking statements. In addition, past results of operations do not necessarily indicate future results.

RESULTS OF OPERATIONS

Net Income

Net income for 2024 was $15.3 million, an increase of $6.0 million or 63.97% from 2023's net income of $9.4 million. Basic and diluted earnings per share were $4.32 and $2.66 for 2024 and 2023, respectively.

Return on average assets ("ROA") measures how efficiently the Company uses its assets to produce net income. Factors reflected within this efficiency include the Company's asset mix, funding sources, pricing, fee generation, and cost control. The ROA of the Company, on an annualized basis, was 0.85% and 0.54% for 2024 and 2023, respectively.

Return on average equity ("ROE") measures the utilization of shareholders' equity in generating net income. This measurement is affected by the same factors as ROA with consideration to how much of the Company's assets are funded by the shareholders. The ROE for the Company was 13.77% and 9.05% for 2024 and 2023, respectively.

Net income for 2024 was significantly impacted by a sale-leaseback transaction of the Bank's OTC branch in Winchester, VA, during the fourth quarter of 2024. The impact of the sale-leaseback transaction was a net of tax gain of $3.1 million, or $0.86 per share, and contributed 0.17% and 2.75% to ROA and ROE, respectively, for the twelve months ended December 31, 2024.

In conjunction with its capital offering completed in February of 2025, the Company executed on its strategy to restructure its investment portfolio in March 2025. While the restructuring is expected to result a pre-tax loss of $12.6 million for the quarter ended March 31, 2025, it is also expected to improve core net income, net interest income, net interest margin, and return on average assets beginning in the second quarter of 2025. See further details in the section titled Securities under the heading Financial Condition.

Net Interest Income

Net interest income, the difference between total interest income and total interest expense, is the Company's primary source of earnings. Net interest income was $51.2 million for 2024 and $50.3 million for 2023, which represents an increase of $971 thousand or 1.93%. Net interest income is derived from the volume of earning assets and the rates earned on those assets as compared to the cost of funds. Total interest income was $91.3 million for 2024 and $83.1 million for 2023, which represents an increase of $8.2 million or 9.90% for 2024. Total interest expense was $40.1 million for 2024 and $32.8 million for 2023, which represents an increase of $7.3 million or 22.10% in 2024. The increase in total interest income, total interest expense and net interest income during 2024 was driven by higher rates, growth in interest-bearing liabilities and, to a lesser extent, growth in interest-earning assets. The average rate on interest-earning assets and interest-bearing liabilities increased 45 basis points and 40 basis points, respectively, during the twelve months ended December 31, 2024 compared to the twelve months ended December 31, 2023, while average balances of interest-earning assets and interest-bearing liabilities increased 0.69% and 6.68%, respectively. Refer to the table titled "Volume and Rate Analysis" for further detail.

The net interest margin was 3.00% for 2024 and 2.96% for 2023. The net interest margin is calculated by dividing tax-equivalent net interest income by total average earnings assets. Tax-equivalent net interest income is calculated by adding the tax benefit on certain securities and loans, whose interest is tax-exempt, to total interest income then subtracting total interest expense. The tax rate used to calculate the tax benefit was the federal statutory rate of 21%. The table titled "Tax-Equivalent Net Interest Income" reconciles net interest income to tax-equivalent net interest income, which is not a measurement under GAAP, for the years ended December 31, 2024 and 2023.

The net interest spread for the twelve months ended December 31, 2024 was 2.17%, an increase of five basis points compared to 2.12% for the twelve months ended December 31, 2023.

Net interest income and net interest margin may experience some decline due to deposit pricing pressure as interest rates change and ongoing competition for new deposits is experienced. These combined factors also could result in the Company having to borrow wholesale funding to fund asset growth which is more expensive than deposits.

The following table titled "Average Balances, Income and Expenses, Yields and Rates" displays the composition of interest earning assets and interest bearing liabilities and their respective yields and rates for the years ended December 31, 2024 and 2023.

Average Balances, Income and Expenses, Yields and Rates
(dollars in thousands)

	Years Ended					
	December 31, 2024			December 31, 2023		
	Average Balance	Interest Income/ Expense	Average Rate	Average Balance	Interest Income/ Expense	Average Rate
Assets:						
Securities:						
Taxable	$ 138,205	$ 3,551	2.57 %	$ 150,187	$ 3,663	2.44 %
Tax-Exempt (1)	495	20	4.09 %	507	21	4.13 %
Total Securities	$ 138,700	$ 3,571	2.58 %	$ 150,694	$ 3,684	2.45 %
Loans: (2)						
Taxable	1,446,705	81,366	5.62 %	1,418,916	75,127	5.29 %
Non-accrual	3,774	—	—%	3,458	—	—%
Tax-Exempt (1)	10,405	523	5.02 %	10,106	497	4.91 %
Total Loans	$ 1,460,884	$ 81,889	5.61 %	$ 1,432,480	$ 75,624	5.28 %
Federal funds sold and interest-bearing deposits in other banks	114,189	5,975	5.23 %	118,789	3,893	3.28 %
Total earning assets	$ 1,713,773	$ 91,435	5.34 %	$ 1,701,963	$ 83,201	4.89 %
Allowance for credit losses	(14,793)			(14,176)		
Total non-earning assets	105,840			59,388		
Total assets	$ 1,804,820			$ 1,747,175		
Liabilities and Shareholders' Equity:						
Interest-bearing deposits:						
NOW accounts	$ 259,372	$ 6,097	2.35 %	$ 244,277	$ 5,238	2.14 %
Money market accounts	263,960	5,989	2.27 %	257,496	4,491	1.74 %
Savings accounts	134,893	155	0.12 %	151,556	185	0.12 %
Time deposits:						
$250,000 and more	153,398	7,260	4.73 %	116,077	4,756	4.10 %
Less than $250,000	276,580	12,353	4.47 %	219,809	8,960	4.08 %
Total interest-bearing deposits	$ 1,088,203	$ 31,854	2.93 %	$ 989,215	$ 23,630	2.39 %
Federal funds purchased	11	—	4.19 %	2,801	70	2.50 %
Federal Home Loan Bank advances	145,383	6,823	4.69 %	162,548	7,720	4.75 %
Subordinated debt	29,476	1,417	4.81 %	29,408	1,417	4.82 %
Total interest-bearing liabilities	$ 1,263,073	$ 40,094	3.17 %	$ 1,183,972	$ 32,837	2.77 %
Noninterest-bearing liabilities:						
Demand deposits	412,646			442,539		
Other Liabilities	17,714			17,328		
Total liabilities	$ 1,693,433			$ 1,643,839		
Shareholders' equity	111,387			103,336		
Total liabilities and shareholders' equity	$ 1,804,820			$ 1,747,175		
Net interest income		$ 51,341			$ 50,364	
Net interest spread			2.17 %			2.12 %
Interest expense as a percent of average earning assets			2.34 %			1.93 %
Net interest margin			3.00 %			2.96 %

(1) Income and yields are reported on a tax-equivalent basis using the federal tax rate of 21%.
(2) Interest and yields on loans include the amortization/accretion of origination costs/fees as well as any purchase premiums or discounts.

Tax-Equivalent Net Interest Income
(dollars in thousands)

	Twelve Months Ended December 31, 2024	Twelve Months Ended December 31, 2023
	(in thousands)	
GAAP Financial Measurements:		
Interest Income - Loans	$ 81,779	$ 75,520
Interest Income - Securities and Other Interest-Earnings Assets	9,542	7,573
Interest Expense - Deposits	31,854	23,630
Interest Expense - Other Borrowings	8,240	9,207
Total Net Interest Income	$ 51,227	$ 50,256
Non-GAAP Financial Measurements:		
Add: Tax Benefit on Tax-Exempt Interest Income - Loans (1)	$ 110	$ 104
Add: Tax Benefit on Tax-Exempt Interest Income - Securities (1)	4	4
Total Tax Benefit on Tax-Exempt Interest Income	$ 114	$ 108
Tax-Equivalent Net Interest Income	$ 51,341	$ 50,364

(1) Tax benefit was calculated using the federal statutory tax rate of 21%.

The tax-equivalent yield on earning assets increased 45 basis points from 2023 to 2024. The tax-equivalent yield on securities increased 13 basis points from 2023 to 2024. The tax-equivalent yield on loans increased 33 basis points from 2023 to 2024. The increase in the tax-equivalent yield on earning assets resulted mostly from the sustained elevated interest rate environment as well as the increase in total average loan balances. The increase in average loan balances is primarily due to real estate loans, which more than offset the balance decline in the marine loan portfolio as loans pay down and were not replaced with new originations.

The average rate on interest-bearing liabilities increased 40 basis points from 2023 to 2024. The average rate on total interest-bearing deposits increased 54 basis points from 2023 to 2024. The Federal Reserve's interest rate increases began in early 2022, continued into 2023 and have remained heightened during 2024 impacting interest rates paid on deposit accounts. In general, deposit pricing is done in response to monetary policy actions and yield curve changes. Local competition for funds also affects the cost of time deposits, which are primarily comprised of certificates of deposit. The Company prefers to rely most heavily on non-maturity deposits when possible, which include NOW accounts, money market accounts, and savings accounts. The average balance of non-maturity interest-bearing deposits increased $4.9 million or 0.75% from $653.3 million during 2023 to $658.2 million in 2024. The Company also actively pursued time deposits during 2024 adding $94.1 million, or 28.01%, in average balances, primarily in amounts less than $250,000. These time deposits were obtained through pricing and customer outreach efforts. The average cost of total time deposits increased to 4.56% during 2024 from 4.08% during 2023. The cost of interest-bearing deposits were slightly offset by decreases in average balance and rate of FHLB advances of $17.2 million and six basis points, respectively during 2024, reflecting the payoff of higher cost advances and not replacing balances at the same level.

The following table titled “Volume and Rate Analysis (Tax-Equivalent Basis)” provides information about the effect of changes in financial assets and liabilities and changes in rates on net interest income.

Tax-equivalent net interest income increased $977 thousand during 2024. The net increase in tax-equivalent net interest income during 2024 is comprised of an increase due to rate of $3.5 million and a decrease due to volume of $2.6 million. The increase in tax-equivalent net interest income during 2024 was largely affected by an increase in rates earned on taxable loans and federal funds sold and interest-bearing deposits in other banks, as well as increased volume of loans. This increase was mostly offset by the increased volume in time deposits and increases in rates paid on interest- bearing deposits.

Volume and Rate Analysis (Tax-Equivalent Basis)
(dollars in thousands)

	2024 vs 2023 Increase (Decrease) Due to Changes in:		
	Volume	**Rate**	**Total**
Earning Assets:			
Securities:			
Taxable	$ (337)	$ 225	$ (112)
Tax-exempt	—	(1)	(1)
Loans:			
Taxable	1,491	4,748	6,239
Tax-exempt	15	11	26
Federal funds sold and interest-bearing deposits in other banks	(145)	2,227	2,082
Total earning assets	$ 1,024	$ 7,210	$ 8,234
Interest-Bearing Liabilities:			
NOW accounts	$ 332	$ 527	$ 859
Money market accounts	114	1,384	1,498
Savings accounts	(17)	(13)	(30)
Time deposits:			
$250,000 and more	1,694	810	2,504
Less than $250,000	2,476	917	3,393
Total interest-bearing deposits	$ 4,599	$ 3,625	$ 8,224
Federal funds purchased	(218)	148	$ (70)
Federal Home Loan Bank advances	(801)	(96)	(897)
Total interest-bearing liabilities	$ 3,580	$ 3,677	$ 7,257
Change in net interest income	$ (2,556)	$ 3,533	$ 977

Provision for Credit Losses

The provision for credit losses is based upon management's estimate of the amount required to maintain an adequate allowance for credit losses as discussed within the Critical Accounting Policies section above and Note 1 to the Consolidated Financial Statements presented in Item 8, Financial Statements and Supplementary Data. The provision for credit losses was $2.6 million for 2024 and $1.6 million for 2023. The amount of provision for credit losses on loans is affected by several factors including the growth rate of loans, net charge-offs (recoveries), and the estimated amount of expected losses within the loan portfolio.The amount of provision for credit losses during each period reflects the results of the Company's analysis used to determine the adequacy of the allowance for credit losses. The provision for credit losses in 2024 resulted largely from a $1.9 million provision against the marine portfolio due to charge-offs against six marine loans totaling $1.8 million. Also contributing to the provision for credit losses total were specific reserves on two individually evaluated relationships of $248 thousand, and growth in the portfolio balance as compared to the prior measurement period. Net charge-offs during 2024 totaled $2.0 million. The provision for credit losses in 2023 reflects loan growth during the year, largely in the residential and commercial real estate portfolios. Net charge-offs during 2023 totaled $443 thousand. The Company is committed to maintaining an allowance that it believes will adequately absorb the current expected losses in the loan portfolio. This commitment is more fully discussed in the "Asset Quality" section.

Noninterest Income

Total noninterest income was $21.6 million and $14.8 million during 2024 and 2023, respectively. This represents an increase of $6.8 million or 45.85% for 2024. Management reviews the activities which generate noninterest income on an ongoing basis.

The following table provides the components of noninterest income for the twelve months ended December 31, 2024 and 2023, which are included within the respective Consolidated Statements of Income headings. The following paragraphs provide information about activities which are included within the respective Consolidated Statements of Income headings. Variances that the Company believes require explanation are discussed below the table.

	December 31,			
(dollars in thousands)	**2024**	**2023**	**$ Change**	**% Change**
Wealth management fees	$ 5,624	$ 4,926	$ 698	14.17 %
Service charges on deposit accounts	1,936	1,810	126	6.96 %
Other service charges and fees	4,179	4,413	(234)	(5.30)%
Gain on the sale of marine finance assets	—	435	(435)	NM
Gain on the sale and disposal of bank premises and equipment	3,863	14	3,849	NM
Gain on sale of loans	2,141	1,428	713	49.93 %
Small business investment company income	1,357	385	972	252.47 %
Bank owned life insurance income	1,981	713	1,268	177.84 %
Other operating income	476	656	(180)	(27.44)%
Total noninterest income	$ 21,557	$ 14,780	$ 6,777	45.85 %

NM - Not Meaningful

Wealth management fees increased from 2023 to 2024. Wealth management fee income is comprised of income from fiduciary activities as well as commissions from the sale of non-deposit investment products. The amount of income from fiduciary activities is determined by the number of active accounts and total assets under management. Higher interest rates and more favorable conditions in the stock market have resulted in an expansion of total assets under management. One-time fees for estates and other services have also contributed to the year over year increase in revenue. Investment sales increased as favorable market activity during 2024 made the use of brokerage and advisory investments more attractive.

Services charges on deposit accounts increased when comparing the year ended December 31, 2024 to 2023. This increase is mainly due to increases in overdraft charges. Overdraft charges can fluctuate based on changes in customer activity and number of accounts.

Other service charges and fees decreased during the twelve months ended December 31, 2024 compared to the same period in 2023. This decrease is attributable to no longer servicing sold marine loans, beginning during the third quarter of 2023.

Gain on the sale of marine finance assets was $435 thousand for the year ended December 31, 2023 as the result of the Company's sale of certain marine finance division assets on August 23, 2023. Refer to additional discussion of marine lending under the heading "Lending Policies" in Item 7 above and in Notes 1 and 27 to the Consolidated Financial Statements.

Gain on the sale and disposal of bank premises and equipment was $3.9 million for the year ended December 31, 2024 reflecting the sale of the Company's operating center and branch building in a sales-leaseback transaction during the fourth quarter, resulting in a realized gain of $3.9 million.

During 2024, the Company sold $59.0 million in mortgage loans on the secondary market and $14.3 million in Small Business Association ("SBA") loans. During 2023, the Company sold $32.1 million in mortgage loans on the secondary market, $51.7 million of loans from the commercial and consumer loan portfolios and $8.0 million in SBA loans. These loan sales resulted in gains of $2.1 million and $1.4 million during the years ended December 31, 2024 and 2023, respectively.

Income from holdings in small business investment companies increased during 2024 as the result of higher cash distributions received compared to 2023. The level of distributions are based on the results of the individual companies performance.

Bank owned life insurance ("BOLI") fee income totaled $2.0 million for the year ended December 31, 2024 compared to $713 thousand for the year ended December 31, 2023. The increase was due to death benefit settlement gains of

$907 thousand and increased earnings on the cash surrender value reflecting the impact of market conditions and an investment of $5 million into BOLI by the Company during the fourth quarter of 2023.

Other operating income decreased primarily as a result of a decline in loan swap fee income recognized during 2024 compared to 2023. Loan swap agreements with initial notional balances of $4.1 million and $20.9 million were entered into during the years ended December 31, 2024 and 2023, respectively.

Noninterest Expenses

Total noninterest expenses were $51.3 million and $52.8 million during 2024 and 2023, respectively. This represents a decrease of $1.4 million or 2.70% during 2024.

The following table provides the components of noninterest expense for the twelve months ended December 31, 2024 and 2023, which are included within the respective Consolidated Statements of Income headings. The following paragraphs provide information about activities which are included within the respective Consolidated Statements of Income headings. Variances that the Company believes require explanation are discussed below the table.

	December 31,			
(dollars in thousands)	**2024**	**2023**	**$ Change**	**% Change**
Salaries and employee benefits	$ 30,059	$ 30,306	$ (247)	(0.82)%
Occupancy expenses	2,077	2,202	(125)	(5.68)%
Equipment expenses	1,657	1,299	358	27.56 %
Advertising and marketing expenses	1,038	1,157	(119)	(10.29)%
Stationery and supplies	145	191	(46)	(24.08)%
ATM network fees	1,530	1,563	(33)	(2.11)%
Other real estate owned expense	—	5	(5)	NM
(Gain) on other real estate owned	—	(7)	7	NM
Loss on sale of repossessed assets	204	—	204	NM
FDIC assessment	1,433	1,585	(152)	(9.59)%
Computer software expense	1,068	1,360	(292)	(21.47)%
Bank franchise tax	1,353	1,255	98	7.81 %
Professional fees	2,065	2,540	(475)	(18.70)%
Data processing fees	2,418	1,935	483	24.96 %
Other operating expenses	6,285	7,363	(1,078)	(14.64)%
Total noninterest expenses	$ 51,332	$ 52,754	$ (1,422)	(2.70)%

NM - Not Meaningful

On August 23, 2023, the Company completed a sale of specific assets from its marine lending segment. As part of the sale, the Company sold its interest in marine vessel floor plan loans totaling $52.8 million, its rights to service loans that had been sold to secondary market investors prior to the date of sale (valued at $595 thousand on balance sheet prior to sale), and other assets that were not individually significant. The Company received total consideration, net of selling expenses, of $53.5 million and recognized a gain of $435 thousand. The assets sold as well as their related revenues and contribution to earnings did not constitute a significant portion of the Company's assets or operating results for the year ended December 31, 2023. As part of the sale, the Company reduced its workforce associated with the marine lending division, and ceased accepting new marine lending business. Subsequent to the sale of these assets, the Company retained ownership of approximately $260.5 million of marine vessel retail loans which continue to constitute a significant portion of the Company's assets, revenues, and earnings. At present, the Company expects to hold the retained outstanding loans until they are ultimately repaid. Subsequent to the sale, non-interest expenses related to marine lending have been significantly reduced or eliminated as discussed in variance explanation paragraphs below.

Salaries and employee benefits expense decreased during 2024 reflecting decreases in salaries and stock-based compensation expenses while experiencing increases in employee benefits and annual incentive plan expenses. The Company had 231 and 241 full-time equivalent employees (FTEs) at December 31, 2024 and December 31, 2023, respectively. As part of the sale of the marine finance assets during the third quarter of 2023, the Company reduced its workforce associated with the marine lending division and ceased accepting new marine lending business. Stock based compensation expense decreased due to a higher level of share forfeitures recognized during the twelve months ended December 31, 2024, compared to the twelve months ended December 31, 2023. Partially offsetting these decreases were higher costs related to the annual incentive accrual, employee insurance and enhanced employee benefit plans.

Equipment expenses increased during the twelve months ended December 31, 2024 compared to the same period in 2023. A new loan origination system implemented during the fourth quarter of 2023 was a significant driver of the year-over-year increase.

Advertising and marketing expenses decreased during 2024. This reflects an increase in the Company's continued marketing campaigns, including its recognition of receiving a *Great Place to Work® certified.* designation, which was more than offset by a reduction in business development expenses during 2024. The reduction in business development expenses was due to the discontinuation of new marine lending subsequent to August 2023 and corporate rebranding that occurred in early 2023.

A repossessed marine vessel was sold during the twelve months ended December 31, 2024, resulting in the recognition of a $204 thousand loss. There were no sales of repossessed assets during the twelve months ended December 31, 2023.

FDIC assessment expense decreased in 2024 reflecting an improvement in the financial ratios portion of the assessment rate, largely due to the decline in the one-year asset growth factor.

Computer software expense decreased during 2024 over 2023, largely due to the discontinuation of new marine lending subsequent to August 2023, including its loan software platform.

Professional fees decreased during 2024. There are several factors that contributed to the decrease, primarily legal and professional expenses related to the marine lending business transaction and legal fees for the ESOP termination and establishment of a new stock incentive plan that were recognized during 2023.

Other operating expenses decreased during 2024. The largest driver of the decrease was due to the workforce reduction described above, which included a change in control agreement, and sales and travel expenses in 2023. Additional year-over-year decreases reflect the Company's focus on expense control measures, as well as the impact of the adoption of ASU 2023-02 to account for its investments in low-income residential rental properties under the proportional amortization method effective January 1, 2024. Upon adoption of this accounting method, amortization expense is no longer recorded in other operating expenses, rather as an adjustment to income tax expense. These decreases were partially offset by increases in loan servicing and collections expenses.

The efficiency ratio of the Company was 75.08% and 81.55% for 2024 and 2023, respectively. The improvement in the efficiency ratio during 2024 reflects an increase in noninterest income, coupled with lower noninterest expenses. Noninterest expenses during the twelve months ended December 31, 2023 included one-time expenses of $1.0 million related to the sale of the marine finance assets during the third quarter of 2023. Excluding these expenses, the efficiency ratio for 2023 would have been 80.00%. The efficiency ratio is not a measurement under GAAP. It is calculated by dividing total noninterest expenses by the sum of tax-equivalent net interest income and total noninterest income. The Company adjusts for non-recurring items such as gains and losses on investment portfolio sales and other gains/losses from OREO, repossessed assets, sale or disposals of bank assets, etc. The tax rate utilized is 21%. The Company calculates and reviews this ratio as a means of evaluating operational efficiency.

The calculation of the efficiency ratio for the twelve months ended December 31, 2024 and 2023 was as follows:

	December 31,	
	2024	2023
	(in thousands)	
Summary of Operating Results:		
Noninterest expenses (GAAP)	$ 51,332	$ 52,754
Less: Loss (Gain) on other real estate owned and repossessed assets	204	(7)
Adjusted noninterest expenses (non-GAAP)	$ 51,128	$ 52,761
Net interest income	$ 51,227	$ 50,256
Noninterest income (GAAP)	$ 21,557	$ 14,780
Less: Gain on the sale of marine finance assets	—	435
Less: Gain on the sale and disposal of premises and equipment	3,863	14
Less: Life insurance proceeds	935	—
Adjusted noninterest income (non-GAAP)	$ 16,759	$ 14,331
Tax equivalent adjustment (1)	114	108
Total net interest income and noninterest income, adjusted (non-GAAP)	$ 68,100	$ 64,695
Efficiency ratio	75.08 %	81.55 %

(1) Includes tax-equivalent adjustments on loans and securities using the federal statutory tax rate of 21%.

Income Taxes

Income tax expense was $3.6 million and $1.3 million for the years ended December 31, 2024 and 2023, respectively. These amounts correspond to an effective tax rate of 18.82% and 12.00% for 2024 and 2023, respectively. The effective tax rate is below the statutory rate of 21%, due primarily to the recognition of tax-exempt life insurance income, qualified rehabilitation credits and tax credits on qualified affordable housing project investments as discussed in Note 25 to the Consolidated Financial Statements. During both 2024 and 2023, qualified rehabilitation projects were completed and the corresponding tax credits were finalized with the total amount of credits to be received determined and certified. The effective tax rate is also impacted by tax-exempt income on investment securities and loans. Note 9 to the Consolidated Financial Statements provides a reconciliation between income tax expense computed using the federal statutory income tax rate and the Company's actual income tax expense during 2024 and 2023.

Business Segments

The Company has three reportable operating segments: community banking, marine lending and wealth management. See Note 27 to the Consolidated Financial Statements.

The following table presents a summarized statement of operations for the community banking business segment for the twelve months ended December 31, 2024 and 2023.

	December 31,			
(dollars in thousands)	2024	2023	$ Change	% Change
Net Interest Income	$ 45,756	$ 42,105	$ 3,651	8.67 %
Gain on sales of loans	2,141	1,117	1,024	91.67 %
Other noninterest income	13,792	7,348	6,444	87.70 %
Net Revenue	61,689	50,570	11,119	21.99 %
Provision for credit losses	2,403	2,051	352	17.16 %
Noninterest expense	47,448	44,479	2,969	6.68 %
Income before taxes	11,838	4,040	7,798	193.02 %
Income tax expense (benefit)	2,048	(103)	2,151	(2,088.35)%
Net Income	$ 9,790	$ 4,143	$ 5,647	136.30 %

Gain on sales of loans increased $1.0 million, or 91.67%, from 2023, largely reflecting an increase in sales of SBA loans. See further discussion of gain on sales of loans under the caption "Noninterest Income" above.

Other noninterest income for the twelve months ended December 31, 2024 was up by $6.4 million, or 87.70% compared to the same period in 2023 primarily reflecting the sale of the Company's operating center and branch building in a sales-leaseback transaction, resulting in a realized gain of $3.9 million.

The following table presents a summarized statement of operations for the marine lending segment for the twelve months ended December 31, 2024 and 2023.

