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

FORM 10-K

☒ 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
For the transition period _________ to _________

Commission File Number: 000-16120

SECURITY FEDERAL CORPORATION

(Exact name of registrant as specified in its charter)

South Carolina	57-0858504
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
238 Richland Avenue Northwest, Aiken, South Carolina	29801
(Address of principal executive offices)	(Zip Code)

(803) 641-3000
(Registrants telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock, par value $0.01 per share
(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 ☒

As of March 14, 2025, there were issued and outstanding 3,186,903 shares of the registrant's Common Stock, which is traded on the OTC Pink Open Market under the symbol "SFDL." The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the average of the bid and asked price of such stock as of June 30, 2024, was $39,987,288. (The exclusion from such amount of the market value of the shares owned by any person shall not be deemed an admission by the registrant that such person is an affiliate of the registrant.)

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's Proxy Statement for the 2025 Annual Meeting of Stockholders (the "2025 Proxy Statement") are incorporated by reference into Part III of this Annual Report on Form 10-K where indicated.

SCHEDULES OMITTED

All schedules other than those indicated above are omitted because of the absence of the conditions under which they are required or because the information is included in the consolidated financial statements and related notes.

Forward-Looking Statements

This Form 10-K, including information incorporated by reference herein, contains, and future filings by Security Federal Corporation ("Company") on Form 10-Q, and Form 8-K, and future oral and written statements by the Company and its management may contain, forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements relate to our financial condition, results of operations, plans, objectives, future performance or business. Forward-looking statements are not statements of historical fact, are based on certain assumptions and are generally identified by use of the words "believes," "expects," "anticipates," "estimates," "forecasts," "intends," "plans," "targets," "potentially," "probably," "projects," "outlook" or similar expressions or future or conditional verbs such as "may," "will," "should," "would" and "could." Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, assumptions and statements about, among other things, expectations of the business environment in which we operate, projections of future performance and operations or financial condition, perceived opportunities in the market, potential future credit experience, and statements regarding our mission and vision. These forward-looking statements are based upon current management's expectations and may, therefore, involve risk and uncertainties. Our actual results, performance, or achievements may differ materially from those suggested, expressed, or implied by forward-looking statements as a result of a wide variety or range of factors, including, but not limited to:

- adverse economic conditions in our market areas or other areas where we have lending relationships, due to factors like employment levels, labor shortages, inflation, potential recession or slowed economic growth;
- changes in the interest rate environment, including increases or decreases in the Board of Governors of the Federal Reserve System (the “Federal Reserve”) benchmark rate, which could adversely affect our revenues, expenses, asset values, cost of capital and liquidity;
- the impact of inflation and the Federal Reserve monetary policies;
- the effects of any federal government shutdown;
- the credit risks of lending activities, including changes in loan delinquencies, write-offs and the allowance for credit losses;
- fluctuations in the demand for loans, the number of unsold homes, land and real estate values in our market areas;
- secondary market conditions for loans and our ability to sell loans in the secondary market;
- the impact of bank failures or adverse developments at other banks and related negative press about the banking industry in general on investor and depositor sentiment;
- results of examinations of the Federal Reserve and the Bank by the Federal Deposit Insurance Corporation ("FDIC") and the South Carolina State Board of Financial Institutions, or other regulatory authorities, including the possibility that any such regulatory authority may, among other things, require us to increase our reserve for credit losses, write-down assets, change our regulatory capital position or affect our ability to borrow funds or maintain or increase deposits, or impose additional requirements or restrictions on us, any of which could adversely affect our liquidity and earnings;
- legislative or regulatory changes, including changes in banking, securities and tax laws, and in regulatory policies and principles, or the interpretation of regulatory capital or other rules;
- our ability to attract and retain deposits;
- our ability to control operating costs and expenses;
- our ability to implement our business strategies, including expectations regarding key growth initiatives and strategic priorities;
- the use of estimates in determining the fair value of certain of our assets, which estimates may prove to be incorrect and result in significant declines in valuation;
- difficulties in reducing risks associated with the loans on our balance sheet;
- staffing fluctuations in response to product demand or the implementation of corporate strategies that affect our workforce and potential associated charges;
- disruptions, security breaches, or other adverse events, failures or interruptions in, or attacks on, our information technology systems or critical third-party vendors;
- our ability to attract and retain key members of our senior management team;
- costs and effects of litigation, including settlements and judgments;
- increased competitive pressures among financial services companies;
- changes in consumer spending, borrowing and savings habits;
- the availability of resources to address changes in laws, rules, or regulations or to respond to regulatory actions;
- our ability to pay dividends on our common or preferred stock;
- the quality and composition of our securities portfolio and the impact of any adverse changes in the securities markets;
- inability of key third-party providers to perform their obligations;
- the potential imposition of new tariffs or changes to existing trade policies that could affect economic activity or specific industry sectors;
- changes in accounting principles, policies, or guidelines, including additional guidance and interpretation on accounting issues;
- environmental, social, and governance goals;
- effects of climate change, severe weather events, natural disasters, pandemics, epidemics and other public health crises, acts of war or terrorism, civil unrest and other external events on our business;
- other economic, competitive, governmental, regulatory, and technological factors affecting our operations, pricing, products and services; and
- other risks described elsewhere in this Annual Report on Form 10-K for the year ended December 31, 2024 ("2024 Form 10-K") and in the Company's other reports filed with or furnished to the Securities and Exchange Commission (the “SEC”).

Any of the forward-looking statements that we make may turn out to be inaccurate as a result of our beliefs and assumptions we make in connection with the factors set forth above or because of other unidentified and unpredictable factors. Because of these and other uncertainties, our actual future results may be materially different from the results indicated by these forward-looking statements and you should not rely on such statements. The Company undertakes no obligation to publish revised forward- looking statements to reflect the occurrence of unanticipated events or circumstances after the date hereof. These risks could cause our actual results for 2025 and beyond to differ materially from those expressed in any forward-looking statements by or on behalf of us, and could negatively affect the Company’s consolidated financial condition and consolidated results of operations, liquidity and stock price performance.

As used throughout this report, the terms "we," "our," or "us" refer to Security Federal Corporation and our consolidated subsidiary, Security Federal Bank.

Available Information

The Company provides a link on its investor information page at www.securityfederalbank.com to the SEC website (www.sec.gov) for purposes of providing copies of its annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports, as soon as reasonably practicable after we have electronically filed such material with, or furnished such material to, the SEC. Other than an investor’s own internet access charges, these filings are available free of charge at the SEC’s website at www.sec.gov. The information contained on the Company’s website is not included as part of, or incorporated by reference into, this 2024 Form 10-K.

PART I

Item 1. <u>Business</u>

Security Federal Corporation

Security Federal Corporation (the "Company") was incorporated under the laws of the State of Delaware in July 1987 for the purpose of becoming the savings and loan holding company for Security Federal Bank ("Security Federal" or the "Bank") upon the Bank's conversion from mutual to stock form (the "Conversion"). Effective August 17, 1998, the Company changed its state of incorporation from Delaware to South Carolina. On December 28, 2011, the Company reorganized into a bank holding company in connection with the Bank's conversion from a federally chartered stock savings bank to a South Carolina chartered commercial bank. As a result of the reorganization, the Federal Reserve became the Company's primary federal regulator.

As a South Carolina corporation, the Company is authorized to engage in any activity permitted by South Carolina General Corporation Law. The Company is a one bank holding company. Through the bank holding company structure, it is possible to expand the size and scope of the financial services offered beyond those currently offered by the Bank. The holding company structure also provides the Company with greater flexibility than the Bank would have to diversify its business activities, through existing or newly formed subsidiaries, or through acquisitions or mergers of financial institutions as well as other companies. There are no current arrangements, understandings or agreements regarding any such acquisition. Future activities of the Company will be funded through the continuing operations of Security Federal and through borrowings from third parties. Activities of the Company may also be funded through sales of additional securities or income generated by other activities of the Company. At this time, there are no plans regarding sales of additional securities or other activities.

At December 31, 2024, the Company, on a consolidated basis with the Bank, had assets of $1.6 billion, loans receivable, net of $686.6 million, deposits of $1.3 billion and shareholders' equity of $182.4 million. The executive office of the Company is located at 238 Richland Avenue Northwest, Aiken, South Carolina 29801, and its telephone number is (803) 641-3000.

Security Federal Bank

Security Federal is a South Carolina chartered commercial bank headquartered in Aiken, South Carolina. Security Federal, with 19 branch offices in Aiken, Lexington, Richland and Saluda counties in South Carolina and Columbia and Richmond counties in Georgia, was originally chartered under the name Aiken Building and Loan Association on March 27, 1922. It received its federal charter and changed its name to Security Federal Savings and Loan Association of Aiken on March 7, 1962, and later changed its name to Security Federal Savings Bank of South Carolina, on November 11, 1986. Effective April 8, 1996, the Bank changed its name to Security Federal Bank. The Bank converted from the mutual to the stock form of organization on October 30, 1987. As mentioned above, effective December 28, 2011, Security Federal converted from a federally chartered stock savings bank to a South Carolina chartered commercial bank. As a result of the conversion to a South Carolina commercial bank, the Bank is regulated by the State Board and the FDIC. Security Federal has two active wholly owned subsidiaries: Security Federal Investments, Inc. ("SFINV") and Security Federal Insurance, Inc. ("SFINS"). SFINV was formed to hold investment securities and allow for better management of the securities portfolio. SFINS is an insurance agency offering auto, business, and home insurance.

In 2010, the Bank and the Company applied for and became a Certified Community Development Financial Institution ("CDFI"). The designation enables the Bank to be eligible for certain grants from United States Treasury ("Treasury"). The Treasury administers CDFIs and the Bank and Company must re-certify as a CDFI every year. Re-certification currently depends on the Bank making a percentage of its loans by dollar and number of loans in its Target Market, which consists primarily of low to moderate income census tracts in the Bank's market area. The criteria to remain a CDFI can change from year to year.

On May 24, 2022, the Company entered into a Letter Agreement ("Agreement") with the Treasury under the Emergency Capital Investment Program ("ECIP"). Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage CDFIs and minority depository institutions to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities, by providing direct and indirect capital investments in CDFIs. Pursuant to the Agreement, the Company agreed to issue and sell 82,949 shares of Preferred Stock for an aggregate purchase price of $82.9 million in cash. This ECIP investment is treated as tier 1 capital. The Preferred Stock bears no dividend for the first 24 months following the investment date. Thereafter, the dividend rate will be adjusted, not higher than 2%, based on the lending growth criteria listed in the Agreement. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years 2 through 10. Dividends will be payable quarterly in arrears on March 15, June 15, September 15, and December 15. The Preferred Stock may be redeemed at the option of the Company on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies' regulatory capital regulations.

The principal business of Security Federal is accepting deposits from the general public and originating commercial real estate loans, commercial and agricultural business (non-real estate) loans, consumer loans, as well as mortgage loans to buy or refinance one-to-four family residential real estate. The Bank also originates construction loans on single-family residences, multi-family dwellings and projects, and commercial real estate, as well as loans for the acquisition, development and construction of residential subdivisions and commercial projects. Security Federal's income is derived primarily from interest and fees earned in connection with its lending activities, and its principal expenses are interest paid on savings deposits and borrowings and operating expenses. In addition, the Bank operates Security Federal Trust and Investments, a division of the Bank that offers trust, financial planning and financial management services.

Lending Activities

Security Federal's principal lending activities include originating loans on commercial real estate and one-to-four family residential real estate. The Bank originates fixed rate residential real estate loans for sale in the secondary market and adjustable rate mortgage ("ARM") loans to be held in its portfolio. The Bank also originates construction loans on single family residences, multi-family dwellings and commercial real estate, and loans for the acquisition, development and construction of residential subdivisions and commercial projects. To a lesser extent, the Bank originates consumer loans and commercial and agricultural business loans.

The loan-to-value ratio, maturity and other provisions of loans made by the Bank reflect its policy of making the maximum loan permissible consistent with applicable regulations, established lending policies and market conditions. The Bank requires title insurance (or acceptable legal opinions on smaller loans secured by real estate), fire insurance, and flood insurance where applicable, on loans secured by improved real estate.

Loan Portfolio Composition

Loans receivable, net, including loans held for sale, increased to $687.1 million at December 31, 2024 from $622.5 million at December 31, 2023 primarily due to increases in residential and commercial real estate loans. For a detailed breakdown of the composition of our loan portfolio, see "Note 4 - Loans Receivable, Net" of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

The following schedule illustrates the maturities of Security Federal's loan portfolio, excluding loans held for sale, at December 31, 2024. Mortgages which have adjustable or renegotiable interest rates are shown as maturing in the period when the contract is due. This schedule does not reflect the effects of possible prepayments or enforcement of due-on-sale clauses.

(Dollars in thousands)	One Year or Less	After One Year Through Five Years	After Five Years Through Fifteen Years	After Fifteen Years	Total
Construction Real Estate	$ 37,187	$ 69,949	$ 1,836	$ 956	$ 109,928
Residential Real Estate	11,531	57,568	12,828	121,723	203,650
Commercial Real Estate	37,233	213,227	33,318	4,731	288,509
Commercial and Agricultural	7,948	23,486	5,214	222	36,870
Consumer HELOC	5,356	2,582	9,366	20,533	37,837
Other Consumer	5,889	13,057	4,897	—	23,843
Total	$ 105,144	$ 379,869	$ 67,459	$ 148,165	$ 700,637

The following table sets forth the amount of total loans due after December 31, 2025, with fixed or adjustable interest rates.

(Dollars in thousands)	Fixed-Rate	Adjustable-Rate	Total
Construction Real Estate	$ 34,196	$ 38,545	$ 72,741
Residential Real Estate	76,824	115,295	192,119
Commercial Real Estate	208,228	43,048	251,276
Commercial and Agricultural	20,419	8,503	28,922
Consumer HELOC	—	32,481	32,481
Other Consumer	17,951	3	17,954
Total	$ 357,618	$ 237,875	$ 595,493

Loan Originations/ Renewals, Purchases and Sales

In addition to interest earned on loans, the Bank receives loan origination fees or "points" for originating loans. Loan origination points are a percentage of the principal amount of the loan which are charged to the borrower for the creation of the loan. The Bank's loan origination fees are generally 1% on conventional residential mortgages, and 0.25% to 1% on commercial real estate loans and commercial and agricultural loans.

Loan origination and commitment fees are volatile sources of income. These fees vary with the volume and type of loans and commitments made and purchased and with competitive conditions in mortgage markets, which in turn are governed by the demand for and availability of money. The Bank also receives other fees and charges related to existing loans, conversion fees, assumption fees, late charges and other fees collected in connection with a change in borrower or other loan modifications.

Security Federal currently sells substantially all conforming fixed rate loans with terms of 15 years or greater in the secondary mortgage market. These loans are sold in order to provide a source of funds and as one of the strategies available to close the gap between the maturities of the Bank's interest-earning assets and interest-bearing liabilities. Currently, most fixed rate, long-term mortgage loans are being originated based on Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") underwriting standards.

Secondary market sales are made to other banks or institutional investors. Generally, all loans sold to investors are without recourse. For the past several years, substantially all loans have been sold on a servicing released basis. During the year ended December 31, 2024, Security Federal sold $31.3 million in fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with banks or other investors, are carried in the Bank's "loans held for sale" portfolio. At December 31, 2024, the Bank had $599,000 of loans held for sale. These loans are fixed rate residential loans that have been originated in the Bank's name and have closed. Virtually all these loans have commitments to be purchased by investors and the majority of these loans were price locked with the investors on the same day or shortly after the loan was price locked with the Bank's customers. Therefore, these loans present little market risk for the Bank. The Bank usually delivers loans to, and receives funding from, the investor within 30 days. Security Federal originates all its loans held for sale on a "best efforts" basis, meaning that the Bank suffers no penalty if it is unable to deliver a loan to a potential investor.

Federal law restricts the Bank's permissible lending limits to one borrower to the greater of $500,000 or 15% of unimpaired capital and surplus. At December 31, 2024, the Bank's legal lending limit under this restriction was $25.9 million. At that date, the Bank's largest loan relationship to a single borrower was $16.3 million, comprised of two loans for commercial real estate properties. These loans were performing in accordance with their repayment terms at December 31, 2024.

South Carolina law restricts the Bank's permissible lending limits to one borrower to 10% of unimpaired capital, or $17.3 million at December 31, 2024, unless prior approval is granted by a two-thirds vote of the Board of Directors, in which case the limit is increased to 15% of unimpaired capital. During 2024, the Board approved the increased loan limits to 15% of unimpaired capital.

Loan Solicitation and Processing

The Bank actively solicits mortgage loan applications from existing customers, real estate agents, builders, real estate developers and others. The Bank also receives mortgage loan applications from customer referrals and from walk-in customers. Detailed loan applications are obtained to determine the borrower's creditworthiness and ability to repay. The more significant items on loan applications are verified using credit reports, financial statements and confirmations. After analysis of the loan application and property or collateral involved, including an appraisal of the property (residential appraisals are obtained through independent fee appraisers), a lending decision is made in accordance with the underwriting guidelines of the Bank. These guidelines are generally consistent with Freddie Mac and Fannie Mae guidelines for residential real estate loans. With respect to commercial real estate loans, the Bank also reviews the capital adequacy of the business, the income potential of the property, the ability of the borrower to repay the loan and honor its other obligations, and general economic and industry conditions.

Upon receipt of a loan application and all required related information from a prospective borrower, the loan application is submitted for approval or rejection. The residential mortgage loan underwriters approve loans which meet Freddie Mac and Fannie Mae underwriting requirements. The Chairman of the Company, the Chief Executive Officer of the Company and the Bank, the President of the Bank, the President of the Company, the Chief Financial Officer, the Executive Vice President/Business Development, the Senior Vice President/Chief Lending Officer and Senior Vice President/Mortgage Lending individually have the authority to approve loans of $500,000 or less, except as set forth above for conforming conventionally underwritten, single family mortgage loans, which are approved by the underwriters. Loans in excess of $500,000 and up to $1.0 million require the approval of any three of the following: Chairman of the Company, the Chief Executive Officer of the Company and the Bank, the President of the Bank, the President of the Company, the Chief Financial Officer, the Executive Vice President/Financial Services, the Chief Lending Officer, or the Secretary of the Executive Committee. Any loan in excess of $1.0 million must be approved by the Bank's Executive Committee, which operates as the Bank's Loan Committee. The loan approval limits discussed above are the aggregate of all loans to any one borrower or entity, not including loans that are secured by the borrower's primary residence, and are conventionally underwritten.

The general policy of Security Federal is to issue loan commitments to qualified borrowers for a specified term, generally for a period of 45 days or less. With management approval, commitments may be extended for up to an additional 45 days. At December 31, 2024, the Bank had $1.1 million in outstanding commitments on mortgage loans not yet closed compared to $2.2 million at December 31, 2023. Security Federal had outstanding commitments available on all lines of credit (including letters of credit, commercial, undisbursed loans in process, home equity, credit cards and other consumer loans) totaling $147.1 million at December 31, 2024. For a more detailed discussion, see "Note 18 - Commitments and Contingencies" in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

Residential and Construction Real Estate Lending

At December 31, 2024, the Bank had $203.7 million, or 29.1% of its total outstanding loan portfolio, in residential mortgage loans. These loans have adjustable or fixed rates and include permanent residential mortgage loans.

Security Federal offers a variety of ARM loans with adjustable rates of interest which vary according to specified indices. The Bank's ARM loans generally have a loan term of 15 to 30 years with initial rate adjustments every one, three, five or seven years during the term of the loan. After the initial rate adjustment, the loan rate then adjusts annually. Most of the Bank's ARM loans contain a 200 basis point limit as to the maximum amount of change in the interest rate at any adjustment period and a 500 or 600 basis point limit over the life of the loan. The Bank generally originates ARM loans to retain in its portfolio. These loans are generally made consistent with Freddie Mac and Fannie Mae guidelines. The Bank sells the majority of its longer term fixed rate mortgage loans at origination.

Despite the benefits of ARM loans to the Bank's asset/liability management program, these loans also pose potential additional risks, primarily because as interest rates rise, the underlying payment by the borrower rises, increasing the potential for default. At the same time, marketability of the underlying property may be adversely affected by higher interest rates.

When originating residential mortgage loans, the Bank assesses the borrower's creditworthiness, evaluates their ability to make principal and interest payments, and considers the property's value securing the loan. The Bank generally makes loans on residential properties in amounts of 95% or less of the appraised value of the collateral. When loans are made for amounts which exceed 80% of the appraised value of the underlying real estate, the Bank's general policy is to require private mortgage insurance on the portion of the loan in excess of 80% of the appraised value. In general, the Bank restricts its residential lending to South Carolina and the nearby Evans and Augusta, Georgia market.

Many of the residential mortgage loans we retain in our portfolio consist of loans that do not satisfy acreage limits, income, credit, conforming loan limits (i.e., jumbo mortgages) or various other requirements imposed by Freddie Mac or Fannie Mae. Some of these loans are also originated to meet the needs of borrowers who cannot otherwise satisfy Freddie Mac or Fannie Mae credit requirements because of personal and financial reasons (i.e., bankruptcy, length of time employed, etc.), and other aspects, which do not conform to their underwriting guidelines. Such borrowers may have higher debt-to-income ratios, or the loans are secured by unique properties in rural markets for which there are no sales of comparable properties to support the value according to secondary market requirements. We may require additional collateral or lower loan-to-value ratios to reduce the risk of these loans. We believe that these loans satisfy the needs of borrowers in our market area. As a result, subject to market conditions, we intend to continue to originate these types of loans. We also retain jumbo loans which exceed the conforming loan limits and therefore, are not eligible to be purchased by Freddie Mac or Fannie Mae.

Construction loans consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property. Construction loans are generally made for periods of six months to one year with either adjustable or fixed rates. At December 31, 2024, construction loans totaled $109.9 million, or 15.7%, of the Bank's loan portfolio. On loans of this type, the Bank seeks to evaluate the financial condition and prior performance of the builder, as well as the borrower's creditworthiness and his or her general ability to make principal and interest payments, and the value of the property that will secure the loan. On construction loans offered to individuals (non-builders), the Bank offers a construction/permanent loan. The borrower pays interest on the loan during the one year construction phase. After construction, the loan then automatically converts, depending on the borrower's upfront selection, to a one year ARM, a three year/one year ARM, or a five year/one year ARM loan in which the borrower will pay principal and interest. The borrower also has the option, after the construction period only, to convert the loan to a fixed rate residential mortgage loan which the Bank immediately sells on the secondary market on a servicing released basis.

Commercial Real Estate

The commercial real estate loans originated by the Bank are primarily secured by non-residential commercial properties, churches, hotels, and residential developments. At December 31, 2024, the Bank had $288.5 million, or 41.2% of its total loan portfolio, in commercial real estate loans.

Commercial real estate loans from the Bank typically have amortization terms ranging from 10 to 20 years, offered with either adjustable or fixed rates. Adjustable rates are linked to the prime rate as quoted in *The Wall Street Journal,* adjusting daily, with instituted floors (typically 4% to 6%). In cases where ceilings are applied, the loan will typically require a balloon payment within 60 months. Fixed-rate commercial real estate loans usually involve a balloon payment within 36 to 60 months.

Commercial real estate lending entails significant additional credit risk when compared to residential lending. Commercial real estate loans typically involve large loan balances to single borrowers or groups of related borrowers. Because payments on loans secured by commercial properties often depend upon the successful operation and management of the properties, repayment of these loans may be affected by adverse conditions in the real estate market or the economy. To minimize the risks associated with this type of loan, the Bank generally limits the maximum loan-to-value ratio for commercial real estate to a range of 65% to 80%, based on appraisals of the property at the time of the loan by appraisers designated by the Bank, and strictly scrutinizes the credit history, financial condition and cash flow of the borrower, the quality of the collateral and the expertise of management of the property securing the loan. Although the creditworthiness of the business and its principals is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Commercial and Agricultural Business (Non Real Estate) Loans

Commercial and agricultural business loans originated by the Bank are primarily secured by business equipment, furniture and fixtures, inventory and receivables, or are unsecured. At December 31, 2024, the Bank had $36.9 million, or 5.3% of its total loan portfolio, in commercial and agricultural business loans.

Commercial and agricultural business loans are typically originated on terms of three to 60 months, featuring both adjustable and fixed interest rate terms. Adjustable rates are tied to the prime rate as quoted in *The Wall Street Journal*, adjusting daily, with floors (typically 4% to 6% since 2009) set by the Bank. Loans with ceilings usually involve a balloon payment in 60 months. Fixed-rate commercial and agricultural business loans typically have an amortization period of five years or less.