	December 31,			
(dollars in thousands)	**2024**	**2023**	**$ Change**	**% Change**
Net Interest Income	$ 6,888	$ 9,568	$ (2,680)	(28.01)%
Gain on sales of loans	—	311	(311)	NM
Other noninterest income	—	1,078	(1,078)	NM
Net Revenue	6,888	10,957	(4,069)	(37.14)%
Provision for credit losses	148	(402)	550	(136.82)%
Noninterest expense	629	5,106	(4,477)	(87.68)%
Income before taxes	6,111	6,253	(142)	(2.27)%
Income tax expense	1,283	1,313	(30)	(2.28)%
Net Income	$ 4,828	$ 4,940	$ (112)	(2.27)%

NM - Not Meaningful

On August 23, 2023, the Company completed a sale of specific assets from its marine lending segment. As part of the sale, the Company sold its interest in marine vessel floor plan loans totaling $52.8 million, its rights to service loans that had been sold to secondary market investors prior to the date of sale (valued at $595 thousand on balance sheet prior to sale), and other assets that were not individually significant. The Company received total consideration, net of selling expenses, of $53.5 million and recognized a gain of $435 thousand. As part of the sale, the Company reduced its workforce associated with the marine lending division, as it ceased accepting new marine lending business. Subsequent to the sale of these assets, the Company retained ownership of approximately $260.5 million of marine vessel retail loans which continue to constitute a significant portion of the Company's assets, revenues, and earnings. At present, the Company expects to hold the retained outstanding loans until they are ultimately repaid.

Marine Lending net revenues declined $4.1 million, or 37.14%, for the twelve months ended December 31, 2024 compared to the twelve months ended December 31, 2023 due to pay downs in the portfolio, which are not being replaced with new loan originations. The average balance of the marine loan portfolio was $239.9 million for the twelve months ended December 31, 2024, a decline of $33.9 million, compared to $273.8 million for the twelve months ended December 31, 2023. Additionally, there were no marine loan sales during 2024.

This decline was mostly offset by a decrease in noninterest expense due to the reduction in its workforce in August 2023. Noninterest expenses for twelve months ended December 31, 2024 primarily reflect servicing and collections expenses.

The following table presents a summarized statement of operations for the wealth management business segment for the twelve months ended December 31, 2024 and 2023.

	December 31,			
(dollars in thousands)	**2024**	**2023**	**$ Change**	**% Change**
Net Interest Income	$ —	$ —	$ —	—%
Gain on sales of loans	—	—	—	—%
Other noninterest income	5,624	4,926	698	14.17 %
Net Revenue	5,624	4,926	698	14.17 %
Provision for credit losses	—	—	—	
Noninterest expense	2,823	2,646	177	6.69 %
Income before taxes	2,801	2,280	521	22.85 %
Income tax expense	588	479	109	22.76 %
Net Income	$ 2,213	$ 1,801	$ 412	22.88 %

Wealth Management's net revenues were up $698 thousand, or 14.17%, for the twelve months ended December 31, 2024 compared to the twelve months ended December 31, 2023, reflecting increases in both trust services and investment sales income. See further discussion of wealth management revenues under the caption "Noninterest Income" above.

Noninterest expense increased during 2024 primarily reflecting increases in salaries, commission and annual incentive plan expenses.

FINANCIAL CONDITION

Assets, Liabilities and Shareholders' Equity

The Company's total assets were $1.87 billion at December 31, 2024, an increase of $40.6 million or 2.22% from $1.83 billion at December 31, 2023. Securities decreased $16.1 million or 11.72% between 2023 and 2024. Loans, net of the allowance for credit losses, increased by $3.8 million or 0.26% from 2023 to 2024. Total liabilities were $1.75 billion at December 31, 2024, compared to $1.72 billion at December 31, 2023. Total shareholders' equity at year end 2024 and 2023 was $119.0 million and $108.4 million, respectively.

Securities

Total securities, excluding restricted stock, were $121.3 million and $137.4 million for the years ended December 31, 2024 and December 31, 2023, respectively. The Company purchased U.S. Treasuries totaling $5.0 million during 2024. The Company had $20.0 million in maturities, calls, and principal repayments on securities during 2024. This amount includes $1.1 million, or 5.25%, in obligations of U.S. government corporations and agencies, $5.0 million, or 24.92%, in U.S. Treasuries, $12.7 million, or 63.49%, in mortgage-backed securities, and $1.3 million, or 6.34%, in obligations of states and political subdivisions. Note 2 to the Consolidated Financial Statements provides additional details about the Company's securities portfolio as of December 31, 2024 and 2023.

The ability to dispose of available for sale securities prior to maturity provides management more options to react to future rate changes and provides more liquidity, when needed, to meet short-term obligations. The Company had net unrealized losses on available for sale securities of $23.6 million and $22.8 million at December 31, 2024 and 2023, respectively. Unrealized gains or losses on available for sale securities are reported within shareholders' equity, net of the related deferred tax effect, as accumulated other comprehensive income (loss).

In conjunction with its capital offering completed in February of 2025, the Company executed on its strategy to restructure its investment securities portfolio. In March of 2025, approximately $100 million available for sale securities, with a weighted average yield of 1.72%, have been sold and resulting sales proceeds have been used to purchase approximately $72 million in available for sale securities with a weighted average yield of 4.70%. The Company anticipates that a pre-tax loss of approximately $12.6 million resulting from the sales of the investment securities will be recognized in the first quarter of 2025.

The table titled "Maturity Distribution and Yields of Securities" shows the maturity period and average yield for the different types of securities in the portfolio at December 31, 2024. The weighted average is calculated based on the relative amortized costs of the securities. Although mortgage-backed securities have definitive maturities, they provide monthly principal curtailments which can be reinvested at a prevailing rate and for a different term.

Maturity Distribution and Yields of Securities

	December 31, 2024				
	Due in one year or less	**Due after 1 through 5 years**	**Due after 5 through 10 years**	**Due after 10 years**	**Total**
Securities available for sale:					
Obligations of U.S. government corporations and agencies	—%	2.59 %	2.46 %	—%	2.57 %
Mortgage-backed securities	—%	—%	1.07 %	1.76 %	1.73 %
Obligations of states and political subdivisions, taxable	3.42 %	2.85 %	2.79 %	—%	2.96 %
Subordinated debt	—%	—%	4.28 %	—%	4.28 %
Total taxable	3.42 %	2.65 %	2.60 %	1.76 %	1.90 %
Obligations of states and political subdivisions, tax-exempt (1)	—%	3.19 %	—%	—%	3.19 %
Total	3.42 %	2.67 %	2.60 %	1.76 %	1.90 %

(1) Yields on tax-exempt securities have been computed on a tax-equivalent basis using a federal tax rate of 21%.

Loan Portfolio

The Company's primary use of funds is supporting lending activities from which it derives the greatest amount of interest income. Gross loans net of net deferred costs and premiums were $1.47 billion and $1.46 billion at December 31, 2024 and 2023, respectively. This represents an increase of $4.4 million or 0.30% for 2024. The ratio of gross loans, net of deferred costs and premiums, to deposits decreased during the year from 97.10% to 93.14% at December 31, 2023 and December 31, 2024, respectively.

Loans secured by real estate were $1.10 billion, or 75.10%, and $1.04 billion, or 71.51%, of total loans at December 31, 2024 and 2023, respectively. This represents an increase of $56.3 million, or 5.41%, for 2024. Consumer installment loans were $31.0 million, or 2.12%, and $42.4 million, or 2.92%, of total loans at December 31, 2024 and 2023, respectively. This represents a decrease of $11.4 million, or 26.88%, for 2024. Commercial and industrial loans were $110.3 million, or 7.55%, and $107.8 million, or 7.41%, of total loans at December 31, 2024 and 2023, respectively. This represents an increase of $2.5 million, or 2.33%, for 2024. Marine loans were $210.1 million, or 14.38%, and $251.2 million, or 17.26%, of total loans at December 31, 2024 and 2023, respectively. All other loans were $12.2 million and $13.1 million at December 31, 2024 and 2023, respectively. This represents a decrease of $928 thousand, or 7.06%.

During the year ended December 31, 2024, loan growth was mainly concentrated in residential and commercial real estate loans, due largely to the continued expansion of the Bank's current market area. The decline in marine loans represents the normal runoff due to paydowns, payoffs and charge-offs as the Company is no longer originating new marine loans. On August 23, 2023, the Company completed a sale of specific assets from its marine lending segment. As part of the sale, the Company sold its interest in marine vessel floor plan loans totaling $52.8 million and reduced its workforce associated with the marine lending division as it ceased accepting new marine lending business. Subsequent to the sale of these assets, the Company retained ownership of marine vessel retail loans. At present, the Company expects to hold the retained outstanding loans until they are ultimately repaid.

The table titled "Maturity Schedule of Selected Loans" shows the various loan categories and the period during which they mature. For loans maturing in more than one year, the table also shows a breakdown between fixed rate loans and floating rate loans. The table indicates that $620.7 million or 42.50% of the loan portfolio matures within five years. The floating rate loans maturing after five years are primarily comprised of loans secured by 1-4 family residential properties.

Maturity Schedule of Selected Loans
(dollars in thousands)

	December 31, 2024				
	Within 1 Year	After 1 Year Within 5 Years	After 5 Years Within 15 years	After 15 Years	Total
Loans secured by real estate:					
Construction & Farmland	$ 17,916	$ 41,385	$ 29,959	$ 5,940	$ 95,200
Secured by 1-4 family residential properties	19,216	67,218	77,095	198,276	361,805
Commercial & Multifamily	49,382	343,049	237,980	9,505	639,916
Commercial and industrial loans	33,035	37,159	37,320	2,829	110,343
Marine	332	511	60,002	149,250	210,095
Consumer installment loans	1,927	5,237	1,854	21,999	31,017
All other loans	1,783	2,531	5,866	2,040	12,220
	$ 123,591	$ 497,090	$ 450,076	$ 389,839	$ 1,460,596
For maturities over one year:					
Floating rate loans		$ 77,392	$ 141,028	$ 135,697	$ 354,117
Fixed rate loans		419,698	309,048	254,142	982,888
		$ 497,090	$ 450,076	$ 389,839	$ 1,337,005

Asset Quality

The Company has policies and procedures designed to control credit risk and to maintain the quality of its loan portfolio. These include underwriting standards for new originations and ongoing monitoring and reporting of asset quality and adequacy of the allowance for credit losses. 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 to classify the loans as to credit risk on a quarterly basis.

Loans risk rated as special mention, which exhibit negative trends and potential weaknesses, totaled $50.1 million at December 31, 2024 compared to $33.5 million at December 31, 2023. The increase in special mention loans of $16.6 million was primarily in the owner-occupied commercial real estate portfolio as loans were downgraded from pass as the result of not having current financial statement information available at their annual review. Upon receipt of current financial information, the loans will be evaluated and returned to a pass classification if appropriate. Loans risk rated as classified, include substandard, doubtful, and loss loans, totaled $4.5 million and $8.0 million at December 31, 2024 and 2023, respectively. Included in the December 31, 2024 classified balance of $4.5 million were current and accruing loans on the watch list totaling $2.4 million. All other loans were classified as pass, exhibiting acceptable history of profits, cash flow ability and liquidity.

There were $2.6 million in total non-performing assets, which consist of nonaccrual loans, loans 90 days or more past due and still accruing, other real estate owned, and repossessed assets at December 31, 2024. This is a decrease of $3.5 million when compared to the December 31, 2023 balance of $6.1 million. This decrease resulted mostly from a decrease in nonaccrual loans.

Nonaccrual loans were $2.1 million at December 31, 2024 and $5.6 million at the end of 2023. The gross amount of interest income that would have been recognized on nonaccrual loans was $81 thousand for 2024 and $140 thousand for 2023. None of this interest income was included in net income for 2024 or 2023. A total of 13 loans totaling $3.8 million were placed on nonaccrual during 2024, seven, of which, made up $2.0 million of the nonaccrual balance at December 31, 2024. Two relationships totaling $908 thousand, or 45.91%, of the loans placed on nonaccrual were added due to delinquent payments and required an allowance for credit losses of $248 thousand based on management's evaluation of the underlying collateral values. The remaining loans added to nonaccrual status during 2024 primarily consisted of four marine loans totaling $1.8 million. These marine loans were either repossessed or charged off as of December 31, 2024. In addition, of the $5.6 million nonaccrual balance at December 31, 2023, payoffs totaling $4.6 million were received, $808 thousand was charged off, $99 thousand was transferred to repossessed assets, and two loans totaling $50 thousand remained on nonaccrual status at December 31, 2024. Management evaluates the financial condition of these borrowers and the value of any collateral on these loans. The results of these evaluations are used to estimate the amount of losses which may be realized on the disposition of these nonaccrual loans. Nonaccrual loans that were individually evaluated for impairment at December 31, 2024 totaled $2.1 million, of which $903 thousand required a specific allocation of $248 thousand to be assigned.

Other real estate owned and repossessed assets increased from $304 thousand at December 31, 2023 to $514 thousand at December 31, 2024, consisting of repossessed assets. Three marine vessels and three commercial vehicles, were repossessed during 2024 and placed into repossessed assets. Sales of repossessed assets during 2024 included the three commercial vehicles and a marine vessel repossessed in 2023. A net loss of $204 thousand was recognized on the sale of repossessed assets for the twelve months ended December 31, 2024. There were no sales of repossessed assets in 2023.

There were no real estate properties that foreclosed or sold during 2024, while one property that foreclosed in 2022 was sold in 2023. The difference between the amount of other real estate owned and the settlement proceeds is recognized as a gain or loss on the sale of other real estate owned. A net gain of $7 thousand was recognized on the sale of other real estate owned during the twelve months ended December 31, 2023.

Nonperforming and Other Assets

Nonperforming assets consist of nonaccrual loans, loans past due 90 days and accruing interest, other real estate owned (foreclosed properties), and repossessed assets. The table titled “Nonperforming Assets and Credit Ratios” shows the amount of nonperforming assets and loans past due 90 days and accruing interest outstanding for the past two years. The table also shows the ratios for the allowance for credit losses on loans as a percentage of nonperforming assets and nonperforming assets as a percentage of loans outstanding and other real estate owned.

Loans are placed on non-accrual status when collection of principal and interest is doubtful, generally when a loan becomes 90 days past due. There are three negative implications for earnings when a loan is placed on non-accrual status. First, all interest accrued but unpaid at the date that the loan is placed on non-accrual status is either deducted from interest income or written off as a loss. Second, accruals of interest are discontinued until it becomes certain that both principal and interest can be repaid. Finally, there may be actual losses that require additional provisions for credit losses to be charged against earnings.

For real estate loans, upon foreclosure, the properties are recorded at the fair value of the property based on current appraisals and other current market trends, less selling costs. If a write down of the OREO property is necessary at the time of foreclosure, the amount is charged-off against the allowance for credit losses on loans. A review of the recorded property value is performed in conjunction with normal loan reviews, and if market conditions indicate that the recorded value exceeds the fair value, additional write downs of the property value are charged directly to operations. Gains on properties acquired through foreclosure where the fair value less costs to sell exceeds the related loan balance and there have been no prior charge-offs are recorded to current earnings.

In addition, the Company may, under certain circumstances, modify loans. Modifications made to a loan are considered when a borrower is experiencing financial difficulty and the modification constitutes a concession to the borrower that is not in line with market rates and/or terms. Modified terms are dependent upon the financial position and needs of the individual borrower. Generally, the modifications granted are extensions of terms, deferrals of payments for an extended period or interest rate reductions. There were two loan modifications to borrowers experiencing financial difficulty totaling $355 thousand during the year ended December 31, 2023 while no loans were modified during 2024.

Nonperforming Assets and Credit Ratios
(dollars in thousands)

	December 31,	
	2024	2023
Nonaccrual loans	$ 2,072	$ 5,645
Loans past due 90 days and accruing interest	—	181
Other real estate owned and repossessed assets	514	304
Total nonperforming assets	$ 2,586	$ 6,130
Allowance for credit losses on loans	$ 15,027	$ 14,493
Gross loans	$ 1,467,049	$ 1,462,686
Allowance for credit losses on loans to nonperforming assets	581 %	236 %
Allowance for credit losses on loans to total loans	1.02 %	0.99 %
Allowance for credit losses on loans to nonaccrual loans	725 %	257 %
Nonaccrual loans to total loans	0.14 %	0.40 %
Non-performing assets to period end loans, other real estate owned and repossessed assets	0.18 %	0.42 %

Other potential problem loans are defined as performing loans that possess certain risks that management has identified that could result in the loans not being repaid in accordance with their terms. Accordingly, these loans are risk rated at a level of substandard or lower. At December 31, 2024, other potential problem loans totaled $2.4 million.

Allowance for Credit Losses on Loans

The allowance for credit losses on loans represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. This evaluation is inherently subjective because it requires estimates that are susceptible to significant revision as more information becomes available. Additional information on the purpose and the methods for measuring the allowance for credit losses on loans is discussed in the Critical Accounting Policies section above.

Charged-off loans were $2.8 million and $741 thousand for 2024 and 2023, respectively. Recoveries were $853 thousand and $298 thousand for 2024 and 2023, respectively. Net charge-offs were $2.0 million for 2024 and $443 thousand for 2023. The year over year increase in net charge-offs was primarily due to the marine portfolio, which had net charge-offs of $1.8 million during 2024, partially offset by a higher level of recoveries during 2024 over 2023. The increase in marine loan charge-offs of $1.7 million during 2024 was attributable to six loans, which is not believed to be a systemic performance issue or trend. The allowance for credit losses as a percentage of loans was 1.02% and 0.99% at the end of 2024 and 2023, respectively. The increase in the allowance percentage year over year was attributable to growth in the loan portfolio and the specific reserve allocation. The ratio of net charge-offs to average loans was 0.14% for 2024 and 0.03% for 2023.

The provision for credit losses for the years ended December 31, 2024 and 2023 was $2.6 million and $1.6 million, respectively. The provision for credit losses in 2024 and 2023 reflected the level of net charge-offs and the specific reserve allocation in addition to loan growth in the portfolio.

The table titled "Allocation of Allowance for Credit Losses on Loans" shows the amount of the allowance for credit losses which is allocated to the indicated loan categories, along with that category's percentage of total loans, at December 31, 2024 and 2023. The amount of allowance for credit losses allocated to each loan category is based on the amount of delinquent loans in that loan category, the status of nonperforming assets in that loan category, the historical losses for that loan category, the evaluation of qualitative factors impacting the portfolio and the financial condition of certain borrowers whose financial conditional is monitored on a periodic basis. Management believes that the allowance for credit losses is adequate to absorb the current expected losses in the loan portfolio.

Analysis of Allowance for Credit Losses
(dollars in thousands)

	Years Ended December 31,					
	2024			2023		
	Net charge-offs (recoveries)	Average loans outstanding	Net charge-offs (recoveries) to average loans outstanding	Net charge-offs (recoveries)	Average loans outstanding	Net charge-offs (recoveries) to average loans outstanding
Construction and Farmland	$ (8)	$ 89,383	(0.01)%	$ (8)	$ 89,340	(0.01)%
Residential Real Estate	(70)	367,706	(0.02)%	(18)	329,185	(0.01)%
Commercial Real Estate	(155)	618,843	(0.03)%	—	597,275	—%
Commercial	171	102,818	0.17%	269	95,159	0.28%
Marine	1,778	239,853	0.74%	126	273,831	0.05%
Consumer	159	29,742	0.53%	73	34,214	0.21%
All Other Loans	116	12,539	0.93%	1	13,476	0.01%
Total	$ 1,991	$ 1,460,884	0.14%	$ 443	$ 1,432,480	0.03%

Allocation of Allowance for Credit Losses on Loans
(dollars in thousands)

	December 31, 2024		December 31, 2023	
	Allowance for Credit Losses	Percent of Loans in Category to Total Loans	Allowance for Credit Losses	Percent of Loans in Category to Total Loans
Construction and Farmland	$ 2,387	6.5 %	$ 772	5.8 %
Residential Real Estate	2,318	24.8 %	4,725	24.5 %
Commercial Real Estate	7,251	43.8 %	6,224	41.2 %
Commercial	1,433	7.6 %	1,027	7.4 %
Marine	1,279	14.4 %	1,153	17.3 %
Consumer	238	2.1 %	198	2.9 %
All Other Loans	121	0.8 %	394	0.9 %
Total	$ 15,027	100%	$ 14,493	100%

Deposits

Total deposits were $1.58 billion and $1.51 billion at December 31, 2024 and 2023, respectively, which represents an increase of $68.8 million or 4.57% during 2024. The table titled "Average Deposits and Rates Paid" shows the average deposit balances and average rates paid for 2024 and 2023.

Average Deposits and Rates Paid
(dollars in thousands)

	Years Ended December 31,			
	2024		2023	
	Amount	Rate	Amount	Rate
Noninterest-bearing	$ 412,646		$ 442,539	
Interest-bearing:				
NOW accounts	259,372	2.35 %	244,277	2.14 %
Money market accounts	263,960	2.27 %	257,496	1.74 %
Regular savings accounts	134,893	0.12 %	151,556	0.12 %
Time deposits:				
$250,000 and more	153,398	4.73 %	116,077	4.10 %
Less than $250,000	276,580	4.47 %	219,809	4.08 %
Total interest-bearing	$ 1,088,203	2.93 %	$ 989,215	2.39 %
Total deposits	$ 1,500,849		$ 1,431,754	

Noninterest-bearing demand deposits, which are comprised of checking accounts, decreased $30.4 million, or 6.97%, from $436.6 million at December 31, 2023 to $406.2 million at December 31, 2024. Interest-bearing deposits, which include NOW accounts, money market accounts, regular savings accounts and time deposits, increased $99.3 million, or 9.28%, from $1.07 billion at December 31, 2023 to $1.17 billion at December 31, 2024. Total money market account balances increased $5.5 million, or 2.08%, from $263.6 million at December 31, 2023 to $269.1 million at December 31, 2024 and regular savings accounts decreased $8.1 million, or 5.79%, from $139.5 million at December 31, 2023 to $131.4 million at December 31, 2024. Reciprocal deposit accounts balances (included in total money market account and NOW account balances) increased from $115.7 million to $152.0 million at December 31, 2023 and December 31, 2024, respectively. The reciprocal deposits balance at December 31, 2024 and December 31, 2023 consists of money market and NOW accounts obtained through the ICS network. The growth in deposits was mainly organic growth as we continue to expand and grow into newer market areas. Brokered accounts, reported within total NOW accounts, increased $5.6 million to $41.6 million at December 31, 2024 compared to $36.0 million at December 31, 2023. Time deposits increased $76.3 million, or 18.48%, from $413.3 million at December 31, 2023 to $489.6 million at December 31, 2024, reflecting the Company's pricing strategy for retention of maturing time deposits and new account acquisition. Total estimated uninsured deposits at December 31, 2024 and December 31, 2023 were $388.2 million and $389.3 million, respectively.

The Company attempts to fund asset growth with deposit accounts and focus upon core deposit growth as its primary source of funding. Core deposits consist of checking accounts, NOW accounts, money market accounts, regular savings accounts, and time deposits of less than $250,000. Core deposits totaled $1.30 billion, or 82.49%, and $1.26 billion, or 85.54%, of total deposits at December 31, 2024 and 2023, respectively.

The table titled "Maturities of Certificates of Deposit and Other Time Deposits of $250,000 and Greater" shows the amount of certificates of deposit of $250,000 and more maturing within the time periods indicated at December 31, 2024. The total amount maturing within one year is $186.3 million, or 95.14%, of the total amount outstanding.

Maturities of Certificates of Deposit and Other Time Deposits of $250,000 and Greater
(dollars in thousands)

	Within Three Months	Three to Six Months	Six to Twelve Months	Over One Year	Total	Percent of Total Deposits
December 31, 2024	$ 48,631	$ 64,733	$ 72,898	$ 9,520	$ 195,782	12.43 %

The table titled "Certificates of Deposit and Other Time Deposits Otherwise Uninsured" shows the balances of certificates of deposit that were in excess of the FDIC insurance limit at December 31, 2024. The total amount maturing within one year is $125.0 million, or 96.51%, of the total amount outstanding.

Certificates of Deposit and Other Time Deposits Otherwise Uninsured
(dollars in thousands)

	Within Three Months	Three to Six Months	Six to Twelve Months	Over One Year	Total	Percent of Total Deposits
December 31, 2024	$ 36,881	$ 42,233	$ 45,898	$ 4,520	$ 129,532	8.22 %

CAPITAL RESOURCES

Total shareholders' equity on December 31, 2024 was $119.0 million, reflecting a percentage of total assets of 6.38% as compared to $108.4 million and 5.94% at December 31, 2023. Our common stock's book value per share increased $2.74, or 8.90%, to $33.52 per share at December 31, 2024 from $30.78 per share at December 31, 2023. During 2024, the Company paid $1.21 per share in dividends as compared to $1.20 per share for 2023. The Company has a Dividend Investment Plan that allows participating shareholders to reinvest the dividends in Company stock. During 2024, the Company purchased 7,868 shares of its Common Stock under its stock repurchase program at an average price of $30.08. During 2023, the Company purchased 8,531 shares of its Common Stock under its stock repurchase program at an average price of $35.34. At December 31, 2024, and 2023, Management believes the Bank met all capital adequacy requirements to which it was subject. Additionally, at December 31, 2024, the most recent notification from the Federal Reserve categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

Federal regulatory risk-based capital guidelines require percentages to be applied to various assets, including off-balance sheet assets, based on their perceived risk in order to calculate risk-weighted assets. Tier 1 capital consists of total shareholders' equity plus qualifying trust preferred securities outstanding less net unrealized gains and losses on available for sale securities, goodwill and other intangible assets. Total capital is comprised of Tier 1 capital plus the allowable portion of the allowance for credit losses and any excess trust preferred securities that do not qualify as Tier 1 capital.

Effective January 1, 2015, the Federal Reserve issued final risk-based capital rules to align with the Basel III regulatory capital framework and meet certain requirements of the Dodd-Frank Act. The final rules require the Bank to comply with the following minimum capital ratios: (i) a common equity Tier 1 capital ratio of 4.5% of risk-weighted assets; (ii) a Tier 1 capital ratio of 6.0% of risk-weighted assets; (iii) a total capital ratio of 8.0% of risk-weighted assets; and (iv) a leverage ratio of 4.0% of total assets. In addition, a capital conservation buffer requirement of 2.5% was effective January 1, 2019. The capital conservation buffer is designed to absorb losses during periods of economic stress. Banking institutions with any ratio (excluding the leverage ratio) above the minimum but below the conservation buffer will face constraints on dividends, equity repurchases, and compensation based on the amount of the shortfall. The capital conservation buffer rule requires the Bank to maintain (i) a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 4.5%, plus a 2.5% "capital conservation buffer" (which is added to the 4.5% common equity Tier 1 ratio, effectively resulting in a minimum ratio of common equity Tier 1 to risk-weighted assets of at least 7.0%), (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0%, plus the 2.5% capital conservation buffer (which is added to the 6.0% Tier 1 capital ratio, effectively resulting in a minimum Tier 1 capital ratio of 8.5%), (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0%, plus the 2.5% capital conservation buffer (which is added to the 8.0% total capital ratio, effectively resulting in a minimum total capital ratio of 10.5%), and (iv) a minimum leverage ratio of 4.0%, calculated as the ratio of Tier 1 capital to average assets.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the Community Bank Leverage Ratio framework (CBLR), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020. The CBLR removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the CBLR and that maintain a leverage ratio of greater than the required minimum will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and, if applicable, will be considered to have met the well-capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the regulatory capital rules, an institution electing to use the CBLR must maintain a minimum leverage ratio of 9%. Qualifying institutions are allowed a two-quarter grace period to correct a ratio that falls below the required amount, provided the institution maintains a ratio of more than 8%. At December 31, 2022, the Bank was a qualifying institution and elected to utilize the CBLR to measure capital adequacy. During 2023, the Bank fell below the minimum ratio of 9% and therefore, the amounts and ratios at December 31, 2024 and 2023 are presented using the risk-based capital framework and not the CLBR. The Bank's leverage ratio was 8.79% and 8.48% at December 31, 2024 and 2023, respectively.

Pursuant to the Federal Reserve's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement, qualifying bank holding companies with total consolidated assets of less than $3 billion, such as the Company, are not subject to consolidated regulatory capital requirements.

Analysis of Bank Capital
(dollars in thousands)

	December 31, 2024	December 31, 2023
Tier 1 Capital:		
Common stock	$ 1,682	$ 1,682
Capital surplus	9,773	9,773
Retained earnings	155,016	144,151
Nonmortgage servicing assets	(326)	(153)
Total Tier 1 capital	$ 166,145	$ 155,453
Common equity tier 1 capital	$ 166,145	$ 155,453
Tier 2 Capital:		
Allowable portion of allowance for credit losses and reserve for off-balance sheet commitments	$ 14,493	$ 13,472
Total Tier 2 capital	$ 14,493	$ 13,472
Total risk-based capital	$ 180,638	$ 168,925
Risk weighted assets	$ 1,504,960	$ 1,513,802
Capital Ratios:		
Common equity Tier 1 capital ratio	11.04 %	10.27 %
Tier 1 risk-based capital ratio	11.04 %	10.27 %
Total risk-based capital ratio	12.00 %	11.16 %
Tier 1 leverage ratio	8.79 %	8.48 %

Note 15 to the Consolidated Financial Statements provides additional discussion and analysis of regulatory capital requirements.

On February 10, 2025, the Company completed a public stock offering and issued 1,562,500 shares of its common stock, $2.50 par value per share. On February 13, 2025, an additional 234,375 shares were issued upon exercise of the underwriters overallotment option. The public offering price was $32.00. The expected proceeds to the Company, after deducting the underwriting discount and commissions but before deducting operating expenses payable by the Company, are approximately $53.8 million. The offering of common stock was made pursuant to a registration statement on Form S-3 (File No. 333-269804) that was declared effective by the SEC on February 28, 2023. A final prospectus supplement dated February 6, 2025 and accompanying prospectus dated February 28, 2023, which form part of the registration statement have been filed with the SEC.

LIQUIDITY

Liquidity management involves meeting the present and future financial obligations of the Company with the sale or maturity of assets or with the occurrence of additional liabilities. Liquidity needs are met with cash on hand, deposits in banks, federal funds sold, unpledged securities classified as available for sale, and loans maturing within one year. At December 31, 2024 liquid assets totaled $335.9 million as compared to $367.7 million at December 31, 2023. These amounts represent 19.22% and 21.41% of total liabilities at December 31, 2024 and 2023, respectively. Securities provide a constant source of liquidity through paydowns and maturities. Also, the Company maintains short-term borrowing arrangements, namely federal funds lines of credit, with larger financial institutions as an additional source of liquidity. The Bank's membership with the Federal Home Loan Bank of Atlanta also provides a source of borrowings with numerous rate and term structures. At December 31, 2024 and 2023, the Company had remaining credit availability in the amounts of $254.3 million and $169.6 million, respectively, with the Federal Home Loan Bank of Atlanta. The Company also had unused lines of credit with financial institutions of $78.0 million at December 31, 2024 and 2023. Beginning in the third quarter of 2024, the Company pledged available for sale mortgage-backed securities with the Federal Reserve Bank discount window, which reduced its liquid assets and reinforced its ability to obtain liquidity from the Federal Reserve Bank discount window. At December 31, 2024 the Company had $74.0 million in funds available through the discount window. The Company's senior management monitors the liquidity position regularly and attempts to maintain a position which utilizes available funds most efficiently. As a result of the Company's management of liquid assets and the ability to generate liquidity through liability funding, management believes that the Company maintains overall liquidity sufficient to satisfy its depositors' requirements and meet its customers' credit needs.

OFF-BALANCE SHEET ARRANGEMENTS AND CONTRACTUAL OBLIGATIONS

Note 18 to the Consolidated Financial Statements provides information about the off-balance sheet arrangements which arise through the lending activities of the Company. These arrangements increase the degree of both credit and interest rate risk beyond that which is recognized through the financial assets and liabilities on the consolidated balance sheets.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

As the holding company of the Bank, the Company’s primary component of market risk is interest rate volatility. Interest rate fluctuations will impact the amount of interest income and expense the Bank receives or pays on almost all of its assets and liabilities and the market value of its interest-earning assets and interest-bearing liabilities, excluding those which have a very short term until maturity. Interest rate risk exposure of the Company is, therefore, experienced at the Bank level. Asset / liability management attempts to maximize the net interest income of the Company by adjusting the volume and price of rate sensitive assets and liabilities. The Company does not subject itself to foreign currency exchange or commodity price risk due to prohibition through policy and the current nature of operations. Derivative instruments and hedging activities of the Company have historically been minimal.

The Bank’s interest rate management strategy is designed to maximize net interest income and preserve the capital of the Company. The Bank’s financial instruments are periodically subjected to various simulations whose results are discussed in the following paragraphs. These models are based on actual data from the Bank’s financial statements and assumptions about the performance of certain financial instruments. Prepayment assumptions are applied to all mortgage related assets, which includes real estate loans and mortgage-backed securities. Prepayment assumptions are based on a median rate at which principal payments are received on these assets over their contractual term. The rate of principal payback is assumed to increase when rates fall and decrease when rates rise. Term assumptions are applied to non-maturity deposits, which includes demand deposits, NOW accounts, savings accounts, and money market accounts. Demand deposits and NOW accounts are generally assumed to have a term greater than one year since the total amount outstanding does not fluctuate with changes in interest rates. Savings accounts and money market accounts are assumed to be more interest rate sensitive, therefore, a majority of the amount outstanding is assumed to have a term of less than one year.

The simulation analysis evaluates the potential effect of upward and downward changes in market interest rates on future net interest income. The Bank views the immediate shock of rates as a more effective measure of interest rate risk exposure. The analysis assesses the impact on net interest income over a 12 month period after an immediate change or “shock” in rates, of 100 basis points up to 400 basis points. The simulation analysis results are presented in the table below:

Year 1 Net Interest Income Simulation
(dollars in thousands)

	Change in Net Interest Income	
Assumed Market Interest Rate Shock	Dollars	Percent Change
-400 BP	$ (2,876)	(5.23)%
-300 BP	(744)	(1.35)%
-200 BP	(70)	(0.13)%
-100 BP	511	0.93 %
+100 BP	(739)	(1.34)%
+200 BP	(1,739)	(3.16)%
+300 BP	(2,627)	(4.78)%
+400 BP	(3,521)	(6.40)%

The Bank uses simulation analysis to assess earnings at risk and economic value of equity ("EVE") analysis to assess economic value at risk. This analysis method allows management to regularly monitor the direction and magnitude of the Bank’s interest rate risk exposure. The modeling techniques cannot be measured with complete precision. Maturity and repricing characteristics of assets and liabilities, prepayments on amortizing assets, non-maturity deposit sensitivity and loan and deposit pricing are key assumptions used in acquiring this analysis. There is a realm of uncertainty in using these assumptions but the analysis does provide the Bank with the ability to estimate interest rate risk position over time.

The table below examines the EVE. The EVE of the balance sheet is defined as the discounted present value of expected asset cash flows minus the discounted present value of the expected liability cash flows. The analysis involves changing the interest rates used in determining the expected cash flows and in discounting the cash flows. The model indicates a more significant exposure to falling interest rates. These results are driven primarily by the relative change in value of the Bank's core deposit base as rates rise.

Static EVE Change
(dollars in thousands)

	Change in EVE	
Assumed Market Interest Rate Shift	**Dollars**	**Percent Change**
-400 BP Shock	$ (60,065)	(22.22)%
-300 BP Shock	(26,062)	(9.64)%
-200 BP Shock	(6,498)	(2.40)%
-100 BP Shock	3,894	1.44%
+100 BP Shock	(7,847)	(2.90)%
+200 BP Shock	(20,350)	(7.53)%
+300 BP Shock	(26,862)	(9.94)%
+400 BP Shock	(33,894)	(12.54)%

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm

To the Shareholders and the Board of Directors of Eagle Financial Services, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Eagle Financial Services, Inc. and its subsidiary (the Company) as of December 31, 2024 and 2023, the related consolidated statements of income, 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 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 conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matters

The critical audit matter communicated below is a matter arising from the current period audit of the financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Collectively Evaluated Loans

As further described in Notes 1 and 4 to the consolidated financial statements, the allowance for credit losses on loans (ACLL) is a valuation allowance that represents management's best estimate of expected credit losses on loans measured at amortized cost considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms. Loans which share common risk characteristics are pooled and collectively evaluated by the Company using historical data, as well as assessments of current conditions and reasonable and supportable forecasts of future conditions. The Company's ACLL related to collectively evaluated loans represented $14.8 million of the total recorded ACLL of $15.0 million as of December 31, 2024. The collectively evaluated ACLL consists of quantitative and qualitative components.

The quantitative component consists of loss estimates derived from the Company's application of its cohort methodology, which identifies and tracks respective losses generated by specific cohorts (or pools) of loans over their remaining lives. These estimates consider large amounts of data over an extended period of time. In addition to the quantitative component, the collectively evaluated ACL also includes a qualitative component which aggregates management's assessment of available information relevant to assessing collectability that is not captured in the quantitative loss estimation process. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

Management exercised significant judgment when estimating the ACL on collectively evaluated loans. We identified the estimation of the collectively evaluated ACL as a critical audit matter as auditing the collectively evaluated ACL involved significant audit effort and judgment in evaluating management's assessment of the inherently subjective estimates.

How We Addressed the Matter in Our Audit

The primary audit procedures we performed to address this critical audit matter included:

- Obtaining an understanding of the Company's processes for determining its ACL on collectively evaluated loans, including the underlying methodology and significant inputs to the calculation.
- Substantively testing management's process for measuring the collectively evaluated ACL, including:
  - Evaluating the conceptual soundness of the methodology for determining the collectively evaluated ACL.
  - Testing the completeness and accuracy of data used in developing the quantitative loss calculations.
  - Evaluating the pools of collectively evaluated and individually evaluated loans for completeness.
  - Evaluating management's determination of qualitative adjustments, including the data on which the qualitative adjustments were based as well as the relative magnitude of the adjustments.
  - Testing the mathematical accuracy of the ACL for collectively evaluated loans, including the calculations underlying the quantitative component as well as application of qualitative factors to the collectively evaluated loan balances.

/s/ Yount, Hyde & Barbour, P.C.

We have served as the Company's auditor since 2015.

Winchester, Virginia
March 31, 2025

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2024 and 2023
(dollars in thousands, except per share amounts)

	December 31, 2024	December 31, 2023
Assets		
Cash and due from banks	$ 13,129	$ 15,417
Interest-bearing deposits with other institutions	162,595	96,649
Federal funds sold	17,435	26,287
Total cash and cash equivalents	193,159	138,353
Securities available for sale, at fair value	121,330	137,443
Restricted investments	7,557	9,568
Loans held for sale	2,660	1,661
Loans	1,467,049	1,462,686
Allowance for credit losses	(15,027)	(14,493)
Net loans	1,452,022	1,448,193
Bank premises and equipment, net	14,339	18,108
Bank owned life insurance	30,621	29,575
Other assets	44,527	42,696
Total assets	$ 1,866,215	$ 1,825,597
Liabilities and Shareholders' Equity		
Liabilities		
Deposits:		
Noninterest bearing demand deposits	$ 406,180	$ 436,619
Savings and interest bearing demand deposits	679,330	656,439
Time deposits	489,646	413,264
Total deposits	$ 1,575,156	$ 1,506,322
Federal Home Loan Bank advances, short-term	25,000	20,000
Federal Home Loan Bank advances, long-term	95,000	145,000
Subordinated debt, net of unamortized issuance costs	29,512	29,444
Other liabilities	22,560	16,452
Total liabilities	$ 1,747,228	$ 1,717,218
Commitments and contingencies		
Shareholders' Equity		
Preferred stock, $10 par value; 500,000 shares authorized and unissued	$ —	$ —
Common stock, $2.50 par value; authorized 10,000,000 shares; issued and outstanding 2024, 3,549,581 including 64,043 unvested restricted stock; issued and outstanding 2023, 3,520,894 including 56,914 unvested restricted stock	8,714	8,660
Surplus	14,901	14,280
Retained earnings	114,012	103,445
Accumulated other comprehensive loss	(18,640)	(18,006)
Total shareholders' equity	$ 118,987	$ 108,379
Total liabilities and shareholders' equity	$ 1,866,215	$ 1,825,597

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended December 31, 2024 and 2023
(dollars in thousands, except per share amounts)

	2024	2023
Interest and Dividend Income		
Interest and fees on loans	$ 81,779	$ 75,520
Interest and dividends on securities:		
Taxable interest income	2,922	3,141
Interest income exempt from federal income taxes	16	16
Dividends	630	523
Interest on deposits in banks	5,851	3,733
Interest on federal funds sold	123	160
Total interest and dividend income	$ 91,321	$ 83,093
Interest Expense		
Interest on deposits	$ 31,854	$ 23,630
Interest on federal funds purchased	—	70
Interest on Federal Home Loan Bank advances	6,823	7,720
Interest on subordinated debt	1,417	1,417
Total interest expense	$ 40,094	$ 32,837
Net interest income	$ 51,227	$ 50,256
Provision For Credit Losses	2,551	1,649
Net interest income after provision for credit losses	$ 48,676	$ 48,607
Noninterest Income		
Wealth management fees	$ 5,624	$ 4,926
Service charges on deposit accounts	1,936	1,810
Other service charges and fees	4,179	4,413
Gain on the sale of marine finance assets	—	435
Gain on the sale and disposal of bank premises and equipment	3,863	14
Gain on sale of loans	2,141	1,428
Small business investment company income	1,357	385
Bank owned life insurance income	1,981	713
Other operating income	476	656
Total noninterest income	$ 21,557	$ 14,780
Noninterest Expenses		
Salaries and employee benefits	$ 30,059	$ 30,306
Occupancy expenses	2,077	2,202
Equipment expenses	1,657	1,299
Advertising and marketing expenses	1,038	1,157
Stationery and supplies	145	191
ATM network fees	1,530	1,563
Other real estate owned expense	—	5
(Gain) on other real estate owned	—	(7)
Loss on sale of repossessed assets	204	—
FDIC assessment	1,433	1,585
Computer software expense	1,068	1,360
Bank franchise tax	1,353	1,255
Professional fees	2,065	2,540
Data processing fees	2,418	1,935
Other operating expenses	6,285	7,363
Total noninterest expenses	$ 51,332	$ 52,754
Income before income taxes	$ 18,901	$ 10,633
Income Tax Expense	3,558	1,276
Net income	$ 15,343	$ 9,357
Earnings Per Share		
Net income per common share, basic	$ 4.32	$ 2.66
Net income per common share, diluted	$ 4.32	$ 2.66

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Net income	$ 15,343	$ 9,357
Other comprehensive (loss) income:		
Changes in benefit obligations and plan assets for post retirement benefit plans, net of reclassification adjustments, net of deferred income tax of $(2) and $(3) for the years ended December 31, 2024 and 2023, respectively	(9)	(5)
Unrealized (loss) gain on available for sale securities, net of reclassification adjustments, net of deferred income tax of $(166) and $650 for the years ended December 31, 2024 and 2023, respectively	(625)	2,445
Total other comprehensive (loss) income	(634)	2,440
Total comprehensive income	$ 14,709	$ 11,797

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Changes in Shareholders' Equity
Years Ended December 31, 2024 and 2023
(dollars in thousands, except per share amounts)

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Total
December 31, 2022	$ 8,629	$ 13,268	$ 100,278	$ (20,446)	$ 101,729
Cumulative effect adjustment for CECL			(1,961)		(1,961)
Net income			9,357		9,357
Other comprehensive income				2,440	2,440
Restricted stock awards, stock incentive plan (17,402 shares)	43	(43)			—
Stock-based compensation expense		1,213			1,213
Issuance of common stock, employee benefit plan (3,803 shares)	9	123			132
Repurchase and retirement of common stock (8,531 shares)	(21)	(281)			(302)
Dividends declared ($1.20 per share)			(4,229)		(4,229)
December 31, 2023	$ 8,660	$ 14,280	$ 103,445	$ (18,006)	$ 108,379
Cumulative effect adjustment for adoption of ASU 2023-02			(477)		(477)
Net income			15,343		15,343
Other comprehensive (loss)				(634)	(634)
Restricted stock awards, stock incentive plan (29,426 shares)	74	(74)			—
Stock-based compensation expense		912			912
Repurchase and retirement of common stock (7,868 shares)	(20)	(217)			(237)
Dividends declared ($1.21 per share)			(4,299)		(4,299)
December 31, 2024	$ 8,714	$ 14,901	$ 114,012	$ (18,640)	$ 118,987

See Notes to Consolidated Financial Statements

EAGLE FINANCIAL SERVICES, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Cash Flows from Operating Activities		
Net income	$ 15,343	$ 9,357
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	979	1,002
Amortization of other assets	564	988
Origination of loans held for sale	(74,216)	(41,606)
Proceeds from sale of loans held for sale	75,358	41,224
Net (gain) on sales of loans	(2,141)	(1,428)
Provision for credit losses	2,551	1,649
(Gain) on other real estate owned	—	(7)
(Gain) on the sale of marine finance assets	—	(435)
(Gain) on the sale and disposal of premises and equipment	(3,863)	(14)
Loss on the sale of repossessed assets	204	—
Amortization of subordinated debt issuance costs	67	67
Stock-based compensation expense	912	1,213
Premium amortization on securities, net	258	335
Bank owned life insurance income	(1,074)	(713)
(Gain) on bank-owed life insurance settlement	(907)	—
Deferred tax accrual (benefit)	600	(1,509)
Changes in assets and liabilities:		
Decrease (increase) in other assets	2,770	(4,583)
Increase in other liabilities	1,357	1,335
Net cash provided by operating activities	$ 18,762	$ 6,875
Cash Flows from Investing Activities		
Proceeds from maturities, calls, and principal payments of securities available for sale	$ 20,046	$ 14,473
Purchases of securities available for sale	(4,983)	—
Proceeds from the sale of restricted investments	3,851	4,975
Purchase of restricted investments	(1,840)	(5,310)
Proceeds from bank-owned life insurance settlement	935	—
Proceeds from the sale of bank premises and equipment	7,672	39
Purchases of bank premises and equipment	(1,019)	(1,071)
Purchase of bank-owned life insurance	—	(5,000)
Proceeds from the sale of other real estate owned	—	115
Proceeds from the sale of repossessed assets	112	—
Changes in collateral posted with other financial institutions, net	(400)	—
Proceeds from sale of marine finance assets	—	53,987
Proceeds from sales of loans	—	51,871
Origination of loans, net of prinicpal collected	(6,964)	(243,441)
Funding of capital commitments related to other investments	(664)	(922)
Net cash provided by (used in) investing activities	$ 16,746	$ (130,284)
Cash Flows from Financing Activities		
Net (decrease) in demand deposits, money market and savings accounts	$ (7,548)	$ (13,123)
Net increase in certificates of deposit	76,382	255,370
Net (decrease) in federal funds purchased	—	(32,980)
Net increase (decrease) in short-term Federal Home Loan Bank advances	5,000	(155,000)
(Repayment) advances of long-term Federal Home Loan Bank advances	(50,000)	145,000
Issuance of common stock, employee benefit plan	—	132
Repurchase and retirement of common stock	(237)	(302)
Cash dividends paid	(4,299)	(4,229)
Net cash provided by financing activities	$ 19,298	$ 194,868
Increase in cash and cash equivalents	$ 54,806	$ 71,459
Cash and Cash Equivalents		
Beginning	138,353	66,894
Ending	$ 193,159	$ 138,353
Supplemental Disclosures of Cash Flow Information		
Cash payments for:		
Interest	$ 40,142	$ 31,332
Income taxes	$ 80	$ 2,068
Supplemental Schedule of Noncash Investing and Financing Activities:		
Unrealized (loss) gain on securities available for sale	$ (791)	$ 3,095
Minimum postretirement liability adjustment	$ (11)	$ (8)
Repossessed assets acquired in settlement of loans	$ 525	$ 304
Lease liabilities arising from right-of-use assets	$ 5,466	$ —

See Notes to Consolidated Financial Statements

NOTE 1. Nature of Banking Activities and Significant Accounting Policies

Eagle Financial Services, Inc. (the "Company" or "Corporation") and Bank of Clarke (the "Bank") make commercial, financial, agricultural, residential and consumer loans to customers in Virginia, Maryland and the Eastern Panhandle of West Virginia. The loan portfolio is well diversified and generally is collateralized by assets of the customers. The loans are expected to be repaid from cash flows or proceeds from the sale of selected assets of the borrowers. In addition, the Bank of Clarke Wealth Management Division, a division of the Bank, provides both a full-service Trust Department and a separate brokerage area.

The accounting and reporting policies of the Company conform to accounting principles generally accepted in the United States of America and to accepted practices within the banking industry.

Principles of Consolidation

The Company owns 100% of the Bank. The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. All significant intercompany accounts and transactions between the Company and the Bank have been eliminated.

Wealth Management Assets

The Bank of Clarke Wealth Management Division provides both a full-service Trust Department and a separate brokerage area. The Trust Department features a full range of fiduciary expertise, including service as Trustee of personal trusts, service as guardian or conservator by court appointment, fiduciary investment management, estate settlement, and agency for trustees. The brokerage area offers advisory services and a broad selection of investment products, including Individual Retirement Accounts, mutual funds, tax-deferred annuities, 529 college savings plans, life insurance, long term care insurance, brokerage certificates of deposit, among other brokerage services. Securities and other property held by the Bank of Clarke Wealth Management Division in a fiduciary or agency capacity are not assets of the Bank and are not included in the accompanying consolidated financial statements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. The material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses on loans.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand, amounts due from banks, federal funds sold, and interest bearing deposits. Generally, federal funds are purchased and sold for one-day periods.

Securities

The Company determines the appropriate classification of securities at the time of purchase. Debt securities that management has the positive intent and ability to hold to maturity are classified as "held to maturity" and recorded at amortized cost. Debt securities not classified as held to maturity are classified as "available for sale" and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment.

Purchase premiums are recognized in interest income using the effective interest rate method over the period from purchase to maturity or, for callable securities, the earliest call date, and purchase discounts are recognized in the same manner from purchase to maturity.

The Bank is required to maintain an investment in the capital stock of certain correspondent banks. No readily available market exists for this stock and it has no quoted market value. The investment in these securities is recorded at cost and they are reported on the Company's consolidated balance sheet as restricted investments.

Allowance for Credit Losses on Securities

For available for sale debt securities in an unrealized loss position, management first assesses whether the Company intends to sell, or if it is likely that the Company will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through a provision for credit losses charge to earnings. For debt securities available for sale that do not meet either of these criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers both quantitative and qualitative factors,

A substantial portion of the available for sale debt securities held by the Company are obligations issued by U.S. government agency and U.S. government-sponsored enterprises, including mortgage-backed securities. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major credit rating agencies and have a long history of no credit losses. For these securities, management takes into consideration the long history of no credit losses and other factors to assess the risk of nonpayment even if the U.S. government were to default. As such, the Company utilized a zero credit loss estimate for these securities.

For available for sale debt securities that are not guaranteed by U.S. government agencies and U.S. government-sponsored enterprises, management utilizes a third-party credit modeling tool based on observable market data, which assists management in identifying any potential credit risk associated with these available for sale debt securities. Qualitative factors are also considered, including the extent to which fair value is less than amortized cost, changes to the credit rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If a credit loss exists, an allowance for credit losses is recorded that reflects the amount of the impairment related to credit losses, limited by the amount by which the security's amortized cost basis exceeds its fair value.

Changes in the allowance for credit losses are recorded in net income in the period of change and are included in provision for credit losses. Changes in the fair value of debt securities available for sale not resulting from credit losses are recorded in other comprehensive income (loss).