Commercial and agricultural business lending generally involves greater risk than residential mortgage lending and involves risks that are different from those associated with lending that is secured by real estate. Real estate lending is generally considered to be collateral based lending with loan amounts based on predetermined loan-to-collateral values, and liquidation of the underlying real estate collateral is viewed as the primary source of repayment in the event of borrower default. Although commercial and agricultural business loans often have equipment, inventory, accounts receivable or other business assets as collateral, the liquidation of collateral in the event of a borrower default is often not a sufficient source of repayment because accounts receivable may be uncollectible and inventories and equipment may be obsolete or of limited use, among other conditions. Accordingly, the repayment of a commercial and agricultural business loan depends primarily on the creditworthiness of the borrower (and any guarantors), while liquidation of collateral is a secondary and often insufficient source of repayment. The Bank seeks to minimize these risks by strictly scrutinizing the borrower's current financial condition, ability to pay, past earnings and payment history. In addition, the current financial condition and payment history of all principals are reviewed. Typically, the Bank requires the principal or owners of a business to guarantee all loans made to their business by the Bank. Although the creditworthiness of the business and its principals is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

HELOC and Consumer Loans

The Bank provides consumer loans for various personal, family or household purposes, covering financing for home improvements, residential lots, automobiles, boats, mobile homes, recreational vehicles and education. Additionally, the Bank offers home equity lines of credit ("HELOCs"), which are open-end lines secured by mortgage liens on the borrower's primary or secondary residence. Borrowers make minimum interest-only monthly payments on drawn lines. HELOC terms extend up to a maximum of 20 years, with a variable interest rate tied to the prime rate and floats monthly.

The Bank has interest rate floors, currently ranging from 3.00% to 6.00%, for new HELOC originations, with a maximum loan-to-value ratio of 80%. The Bank also offers secured and unsecured lines of credit. Although consumer loans typically involve a higher level of risk than residential mortgage loans, they generally provide higher yields and have shorter terms to maturity. At December 31, 2024, the Bank had $37.8 million in outstanding HELOCs, representing 5.4% of its loan portfolio.

At December 31, 2024, the Bank also had $23.8 million in other consumer loans, constituting 3.4% of its loan portfolio, which included amounts outstanding on credit cards and personal lines of credit. As of December 31, 2024, the Bank had issued approved credit card lines of $16.9 million, with $3.6 million outstanding on the same date.

The Bank's underwriting standards 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 is determined by verification of gross monthly income from primary employment, and from any verifiable secondary income. Although creditworthiness of the applicant is of primary consideration, the underwriting process also includes a comparison of the value of the security, if any, in relation to the proposed loan amount.

Loan Delinquencies and Defaults

The Bank's collection procedures provide that when a residential or commercial real estate loan is approximately 20 days past due, the borrower is contacted by mail and payment is requested. If the delinquency continues for another 10 days, subsequent efforts are made to contact the delinquent borrower and establish a program to bring the loan current. In certain instances, the Bank may modify the loan or grant a limited moratorium on loan payments to enable the borrower to reorganize his financial affairs. If the loan continues in a delinquent status for 60 days or more, the Bank generally initiates foreclosure proceedings after the customer has been notified by certified mail. The Bank had $7.6 million in non-accrual loans at December 31, 2024 compared to $6.8 million at December 31, 2023. For a more detailed discussion of our non-accrual loans, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 4 - Loans Receivable, Net" in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

Classified Assets

Federal regulations provide for the classification of loans and other assets such as debt and equity securities considered to be of lesser quality as "substandard," "doubtful" or "loss" assets. The regulations require commercial banks to classify their own assets and to establish prudent general allowances for loan losses for assets classified "substandard" or "doubtful." For the portion of assets classified as "loss," an institution is required to either establish specific allowances of 100% of the amount classified or charge off such amount. In addition, the State Board and/or FDIC may require the establishment of a general allowance for credit losses based on assets classified as "substandard" and "doubtful" or based on the general quality of the asset portfolio of a Bank. See "Regulation - Regulation of the Bank."

The Company uses a risk-based approach based on the following credit quality measures consistent with regulatory guidelines when analyzing the loan portfolio: pass, caution, special mention, and substandard. For a more detailed discussion of our credit quality measures, see "Note 4- Loans Receivable, Net - Credit Quality Indicators" in the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

At December 31, 2024, $16.1 million of the total loan balance was classified "substandard" compared to $11.9 million at December 31, 2023. At December 31, 2024, $20.5 million of the total loan balance was designated as "special mention" compared to $13.9 million at December 31, 2023. At December 31, 2024, $176.9 million of the total loan balance was designated as “caution” compared to $134.9 million at December 31, 2023. The Bank had no loans classified as "doubtful" or "loss" at December 31, 2024 and 2023.

Modifications to Borrowers Experiencing Financial Difficulty

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

Modifications made to borrowers experiencing financial difficulty typically have their impact already factored into the allowance for credit losses. This is due to the measurement methodologies utilized in estimating the allowance. Consequently, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. As such multiple types of modifications may have been made on the same loan within the current reporting period each much be reported. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Provision for Credit Losses on Loans

Security Federal recognizes that it will experience credit losses during the course of making loans and that the risk of loss will vary with, among other things, the type of loan being made, the creditworthiness of the borrower over the term of the loan and, in the case of a secured loan, the quality of the underlying security for the loan. The Bank seeks to establish and maintain sufficient reserves for estimated losses on specifically identified loans and real estate where such losses can be estimated. Additionally, general reserves for estimated possible losses are established on specified portions of the Bank's portfolio such as consumer loans and higher risk residential construction mortgage loans based on management's estimate of the potential loss for loans which normally can be classified as higher risk. Specific and general reserves are based on, among other criteria: (1) the risk characteristics of the loan portfolio, (2) current economic conditions on a local as well as a statewide basis, (3) actual losses experienced historically and (4) the level of reserves for possible losses in the future.

In determining the adequacy of the allowance for credit losses on loans, management reviews past experience of loan charge-offs, the level of past due and non-accrual loans, the size and mix of the portfolio, general economic conditions in the market area, and individual loans to identify potential credit problems. The level of the allowance for credit losses reflects management's continuing evaluation of this risk based on the Bank's past loss experience. The allowance is management's best estimate for offsetting risk for our estimated possible losses. There can be no guarantee that the estimate is adequate or accurate. Management believes that the allowance for credit losses on loans is at a level adequate to provide for inherent loan losses. Although management believes that it has considered all relevant factors in its estimation of future losses, future adjustments to the allowance may be necessary if conditions change substantially from the assumptions used in making the original estimations. Regulators will from time to time evaluate the allowance for credit losses which is subject to adjustment based upon the information available to the regulators at the time of their examinations.

For a breakdown of the activity within the allowance for credit losses by loan category for the years ended December 31, 2024 and 2023, see "Note 4- Loans Receivable, Net - Allowance for Credit Losses" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

The following table summarizes net (recoveries) charge-offs as a percentage of average loans outstanding in each loan category for the years indicated.

	Year Ended December 31,					
	2024			2023		
(Dollars in Thousands)	Net Charge-offs (Recoveries)	Average Loans	Ratio	Net Charge-offs (Recoveries)	Average Loans	Ratio
Construction Real Estate	$ (35)	$ 111,334	(0.03)%	$ (16)	$ 105,433	(0.02)%
Residential Real Estate	(50)	192,768	(0.03)	(54)	143,691	(0.04)
Commercial Real Estate	(25)	275,151	(0.01)	(20)	256,927	(0.01)
Commercial and Agricultural	55	31,540	0.17	(10)	33,396	(0.03)
HELOC	(3)	36,224	(0.01)	(37)	32,750	(0.11)
Other Consumer	213	24,191	0.88	130	24,511	0.53
Total	$ 155	$ 671,208	0.02%	$ (7)	$ 596,708	(0.00)%

The following table presents an allocation of the allowance for credit losses at December 31, 2024 and 2023. The allocation is calculated on an approximate basis and is not necessarily indicative of future losses or allocations. The entire amount is available to absorb losses occurring in any category of loans.

	2024		**2023**	
	Amount	**% of loans in category**	**Amount**	**% of loans in category**
Construction Real Estate	$ 1,904	15.7%	$ 1,828	16.5%
Residential Real Estate	4,182	29.0%	3,551	27.2%
Commercial Real Estate	5,387	41.2%	5,052	41.7%
Commercial and Agricultural	990	5.3%	808	5.3%
HELOC	787	5.4%	731	5.4%
Other Consumer	644	3.4%	599	3.9%
Total	$ 13,894	100.0%	$ 12,569	100.0%

Subsidiaries

At December 31, 2024, the Company had two subsidiaries, Security Federal, its wholly owned operating bank subsidiary, and Security Federal Statutory Trust (the "Trust"), which issued and sold fixed and floating rate capital securities of the Trust. Under current accounting guidance, the Trust is not consolidated in the Company's financial statements.

At December 31, 2024, Security Federal had two subsidiaries, SFINV and SFINS. SFINV was formed to hold investment securities and allow for better management of the securities portfolio. SFINS is an insurance agency offering auto, business and home insurance. Security Federal's net investment in its subsidiaries totaled $17.2 million at December 31, 2024.

Investment Activities

The Bank has authority to invest in various types of liquid assets, including U.S. Treasury obligations and securities of various federal agencies, certificates of deposit at insured institutions, mutual funds, bankers' acceptances and federal funds. The Bank may also invest a portion of its assets in certain commercial paper and corporate debt securities. See "Regulation - Regulation of the Bank."

As a member of the Federal Home Loan Bank ("FHLB") System, Security Federal must maintain minimum levels of investments that are liquid assets as defined in Federal regulations. See "Regulation - Regulation of the Bank - Federal Home Loan Bank System." Liquidity may increase or decrease depending upon the availability of funds and comparative yields on investments in relation to the return on loans. Historically, the Bank has maintained its liquid assets at a level believed adequate to meet requirements of normal daily activities, repayment of maturing debt and potential deposit outflows. Management regularly reviews and updates cash flow projections to ensure that adequate liquidity is provided.

At December 31, 2024, our investment portfolio totaled $660.8 million. Security Federal has an investment portfolio of available for sale ("AFS") and held to maturity ("HTM") securities, the majority of which are mortgage-backed securities ("MBS"). MBS can serve as collateral for borrowings and, through repayments, as a source of liquidity. MBS do not have a fixed maturity date. Under the Bank's risk-based capital requirement, MBS have a risk weight of 20% (or 0% in the case of Government National Mortgage Association ("Ginnie Mae") securities) compared to the 50% risk weight carried by residential loans. Small Business Administration ("SBA") bonds are backed by the full faith and credit of the U.S. government and carry a zero percent risk base when calculating risk-based assets for regulatory capital purposes. Student loan pools are typically 97% guaranteed by the U.S. government. The FHLB, Fannie Mae and Freddie Mac are government sponsored enterprises ("GSEs") and the securities and bonds issued by GSEs are not backed by the full faith and credit of the U.S. government. AFS securities are carried at fair value.

HTM securities are carried at amortized cost, adjusted for the amortization of any related premiums or the accretion of any related discounts into interest income. For more detailed information regarding the Bank's investment portfolios, see "Note 2 - Investments, Available for Sale" and "Note 3 - Investments, Held to Maturity" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

Sources of Funds

Deposit accounts have traditionally been a principal source of the Bank's funds for use in lending and for other general business purposes. The Bank attracts both short-term and long-term deposits from the general public by offering a wide assortment of account types and rates. The Bank offers regular savings accounts, checking accounts, various money market accounts, fixed interest rate certificates with varying maturities, and individual retirement accounts. In addition to deposits, the Bank derives funds from loan repayments, cash flows generated from operations (including interest credited to deposit accounts), FHLB of Atlanta advances, borrowings from the Federal Reserve Bank ("FRB") of Richmond, sales of investment securities, sales of securities under agreements to repurchase, and loan sales. See "Borrowings" below. Scheduled loan payments are a relatively stable source of funds while deposit inflows and outflows and the related cost of such funds have varied widely. FHLB of Atlanta advances, borrowings from the FRB and the sale of securities under agreements to repurchase, referred to as retail repurchase agreements, may be used on a short-term basis to compensate for seasonal reductions in deposits or deposit inflows at less than projected levels and may be used on a longer-term basis in support of expanded lending activities. The availability of funds from loan and investment sales is influenced by general interest rates. For additional information, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" contained in this 2024 Form 10-K.

Deposits

The Bank attracts both short-term and long-term deposits from the general public by offering a wide assortment of account types and rates. The Bank offers regular savings accounts, checking accounts, various money market accounts, fixed interest rate certificates with varying maturities, negotiated rate $100,000 or above jumbo certificates of deposit ("Jumbo CDs") and individual retirement accounts. The Bank believes that, based on its experience over the past several years, its savings and transaction accounts are stable sources of deposits. The Bank relies upon locally obtained Jumbo CDs to maintain its deposit levels. At December 31, 2024, deposits totaled $1.3 billion. At that date, approximately $365.8 million of our deposit portfolio was uninsured, including $106.8 million in public deposits which are fully collateralized and $15.9 million in Bank-owned demand deposit accounts. The uninsured amounts are estimates based on the methodologies and assumptions used for the Bank's regulatory reporting requirements.

At December 31, 2024, the Bank had no deposit relationships greater than 5.0% of outstanding deposits. At December 31, 2023, the Bank had one deposit relationship totaling approximately 5.2% of outstanding deposits.

The following table includes deposit accounts and associated weighted average interest rates for each category of deposit at the dates indicated.

	Year Ended December 31,					
	2024			2023		
(Dollars in thousands)	Average Balance	% of Total	Weighted Avg Rate	Average Balance	% of Total	Weighted Avg Rate
Interest bearing checking	$ **212,606**	**17%**	**1.05%**	$ 102,009	9%	0.99%
Savings and money market	**521,818**	**42%**	**3.18%**	590,248	51%	2.66%
Certificates of deposit	**267,140**	**21%**	**4.13%**	208,221	18%	2.88%
Total interest bearing deposits	**1,001,564**	**80%**	**2.98%**	900,478	78%	2.30%
Non-interest checking	**243,010**	**20%**		259,616	22%	
Total Deposits	$ **1,244,574**	**100%**		$ 1,160,094	100%	

For additional information regarding our deposits, see "Item 7 - Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Note 9 - Deposits" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

Borrowings

We had no borrowings outstanding under the Federal Reserve discount window and $50.0 million in borrowings outstanding under the Federal Reserve Bank Term Funding Program ("BTFP") with a weighted average borrowing rate of 4.76% at December 31, 2024, compared to $119.2 million in borrowings from the BTFP, with a weighted average borrowing rate of 4.60% at December 31, 2023. During 2023, the Company elected to participate in the BTFP to refinance existing FRB discount window borrowings at a lower fixed rate. Advances under the program have a one-year term and are priced at the overnight index swap ("OIS") rate plus 10 basis points on the day the advance is made. Effective January 24, 2024, the FRB announced that future advances through the program's expiration on March 11, 2024, would be set at no lower than the interest rate on reserve balances in effect at the time of the advance. At December 31, 2024, we had pledged investment securities with an amortized cost of $341.0 million and a fair value of $370.2 million as collateral for FRB borrowings. Depository institutions may borrow from the FRB's discount window for periods as long as 90 days, and borrowings are prepayable and renewable by the borrower daily.

During 2023, the Company entered the FRB's Borrower-In-Custody ("BIC") program, which allows for the pledging of various loan types to secure FRB borrowings. As of December 31, 2024, the Company had pledged loan collateral for FRB borrowings with an amortized cost and collateral value of $84.9 million and $66.2 million compared to pledged loan collateral with an amortized cost and collateral value of $93.5 million and $65.5 million at December 31, 2023, respectively. Borrowing capacity provided by pledged loan collateral is included in the FRB discount window availability.

As a member of the FHLB of Atlanta, the Bank is required to own capital stock in the FHLB of Atlanta and is authorized to apply for advances from the FHLB of Atlanta. Each FHLB credit program has its own interest rate, which may be fixed or variable, and range of maturities. The FHLB of Atlanta may prescribe the acceptable uses to which these advances may be utilized as well as limitations on the size of the advances and repayment provisions. At December 31, 2024, the Bank had no outstanding advances from the FHLB of Atlanta.

At December 31, 2024, the Bank had $27.8 million in other borrowings consisting of retail repurchase agreements with an average rate of 1.49%.

For additional information regarding our borrowings, see "Note 10 - FHLB Advances and FRB Borrowings" and "Note 11 - Other Borrowings" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K. See also, "Regulation - Regulation of the Bank - Federal Home Loan Bank System" in this 2024 Form 10-K.

At December 31, 2024, the Company had $5.2 million in junior subordinated debentures. The debentures accrue and pay distributions quarterly at a floating rate of three-month Secured Overnight Financing Rate ("SOFR") as adjusted by the relevant spread adjustment of 0.26161 plus 170 basis points, resulting in a rate of 6.32% at December 31, 2024. The debentures were callable by the Company in September 2011, and quarterly thereafter, with a final maturity date of December 15, 2036. See "Note 12 - Junior Subordinated Debentures" of the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

On November 22, 2019, the Company sold and issued to certain institutional investors $17.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2029 (the "10-Year Notes") and $12.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2034 (the "15-Year Notes", and together with the 10-Year Notes, the "Notes"). The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is equal in right to payment with respect to the other Notes.

On November 22, 2024 (the "Redemption Date"), the Company redeemed all remaining 10-Year Notes, having an aggregate principal balance of $16.5 million, in accordance with the terms of the 10-Year Notes. The total redemption price was 100% of the aggregate principal amount of the 10-Year Notes, plus accrued and unpaid interest to, but excluding, the Redemption Date. The Company utilized excess cash on hand for the redemption payment. The Company may redeem the 15-Year Notes at its option, in whole at any time, or in part from time to time, after November 22, 2029. See "Note 13 – Subordinated Debentures" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

Competition

The Bank serves the counties of Aiken, Lexington, Richland and Saluda, South Carolina, and the counties of Columbia and Richmond, Georgia through its 19 full service branch offices located in Aiken, Ballentine, Clearwater, Columbia, Graniteville, Langley, Lexington, North Augusta, Ridge Spring, Wagener, and West Columbia, South Carolina, and Augusta and Evans, Georgia.

Security Federal faces strong competition both in originating loans and in attracting deposits. Competition in originating loans comes primarily from other commercial banks, federal savings institutions, mortgage bankers and credit unions who also make loans in the Bank's market area, and more recently, financial technology (or "FinTech") companies.

The Bank competes for loans principally on the basis of the interest rates and loan fees it charges, the types of loans it makes and the quality of services it provides to borrowers. The Bank faces substantial competition in attracting deposits from federal savings institutions, commercial banks, money market and mutual funds, credit unions and other investment vehicles.

The ability of the Bank to attract and retain deposits depends on its ability to provide an investment opportunity that satisfies the requirements of investors as to rate of return, liquidity, risk and other factors. The Bank attracts a significant amount of deposits through its branch offices primarily from the communities in which those branch offices are located. Therefore, competition for those deposits is principally from federal savings institutions, credit unions and commercial banks located in the same communities. FinTech companies also compete for consumer deposit relationships. The Bank competes for these deposits by offering a variety of deposit accounts at competitive rates, convenient business hours, online/mobile services, and convenient branch locations with interbranch deposit and withdrawal privileges at each.

Human Capital

We continually strive to recruit the most talented, motivated employees in their respective fields. By providing opportunities for personal and professional growth coupled with an environment that values teamwork and work-life balance, we are able to attract and retain outstanding individuals. We pride ourselves on providing excellent benefits, competitive salaries and the opportunity for participation in our long-term success.

At December 31, 2024, we employed 258 employees. Our employees are not represented by any collective bargaining agreement. Management is committed to providing equality of opportunity in all aspects of employment through a comprehensive affirmative action plan that is updated annually. As of December 31, 2024, our workforce was 69% female and 31% male, and women held 62% of the Bank's management roles. The ethnicity of our workforce was 76% White, 16% Black, 4% Hispanic or Latino, 3% Asian, 1% Two or More Races and less than 1% Indian.

The following chart depicts the percentage of self-identified females and minorities in our workforce at December 31, 2024, by job classification as defined by the Equal Employment Opportunity Commission ("EEOC"):

Job Classification	Female	Minority (1)	Distribution by EEOC Job Classification
Executive / Senior level officers	5.0%	3.3%	9.3%
Mid-level officers and managers	21.5%	13.1%	20.2%
Professionals	21.5%	23.0%	24.8%
Sales	1.7%	—%	1.9%
Administrative support	50.3%	60.6%	43.8%
Total	100.0%	100.0%	100.0%

(1) Includes employees self-disclosed as Asian, Black, Hispanic or Latino, Indian, or Two or More Races.

Benefits - We provide competitive comprehensive benefits to employees. We value the health and well-being of our employees and strive to provide programs to support this. Benefit programs available to eligible employees may include 401(k) savings plan, employee stock ownership plan, health and life insurance, employee assistance program, paid holidays, paid time off, and other leave as applicable.

Board of Directors - The Company's board of directors is comprised of the Company's Chief Executive Officer, President and nine non-employee directors. The non-employee directors are represented by 11% female and 11% minority.

Training and Education - We understand the importance of our employees' skills and knowledge in achieving organizational success. Consequently, we actively promote ongoing training and continuing education for our workforce. Our compliance training program ensures that all employees and officers receive annual training courses to stay well-informed about the rules relevant to their roles.

Information about our Executive Officers

The following table sets forth information regarding the executive officers of the Company and the Bank at December 31, 2024.

Name	Age at December 31, 2024	Position	
		Company	Bank
J. Chris Verenes	68	Chief Executive Officer	Chief Executive Officer, Chairman of the Board
Roy G. Lindburg	64	President	—
Philip R. Wahl	61	—	President
Darrell Rains	68	Chief Financial Officer	Chief Financial Officer

The following is a description of the principal occupation and employment of the executive officers of the Company and the Bank during at least the past five years:

J. Chris Verenes is Chief Executive Officer of the Company and Chairman of the Board and Chief Executive Officer of the Bank, positions he has held since January 1, 2012 and January 1, 2011, respectively. Prior to that, he served as President of the Bank since 2004. Before joining the Bank, Mr. Verenes held a variety of management positions with Washington Group International, from 1996 to 2004. Prior to his employment by Washington Group International, Mr. Verenes served as Controller for Riegel Textile Corporation, as Director of Control Data and Business and Technology Center, and as Executive Director of the South Carolina Democratic Party.

Roy G. Lindburg was appointed President of the Company in June 2014. Prior to that, he served as the Chief Financial Officer of the Company and the Bank since January 1995. Mr. Lindburg was named Executive Vice President and appointed to the Company's and the Bank's Boards of Directors in 2005. Prior to joining Security Federal, Mr. Lindburg was employed by Keokuk Bancshares/First Community Bank in Keokuk, Iowa from 1986 to 1994. Mr. Lindburg is a Certified Public Accountant.

Philip R. Wahl was appointed President of the Bank effective August 2019. Prior to that, he served as the Bank's Augusta Market President since 2017. Prior to joining the Bank, Mr. Wahl held a variety of management positions with local and national banks in the Augusta area during his 35 year banking career. Most recently, he was employed by First Community Bank from 2012 to 2016. He currently serves on the Georgia Health Sciences Foundation Board of Trustees and is Chairman of the Board of the Augusta Convention & Visitors Bureau.

Darrell Rains was appointed Chief Financial Officer of the Company and the Bank effective July 2020. Prior to that, he served as the Bank's Executive Vice President of Insurance, Mortgage and Trust Services since June 2019. Before joining the Bank, he was the Chief Financial Officer at Woodside Communities from 2017 to 2019 and the Chief Financial Officer of Southeastern Bank Financial Corporation and successors from 2005 to 2017. Mr. Rains has over 30 years of experience in the banking industry. He is a Certified Public Accountant.

REGULATION

The following is a brief description of certain laws and regulations which are applicable to the Company and the Bank. Descriptions of laws and regulations here and elsewhere in this 2024 Form 10-K do not purport to be complete and are qualified in their entirety by reference to the actual laws and regulations. Legislation is introduced from time to time in the United States Congress or in the South Carolina State Legislature that may affect the operations of the Company and the Bank. In addition, the regulations governing the Company and the Bank may be amended from time to time by the State Board, the FDIC, the Federal Reserve, the SEC and the Consumer Protection Financial Bureau (“CFPB”). Any such legislation or regulatory changes in the future could have an adverse effect on our operations and financial condition. We cannot predict whether any such changes may occur.