Loans Held for Sale

Mortgage loans originated with the intent to sell in the secondary market are classified as loans held for sale and carried at the lower of cost or fair value as determined by commitments from investors. Mortgage loans that are sold in the secondary market are sold servicing released. The Company may also classify other loans as loans held for sale as part of its ongoing portfolio management strategies. Such other loans are generally not originated with the intent to sell. Once a decision is made to sell loans not previously classified as held for sale, such loans are transferred into the held-for-sale classification and carried at the lower of cost or fair value. In 2024, the Company sold non-mortgage loans totaling approximately $14.3 million as part of its portfolio management strategies that were previously classified as held for investment. Gains and losses on sales of loans are recorded based on the differential between the sales proceeds and carrying value of the underlying loans.

Loan Servicing Rights

Loan servicing rights are separate from the underlying loan and may be retained or sold by the Company when the related loan is sold. In connection with sale of certain loans, the Company has recognized assets for retained loan servicing rights. Capitalized loan servicing rights represent the economic benefits associated with contracts to service loans under which the benefits of servicing are expected to more than adequately compensate the Company for performing the servicing. Assets for retained loan servicing rights are initially recognized as a component of the gain recognized on the sale of the underlying loan(s) and are recorded at fair value on the consolidated balance sheets. Loan servicing rights are subsequently accounted for using the amortization method. The amortization method requires the servicing assets to be amortized in proportion to and over the period of estimated net servicing income. Additionally, the recorded balances are evaluated for impairment each reporting period and are reported at the lower of amortized cost or fair value. Assets for loan servicing rights are recorded in other assets in the consolidated balance sheets. Servicing fee income, net of amortization and impairment, if any, is reported in other service charges and fees in the consolidated statements of income.

Loans Held for Investment

The Company makes mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout the Counties of Clarke, Frederick, Loudoun and Fairfax, Virginia as well as the Towns of Leesburg and Purcellville and the Cities of Winchester and Frederick, Maryland. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in these areas.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off generally are reported at their outstanding unpaid principal balances adjusted for the charge-offs, unearned discounts, any deferred fees or costs on originated loans, and the allowance for credit losses. The Company has elected to exclude accrued interest receivable from the amortized cost basis. Accrued interest totaled $4.8 million and $4.6 million at December 31, 2024 and 2023, and is included in the other assets line item in the Consolidated Balance Sheets.

Interest income is accrued on the unpaid principal balance. Loan fees collected and certain costs incurred related to loan originations are deferred and amortized as an adjustment to interest income over the life of the related loans. Deferred fees and costs are recorded as an adjustment to interest income using a method that approximates a constant yield.

A loan's past due status is based on the contractual due date of the most delinquent payment due. Loans are generally placed on nonaccrual status when the collection of principal or interest is 90 days or more past due, or earlier, if collection is uncertain based on an evaluation of the net realizable value of the collateral and the financial strength of the borrower. Any accrued interest receivable on loans placed on nonaccrual status is reversed by an adjustment to interest income. Loans greater than 90 days past due may remain on accrual status if management determines it has adequate collateral to cover the principal and interest. For those loans that are carried on nonaccrual status, payments are first applied to principal outstanding. A loan may be returned to accrual status if the borrower has demonstrated a sustained period of repayment performance in accordance with the contractual terms of the loan and there is reasonable assurance the borrower will continue to make payments as agreed. These policies are applied consistently across our loan portfolio.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. All payments, including any interest collected, on these loans are accounted for on the cash-basis or cost-recovery method and applied to principal, until qualifying for return to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

In the ordinary course of business, the Company has entered into commitments to extend credit and standby letters of credit. Such financial instruments are recorded in the Consolidated Balance Sheets when they are funded.

Loan Modifications

The Company accounts for loan modifications to borrowers experiencing financial difficulty in accordance with Accounting Standards Update ("ASU") No. 2022-02, "Financial Instruments-Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures."

Modifications made to loans are considered for disclosure under the guidance in ASU 2022-02 if a borrower is experiencing financial difficulty, if the modification is in the form of principal forgiveness, an interest rate reduction, an other-than-insignificant payment delay, or a term extension (or a combination thereof). Modified terms are dependent upon the financial position and needs of the individual borrower. Generally, the modifications granted are extensions of terms, deferrals of payments for an extended period or interest rate reductions. If a loan was accruing prior to being modified and if the Company concludes that the borrower is able to make such payments, and there are no other factors or circumstances that would cause it to conclude otherwise, the loan will remain on accrual status. If a loan was on non-accrual status at the time of the modification, the loan will remain on non-accrual status following the modification and may be returned to accrual status based on the policy for returning loans to accrual status as noted above.

Risks by Loan Portfolio Segment

One-to-Four-Family Residential Real Estate Lending

Residential mortgage loans generally are made on the basis of the borrower's ability to make repayment from employment and other income and are secured by real estate whose value tends to be readily ascertainable. As part of the application process, information is gathered concerning income, employment and credit history of the applicant. The valuation of residential collateral is provided by independent fee appraisers who have been approved by the Bank's Directors Loan Committee.

Commercial Real Estate Lending

Commercial real estate lending entails significant additional risk as compared with residential mortgage lending. Commercial real estate loans typically involve larger loan balances concentrated with single borrowers or groups of related borrowers. Additionally, the repayment of loans secured by income producing properties is typically dependent on the successful operation of a business or a real estate project and thus may be subject, to a greater extent, to adverse conditions in the real estate market or the economy, in general.

Construction and Land Development Lending

There are two characteristics of construction lending which impact its overall risk as compared to residential mortgage lending. First, there is more concentration risk due to the extension of a large loan balance through several lines of credit to a single developer or contractor. Second, there is more collateral risk due to the fact that loan funds are provided to the borrower based upon the estimated value of the collateral after completion. This could cause an inaccurate estimate of the amount needed to complete construction or an excessive loan-to-value ratio. To mitigate the risks associated with construction lending, the Bank generally limits loan amounts to 80% of the estimated appraised value of the finished home or other real estate property.

Commercial and Industrial Lending

Commercial business loans generally have more risk than residential mortgage loans, but have higher yields. To manage these risks, the Bank generally obtains appropriate collateral and personal guarantees from the borrower's principal owners and monitors the financial condition of the borrower. Commercial business loans typically are made on the basis of the borrower's ability to make repayment from cash flow from its business and are secured by business assets, such as accounts receivable, equipment, inventory and boats. As a result, the availability of funds for the repayment of commercial business loans is substantially dependent on the success of the business itself. Furthermore, the collateral for commercial business loans may depreciate over time and generally cannot be appraised with as much precision as residential real estate.

Consumer Lending

Consumer loans generally entail greater risk than residential mortgage loans, particularly in the case of consumer loans which are unsecured or secured by rapidly depreciable assets such as automobiles. A portion of the Company's consumer loans are also secured by boats. In such cases, any repossessed collateral on a defaulted consumer loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation.

Marine Lending

The Bank's marine loan portfolio is comprised of retail loans originated through August 2023. The Company ceased accepting new marine lending business and expects to hold the retained outstanding loans until they are ultimately repaid.

The Company's relationships were limited to well established dealers of global premium brand manufacturers, with the top three manufacturer customers have been in business between 30 and 100 years. Retail loans were generally limited to premium manufactures with established relationships with the Company, which have a vested interest in the secondary market pricing of their respective brand due to the limited inventory available for resale. Consequently, while not contractually committed, manufacturers will often support secondary resale values which can have the effect of reducing losses from non-performing retail marine loans. Retail borrowers generally have very high credit scores, substantial down payments, substantial net worth, personal liquidity, and excess cash flow.

Allowance for Credit Losses on Loans

The allowance for credit losses is established through charges to earnings in the form of a provision for credit losses. The allowance for credit losses is also increased by recoveries of amounts previously charged-off and is reduced by charge-offs on loans. Loan charge-offs are recognized as the difference between the carrying value of the loan and the estimated net realizable value or fair value of the collateral, if collateral dependent, when management believes that the collectability of the principal is unlikely. Full or partial charge-offs on collateral dependent individually analyzed loans are generally recognized when the collateral is deemed to be insufficient to support the carrying value of the loan.

The allowance represents management's current estimate of expected credit losses over the contractual term of loans held for investment, and is recorded at an amount that, in management's judgment, reduces the recorded investment in loans to the net amount expected to be collected. No allowance for credit losses is recorded on accrued interest receivable and amount written-off are reversed by an adjustment to interest income. Management's judgment in determining the level of the allowance is based on evaluations of historical loan losses, current conditions and reasonable and supportable forecasts relevant to the collectability of loans. Loans that share common risk characteristics are evaluated collectively using a loss-rate, or cohort methodology to estimate its current expected credit losses on loans. The cohort method identifies and captures the balances of pooled loans with similar risk characteristics, as a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over their remaining lives. The method encompasses loan balances for as long as the loans are outstanding.

Management's estimate of the allowance for credit losses on loans that are collectively evaluated also includes a qualitative assessment of available information relevant to assessing collectability that is not captured in the loss estimation process. Factors considered by management include economic conditions including reasonable and supportable forecasts of economic conditions; the nature and volume of the loan portfolio; the volume and severity of delinquencies and adversely classified loan balances; ending policy and procedures; credit administration and lending staff; loan review; concentrations of credit and the value of underlying collateral. This evaluation is inherently subjective, as it requires estimates that are susceptible to significant revision as more information becomes available.

Loans that do not share common risk characteristics with other loans are evaluated individually and are not included in the collective analysis. The allowance for credit losses on loans that are individually evaluated may be estimated based on their expected cash flows, or, in the case of loans for which repayment is expected substantially through the operation or sale of collateral when the borrower is experiencing financial difficulty, may be measured based on the fair value of the collateral or the fair value of collateral less estimated costs to sell.

Allowance for Credit Losses on Unfunded Commitments

The Company records a reserve, reported in other liabilities, for expected credit losses on commitments to extend credit that are not unconditionally cancelable by the Company. The reserve for unfunded commitments is measured based on the principles utilized in estimating the allowance for credit losses on loans and an estimate of the amount of unfunded commitments expected to be advanced. Changes in the reserve for unfunded commitments are recorded through the provision for credit losses. The reserve totaled $505 thousand and $479 thousand at December 31, 2024 and 2023, respectively. The Company recorded a provision of $26 thousand and $8 thousand for the twelve months ended December 31, 2024 and 2023. For the twelve months ended December 31, 2023, the Company also recorded an increase to the reserve of $406 thousand for the adoption of ASC 326.

Bank Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Estimated useful lives range from 10 to 39 years for buildings and 3 to 10 years for furniture and equipment. Maintenance and repairs of property and equipment are charged to operations and major improvements are capitalized. Upon retirement, sale or other disposition of property and equipment, the cost and accumulated depreciation balances are cleared the differential between the proceeds, if any, and the carrying value is recorded as a gain or loss in the Company's results of operations.

Leases

The Company accounts for its leasing arrangements in accordance with ASC 842 "Leases". Refer to Note 13 for further discussion of the Company's accounting for its leasing arrangements.

Other Real Estate Owned

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the property, less estimated selling costs at the date of foreclosure. Any write-downs based on the asset’s fair value at the date of acquisition are charged to the allowance for credit losses. After foreclosure, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less estimated cost to sell. Impairment losses on property to be held and used are measured as the amount by which the carrying amount of a property exceeds its fair value. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically performed by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in the gain on other real estate owned line item in the consolidated statements of income.

Bank Owned Life Insurance

The Company has purchased life insurance on certain key individuals. Bank owned life insurance is recorded at the amount that may be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or amounts due that are probable at settlement. These amounts are recorded in noninterest income and are generally not subject to income taxes.

Transfers of Financial Assets

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

Derivative Instruments

Derivatives are recognized as either assets or liabilities on the balance sheet and are measured at fair value. The accounting for changes in the fair value of the derivative depends on the intended use of the derivative and resulting designation.

The Company enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Company simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Company receives a floating rate. These back-to-back loan swaps are derivative financial instruments not designated as hedges and are reported in other assets and other liabilities in the Consolidated Balance Sheets. Changes in the fair value of loan swaps are recorded in other noninterest income and sum to zero because of the offsetting terms of swaps with borrowers and swaps with dealer counterparties.

The Company has one pay fixed/receive variable interest rate swap designated as a fair value hedge under the portfolio layer method. Under this method, the hedged item is designated as a hedged layer of a closed portfolio pool of financial loans that is anticipated to remain outstanding for the designed hedged period. Adjustments are made to record the fair value of the swap as either an other asset or other liability in the Consolidated Balance Sheets, with changes in fair value recognized in net loans. The carrying value of the fair value swap will also be adjusted through loan interest income, based on changes in the fair value attributable to changes in the hedged risk. The ineffective portion is recognized in current earnings as a component of the interest income section of the related hedged item.

Retirement Plans

The Company sponsors a 401(k) savings plan under which eligible employees may defer a portion of their compensation on a pretax basis. The Company also provides a match to participants in this plan, as described more fully in Note 11.

Stock-Based Compensation Plan

On May 16, 2023, the Company's shareholders approved the 2023 Stock Incentive Plan (the "2023 Plan") which allows key employees and directors to increase their personal financial interest in the Company. The 2023 Plan permits the issuance of incentive stock options and non-qualified stock options and the award of common stock, restricted stock, and stock units. The 2023 Plan authorized the issuance of up to 250,000 shares of common stock. The 2023 Plan replaced the 2014 Stock Incentive Plan and is discussed more fully in Note 10.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the tax effects of the temporary differences between the book and tax bases of the various assets and liabilities and gives current recognition to changes in tax rates and laws.

When tax returns are filed, it is likely that some positions taken would be sustained upon examination by the applicable taxing authority, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the financial statements in the period during which, based on all available evidence, the Company believes it is "more likely than not" that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the "more likely than not" recognition threshold are measured as the largest amount of tax benefit that is more than fifty percent (50%) likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with tax positions taken that exceeds the amount measured as described above is reflected as a liability for unrecognized tax benefits in the balance sheet along with any associated interest and penalties that would be payable to the applicable taxing authority upon examination. Interest and penalties associated with unrecognized tax benefits are classified as additional income taxes in the statement of income. The Company has no uncertain tax positions.

Advertising

The Company follows the policy of charging the costs of advertising to expense as incurred.

Reclassifications

Certain reclassifications have been made to the 2023 financial statements to conform to reporting for 2024. The results of the reclassifications are not considered material and had no effect on prior years' net income or shareholders' equity.

Earnings Per Common Share

Basic earnings per share represents income available to common shareholders divided by the weighted average number of common shares outstanding during the period. Nonvested restricted shares are included in the weighted average number of common shares used to compute basic earnings per share because of dividend participation and voting rights. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. The number of potential common shares is determined using the treasury method.

The following table shows the weighted average number of shares used in computing earnings per share and the effect on the weighted average number of shares of dilutive potential common stock.

	Twelve Months Ended December 31,	
	2024	**2023**
Average number of common shares outstanding	3,553,919	3,523,547
Effect of dilutive common stock	—	—
Average number of common shares outstanding used to calculate diluted earnings per share	3,553,919	3,523,547

There were no potentially dilutive securities outstanding in 2024 or 2023.

Comprehensive (Loss) Income

Accounting principles generally accepted in the United States of America require that recognized revenue, expenses, gains and losses be included in net income. Certain changes in assets and liabilities, net of income taxes, are reported within the balance sheet as a separate component of shareholders' equity. These changes, along with net income, are components of comprehensive income and are reported in the statement of comprehensive income. In addition to net income, the Company's comprehensive income includes changes in the benefit obligations and plan assets for postretirement benefit plans and unrealized gains or losses on available for sale securities.

Business Segments

The Company operates in three reportable business segments through the Bank: community banking, marine lending and wealth management. The Company's business segments are determined based on the products and services provided, as well as the nature of the related business activities, and they reflect the manner in which financial information is regularly reviewed for the purpose of allocating resources and evaluating performance of the Company's businesses. The results for these business segments are based on management's accounting process, which assigns income statement items and assets to each operating segment. Given the Company's reportable segments are contained within the Bank, management must make certain allocations of expenses, which may not be representative of the costs expected to be incurred if the specific business segments operated as stand-alone entities. For additional information, refer to Note 27. "Business Segments."

Stock Repurchase Program

On September 18, 2024, the Company held a meeting at which its stock repurchase program was re-authorized. The Board of Directors of the Company, by resolution, authorized and approved the Company's purchase of up to 150,000 shares of the Company's common stock over a period ending June 30, 2025 (the "Purchase Period"). During 2024, the Company purchased 7,868 shares of its Common Stock under its stock repurchase program at an average price of $30.08. During 2023, the Company purchased 8,531 shares of its Common Stock under its stock repurchase program at an average price of $35.34. The maximum number of shares that may yet be purchased during the Purchase Period as of December 31, 2024 is 148,122.

Recent Accounting Pronouncements and Other Authoritative Guidance

Recently Adopted

In March 2023, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update ("ASU") 2023-02, "Investments—Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the

Proportional Amortization Method," ("ASC 323"). These amendments allow reporting entities to elect to account for qualifying tax equity investments using the proportional amortization method, regardless of the program giving rise to the related income tax credits. The Company adopted ASU 2023-02 on January 1, 2024, which resulted in an adjustment of $477 thousand, reducing the investment balance and shareholders' equity. The Company invests in qualified affordable housing projects. The general purpose of these investments is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, provide tax credits and other tax benefits to investors, and to preserve and protect project assets.

On December 31, 2024, the Company adopted ASU 2023-07, “Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures” issued by the FASB in November 2023. The amendments in this ASU updates reportable segment disclosure requirements, primarily through enhanced disclosures about significant segment expenses, inclusion of all annual disclosures in interim periods and disclosure of the title and position of the chief operating decision maker. See Note 27, "Business Segments" for further information.

Pending Adoption

In November 2024, the FASB issued ASU 2024-03, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses.” ASU 2024-03 requires public companies to disclose, in the notes to the financial statements, specific information about certain costs and expenses at each interim and annual reporting period. This includes disclosing amounts related to employee compensation, depreciation, and intangible asset amortization. In addition, public companies will need to provide qualitative description of the amounts remaining in relevant expense captions that are not separately disaggregated quantitatively. The FASB subsequently issued ASU 2025-01, “Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40): Clarifying the Effective Date”, which amends the effective date of ASU 2024-03 to clarify that all public business entities are required to adopt the guidance in ASU 2024-03 in annual reporting periods beginning after December 15, 2026, and interim periods within annual reporting periods beginning after December 15, 2027. Early adoption of ASU 2024-03 is permitted. Implementation of ASU 2024-03 may be applied prospectively or retrospectively. The Company does not expect the adoption of ASU 2024-03 to have a material impact on its consolidated financial statements.

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740), Improvements to Income Tax Disclosures." The amendments in this ASU require an entity to disclose specific categories in the rate reconciliation and provide additional information for reconciling items that meet a quantitative threshold, which is greater than five percent of the amount computed by multiplying pretax income by the entity's applicable statutory rate, on an annual basis. Additionally, the amendments in this ASU require an entity to disclose the amount of income taxes paid (net of refunds received) disaggregated by federal, state, and foreign taxes and the amount of income taxes paid (net of refunds received) disaggregated by individual jurisdictions that are equal to or greater than five percent of total income taxes paid (net of refunds received). Lastly, the amendments in this ASU require an entity to disclose income (or loss) from continuing operations before income tax expense (or benefit) disaggregated between domestic and foreign and income tax expense (or benefit) from continuing operations disaggregated by federal, state, and foreign. This ASU is effective for annual periods beginning after December 15, 2024. Early adoption is permitted. The amendments should be applied on a prospective basis; however, retrospective application is permitted. The Company does not expect the adoption of ASU 2023-09 to have a material impact on its consolidated financial statements.

NOTE 2. Securities

Amortized costs and fair values of securities available for sale at December 31, 2024 and 2023 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized (Losses)	Fair Value
	December 31, 2024 (in thousands)			
Obligations of U.S. government corporations and agencies	$ 8,198	$ —	$ (530)	$ 7,668
Mortgage-backed securities	127,061	—	(22,094)	104,967
Obligations of states and political subdivisions	4,920	—	(275)	4,645
Subordinated debt	4,750	—	(700)	4,050
	$ 144,929	$ —	$ (23,599)	$ 121,330

	December 31, 2023			
	(in thousands)			
Obligations of U.S. government corporations and agencies	$ 9,258	$ —	$ (667)	$ 8,591
Mortgage-backed securities	140,052	—	(21,230)	118,822
Obligations of states and political subdivisions	6,191	1	(261)	5,931
Subordinated debt	4,750	—	(651)	4,099
	$ 160,251	$ 1	$ (22,809)	$ 137,443

Accrued interest receivable on debt securities available for sale totaled $350 thousand and $393 thousand at December 31, 2024 and 2023, respectively and is included in the other assets line item in the Consolidated Balance Sheets.

Carrying amounts of restricted securities at December 31, 2024 and 2023 were as follows:

	December 31, 2024	December 31, 2023
	(in thousands)	
Federal Reserve Bank Stock	$ 344	$ 344
Federal Home Loan Bank Stock	7,073	9,084
Community Bankers' Bank Stock	140	140
	$ 7,557	$ 9,568

The amortized cost and fair value of securities available for sale at December 31, 2024, by contractual maturity, are shown below. Maturities may differ from contractual maturities primarily in mortgage-backed securities because the mortgages underlying the securities may be called or repaid without any penalties.

	Amortized Cost	Fair Value
	(in thousands)	
Due in one year or less	$ 1,000	$ 994
Due after one year through five years	9,691	9,204
Due after five years through ten years	12,466	11,020
Due after ten years	121,772	100,112
	$ 144,929	$ 121,330

There have been no sales of available for sale securities during the twelve months ended December 31, 2024 or 2023.

The fair value and gross unrealized losses for securities available for sale, totaled by the length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023 were as follows:

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	December 31, 2024 (in thousands)					
Obligations of U.S. government corporations and agencies	$ —	$ —	$ 7,668	$ 530	$ 7,668	$ 530
Mortgage-backed securities	—	—	104,967	22,094	104,967	22,094
Obligations of states and political subdivisions	—	—	4,645	275	4,645	275
Subordinated debt	—	—	3,550	700	3,550	700
	$ —	$ —	$ 120,830	$ 23,599	$ 120,830	$ 23,599

	Less than 12 months		12 months or more		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
	December 31, 2023 (in thousands)					
Obligations of U.S. government corporations and agencies	$ —	$ —	$ 8,591	$ 667	$ 8,591	$ 667
Mortgage-backed securities	—	—	118,822	21,230	118,822	21,230
Obligations of states and political subdivisions	—	—	5,430	261	5,430	261
Subordinated debt	221	29	3,378	622	3,599	651
	$ 221	$ 29	$ 136,221	$ 22,780	$ 136,442	$ 22,809

Gross unrealized losses on available for sale securities included one hundred one (101) and one hundred three (103) debt securities at December 31, 2024 and December 31, 2023, respectively. The Company concluded that a credit loss does not exist in its securities portfolio at December 31, 2024, and no impairment loss has been recognized based on the fact that (1) changes in fair value were caused primarily by fluctuations in interest rates, (2) securities with unrealized losses had generally high credit quality, (3) the Company intends to hold these investments in debt securities to maturity and it is more-likely-than-not that the Company will not be required to sell these investments before a recovery of its investment, and (4) issuers have continued to make timely payments of principal and interest. Additionally, the Company's mortgage-backed securities are entirely issued by either U.S. government agencies or U.S. government-sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

Securities having a carrying value of $9.8 million and $101.9 million at December 31, 2024 were pledged as security for trust accounts and for borrowing capacity at the Federal Reserve Bank discount window, respectively.

NOTE 3. Loans

The composition of loans at December 31, 2024 and 2023 was as follows:

	December 31, 2024	December 31, 2023
	(in thousands)	
Mortgage loans on real estate:		
Construction and & Secured by Farmland	$ 95,200	$ 84,145
HELOCs	50,646	47,674
Residential First Lien - Investor	105,910	117,431
Residential First Lien - Owner Occupied	194,065	178,180
Residential Junior Liens	11,184	12,831
Commercial - Owner Occupied	272,236	251,456
Commercial - Non-Owner Occupied & Multifamily	367,680	348,879
Commercial and industrial loans:		
SBA PPP loans	28	51
Other commercial and industrial loans	110,315	107,777
Marine loans	210,095	251,168
Consumer loans	31,017	42,419
Overdrafts	309	253
Other loans	11,911	12,895
Total loans	$ 1,460,596	$ 1,455,159
Net deferred loan costs and premiums	6,453	7,527
Allowance for credit losses	(15,027)	(14,493)
	$ 1,452,022	$ 1,448,193

At December 31, 2024 and 2023, the Company was servicing loans totaling $20.9 million and $7.7 million, respectively for other financial institutions which are not included in the table above. Also excluded from the table above are net servicing assets of $326 thousand and $153 thousand at December 31, 2024 and 2023, respectively, which are recorded in other assets in the Consolidated Balance Sheets.