As a bank holding company, the Company is subject to examination and supervision by, and is required to file certain reports with, the Federal Reserve. The Company also is subject to the rules and regulations of the SEC under the federal securities laws. The Bank, as a state-chartered commercial bank, is subject to regulation and oversight by the State Board, the applicable provisions of South Carolina law and by the regulations of the State Board adopted thereunder. In some circumstances, the law and regulations of other states can apply. The Bank also is subject to regulation and examination by the FDIC, which insures its deposits to the maximum extent permitted by law.

Regulation of the Bank

The Bank is an FDIC-insured, state-chartered, non-member, commercial bank and is subject to various statutory requirements and rules and regulations promulgated and enforced primarily by the FDIC and the State Board. These statutes, rules, and regulations relate to insurance of deposits, required reserves, allowable investments, loans, mergers, consolidations, issuance of securities, payment of dividends, establishment of branches and other aspects of the business of the Bank. The FDIC has broad authority to prohibit the Bank from engaging in what it determines to be unsafe or unsound banking practices. In addition, federal law imposes a number of restrictions on state-chartered, FDIC-insured banks, and their subsidiaries. These restrictions cover many matters, examples of which include prohibitions against engaging as a principal in certain activities and the requirement of prior notification of branch closings. The Bank is required to file periodic reports with the FDIC and the State Board and is subject to periodic examinations and evaluations by those regulatory authorities. Based on these evaluations, the regulators may revalue the assets of an institution and require that it establish specific reserves to compensate for the differences between the determined value and the book value of these assets. The FDIC and the State Board may each accept the results of an examination by the other in lieu of conducting an independent examination.

Deposit Insurance and Other FDIC Programs

The Deposit Insurance Fund ("DIF") of the FDIC insures deposits in the Bank up to $250,000 per separately insured deposit ownership right or category and such insurance is backed by the full faith and credit of the United States Government. As insurer, the FDIC imposes deposit insurance premiums (assessments) and is authorized to conduct examinations of and to require reporting by FDIC-insured institutions. In October 2022, the FDIC adopted a final rule to increase initial base deposit insurance assessment rates by two basis points beginning in the first quarterly assessment period of 2023. A significant increase in insurance premiums or a special assessment levied by the FDIC could likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what changes in insurance assessment rates may be made in the future. For the year ended December 31, 2024, the Bank paid $705,000 in FDIC premiums. The FDIC assesses deposit insurance premiums quarterly on each FDIC-insured institution applied to its deposit base, which is its average consolidated total assets minus its Tier 1 capital. No institution may pay a dividend if it is in default on its federal deposit insurance assessment. At December 31, 2024, total base assessment rates ranged from 2.5 to 32 basis points subject to certain adjustments.

The FDIC may terminate the deposit insurance of any insured depository institution if it determines after a hearing that the institution has engaged or is engaging in unsafe or unsound practices, is in an unsafe or unsound condition to continue operations, or has violated any applicable law, regulation, order or any condition imposed by an agreement with the FDIC. It also may suspend deposit insurance temporarily during the hearing process for the permanent termination of insurance if the institution has no tangible capital. If insurance of accounts is terminated, the accounts at the institution at the time of the termination, less subsequent withdrawals, shall continue to be insured for a period of six months to two years, as determined by the FDIC. Management is not aware of any existing circumstances which would result in termination of the Bank's deposit insurance. A significant increase in insurance premiums would likely have an adverse effect on the operating expenses and results of operations of the Bank. There can be no prediction as to what changes in insurance assessment rates may be made in the future.

Prompt Corrective Action

Federal statutes establish a supervisory framework based on five capital categories: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. An institution's category depends upon where its capital levels are in relation to relevant capital measures, which include risk-based capital measures, a common equity Tier 1 ("CET1") measure, a leverage ratio measure and certain other factors. The well-capitalized category is described below in "Capital Requirements". An institution that is not well capitalized is subject to certain restrictions on brokered deposits, including restrictions on the rates it can offer on its deposits, generally. Any institution which is neither well capitalized nor adequately capitalized is considered undercapitalized. Undercapitalized institutions are subject to certain prompt corrective action requirements, regulatory controls and restrictions that become more extensive as an institution becomes more severely undercapitalized. Failure by institutions to comply with applicable capital requirements would, if unremedied, result in progressively more severe restrictions on their activities and lead to enforcement actions, including, but not limited to, the issuance of a capital directive to ensure the maintenance of required capital levels and, ultimately, the appointment of the FDIC as receiver or conservator. Banking regulators will take prompt corrective action with respect to depository institutions that do not meet minimum capital requirements. Additionally, approval of any regulatory application filed for review by the banking agencies may be dependent on compliance with capital requirements.

At December 31, 2024, the Bank was categorized as "well capitalized" under the prompt corrective action regulations of the FDIC. For additional information, see "Capital Requirements" below and "Note 15 - Regulatory Matters" in the Notes to Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

Capital Requirements

The Bank is subject to capital regulations adopted by the FDIC, which establish minimum required ratios for a common equity Tier 1 (“CET1”) capital to risk-based assets ratio, a Tier 1 capital to risk-based assets ratio, a total capital to risk-based assets ratio and a Tier 1 capital to total assets leverage ratio. The capital standards require the maintenance of the following minimum capital ratios: (i) a CET1 capital ratio of 4.5%; (ii) a Tier 1 capital ratio of 6%; (iii) a total capital ratio of 8%; and (iv) a Tier 1 leverage ratio of 4%. Consolidated regulatory capital requirements identical to those applicable to subsidiary banks generally apply to bank holding companies. However, the Federal Reserve Board has provided a “Small Bank Holding Company” exception to its consolidated capital requirements, and bank holding companies with less than $3.0 billion of consolidated assets are not subject to the consolidated holding company capital requirements unless otherwise directed by the Federal Reserve Board.

Federal law required the federal banking agencies, including the FDIC, to establish a “community bank leverage ratio” of between 8% and 10% for institutions with total consolidated assets of less than $10 billion. Institutions with capital complying with the ratio and otherwise meeting the specified requirements and electing the alternative framework are considered to comply with the applicable regulatory capital requirements, including the risk-based requirements. The community bank leverage ratio was established at 9% Tier 1 capital to total average assets, effective January 1, 2022. A qualifying institution may opt in and out of the community bank leverage ratio framework on its quarterly call report. The Bank has opted out of the community bank leverage ratio.

In addition to the minimum CET1, Tier 1, and total capital ratios, the capital regulations require a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses. To be considered “well capitalized,” a depository institution must have a Tier 1 risk-based capital ratio of at least 8%, a total risk-based capital ratio of at least 10%, a CET1 capital ratio of at least 6.5% and a leverage ratio of at least 5%, and not be subject to an individualized order, directive or agreement under which its primary federal banking regulator requires it to maintain a specific capital level. As of December 31, 2024, the Bank met the requirements to be “well capitalized” and met the fully phased-in capital conservation buffer requirement.

The FASB has adopted a new accounting standard, referred to as Current Expected Credit Loss, or CECL. Upon adoption of CECL, a banking organization must record a one-time adjustment to its credit loss allowances as of the beginning of the fiscal year of adoption equal to the difference, if any, between the amount of credit loss allowances under the current methodology and the amount required under CECL. The federal banking regulators (the Federal Reserve, the Office of the Comptroller of the Currency and the FDIC) have adopted a rule that gives a banking organization the option to phase in over a three-year period the day-one adverse effects of CECL on its regulatory capital. Management did not elect the option to phase in the day-one adverse effects of CECL over a three-year period, and instead, elected to record the full effects of the adoption of CECL in 2023. For more on this new accounting standard, see "Note 1- Significant Accounting Policies-Recently Issued or Adopted Accounting Standards" in the Notes to Consolidated Financial Statements included in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

Federal Home Loan Bank System

The Bank is a member of the FHLB of Atlanta, which is one of 11 regional FHLBs that administer the home financing credit function of financial institutions. The FHLBs are subject to the oversight of the Federal Housing Finance Agency and each FHLB serves as a reserve or central bank for its members within its assigned region. The FHLBs are funded primarily from proceeds derived from the sale of consolidated obligations of the FHLB System and make loans or advances to members in accordance with policies and procedures established by the Board of Directors of the FHLB, which are subject to the oversight of the Federal Housing Finance Board. All advances from the FHLB of Atlanta are required to be fully secured by sufficient collateral as determined by the FHLB of Atlanta. In addition, all long-term advances are required to provide funds for residential home financing. At December 31, 2024, the Bank had no outstanding advances from the FHLB of Atlanta under an available credit facility of $453.9 million, which is limited to available collateral. See "Business - Sources of Funds - Borrowings."

As a member, the Bank is required to purchase and maintain stock in the FHLB of Atlanta. At December 31, 2024, the Bank had $1.1 million in FHLB of Atlanta stock, which was in compliance with this requirement. In past years, the Bank has received dividends on its FHLB of Atlanta stock. These dividend yields averaged 7.35% for the year ended December 31, 2024 and 5.03% for the year ended December 31, 2023.

The FHLBs continue to contribute to low- and moderately-priced housing programs through direct loans or interest subsidies on advances targeted for community investment and low- and moderate-income housing projects. These contributions have in the past affected adversely the level of FHLB dividends paid and could continue to do so in the future. These contributions could also have an adverse effect on the value of FHLB of Atlanta stock in the future. A reduction in value of the Bank's FHLB of Atlanta stock may result in a decrease in net income and possibly the Bank's capital.

Affiliate Transactions

The Company and the Bank are separate and distinct legal entities. Federal laws strictly limit the ability of banks to engage in certain transactions with their affiliates, including their bank holding companies. Transactions deemed to be "covered transactions" under Section 23A of the Federal Reserve Act and between a subsidiary bank and its parent company or the nonbank subsidiaries of the bank holding company are limited to 10% of the bank subsidiary's capital and surplus and, with respect to the parent company and all such nonbank subsidiaries, to an aggregate of 20% of the bank subsidiary's capital and surplus. Further, covered transactions that are loans and extensions of credit generally are required to be secured by eligible collateral in specified amounts. Federal law also requires that covered transactions and certain other transactions listed in Section 23B of the Federal Reserve Act between a bank and its affiliates be on terms as favorable to the bank as transactions with non-affiliates.

Community Reinvestment Act

The Bank is also subject to the provisions of the Community Reinvestment Act of 1977 ("CRA"), which requires the appropriate federal bank regulatory agency to assess a bank's performance under the CRA in meeting the credit needs of the community serviced by the Bank, including low and moderate income neighborhoods. The regulatory agency's assessment of a bank's record is made available to the public. Further, a bank's CRA performance rating must be considered in connection with a bank's application to, among other things, establish a new branch office that will accept deposits, relocate an existing office or merge or consolidate with, or acquire the assets or assume the liabilities of, a federally regulated financial institution, and in connection with certain applications by a bank holding company, such as bank acquisitions. The Bank received an "outstanding" rating during its most recent CRA examination.

On October 24, 2023, the federal banking agencies, including the FDIC issued a final rule designed to strengthen and modernize regulations implementing the CRA. The changes are designed to encourage banks to expand access to credit, investment and banking services in low- and moderate-income communities, adapt to changes in the banking industry including mobile and internet banking, provide greater clarity and consistency in the application of the CRA regulations and tailor CRA evaluations and data collection to bank size and type. The applicability date for the majority of the provisions in the CRA regulations is January 1, 2026, and additional requirements will be applicable on January 1, 2027.

Dividends

Dividends from the Bank constitute the major source of funds for dividends which may be paid by the Company to shareholders. The amount of dividends payable by the Bank to the Company depends upon the Bank's earnings and capital position, and is limited by federal and state laws, regulations and policies, including the capital conservation buffer requirement discussed above. South Carolina banking regulations restrict the amount of dividends that the Bank can pay to the Company, and may require prior approval before declaration and payment of any excess dividend.

The amount of dividends actually paid during any one period will be strongly affected by the Bank's management policy of maintaining a strong capital position. Federal law further provides that no insured depository institution may pay a cash dividend if it would cause the institution to be "undercapitalized," as defined in the prompt corrective action regulations. Moreover, the federal bank regulatory agencies also have the general authority to limit the dividends paid by insured banks if such payments should be deemed to constitute an unsafe and unsound practice.

Activities and Investments of Insured State-Chartered Financial Institutions

Federal law generally limits the activities and equity investments of FDIC-insured, state-chartered banks to those that are permissible for national banks. An insured state bank is not prohibited from, among other things, (i) acquiring or retaining a majority interest in a subsidiary, (ii) investing as a limited partner in a partnership the sole purpose of which is direct or indirect investment in the acquisition, rehabilitation or new construction of a qualified housing project, provided that such limited partnership investments may not exceed 2% of the bank's total assets, (iii) acquiring up to 10% of the voting stock of a company that solely provides or reinsures directors', trustees' and officers' liability insurance coverage or bankers' blanket bond group insurance coverage for insured depository institutions, (iv) acting as agent for a customer in many capacities, and (v) acquiring or retaining the voting shares of a depository institution if certain requirements are met.

Federal Reserve System

The Federal Reserve requires that all depository institutions maintain reserves on transaction accounts, primarily checking accounts. At December 31, 2024, the Bank was in compliance with the reserve requirements in place at that time.

Standards for Safety and Soundness

The federal banking regulatory agencies have prescribed, by regulation, guidelines for all insured depository institutions relating to internal controls, information systems and internal audit systems; loan documentation; credit underwriting; interest rate risk exposure; asset growth; asset quality; earnings; and compensation, fees and benefits. The guidelines set forth the safety and soundness standards that the federal banking agencies use to identify and address problems at insured depository institutions before capital becomes impaired. Each insured depository institution must implement a comprehensive written information security program that includes administrative, technical, and physical safeguards appropriate to the institution's size and complexity and the nature and scope of its activities. The information security program must be designed to ensure the security and confidentiality of customer information, protect against any unanticipated threats or hazards to the security or integrity of such information, protect against unauthorized access to or use of such information that could result in substantial harm or inconvenience to any customer, and ensure the proper disposal of customer and consumer information. Each insured depository institution must also develop and implement a risk-based response program to address incidents of unauthorized access to customer information in customer information systems. If the FDIC determines that an institution fails to meet any of these guidelines, it may require an institution to submit to the FDIC an acceptable plan to achieve compliance. Management of the Bank is not aware of any conditions relating to these safety and soundness standards which would require submission of a plan of compliance.

Environmental Issues Associated with Real Estate Lending

The Comprehensive Environmental Response, Compensation and Liability Act ("CERCLA"), a federal statute, generally imposes strict liability on all prior and present "owners and operators" of sites containing hazardous waste. However, Congress acted to protect secured creditors by providing that the term "owner and operator" excludes a person whose ownership is limited to protecting its security interest in the site. Since the enactment of the CERCLA, this "secured creditor exemption" has been the subject of judicial interpretations which have left open the possibility that lenders could be liable for cleanup costs on contaminated property that they hold as collateral for a loan. To the extent that legal uncertainty exists in this area, all creditors, including the Bank, that have made loans secured by properties with potentially hazardous waste contamination (such as petroleum contamination) could be subject to liability for cleanup costs, which costs often substantially exceed the value of the collateral property.

Privacy Standards and Cybersecurity

The Bank is subject to FDIC regulations implementing the privacy protection provisions of the Gramm-Leach-Bliley Financial Services Modernization Act of 1999. These regulations require the Bank to disclose its privacy policy, including informing consumers of its information sharing practices and informing consumers of their rights to opt out of certain practices. In addition, the federal banking agencies recently adopted rules providing for new notification requirements for banking organizations and their service providers for significant cybersecurity incidents. Specifically, the new rules require a banking organization to notify its primary federal regulator as soon as possible, and no later than 36 hours after, the banking organization determines that a "computer-security incident" rising to the level of a "notification incident" has occurred. Notification is required for incidents that have materially affected or are reasonably likely to materially affect the viability of a banking organization's operations, its ability to deliver banking products and services, or the stability of the financial sector. Service providers are required under the rule to notify affected banking organization customers as soon as possible when the provider determines that it has experienced a computer-security incident that has materially affected or is reasonably likely to materially affect the banking organization's customers for four or more hours.

In July 2023, the SEC adopted rules requiring registrants to disclose material cybersecurity incidents they experience and to disclose on an annual basis material information regarding their cybersecurity risk management, strategy, and governance. The new rules require registrants to disclose on Form 8-K any cybersecurity incident they determine to be material and to describe the material aspects of the incident's nature, scope, and timing, as well as its material impact or reasonably likely material impact on the registrant. For information regarding the Company's cybersecurity risk management, strategy and governance, see "Item 1C. Cybersecurity" contained in Part I of this 2024 Form 10-K.

Bank Secrecy Act / Anti-Money Laundering Laws

The Bank is subject to the Bank Secrecy Act and other anti-money laundering laws and regulations, including the USA PATRIOT Act of 2001. These laws and regulations require the Bank to implement policies, procedures, and controls to detect, prevent, and report money laundering and terrorist financing and to verify the identity of their customers. Violations of these requirements can result in substantial civil and criminal sanctions. In addition, provisions of the USA PATRIOT Act require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts, and effective in 2018, the beneficial owners of accounts. The federal financial institution regulatory agencies are directed to consider the effectiveness of a financial institution's anti-money laundering activities when reviewing mergers and acquisitions.

Other Consumer Protection Laws and Regulations

The Dodd-Frank Act established the CFPB and empowered it to exercise broad regulatory, supervisory and enforcement authority with respect to both new and existing consumer financial protection laws. The Bank is subject to consumer protection regulations issued by the CFPB, but as a financial institution with assets of less than $10 billion, the Bank is generally subject to supervision and enforcement by the FDIC and the State Board with respect to our compliance with federal and state consumer financial protection laws and regulations.

The Bank is subject to a broad array of federal and state consumer protection laws and regulations that govern almost every aspect of its business relationships with consumers. While the list set forth below is not exhaustive, these include the Truth-in-Lending Act, the Truth in Savings Act, the Electronic Fund Transfer Act, the Expedited Funds Availability Act, the Equal Credit Opportunity Act, the Fair Housing Act, the Real Estate Settlement Procedures Act, the Home Mortgage Disclosure Act, the Fair Credit Reporting Act, the Fair Debt Collection Practices Act, the Right to Financial Privacy Act, the Home Ownership and Equity Protection Act, the Consumer Leasing Act, the Fair Credit Billing Act, the Homeowners Protection Act, the Check Clearing for the 21st Century Act, laws governing flood insurance, laws governing consumer protections in connection with the sale of insurance, federal and state laws prohibiting unfair and deceptive business practices, and various regulations that implement some or all of the foregoing. These laws and regulations mandate certain disclosure requirements and regulate the manner in which financial institutions must deal with customers when taking deposits, making loans, collecting loans, and providing other services. Failure to comply with these laws and regulations can subject the Bank to various penalties, including but not limited to, enforcement actions, injunctions, fines, civil liability, criminal penalties, punitive damages, and the loss of certain contractual rights.

Regulation of the Company

The Company, as the sole shareholder of the Bank, is a registered bank holding company with the Federal Reserve. Bank holding companies are subject to comprehensive regulation by the Federal Reserve under the Bank Holding Company Act of 1956, as amended ("BHCA"), and the regulations promulgated thereunder. This regulation and oversight is generally intended to ensure that the Company limits its activities to those allowed by law and that it operates in a safe and sound manner without endangering the financial health of the Bank.

As a bank holding company, the Company is required to file with the Federal Reserve semi-annual and periodic reports and such additional information as the Federal Reserve may require and is subject to regular examinations by the Federal Reserve. The Federal Reserve may examine the Company, and any of its subsidiaries, and charge the Company for the cost of the examination. The Federal Reserve also has extensive enforcement authority over bank holding companies, including, among other things, the ability to assess civil money penalties, to issue cease and desist or removal orders and to require that a holding company divest subsidiaries (including its bank subsidiaries). In general, enforcement actions may be initiated for violations of law and regulations and unsafe or unsound practices.

The Bank Holding Company Act

Under the BHCA, the Company is supervised by the Federal Reserve. The Federal Reserve has a policy that a bank holding company is required to serve as a source of financial and managerial strength to its subsidiary banks and may not conduct its operations in an unsafe or unsound manner. In addition, the Dodd-Frank Act and earlier Federal Reserve policy provide that a bank holding company should serve as a source of strength to its subsidiary bank by having the ability to provide financial assistance to its subsidiary bank during periods of financial distress to the bank, and should maintain the financial flexibility and capital raising capacity to obtain additional resources for assisting its subsidiary bank. A bank holding company's failure to meet its obligation to serve as a source of strength to its subsidiary banks will generally be considered by the Federal Reserve to be an unsafe and unsound banking practice or a violation of the Federal Reserve's regulations or both. No regulations have yet been proposed by the Federal Reserve to implement the source of strength provisions of the Dodd-Frank Act. The Company and any subsidiaries that it may control are considered "affiliates" within the meaning of the Federal Reserve Act, and transactions between the Bank and affiliates (except subsidiaries of the Bank) are subject to numerous restrictions. With some exceptions, the Company and its subsidiaries, are prohibited from tying the provision of various services, such as extensions of credit, to other services offered by the Company, or by its affiliates.

Acquisitions

The BHCA prohibits a bank holding company, with certain exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company that is not a bank or bank holding company and from engaging directly or indirectly in activities other than those of banking, managing or controlling banks, or providing services for its subsidiaries. Under the BHCA, the Federal Reserve is authorized to approve the ownership of shares by a bank holding company in any company, the activities of which the Federal Reserve has determined to be so closely related to the business of banking or managing or controlling banks as to be a proper incident thereto. The list of activities determined by regulation to be closely related to banking within the meaning of the BHCA includes, among other things: operating a savings institution, mortgage company, finance company, credit card company or factoring company; performing certain data processing operations; providing certain investment and financial advice; underwriting and acting as an insurance agent for certain types of credit-related insurance; leasing property on a full-payout, non-operating basis; selling money orders, travelers' checks and U.S. Savings Bonds; real estate and personal property appraising; providing tax planning and preparation services; and, subject to certain limitations, providing securities brokerage services for customers. The Federal Reserve must approve the acquisition (or acquisition of control) of a bank or other FDIC-insured depository institution by a bank holding company, and the appropriate federal banking regulator must approve a bank's acquisition (or acquisition of control) of another bank or other FDIC-insured institution.

Capital Requirements

As discussed above, bank holding companies with less than $3.0 billion in consolidated assets are generally no longer subject to the Federal Reserve's capital regulations, which are essentially the same as the capital regulations applicable to the Bank described under the caption "Capital Requirements" above. If the Company were subject to regulatory guidelines for bank holding companies with $3.0 billion or more in assets at December 31, 2024, the Company would have exceeded all regulatory requirements. The Federal Reserve expects a holding company's subsidiary banks to be well capitalized under the prompt corrective action regulations. For additional information, see "Note 15 - Regulatory Matters" of the Notes to Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

Dividends

As a South Carolina corporation, the Company is subject to restrictions on the payment of dividends under South Carolina law. In addition, the Company is an entity separate and distinct from its principal subsidiary, Security Federal Bank, and derives substantially all of its revenue in the form of dividends from this subsidiary. Accordingly, the Company is, and will be, dependent upon dividends from the Bank to pay the principal of and interest on its indebtedness, to satisfy its other cash needs and to pay dividends on its common stock. The Company is also subject to certain federal regulatory considerations. The Federal Reserve has issued a policy statement on the payment of cash dividends by bank holding companies, which expresses the Federal Reserve's view that a bank holding company should pay cash dividends only to the extent that the company's net income for the past year is sufficient to cover both the cash dividends and a rate of earnings retention that is consistent with the company's capital needs, asset quality and overall financial condition, and that it is inappropriate for a company experiencing serious financial problems to borrow funds to pay dividends. Dividends are also subject to restriction if the capital conservation buffer requirement is not met.

Stock Repurchases

Bank holding companies, except for certain "well-capitalized" and highly rated bank holding companies, are required to give the Federal Reserve prior written notice of any purchase or redemption of its outstanding equity securities if the consideration for the purchase or redemption, when combined with the net consideration paid for all such purchases or redemptions during the preceding 12 months, is equal to 10% or more of their consolidated net worth. The Federal Reserve may disapprove a purchase or redemption if it determines that the proposal would constitute an unsafe or unsound practice or would violate any law, regulation, Federal Reserve order, or any condition imposed by, or written agreement with, the Federal Reserve.

Federal Securities Laws

The Company's common stock is registered with the SEC under Section 12(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). We are subject to information, proxy solicitation, insider trading restrictions and other requirements under the Exchange Act.