NOTE 4. Allowance for Credit Losses on Loans

Changes in the allowance for credit losses for the years ended December 31, 2024 and 2023 were as follows:

	December 31, 2024	December 31, 2023
	(in thousands)	
Balance, beginning	$ 14,493	$ 11,218
Cumulative effect adjustment for adoption of ASC 326	—	2,077
Provision charged to operating expense	2,525	1,641
Recoveries added to the allowance	853	298
Credit losses charged to the allowance	(2,844)	(741)
Balance, ending	$ 15,027	$ 14,493

Past due and nonaccrual loans by class at December 31, 2024 were as follows:

	December 31, 2024 (in thousands)						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Loans	90 or More Days Past Due Still Accruing
Mortgage real estate loans:							
Construction & Secured by Farmland	$ —	$ —	$ —	$ —	$ 95,200	$ 95,200	$ —
HELOCs	21	—	—	21	50,625	50,646	—
Residential First Lien - Investor	—	98	—	98	105,812	105,910	—
Residential First Lien - Owner Occupied	—	28	247	275	193,790	194,065	—
Residential Junior Liens	13	—	—	13	11,171	11,184	—
Commercial - Owner Occupied	2,212	—	—	2,212	270,024	272,236	—
Commercial - Non-Owner Occupied & Multifamily	—	—	—	—	367,680	367,680	—
Commercial and industrial loans:							
SBA PPP loans	—	—	—	—	28	28	—
Other commercial and industrial loans	922	84	80	1,086	109,229	110,315	—
Marine loans	—	—	—	—	210,095	210,095	—
Consumer loans	673	6	138	817	30,200	31,017	—
Overdrafts	—	—	—	—	309	309	—
Other loans	—	—	—	—	11,911	11,911	—
Total	$ 3,841	$ 216	$ 465	$ 4,522	$ 1,456,074	$ 1,460,596	$ —

	December 31, 2024 (in thousands)		
	Nonaccruals with No Allowance for Credit Losses	Nonaccruals with an Allowance for Credit Losses	Nonaccrual Loans
Mortgage real estate loans:			
Construction & Secured by Farmland	$ —	$ —	$ —
HELOCs	—	—	—
Residential First Lien - Investor	—	—	—
Residential First Lien - Owner Occupied	347	—	347
Residential Junior Liens	—	—	—
Commercial - Owner Occupied	739	—	739
Commercial - Non-Owner Occupied & Multifamily	—	—	—
Commercial and industrial loans:			
SBA PPP loans	—	—	—
Other commercial and industrial loans	—	903	903
Marine loans	—	—	—
Consumer loans	83	—	83
Overdrafts	—	—	—
Other loans	—	—	—
Total	$ 1,169	$ 903	$ 2,072

Past due and nonaccrual loans by class at December 31, 2023 were as follows:

	December 31, 2023 (in thousands)						
	30 - 59 Days Past Due	60 - 89 Days Past Due	90 or More Days Past Due	Total Past Due	Current	Total Loans	90 or More Past Due Still Accruing
Mortgage real estate loans:							
Construction & Secured by Farmland	$ —	$ —	$ —	$ —	$ 84,145	$ 84,145	$ —
HELOCs	—	—	—	—	47,674	47,674	—
Residential First Lien - Investor	844	253	—	1,097	116,334	117,431	—
Residential First Lien - Owner Occupied	—	78	149	227	177,953	178,180	—
Residential Junior Liens	—	—	9	9	12,822	12,831	—
Commercial - Owner Occupied	—	—	—	—	251,456	251,456	—
Commercial - Non-Owner Occupied & Multifamily	—	—	—	—	348,879	348,879	—
Commercial and industrial loans:							
SBA PPP loans	—	—	—	—	51	51	—
Other commercial and industrial loans	9	—	26	35	107,742	107,777	14
Marine loans	—	—	552	552	250,616	251,168	—
Consumer loans	173	—	167	340	42,079	42,419	167
Overdrafts	—	—	—	—	253	253	—
Other loans	—	—	—	—	12,895	12,895	—
Total	$ 1,026	$ 331	$ 903	$ 2,260	$ 1,452,899	$ 1,455,159	$ 181

	December 31, 2023 (in thousands)		
	Nonaccruals with No Allowance for Credit Losses	Nonaccruals with an Allowance for Credit Losses	Nonaccrual Loans
Mortgage real estate loans:			
Construction & Secured by Farmland	$ 95	$ —	$ 95
HELOCs	15	—	15
Residential First Lien - Investor	1,085	—	1,085
Residential First Lien - Owner Occupied	228	—	228
Residential Junior Liens	11	—	11
Commercial - Owner Occupied	22	—	22
Commercial - Non-Owner Occupied & Multifamily	3,625	—	3,625
Commercial and industrial loans:			
SBA PPP loans	—	—	—
Other commercial and industrial loans	12	—	12
Marine loans	552	—	552
Consumer loans	—	—	—
Overdrafts	—	—	—
Other loans	—	—	—
Total	$ 5,645	$ —	$ 5,645

Allowance for credit losses by segment as of and for the years ended December 31, 2024 and December 31, 2023 were as follows:

	December 31, 2024 (in thousands)								
	Construction and Farmland	Residential Real Estate	Commercial Real Estate & Multi Family	Commercial	Marine	Consumer	All Other Loans	Unallocated	Total
Allowance for credit losses:									
Beginning Balance	$ 772	$ 4,725	$ 6,224	$ 1,027	$ 1,153	$ 198	$ 394	$ —	$ 14,493
Charge-Offs	(94)	(277)	(7)	(238)	(1,778)	(309)	(141)	—	(2,844)
Recoveries	102	347	162	67	—	150	25	—	853
Provision	1,607	(2,477)	872	577	1,904	199	(157)	—	2,525
Ending balance	$ 2,387	$ 2,318	$ 7,251	$ 1,433	$ 1,279	$ 238	$ 121	$ —	$ 15,027
Ending balance: Individually evaluated	$ —	$ —	$ —	$ 248	$ —	$ —	$ —	$ —	$ 248
Ending balance: collectively evaluated	$ 2,387	$ 2,318	$ 7,251	$ 1,185	$ 1,279	$ 238	$ 121	$ —	$ 14,779
Loans:									
Ending balance	$ 95,200	$ 361,805	$ 639,916	$ 110,343	$ 210,095	$ 31,017	$ 12,220	$ —	$ 1,460,596
Ending balance individually evaluated	$ —	$ 318	$ 739	$ 908	$ —	$ 83	$ —	$ —	$ 2,048
Ending balance collectively evaluated	$ 95,200	$ 361,487	$ 639,177	$ 109,435	$ 210,095	$ 30,934	$ 12,220	$ —	$ 1,458,548

	December 31, 2023 (in thousands)								
	Construction and Farmland	Residential Real Estate	Commercial Real Estate & Multi Family	Commercial	Marine	Consumer	All Other Loans	Unallocated	Total
Allowance for credit losses:									
Beginning Balance	$ 2,714	$ 1,735	$ 2,221	$ 2,222	$ 1,555	$ 299	$ 472	$ —	$ 11,218
Cumulative effect adjustment for adoption of ASC 326	$ (1,840)	$ 1,933	$ 3,584	$ (1,102)	$ (285)	$ (123)	$ (90)	$ —	$ 2,077
Charge-Offs	—	—	—	(312)	(126)	(121)	(182)	—	(741)
Recoveries	8	18	—	43	—	48	181	—	298
Provision	(110)	1,039	419	176	9	95	13	—	1,641
Ending balance	$ 772	$ 4,725	$ 6,224	$ 1,027	$ 1,153	$ 198	$ 394	$ —	$ 14,493
Ending balance: Individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 772	$ 4,725	$ 6,224	$ 1,027	$ 1,153	$ 198	$ 394	$ —	$ 14,493
Loans:									
Ending balance	$ 84,145	$ 356,116	$ 600,335	$ 107,828	$ 251,168	$ 42,419	$ 13,148	$ —	$ 1,455,159
Ending balance individually evaluated for impairment	$ 95	$ 1,288	$ 3,639	$ —	$ 552	$ —	$ —	$ —	$ 5,574
Ending balance collectively evaluated for impairment	$ 84,050	$ 354,828	$ 596,696	$ 107,828	$ 250,616	$ 42,419	$ 13,148	$ —	$ 1,449,585

The following table presents the amortized cost basis of collateral-dependent loans by loan portfolio segment:

	December 31, 2024 (in thousands)			December 31, 2023 (in thousands)		
(in thousands)	Real Estate Collateral	Other Collateral	Total	Real Estate Collateral	Other Collateral	Total
Mortgage real estate loans:						
Construction & Secured by Farmland	$ —	$ —	$ —	$ 95	$ —	$ 95
HELOCs	—	—	—	—	—	—
Residential First Lien - Investor	—	—	—	1,086	—	1,086
Residential First Lien - Owner Occupied	318	—	318	194	—	194
Residential Junior Liens	—	—	—	8	—	8
Commercial - Owner Occupied	739	—	739	14	—	14
Commercial - Non-Owner Occupied & Multifamily	—	—	—	3,625	—	3,625
Commercial and industrial loans:						
SBA PPP loans	—	—	—	—	—	—
Other commercial and industrial loans	—	908	908	—	—	—
Marine loans	—	—	—	—	552	552
Consumer loans	83	—	83	—	—	—
Overdrafts	—	—	—	—	—	—
Other loans	—	—	—	—	—	—
Total	$ 1,140	$ 908	$ 2,048	$ 5,022	$ 552	$ 5,574

The Company did not identify any significant changes in the extent to which collateral secures its collateral dependent loans, whether in the form of general deterioration or from other factors during the period ended December 31, 2024.

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 to classify the loans as to credit risk. This analysis is performed on a quarterly basis. The following table presents risk ratings by loan portfolio segment and origination year. Descriptions of these ratings are as follows:

Pass	Pass loans exhibit acceptable history of profits, cash flow ability and liquidity. Sufficient cash flow exists to service the loan. All obligations have been paid by the borrower in an as agreed manner.
Special Mention	Special mention loans exhibit negative trends and potential weakness that, if left uncorrected, may negatively affect the borrower's ability to repay its obligations. The risk of default is not imminent and the borrower still demonstrates sufficient financial strength to service debt.
Classified	Classified loans include loans rated Substandard, Doubtful and Loss.

- Substandard loans exhibit well defined weaknesses resulting in a higher probability of default. The borrowers exhibit adverse financial trends and a diminishing ability or willingness to service debt.
- Doubtful loans exhibit all of the characteristics inherent in substandard loans; however given the severity of weaknesses, the collection of 100% of the principal is unlikely under current conditions.
- Loss loans are considered uncollectible over a reasonable period of time and of such little value that its continuance as a bankable asset is not warranted.

Credit quality information by class at December 31, 2024 was as follows:

December 31, 2024

(in thousands)	Term Loan Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Mortgage real estate loans:									
Construction & Secured by Farmland									
Pass	$ 33,338	$ 25,777	$ 13,722	$ 3,830	$ 4,758	$ 3,908	$ 3,055	$ —	$ 88,388
Special Mention	—	6,781	—	—	—	—	—	—	6,781
Classified	—	—	—	—	—	31	—	—	31
Total	$ 33,338	$ 32,558	$ 13,722	$ 3,830	$ 4,758	$ 3,939	$ 3,055	$ —	$ 95,200
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 94			$ 94
HELOCs									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 50,454	$ —	$ 50,454
Special Mention	—	—	—	—	—	—	192	—	192
Classified	—	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 50,646	$ —	$ 50,646
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ 14	$ —	$ 14
Residential First Lien - Investor									
Pass	$ 7,567	$ 15,074	$ 18,816	$ 27,722	$ 10,729	$ 21,201	$ —	$ 559	$ 101,668
Special Mention	—	696	370	1,053	—	295	—	—	2,414
Classified	—	—	—	—	—	—	—	1,828	1,828
Total	$ 7,567	$ 15,770	$ 19,186	$ 28,775	$ 10,729	$ 21,496	$ —	$ 2,387	$ 105,910
Current period gross charge-offs	$ —	$ —	$ —	$ 150	$ —	$ —	$ —	$ —	$ 150
Residential First Lien - Owner Occupied									
Pass	$ 25,982	$ 57,230	$ 33,257	$ 22,387	$ 33,514	$ 19,438	$ —	$ 387	$ 192,195
Special Mention	45	623	—	—	—	592	—	—	1,260
Classified	—	—	—	—	—	610	—	—	610
Total	$ 26,027	$ 57,853	$ 33,257	$ 22,387	$ 33,514	$ 20,640	$ —	$ 387	$ 194,065
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 103	$ —	$ —	$ 103
Residential Junior Liens									
Pass	$ 991	$ 2,191	$ 2,484	$ 2,942	$ 555	$ 1,762	$ —	$ 175	$ 11,100
Special Mention	—	—	—	—	70	—	—	—	70
Classified	—	—	—	—	—	—	—	14	14
Total	$ 991	$ 2,191	$ 2,484	$ 2,942	$ 625	$ 1,762	$ —	$ 189	$ 11,184
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 10	$ —	$ —	$ 10
Commercial - Owner Occupied									
Pass	$ 29,892	$ 32,228	$ 75,213	$ 36,558	$ 21,827	$ 45,648	$ 2,623	$ 2,856	$ 246,845
Special Mention	—	364	3,995	5,523	—	14,770	—	—	24,652
Classified	—	—	—	739	—	—	—	—	739
Total	$ 29,892	$ 32,592	$ 79,208	$ 42,820	$ 21,827	$ 60,418	$ 2,623	$ 2,856	$ 272,236
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ 7	$ —	$ —	$ 7
Commercial - Non-Owner Occupied & Multifamily									
Pass	$ 28,275	$ 43,596	$ 106,921	$ 55,945	$ 65,561	$ 44,949	$ 5,397	$ 5,834	$ 356,478
Special Mention	—	—	1,384	7,584	1,446	788	—	—	11,202
Classified	—	—	—	—	—	—	—	—	—
Total	$ 28,275	$ 43,596	$ 108,305	$ 63,529	$ 67,007	$ 45,737	$ 5,397	$ 5,834	$ 367,680
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans:									
SBA PPP loans									
Pass	$ —	$ —	$ —	$ 28	$ —	$ —	$ —	$ —	$ 28
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ —	$ 28	$ —	$ —	$ —	$ —	$ 28

December 31, 2024	Term Loan Amortized Cost Basis by Origination Year								
(in thousands)	2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other commercial and industrial loans									
Pass	$ 28,978	$ 8,605	$ 17,187	$ 4,512	$ 3,324	$ 3,614	$ 37,618	$ 2,064	$ 105,902
Special Mention	411	1,095	—	1,915	—	3	—	86	3,510
Classified	—	903	—	—	—	—	—	—	903
Total	$ 29,389	$ 10,603	$ 17,187	$ 6,427	$ 3,324	$ 3,617	$ 37,618	$ 2,150	$ 110,315
Current period gross charge-offs	$ —	$ 32	$ 8	$ —	$ 63	$ —	$ 135	$ —	$ 238
Marine loans									
Pass	$ —	$ 68,970	$ 110,481	$ 30,011	$ 633	$ —	$ —	$ —	$ 210,095
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ —	$ 68,970	$ 110,481	$ 30,011	$ 633	$ —	$ —	$ —	$ 210,095
Current period gross charge-offs	$ —	$ 1,371	$ 199	$ 208	$ —	$ —	$ —	$ —	$ 1,778
Consumer loans									
Pass	$ 2,700	$ 1,987	$ 10,787	$ 5,274	$ 7,221	$ 1,117	$ 1,834	$ 13	$ 30,933
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	84	—	—	—	—	84
Total	$ 2,700	$ 1,987	$ 10,787	$ 5,358	$ 7,221	$ 1,117	$ 1,834	$ 13	$ 31,017
Current period gross charge-offs	$ —	$ 13	$ 4	$ 47	$ 167	$ —	$ 78	$ —	$ 309
Overdrafts									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Special Mention	—	—	—	—	—	—	—	—	—
Classified	309	—	—	—	—	—	—	—	309
Total	$ 309	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 309
Current period gross charge-offs	$ 141	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 141
Other loans									
Pass	$ —	$ 54	$ 9,500	$ —	$ —	$ 2,281	$ 76	$ —	$ 11,911
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ —	$ 54	$ 9,500	$ —	$ —	$ 2,281	$ 76	$ —	$ 11,911
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total by Risk Category									
Pass	$ 157,723	$ 255,712	$ 398,368	$ 189,209	$ 148,122	$ 143,918	$ 101,057	$ 11,888	$ 1,405,997
Special Mention	456	9,559	5,749	16,075	1,516	16,448	192	86	50,081
Classified	309	903	—	823	—	641	—	1,842	4,518
Total	$ 158,488	$ 266,174	$ 404,117	$ 206,107	$ 149,638	$ 161,007	$ 101,249	$ 13,816	$ 1,460,596
Total current period gross charge-offs	$ 141	$ 1,416	$ 211	$ 405	$ 230	$ 214	$ 227	$ —	$ 2,844

Credit quality information by class at December 31, 2023 was as follows:

December 31, 2023

(in thousands)	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Mortgage real estate loans:									
Construction & Secured by Farmland									
Pass	$ 34,617	$ 21,460	$ 7,584	$ 4,851	$ 2,389	$ 2,829	$ 7,052	$ 57	$ 80,839
Special Mention	—	1,173	—	—	1,040	815	—	—	3,028
Classified	—	—	—	145	—	133	—	—	278
Total	$ 34,617	$ 22,633	$ 7,584	$ 4,996	$ 3,429	$ 3,777	$ 7,052	$ 57	$ 84,145
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
HELOCs									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ 47,610	$ —	$ 47,610
Special Mention	—	—	—	—	—	—	49	—	49
Classified	—	—	—	—	—	—	15	—	15
Total	$ —	$ —	$ —	$ —	$ —	$ —	$ 47,674	$ —	$ 47,674
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential First Lien - Investor									
Pass	$ 19,394	$ 23,205	$ 31,371	$ 10,667	$ 4,054	$ 22,265	$ —	$ 367	$ 111,323
Special Mention	—	1,273	—	1,180	626	1,944	—	—	5,023
Classified	—	—	1,085	—	—	—	—	—	1,085
Total	$ 19,394	$ 24,478	$ 32,456	$ 11,847	$ 4,680	$ 24,209	$ —	$ 367	$ 117,431
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential First Lien - Owner Occupied									
Pass	$ 59,007	$ 33,793	$ 23,749	$ 35,783	$ 3,932	$ 20,413	$ —	$ 589	$ 177,266
Special Mention	—	—	—	—	—	258	—	—	258
Classified	—	—	—	—	—	656	—	—	656
Total	$ 59,007	$ 33,793	$ 23,749	$ 35,783	$ 3,932	$ 21,327	$ —	$ 589	$ 178,180
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Residential Junior Liens									
Pass	$ 2,562	$ 2,902	$ 3,429	$ 1,486	$ 606	$ 1,613	$ —	$ 189	$ 12,787
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	27	—	17	44
Total	$ 2,562	$ 2,902	$ 3,429	$ 1,486	$ 606	$ 1,640	$ —	$ 206	$ 12,831
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - Owner Occupied									
Pass	$ 36,736	$ 68,868	$ 40,707	$ 22,871	$ 13,971	$ 50,059	$ 3,088	$ 4,364	$ 240,664
Special Mention	—	3,817	64	2,145	1,877	1,402	—	—	9,305
Classified	—	—	967	498	—	8	—	14	1,487
Total	$ 36,736	$ 72,685	$ 41,738	$ 25,514	$ 15,848	$ 51,469	$ 3,088	$ 4,378	$ 251,456
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial - Non-Owner Occupied & Multifamily									
Pass	$ 56,510	$ 88,518	$ 64,005	$ 65,075	$ 15,563	$ 34,619	$ 1,196	$ 5,651	$ 331,137
Special Mention	624	4,748	3,685	5,060	—	—	—	—	14,117
Classified	—	—	—	2,355	—	1,270	—	—	3,625
Total	$ 57,134	$ 93,266	$ 67,690	$ 72,490	$ 15,563	$ 35,889	$ 1,196	$ 5,651	$ 348,879
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Commercial and industrial loans:									
SBA PPP loans									
Pass	$ —	$ —	$ 51	$ —	$ —	$ —	$ —	$ —	$ 51
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ —	$ —	$ 51	$ —	$ —	$ —	$ —	$ —	$ 51

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year								
(in thousands)	2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Other commercial and industrial loans									
Pass	$ 15,052	$ 26,798	$ 8,659	$ 4,824	$ 2,629	$ 3,898	$ 43,188	$ 1,005	$ 106,053
Special Mention	1,125	—	—	13	1	9	220	344	1,712
Classified	—	—	—	3	—	—	9	—	12
Total	$ 16,177	$ 26,798	$ 8,659	$ 4,840	$ 2,630	$ 3,907	$ 43,417	$ 1,349	$ 107,777
Current period gross charge-offs	$ 231	$ 81	$ —	$ —	$ —	$ —	$ —	$ —	$ 312
Marine loans									
Pass	$ 86,001	$ 128,456	$ 35,492	$ 667	$ —	$ —	$ —	$ —	$ 250,616
Special Mention	—	—	—	—	—	—	—	—	—
Classified	367	185	—	—	—	—	—	—	552
Total	$ 86,368	$ 128,641	$ 35,492	$ 667	$ —	$ —	$ —	$ —	$ 251,168
Current period gross charge-offs	$ —	$ 126	$ —	$ —	$ —	$ —	$ —	$ —	$ 126
Consumer loans									
Pass	$ 3,427	$ 13,950	$ 6,205	$ 8,687	$ 1,747	$ 21	$ 8,354	$ 28	$ 42,419
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ 3,427	$ 13,950	$ 6,205	$ 8,687	$ 1,747	$ 21	$ 8,354	$ 28	$ 42,419
Current period gross charge-offs	$ —	$ 3	$ —	$ 66	$ —	$ —	$ 52	$ —	$ 121
Overdrafts									
Pass	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Special Mention	—	—	—	—	—	—	—	—	—
Classified	253	—	—	—	—	—	—	—	253
Total	$ 253	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 253
Current period gross charge-offs	$ 182	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ 182
Other loans									
Pass	$ 69	$ 10,176	$ —	$ —	$ —	$ 2,587	$ 55	$ 8	$ 12,895
Special Mention	—	—	—	—	—	—	—	—	—
Classified	—	—	—	—	—	—	—	—	—
Total	$ 69	$ 10,176	$ —	$ —	$ —	$ 2,587	$ 55	$ 8	$ 12,895
Current period gross charge-offs	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Total by Risk Category									
Pass	$ 313,375	$ 418,126	$ 221,252	$ 154,911	$ 44,891	$ 138,304	$ 110,543	$ 12,258	$ 1,413,660
Special Mention	1,749	11,011	3,749	8,398	3,544	4,428	269	344	33,492
Classified	620	185	2,052	3,001	—	2,094	24	31	8,007
Total	$ 315,744	$ 429,322	$ 227,053	$ 166,310	$ 48,435	$ 144,826	$ 110,836	$ 12,633	$ 1,455,159
Total current period gross charge-offs	$ 413	$ 210	$ —	$ 66	$ —	$ —	$ 52	$ —	$ 741

NOTE 5. Restructurings for Borrowers Experiencing Financial Difficulty

There were no loans modified during the twelve months ended December 31, 2024. The following table presents the amortized cost of loans that were modified during the twelve months ended December 31, 2023 by loan portfolio segment:

	Twelve Months Ended December 31, 2023 (dollars in thousands)		
	Term Extension	Total	% of Total Class of Loans
Mortgage real estate loans:			
Residential First Lien - Owner Occupied	$ 355	$ 355	0.20%
Total	$ 355	$ 355	

None of the loans that were modified during the twelve months ended December 31, 2023 had defaulted and the loans remained current with contractual payments as of December 31, 2024. Management defines default as over 30 days contractually past due under the modified terms, the foreclosure and/or repossession of the collateral, or the charge-off of the loan. The financial effects of the term extensions during the period added a weighted average of 1.0 years to the life of loans which reduced the payment amounts for the borrowers.

NOTE 6. Bank Premises and Equipment, Net

The major classes of bank premises and equipment and the total accumulated depreciation at December 31, 2024 and 2023 were as follows:

	December 31, 2024	December 31, 2023
	(in thousands)	
Land	$ 6,119	$ 6,644
Buildings and improvements	13,671	19,247
Furniture and equipment	9,967	9,729
	$ 29,757	$ 35,620
Less accumulated depreciation	15,418	17,512
Bank premises and equipment, net	$ 14,339	$ 18,108

Depreciation expense on buildings and improvements was $504 thousand and $498 thousand for the years ended 2024 and 2023, respectively. Depreciation expense on furniture and equipment was $475 thousand and $504 thousand for the years ended 2024 and 2023, respectively.

The Company sold its operation center and branch building in Winchester, Virginia and simultaneously entered into a twelve-year operating lease with the purchaser. The transaction qualified as a sale and the Company recorded a gain on the sale and disposal of the premises totaling $3.9 million. Refer to Note 13 for further discussion of the Company's leasing arrangements.

NOTE 7. Deposits

The composition of deposits at December 31, 2024 and December 31, 2023 was as follows:

	December 31, 2024	December 31, 2023
	(in thousands)	
Noninterest bearing demand deposits	$ 406,180	$ 436,619
Savings and interest bearing demand deposits:		
NOW accounts	$ 278,835	$ 253,353
Money market accounts	269,115	263,633
Regular savings accounts	131,380	139,453
	$ 679,330	$ 656,439
Time deposits:		
Balances of less than $250,000	$ 293,864	$ 257,418
Balances of $250,000 or greater	195,782	155,846
	$ 489,646	$ 413,264
	$ 1,575,156	$ 1,506,322

Savings and interest bearing demand deposits included $152.0 million and $115.7 million in reciprocal deposits at December 31, 2024 and 2023, respectively. Time deposits with balances of less than $250,000 included $30.0 million and $30.1 million in brokered certificates of deposit at December 31, 2024 and 2023, respectively.

The outstanding balance of time deposits at December 31, 2024 was due as follows:

	December 31, 2024
	(in thousands)
2025	$ 458,897
2026	21,303
2027	7,494
2028	330
2029	1,387
Thereafter	235
	$ 489,646

Deposit overdrafts reclassified as loans totaled $309 thousand and $253 thousand at December 31, 2024 and 2023, respectively.

NOTE 8. Borrowings

The Company has access to borrowings in the form of federal funds purchased, Federal Home Loan Bank of Atlanta ("FHLB") advances and subordinated notes.

The following table presents selected information on short-term borrowings for the years ended December 31, 2024 and 2023, which consisted of FHLB advances.

	December 31,	
	2024	2023
	(dollars in thousands)	
Balance at year-end	$ 25,000	$ 20,000
Average balance during the year	$ 6,418	$ 45,801
Average interest rate during the year	4.65%	4.68%
Maximum month-end balance during the year	$ 25,000	$ 150,000

At December 31, 2024 and 2023, the Company's short-term FHLB advances totaled $25.0 million and $20.0 million, respectively.

The Company's long-term borrowings with the FHLB were $95.0 million and $145.0 million at December 31, 2024 and 2023, respectively.

Federal fund lines of credit are extended to the Bank by nonaffiliated banks with which a correspondent banking relationship exists. The line of credit amount is determined by the creditworthiness of the Bank and, in particular, its regulatory capital ratios, which are discussed in Note 15. Federal funds purchased generally mature each business day. At December 31, 2024 these available lines totaled $78.0 million.

At December 31, 2024, the Company had collateral valued at $98.7 million pledged at the Federal Reserve Bank of Richmond ("FRB") discount window, of which 75%, or $74.0 million is available for short-term liquidity needs. Discount window credit is available for as long as 90 days, prepayable and renewable on a daily basis, priced relative to the Federal Open Market Committee's target range for the federal funds rate.

The Company had $95.9 million in irrevocable letters of credit at December 31, 2024 with the FHLB to secure public deposits.

As of December 31, 2024, Company had remaining credit availability in the amount of $254.3 million with the FHLB. This line may be utilized for short and/or long-term borrowing. Advances on the line are secured by all of the Company’s eligible first lien residential real estate loans on one-to-four-unit, single-family dwellings; multi-family dwellings; home equity lines of credit; and commercial real estate loans. The amount of the available credit is limited to a percentage of the estimated market value of the loans as determined periodically by the FHLB. The amount of the available credit is also limited to 20% of total Bank assets.

On March 31, 2022, the Company entered into Subordinated Note Purchase Agreements with certain purchasers pursuant to which the Company issued and sold $30.0 million in aggregate principal amount of its 4.50% Fixed-to-Floating Rate Subordinated Notes due April 1, 2032 (the "Notes"). The net proceeds of the Notes were used for general corporate purposes, organic growth and to support the Bank's regulatory capital ratios.

The Notes were structured to qualify as Tier 2 capital for regulatory capital purposes at the holding company and bear an initial interest rate of 4.50% until April 1, 2027, with interest during this period payable semi-annually in arrears. From and including April 1, 2027, but excluding the maturity date or early redemption date, the interest rate will reset quarterly to an annual floating rate equal to three-month SOFR, plus 2.35% with interest during the period payable quarterly in arrears. The Notes are redeemable by the Company at its option, in whole or in part, on or after April 1, 2027. Initial debt issuance costs were $673 thousand. The debt balance of $30.0 million is presented net of unamortized issuance costs of $488 thousand and $556 thousand at December 31, 2024 and 2023, respectively.

NOTE 9. Income Taxes

The Company files income tax returns with the United States of America, the Commonwealth of Virginia and West Virginia. With few exceptions, the Company is no longer subject to federal, state, or local income tax examinations for years prior to 2021.

The net deferred tax asset at December 31, 2024 and 2023 consisted of the following components:

	December 31, 2024	December 31, 2023
	(in thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 3,156	$ 3,043
Reserve for unfunded commitments	106	101
Share-based compensation	306	327
Accrued postretirement benefits	21	18
Home equity origination costs	95	85
Accrued incentive benefit	—	89
Nonaccrual interest	20	75
Lease liabilities	2,054	977
Credit carryforward	1,033	1,689
Securities available for sale	4,956	4,790
Other	—	25
	$ 11,747	$ 11,219
Deferred tax liabilities:		
Property and equipment	$ 709	$ 853
Right-of-use assets	1,988	921
Loan servicing rights	68	32
	$ 2,765	$ 1,806
Net deferred tax asset	$ 8,982	$ 9,413

The Company has not recorded a valuation allowance for deferred tax assets because management believes that it is more likely than not that they will be ultimately realized.

Income tax expense for the years ended December 31, 2024 and 2023 consisted of the following components:

	December 31, 2024	December 31, 2023
	(in thousands)	
Current tax expense	$ 2,958	$ 2,785
Deferred tax accrual (benefit)	600	(1,509)
	$ 3,558	$ 1,276

The following table reconciles income tax expense to the statutory federal corporate income tax amount, which was calculated by applying the federal corporate income tax rate to pre-tax income for the years ended December 31, 2024 and 2023.

	December 31, 2024	December 31, 2023
	(in thousands)	
Statutory federal corporate tax amount	$ 3,969	$ 2,232
Tax-exempt interest (income)	(78)	(76)
Officer insurance (income)	(404)	(134)
Net tax credits	(53)	(756)
Other, net	124	10
	$ 3,558	$ 1,276

The effective tax rates were 18.82% and 12.00% for years ended December 31, 2024 and 2023, respectively, which were impacted by the recognition of tax-exempt life insurance income and qualified rehabilitation credits. For the year ended December 31, 2023, tax credits on qualified affordable housing project investments also had an impact on the effective tax rate. Qualified affordable housing project investments are further discussed in Note 25 to the Consolidated Financial Statements.

NOTE 10. Stock-Based Compensation

On May 16, 2023, the Company's shareholders approved the 2023 Stock Incentive Plan ("the 2023 Plan") which allows key employees and directors to increase their personal financial interest in the Company. The 2023 Plan permits the issuance of incentive stock options and non-qualified stock options and the award of common stock, restricted stock, and stock units. The plan authorizes the issuance of up to 250,000 shares of common stock. The 2023 Plan replaced the 2014 Stock Incentive Plan. To date, equity awards have only been issued in the form of restricted stock.

The Company periodically grants restricted stock to its directors, executive officers and certain non-executive officers. Restricted stock provides grantees with rights to shares of common stock upon completion of a service period or achievement of Company performance measures. During the restriction period, all shares are considered outstanding and dividends are paid to the grantee. Outside directors are periodically granted restricted shares which vest over a period of one year. Executive officers have been granted restricted shares which generally vest over a three year service period and restricted shares which vest based on meeting performance measures. Beginning in 2024, performance-based restricted shares are granted with a three year cliff vesting period, while previously granted performance-based restricted shares vested over a two year period. Restricted shares are also granted to certain non-executive officers and generally vest over a three year service period.

The following table presents the activity for restricted stock awards for the years ended December 31, 2024 and 2023:

	Twelve Months Ended December 31,			
	2024		2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested, beginning of period	56,914	$ 35.06	38,780	$ 33.47
Granted	41,940	30.00	37,941	35.79
Vested	(29,426)	34.40	(17,402)	33.26
Forfeited	(5,385)	35.38	(2,405)	35.40
Nonvested, end of period	64,043	$ 32.02	56,914	$ 35.06

The Company recognizes compensation expense over the vesting period based on the fair value of the Company's stock on the grant date. Compensation expense was $912 thousand and $1.2 million during December 31, 2024 and 2023, respectively. The total grant date fair value of restricted stock which vested was $1.0 million and $579 thousand for the years ended December 31, 2024 and 2023, respectively. The total vest date fair value of restricted stock which vested was $883 thousand and $609 thousand for the years ended December 31, 2024 and 2023, respectively. Unrecognized compensation cost related to unvested restricted stock was $583 thousand at December 31, 2024. This amount is expected to be recognized over a weighted average period of two years. The Company's policy is to recognize forfeitures as they occur.

NOTE 11. Employee Benefits

The Company sponsors a 401(k) savings plan under which eligible employees may defer a portion of salary on a pretax basis, subject to certain IRS limits. The Company matches 50 percent of employee contributions, on a maximum of six percent of salary deferred. The 401(k) plan includes a non-elective safe-harbor employer contribution and an age-weighted employer contribution. Qualifying employees receive non-elective safe-harbor contributions equal to three percent of their salary. Company match and safe-harbor contributions are contributed each pay period. Qualifying employees will receive an additional annual contribution based on their age and years of service. The percentage of salary for the age-weighted contribution increases on both factors, age and years of service, with a minimum of one percent of salary and a maximum of ten percent of salary. Contributions under the plan amounted to $2.2 million in 2024 and 2023.

The Company has established an Executive Supplemental Income Plan for certain key employees. Benefits are to be paid in monthly installments following retirement or death. The agreement provides that if employment is terminated for reasons other than death or disability prior to age 65, the amount of benefits could be reduced or forfeited. The executive supplemental income benefit liability was $4 thousand at December 31, 2024 and 2023. The executive supplemental income benefit expense, based on the present value of the retirement benefits, was $27 thousand in 2024 and $29 thousand in 2023. The plan is unfunded; however, life insurance has been acquired on the lives of these employees in amounts sufficient to discharge the plan's obligations.

NOTE 12. Commitments and Contingencies

In the normal course of business, the Company makes various commitments and incurs certain contingent liabilities, which are not reflected in the accompanying financial statements. These commitments and contingent liabilities include various guarantees, commitments to extend credit and standby letters of credit. The Company does not anticipate any material losses as a result of these commitments.

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

The Bank was required to maintain a total compensating balance on deposit with two correspondent banks in the amount of $250 thousand at December 31, 2024 and 2023.

See Note 18 with respect to financial instruments with off-balance-sheet risk.

NOTE 13. Leases

The Company leases certain office properties and equipment used in its operations in the normal course of business. Leases greater than 12 months in duration are recorded in the consolidated balance sheets at the lease commencement date and are classified as either operating or finance leases based on the Company's assessment of the underlying agreement. During the fourth quarter of 2024, the Company completed a sales-leaseback transaction for its operating center and branch property in Winchester, Virginia. This long-term lease agreement resulted in the initial recognition of a right-of-use asset and lease liability of $5.5 million.

Lease liabilities represent the Company's obligation to make lease payments and are presented at each reporting date as the net present value of the remaining contractual cash flows. Cash flows are discounted at the Company's incremental borrowing rate in effect at the commencement date of the lease. Right-of-use assets represent the Company's right to use the underlying asset for the lease term and are calculated as the sum of the lease liability and if applicable, prepaid rent, initial direct costs and any incentives received from the lessor.

The Company has five long-term lease agreements for office properties which are all classified as operating leases. These leases offer the option to extend the lease term and the Company has included such extensions in its calculation of the lease liability to the extent the options are reasonably certain of being exercised. These lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Right-of-use assets and leases liabilities are included in other assets and other liabilities, respectively, in the Consolidated Balance Sheets.

The following tables present information about the Company's leases:

(dollars in thousands)	December 31, 2024	December 31, 2023
Lease liability	$ 9,779	$ 4,653
Right-of-use asset	$ 9,465	$ 4,387
Weighted average remaining lease term	12 years	14 years
Weighted average discount term	4.16 %	3.09 %

	Twelve Months Ended	
Lease Cost	December 31, 2024	December 31, 2023
Operating lease cost	$ 528	$ 528
Variable lease cost	—	—
Short-term lease cost	14	14
Total lease cost	$ 542	$ 542
Cash paid for amounts included in the measurement of lease liabilities	$ 480	$ 473

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liabilities is as follows:

Lease payments due	As of December 31, 2024
Twelve months ending December 31, 2025	$ 1,025
Twelve months ending December 31, 2026	932
Twelve months ending December 31, 2027	943
Twelve months ending December 31, 2028	964
Twelve months ending December 31, 2029	986
Thereafter	7,973
Total undiscounted cash flows	$ 12,823
Discount	(3,044)
Lease liability	$ 9,779

NOTE 14. Transactions with Directors and Officers

The Bank grants loans to and accepts deposits from its directors, principal officers and related parties of such persons during the ordinary course of business. The aggregate balance of loans to directors, principal officers and their related parties was $5.7 million and $5.0 million at December 31, 2024 and 2023, respectively. These balances reflect total principal additions of $1.4 million and total principal payments of $726 thousand, during 2024. The aggregate balance of deposits from directors, principal officers and their related parties was $7.4 million and $7.0 million at December 31, 2024 and 2023, respectively.

NOTE 15. Capital Requirements

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

At December 31, 2024, and 2023, management believes the Bank met all capital adequacy requirements to which it was subject. Additionally, at December 31, 2024, the most recent notification from the Federal Reserve categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category.

The following table presents the Bank's actual capital amounts and ratios at December 31, 2024 and 2023:

	Actual		Minimum Capital Requirement		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(dollars in thousands)			
December 31, 2024						
Common Equity Tier 1 Capital to Risk Weighted Assets	$ 166,145	11.04%	$ 67,723	4.50%	$ 97,822	6.50%
Total Capital to Risk Weighted Assets	180,638	12.00%	120,397	8.00%	150,496	10.00%
Tier 1 Capital to Risk Weighted Assets	166,145	11.04%	90,298	6.00%	120,397	8.00%
Tier 1 Capital to Average Assets	166,145	8.79%	75,568	4.00%	94,460	5.00%
December 31, 2023						
Common Equity Tier 1 Capital to Risk Weighted Assets	$ 155,453	10.27%	$ 68,121	4.50%	$ 98,397	6.50%
Total Capital to Risk Weighted Assets	168,925	11.16%	121,104	8.00%	151,380	10.00%
Tier 1 Capital to Risk Weighted Assets	155,453	10.27%	90,828	6.00%	121,104	8.00%
Tier 1 Capital to Average Assets	155,453	8.48%	73,367	4.00%	91,709	5.00%

In addition to the minimum regulatory capital required for capital adequacy purposes under the risk-based capital framework, financial institutions also required to maintain a minimum capital conservation buffer of greater than 2.5% in order to avoid restrictions on capital distributions and other payments. At December 31, 2024 and 2023, the Bank's capital levels exceeded the minimum regulatory capital requirements plus the capital conservation buffer.

NOTE 16. Restrictions On Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Company. The total amount of dividends which may be paid at any date is generally limited to the lesser of the Bank's retained earnings or the three preceding years' undistributed net income of the Bank. Loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. Capital stock and surplus is defined as tier 1 and tier 2 capital under the risk-based capital guidelines. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

At December 31, 2024, the Bank's retained earnings available for the payment of dividends to the Company was $34.4 million. Accordingly, $112.5 million of the Company's equity in the net assets of the Bank was restricted at December 31, 2024. Funds available for loans or advances by the Bank to the Company amounted to $18.1 million at December 31, 2024.

NOTE 17. Dividend Investment Plan

The Company has a Dividend Investment Plan, which allows participants' dividends to purchase additional shares of common stock at its fair market value on each dividend record date. Shares of common stock purchased through the Plan can be purchased at a price equal to the market price of the shares. No changes have been made to the operation of the dividend reinvestment features of the Plan during 2024 and 2023.

NOTE 18. Financial Instruments with Off-Balance-Sheet Risk

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

The Company's exposure to credit losses is represented by the contractual amount of these instruments. The Company uses the same credit policies in making commitments as it does for on-balance-sheet instruments. As of January 1, 2023, unfunded loan commitments that are not unconditionally cancelable by the Company are measured for expected credit losses under ASU 2016-13. The adoption of ASU 2016-13 on January 1, 2023, resulted in an adjustment to the Company's reserve for unfunded loan commitments of $406 thousand. At December 31, 2024 and 2023, the reserve balance totaled $505 thousand and $479 thousand, respectively.

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

	December 31, 2024	December 31, 2023
	(dollars in thousands)	
Commitments to extend credit	$ 32,793	$ 37,724
Unfunded commitments under lines of credit	196,903	227,717
Commercial and standby letters of credit	2,602	3,964

Commitments to extend credit are agreements to lend to a customer as long as the terms offered are acceptable and certain other conditions are met. Commitments generally have fixed expiration dates or other termination clauses. Since these commitments may expire or terminate, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, with regards to these commitments, is based on management's credit evaluation of the customer.

Unfunded commitments under lines of credit are contracts for possible future extensions of credit to existing customers. Unfunded commitments under lines of credit include, but are not limited to, home equity lines of credit, overdraft protection lines of credit, credit cards, and unsecured and secured commercial lines of credit. The terms and conditions of these commitments vary depending on the line of credit's purpose, collateral, and maturity. The amount disclosed above represents total unused lines of credit for which a contract with the Bank has been established.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in granting loans to customers. The Bank holds collateral supporting these commitments if it is deemed necessary. At December 31, 2024, $2.5 million of the outstanding letters of credit were collateralized.

The Bank has cash accounts in other commercial banks. The amount on deposit in these banks at December 31, 2024 exceeded the insurance limits of the Federal Deposit Insurance Corporation by $7.9 million.

NOTE 19. Revenue Recognition

Substantially all of the Company's revenue from contracts with customers that is within the scope of ASC 606, "Revenue from Contracts with Customers" is reported within noninterest income. A limited amount of other in-scope items such as gains and losses on other real estate owned are recorded in noninterest expense. The recognition of interest income and certain sources of noninterest income (e.g. gains on securities transactions, bank owned life insurance income, etc.) are governed by other areas of U.S. GAAP. Significant revenue streams that are within the scope of ASC 606 and included in noninterest income are discussed in the following paragraphs.

Income from Fiduciary Activities

Trust asset management fee income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Company's performance obligation is generally satisfied over time and the resulting fees are recognized monthly, based upon the month-end market value of the assets under management and the applicable fee rate. Payment is generally received a few days after month end through a direct charge to customers' accounts. The Company does not earn performance-based incentives. Optional services such as real estate sales and tax return preparation services are also available to existing trust and asset management customers. The Company's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

Service Charges on Deposit Accounts

Service charges on deposit accounts are principally comprised of overdrawn account fees, account maintenance charges and other activity based fees. The Company's performance obligations on revenue generated from deposit accounts are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

Other Service Charges and Fees

The majority of the Company's noninterest income is derived from short term contracts associated with services provided for other ancillary services such as ATM fees, brokerage commissions and loan servicing fees. The Company's performance obligations on revenue generated from these ancillary services are generally satisfied immediately, when the transaction occurs, or by month-end. Typically, the duration of a contract does not extend beyond the services performed. Due to the short duration of most customer contracts which generate these sources of noninterest income, no significant judgments must be made in the determination of the amount and timing of revenue recognized.

The Company earns interchange fees from credit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized no less than monthly.

Noninterest income disaggregated by major source, for the years ended December 31, 2024 and 2023 consisted of the following:

	December 31, 2024	December 31, 2023
	(in thousands)	
Noninterest income:		
Wealth management fees (1):		
Trust asset management fees	$ 4,333	$ 3,871
Brokerage commissions	1,291	1,055
Service charges on deposit accounts (1):		
Overdrawn account fees	1,500	1,399
Monthly and other service charges	436	411
Other service charges and fees:		
Interchange fees (1)	3,402	449
ATM fees (1)	361	3,392
Other charges and fees (2)	416	572
Gain on the sale and disposal of bank premises and equipment (1)	3,863	14
Gain on the sale of marine finance assets	—	435
Gain on sale of loans	2,141	1,428
Small business investment company income	1,357	385
Bank owned life insurance income	1,981	713
Other operating income (3)	476	656
Total noninterest income	$ 21,557	$ 14,780

(1) Income within the scope of Topic 606.
(2) Includes income within the scope of Topic 606 of $440 thousand and $327 thousand for the years ended December 31, 2024 and 2023, respectively. The remaining balance is outside the scope of Topic 606.
(3) Includes income within the scope of Topic 606 of $406 thousand and $393 thousand for the years ended December 31, 2024 and 2023, respectively. The remaining balance is outside the scope of Topic 606.

Contract Balances

The Company's noninterest revenue streams are largely based on transactional activity, or standard month-end revenue accruals such as asset management fees based on month-end market values. Consideration is often received immediately or shortly after the Company satisfies its performance obligation and revenue is recognized. The Company does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2024 and December 31, 2023, the Company did not have any significant contract balances.

NOTE 20. Quarterly Condensed Statements of Income - Unaudited

The Company's quarterly net income, net income per common share and dividends per common share during 2024 and 2023 are summarized as follows:

	2024			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Total interest and dividend income	$ 21,903	$ 21,738	$ 23,686	$ 23,994
Net interest income after provision for credit losses	11,940	11,975	11,613	13,148
Noninterest income	3,480	4,305	5,251	8,521
Noninterest expenses	12,377	12,510	12,890	13,555
Income before income taxes	3,043	3,770	3,974	8,114
Net income	2,548	3,185	3,424	6,186
Net income per common share, basic	0.72	0.89	0.97	1.74
Net income per common share, diluted	0.72	0.89	0.97	1.74
Dividends per common share	0.30	0.30	0.30	0.31

	2023			
	March 31	June 30	September 30	December 31
	(in thousands, except per share amounts)			
Total interest and dividend income	$ 18,550	$ 20,355	$ 22,182	$ 22,006
Net interest income after provision for credit losses	11,972	12,030	12,691	11,914
Noninterest income	3,534	3,366	4,218	3,662
Noninterest expenses	12,386	12,955	14,133	13,280
Income before income taxes	3,120	2,441	2,776	2,296
Net income	2,585	2,058	2,319	2,395
Net income per common share, basic	0.73	0.58	0.66	0.69
Net income per common share, diluted	0.73	0.58	0.66	0.69
Dividends per common share	0.30	0.30	0.30	0.30

NOTE 21. Fair Value Measurements

GAAP requires the Company to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of certain assets and liabilities is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in the principal or most advantageous market in an orderly transaction between market participants as of the measurement date.

"Fair Value Measurements" defines fair value, establishes a framework for measuring fair value, establishes a three-level valuation hierarchy for disclosure of fair value measurement and enhances disclosure requirements for fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following section provides a description of the valuation methodologies used for instruments measured at fair value on a recurring basis, as well as the general classification of such instruments pursuant to the valuation hierarchy:

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

Derivative instruments are recorded at fair value on a recurring basis. The Company utilizes derivative instruments as part of the management of interest rate risk to modify the re-pricing characteristics of certain portions of the Company's interest-bearing assets and liabilities. The Company has contracted with a third-party vendor to provide valuations for derivatives using standard valuation techniques and therefore classifies such valuations as Level 2. The Company has considered counterparty credit risk in the valuation of its derivative assets and has considered its own credit risk in the valuation of its derivative liabilities.

The following table presents balances of financial assets and liabilities measured at fair value on a recurring basis at December 31, 2024 and December 31, 2023:

		Fair Value Measurements at December 31, 2024 Using		
	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	(in thousands)			
Assets:				
Securities available for sale				
Obligations of U.S. government corporations and agencies	$ 7,668	$ —	$ 7,668	$ —
Mortgage-backed securities	104,967	—	104,967	—
Obligations of states and political subdivisions	4,645	—	4,645	—
Subordinated debt	4,050	—	4,050	—
Derivative:				
Interest rate swaps on loans	1,466	—	1,466	—
Fair value swap	93	—	93	—
Total assets at fair value	$ 122,889	$ —	$ 122,889	$ —
Liabilities:				
Interest rate swaps on loans	$ 1,466		$ 1,466	$ —
Total liabilities at fair value	$ 1,466	$ —	$ 1,466	$ —

		Fair Value Measurements at December 31, 2023 Using		
	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Assets:				
Securities available for sale				
Obligations of U.S. government corporations and agencies	$ 8,591	$ —	$ 8,591	$ —
Mortgage-backed securities	118,822	—	118,822	—
Obligations of states and political subdivisions	5,931	—	5,931	—
Subordinated debt	4,099	—	4,099	—
Derivative:				
Interest rate swaps on loans	1,465	—	1,465	—
Total assets at fair value	$ 138,908	$ —	$ 138,908	$ —
Liabilities:				
Interest rate swaps on loans	$ 1,465		$ 1,465	$ —
Total liabilities at fair value	$ 1,465	$ —	$ 1,465	$ —

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with GAAP. Adjustments to the fair value of these assets usually result from the application of lower of cost or market accounting or write downs of individual assets.

The following describes the valuation techniques used by the Company to measure certain financial and nonfinancial assets recorded at fair value on a nonrecurring basis in the financial statements:

Individually Evaluated Collateral-Dependent Loans: The estimated fair value of individually evaluated collateral-dependent loans is based on the value of the underlying collateral or the value of the underlying collateral, less estimated cost to sell, as appropriate. Collateral is generally real estate; however, collateral may include vehicles, equipment, inventory, accounts receivable, and/or other business assets. The value of real estate collateral is determined using a market valuation approach based on an appraisal conducted by an independent, licensed appraiser. The value of other assets may also be based on an appraisal, market quotations, aging schedules or other sources. Collateral-dependent individually evaluated loans are classified within Level 3 of the fair value hierarchy. Any fair value adjustments are recorded in the period incurred as a provision for credit losses on the Consolidated Statements of Income. At December 31, 2024, there were two collateral-dependent relationships totaling $908 thousand, which were individually evaluated and are being carried at fair value of $659 thousand. These two relationships represent four commercial business loans collateralized by equipment. There were no individually evaluated collateral dependent loans recorded at fair value at December 31, 2023.

Other Real Estate Owned: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the property, less estimated selling costs, establishing a new costs basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses on loans. Costs of significant property improvements are capitalized, whereas costs relating to holding property are expensed. The portion of interest costs relating to development of real estate is capitalized. Valuations are periodically obtained by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower of its cost or fair value less cost to sell. The fair value measurement of real estate held in other real estate owned is assessed in the same manner as collateral-dependent loans described above. We believe that the fair value component in its valuation follows the provisions of GAAP. The Company held no other real estate owned at December 31, 2024 and December 31, 2023.

Repossessed Assets: Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at the fair value of the asset, less estimated selling costs, establishing a new costs basis. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. Costs of significant improvements are capitalized, whereas costs relating to holding assets are expensed. Valuations are periodically obtained by management, and any subsequent write-downs are recorded as a charge to operations, if necessary, to reduce the carrying value of an asset to fair value less cost to sell. The fair value measurement of repossessed assets is assessed in the same manner as collateral dependent loans described above. We believe that the fair value follows the provisions of GAAP. The Company held $514 thousand and $304 thousand at December 31, 2024 and December 31, 2023, respectively. Repossessed assets are included in other assets in the Consolidated Balance Sheets.

Loans Held for Sale: Loans held for sale are carried at the lower of cost or fair value. These loans consisted of one-to-four family residential loans originated for sale in the secondary market at December 31, 2024. Fair value is based on prices the secondary markets are currently offering for similar loans using observable market data which is not materially different than cost due to the short duration between origination and sale (Level 2). The Company records any fair value adjustments on a nonrecurring basis. No nonrecurring fair value adjustments were recorded on loans held for sale at December 31, 2024 and December 31, 2023.