Sarbanes-Oxley Act of 2002

As a public company that files periodic reports with the SEC under the Exchange Act, the Company is subject to the Sarbanes-Oxley Act of 2002 ("Sarbanes-Oxley Act"), which addresses, among other issues, corporate governance, auditing and accounting, executive compensation and enhanced and timely disclosure of corporate information. The Sarbanes-Oxley Act represents significant federal involvement in matters traditionally left to state regulatory systems, such as the regulation of the accounting profession, and to state corporate law, such as the relationship between a board of directors and management and between a board of directors and its committees. Our policies and procedures have been updated to comply with the requirements of the Sarbanes-Oxley Act.

Jumpstart Our Business Startups ("JOBS") Act

The JOBS Act was signed into law on April 5, 2012 and allows banks and bank holding companies to terminate the registration of a class of securities under Section 12(g) and Section 12(b) of the Exchange Act if such class is held of record by less than 1,200 persons. The Company's Board continues to evaluate the costs and advantages and disadvantages of being an SEC registered company and the effects of deregistering its shares of common stock, including among other things, the resulting decrease in the liquidity of its shares.

TAXATION

Federal Taxation

The Company and the Bank report their income on a calendar year basis using the accrual method of accounting and are subject to federal income taxation in the same manner as other corporations with some exceptions, including particularly the Bank's reserve for bad debts discussed below. The following discussion of tax matters is intended only to summarize certain pertinent federal income tax matters and is not a comprehensive description of the tax rules applicable to the Bank or the Company.

To the extent that the Bank makes "nondividend distributions" to the Company, these distributions will be considered to result in distributions from the balance of its bad debt reserve as of December 31, 1987 (or a lesser amount if the Bank's loan portfolio decreased since December 31, 1987) and then from the supplemental reserve for losses on loans ("Excess Distributions"), and an amount based on the Excess Distributions will be included in the Bank's taxable income. Nondividend distributions include distributions in excess of the Bank's current and accumulated earnings and profits, distributions in redemption of stock and distributions in partial or complete liquidation. However, dividends paid out of the Bank's current or accumulated earnings and profits, as calculated for federal income tax purposes, will not be considered to result in a distribution from the Bank's bad debt reserve. The amount of additional taxable income created from an Excess Distribution is an amount that, when reduced by the tax attributable to the income, is equal to the amount of the distribution. Thus, if the Bank makes a "nondividend distribution," then approximately one and one-half times the Excess Distribution would be includable in gross income for federal income tax purposes, assuming a 21% corporate income tax rate (exclusive of state and local taxes). See "Regulation - Regulation of the Bank - Dividends" for limits on the payment of dividends by the Bank. The Bank does not intend to pay dividends that would result in a recapture of any portion of its tax bad debt reserve.

The Company may carryforward net operating losses indefinitely. As of December 31, 2024, management determined it is more likely than not that the total deferred tax asset will be realized except for the deferred tax asset associated with state net operating loss carryforwards, and, accordingly, has established a valuation allowance only for this item. The change in the valuation allowance was approximately $73,000.

The Company may exclude from its income dividends received from the Bank as a wholly-owned subsidiary of the Company that files a consolidated return with the Bank. The corporate dividends-received deduction is 100%, or 80%, in the case of dividends received from corporations with which a corporate recipient does not file a consolidated tax return, depending on the level of stock ownership of the payer of the dividend. Corporations that own less than 20% of the stock of a corporation distributing a dividend may deduct 70% of dividends received or accrued on their behalf.

The Company, the Bank and its consolidated subsidiaries have been audited or their books closed without audit by the IRS with respect to consolidated federal income tax returns through December 31, 2023. For additional information regarding income taxes, see "Note 14 - Income Taxes" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

State Taxation

South Carolina has adopted the Internal Revenue Code as it relates to commercial banks, effective for taxable years beginning after December 31, 1986. The Bank is subject to South Carolina income tax at the rate of 4.5%. The Bank has not been audited by the State of South Carolina during the past five years. The Company's income tax returns have not been audited by federal or state authorities within the last five years. For additional information regarding income taxes, see "Note 14 - Income Taxes" in the Notes to Consolidated Financial Statements contained in "Item 8. Financial Statements and Supplementary Data" of this 2024 Form 10-K.

Item 1A. Risk Factors.

An investment in our common stock involves various risks which are particular to Security Federal Corporation, our industry, and our market area. Before making an investment decision, you should carefully consider the risks and uncertainties described below, together with all the other information included in this report and our other documents filed with and furnished to the SEC. In addition to the risks and uncertainties described below, other risks and uncertainties not currently known to us or that we currently deem to be immaterial also may materially and adversely affect our business, financial condition, capital levels, liquidity, cash flows, results of operations and prospects. The market price of our common stock could decline significantly due to any of these identified or other risks, and you could lose some or all your investment.

Risks Related to Macroeconomic Conditions

Our business may be adversely affected by downturns in the national economy and in the economies in our market areas.

Our operations are significantly affected by the general economic conditions of the states of South Carolina and Georgia and the specific local markets in which we operate. Our entire real estate portfolio consists primarily of loans secured by properties located in Aiken, Richland, and Lexington Counties in South Carolina and Columbia and Richmond Counties in Georgia. Adverse economic conditions in our market areas could impact our growth rate, reduce our customers' ability to repay loans, and adversely impact our business, financial condition, and results of operations. Broader economic factors such as inflation, unemployment and money supply fluctuations also may adversely affect our profitability. Trade wars, tariffs, or shifts in trade policies between the United States and other nations could disrupt supply chains, increase costs for businesses, and reduce export opportunities for our customers. These developments may, in turn, negatively impact these businesses and, by extension, our operations and financial performance.

A deterioration in economic conditions in the market areas we serve, due to inflation, a recession, war, geopolitical conflicts, adverse weather conditions, or other factors could result in the following consequences, any of which, could have a materially adverse effect on our business, financial condition, or results of operations:

- Elevated instances of loan delinquencies, problematic assets, and foreclosures.
- An increase in our allowance for credit losses on loans;
- Reduced demand for our products and services, potentially leading to a decline in our overall loans or assets.
- Depreciation in collateral values linked to our loans, thereby diminishing borrowing capacities and asset values tied to existing loans.
- Reduced net worth and liquidity of loan guarantors, possibly impairing their ability to meet commitments to us.
- Reduction in our low-cost or noninterest-bearing deposits.

A decline in local economic conditions may have a greater effect on our earnings and capital than on the earnings and capital of larger financial institutions whose real estate loan portfolios are geographically diverse. Many of the loans in our portfolio are secured by real estate. Any deterioration in the real estate markets associated with the collateral securing mortgage loans could significantly impact borrowers' repayment capabilities and the value of collateral. Real estate values are affected by various factors, including economic conditions, governmental rules or policies, natural disasters such as earthquakes, and trade-related pressures that may affect construction costs or materials availability. If we are required to liquidate a significant amount of collateral during a period of reduced real estate values, our financial condition and profitability could be adversely affected.

Monetary policy, inflation, deflation, and other external economic factors could adversely impact our business, financial condition and results of operations.

Our financial condition and results of operations are affected by credit policies of monetary authorities, particularly the Federal Reserve. Actions by monetary and fiscal authorities, including the Federal Reserve, could lead to inflation, deflation, or other economic phenomena that could adversely affect our financial performance. Higher U.S. tariffs on imported goods could exacerbate inflationary pressures by increasing the cost of goods and materials for businesses and consumers. This may particularly affect small to medium-sized businesses, as they are less able to leverage economies of scale to mitigate cost pressures compared to larger businesses. Consequently, our business clients may experience increased financial strain, reducing their ability to repay loans and adversely impacting our results of operations and financial condition. Furthermore, a prolonged period of inflation could cause wages and other costs to us to increase, which could adversely affect our results of operations and financial condition. Virtually all of our assets and liabilities are monetary in nature, and as a result, interest rates tend to have a more significant impact on our performance than general levels of inflation or deflation. However, interest rates do not necessarily move in the same direction or magnitude as the prices of goods and services, creating additional uncertainty in the economic environment.

Risks Related to Our Lending Activities

Our allowance for credit losses may prove to be insufficient to absorb losses in our loan portfolio.

Lending money is a substantial part of our business, and each loan carries risks related to potential non-repayment or insufficient collateral to guarantee repayment. Various factors contribute to this risk, including:

- The cash flow generated by the borrower or the project being financed.
- Uncertainties and fluctuations in the future value of collateral for secured loans.
- The duration or term of the loan.
- The individual characteristics and creditworthiness of a borrower.
- Changes in economic and industry conditions over time.

We maintain an allowance for credit losses on loans, which is a reserve established through a provision for credit losses charged to expense. This allowance is intended to cover lifetime expected credit losses in our loan portfolio. The appropriate level of the allowance is determined by management through periodic reviews and consideration of several factors, including, but not limited to:

- Collective loss reserve: Assessing loans on a pooled basis with comparable risk traits, drawing from our historical default and loss data, macroeconomic indicators, feasible forecasts, regulatory standards, management's foresight into future events, and specific qualitative elements.
- Individual loss reserve: Evaluating individual loans with distinct risk characteristics, weighing the present value of anticipated future cash flows or the fair value of the underlying collateral.

The determination of the appropriate level of the allowance for credit losses involves a high degree of subjectivity and requires significant estimates of current credit risks and future trends, which may change materially. If our estimates are incorrect, the allowance may not be sufficient to cover the expected losses in our loan portfolio, resulting in the need to increase the allowance through the provision for credit losses, recorded as a charge against income. Additionally, management recognizes that new growth in loan portfolios, new loan products, and the refinancing of existing loans can result in portfolios comprised of unseasoned loans, which may not perform as historically or projected. This increases the risk that the allowance may be insufficient to absorb losses without significant additional provisions. Our allowance for credit losses on loans was 1.98% of total loans outstanding (excluding loans held for sale) at December 31, 2024. For additional information concerning our allowance for credit losses, see "Management's Discussion and Analysis of Financial Condition - Comparison of Results of Operations for the Years Ended December 31, 2024 and 2023 - Provision for Credit Losses" contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operation" of this 2024 Form 10-K.

In addition, bank regulatory agencies periodically review our allowance for credit losses and may require us to increase our provision for credit losses or recognize additional loan charge-offs. Any increases in the provision for credit losses may result in a decrease in net income and may have a material adverse effect on our financial condition, results of operations and capital.

If our non-performing assets increase, our earnings will be adversely affected.

At December 31, 2024, our non-performing assets (which consist of non-accrual loans) were $7.6 million, or 0.47% of total assets. Our non-performing assets adversely affect our net income in various ways:

- Interest income is recorded solely on a cash basis for non-accrual loans and any non-performing investment securities.
- No interest income is recorded for OREO.
- Expected loan losses are accounted for through a current-period provision for credit losses.
- Writing down property values within our OREO portfolio to mirror changing market values or recognizing other-than-temporary impairment on non-performing investment securities leads to increased non-interest expenses.
- Legal fees related to resolving problematic assets, along with carrying costs like taxes, insurance, and maintenance fees for our OREO, increase non-interest expenses.
- Active management involvement in resolving non-performing assets may divert attention from more profitable activities.

If additional borrowers become delinquent and we are unable to successfully manage our non-performing assets, our losses and troubled assets could increase significantly, which could have a material adverse effect on our financial condition and results of operations.

Our level of commercial real estate loans may expose us to increased lending risks.

While commercial real estate lending offers the potential for higher returns compared to single-family residential lending, it is more susceptible to fluctuations in regional and local economic conditions, presenting challenges in accurately predicting potential losses. Evaluating collateral and conducting financial statement analysis for these loans requires a more intricate approach during underwriting and continual assessment. At December 31, 2024, we had $288.5 million of commercial real estate loans, representing 41.2% of our total loan portfolio.

Commercial real estate loans typically involve larger principal amounts than other types of lending, and some borrowers hold multiple loans with us. Consequently, adverse developments in a single loan or credit relationship can significantly increase our risk exposure compared to single-family residential loans. Repayment of these loans depends on income generated or anticipated from the property securing the loan in amounts sufficient to cover operating expenses and debt service. Economic fluctuations or local market changes can impact this cash flow. For instance, failure to secure or renew leases can impair the borrower's ability to repay the loan. Commercial real estate loans also pose a greater credit risk than one-to-four family residential real estate loans, primarily because the collateral is less liquid. Further, many of these loans include large balloon payments upon maturity, increasing the risk of default as borrowers may need to sell or refinance the property to pay off the loan.

Unlike residential loans, a secondary market for most types of commercial real estate loans is not readily available, limiting our ability to mitigate credit risk by selling our interest. Foreclosing on these loans often entails longer holding periods due to fewer potential purchasers for the collateral. Consequently, charge-offs on commercial real estate loans may be comparatively higher on a per-loan basis than those in our residential or consumer loan portfolios.

Our construction real estate loans are based upon estimates of costs and the value of the completed project.

We originate construction loans for single-family residences, multi-family dwellings and projects, and commercial real estate, as well as loans for the acquisition and development and construction of residential subdivisions and commercial projects. At December 31, 2024, we had $109.9 million in construction loans, representing 15.7% of our total loan portfolio.

Construction lending involves inherent risks due to the need to estimate costs in relation to project values. Uncertainties in construction costs, market value fluctuations, and regulatory impacts make accurately evaluating total project funds and loan-to-value ratios challenging. Factors such as shifts in housing demand and unexpected building costs can significantly cause actual results to differ from estimates. Additionally, this type of lending often involves higher principal amounts and can be concentrated among a few builders. A downturn in housing or real estate markets could increase delinquencies, defaults, foreclosures, and reduce collateral values.

Some builders have multiple loans with our institution and also hold residential mortgage loans for rental properties with us. Consequently, an adverse development with one loan or credit relationship can expose us to a significantly greater risk of loss. Moreover, these loans often involve the disbursement of funds with repayment substantially dependent on the success of the project and borrower's ability to sell, lease, or secure permanent financing. Thus, repayment depends heavily on the project’s success rather than the borrower’s ability to directly repay principal and interest. Misjudging a project’s value could leave us with inadequate security and potential losses upon completion. Actively monitoring construction loans, through cost comparisons and on-site inspections, adds complexity and cost. Market interest rate hikes may also significantly impact construction loans, affecting end-purchaser borrowing costs and potentially reducing demand or the homeowner's ability to finance the completed home. Further, properties under construction are difficult to sell and often need completion to be sold successfully, complicating loan resolution. This might require additional funds or engaging another builder, which incurs further costs and market risks. Speculative construction loans, in particular, pose additional risks, especially in finding end-purchasers for finished projects.

Our construction loans include those with a sales contract or permanent loan in place for finished homes, as well as speculative construction loans, where purchasers for the finished homes may not be identified during or after the construction period. Speculative construction loans carry additional risks, particularly regarding the challenge of finding end-purchasers for completed projects. Land loans also present additional risks due to lack of income generated by the property and the potential illiquidity of the collateral. These risks can be significantly impacted by supply and demand conditions.

Construction, acquisition, and development ("A&D") loans carry additional risks due to the lack of income generated by the property and the potential illiquidity of the collateral. These risks are especially sensitive to supply and demand dynamics, significantly impacting this type of lending. Consequently, such loans often require substantial fund disbursements, where repayment depends on the project's success and the borrower's ability to develop, sell, or lease the property. This differs from the borrower's or guarantor's ability to independently repay principal and interest. At December 31, 2024, there were no non-performing A&D loans. However, a significant increase in non-performing construction and development loans could materially impact our financial condition and results of operations.

Repayment of our commercial and agricultural business loans is often dependent on the cash flows of the borrower, which may be unpredictable, and the collateral securing these loans may fluctuate in value.

At December 31, 2024, $36.9 million or 5.3% of our total loans were commercial and agricultural business loans. These loans carry distinct risks compared to residential and commercial real estate loans. Unlike real estate lending, which relies on predetermined loan-to-collateral values and views liquidation of the underlying real estate as the primary source of repayment in case of default, our commercial and agricultural business loans are primarily predicated on the borrower's cash flow and secondarily on provided collateral. The borrower's cash flow, often unpredictable, serves as the primary repayment source, supported by collateral such as equipment, inventory, or accounts receivable. However, relying solely on collateral in the event of default may be insufficient due to uncollectible receivables, obsolete inventory, or other factors.

Our real estate lending exposes us to the risk of environmental liabilities.

In the course of our business, we may foreclose on and take title to real estate, and we could be subject to environmental liabilities concerning these properties. We may be held liable by a governmental entity or third parties for property damage, personal injury, investigation, and clean-up costs incurred due to environmental contamination. We may also be required to investigate or clean up hazardous or toxic substances, or chemical releases, at a property. The costs associated with investigation or remediation activities could be substantial. In addition, as the owner or former owner of a contaminated site, we may be subject to common law claims by third parties for damages and costs resulting from environmental contamination emanating from the property. If we ever become subject to significant environmental liabilities, our business, financial condition, and results of operations could be materially and adversely affected.

If our investments in real estate are not properly valued or sufficiently reserved to cover actual losses, or if we are required to increase our valuation reserves, our earnings could be reduced.

We obtain updated valuations in the form of appraisals and broker price opinions when a loan has been foreclosed upon and the property is taken as OREO, as well as at certain other times during the asset's holding period. Our net book value of the loan at the time of foreclosure and thereafter is compared to the updated market value of the foreclosed property less estimated selling costs (fair value). A charge-off is recorded for any excess of the asset's net book value over its fair value. If our valuation process is incorrect, or if the property declines in value after foreclosure, the fair value of our investments in OREO may not be sufficient to recover our net book value in such assets, resulting in the need for additional charge-offs. Additional material charge-offs to our investments in OREO could have a materially adverse effect on our financial condition and results of operations. In addition, bank regulators periodically review our OREO and may require us to recognize further charge-offs. Significant charge-offs, as required by such regulators, may have a materially adverse effect on our financial condition and results of operations.

Our securities portfolio may be negatively impacted by fluctuations in market value, changes in the tax code, and interest rates.

Factors beyond our control can significantly influence the fair value of securities in our portfolio and may cause adverse changes to the fair value of these securities. These factors include, but are not limited to, rating agency actions regarding the securities, defaults by, or other adverse events affecting, the issuer or the underlying securities, and changes in market interest rates, as well as continued instability in the capital markets. Any of these factors, among others, could result in realized and/or unrealized losses in future periods and declines in other comprehensive income, which could materially affect on our business, financial condition and results of operations. The process for determining whether the impairment of a security is other-than-temporary usually requires complex, subjective judgments about the future financial performance and liquidity of the issuer and any collateral underlying the security to assess the probability of receiving all contractual principal and interest payments on the security. There can be no assurance that declines in market value will not result in other-than-temporary impairments of these assets, leading to accounting charges that could have a material adverse effect on our net income and capital levels. For the year ended December 31, 2024, we did not incur any other-than-temporary impairments in our securities portfolio.

Risk Related to Changes in Market Interest Rates

Changes in interest rates may reduce our net interest income, and may result in higher defaults in a rising rate environment.

Our earnings and cash flows are largely dependent upon our net interest income, which is significantly affected by interest rates. Interest rates are highly sensitive to factors beyond our control, such as general economic conditions and policies set by governmental and regulatory bodies, particularly the Federal Reserve. Increases in interest rates could reduce our net interest income, weaken the housing market by curbing refinancing activity and home purchases, and negatively affect the broader U.S. economy, potentially leading to slower economic growth or recessionary conditions.

We principally manage interest rate risk by managing our volume and mix of our earning assets and funding liabilities. If we are unable to manage this risk effectively, our business, financial condition, and results of operations could be materially affected.

Our net interest margin, the difference between the yield on interest-earning assets and the cost of interest-bearing liabilities, can be adversely affected by interest rate changes. While yields on assets and costs of liabilities tend to move in the same direction, they may do so at different speeds, causing the margin to expand or contract. As our interest-bearing liabilities often have shorter durations than our interest-earning assets, a rise in interest rates may lead to funding costs increasing faster than asset yields, compressing our net interest margin. Additionally, changes in the slope of the yield curve, such as flattening or inversion, can further pressure our margins as funding costs rise relative to asset yields. Conversely, falling rates can increase loan prepayments, leading to reinvestment in lower-yielding assets, reducing income.

In a rising rate environment, retaining deposits can become costlier. If deposit and borrowing rates rise faster than loan and investment yields, our net interest income and overall earnings could decline. Additionally, adjustable-rate residential mortgage loans and home equity lines of credit may face increased default risks in a rising rate environment. Interest rate fluctuations also influence the fair value of fixed-rate investment securities, which inversely correlates with rate changes. At December 31, 2024, the fair value of our securities available for sale was $525.6 million, with unrealized net losses of $31.1 million reflected in stockholders' equity. Further declines in fair value from rising rates could have an adverse effect on stockholders' equity.

While we employ asset and liability management strategies to mitigate interest rate risk, unexpected, substantial, or prolonged rate changes could materially affect our financial condition and results of operations. Additionally, our interest rate risk models and assumptions may not fully capture the impact of actual rate changes on our balance sheet or projected operating results. For further details, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations – Asset and Liability Management and Market Risk" of this 2024 Form 10–K.

An increase in interest rates, change in the programs offered by governmental sponsored entities ("GSE"), or our ability to qualify for such programs may reduce our mortgage revenues, which would negatively impact our non-interest income.

Our mortgage banking operations contribute significantly to our noninterest income, primarily through gains on the sale of one-to-four-family real estate loans. These loans are sold pursuant to programs offered by Fannie Mae, which entity accounts for a substantial portion of the secondary market for such loans. Changes to these programs, our eligibility to participate, the criteria for loan acceptance, or related laws could materially and adversely affect our results of operations.

Mortgage banking is generally considered a volatile source of income because it depends largely on loan volume, which is influenced by prevailing market interest rates. In a rising or higher interest rate environment, our originations of mortgage loans may decrease, resulting in fewer loans that are available to be sold to investors. This would result in a decrease in mortgage banking revenues and a corresponding decrease in noninterest income.

Our results of operations are also affected by noninterest expenses associated with mortgage banking activities, including salaries and employee benefits, occupancy, equipment, data processing, and other operating costs. During periods of reduced loan demand, we may face challenges in reducing these expenses proportionately, which could adversely impact our results of operations. Although we sell loans into the secondary market without recourse, we provide customary representations and warranties to buyers. If these representations and warranties are breached, we may be required to repurchase the loans, potentially incurring a loss.

Risk Related to Regulatory and Compliance Matters

New or changing tax, accounting, and regulatory rules and interpretations could significantly impact strategic initiatives, results of operations, cash flows, and financial condition.

The financial services industry is extensively regulated. Federal and state banking regulations are designed primarily to protect the deposit insurance funds and consumers, not to benefit our shareholders. Regulations may sometimes impose significant limitations on operations. Regulatory authorities have extensive discretion in connection with their supervisory and enforcement activities, including the imposition of restrictions on an institution's operations, the classification of assets by the institution and the adequacy of an institution's allowance for credit losses. These bank regulators also have the ability to impose conditions in the approval of merger and acquisition transactions.

The significant federal and state banking regulations that affect us are described in this report under "Business - Regulation" in Item 1 of this 2024 Form 10-K. These regulations, along with the existing tax, accounting, securities, insurance, and monetary laws, regulations, rules, standards, policies and interpretations, control the methods by which financial institutions conduct business, implement strategic initiatives and tax compliance, and govern financial reporting and disclosures. These laws, regulations, rules, standards, policies, and interpretations are constantly evolving and may change significantly over time. Any new regulations or legislation or changes in existing regulations or oversight, whether a change in regulatory policy or a change in a regulator's interpretation of a law or regulation, could have a material impact on our operations, increase our costs of regulatory compliance and of doing business and/or otherwise adversely affect us and our profitability. Additionally, actions by regulatory agencies or significant litigation against us and may lead to penalties that materially affect us. Further, changes in accounting standards can be both difficult to predict and involve judgment and discretion in their interpretation by us and our independent registered public accounting firm. These changes could materially impact, potentially even retroactively, how we report our financial condition and results of our operations as could our interpretation of those changes. We cannot predict what restrictions may be imposed upon us with future legislation.

Non-compliance with the USA PATRIOT Act, Bank Secrecy Act, or other laws and regulations could result in fines or sanctions.

The USA PATRIOT Act and Bank Secrecy Acts and related regulations require financial institutions to develop programs to prevent financial institutions from being used for money laundering and terrorist activities. If such activities are detected, financial institutions are obligated to file suspicious activity reports with the U.S. Treasury's Office of Financial Crimes Enforcement Network. These rules require financial institutions to establish procedures for identifying and verifying the identity of customers seeking to open new financial accounts and beneficial owners of accounts. Failure to comply with these regulations could result in fines or sanctions. While we have developed policies and procedures designed to assist in compliance with these laws and regulations, no assurance can be given that these policies and procedures will be effective in preventing violations of these laws and regulations. If our policies and procedures are deemed deficient, we would be subject to liability, including fines and regulatory actions, which may include restrictions on our ability to pay dividends and the denial of regulatory approvals to proceed with certain aspects of our business plan, including acquisitions. Additionally, any perceived or actual failure to prevent money laundering or terrorist financing activities could significantly damage our reputation. These outcomes could have a material adverse effect on our business, financial condition, results of operations, and growth prospects.