The following tables summarize the Company's financial and nonfinancial assets that were measured at fair value on a nonrecurring basis at December 31, 2024 and 2023:

		Carrying value at December 31, 2024		
	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Financial Assets:				
Collateral dependent individually evaluated loans	$ 659	$ —	$ —	$ 659
Nonfinancial Assets:				
Repossessed assets	514	—	—	514

		Carrying value at December 31, 2023		
	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
		(in thousands)		
Nonfinancial Assets:				
Repossessed assets	$ 304	$ —	$ —	$ 304

The following table displays quantitative information about Level 3 Fair Value Measurements for certain financial assets measured at fair value on a nonrecurring basis at December 31, 2024 and 2023:

	Quantitative information about Level 3 Fair Value Measurements December 31, 2024			
	Valuation Technique(s)	**Unobservable Input**	**Range**	**Weighted Average (1)**
Assets:				
Collateral dependent individually evaluated loans	Discounted value	Selling cost and appraisal discount	16 %	16 %
Repossessed assets	Discounted appraised value	Selling cost	10 %	10 %

(1) Weighted based on the relative fair values of the specific items measured at fair value.

	December 31, 2023			
	Valuation Technique(s)	**Unobservable Input**	**Range**	**Weighted Average (2)**
Assets:				
Repossessed assets	Discounted appraised value	Selling cost	10%	10 %

(2) Weighted based on the relative fair values of the specific items measured at fair value.

The carrying amount and fair value of the Company's financial instruments at December 31, 2024 and 2023 were as follows:

	Carrying Value as of December 31, 2024	Fair Value Measurements at December 31, 2024 Using: Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of December 31, 2024
			(in thousands)		
Financial Assets:					
Cash and short-term investments	$ 193,159	$ 193,159	$ —	$ —	$ 193,159
Securities available for sale	121,330	—	121,330	—	121,330
Restricted Investments	7,557	—	7,557	—	7,557
Loans held for sale	2,660	—	2,660	—	2,660
Loans, net	1,452,022	—	—	1,358,734	1,358,734
Bank owned life insurance	30,621	—	30,621	—	30,621
Accrued interest receivable	5,149	—	5,149	—	5,149
Derivative assets	1,559	—	1,559	—	1,559
Financial Liabilities:					
Deposits	$ 1,575,156	$ —	$ 1,575,743	$ —	$ 1,575,743
Federal Home Loan Bank advances, short-term	25,000	—	25,006	—	25,006
Federal Home Loan Bank advances, long-term	95,000	—	95,242	—	95,242
Subordinated debt	29,512	—	26,148	—	26,148
Accrued interest payable	2,249	—	2,249	—	2,249
Derivative liabilities	1,466	—	1,466	—	1,466

	Carrying Value as of December 31, 2023	Fair Value Measurements at December 31, 2023 Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Fair Value as of December 31, 2023
			(in thousands)		
Financial Assets:					
Cash and short-term investments	$ 138,353	$ 138,353	$ —	$ —	$ 138,353
Securities available for sale	137,443	—	137,443	—	137,443
Restricted Investments	9,568	—	9,568	—	9,568
Loans held for sale	1,661		1,661		1,661
Loans, net	1,448,193	—	—	1,377,017	1,377,017
Bank owned life insurance	29,575	—	29,575	—	29,575
Accrued interest receivable	5,008	—	5,008	—	5,008
Interest rate swaps	1,465	—	1,465	—	1,465
Financial Liabilities:					
Deposits	$ 1,506,322	$ —	$ 1,506,147	$ —	$ 1,506,147
Federal Home Loan Bank advances, short-term	20,000	—	19,954	—	19,954
Federal Home Loan Bank advances, long-term	145,000	—	145,141	—	145,141
Subordinated debt	29,444	—	25,581	—	25,581
Accrued interest payable	2,364	—	2,364	—	2,364
Interest rate swaps	1,465	—	1,465	—	1,465

The Company assumes interest rate risk (the risk that general interest rate levels will change) during its normal operations. As a result, the fair value of the Company's financial instruments will change when interest rate levels change and that change may be either favorable or unfavorable to the Company. Management attempts to match maturities of assets and liabilities in order to minimize interest rate risk. However, borrowers with fixed rate obligations are less likely to prepay their principal balance in a rising rate environment and more likely to do so in a falling rate environment. Conversely, depositors who are receiving fixed rate interest payments are more likely to withdraw funds before maturity in a rising rate environment and less likely to do so in a falling rate environment. Management monitors rates and maturities of assets and liabilities and attempts to minimize interest rate risk by adjusting the terms of new loans and deposits and by investing in securities with terms that mitigate the Company's overall interest rate risk.

NOTE 22. Change in Accumulated Other Comprehensive (Loss)

Accumulated other comprehensive (loss) includes unrealized gains and losses on available for sale securities and changes in benefit obligations and plan assets for the post retirement benefit plan. Changes to accumulated other comprehensive (loss) are presented net of tax as a component of equity. Reclassifications out of accumulated other comprehensive (loss) are recorded in the Consolidated Statements of Income either as a gain or loss.

Changes to accumulated other comprehensive (loss) by components are shown in the following tables for the years ended December 31, 2024 and 2023:

	Twelve Months Ended December 31,					
	2024			2023		
	Unrealized Gains and Losses on Available for Sale Securities	Change in Benefit Obligations and Plan Assets for the Post Retirement Benefit Plan	Total	Unrealized Gains and Losses on Available for Sale Securities	Change in Benefit Obligations and Plan Assets for the Post Retirement Benefit Plan	Total
		(dollars in thousands)			(dollars in thousands)	
January 1	$ (18,020)	$ 14	$ (18,006)	$ (20,465)	$ 19	$ (20,446)
Other comprehensive (loss) income before reclassifications	(791)	(11)	(802)	3,095	(8)	3,087
Tax effect of current period changes	166	2	168	(650)	3	(647)
Current period changes net of taxes	(625)	(9)	(634)	2,445	(5)	2,440
December 31	$ (18,645)	$ 5	$ (18,640)	$ (18,020)	$ 14	$ (18,006)

For the years ended December 31, 2024 and 2023, there were no reclassifications out of accumulated other comprehensive loss.

NOTE 23. Condensed Financial Information – Parent Company Only

EAGLE FINANCIAL SERVICES, INC.
(Parent Company Only)
Balance Sheets
December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Assets		
Cash held in subsidiary bank	$ 1,509	$ 1,125
Investment in subsidiary	146,851	136,130
Other assets	477	906
Total assets	$ 148,837	$ 138,161
Liabilities and Shareholders' Equity		
Subordinated debt	$ 29,512	$ 29,444
Other liabilities	338	338
Total liabilities	$ 29,850	$ 29,782
Shareholders' Equity		
Common stock	$ 8,714	$ 8,660
Surplus	14,901	14,280
Retained earnings	114,012	103,445
Accumulated other comprehensive (loss)	(18,640)	(18,006)
Total shareholders' equity	$ 118,987	$ 108,379
Total liabilities and shareholders' equity	$ 148,837	$ 138,161

EAGLE FINANCIAL SERVICES, INC.
(Parent Company Only)
Statements of Income
Years Ended December 31, 2024 and 2023
(dollars in thousands)

	2024	2023
Income		
Dividends from subsidiary bank	$ 5,000	$ 4,000
Total income	$ 5,000	$ 4,000
Expenses		
Interest expense on subordinated debt	$ 1,417	$ 1,417
Other operating expenses	432	523
Total expenses	$ 1,849	$ 1,940
Income before income tax (benefit) and equity in undistributed earnings of subsidiary bank	$ 3,151	$ 2,060
Income Tax (Benefit)	(361)	(413)
Income before equity in undistributed earnings of subsidiary bank	$ 3,512	$ 2,473
Equity in Undistributed Net Income of Subsidiary Bank	11,831	6,884
Net income	$ 15,343	$ 9,357
Comprehensive income	$ 14,709	$ 11,797

EAGLE FINANCIAL SERVICES, INC.
(Parent Company Only)
Statements of Cash Flows
Years Ended December 31, 2024 and 2023
(dollars in thousands)

	2024		2023	
Cash Flows from Operating Activities				
Net Income	$	15,343	$	9,357
Adjustments to reconcile net income to net cash provided by operating activities				
Stock-based compensation expense		912		1,213
Undistributed earnings of subsidiary bank		(11,831)		(6,884)
Amortization of debt issuance costs		67		67
Changes in assets and liabilities:				
Decrease (increase) in other assets		429		(451)
Net cash provided by operating activities	$	4,920	$	3,302
Cash Flows from Investing Activities				
Capital contribution to bank subsidiary	$	—	$	(6,000)
Net cash (used in) investing activities	$	—	$	(6,000)
Cash Flows from Financing Activities				
Cash dividends paid		(4,299)		(4,229)
Issuance of common stock, employee benefit plan		—		132
Retirement of common stock		(237)		(302)
Net cash (used in) financing activities	$	(4,536)	$	(4,399)
Increase (decrease) increase in cash	$	384	$	(7,097)
Cash				
Beginning	$	1,125	$	8,222
Ending	$	1,509	$	1,125

NOTE 24. Other Real Estate Owned

The following table is a summary of other real estate owned ("OREO") activity for the twelve months ended December 31, 2023. There were no OREO assets at or during the twelve months ended December 31, 2024.

	Year Ended December 31, 2023
Balance, beginning	$ 108
Net loans transferred to OREO	—
Gain on foreclosure	—
Sales	(108)
Valuation adjustments	—
Balance, ending	$ —

There were no real estate loans in the process of foreclosure at December 31, 2024 and December 31, 2023.

NOTE 25. Qualified Affordable Housing Project Investments

The Company invests in qualified affordable housing projects. The general purpose of these investments is to encourage and assist participants in investing in low-income residential rental properties located in the Commonwealth of Virginia, develop and implement strategies to maintain projects as low-income housing, provide tax credits and other tax benefits to investors, and to preserve and protect project assets.

At December 31, 2024 and 2023, the balance of the investments for qualified affordable housing projects was $1.3 million and $2.0 million, respectively. These balances are reflected in Other assets on the Consolidated Balance Sheets. There were no unfunded commitments related to the Company's qualified affordable housing projects at December 31, 2024 and 2023.

During the twelve months ended December 31, 2024 and 2023, the Company recognized amortization expense of $295 thousand and $265 thousand. Beginning in 2024, upon adoption of ASU 2023-02, the amortization expense was included in income tax expense, while in 2023 and prior it was included in other operating expenses on the Consolidated Statements of Income.

Total estimated credits to be received during 2024 are $304 thousand based on the most recent quarterly estimates received from the funds. Total tax credits and other tax benefits recognized during 2024 and 2023 were $304 thousand and $389 thousand, respectively.

NOTE 26. Derivatives

The Company uses derivative financial instruments primarily to manage risks to the Company associated with changing interest rates, and to assist customers with their risk management objectives. Derivative contracts that are not designated in a qualifying hedging relationships include customer accommodation loan swaps.

On August 15, 2024, the Company executed a 2-year, 3.862% pay-fixed portfolio layer method fair value swap, designated as a hedging instrument, with a total notional amount of $35.0 million. The Company receives a variable rate equal to daily secured overnight financing rate ("SOFR"). This swap will terminate on August 15, 2026. The Company designated the fair value swap under the portfolio layer method ("PLM"). Under this method, the hedged item is designated as a hedged layer of a closed portfolio of financial loans that is anticipated to remain outstanding for the designated hedged period. Adjustments will be made to record the swap at fair value as either an other asset or other liability on the Consolidated Balance Sheets, with changes in fair value recognized in net loans. The carrying value of the fair value swap on the Consolidated Balance Sheets will also be adjusted through loan interest income, based on changes in the fair value attributable to changes in the hedged risk.

The following table represents the carrying value of the portfolio layer method hedged asset and the cumulative fair value hedging adjustment included in the carrying value of the hedged asset at December 31, 2024.

	December 31, 2024	
	Carrying Amount of Hedged Asset	Cumulative Amount of Fair Value Adjustment
	(in thousands)	
Loans receivable [1]	$ 34,916	$ (84)

[1] These amounts include the amortized cost basis of closed portfolios of fixed rate loans used to designate hedging relationships in which the hedged item is the stated amount of assets in the closed portfolio anticipated to be outstanding for the hedged period. As of December 31, 2024, the amortized cost basis of the closed portfolio used in this hedging relationship was $506.4 million and the cumulative basis adjustment associated with this hedging relationship was $(84) thousand. At December 31, 2024, the amount of the designated hedged item was $35.0 million.

The following table summarizes the effect of the fair value hedging relationship recognized in the consolidated statements of income for the twelve months ended December 31, 2024.

	Twelve Months Ended December 31,
	2024
	(in thousands)
Hedged asset	$ 132
Fair value derivative designated as hedging instrument	9
Total gain recognized in the consolidated statement of income within interest and fees on loans	$ 141

The Company enters into interest rate swaps with certain qualifying commercial loan customers to meet their interest rate risk management needs. The Bank simultaneously enters into interest rate swaps with dealer counterparties, with identical notional amounts and offsetting terms. The net result of these interest rate swaps is that the customer pays a fixed rate of interest and the Company receives a floating rate. These back-to-back loan swaps are derivative financial instruments and are reported at fair value in “other assets” and “other liabilities” in the Consolidated Balance Sheets. Changes in the fair value of loan swaps are recorded in other noninterest income and sum to zero because of the offsetting terms of the swaps with borrowers and the swaps with dealer counterparties.

The following tables summarize key elements of the Company's derivative instruments at December 31, 2024 and 2023.

	December 31, 2024		
	Notional Amount	Assets	Liabilities
	(in thousands)		
Customer-related interest rate swap contracts:			
Matched interest rate swaps with borrower	$ 44,203	$ 276	$ 1,190
Matched interest rate swaps with counterparty	44,203	1,190	276

	December 31, 2023		
	Notional Amount	Assets	Liabilities
	(in thousands)		
Customer-related interest rate swap contracts:			
Matched interest rate swaps with borrower	$ 41,051	$ 844	$ 621
Matched interest rate swaps with counterparty	41,051	621	844

NOTE 27. Business Segments

The Company has three reportable operating segments: community banking, marine lending and wealth management.

The community banking segment offers a wide range of retail and commercial banking services in the form of loan and deposit products. Revenues consist primarily of net interest income related to investments in non-marine loans and securities and outstanding deposits and borrowings, fees earned on deposit accounts and debit card interchange activity. For the year ended December 31, 2024, non-interest community banking revenue increased, in part, due to the sale of the Company's operating center and branch building in a sales-leaseback transaction, resulting in a realized gain of $3.9 million.

Revenue from marine lending operations consist primarily of net interest income related to commercial and consumer marine vessel retail loans originated through August 2023, at which time the Company ceased accepting new marine lending business. The balance of the marine loan portfolio, which constitutes a significant portion of the Company's assets, revenues, and earnings, totaled $210.1 million at December 31, 2024. This balance will continue to decline as the loans are repaid.

The wealth management segment offers both a trust department and investment services. Trust department services include a full range of personal and retirement plan services, and investment services products include, among other products, annuities, IRA's, life insurance, fixed income investing, and full service or discount brokerage services. Non-deposit investment products are offered through a third-party service provider.

Financial information of the parent company is included in the "All Other" category. The parent company's revenue and expenses are comprised primarily of interest expense associated with subordinated debt.

The Company's segment structure reflects the financial information and reports used by our chief operating decision maker to make decisions regarding the business, including resource allocations and performance. Our Chief Executive Officer is the chief operating decision maker ("CODM"). We evaluate performance and allocate resources based on the operating income of each operating segment. The CODM uses segment operating income in the annual budget process. The operating income of each operating segment includes the revenues of the segment less expenses that are directly related to those revenues. Operating overhead, shared costs and share-based compensation costs are included in Community Banking.

The following table provides income and asset information as of and for the twelve months ended December 31, 2024 and 2023, which are included within the Consolidated Balance Sheets and Consolidated Statements of Income.

	Twelve Months Ended December 31, 2024					
	Community Banking	Marine Lending	Wealth Management	All Other	Eliminations	Consolidated
	(in thousands)					
Interest Income	$ 78,805	$ 12,516	$ —	$ —	$ —	$ 91,321
Interest Expense	33,049	5,628	—	1,417	—	40,094
Net Interest Income (Expense)	45,756	6,888	—	(1,417)	—	51,227
Gain on sales of loans	2,141	—	—	—	—	2,141
Other noninterest income	13,792	—	5,624	—	—	19,416
Net Revenue	61,689	6,888	5,624	(1,417)	—	72,784
Provision for credit losses	2,403	148	—	—	—	2,551
Salaries and employee benefits	28,224	—	1,734	101	—	30,059
Occupancy expenses	1,987	—	90	—	—	2,077
Professional fees	1,723	25	—	317	—	2,065
Data processing fees	2,399	—	19	—	—	2,418
Other noninterest expense	13,115	604	980	14	—	14,713
Total Noninterest Expenses	47,448	629	2,823	432	—	51,332
Income (loss) before taxes	11,838	6,111	2,801	(1,849)	—	18,901
Income tax expense (benefit)	2,048	1,283	588	(361)	—	3,558
Net Income (loss)	$ 9,790	$ 4,828	$ 2,213	$ (1,488)	$ —	$ 15,343
Other data:						
Capital expenditures	$ 1,017	$ —	$ 2	$ —	$ —	$ 1,019
Depreciation and amortization	1,349	—	127	67	—	1,543

	Twelve Months Ended December 31, 2023					
	Community Banking	Marine Lending	Wealth Management	All Other	Eliminations	Consolidated
	(in thousands)					
Interest Income	$ 67,955	$ 15,138	$ —	$ —	$ —	$ 83,093
Interest Expense	25,850	5,570	—	1,417	—	32,837
Net Interest Income (Expense)	42,105	9,568	—	(1,417)	—	50,256
Gain on sales of loans	1,117	311	—	—	—	1,428
Other noninterest income	7,348	1,078	4,926	—	—	13,352
Net Revenue	50,570	10,957	4,926	(1,417)	—	65,036
Provision for credit losses	2,051	(402)	—	—	—	1,649
Salaries and employee benefits	26,948	1,854	1,407	97	—	30,306
Occupancy expenses	2,080	3	119	—	—	2,202
Professional fees	1,452	684	—	404	—	2,540
Data processing fees	1,907	—	28	—	—	1,935
Other noninterest expense	12,092	2,565	1,092	22	—	15,771
Total Noninterest Expenses	44,479	5,106	2,646	523	—	52,754
Income (loss) before taxes	4,040	6,253	2,280	(1,940)	—	10,633
Income tax expense (benefit)	(103)	1,313	479	(413)	—	1,276
Net Income (loss)	$ 4,143	$ 4,940	$ 1,801	$ (1,527)	$ —	$ 9,357
Other data:						
Capital expenditures	$ 1,035	$ 36	$ —	$ —	$ —	$ 1,071
Depreciation and amortization	1,573	224	126	67	—	1,990

	Community Banking	Marine Lending	Wealth Management	All Other	Eliminations	Consolidated
Total assets at December 31, 2024	$ 1,645,219	$ 218,055	$ 955	$ 1,986	$ —	$ 1,866,215
Total assets at December 31, 2023	1,562,600	261,011	1,080	906	—	1,825,597

NOTE 28. Subsequent Events

On February 10, 2025, the Company completed a public stock offering and issued 1,562,500 shares of its common stock, $2.50 par value per share. On February 13, 2025, an additional 234,375 shares were issued upon exercise of the underwriters overallotment option. The public offering price was $32.00. The proceeds to the Company, after deducting the underwriting discount and commissions but before deducting operating expenses payable by the Company, were $53.8 million. The offering of common stock was made pursuant to a registration statement on Form S-3 (File No. 333-269804) that was declared effective by the SEC on February 28, 2023. A final prospectus supplement dated February 6, 2025 and accompanying prospectus dated February 28, 2023, which form part of the registration statement have been filed with the SEC.

In conjunction with its add-on capital offering completed in February of 2025, the Company executed on its strategy to restructure its investment portfolio. In March of 2025, approximately $100 million available for sale securities, with a weighted average yield of 1.72%, have been sold and resulting sales proceeds have been used to purchase approximately $76 million in available for sale securities with a weighted average yield of 4.70%. The Company anticipates that a pre-tax loss of approximately $12.4 million resulting from the sales of the investment securities will be recognized in the first quarter of 2025.

The restructuring is expected to result in improved core net income, net interest income and margin and return on average assets. Additionally, it will shorten the duration of the securities portfolio and strengthen liquidity management.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The Company, under the supervision and with the participation of management, including the Company's Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of its disclosure controls and procedures as of the end of the period covered by this Annual Report on Form 10-K. Based on that evaluation, the Chief Executive Officer and Chief Financial Officer have concluded that the Company's disclosure controls and procedures were effective as of December 31, 2024 to ensure that information required to be disclosed by the Company in reports that it files or submits under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that such information is accumulated and communicated to the Company's management, including the Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Internal Control over Financial Reporting

Management is also responsible for establishing and maintaining adequate internal control over the Company's financial reporting (as defined in Rule 13a-15(f) promulgated under the Securities Exchange Act of 1934, as amended). Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002, management has conducted an assessment of the design and effectiveness of its internal controls over financial reporting based on criteria established in *Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in 2013.

Management maintains a comprehensive system of internal control to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. The system of internal control provides for appropriate division of responsibility and is documented by written policies and procedures that are communicated to employees. Those policies and procedures: 1) pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and disposition of the assets of the Company, 2) provide reasonable assurance that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors, 3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements. Management recognizes that there are inherent limitations in the effectiveness of any internal control system, including the possibility of human error and the circumvention or overriding of internal controls. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance with respect to financial statement preparation. Changes in conditions will also impact the internal control effectiveness over time. Eagle Financial Services, Inc. and its subsidiary maintain an internal auditing program, under the supervision of the Audit Committee of the Board of Directors, which independently assesses the effectiveness of the system of internal control and recommends possible improvements.

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Chief Financial Officer, the Company has evaluated the effectiveness of its internal control over financial reporting as of December 31, 2024, using the *2013 Internal Control – Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, the Chief Executive Officer and the Chief Financial Officer have concluded as of December 31, 2024, the Company's internal control over financial reporting is adequate and effective and meets the criteria of the *Internal Control – Integrated Framework*.

Management's assessment did not determine any material weaknesses within the Company's internal control structure. There were no changes in the Company's internal control over financial reporting during the Company's quarter ended December 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

This annual report does not include an attestation report of the company's registered public accounting firm (Yount, Hyde & Barbour, P.C. (PCAOB Firm ID: 613)), regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information

During the fiscal quarter ended December 31, 2024, none of our directors or officers (as defined in Rule 16a-1(f) of the Securities Exchange Act of 1934) adopted or terminated a Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408(a) of Regulation S-K).

Item 9C. Disclosure Regarding Foreign Jurisdictions That Prevent Inspections

None.

PART III

Item 10. Directors, Executives Officers and Corporate Governance

The information required by Part III, Item 10 is incorporated herein by reference to the Proxy Statement for the 2025 Annual Meeting of Shareholders to be held May 20, 2025.

The Company has adopted a Code of Conduct and Ethics Policy that applies to the Company's directors, officers and employees and that includes insider trading policies and procedures that govern the purchase, sale, and/or other transactions in the Company's securities. A copy of the Company's Code of Conduct and Ethics Policy is filed as Exhibit 14.1 to this Annual Report on Form 10-K for the fiscal year ended December 31, 2024. In addition, with regard to the Company's trading in its own securities, it is the Company's policy to comply with the federal securities laws and the applicable exchange listing requirements.

Item 11. Executive Compensation

The information required by Part III, Item 11 is incorporated herein by reference to the Proxy Statement for the 2025 Annual Meeting of Shareholders to be held May 20, 2025.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information required by Part III, Item 12 is incorporated herein by reference to the Proxy Statement for the 2025 Annual Meeting of Shareholders to be held May 20, 2025.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Part III, Item 13 is incorporated herein by reference to the Proxy Statement for the 2025 Annual Meeting of Shareholders to be held May 20, 2025.

Item 14. Principal Accounting Fees and Services

The information required by Part III, Item 14 is incorporated herein by reference to the Proxy Statement for the 2025 Annual Meeting of Shareholders to be held May 20, 2025.

PART IV

Item 15. Exhibits, Financial Statement Schedules

(a)(1) Financial Statements

The financial statements are filed as part of this Annual Report on Form 10-K within Item 8.

(a)(2) Financial Statement Schedules

All financial statement schedules are omitted since they are not required, or are not applicable, or the required information is given in the financial statements or notes thereto.

(a)(3) Exhibits

The following exhibits, as applicable, are filed with this Form 10-K or incorporated by reference to previous filings.

Exhibit No.	Description
3.1	Articles of Incorporation of the Company, restated in electronic format only as of March 1, 2006 (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K dated March 1, 2006).
3.2	Bylaws of the Company (incorporated herein by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 20, 2021).
4.1	Description of Securities (incorporated herein by reference to Exhibit 4.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019).
4.2	Form of 4.50% Fixed to Floating Rate Subordinated Note due April 1, 2032 (incorporated herein by reference to Exhibit 4.1 to the Company's Current Report on Form 8-K filed April 5, 2022).
10.1	Description of Executive Supplemental Income Plan (incorporated by reference to Exhibit 10.1 of the Company's Annual Report on Form 10-K for the year ended December 31, 1996).*
10.2	Amended and Restated Employment Agreement of Brandon C. Lorey (incorporated by reference to Exhibit 10.2 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.3	Eagle Financial Services, Inc. 2023 Stock Incentive Plan (incorporated herein by reference to Appendix A of the Proxy Statement for the Annual Meeting of Shareholders held on May 16, 2023, filed on April 5, 2023).*
10.4	Eagle Financial Services, Inc. 2014 Stock Incentive Plan (incorporated by reference to Exhibit A of the Proxy Statement for the Annual Meeting of Shareholders held on May 21, 2014, filed on April 21, 2014).*
10.5	Amended and Restated Employment Agreement of Joseph T. Zmitrovich (incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on June 3, 2022).*
10.6	Amended and Restated Employment Agreement of Kaley P. Crosen (incorporated by reference to Exhibit 10.6 of the Company's Annual Report on Form 10-K for the year ended December 31, 2019).*
10.7	Amended and Restated Employment Agreement of Kathleen J. Chappell (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on January 16, 2020).*
10.8	Eagle Financial Services, Inc. Dividend Investment Plan (incorporated herein by reference to the Company's Registration Statement on Form S-3, File No. 333-209460, filed on February 10, 2016).*
10.9	Amended and Restated Employment Agreement, dated December 1, 2022, between Eagle Financial Services, Inc. and Aaron M. Poffinberger (incorporated herein by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed on December 5, 2022).*
10.10	Form of Subordinated Note Purchase Agreement, dated March 31, 2022 (incorporated herein by reference to Exhibit 10.1 to the Company's Current Report on Form 8-K filed April 5, 2022).
10.11	Asset Purchase and Servicing Rights Agreement, by and between Bank of Clarke and Axos Bank, dated as of August 23, 2023 (incorporated by reference to Exhibit 10.1 to Eagle Financial Services, Inc.'s Current Report on Form 8-K filed August 24, 2023).

10.12	Loan Purchase and Sale Agreement, by and between Bank of Clarke and Axos Bank, dated as of August 23, 2023 (exhibits omitted) (incorporated by reference to Exhibit 10.2 to Eagle Financial Services, Inc.'s Current Report on Form 8-K filed August 24, 2023).
10.13	Form of Restricted Stock Award Agreement for the Eagle Financial Services, Inc. 2023 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2024).
10.14	Form of Performance Restricted Stock Award Agreement for the Eagle Financial Services, Inc. 2023 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2024).
10.15	Form of Non-Employee Director Restricted Stock Award Agreement for the Eagle Financial Services, Inc. 2023 Stock Incentive Plan (incorporated herein by reference to Exhibit 10.3 to the Company's Quarterly Report on Form 10-Q filed on May 15, 2024).
14.1	Eagle Financial Services, Inc. Code of Conduct and Ethics Policy
21.1	Subsidiary of the Company.
23.1	Consent of Yount, Hyde & Barbour, P.C.
31.1	Certification by Chief Executive Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification by Chief Financial Officer pursuant to Rule 13a-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification by Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
97	Eagle Financial Services, Inc. Clawback Policy
101	The following materials from the Eagle Financial Service, Inc. Annual Report on Form 10-K for the year ended December 31, 2024 formatted in Inline Extensible Business Reporting Language (iXBRL): (i) Consolidated Balance Sheets, (ii) Consolidated Statements of Income, (iii) Consolidated Statements of Comprehensive Income, (iv) Consolidated Statements of Changes in Shareholders" Equity, (v) Consolidated Statements of Cash Flows and (vi) notes to Consolidated Financial Statements.
104	The cover page from the Eagle Financial Services, Inc. Annual Report on Form 10-K for the year ended December 31, 2024 formatted in Inline XBRL (included with Exhibit 101).

* Management contracts and compensatory plans and arrangements.

(b) See Item 15(a)(3) above.

(c) See Item 15(a)(2) above.

Item 16. Form 10-K Summary

Not applicable.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Eagle Financial Services, Inc.

By: /s/ BRANDON C. LOREY
Brandon C. Lorey
President and Chief Executive Officer

Date: March 31, 2025

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated on March 31, 2025.

Signature	Title
/s/ BRANDON C. LOREY Brandon C. Lorey	President, Chief Executive Officer, and Director (principal executive officer)
/s/ KATHLEEN J. CHAPPELL Kathleen J. Chappell	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)
/s/ THOMAS T. GILPIN Thomas T. Gilpin	Chairman of the Board and Director
/s/ ROBERT W. SMALLEY, JR. Robert W. Smalley, Jr.	Vice Chairman of the Board and Director
/s/ CARY C. NELSON Cary C. Nelson	Director
/s/ MARY BRUCE GLAIZE Mary Bruce Glaize	Director
/s/ SCOTT M. HAMBERGER Scott M. Hamberger	Director
/s/ EDWARD HILL, III Edward Hill, III	Director
/s/ TATIANA C. MATTHEWS Tatiana C. Matthews	Director
/s/ JOHN R. MILLESON John R. Milleson	Director
/s/ DOUGLAS C. RINKER Douglas C. Rinker	Director
/s/ JOHN D. STOKELY, JR. John D. Stokely, Jr.	Director

Code of Conduct & Ethics Policy

Revision	09/08/2023
Approved	09/18/2024

CODE OF CONDUCT AND ETHICS

This Code of Conduct and Ethics Policy (the "Code") will apply to employees and directors of Eagle Financial Services, Inc. and its subsidiaries ("Company").

Public confidence in a financial institution is essential for its survival. Financial institutions will merit this trust if their employees steadfastly adhere to the highest ethical standards and business practices. Customers should feel complete and unquestioned confidence in the Company and its personnel.

All employees are expected to comply with the letter and spirit of the Code, avoiding even the appearance of impropriety.

Employees are required to review the Code annually and complete an acknowledgment. Newly hired employees review the Code at the time of hire.

Questions about the Code or its application to a particular situation should be discussed with the employee's supervisor or Human Resources.

Supervisors are expected to ensure that their immediate staff understands the principles of the Code.

It is the obligation of all employees to report a breach of the Code to Human Resources.

CONFIDENTIAL INFORMATION

All information regarding the Company, customers, employees, shareholders, and suppliers that has not been publicly disclosed is considered confidential and privileged and must be safeguarded at all times. Such information may be used only for legitimate business purposes and should never be revealed to unauthorized persons. The obligation of confidentiality continues even after termination of an employee's relationship with the Company and no confidential or proprietary information is to be removed from the Company by any means or in any format, including electronic.

An employee who in the course of business becomes aware of confidential information which reflects on the market or investment value of stocks or other investments in any business enterprise shall not use this information for personal gain. Neither should confidential information be revealed to fellow employees, except in the execution of their duties, until the information has been publicly disclosed by the business involved.

Confidential information may be communicated from one area of the Company to another only when there is a legitimate business need to know.

INSIDER TRADING

Employees may become aware, during the course of their employment duties, of information about the Company or other companies that is not available to the general public. The use of such non-public or "inside" information for securities trading purposes is strictly forbidden, whether by the employee, any of his or her family members, or any other person to whom the employee may have communicated the information. Such trading activity is unethical and illegal and may expose the employee to civil and criminal penalties.

The Company prohibits all directors and employees from entering into any transaction designed to hedge or offset any change in the market value of Company stock (including short sales, puts, calls, swaps or other derivatives, and all other similar transactions. In addition, the Company discourages all employees and prohibits "Section 16 Insiders" and "Covered Persons" (as designated) from holding Company stock in a brokerage margin account.

CONFLICTS OF INTEREST

Employees must avoid any action or interest that conflicts or gives the appearance of a conflict with the Company's interests. A "conflict of interest" exists when an individual's private interests interfere or conflict in any way with the interests of the Company. A conflict may arise if an employee takes actions or has an interest that may make it difficult for him or her to perform their work for the Company on an objective basis. A conflict of interest may also arise if an employee or member of his or her family receives improper benefit as a result of their position with the Company.

Extreme caution should be used by employees to avoid compromising their responsibilities to the Company if they become an employee of, invest in, or accept interests in the Company's customers, suppliers, or their various business activities. Such involvement must be approved by a member of executive management prior to such involvement. Any employee who is inadvertently placed in a position of conflict because of a business or personal relationship with customers, suppliers, business associates, or competitors of the Company should notify a member of executive management.

Existing involvement in outside business interests or employment that may give rise to a potential conflict of interest are to be reported to Human Resources. Officers must obtain prior approval from a member of executive management of such involvement.

Employees shall not engage in outside business-related interests, whether or not compensation is received, when one or more or the following conditions are met:

- The activity involves a conflict of interest with the Company
- The activity involves providing services which the Company itself could perform
- The activity could reasonably injure the Company either by monetary loss or by damage to the good name or reputation of the Company
- The activity requires devotion of time and effort that interferes with the efficiency or availability of the employee in their position with the Company

Employees are encouraged to participate in civic, professional, and business organizations in the community. Supplies, materials and other property belonging to the Company may be used in connection with such outside activities, with prior approval of the employee's supervisor.

Employees are specifically cautioned that their activities related to Internet social media have the potential to reflect on them individually and in their capacity as an employee of Bank of Clarke.

GIFTS AND ENTERTAINMENT

Consistent with the intent of the Bank Bribery Amendments Act of 1985 to proscribe corrupt activity within financial institutions: No employee, director, agent, or attorney of the Company

1. Shall solicit anything of value for oneself or for a third party from anyone in return for any business, service, or confidential information of the Company; or
2. Shall accept anything of value (other than bona fide salary, wages, fees, or other compensation paid in the usual course of business) from anyone in connection with the business of the Company, either before or after a transaction is discussed or consummated, except in accordance with the Company's employee manual.

The Company recognizes in the ordinary course of business that employees, without risk of corruption, may accept gifts of nominal value from those doing or seeking to do business with the Company, except that a bank employee may not accept a gift of any nature or value from any person in association with a loan application covered under Regulation Z Section 1026.36(d), Prohibited Payments to Loan Originators. Loan applications covered by this prohibition are those for any consumer loan secured by a dwelling.

The most common examples of acceptable nominally valued gifts are business luncheons and holiday gifts from customers. Other examples where employees may accept gifts of nominal value in connection with bank business are described below:

- Meals, refreshments, travel arrangements, accommodations, or entertainment, may be accepted in circumstances that facilitate business discussions or foster better business relations, provided that the expense would be paid for by the Company as a reasonable business expense if not paid for by another party.
- Advertising or promotional material of nominal value may be accepted such as pens, pencils, note pads, key chains, calendars, and similar items.
- Discounts or rebates on merchandise or services may be accepted that do not exceed those available to other customers.
- Civic, charitable, educational, or religious organizational awards of nominal value may be accepted for recognition of service and accomplishment.
- Gifts of nominal value may be accepted relating to commonly recognized events or occasions, such as a promotion, new job, wedding, retirement, or holiday.

Employees who are offered or receive a gift with more than a nominal value outside the scope of the policy are required to report all relevant facts of the gift to Human Resources. Executive management may require the individual to return the item or gift if determined to be unreasonable or present a threat to the integrity of the individual or Company. Reporting the acceptance of gifts does not give individuals the right to violate the intent of this law.

POLITICAL ACTIVITIES

Employees are encouraged to take an active interest in the political process and to keep themselves well-informed of political issues and candidates.

To avoid any misinterpretation or endorsement, employees participating in political activities do so as individuals and not as representatives of the Company. Political interests and activities must be pursued on the employee's personal time and must not interfere with their work or that of other employees. Questions about an activity should be reviewed with the employee's supervisor.

Employees are prohibited from making personal political contributions in the name of or on behalf of the Company except for donations made through recognized political action committees approved by the Company. Company policy prohibits direct or indirect political contributions from Company funds.

LEGAL ADVICE

Customers and others sometime seek advice from employees that may relate to the legal effect of a proposed transaction. The Company recognizes the exclusive authority of attorneys to practice law and to give legal advice. Therefore, employees should be careful in discussions with customers and others to avoid any statement that might be interpreted as legal advice.

FINANCIAL REPORTING CODE OF CONDUCT AND ETHICS POLICY

The Executive Officers and Senior Financial Officers of the Company shall abide by such standards as are reasonably necessary to promote:

- Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships.
- Full, fair, accurate, timely, and understandable disclosure in the periodic reports required to be filed by the Company; and
- Compliance with applicable governmental rules and regulations.

VIOLATIONS OF THIS POLICY

Violations of this policy will result in disciplinary action, up to and including termination.

EXHIBIT 21.1

SUBSIDIARY OF THE COMPANY

Bank of Clarke is a wholly-owned subsidiary of the Company. Bank of Clarke is a Virginia banking corporation, headquartered in Berryville, Virginia within the County of Clarke.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in Registration Statements (No. 333-269804, 333-209460, 333-172264, and 333-131877) on Form S-3 and Registration Statements (No. 333-275802, 333-198325, and 333-118319) on Form S-8 of Eagle Financial Services, Inc. of our report dated March 31, 2025, relating to the consolidated financial statements appearing in this Annual Report on Form 10-K of Eagle Financial Services, Inc. for the year ended December 31, 2024.

/s/ Yount, Hyde & Barbour, P.C.

Winchester, Virginia
March 31, 2025

EXHIBIT 31.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Brandon C. Lorey, certify that:

1. I have reviewed this annual report on Form 10-K of Eagle Financial Services, Inc. for the year ended December 31, 2024;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2025	By: /s/ BRANDON C. LOREY
	Brandon C. Lorey
	President and Chief Executive Officer

EXHIBIT 31.2

CERTIFICATION BY CHIEF EXECUTIVE OFFICER PURSUANT TO RULES 13a-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934, AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Kathleen J. Chappell, certify that:

1. I have reviewed this annual report on Form 10-K of Eagle Financial Services, Inc. for the year ended December 31, 2024;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

    (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: March 31, 2025

By: /s/ KATHLEEN J. CHAPPELL

Kathleen J. Chappell

Executive Vice President and Chief Financial Officer

EXHIBIT 32.1

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the annual report on Form 10-K of Eagle Financial Services, Inc. (the “Company”) for the period ending December 31, 2024 to be filed with the Securities and Exchange Commission (the “Report”), the undersigned Chief Executive Officer and Chief Financial Officer of the Company hereby certify, pursuant to 18 U.S.C. Code Section 1350, as adopted pursuant to Code Section 906 of the Sarbanes-Oxley Act of 2002, that, to our knowledge:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

Date: March 31, 2025	By:	/s/ BRANDON C. LOREY **Brandon C. Lorey** **President and Chief Executive Officer**
		/s/ KATHLEEN J. CHAPPELL **Kathleen J. Chappell** **Executive Vice President and Chief Financial Officer**

Eagle Financial Services, Inc.

EAGLE FINANCIAL SERVICES, INC.
CLAWBACK POLICY

The Board of Directors of Eagle Financial Services, Inc. (the "Company") believes that it is in the best interests of the Company and its shareholders to adopt this Clawback Policy (this "Policy"), which provides for the recovery of Erroneously Awarded Compensation (as defined below) in the event the Company is required to prepare an Accounting Restatement (as defined below).

The Company has adopted this Policy as a supplement to any other clawback policies or provisions in effect now or in the future at the Company. To the extent this Policy applies to compensation payable to a person covered by this Policy, it shall supersede any other conflicting provision or policy maintained by the Company and shall be the only clawback policy applicable to such compensation and no other clawback provision or policy shall apply; provided, however, that, if such other policy or provision provides that a greater amount of such compensation shall be subject to clawback, such other policy or provision shall apply to the amount in excess of the amount subject to clawback under this Policy.

This Policy shall be interpreted to comply with the clawback rules found in 17 C.F.R. §240.10D-1 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and the related listing rules of the national securities exchange or national securities association (the "Exchange") on which the Company has listed securities, and, to the extent this Policy is in any manner deemed inconsistent with such rules, this Policy shall be treated as retroactively amended to be compliant with the rules.

1. Definitions.

(a) "Accounting Restatement" means an accounting restatement due to the material non-compliance of the Company with any financial reporting requirement under the securities laws, including any required accounting restatement to correct an error in previously issued financial statements that is material to the previously issued financial statements, or that would result in a material misstatement if the error were corrected in the current period or left uncorrected in the current period.

(b) "Accounting Restatement Date" means the earlier to occur of: (i) the date the Board of Directors, a committee of the Board of Directors, or the officer or officers of the Company authorized to take such action if Board of Directors action is not required, concludes, or reasonably should have concluded, that the Company is required to prepare an Accounting Restatement or (ii) the date a court, regulatory agency, or other legally authorized body directs the Company to prepare an Accounting Restatement.

(c) "Erroneously Awarded Compensation" means, in the event of an Accounting Restatement, the amount of Incentive-Based Compensation (as defined below) previously received that exceeds the amount of Incentive-Based Compensation that otherwise would have been received had it been determined based on the restated amounts in such Accounting Restatement. The amount of Erroneously Awarded Compensation shall be determined on a gross basis without regard to any taxes paid by the relevant Executive Officer; provided, however, that for Incentive-Based Compensation based on the Company's stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (i) the amount of Erroneously Awarded Compensation shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received and (ii) the Company must maintain documentation of the determination of such reasonable estimate and provide such documentation to the Exchange.

(d) "Executive Officer" means the Company's president, principal financial officer, principal accounting officer (or if there is no such accounting officer, the controller), any vice-president of the Company in charge of a principal business unit, division, or function (such as sales, administration, or finance), any other officer who performs a policy-making function, or any other person who performs similar policy-making functions for the Company. An executive officer of the Company's parent or subsidiary is deemed an "Executive Officer" if the executive officer performs policy making functions for the Company.

(e) "Financial Reporting Measure" means any measure that is determined and presented in accordance with the accounting principles used in preparing the Company's financial statements, and any measure that is derived wholly or in part from such measure; provided, however, that a Financial Reporting Measure is not required to be presented within the Company's financial statements or included in a filing with the Securities and Exchange Commission to qualify as a "Financial Reporting Measure." For purposes of this Policy, "Financial Reporting Measure" includes, but is not limited to, stock price and total shareholder return.

(f) "Incentive-Based Compensation" means any compensation that is granted, earned, or vested based wholly or in part upon the attainment of a Financial Reporting Measure.

(g) "Received" means Incentive-Based Compensation received in the Company's fiscal period during which the Financial Reporting Measure specified in the Incentive-Based Compensation award is attained, even if the payment or grant of the Incentive-Based Compensation occurs after the end of that period.

2. <u>Application of the Policy.</u> This Policy shall only apply in the event that the Company is required to prepare an Accounting Restatement and it shall apply to all Incentive-

Based Compensation Received by a person: (a) after beginning service as an Executive Officer; (b) who served as an Executive Officer at any time during the performance period for such Incentive-Based Compensation; (c) while the Company had a class of securities listed on a national securities exchange or a national securities association; and (d) during the three completed fiscal years immediately preceding the Accounting Restatement Date. In addition to such last three completed fiscal years, the immediately preceding clause (d) includes any transition period that results from a change in the Company's fiscal year within or immediately following such three completed fiscal years; provided, however, that a transition period between the last day of the Company's previous fiscal year end and the first day of its new fiscal year that comprises a period of nine to twelve months shall be deemed a completed fiscal year.

3. Recovery Period. The Incentive-Based Compensation subject to clawback is the Incentive-Based Compensation Received during the three completed fiscal years immediately preceding an Accounting Restatement Date; provided that the individual served as an Executive Officer at any time during the performance period applicable to the Incentive-Based Compensation in question. Notwithstanding the foregoing, the Policy shall only apply if Incentive-Based Compensation is Received while the Company has a class of securities listed on an Exchange.

4. Erroneously Awarded Compensation. The amount of Incentive-Based Compensation subject to the Policy ("Erroneously Awarded Compensation") is the amount of Incentive-Based Compensation Received that exceeds the amount of Incentive Based-Compensation that otherwise would have been Received had it been determined based on the restated amounts in the Company's financial statements and shall be computed without regard to any taxes paid. For Incentive-Based Compensation based on stock price or total shareholder return, where the amount of Erroneously Awarded Compensation is not subject to mathematical recalculation directly from the information in an Accounting Restatement: (1) the amount shall be based on a reasonable estimate of the effect of the Accounting Restatement on the stock price or total shareholder return upon which the Incentive-Based Compensation was received; and (2) the Company must maintain documentation of the determination of that reasonable estimate and provide such documentation to the Exchange. The Board of Directors shall determine, in its sole discretion, the timing and method for promptly recouping Erroneously Awarded Compensation hereunder, which may include without limitation (a) seeking reimbursement of all or part of any cash or equity-based award, (b) cancelling prior cash or equity-based awards, whether vested or unvested or paid or unpaid, (c) cancelling or offsetting against any planned future cash or equity-based awards, (d) forfeiture of deferred compensation, subject to compliance with Section 409A of the Internal Revenue Code of 1986, as amended (the "Code") and the regulations promulgated thereunder and (e) any other method authorized by applicable law or contract. Subject to compliance with any applicable law, the Board of Directors may affect recovery under this Policy from any amount otherwise payable to the Executive Officer, including amounts payable to such individual under any otherwise applicable Company plan or program, including base salary, bonuses or commissions and compensation previously deferred by the Executive Officer.

5. Recovery Exceptions. The Company shall recover reasonably promptly any Erroneously Awarded Compensation except to the extent that the conditions of paragraphs (a), (b) or (c) below apply. The Compensation Committee of the Board of Directors (the "Committee") shall determine the repayment schedule for each amount of Erroneously Awarded Compensation in a manner that complies with this "reasonably promptly" requirement. Such determination shall be consistent with any applicable legal guidance by the Securities and Exchange Commission,

judicial opinion, or otherwise. The determination of "reasonably promptly" may vary from case to case and the Committee is authorized to adopt additional rules to further describe what repayment schedules satisfy this requirement.

(a) Erroneously Awarded Compensation need not be recovered if the direct expense paid to a third party to assist in enforcing the Policy would exceed the amount to be recovered and the Committee has determined that recovery would be impracticable. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on expense of enforcement, the Company shall make a reasonable attempt to recover such Erroneously Awarded Compensation, document such reasonable attempt(s) to recover, and provide that documentation to the Exchange, as required.

(b) If applicable, Erroneously Awarded Compensation need not be recovered if recovery would violate home country law where that law was adopted prior to November 28, 2022. Before concluding that it would be impracticable to recover any amount of Erroneously Awarded Compensation based on violation of home country law, the Company shall obtain an opinion of home country counsel, acceptable to the Exchange, that recovery would result in such a violation and shall provide such opinion to the Exchange.

(c) Erroneously Awarded Compensation need not be recovered if recovery would likely cause an otherwise tax-qualified retirement plan, under which benefits are broadly available to employees of the Company, to fail to meet the requirements of Section 401(a)(13) or Section 411(a) of the Code and regulations thereunder.

6. Committee Decisions. Decisions of the Committee with respect to this Policy shall be final, conclusive, and binding on all Executive Officers subject to this Policy, unless determined by a court of competent jurisdiction to be an abuse of discretion. Any members of the Committee, and any other members of the Board of Directors who assist in the administration of this Policy, shall not be personally liable for any action, determination or interpretation made with respect to this Policy and shall be fully indemnified by the Company under applicable law and Company policy with respect to any such action, determination, or interpretation. The foregoing sentence shall not limit any other rights to indemnification of the members of the Board of Directors under applicable law or Company policy.

7. No Indemnification. Notwithstanding anything to the contrary in any other policy of the Company, the governing documents of the Company or any agreement between the Company and an Executive Officer, no Executive Officer shall be indemnified by the Company against the loss of any Erroneously Awarded Compensation. Further, the Company is prohibited from paying or reimbursing an Executive Officer for purchasing insurance to cover any such loss.

8. Agreement to Policy by Executive Officers. The Committee shall take reasonable steps to inform Executive Officers of this Policy and the Executive Officers shall acknowledge receipt and adherence to this Policy in writing.

9. Exhibit Filing Requirement. A copy of this Policy and any amendments thereto shall be filed as an exhibit to the Company's Annual Report on Form 10-K.

10. <u>Amendment</u>. The Board of Directors may amend, modify, or supplement all or any portion of this Policy at any time and from time to time in its discretion.

[TO BE SIGNED BY EACH OF THE COMPANY'S EXECUTIVE OFFICERS]

Clawback Policy Acknowledgment

I, the undersigned, agree and acknowledge that I am fully bound by, and subject to, all the terms and conditions of the Eagle Financial Services, Inc. Clawback Policy (as may be amended, restated, supplemented, or otherwise modified from time to time, the "Policy") and that I have been provided a copy of the Policy. In the event of any inconsistency between the Policy and the terms of any employment or similar agreement to which I am a party, or the terms of any compensation plan, program, or agreement under which any compensation has been granted, awarded, earned, or paid to or by me, the terms of the Policy shall govern. If the Committee determines that any amounts granted, awarded, earned, or paid to or by me must be forfeited or reimbursed to the Company, I will promptly take any action necessary to effectuate such forfeiture and/or reimbursement.

______________________________________ ______________________________________
Name Date

____
Title

BOARD OF DIRECTORS - Eagle Financial Services, Inc. & Bank of Clarke


THOMAS T GILPIN
Chair


ROBERT W SMALLEY JR
Vice Chair


MARY BRUCE GLAIZE


SCOTT M HAMBERGER


DR. EDWARD HILL


BRANDON C LOREY


TANYA C MATTHEWS


JOHN R MILLESON


CARY C NELSON


DOUGLAS C RINKER


JOHN D STOKELY JR

EXECUTIVE OFFICERS - Eagle Financial Services, Inc. (EFSI) & Bank of Clarke (BOC)


BRANDON C LOREY
President/CEO
EFSI and BOC


KATHLEEN J CHAPPELL
EVP/Chief Financial Officer
EFSI and BOC


KALEY P CROSEN
Secretary- EFSI
EVP/Chief Human Resources Officer BOC


JOSEPH T ZMITROVICH
President/Chief Banking Officer BOC


NICHOLAS P SMITH
EVP/Corporate Strategy & Investor Relations


AARON M POFFINBERGER
EVP/COO & Chief Risk Officer
BOC


TODD A BRAITHWAITE
EVP/Chief Technology Officer
BOC


JAMES S GEORGE II
EVP/Chief Credit Officer
BOC


DEBRA L PURRINGTON
EVP/Chief Fiduciary BOC


MARIANNE SCHMIDT
EVP/Chief Marketing Officer
BOC


KATHLEEN S CROSON
EVP/Head of Community Banking BOC

EAGLE FINANCIAL SERVICES, INC

ANNUAL MEETING

The annual Shareholders' meeting will be held at Barns of Rose Hill on May 20, 2025 at 10:00 AM.

CORPORATE HEADQUARTERS

2 East Main Street, Berryville VA 22611

CORPORATE MAILING ADDRESS

PO Box 391, Berryville VA 22611

TRANSFER AGENT

EQ
P.O. Box 500
Newark NJ 07101
800.937.5449

FORM 10K

A copy of the Company's 2024 Form 10K annual report to the Securities and Exchange Commission may be obtained without charge on the investor relations page of our website https://investors.bankofclarke.bank/overview/default.aspx or upon written request.

WEBSITE

www.bankofclarke.bank