Our reported financial results depend on management's selection of accounting methods and certain assumptions and estimates, which, if incorrect, could cause unexpected losses in the future.

Our accounting policies and methods are fundamental to how we record and report our financial condition and results of operations. Management must exercise judgment in selecting and applying many of these accounting policies and methods so they comply with generally accepted accounting principles and reflect management's judgment regarding the most appropriate manner to report our financial condition and results of operations. In some cases, management must select the accounting policy or method to apply from two or more alternatives, any of which might be reasonable under the circumstances, yet might result in us reporting materially different results than would have been reported under a different alternative.

Certain accounting policies are critical to presenting our financial condition and results of operations. They require management to make difficult, subjective or complex judgments about matters that are uncertain. Materially different amounts could be reported under different conditions or using different assumptions or estimates. These critical accounting policies include, but are not limited to the allowance for credit losses on loans, securities and unfunded commitments; the valuation of real estate acquired in connection with foreclosures or in satisfaction of loans; income taxes, including tax provisions and realization of deferred tax assets; and the fair value of assets and liabilities. Because of the uncertainty of estimates involved in these matters, we may be required, among other things, to significantly increase the allowance for credit losses and/or sustain credit losses that are significantly higher than the reserve provided. For more information, refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" contained in "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" of this 2024 Form 10-K.

We are subject to an extensive body of accounting rules and best practices. Periodic changes to such rules may change the treatment and recognition of critical financial line items and affect our profitability.

Our business operations are significantly influenced by the extensive body of accounting regulations in the United States. Regulatory bodies periodically issue new guidance, altering accounting rules and reporting requirements, which can substantially affect the preparation and reporting of our financial statements. These changes might necessitate retrospective application, potentially leading to restatements of prior period financial statements.

One such significant change in 2023 was the implementation of the CECL model, which we adopted on January 1, 2023. Under the CECL model, financial assets carried at amortized cost, such as loans and held-to-maturity debt securities, are presented at the net amount expected to be collected. This forward-looking approach in estimating expected credit losses contrasts starkly with the prior, "incurred loss" model, which delays recognition until a loss is probable. CECL mandates considering historical experience, current conditions, and reasonable forecasts affecting collectability, leading to periodic adjustments of financial asset values. However, this forward-looking methodology, reliant on macroeconomic variables, introduces the potential for increased earnings volatility due to unexpected changes in these indicators between periods. An additional consequence of CECL is an accounting asymmetry between loan-related income, recognized periodically based on the effective interest method, and credit losses, recognized upfront at origination. This asymmetry might create the perception of reduced profitability during loan expansion periods due to the immediate recognition of expected credit losses. Conversely, periods with stable or declining loan levels might seem relatively more profitable as income accrues gradually for loans where losses had been previously recognized.

Our growth or future losses may require us to raise additional capital in the future, but that capital may not be available when it is needed, or the cost of that capital may be exceedingly high.

We are required by federal regulatory authorities to maintain adequate levels of capital to support our operations. We anticipate that our capital resources will satisfy our capital requirements for the foreseeable future. Nonetheless, we may at some point need to raise additional capital to support continued growth or be required by our regulators to increase our capital resources. Our ability to raise additional capital, if needed, will depend on conditions in the capital markets at that time, which are outside our control, and on our financial condition and performance. Accordingly, we may not be able to raise additional capital, if needed, on terms that are acceptable to us. If we cannot raise additional capital when needed, our operations could be materially impaired and our financial condition and liquidity could be materially and adversely affected. In addition, if we are unable to raise additional capital when required by our banking regulators, we may be subject to additional adverse regulatory action.

Risks Related to Cybersecurity, Third Parties and Technology

We are subject to certain risks related to our use of technology, including the potential for cyber-attacks and system failures.

Our security measures may not be sufficient to mitigate the risk of a cyber-attack. Communications and information systems are critical to our operations, as we rely on them to manage customer relationships, maintain our general ledger, and support other business functions. Our operations depend on the secure processing, storage, and transmission of confidential information through our computer systems and networks. While we take protective measures and adapt them as circumstances evolve, our systems may remain vulnerable to breaches, unauthorized access, denial-of-service attacks, misuse, malware, or other cyber threats. Any such event could compromise our or our customers' confidential information, disrupt operations, or harm customers and counterparties. If these risks materialize, we may incur significant expenses to investigate and remediate security vulnerabilities, enhance protective measures, or address the impact of an attack. Such incidents could expose us to litigation, regulatory scrutiny, financial losses not fully covered by insurance, and reputational damage, which could deter customers from using our services.

Security breaches in our internet banking activities could further expose us to liability and reputational harm. Cybersecurity risks are particularly heightened in internet banking. Advances in criminal sophistication, technology, or vulnerabilities in third-party systems could lead to breaches that compromise the security of data and transactions, potentially discouraging customers from using our online services. While we continue to invest in systems and processes to detect and prevent breaches, no system is foolproof. A breach could result in financial losses, reputational harm, regulatory penalties, compliance costs, and legal liabilities, adversely affecting our financial condition and ability to grow our online services.

Increases in criminal activity levels and sophistication, advances in computer capabilities, new discoveries, vulnerabilities in third party technologies (including browsers and operating systems) or other developments could result in a compromise or breach of the technology, processes and controls that we use to prevent fraudulent transactions and to protect data about us, our customers and underlying transactions. Any compromise of our security could deter customers from using our internet banking services that involve the transmission of confidential information. Although we have developed and continue to invest in systems and processes that are designed to detect and prevent security breaches and cyber-attacks and periodically test our security, these precautions may not protect our systems from compromises or breaches of our security measures, and could result in losses to us or our customers, our loss of business and/or customers, damage to our reputation, the incurrence of additional expenses, disruption to our business, our inability to grow our online services or other businesses, additional regulatory scrutiny or penalties, or our exposure to civil litigation and possible financial liability, any of which could have a material adverse effect on our business, financial condition and results of operations.

In addition, our security measures may not fully protect us from system failures or interruptions. While we have policies and procedures to mitigate these risks, we cannot guarantee their effectiveness. We also rely on third-party providers for data processing and operational support. Although we carefully select these providers, we do not control their actions. If a third-party vendor experiences disruptions, cyber-attacks, or fails to meet service standards, it could impair our ability to process transactions, deliver services, or conduct business. Transitioning to alternative vendors could involve significant delays and costs.

Our business may also be adversely affected by the increasing prevalence of fraud and other financial crimes. As a bank, we are vulnerable to fraudulent activity, which may result in financial losses, increased costs, or damage to our reputation. Fraud may take many forms, including check fraud, electronic fraud, wire fraud, phishing, and social engineering. Nationally, incidents of fraud and financial crimes have been on the rise, and we have experienced losses due to such activities. While we have policies and procedures to prevent these losses, we cannot guarantee that they will not occur.

We are subject to certain risks in connection with our data management or aggregation.

We are reliant on our ability to manage data and our ability to aggregate data in an accurate and timely manner to ensure effective risk reporting and management. Our ability to manage data and aggregate data may be limited by the effectiveness of our policies, programs, processes and practices that govern how data is acquired, validated, stored, protected and processed. While we continuously update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risks, as well as to manage changing business needs.

<u>Risks Related to Our Business and Industry Generally</u>

We are dependent on key personnel and the loss of one or more of those key personnel may materially and adversely affect our prospects.

Competition for qualified employees in the banking industry is intense, with a limited pool of candidates experienced in community banking. Our success relies on attracting and retaining skilled management, loan origination, finance, administrative, marketing, and technical personnel, as well as on the continued contributions of key executives, including our Chief Executive Officer, J. Chris Verenes, and other critical employees. Losing any of these individuals could result in a challenging transition period and negatively impact our operations. The loss of these key personnel or directors nearing retirement without suitable replacements could adversely affect our business.

Ineffective liquidity management could impair our ability to fund operations and jeopardize our financial condition, growth and prospects.

Maintaining sufficient liquidity is essential for the operation of our business. We require sufficient liquidity to meet customer loan requests, customer deposit maturities/withdrawals, payments on our debt obligations as they come due, and other cash commitments under both normal operating conditions and other unpredictable circumstances causing industry or general financial market stress. Our access to funding sources in amounts adequate to finance our activities on terms that are acceptable to us could be impaired by factors that affect us specifically, or the financial services industry or economy generally. Factors that could detrimentally impact our access to liquidity sources include a downturn in the geographic markets in which our loans and operations are concentrated or difficult credit markets. Our access to deposits may also be affected by the liquidity needs of our depositors. In particular, a majority of our liabilities are checking accounts and other liquid deposits, which are payable on demand or upon several days' notice, while by comparison, a substantial majority of our assets are loans, which cannot be called or sold in the same time frame. Although we have historically been able to replace maturing deposits and advances as necessary, we might not be able to replace such funds in the future, especially if a large number of our depositors seek to withdraw their accounts, regardless of the reason. A failure to maintain adequate liquidity could materially and adversely affect our business, results of operations, or financial condition.

Additionally, collateralized public funds are bank deposits of state and local municipalities. These deposits are required to be secured by certain investment grade securities to ensure repayment, which on the one hand tends to reduce our contingent liquidity risk by making these funds somewhat less credit sensitive, but on the other hand reduces standby liquidity by restricting the potential liquidity of the pledged collateral. Although these funds historically have been a relatively stable source of funds for us, availability depends on the individual municipality's fiscal policies and cash flow needs. At December 31, 2024, $131.8 million of our deposits were public funds.

If we fail to meet the expectations of our stakeholders with respect to our environmental, social and governance ("ESG") practices, including those relating to sustainability, it may have an adverse effect on our reputation and results of operation.

Our reputation may suffer if our diversity, equity, and inclusion ("DEI") efforts fall short of expectations. In addition, various private third-party organizations have developed rating systems to evaluate companies on their ESG and DEI practices. These ratings may influence investors' decisions on investments and voting. Any unfavorable ratings could damage our reputation and generate negative sentiment among investors and other stakeholders. Furthermore, while the costs associated with ESG-related compliance may rise under current regulatory frameworks, future changes in government policy, such as a potential shift in administration, could lead to deregulation or reduced oversight in ESG and DEI areas, potentially altering these cost dynamics. However, regardless of regulatory changes, failure to adapt to evolving investor and stakeholder expectations could still harm our reputation, hinder our ability to do business with certain partners, and negatively impact our stock price. Moreover, even with a shift in government policy, private third-party organizations and institutional investors may continue to demand increased transparency, requiring companies to navigate a complex and potentially inconsistent landscape for reporting, due diligence, and disclosure.

The Company's ability to pay dividends and make subordinated debt payments is subject to the ability of the Bank to make capital distributions to the Company.

Security Federal is a separate legal entity from the Bank and does not have significant operations of its own. The long-term ability of the Company to pay dividends to its stockholders and debt payments is based primarily upon the ability of the Bank to make capital distributions to Security Federal, and also on the availability of cash at the holding company level. The availability of dividends from the Bank is limited by the Bank's earnings and capital, as well as various statutes and regulations. In the event, the Bank is unable to pay dividends to Security Federal, Security Federal may not be able to pay dividends on its common stock or make payments on its outstanding debt. Consequently, the inability to receive dividends from the Bank could adversely affect our financial condition, results of operations, and future prospects. At December 31, 2024, the Company had $178.3 million in unrestricted cash to support dividend and debt payments.

Item 1B. Unresolved Staff Comments

None.

Item 1C. Cybersecurity

We rely extensively on various information systems and other electronic resources to operate our business. In addition, nearly all of our customers, service providers and other business partners on whom we depend, including the providers of our online banking, mobile banking and accounting systems, use their own electronic information systems. Any of these systems can be compromised, including by employees, customers and other individuals who are authorized to use them, and bad actors using sophisticated and a constantly evolving set of software, tools and strategies to do so. The nature of our business, as a financial-services provider, and our relative size, make us and our business partners high-value targets for these bad actors to pursue. See “Risks Related to Information Security and Business Interruption” section of the Risk Factors included in Item 1A of this 2024 Form 10-K for additional information.

Accordingly, we have devoted significant resources to assessing, identifying and managing risks associated with cybersecurity threats, including:

- Implementing an Information Security Program that establishes policies and procedures for security operations and governance;
- Establishing an Information Technology Steering Committee that is responsible for security administration, including conducting regular assessments of our information systems, existing controls, vulnerabilities and potential improvements;
- Implementing layers of controls and not allowing excessive reliance on any single control;
- Employing a variety of preventative and detective tools designed to monitor, block and provide alerts regarding suspicious activity;
- Continuously evaluating tools that can detect and help respond to cybersecurity threats in real-time;
- Leveraging people, processes and technology to manage and maintain cybersecurity controls;
- Maintaining a third party risk management program designed to identify, assess and manage risks associated with external service providers;
- Performing due diligence with respect to our third-party service providers, including their cybersecurity practices;
- Engaging third-party cybersecurity consultants, who conduct periodic penetration testing, vulnerability assessments and other procedures to identify potential weaknesses in our systems and processes; and
- Conducting periodic cybersecurity training for our employees and the Company’s Board.

The Information Security Program is a key part of our overall risk management system, which is administered by our Information Technology Steering Committee. The program includes administrative, technical and physical safeguards to help protect the security and confidentiality of customer records and information.

From time-to-time, we have identified cybersecurity threats that require us to make changes to our processes and to implement additional safeguards. While we have not experienced cybersecurity incidents that have materially affected our business, operations, or financial condition to date, we recognize that evolving cyber threats present a continuing risk. A successful cybersecurity breach, particularly one affecting our critical systems or third-party service providers, could result in operational disruptions, financial losses, reputational damage, legal or regulatory consequences, and loss of customer confidence. For example, unauthorized access to our systems could lead to data theft, fraud, or extended downtime impacting our ability to provide financial services. If such an event were to occur, it could have a material adverse effect on our results of operations and financial condition.

The Company’s management team is responsible for the day-to-day management of cybersecurity risks we face and oversees the Information Technology Steering Committee. The Information Technology Steering Committee manages the oversight of the information security assessment, development of policies, standards and procedures, testing, training and security report processes for the Company. The Information Technology Steering Committee is comprised of officers with the appropriate expertise and authority to oversee the Information Security Program.

In addition, the Company’s Board is responsible for the oversight of risk management, including cybersecurity risks. In that role, the Company’s Board, with support from the Company’s management and third party cybersecurity advisors, are responsible for ensuring that the risk management processes designed and implemented by management are adequate and functioning as designed. The Board reviews and approves an information security program, vendor management policy (including third-party service providers), acceptable use policy, incident response policy and business continuity planning policy on an annual basis. All the aforementioned policies are developed and implemented by management of the Company. To carry out their duties, the Board receives updates from the Information Technology Steering Committee regarding cybersecurity risks and the Company’s efforts to prevent, detect, mitigate and remediate any cybersecurity.

Item 2. Properties

As of December 31, 2024, we owned the buildings and land for 12 of our branch offices and our operations center, leased the land and owned improvements for one office, and leased five other offices, including our main office. The Ridge Spring branch is owned by the Town of Ridge Spring, with some capital improvements made by Security Federal. Additionally, we own two other properties: one lot originally purchased for a future branch site, which is listed for sale, and one building adjacent to our 1705 Whiskey Road office, which is leased. We also rent and sublease a building adjacent to our main office. See "Note 5 - Premises and Equipment, Net and Leases" of the Notes to Consolidated Financial Statements contained in “Item 8. Financial Statements and Supplementary Data” of this 2024 Form 10-K.

Item 3. Legal Proceedings

The Company is involved as plaintiff or defendant in various legal actions arising in the course of its business. It is the opinion of management, after consultation with counsel, that the resolution of these legal actions will not have a material adverse effect on the Company's financial condition and results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information and Holders: The Company’s stock is traded on the OTC Pink Open Market under the symbol “SFDL.OB.” As of March 14, 2025, the Company had approximately 279 shareholders of record, not including shares held in street name. Any over-the-counter market quotations of the Company’s stock reflect inter-dealer prices, without retail mark-up, markdown or commission and may not represent actual transactions.

Dividends: Our Board of Directors has declared quarterly cash dividends on our common stock for 129 consecutive quarters. Our cash dividend payout policy is reviewed regularly by management and the Board of Directors. Any dividends declared and paid in the future would depend upon a number of factors, including capital requirements, our financial condition and results of operations, tax considerations, statutory and regulatory limitations, and general economic conditions. No assurances can be given that any dividends will be paid or that, if paid, will not be reduced or eliminated in future periods. Our future payment of dividends may depend, in part, upon receipt of dividends from the Bank, which are restricted by federal regulations.

Purchases of Equity Securities by Issuer and Affiliated Purchasers. The following table summarizes common stock repurchases during the three months ended December 31, 2024

Period	Total Number of Shares Purchased	Average Price Paid Per Share	Total Number of Shares Repurchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Repurchased Under the Plans or Programs (1)
October 1, 2024 - October 31, 2024	-	$ -	-	135,276
November 1, 2024 - November 30, 2024	8,210	27.00	8,210	127,066
December 1, 2024 - December 31, 2024	-	-	-	127,066
Total	8,210	$ 27.00	8,210	

(1) On June 23, 2023, the Company announced that its Board of Directors had approved a share repurchase program authorizing the repurchase of up to three percent, or approximately 97,612 shares, of the Company's outstanding common stock as of that date. The program has no set expiration date and will remain in effect until the authorized shares have been fully repurchased, unless otherwise modified or terminated. The Board retains the discretion to suspend, terminate, or modify the program at any time based on factors such as market conditions, repurchase costs, alternative investment opportunities, liquidity needs, and other relevant considerations. On August 19, 2024, the Board authorized an increase in the repurchase program, adding an additional 100,000 shares to the total shares available for repurchase.

Equity Compensation Plan Information. The equity compensation plan information presented under subparagraph (d) in Part III, Item 12 of this report is incorporated herein by reference.

Item 6. [Reserved]

Item 7. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>

This discussion and analysis reviews our consolidated financial statements and other relevant statistical data and is intended to enhance your understanding of our financial condition and results of operations. The information in this section has been derived from the Consolidated Financial Statements and footnotes thereto, that appear in Part II, "Item 8. Financial Statements and Supplementary Data" and should be read in conjunction with these Consolidated Financial Statements and footnotes and the business and financial information provided in this 2024 Form 10-K.

General

As a South Carolina corporation, the Company is authorized to engage in any activity permitted by South Carolina General Corporation Law. Functioning as a single bank holding company, the Company leverages this structure to potentially broaden the scale and range of financial services beyond the current offerings of the Bank. This holding company setup not only grants the Company enhanced flexibility compared to the Bank but also allows for diversification of business activities through existing or newly formed subsidiaries, acquisitions, mergers with financial institutions, and other companies. Presently, there are no existing arrangements or agreements regarding such acquisitions, and the Company's future activities will be funded through the ongoing operations of the Bank and borrowings from third parties. Additionally, potential funding sources may include the sale of additional securities or income generated by the Company's various activities, although no plans for such actions are in place at this time.

The investment and other activities of the Company have had no significant impact on the results of operations for the periods presented in the Consolidated Financial Statements included herein. Given that all material business operations are conducted through the Bank, the following discussion of financial results primarily indicative of the activities of the Bank.

The principal business of the Bank is accepting deposits from the general public and originating consumer and commercial business loans as well as mortgage loans that enable borrowers to purchase or refinance one-to-four family residential real estate. The Bank also originates construction loans on single-family residences, multi-family dwellings, and commercial real estate, as well as loans for the acquisition, development and construction of residential subdivisions, and commercial projects. The Bank also provides trust services and it offers property and casualty insurance products through its subsidiary, SFINS.

The Bank's net income depends primarily on its interest rate spread, which is the difference between the average yield earned on its loan and investment portfolios and the average rate paid on its deposits and borrowings. When the rate earned on interest-earning assets equals or exceeds the rate paid on interest-bearing liabilities, this positive interest rate spread will generate net interest income. The Bank's interest spread is influenced by interest rates, deposit flows, and loan demands. Levels of non-interest income and operating expense are also significant factors in earnings.

Critical Accounting Estimates

We prepare our consolidated financial statements in accordance with GAAP. In doing so, we have to make estimates and assumptions. Our critical accounting estimates are those estimates that involve a significant level of uncertainty at the time the estimate was made, and changes in the estimate that are reasonably likely to occur from period to period, or use of different estimates that we reasonably could have used in the current period, would have a material impact on our financial condition or results of operations. Accordingly, actual results could differ materially from our estimates. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis. We have reviewed our critical accounting estimates with the audit committee of our Board of Directors.

The significant accounting policies of the Company are described in Note 1 of the Notes to the Consolidated Financial Statements included under "Item 8. Financial Statements and Supplementary Data," in this 2024 Form 10-K.

The Company believes the allowance for credit losses is a critical accounting policy that requires the most significant judgments, estimates and assumptions used in preparation of the Consolidated Financial Statements. The impact of an unexpectedly large loss could deplete the allowance and potentially require increased provisions to replenish the allowance, which would negatively affect earnings. The Company considers the allowance for credit losses to be a critical accounting policy, requiring significant judgments, estimates, and assumptions in preparing its Consolidated Financial Statements. An unexpectedly large loss could deplete the allowance, necessitating increased provisions that may negatively impact earnings. The CECL method is employed for credit loss provisioning, with all credit losses and recoveries charged and credited, respectively, to the related allowance. Additions to the allowance are determined based on various factors, including collateral value, borrower guarantees, repayment ability, loan portfolio composition, and economic conditions. Monthly evaluations are conducted, adjusting the allowance in response to changes. While management uses the best available information, future adjustments may be necessary if economic conditions differ significantly from assumptions. Further details on the estimation process and methodology are discussed in the "Financial Condition" and "Comparison of the Years Ended December 31, 2024 and 2023 - Provision for Credit Losses" sections of this 2024 Form 10-K.

The Company uses assumptions and estimates in determining income taxes payable or refundable for the current year, deferred income tax liabilities and assets for events recognized differently in its financial statements and income tax returns, and income tax expense. Determining these amounts requires analysis of certain transactions and interpretation of tax laws and regulations.

The Company exercises considerable judgment in evaluating the amount and timing of recognition of the resulting tax liabilities and assets. These judgments and estimates are reevaluated on a continual basis as regulatory and business factors change.

No assurance can be given that either the tax returns submitted by the Company or the income tax reported on the Consolidated Financial Statements will not be adjusted by either adverse rulings by the United States Tax Court, changes in the tax code, or assessments made by the Internal Revenue Service.

Financial Condition - Assets

Total assets increased $62.1 million or 4.0% to $1.61 billion at December 31, 2024 from $1.55 billion at December 31, 2023. This increase was primarily due to increases in net loans receivable and cash and cash equivalents, partially offset by a decrease in investment securities and other assets.

Cash and cash equivalents increased $50.0 million or 39.0% to $178.3 million at December 31, 2024 compared to $128.3 million at December 31, 2023, due to increased deposits, while certificates of deposits with other banks decreased $1.1 million or 46.8% to $1.3 million at December 31, 2024 compared to the prior year end.

Total investment securities decreased $39.9 million or 5.7% to $660.8 million at December 31, 2024 from $700.7 million at December 31, 2023 as maturities, sales and principal paydowns exceeded purchases of investments during the year. The Company purchased $71.9 million of investment securities during the year ended December 31, 2024 compared to $66.3 million during 2023.

Loans receivable, net, including loans held for sale, increased $64.6 million or 10.4% to $687.1 million at December 31, 2024 from $622.5 million at December 31, 2023. The increase was due to growth across all loan categories, except other consumer loans, which declined slightly in 2024 as compared to 2023.

The most significant growth occurred in our residential and commercial real estate loan portfolios. Residential mortgage loans held for investment increased $30.8 million or 17.8% to $203.7 million at December 31, 2024 from $172.9 million at December 31, 2023. Commercial real estate loans increased $23.7 million or 9.0% to $288.5 million at December 31, 2024, from $264.8 million at December 31, 2023. Additionally, construction loans increased by $5.4 million, commercial and agricultural loans by $3.6 million, and HELOCs by $3.3 million. These increases were partially offset by a $677,000 decline in other consumer loans.

Loans held for sale, comprised of fixed rate residential loans, totaled $599,000 at December 31, 2024 compared to $967,000 at December 31, 2023. Typically, long-term fixed-rate residential real estate loans, when newly originated, are not retained in the portfolio but are promptly sold, unlike ARM loans, which are generally held in the portfolio. The Bank sells its fixed-rate residential loans on a service-released basis. The total value of fixed-rate residential loans sold to institutional investors on a service-released basis was $30.2 million during the year ended December 31, 2024, compared to $21.6 million during the year ended December 31, 2023.

Other assets decreased $12.5 million or 42.7% to $16.8 million at December 31, 2024 from $29.2 million at December 31, 2023. The decrease was primarily the result of a $10.8 million decrease in principal payments receivable on investments. The higher balance in the prior year was due to the maturity of one investment security that matured on December 31, 2023 but payment was not received until the beginning of 2024.

Financial Condition - Non-Performing Assets

The Bank's non-performing assets, consisting solely of nonaccrual loans, increased $811,000 or 11.9% to $7.6 million at December 31, 2024, from $6.8 million at December 31, 2023. At December 31, 2024 and 2023, the Bank did not have any loans that were 90 days or more past due and still accruing interest, or OREO. Non-performing assets represented 0.44% and 0.49% of total assets at December 31, 2024 and 2023, respectively. The ratio of the allowance for credit losses to total loans was 1.98% at both December 31, 2024 and 2023.

The following table presents information regarding the Bank's non-performing loans at the dates indicated.

	As of December 31, 2024		At December 31, 2023			
(Dollars in thousands)	**Amount**	**# of loans**	Amount	# of loans	$ Change	% Change
Non-Accrual Loans:						
Construction Real Estate	**$ 1,438**	**4**	$ 868	4	$ 570	65.7%
Residential Real Estate	**1,707**	**19**	1,307	16	400	30.6
Commercial Real Estate	**3,658**	**7**	4,125	5	(467)	(11.3)
Commercial and Agricultural	**331**	**5**	50	3	281	562.0
HELOC	**424**	**7**	413	5	11	2.7
Other Consumer	**78**	**12**	62	10	16	25.8
Total Non-Accrual Loans	**7,636**	**54**	6,825	43	811	11.9%
Other Non-Performing Assets:						
OREO	—		—		—	—
Total Non-Performing Assets	**$ 7,636**		$ 6,825		$ 811	11.9%
Total Gross Loans Receivable, Net of Deferred Loan Fees	**$ 700,444**		$ 634,131			
Non-Accrual Loans to Total Loans	**1.09%**		1.08%			
Non-Performing Assets to Total Assets	**0.47%**		0.44%			
Allowance for Credit Losses on Loans to Non-Accrual Loans	**181.95%**		184.16%			
Allowance for Credit Losses on Loans to Total Loans	**1.98%**		1.98%			

The increase in non-performing assets at December 31, 2024, was primarily driven by higher levels of non-performing construction, residential real estate, and commercial and agricultural loans. This was partially offset by a decrease in non-performing commercial real estate loans compared to the year ended December 31, 2023. The largest increase occurred in non-performing construction loans, which increased $570,000 or 65.7% to $1.4 million at December 31, 2024 , from $868,000 at December 31, 2023. At December 31, 2024, non-performing construction loans consisted of four loans to four borrowers, with an average loan balance of $252,000, compared to four loans to four borrowers with an average loan balance of $217,000 at December 31, 2023.

Non-performing residential real estate loans increased $400,000 or 30.6% to $1.7 million at December 31, 2024, up from $1.3 million at December 31, 2023. Non-performing residential real estate loans at December 31, 2024, consisted of 19 loans to 19 borrowers with an average loan balance of $113,000, the largest of which was $431,000, compared to 16 loans to 16 borrowers with an average loan balance of $82,000, the largest of which was $291,000, at December 31, 2023.

Non-performing commercial and agricultural loans increased $281,000 or 562.0% to $331,000 at December 31, 2024, compared to $50,000 at December 31, 2023. At December 31, 2024, non-performing commercial and agricultural loans consisted of five loans to five borrowers, with an average loan balance of $66,000, compared to three loans to three borrowers with an average loan balance of $17,000 at December 31, 2023.

Offsetting these increases was a $467,000 or 11.3% decrease in non-performing commercial real estate loans, which declined to $3.7 million at December 31, 2024, from $4.1 million at December 31, 2023. At December 31, 2024, non-performing commercial real estate loans consisted of seven loans to seven borrowers, with an average loan balance of $523,000, compared to five loans to five borrowers with an average loan balance of $825,000 at December 31, 2023.

Our strategy is to work with our borrowers to reach acceptable payment plans while protecting our interests in the underlying collateral. In the event an acceptable arrangement cannot be reached, we may have to acquire these properties through foreclosure or other means and subsequently sell, develop, or liquidate them.

The Bank conducts a monthly review of its loan portfolio and allowance for credit losses. In determining the appropriate allowance during the years ended December 31, 2024 and 2023, management considered various factors, including national and state unemployment rates, benefit claim levels, government financial assistance, inflation, consumer spending trends, and the Bank's largest commercial loan relationships.

Management will continue monitoring economic conditions and collaborating with borrowers to navigate this challenging economic climate. Future additions to the allowance for credit losses depend on factors such as loan portfolio performance, economic conditions, real estate values, and interest rates. There is no assurance that future periods won't require additions to the allowance. Determining the appropriate level of the allowance involves a high degree of subjectivity and significant estimates, all of which are subject to material changes.

Deterioration in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans and other factors, both within and outside of our control, may require an increase in the allowance for credit losses. The ultimate impact will depend on future developments, which are highly uncertain and cannot be predicted. In addition, bank regulatory agencies periodically review our allowance for credit losses and may require an increase in the provision for possible loan losses or the recognition of further loan charge-offs, based on judgments different than those of management. If charge-offs in future periods exceed the allowance for credit losses, we will need additional provisions to increase the allowance for credit losses. Any increases in the allowance for credit losses will result in a decrease in net income and, possibly, capital, and may have a material adverse effect on our financial condition and results of operations. Management continually monitors its loan portfolio for the impact of local economic changes.

Financial Condition - Liabilities and Shareholders' Equity

The majority of the Bank’s deposits are originated within the Bank’s immediate market area. Total deposits increased $129.0 million or 10.8% to $1.32 billion at December 31, 2024, up from $1.19 billion at December 31, 2023. The increase primarily was the result of an $78.8 million or 34.2% increase in certificates of deposit balances, a $41.6 million or 10.3% increase money market account balances and, to a lesser extent, a $9.3 million or 2.0% increase in checking account balances. We believe the majority of the increases in deposits were due to competitive promotional rates for certificates of deposits and money market accounts in addition to a $19.7 million increase in total brokered deposits.

We had brokered time deposits of $25.8 million and $6.5 million at December 31, 2024 and 2023, respectively. We use brokered time deposits as part of our interest rate risk management strategy, as they provide access to large deposit amounts at competitive rates that are typically slightly higher than those available in our market areas. A portion of these brokered time deposits includes a call option, allowing the Bank to redeem them early should interest rates shift. Additionally, the Bank maintained $5.4 million and $5.0 million in non-certificate brokered deposits at December 31, 2024 and 2023, respectively. Brokered deposits were 2.5% and 1.0% of total deposits at December 31, 2024 and 2023, respectively.

Total uninsured deposits (those that exceeded the FDIC insurance limit of $250,000) were $365.8 million and $327.7 million at December 31, 2024 and 2023, respectively. These estimates are based on methodologies and assumptions used for the Bank’s regulatory reporting requirements. Certificates of deposits exceeding the FDIC insurance limit totaled $96.0 million and $50.2 million at December 31, 2024 and 2023, respectively. The following table summarizes the maturity schedule of certificates of deposit with a balance of $250,000 or more at December 31, 2024:

		(In Thousands)
Within 3 Months	$	14,375
After 3 Months, Within 6 Months		12,164
After 6 Months, Within 12 Months		34,381
After 12 Months		35,121
	$	96,041

Certificates of deposit scheduled to mature in one year or less totaled $253.1 million at December 31, 2024 compared to $198.3 million at December 31, 2023. Management’s policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on historical experience, we believe that a significant portion of maturing certificates of deposit will remain with the Bank.

We had no outstanding FHLB advances at December 31, 2024 and 2023. We had $50.0 million in outstanding borrowings under the FRB's BTFP with a weighted average borrowing rate of 4.76% at December 31, 2024, compared to $119.2 million at December 31, 2023, with a weighted average borrowing rate of 4.60%. During 2023, we elected to participate in the BTFP to refinance existing FRB discount window borrowings at a lower fixed rate. Advances under the program have a one-year term and are priced at the OIS rate plus 10 basis points on the day the advance is made. Effective January 24, 2024, the FRB announced that future advances through the program’s expiration on March 11, 2024, would be set at no lower than the interest rate on reserve balances in effect at the time of the advance. At December 31, 2024, we had pledged investment securities with an amortized cost of $370.2 million and a fair value of $341.0 million as collateral for these borrowings compared to an amortized cost and fair value of $381.0 million and $350.6 million, respectively, at December 31, 2023, respectively.

Other borrowings increased $8.6 million or 45.0% to $27.8 million at December 31, 2024 from $19.2 million at December 31, 2023. These borrowings consist of short-term repurchase agreements with certain commercial demand deposit customers for sweep accounts. The repurchase agreements typically mature within one to three days, and the interest rate paid on these borrowings floats monthly with money-market type rates. The interest rate paid on the repurchase agreements was 1.49% at both December 31, 2024 and 2023, respectively. We had pledged, as collateral for these repurchase agreements, investment securities with amortized costs and fair values of $42.1 million and $39.7 million at December 31, 2024, and $44.7 million and $42.0 million at December 31, 2023, respectively.

At both December 31, 2024 and 2023, the Company had $5.2 million in junior subordinated debentures outstanding. In addition, at December 31, 2024, the Company had $10.0 million in subordinated debentures (“Notes”) outstanding compared to $26.5 million at December 31, 2023. During the year ended December 31, 2024, the Company repurchased $16.5 million in principal of the Notes. For additional information, refer to Notes 12 and 13 of the Notes to Consolidated Financial Statements included under "Item 8. Financial Statements and Supplementary Data" in this 2024 Form 10-K.

Total shareholders' equity increased $10.0 million or 5.8% to $182.4 million at December 31, 2024 from $172.4 million at December 31, 2023. The increase was primarily attributable to net income available to common shareholders of $8.9 million during 2024 and a $3.9 million decrease in accumulated other comprehensive loss, net of tax, related to the unrecognized gain in value of AFS securities during the year ended December 31, 2024. These increases were partially offset by $1.8 million in dividends paid to common shareholders and $926,000 in dividends paid to preferred shareholders. Book value per common share was $31.21 at December 31, 2024 compared to $27.69 at December 31, 2023.

Results of Operations

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. The table also distinguishes between the changes related to higher or lower outstanding balances and the changes related to the volatility of interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to: (1) changes in rate (multiplied by prior year volume); (2) changes in volume (multiplied by prior year rate); and (3) net change (the sum of the prior columns). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change attributable to volume and the change attributable to rate. Changes in income are calculated on a tax equivalent basis using the effective tax rate for the period.

	Years Ended December 31,					
	2024 vs. 2023			2023 vs. 2022		
	Increase (Decrease) Due to Change in			Increase (Decrease) Due to Change in		
(Dollars in thousands)	Volume	Rate	Net	Volume	Rate	Net
Interest-Earning Assets:						
Loans: (1)	$ 4,469	$ 4,005	$ 8,474	$ 3,727	$ 3,463	$ 7,190
Taxable Investment Securities	(1,277)	2,006	729	(78)	12,681	12,603
Non-taxable Investment Securities (2)	(202)	(62)	(264)	(114)	34	(80)
Deposits in Other Banks	3,425	(81)	3,344	2,571	(11)	2,560
Total Interest-Earning Assets	$ 6,415	$ 5,868	$ 12,283	$ 6,106	$ 16,167	$ 22,273
Interest-Bearing Liabilities:						
Deposits:						
Certificate Accounts	$ 1,987	$ 3,047	$ 5,034	$ 384	$ 5,000	$ 5,384
Other Interest Bearing Deposits	953	3,160	4,113	(39)	12,446	12,407
Total Deposits	2,940	6,207	9,147	345	17,446	17,791
Borrowings	209	395	604	1,372	1,538	2,910
Total Interest-Bearing Liabilities	3,149	6,602	9,751	1,717	18,984	20,701
Net change in net interest income (tax equivalent) (2)	$ 3,266	$ (734)	$ 2,532	$ 4,389	$ (2,817)	$ 1,572

(1) INTEREST ON NON-ACCRUAL LOANS IS NOT INCLUDED IN INCOME, ALTHOUGH THEIR LOAN BALANCES ARE INCLUDED IN AVERAGE LOANS OUTSTANDING.
(2) THE TAX-EQUIVALENT INTEREST INCOME ADJUSTMENT RELATES TO THE TAX EXEMPT MUNICIPAL BONDS.
THE TAX EQUIVALENT YIELD ADJUSTMENT TO INTEREST EARNED ON MUNICIPAL BONDS WAS $105,000 AND $127,000 FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023, RESPECTIVELY.

Average Balances, Interest Income and Expenses, and Average Yields and Rates

The following table compares detailed average balances, average yields on interest earning assets, and average costs of interest bearing liabilities at December 31, 2024 and 2023. The average balances were derived from the daily balances throughout the periods indicated. The average yields or costs were calculated by dividing the income or expense by the average balance of the corresponding assets or liabilities. Nonaccrual loans are included in earning assets in the following tables. Loan yields have been reduced to reflect the negative impact on our earnings of loans on nonaccrual status.

	For the Year Ended December 31,					
	2024			2023		
(Dollars in thousands)	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-Earning Assets:						
Loans (1)	$ 673,566	$ 41,301	6.13%	$ 597,235	$ 32,827	5.50%
Taxable Investment Securities	662,859	29,478	4.45	692,591	28,749	4.15
Non-taxable Investments (2)	14,728	527	3.58	20,513	766	3.73
Deposits in Other Banks	119,561	6,105	5.11	52,499	2,762	5.26
Total Interest-Earning Assets	$ 1,470,714	$ 77,411	5.26	$ 1,362,838	$ 65,104	4.78
Interest-Bearing Liabilities:						
Checking, Savings and Money Market Accounts	$ 734,424	$ 18,824	2.56	$ 692,257	$ 14,710	2.12
Certificate Accounts	267,140	11,025	4.13	208,221	5,991	2.88
Total Interest-Bearing Deposits	1,001,564	29,849	2.98	900,478	20,701	2.30
Junior Subordinated Debt	5,155	376	7.29	5,155	364	7.06
Subordinated Debt	24,713	1,297	5.25	26,500	1,393	5.26
FRB and Other Borrowings (3)	96,941	3,957	4.08	89,122	3,271	3.67
Total Interest-Bearing Liabilities	$ 1,128,373	$ 35,479	3.14%	$ 1,021,255	$ 25,729	2.52%
Net Interest Rate Spread			2.12%			2.26%
Tax Equivalent Net Interest Income/Margin (2)		$ 41,932	2.85%		$ 39,375	2.89%
Less: tax equivalent adjustment (2)		105			127	
Net Interest Income		$ 41,827			$ 39,248	

(1) INTEREST ON NON-ACCRUAL LOANS IS NOT INCLUDED IN INCOME, ALTHOUGH THEIR LOAN BALANCES ARE INCLUDED IN AVERAGE LOANS OUTSTANDING.
(2) TAX EQUIVALENT BASIS RECOGNIZES THE INCOME TAX SAVINGS WHEN COMPARING TAXABLE AND TAX-EXEMPT ASSETS AND WAS CALCULATED USING THE EFFECTIVE TAX RATE IN PLACE FOR THE YEARS ENDED DECEMBER 31, 2024 AND 2023. THE TAX-EQUIVALENT INTEREST INCOME ADJUSTMENT RELATES TO THE TAX EXEMPT MUNICIPAL BONDS INCLUDED IN OUR INVESTMENT PORTFOLIO DURING THE PERIODS INDICATED.
(3) INCLUDES BORROWINGS FROM THE FRB AND REPURCHASE AGREEMENTS.

Comparison of the Years Ended December 31, 2024 and 2023

Net Income Available to Common Shareholders

Net income available to common shareholders was $8.9 million or $2.77 per basic common share for the year ended December 31, 2024, compared to $10.2 million, or $3.14 per common share, for the year ended December 31, 2023. The decrease in net income was primarily due to increases in the provision for credit losses, non-interest expense and the provision for income taxes, partially offset by increases in net interest income and non-interest income.

Net Interest Income

Net interest income increased $2.6 million or 6.6% to $41.8 million for the year ended December 31, 2024, compared to $39.2 million in 2023. The increase was due to higher interest income from loans, deposits in other banks and, to a lesser extent, investments, partially offset by an increase in interest expense, principally on deposits. The net interest margin on a tax-equivalent basis decreased four basis points to 2.85% for the year ended December 31, 2024 from 2.89% for the year ended December 31, 2023.

Total average interest-earning assets increased $107.9 million or 7.9% to $1.47 billion for the year ended December 31, 2024 from $1.36 billion for the year ended December 31, 2023, with a 48 basis point increase in the average yield earned on these assets. Similarly, average interest-bearing liabilities increased $107.1 million or 10.5% to $1.13 billion for the year ended December 31, 2024 from $1.02 billion for the year ended December 31, 2023, with an increase of 62 basis points in the average cost. The interest rate spread on a tax-equivalent basis decreased 14 basis points to 2.12% for the year ended December 31, 2024 from 2.26% in 2023.

Total interest income increased $12.3 million or 19.0% to $77.3 million for the year ended December 31, 2024, compared to $65.0 million for the year ended December 31, 2023, as a result of increased interest income on loans, deposits in other banks and, to a lesser extent, investments.

Interest income on loans increased $8.5 million or 25.8% to $41.3 million for the year ended December 31, 2024 compared to $32.8 million for the year ended December 31, 2023. The increase was due to a $71.3 million increase in the average balance of loans outstanding during the year ended December 31, 2024 combined with a 63 basis point increase in the average loan yield.

Interest income on taxable investment securities increased $729,000, or 2.5%, due to a 30 basis point increase in the average yield earned on these assets during 2024 compared to 2023, partially offset by a $29.7 million decrease in the aggregate average balance of these interest-earning assets. Conversely, tax equivalent interest income on non-taxable investment securities decreased $239,000 or 31.2%, due to a $8.8 million decrease in the aggregate average balance of and a 16 basis point decrease in the average yield earned on these assets during 2024 compared to 2023.

Interest income on deposits with other banks increased $3.3 million or 121.0% to $6.1 million for the year ended December 31, 2024 compared to $2.8 million for prior year. This increase was due to a $67.1 million increase in the average balance of deposits with other banks. The average yield earned on these deposits was 5.11% for the year ended December 31, 2023, compared to 5.26% in 2023.

Total interest expense increased $9.8 million or 37.9% to $35.5 million for the year ended December 31, 2024, compared to $25.7 million for the year ended December 31, 2023, due to a 62 basis point increase in the average cost of interest-bearing liabilities and a $107.1 million or 10.5% increase in their average balance. Higher deposit rates were the primary reason, with the average rate paid on deposits increasing 68 basis points to 2.98% in 2024 from 2.30% in 2023. The average balance of interest-bearing deposits increased $101.1 million or 11.2% to $1.0 billion during the year ended December 31, 2024 compared to $900.5 million during 2023.

Interest expense on FRB and other borrowings increased $686,000 or 21.0% to $4.0 million during the year ended December 31, 2024, compared to $3.3 million during the prior year. The increase was attributable to both a $7.8 million or 8.8% increase in the average balance of borrowings and a 41 basis point increase in the average cost of borrowing, which rose to 4.08% in 2024 from 3.67% during 2023.

Provision for Credit Losses

We recorded a provision for credit losses of $1.4 million for the year ended December 31, 2024. This consisted of a $1.5 million provision for credit losses on loans and a $110,000 reversal of the provision credit losses on unfunded commitments, compared to a $246,000 provision for credit losses for the year ended December 31, 2023, which consisted of a $601,000 provision for credit losses on loans and a $355,000 reversal of the provision credit losses on unfunded commitments. The increase in the provision was due to overall growth in the loan portfolio, increased substandard loans and higher charge-offs during the year. Net charge-offs for the year ended December 31, 2024 totaled $155,000, compared to net recoveries of $6,000 in 2023. Non-performing assets, consisting solely of nonaccrual loans, increased $811,000, or 11.9%, to $7.6 million at December 31, 2024 from $6.8 million at December 31, 2023. Non-performing assets represented 0.47% and 0.44% of total assets at December 31, 2024 and 2023, respectively.

The provision for credit losses is determined as part of management's ongoing monthly assessment of the loan portfolio's credit quality and the adequacy of the allowance for credit losses. The Company follows established policies and procedures to evaluate and monitor credit quality, including internal and external loan reviews to identify potential problem loans. The Asset Classification Committee conducts monthly reviews, and the Board of Directors evaluates the adequacy of the allowance for credit losses on a quarterly basis.

Management believes the allowance for credit losses at December 31, 2024 is adequate based on its best estimates of the expected losses in the loan portfolio; however, these estimates are subject to uncertainty. Since the allowance for credit losses is an estimation, there is no guarantee that actual credit losses will not exceed the allowance or that further increases in the allowance will not be necessary in the future. A significant deterioration in national and local economic conditions, triggered by factors like inflation, recession, unemployment or money supply fluctuations, could lead to a substantial increase in the allowance for credit losses, potentially adversely impacting the Company’s financial condition and results of operations. In addition, bank regulatory agencies may require us to make additional provisions to the allowance for credit losses during examinations, based on their own judgments and estimates.

Non-Interest Income

Non-interest income increased $857,000 or 9.1% to $10.2 million for the year ended December 31, 2024 from $9.4 million for the year ended December 31, 2023, with increases occurring in all categories except other income. Increases in gain on sales of loans, trust income, and ATM and check card fee income were the primary drivers.

Gain on sales of loans increased $153,000 or 24.4% to $779,000 for the year ended December 31, 2024, compared to the prior year, as the dollar volume of loans sold to investors increased. The Bank sold $31.3 million of loans in 2024 compared to $22.1 million during 2023.

Trust income increased $405,000 or 21.8% to $2.3 million for the year ended December 31, 2024 compared to $1.9 million in 2023 primarily due to non-recurring estate settlement fees received in 2024. ATM and check card fee income increased $152,000 or 4.9% to $3.2 million for the year ended December 31, 2024 compared to $3.0 million in 2023 reflecting higher transaction volume.

We received $500,000 and $437,000 in grant income during the years ended December 31, 2024 and 2023, respectively. The grant income received in 2024 included a $220,000 CDFI Assistance Award and $280,000 through the CDFI Fund Bank Enterprise Award ("BEA") program. All grant income received in 2023 was from the BEA program. These grants were allocated to support the Bank's ongoing initiatives in community development financing and service activities within the most economically distressed communities.

Non-Interest Expense

Non-interest expense increased $2.2 million or 6.2% to $38.1 million during the year ended December 31, 2024 compared to $35.9 million in 2023. This increase was primarily a result of increases in compensation and employee benefits, cloud service expense, and other non-interest expense, partially offset by a decrease in depreciation and maintenance of equipment expenses.

Compensation and employee benefits increased $1.5 million or 7.3% to $21.8 million during the year ended December 31, 2024 from $20.3 million in 2023. This increase was primarily due to an increase in employee salaries and annual cost-of-living adjustments.

Debit card expenses increased $125,000 or 8.7% to $1.6 million during the year ended December 31, 2024 from $1.4 million in 2023, primarily due higher transaction volumes and rising transaction costs. Occupancy expenses increased $121,000 or 3.8% to $3.3 million in 2024 from $3.2 million in 2023, primarily due to the addition of our newest branch in the second quarter of 2023.

Data processing expenses increased $105,000 or 8.0% to $1.4 million during the year ended December 31, 2024 and cloud services expenses increased $218,000 or 30.5% to $932,000 in 2024. These increases were the result of increases in the cost of services provided by third-party vendors and higher transaction volume when compared to the prior year.

Provision for Income Taxes

The provision for income taxes increased $469,000 or 20.5% to $2.8 million during the year ended December 31, 2024 compared to $2.3 million for the year ended December 31, 2023, despite lower pre-tax income. The increase was primarily due to a $396,000 reduction in income tax expense in 2023 resulting from tax credits associated with the new branch opened during that year, partially offset by an increase in pre-tax net income. The Company's combined federal and state effective income tax rate was 21.9% for 2024 compared to 18.3% for 2023.

Regulatory Capital

The following table reconciles the Bank's shareholders' equity to its various regulatory capital positions.

	December 31,	
(Dollars in thousands)	**2024**	2023
Bank's Shareholders' Equity (1)	$ **159,948**	$ 151,329
Reduction for Goodwill	**1,200**	1,200
Tangible Capital	**158,748**	150,129
Core Capital	**158,748**	150,129
Supplemental Capital	**10,657**	10,328
Total Risk-Based Capital	$ **169,405**	$ 160,457

(1) EXCLUDES UNREALIZED LOSSES ON INVESTMENT SECURITIES OF $31.1 MILLION AND $35.1 MILLION DECEMBER 31, 2024 AND 2023, RESPECTIVELY.

The Bank is subject to minimum capital requirements imposed by the FDIC. Based on capital levels at December 31, 2024, the Bank was considered to be well capitalized. At December 31, 2024, the Bank exceeded all regulatory capital requirements with Tier 1 leverage-based capital, Tier 1 risk-based capital, total risk-based capital, and common equity Tier 1 (CET1) capital ratios of 9.9%, 18.7%, 20.0%, and 18.7%, respectively. CET1 consists of Tier 1 capital less all capital components that are not considered common equity.

In addition to the FDIC's minimum capital ratios, the Bank is required to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, engaging in share repurchases, and paying discretionary bonuses. At December 31, 2024, the Bank's capital conservation buffer was 12.0%.

For additional information regarding the Bank's and Company's regulatory capital compliance, see the discussion included in Note 15 of the Notes to Consolidated Financial Statements included under "Item 8. Financial Statements and Supplementary Data" in this 2024 Form 10-K.

Liquidity and Capital Resources

Liquidity refers to the ability to generate sufficient cash flows to fund current loan demand, repay maturing borrowings, fund maturing deposit withdrawals, and meet operating expenses. Our primary sources of funds include deposits, scheduled loan and investment security repayments, including interest payments, maturities and sales of loans and investment securities, borrowings from the FRB, advances from the FHLB and cash flow generated from operations. The need for funds varies among periods depending on funding needs as well as the rate of amortization and prepayment on loans. The use of borrowings from the FRB, FHLB advances and other borrowings varies depending on loan demand, deposit inflows, and the use of investment leverage strategies that we might employee to increase net interest income.

Our principal use of funds is the origination of mortgages and other loans, and the purchase of investment securities. The Bank's liquidity is impacted by the volume of loans sold and principal payments received. During the years ended December 31, 2024 and 2023, the Bank sold $31.3 million and $22.1 million in loans, respectively. During the same periods, the net increase in loans outstanding, accounting for originations and principal repayments (excluding loans held for sale), totaled $66.5 million and $74.7 million, respectively. Further, purchases of investment securities totaled $71.9 million during 2024 compared to $66.3 million during 2023. Other uses of funds in 2024 included debt repayment, property and equipment purchases and improvements, and $2.7 million in dividend payments to common and preferred shareholders.

In the normal course of business, we make off-balance sheet arrangements, including credit commitments to its customers to meet their financial needs. These arrangements involve, to varying degrees, elements of credit and interest rate risk not recognized in the consolidated statement of financial condition. We make personal, commercial, and real estate lines of credit available to customers and issue standby letters of credit.

Commitments to extend credit are subject to the Bank's normal credit policies. At December 31, 2024, unused lines of credit on HELOCs, credit cards, and commercial loans totaled $147.1 million. The Bank also had undisbursed loans-in-process of $11.3 million, included in total unused commitments. These commitments are expected to be funded through loan amortizations, deposit inflows, principal payments on investments, and short-term borrowing capacity. See Note 18 of the Notes to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" in this 2024 Form 10-K for additional information regarding our commitments and off-balance sheet arrangements.

We incur capital expenditures on an ongoing basis to expand and improve our product offerings, enhance and modernize our technology infrastructure, and to introduce new technology-based products to compete effectively in our markets. We evaluate capital expenditure projects based on a variety of factors, including expected strategic impacts (such as forecasted impact on revenue growth, productivity, expenses, service levels and customer retention) and our expected return on investment. The amount of capital investment is influenced by, among other things, current and projected demand for our services and products, cash flow generated by operating activities, cash required for other purposes and regulatory considerations. Based on current capital allocation objectives, there are no projects scheduled for capital investments in premises and equipment during 2024 that would materially impact liquidity. We also have purchase obligations, generally with remaining terms of less than three years and contracts with various vendors to provide services, including information processing, for periods generally ranging from one to five years, for which our financial obligations are dependent upon acceptable performance by the vendor. For the year ending December 31, 2025, we project that fixed commitments will include $475,000 of operating lease payments. See Note 5 of the Notes to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" in this 2024 Form 10-K for additional information regarding our operating leases.

The Bank's liquidity has been positively impacted by increases in deposit levels in recent years. During the year ended December 31, 2024, deposits increased by $129.0 million. Our liquid assets in the form of cash and cash equivalents, certificates of deposit at other banks and investments increased to $840.4 million at December 31, 2024 from $831.3 million at December 31, 2023. Total certificates of deposit scheduled to mature in one year or less totaled $253.1 million at December 31, 2024. Management's policy is to maintain deposit rates at levels that are competitive with other local financial institutions. Based on historical experience, we believe that a significant portion of maturing certificates of deposit will remain with the Bank.

Primary sources of short-term liquidity for the Bank include borrowings from the FRB, the FHLB of Atlanta, and a $50.0 million line of credit with the Pacific Coast Bankers Bank.

We had $50.0 million in outstanding borrowings under the FRB's BTFP with a weighted average borrowing rate of 4.76% at December 31, 2024, compared to $119.2 million at December 31, 2023, with a weighted average borrowing rate of 4.60%. During 2023, the Company elected to participate in the BTFP to refinance existing FRB discount window borrowings at a lower fixed rate. Advances under the program have a one-year term and are priced at the OIS rate plus 10 basis points on the day the advance is made. Effective January 24, 2024, the FRB announced that future advances through the program's expiration on March 11, 2024, would be set at no lower than the interest rate on reserve balances in effect at the time of the advance. At December 31, 2024, we had pledged investment securities with an amortized cost of $370.2 million and a fair value of $341.0 million as collateral for these borrowings.

We had no outstanding FHLB advances at December 31, 2024 and 2023. The Bank maintains an approved line of credit with the FHLB of Atlanta, allowing for borrowing of up to 25% of the Bank's assets, which, when utilized, is collateralized by a pledge against specific investment securities and/or eligible loans. As of December 31, 2024, the Bank has the ability to borrow $453.5 million based on the collateral value of pledged investment securities and loans. Management believes that future liquidity can be met through the Bank's deposits, which totaled $1.3 billion at December 31, 2024, as well as through sales and maturities of investment securities, and loans sold to investors. During the years ended December 31, 2024 and 2023, proceeds from sales, payments and maturities of investment securities totaled $113.5 million and $86.6 million, and loans sold to investors totaled $31.3 million and $22.1 million, respectively.

Historically the Bank's cash flow from operating activities has been relatively stable. The cash flows from investing activities vary with sales of investment securities and with the need to invest excess funds or utilize leverage strategies with the purchase of investment securities. The cash flows from financing activities vary depending on the need for borrowings from the FRB, FHLB advances and other borrowings. The Bank's management regularly reviews its liquidity position and has implemented internal policies establishing guidelines for sources of asset-based liquidity and evaluates and monitors the total amount of purchased funds used to support the balance sheet and funding from noncore sources. The Bank's management believes that the liquid assets combined with the available lines of credit provide adequate liquidity to meet current financial obligations for at least the next 12 months.

Security Federal Corporation is a separate legal entity from the Bank and must provide for its own liquidity and pay its own operating expenses. Sources of capital and liquidity for Security Federal Corporation include distributions from the Bank and the issuance of debt or equity securities, although there are regulatory restrictions on the ability of the Bank to pay dividends. At December 31, 2024, Security Federal Corporation (on an unconsolidated basis) had liquid assets of $33.1 million. The Company currently expects to continue the current practice of paying quarterly cash dividends on common stock subject to the Board of Directors' discretion to modify or terminate this practice at any time and for any reason without prior notice. Our current quarterly common stock dividend rate during 2025 is $0.15 per share, as approved by our Board of Directors, which we believe is a dividend rate per share which enables us to balance our multiple objectives of managing and investing in the Bank, and returning a substantial portion of our cash to our shareholders. Assuming continued payment during 2025 at this rate of $0.15 per share, our average total common stock dividends paid each quarter would be approximately $478,000 based on the number of our current outstanding shares at December 31, 2024.

In June 2023, the Company announced that its Board of Directors approved a share repurchase program for the purchase of up to three percent, or approximately 97,612 shares, of the Company's outstanding common stock as of that date. In general, stock-repurchase plans allow us to proactively manage our capital position and return excess capital to shareholders. On August 19, 2024, the Company's Board of Directors announced an additional 100,000 shares available to be purchased under the program. During the year ended December 31, 2024, the Company repurchased 44,120 shares of its common stock at an aggregate cost of $1.1 million, leaving 127,066 shares available for further repurchase under the existing stock repurchase program at December 31, 2024. The repurchase program does not obligate the Company to purchase any particular number of shares. For additional information, see Part II, Item 5 - "Unregistered Sales of Equity Securities, Use of Proceeds, and Issuer Purchases of Equity Securities."

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk is the risk of loss from adverse changes in market prices and rates. Our market risk arises principally from interest rate risk inherent in our lending, investing, deposit and borrowings activities. Management actively monitors and manages its interest rate risk exposure. In addition to other risks that we manage in the normal course of business, such as credit quality and liquidity, management considers interest rate risk to be a significant market risk that could potentially have a material effect on our financial condition and result of operations.

Asset and Liability Management

The objective of the Bank's program of asset and liability management is to limit the Bank's vulnerability to material and prolonged increases or decreases in interest rates, or "interest rate risk." As a financial institution, interest rate risk is the Bank's most significant market risk. The earnings and economic value of our shareholders' equity varies in relation to changes in interest rates and the corresponding impact on the market values of our assets and liabilities. Oversight of the Bank's asset liability strategy is conducted by the Asset Liability Management Committee ("ALCO").

The asset/liability management process is designed to achieve relatively stable net interest margins and assure liquidity by coordinating the volumes, maturities or re-pricing opportunities of interest-earning assets, deposits and borrowed funds. It is the responsibility of the ALCO to determine and achieve the most appropriate volume and mix of interest-earning assets and interest-bearing liabilities, as well as ensure an adequate level of liquidity and capital, within the context of corporate performance goals. The ALCO meets regularly to review interest rate risk and liquidity in relation to present and potential market conditions, and to evaluate funding and balance sheet management strategies to ensure the level of risk is consistent with our asset/liability objectives.

Simulation is the principal tool used by the Bank in its ongoing effort to measure interest rate risk. Simulation involves the use of a financial modeling system that provides reports showing the current and future impact of changes in interest rates and our strategies and tactics. The Bank uses two dynamic methods: net interest income ("NII") simulation and economic value of equity ("EVE") analysis.

The NII simulation models the impact that changes in interest rates will have on our earnings while EVE analysis models the impact those changes will have on the net present value of our asset and liability portfolios. These models take into account our contractual agreements with regard to investments, loans, deposits and borrowings, and also include assumptions surrounding market and customer behavior under different rate scenarios. The assumptions we use are based upon a combination of proprietary and market data that reflect historical results and current market conditions. These assumptions relate to interest rates, prepayments, deposit decay rates and the market value of certain assets and liabilities under the various interest rate scenarios. We use market data to determine prepayments and maturities of loans, investments and borrowings and use our own assumptions on deposit decay rates except for time deposits. Time deposits are modeled to reprice to market rates upon their stated maturities. We also assume that non-maturity deposits can be maintained with rate adjustments not directly proportionate to the change in market interest rates, based upon our historical deposit rates. We have demonstrated in the past that the tiering structure of our deposit accounts during changing rate environments results in relatively lower volatility and less than market rate changes in our interest expense for deposits. These assumptions are based upon our analysis of our customer base, competitive factors and historical experience.

While these models are dependent on the accuracy of the assumptions that underlie the process, we believe that such modeling provides a better illustration of our sensitivity to interest rate risk than does a traditional static gap analysis. These tools provide our ALCO with the capability to estimate and manage the amount of earnings at risk in future periods and in selected interest rate risk environments.

NII Simulation- The Bank's primary focus is on NII simulation. Using NII simulation, the Bank measures earnings exposure over both a 12 and 24 month period under multiple instantaneous rate shock scenarios. The Bank's policy provides the maximum acceptable negative impact on net interest income over each time horizon associated with each respective change in interest rates. Our ALCO monitors compliance with these policy limits and reports them to the Board of Directors quarterly.

The following table indicates the NII simulation scenarios modeled and the applicable policy parameters.

Change in Market Rates	Maximum Allowable Change in NII Over		Hypothetical Change in NII Over	
(in Basis Points)	12 Months	24 Months	12 Months	24 Months
400	(20.0)%	(20.0)%	(6.1)%	(8.4)%
300	(15.0)%	(15.0)%	(3.0)%	(4.8)%
200	(10.0)%	(10.0)%	(0.7)%	(1.9)%
100	(7.5)%	(7.5)%	0.3%	(0.3)%
—	—%	—%	—%	—%
(100)	(7.5)%	(7.5)%	(3.5)%	(4.3)%
(200)	(10.0)%	(10.0)%	(7.5)%	(10.3)%
(300)	(15.0)%	(15.0)%	(11.3)%	(16.4)%
(400)	(20.0)%	(20.0)%	(13.8)%	(18.6)%

The Bank performs a liquidity analysis, a component of managing liquidity risk and monitoring the Bank's asset liability strategy. This analysis compares outstanding sources of liquidity to applicable policy parameters. The Bank was in compliance with policy parameters as of December 31, 2024 and 2023. In addition, the Bank performs a contingency funding plan analysis which incorporates various simulations in order to evaluate Bank's funding resources under stressed conditions. Both the liquidity and contingency funding plan analysis are performed by the ALCO and presented to the Board of Directors quarterly.

EVE simulation- The EVE analysis serves as an indicator of the extent to which the present value of our capital could change, given potential changes in interest rates. The difference represented by the present value of assets minus the present value of liabilities is defined as the economic value of equity. This measure assumes a static balance sheet and does not incorporate any growth assumptions, but does assume loan prepayments and certain other cash flows occur. It provides a measure of rate risk extending beyond the 12 or 24 month time horizon contained in the NII simulation analyses.

While an instantaneous and severe shift in interest rates is used in this analysis to provide an estimate of exposure under an extremely adverse scenario, a gradual shift in interest rates would have a much more modest impact. Since EVE measures the discounted present value of cash flows over the estimated lives of instruments, the change in EVE does not directly correlate to the degree that earnings would be impacted over a shorter time horizon, i.e., the next fiscal year. Further, EVE does not take into account factors such as future balance sheet growth, changes in product mix, change in yield curve relationships, and changing product spreads that could mitigate the adverse impact of changes in interest rates.

The following table indicates the EVE simulation scenarios modeled and the applicable policy parameters.

Change in Market Rates (In Basis Points)	Maximum Change in Economic Value of Equity	Hypothetical change in EVE
400	(40.0)%	1.5%
300	(30.0)%	3.2%
200	(20.0)%	3.8%
100	(10.0)%	2.9%
—	—%	—%
(100)	(10.0)%	(4.8)%
(200)	(20.0)%	(12.7)%
(300)	(30.0)%	(24.3)%
(400)	(40.0)%	(41.5)%

In evaluating the Bank's exposure to interest rate risk, certain shortcomings inherent in the method of analysis described above are considered. No assurance can be given that changing economic conditions and other relevant factors impacting our net interest income will not cause actual occurrences to differ from underlying assumptions. For example, loan repayment rates and withdrawals of deposits will likely differ substantially from the assumptions used in the simulation models in the event of significant changes in interest rates due to the option of borrowers to prepay their loans and the ability of depositors to withdraw funds prior to maturity. In addition, this analysis does not consider any strategic changes to our balance sheet which management may consider as a result of changes in market conditions.

Item 8. Financial Statements and Supplementary Data

Report of Independent Registered Public Accounting Firm (PCAOB ID 149)

To the Shareholders and the Board of Directors of Security Federal Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Security Federal Corporation and Subsidiaries (the "Company") as of December 31, 2024 and 2023, the related consolidated statements of income, other comprehensive income (loss), 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 matters communicated below are matters arising from the current period audit of the financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate 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 matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

Allowance for Credit Losses

The Company reported a gross loan portfolio of $700.6 million and related allowance for credit losses (“ACL”) of $13.9 million as of December 31, 2024. In order to measure expected credit losses on a collective basis, the Company has elected to utilize a weighted- average remaining life (“WARM”) methodology for all segments. Loans not sharing similar risk characteristics are evaluated on an individual basis. The WARM method applies a loss rate to a given pool of loans over the estimated remaining life of the given pool. The remaining life of the pool is based on Company historical data. In addition, a 6- month forecast is applied to each segment, based on external sources, with immediate reversion to historical loss rates at the end of the forecast period. Additionally, a qualitative scorecard is used by management to assess the need for adjustments to expected credit loss estimates for information not already captured in the quantitative loss estimation process. The qualitative scorecard evaluates certain risks such as portfolio risk, economic trends, lending policies, credit administration risk, and industry conditions.

We identified the Company’s estimate of the allowance for credit losses as a critical audit matter. The principal considerations for our determination of the ACL as a critical audit matter related to the high degree of complexity and judgment in the determination of significant model assumptions, specifically, the qualitative factor adjustments to quantitative loss rates. Auditing these complex judgments and assumptions made by the Company involves challenging auditor judgment due to the nature and extent of audit evidence and effort required to address these matters, including the extent of specialized skill or knowledge needed.

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

- We obtained an understanding of how management developed the allowance for credit losses, specifically the determination of the qualitative factors.
- We evaluated the relevance and reasonableness of assumptions related to the evaluation of the loan portfolio, current and forecasted economic conditions, and other risk factors used in the development of the qualitative factors.
- We tested the completeness and accuracy of significant inputs to the model including the underlying data used to develop the qualitative factors.
- We validated the mathematical accuracy of the calculation.
- We evaluated the reasonableness of assumptions and data used by the Company in developing the qualitative factors by comparing these data points to internally developed and third-party sources, and other audit evidence gathered.
- We performed analytical procedures to evaluate the directional consistency of changes that occurred in the allowance for credit losses for loans.

We have served as the Company's auditor since 1998.

/s/ Elliott Davis, LLC

Columbia, South Carolina
March 14, 2025

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands)	December 31, 2024	2023
Assets:		
Cash and Cash Equivalents	$ **178,277**	$ 128,284
Certificates of Deposit with Other Banks	**1,250**	2,350
Investments:		
Available For Sale ("AFS")	**525,623**	537,640
Held To Maturity ("HTM") (Fair Value of $130,902 and $158,540 at December 31, 2024 and December 31, 2023, Respectively)	**135,200**	163,072
Total Investments	**660,823**	700,712
Loans Receivable, Net:		
Held For Sale	**599**	967
Held For Investment (Net of Allowance of $13,894 and $12,569 at December 31, 2024 and December 31, 2023, Respectively)	**686,550**	621,562
Total Loans Receivable, Net	**687,149**	622,529
Accrued Interest Receivable	**5,374**	5,512
Operating Lease Right-of-Use Assets	**927**	1,402
Land Held for Sale	**938**	938
Premises and Equipment, Net	**29,321**	28,637
Federal Home Loan Bank ("FHLB") Stock, at Cost	**1,089**	922
Bank Owned Life Insurance ("BOLI")	**28,660**	27,954
Goodwill	**1,200**	1,200
Other Assets	**16,765**	29,231
Total Assets	$ **1,611,773**	$ 1,549,671
Liabilities:		
Deposit Accounts	$ **1,324,033**	$ 1,194,997
Borrowings from Federal Reserve Bank ("FRB")	**50,000**	119,200
Other Borrowings	**27,809**	19,180
Junior Subordinated Debentures	**5,155**	5,155
Subordinated Debentures	**10,000**	26,500
Operating Lease Liabilities	**959**	1,442
Other Liabilities	**11,428**	10,835
Total Liabilities	**1,429,384**	1,377,309
Commitments (Note 18)		
Shareholders' Equity:		
Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP, $1,000 Par Value; (82,949 Shares Authorized, Issued and Outstanding at December 31, 2024 and 2023)	$ **82,949**	$ 82,949
Common Stock, $0.01 Par Value; 5,000,000 Shares Authorized; 3,458,050 Shares Issued and 3,186,571 Shares Outstanding at December 31, 2024 and 3,456,136 Shares Issued and 3,228,777 Shares Outstanding at December 31, 2023	**35**	35
Additional Paid-In Capital ("APIC")	**18,336**	18,287
Treasury Stock, at Cost (271,479 and 227,359 Shares Outstanding at December 31, 2024 and 2023, Respectively)	**(5,964)**	(4,913)
Accumulated Other Comprehensive Loss ("AOCL")	**(31,105)**	(35,050)
Retained Earnings	**118,138**	111,054
Total Shareholders' Equity	**182,389**	172,362
Total Liabilities and Shareholders' Equity	$ **1,611,773**	$ 1,549,671

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share amounts)	Years Ended December 31, 2024	2023
Interest Income:		
Loans	$ **41,301**	$ 32,827
Taxable Investment Securities	**29,478**	28,749
Tax-exempt Investment Securities	**422**	639
Other	**6,105**	2,762
Total Interest Income	**77,306**	64,977
Interest Expense:		
Deposits	**29,849**	20,701
FRB and Other Borrowings	**3,957**	3,271
Subordinated Debentures	**1,297**	1,393
Junior Subordinated Debentures	**376**	364
Total Interest Expense	**35,479**	25,729
Net Interest Income	**41,827**	39,248
Provision for Credit Losses	**1,370**	246
Net Interest Income after Provision for Credit Losses	**40,457**	39,002
Non-Interest Income:		
Gain on Sale of Investment Securities, Net	**37**	—
Gain on Sale of Loans	**779**	626
Service Fees on Deposit Accounts	**1,243**	1,220
Commissions From Insurance Agency	**791**	784
Trust Income	**2,265**	1,860
BOLI Income	**706**	636
ATM and Check Card Fee Income	**3,170**	3,018
Grant Income	**500**	437
Other	**756**	809
Total Non-Interest Income	**10,247**	9,390
Non-Interest Expense:		
Compensation and Employee Benefits	**21,799**	20,313
Occupancy	**3,296**	3,175
Advertising	**1,001**	980
Depreciation and Maintenance of Equipment	**1,685**	1,935
FDIC Insurance Premiums	**705**	621
Consulting	**658**	746
Debit Card Expenses	**1,559**	1,434
Data Processing	**1,410**	1,305
Cloud Services	**932**	714
Other	**5,095**	4,691
Total Non-Interest Expense	**38,140**	35,914
Income Before Income Taxes	**12,564**	12,478
Provision For Income Taxes	**2,757**	2,288
Net Income	**9,807**	10,190
Preferred Stock Dividends	**926**	—
Net Income Available to Common Shareholders	$ **8,881**	$ 10,190
Net Income Per Common Share (Basic)	$ **2.77**	$ 3.14
Cash Dividend Per Share On Common Stock	$ **0.56**	$ 0.52
Weighted Average Shares Outstanding (Basic)	**3,208,405**	3,248,149

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
(Dollars in thousands)	**2024**	2023
Net Income	$ **9,807**	$ 10,190
Other Comprehensive Income:		
Unrealized Holding Gains on AFS Investments, Net of Tax of $1.3 million and $1.6 million at December 31, 2024 and 2023, Respectively	**3,968**	5,720
Reclassification Adjustment for Gains Included in Net Income, Net of Tax of $9 thousand and $0 at December 31, 2024 and 2023, Respectively	**(28)**	—
Amortization of Unrealized Gains on AFS Investments Transferred to HTM, Net of Tax of $2 thousand and $3 thousand at December 31, 2024 and 2023, Respectively	**5**	9
Other Comprehensive Income	**3,945**	5,729
Comprehensive Income	$ **13,752**	$ 15,919

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Preferred Stock		Common Stock		Treasury Stock					
(Dollars in thousands)	Shares	Amount	Shares	Amount	Shares	Amount	APIC	AOCI (Loss)	Retained Earnings	Total
December 31, 2022	82,949	$ 82,949	3,453,817	$ 35	200,933	$ (4,331)	$ 18,230	$ (40,779)	$ 104,129	$ 160,233
Net Income	—	—	—	—	—	—	—	—	10,190	10,190
Adoption of CECL	—	—	—	—	—	—	—	—	(1,578)	(1,578)
Other Comprehensive Income, Net of Tax	—	—	—	—	—	—	—	5,729	—	5,729
Treasury Stock Purchase	—	—	—	—	26,426	(582)	—	—	—	(582)
Employee Stock Purchase Plan Issuance	—	—	2,319	—	—	—	57	—	—	57
Cash Dividends on Common Stock	—	—	—	—	—	—	—	—	(1,687)	(1,687)
December 31, 2023	82,949	$ 82,949	3,456,136	$ 35	227,359	$ (4,913)	$ 18,287	$ (35,050)	$ 111,054	$ 172,362
Net Income	—	—	—	—	—	—	—	—	9,807	9,807
Other Comprehensive Income, Net of Tax	—	—	—	—	—	—	—	3,945	—	3,945
Treasury Stock Purchase	—	—	—	—	44,120	(1,051)	—	—	—	(1,051)
Employee Stock Purchase Plan Issuance	—	—	1,914	—	—	—	49	—	—	49
Cash Dividends on Common Stock	—	—	—	—	—	—	—	—	(1,797)	(1,797)
Cash Dividends on Preferred Stock	—	—	—	—	—	—	—	—	(926)	(926)
December 31, 2024	82,949	$ 82,949	3,458,050	$ 35	271,479	$ (5,964)	$ 18,336	$ (31,105)	$ 118,138	$ 182,389

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

SECURITY FEDERAL CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	For the Years Ended December 31, 2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Income	$ **9,807**	$ 10,190
Adjustments to Reconcile Net Income to Net Cash Provided By Operating Activities:		
Depreciation Expense	**2,070**	2,145
Discount Accretion and Premium Amortization, Net	**3,551**	3,919
Provisions for Credit Losses on Loans and Unfunded Commitments	**1,370**	246
Earnings on BOLI	**(706)**	(636)
Origination of Loans Held For Sale	**(30,197)**	(21,551)
Proceeds From Sale of Loans Held For Sale	**31,344**	22,123
Gain on Sales of Loans	**(779)**	(626)
Gain on Sales of Investments	**(37)**	—
Loss on Disposal of Premises and Equipment	**1**	29
Gain on Sale of OREO	**—**	(2)
Write-down of OREO	**—**	15
Loss on Sale of Land Held For Sale	**—**	9
Decrease (Increase) in Accrued Interest Receivable	**138**	(701)
Amortization of Operating Lease Right-of-Use ("ROU") Assets	**475**	459
Change in Other Assets	**11,171**	(11,621)
Change in Lease Liabilities and Other Liabilities	**220**	4,857
Net Cash Provided By Operating Activities	**28,428**	8,855
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of AFS Securities	**(68,647)**	(46,033)
Proceeds from Payments and Maturities of AFS Securities	**68,769**	61,841
Proceeds from Sale of AFS Securities	**13,703**	—
Purchase of HTM Securities	**(3,249)**	(20,253)
Proceeds from Payments and Maturities of HTM Securities	**31,039**	24,762
Redemption of (Investment in) Certificates of Deposits with Other Banks	**1,100**	(1,250)
Purchase of FHLB Stock	**(167)**	(696)
Redemption of FHLB Stock	**—**	425
Net Increase in Loans Receivable	**(66,468)**	(74,687)
Proceeds from Sale of Land Held for Sale	**—**	150
Proceeds from Sale of OREO	**—**	107
Proceeds from Sale of Premises and Equipment	**7**	—
Purchase and Improvement of Premises and Equipment	**(2,762)**	(2,851)
Net Cash Used By Investing Activities	**(26,675)**	(58,485)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase in Deposit Accounts	**129,036**	84,912
Increase (Decrease) in Other Borrowings, Net	**8,629**	(8,408)
Repurchase of Subordinated Debentures	**(16,500)**	—
Proceeds from FRB Borrowings	**80,000**	446,055
Repayment of FRB Borrowings	**(149,200)**	(370,935)
Purchases of Treasury Stock	**(1,051)**	(582)
Proceeds from Employee Stock Purchase Plan	**49**	57
Dividends to Common Stock Shareholders	**(1,797)**	(1,687)
Dividends to Preferred Stock Shareholders	**(926)**	—
Net Cash Provided By Financing Activities	**48,240**	149,412
Net Increase in Cash and Cash Equivalents	**49,993**	99,782
Cash and Cash Equivalents at Beginning of Year	**128,284**	28,502
Cash and Cash Equivalents at End of Year	$ **178,277**	$ 128,284
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash Paid During the Period For:		
Interest	$ **35,328**	$ 23,019
Income Taxes	$ **2,852**	$ 2,091
Non Cash Transactions:		
Other Comprehensive Income	$ **3,945**	$ 5,729

SEE ACCOMPANYING NOTES TO CONSOLIDATED FINANCIAL STATEMENTS.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

The following is a description of the more significant accounting and reporting policies used in the preparation and presentation of the accompanying consolidated financial statements. All significant intercompany transactions have been eliminated in consolidation.

Basis of Consolidation and Nature of Operations

The accompanying consolidated financial statements include the accounts of Security Federal Corporation (the "Company") and its wholly owned subsidiary, Security Federal Bank (the "Bank") and the Bank's wholly owned subsidiaries, Security Federal Investments, Inc. ("SFINV") and Security Federal Insurance, Inc. ("SFINS"). SFINV was formed to hold investment securities and allow for better management of the securities portfolio. SFINS is an insurance agency offering auto, business, and home insurance. All significant intercompany transactions and balances have been eliminated in consolidation.

The Company also has a wholly owned subsidiary, Security Federal Statutory Trust (the "Trust"), which issued and sold fixed and floating rate capital securities of the Trust. However, under current accounting guidance, the Trust is not consolidated in the financial statements. The Bank is primarily engaged in the business of accepting savings and demand deposits and originating mortgage loans and other loans to individuals and small businesses for various personal and commercial purposes.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing balances in other banks, and federal funds sold. Cash equivalents have original maturities of three months or less.

Investment Securities

Investment securities are classified in one of three categories: HTM, AFS, or trading. Management determines the appropriate classification of debt securities at the time of purchase. Investment securities are classified as HTM when the Company has the positive intent and ability to hold the securities to maturity. These securities are recorded at cost and adjusted for amortization of premiums and accretion of discounts over a level yield basis. Callable debt securities held at a premium are amortized until the earliest call date. Prepayment assumptions on mortgage-backed securities are anticipated.

Management classifies investment securities that are not considered to be HTM as AFS. This type of investment is stated at fair value with unrealized gains and losses, net of tax, reported in a separate component of shareholders' equity ("accumulated other comprehensive income (loss)"). Gains and losses from sales of AFS investment securities are determined using the specific identification method. The Company had no investment securities classified as trading.

Allowance for Credit Losses – Available for Sale Securities

Management evaluates all AFS investment securities in an unrealized loss position on a quarterly basis, and more frequently when economic or market conditions warrant such evaluation. If the Company has the intent to sell the security or it is more likely than not that the Company will be required to sell the security, the security is written down to fair value and the entire loss is recorded in earnings. If either of the above criteria is not met, the Company evaluates whether the decline in fair value is the result of credit losses or other factors. In making the assessment, the Company may consider various factors including the extent to which fair value is less than amortized cost, performance of any underlying collateral, downgrades in the ratings of the security by a rating agency, the failure of the issuer to make scheduled interest or principal payments and adverse conditions specifically related to the security. If the assessment indicates that a credit loss exists, the present value of cash flows expected to be collected are compared to the amortized cost basis of the security and any excess is recorded as an allowance for credit losses, limited by the amount that the fair value is less than the amortized cost basis. Any unrealized loss that has not been recorded through an allowance for credit losses is recognized in other comprehensive income. Changes in the allowance for credit losses are recorded as provision for (reversal of) credit losses. Losses are charged against the allowance for credit losses when management believes an AFS security is confirmed to be uncollectible or when either of the criteria regarding intent or requirement to sell is met. At December 31, 2024, there was no allowance for credit losses related to the AFS portfolio. Accrued interest receivable on AFS securities totaled $2.5 million at December 31, 2024 and was excluded from the estimate of credit losses.

Allowance for Credit Losses – Held to Maturity Securities

Management measures expected credit losses on HTM debt securities on a collective basis by major security type. The estimate of expected credit losses is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Additionally, private label collateralized mortgage obligation ("CMO") securities which are not explicitly or implicitly guaranteed by the U.S. government are evaluated utilizing underlying pool data such as historical loss rates, loan-to-value ratios and credit enhancement data. See "Note 3 - Investments, Held to Maturity" for additional information regarding the major HTM security types. There was no allowance for credit losses on HTM securities at December 31, 2024. Accrued interest receivable on HTM securities totaled $589,000 at December 31, 2024 and was excluded from the estimate of credit losses.

Loans Receivable Held for Investment

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost. Amortized cost is the principal balance outstanding, net of purchase premiums and discounts and deferred fees and costs. Accrued interest receivable related to loans is reported in accrued interest receivable on the consolidated balance sheets. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using methods that approximate a level yield without anticipating prepayments.

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

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

Allowance for Credit Losses on Loans

The allowance for credit losses on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Accrued interest receivable is excluded from the estimate of credit losses. The allowance for credit losses on loans represents management's estimate of lifetime credit losses inherent in loans as of the balance sheet date. The allowance for credit losses on loans is estimated by management using relevant available information, from both internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts.

The Company measures expected credit losses for loans on a pooled basis when similar risk characteristics exist. The Company has identified the following portfolio segments:

Real Estate

- o *Construction* - Construction loans consist of loans to construct a borrower's primary or secondary residence or vacant land upon which the owner intends to construct a dwelling at a future date. These loans are typically secured by undeveloped or partially developed land in anticipation of completing construction of a 1-4 family residential property. There is risk these construction and development projects can experience delays and cost overruns exceeding the borrower's financial ability to complete the project. Such cost overruns can result in foreclosure of partially completed and unmarketable collateral. In addition, construction loans consist of loans to finance land for development of commercial or residential real property and construction of multifamily apartments or other commercial properties. These loans are highly dependent on the supply and demand for commercial real estate as well as the demand for newly constructed residential homes and lots acquired for development. Deterioration in demand could result in decreased collateral values, which could make repayments of outstanding loans difficult for customers.
- o *Residential Mortgage* - Residential mortgages consist of loans to purchase or refinance the borrower's primary dwelling, second residence or vacation home and are often secured by 1-4 family residential property. Significant and rapid declines in real estate values can result in borrowers having debt levels in excess of the current market value of the collateral.
- o *Commercial Mortgage* - Commercial mortgages can be broadly categorized into owner-occupied and non-owner-occupied loans. Owner-occupied commercial mortgages involve financing for the purchase or refinancing of nonresidential properties that are occupied by the borrowing operating companies. The collateral for these loans typically includes office buildings, warehouses, manufacturing facilities, and other commercial or industrial properties. These loans hinge on the borrowers' ability to achieve business results consistent with the projections made at the loan origination. Although the loans are secured by real property to mitigate risk, there is a possibility that the liquidation of collateral may not fully satisfy the obligation. Non-owner-occupied commercial mortgages are used for purchasing or refinancing investment nonresidential properties. The collateral for these loans encompasses office buildings and complexes, retail facilities, multifamily complexes, land under development, and various other commercial or industrial real estate. The primary risk associated with non-owner-occupied commercial mortgage loans is contingent upon the ability of the income-producing property that collateralizes the loan to generate sufficient cash flow for servicing the debt. Despite being collateralized by real property to mitigate risk, there remains the possibility that the liquidation of collateral will not entirely meet the obligation.

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

Consumer loans

- o *Home equity* - Home equity loans consist of home equity lines of credit and other lines of credit secured by first or second liens on the borrower's primary residence. These loans are secured by both senior and junior liens on the residential real estate and are particularly susceptible to declining collateral values.
- o *Other* - Consumer loans consist of loans to finance unsecured home improvements, student loans, automobiles and revolving lines of credit that can be secured or unsecured. The value of the underlying collateral within this class is at risk of potential rapid depreciation which could result in unpaid balances in excess of the collateral.

The Company calculates the allowance for credit losses on loans for each pool of loans using a remaining life loss methodology with a two quarter reasonable and supportable forecast period and an immediate reversion period. Management believes that the Company's historical loss experience provides the best basis for its assessment of expected credit losses on loans to determine the allowance for credit losses on loans. The Company uses its own internal data to measure historical credit loss experience within the loan pools with similar risk characteristics over an economic cycle. The Company then forecasts the calculated historical loss rates over the calculated remaining life of loans by pool.

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

Loans that do not share risk characteristics are evaluated on an individual basis. When management determines that foreclosure is probable and the borrower is experiencing financial difficulty, the expected credit losses on loans are based on the fair value of collateral at the reporting date adjusted for selling costs as appropriate.

Management evaluates the carrying value of the loans periodically and the allowance is adjusted accordingly. While management uses the best information available to make evaluations, future adjustments may be necessary if economic conditions differ substantially from the assumptions used in making these evaluations. The allowance for credit losses is subject to periodic evaluations by bank regulatory agencies that may require adjustments to be made to the allowance based upon the information that is available at the time of their examination.

Allowance for Credit Losses – Unfunded Commitments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded. The Company records an allowance for credit losses - unfunded commitments unless the commitments to extend credit are unconditionally cancellable, through a charge to provision for unfunded commitments, which is included in the provision for credit losses in the Company's consolidated income statements. The allowance for credit losses – unfunded commitments is estimated by loan segment at each balance sheet date using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees. The allowance for credit losses - unfunded commitments is included in other liabilities on the Company's consolidated balance sheets.

Loans Receivable Held for Sale

The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with institutional investors are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present little market risk for the Company. The Company usually delivers to, and receives funding from, the investor within 30 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination.

Other Real Estate Owned

Other real estate owned represents real estate and other assets acquired through foreclosure or repossession and are initially recorded at the estimated fair value less costs to sell. Subsequent improvements are capitalized. Costs of holding real estate, such as property taxes, insurance, general maintenance and interest expense, are expensed as a period cost. Fair values are reviewed regularly and allowances for possible losses are established when the carrying value of the asset owned exceeds the fair value less estimated costs to sell. Fair values are generally determined by reference to an outside appraisal.

Premises and Equipment

Premises and equipment are carried at cost, net of accumulated depreciation. Depreciation of premises and equipment is amortized on a straight-line method over the estimated useful life of the related asset. Estimated lives are 7 to 40 years for buildings and improvements and generally 3 to 10 years for furniture, fixtures and equipment. Maintenance and repairs are charged to current expense. The cost of major renewals and improvements are capitalized.

Land Held for Sale

Land held for sale is reported at the lower of the carrying amount and fair value less costs to sell. No write-downs on land held for sale were recorded during 2024 or 2023.

Goodwill

The Company's goodwill is a result of the excess of the cost over the fair value of net assets resulting from the acquisition of Collier Jennings Financial Corporation in July 2006. Goodwill is reviewed for impairment annually or whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable.

Income Taxes

Income tax expense or benefit is recognized for the net change in the deferred tax liability or asset during the year. That amount together with income taxes currently payable is the total amount of income tax expense or benefit for the year. Deferred taxes are provided for by the differences in financial reporting bases for assets and liabilities compared with their tax bases. Generally, a current tax liability or asset is established for taxes presently payable or refundable and a deferred tax liability or asset is established for future tax items. A valuation allowance, if applicable, is established for deferred tax assets that may not be realized. Deferred income taxes are provided for differences between the provision for credit losses for financial statement purposes and those allowed for income tax purposes.

The Company adopted accounting guidance which prescribes a threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and provides guidance on derecognition, classification, interest and penalties, accounting in interim periods and disclosures. There have been no gross amounts of unrecognized tax benefits or interest or penalties related to uncertain tax positions since adoption. There are no unrecognized tax benefits that would, if recognized, affect the effective tax rate. There are no positions for which it is reasonably possible that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next 12 months.

Advertising Expense

Advertising and public relations costs are generally expensed as incurred. External costs relating to direct mailing are expensed in the period in which the direct mailings are sent. Advertising and public relations costs of $1.0 million and $980,000 were included in the Company’s results of operations for the years ended December 31, 2024 and 2023, respectively.

Stock-Based Compensation

The Company accounts for compensation costs under its stock option plans using the fair value method. This method requires the measurement of the cost of employee services received in exchange for an award of equity instruments based upon the fair value of the award on the grant date. The cost of the award is recognized in the income statement over the vesting period of the award.

Net Income Per Common Share

Accounting guidance specifies the computation, presentation and disclosure requirements for earnings per share (“EPS”) for entities with publicly held common stock or potential common stock such as options, warrants, convertible securities or contingent stock agreements if those securities trade in a public market. Basic EPS is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted EPS is similar to the computation of basic EPS except that the denominator is increased to include the number of additional common shares that would have been outstanding if the dilutive common shares had been issued. The dilutive effect of options outstanding under the Company’s stock option plan is reflected in diluted EPS by application of the treasury stock method.

There were no stock options outstanding as of December 31, 2024 and 2023; and therefore, no dilutive options in the calculation of diluted EPS for those periods. The following tables show the Company’s net income per common share for the years indicated.

	Year Ended December 31,					
	2024			2023		
(Dollars in thousands, except EPS)	**Net Income Available to Common Shareholders**	**Weighted Average Shares Outstanding**	**EPS**	Net Income Available to Common Shareholders	Weighted Average Shares Outstanding	EPS
Basic EPS	**$ 8,881**	**3,208,405**	**$ 2.77**	$ 10,190	3,248,149	$ 3.14

Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of income and expenses during the reporting periods. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant changes include:

- Determination of the allowance for credit losses and provision for credit losses
- Valuation of real estate acquired in conjunction with foreclosures or in satisfaction of loans
- Income taxes, including tax provisions and realization of deferred tax assets
- Fair value of assets and liabilities

Segment Reporting

The Company adopted Accounting Standards Update 2023-07 “*Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures*” on January 1, 2024. The Company has determined that all of its banking divisions and subsidiaries meet the aggregation criteria of ASC 280, *Segment Reporting*, as its current operating model is structured whereby banking divisions and subsidiaries serve a similar base of primarily commercial clients utilizing a company-wide offering of similar products and services managed through similar processes and platforms that are collectively reviewed by the Company’s Executive Committee, which has been identified as the chief operating decision maker (“CODM”).

The CODM regularly assesses performance of the aggregated single operating and reporting segment and decides how to allocate resources based on net income calculated on the same basis as is net income reported in the Company’s consolidated statements of income and other comprehensive income. The CODM is also regularly provided with expense information at a level consistent with that disclosed in the Company’s consolidated statements of income and other comprehensive income. The measure of segment assets is reported on the balance sheet as total consolidated assets.

Reclassifications

Certain amounts in prior years' consolidated financial statements have been reclassified to conform to current period classifications. There were no changes to previously reported net income or shareholders' equity.

Recently Issued or Adopted Accounting Standards

The following is a summary of recent authoritative pronouncements that could affect accounting, reporting, and disclosure of financial information by the Company:

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

In addition, CECL made changes to the accounting for AFS debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on AFS debt securities if management does not intend to sell and does not believe that it is more likely than not, they will be required to sell. The Company adopted ASC 326 and all related subsequent amendments thereto effective January 1, 2023 using the modified retrospective approach for all financial assets measured at amortized cost and off-balance sheet credit exposures. The transition adjustment of the adoption of CECL included an increase in the allowance for credit losses on loans of $784,000, which is presented as a reduction to net loans outstanding, and an increase in the allowance for credit losses on unfunded loan commitments of $1.2 million, which is recorded within "Other Liabilities." The Company recorded a net decrease to retained earnings of $1.6 million as of January 1, 2023 for the cumulative effect of adopting CECL, which reflects the transition adjustments noted above, net of the applicable deferred tax assets recorded. Results for reporting periods beginning after January 1, 2023 are presented under CECL while prior period amounts continue to be reported in accordance with previously applicable accounting standards ("Incurred Loss"). The Company elected not to measure an allowance for credit losses for accrued interest receivable and instead elected to reverse interest income on loans or securities that are placed on nonaccrual status, which is generally when the instrument is 90 days past due, or earlier if the Company believes the collection of interest is doubtful. The Company has concluded that this policy results in the timely reversal of uncollectible interest. The adoption of CECL had an insignificant impact on the Company's HTM and AFS securities portfolios.

In January 2023, the Company adopted ASU 2022-02, "Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures" ("ASU 2022-02"), which eliminated the accounting guidance for troubled debt restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In addition, for public business entities, the guidance requires disclosure of current-period gross write-offs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20. The Company adopted the guidance using the modified retrospective method. Upon adoption of this guidance, the Company is no longer required to establish a specific reserve for modifications to borrowers experiencing financial difficulty. Instead, these modifications are included in their respective cohort and a historical loss rate is applied to the current loan balance to arrive at the quantitative baseline portion of the allowance. The difference between the allowance previously determined and the current allowance was not material to the Company's financial statements.

In December 2022, the FASB issued amendments to extend the time preparers can use the reference rate reform relief guidance under ASC Topic 848 from December 31, 2022, to December 31, 2024, to address the fact that all London Interbank Offered Rate ("LIBOR") tenors were not discontinued as of December 31, 2021, and some tenors will be published until June 2023. The amendments are effective immediately for all entities and are applied prospectively. These amendments did not have a material effect on the Company's financial statements.

In December 2023, the FASB amended the Income Taxes topic in the ASC to improve the transparency of income tax disclosures. The amendments are effective for annual periods beginning after December 15, 2024. Early adoption is permitted for annual financial statements that have not yet been issued or made available for issuance. The Company does not expect these amendments to have a material effect on its financial statements.

On January 1, 2024, the Company adopted ASU 2023-07, "Segment Reporting (Topic 280) - Improvement to Reportable Segment Disclosures". The Company has determined that all of it's banking divisions and subsidiaries meet the aggregation criteria of ASC 280, Segment Reporting, as its current operating model and the adoption did not have a material effect on its financial statements.

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

Risks and Uncertainties

In the normal course of its business, the Company encounters two significant types of risk: economic and regulatory. There are three main components of economic risk: interest rate risk, credit risk, and market risk. The Company is subject to interest rate risk to the degree that its interest-bearing liabilities mature or reprice at different speeds, or on different bases, than its interest-earning assets. Credit risk is the risk of default on the Company's loan portfolio that results from borrowers' inability or unwillingness to make contractual payments. Market risk reflects changes in the value of collateral underlying loans receivable, the valuation of real estate held by the Company, and the valuation of loans held for sale and securities available for sale. The Company is subject to the regulations of various government agencies. These regulations can and do change significantly from period to period. The Company also undergoes periodic examinations by the bank regulatory agencies, which may subject it to further changes with respect to asset valuations, amounts of required loss allowances, and operating restrictions, resulting from the regulators' judgments based on information available to them at the time of their examination.

NOTE 2 - INVESTMENTS, AVAILABLE FOR SALE

AFS securities are recorded at fair market value. There was no allowance for credit losses for AFS securities as of December 31, 2024. The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of AFS securities at the dates indicated were as follows:

	December 31, 2024			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair value**
Student Loan Pools	$ **39,670**	$ **117**	$ **(203)**	$ **39,584**
Small Business Administration (“SBA”) Bonds	**66,491**	**337**	**(2,402)**	**64,426**
Tax Exempt Municipal Bonds	**6,746**	**—**	**(688)**	**6,058**
Taxable Municipal Bonds	**64,530**	—	**(11,970)**	**52,560**
Mortgage-Backed Securities ("MBS")	**389,592**	**346**	**(26,943)**	**362,995**
Total AFS Securities	$ **567,029**	$ **800**	$ **(42,206)**	$ **525,623**

	December 31, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair value
Student Loan Pools	$ 51,022	$ 72	$ (728)	$ 50,366
SBA Bonds	79,014	416	(2,677)	76,753
Tax Exempt Municipal Bonds	21,501	643	(908)	21,236
Taxable Municipal Bonds	64,669	—	(11,554)	53,115
MBS	368,081	31	(31,942)	336,170
Total AFS Securities	$ 584,287	$ 1,162	$ (47,809)	$ 537,640

Student Loan Pools are typically 97% guaranteed by the United States government while SBA bonds are 100% backed by the full faith and credit of the United States government. The majority of the Bank's MBS are issued or guaranteed by an agency of the United States government such as Ginnie Mae, or by Government Sponsored Entities ("GSEs"), including Fannie Mae and Freddie Mac. Ginnie Mae MBS are backed by the full faith and credit of the United States government, while those issued by GSEs are not. Also included in MBS are private label collateralized mortgage obligation ("CMO") securities, which are issued by non-governmental real estate mortgage investment conduits and are not backed by the full faith and credit of the United States government. At December 31, 2024 the Bank held an amortized cost and fair value of $80.3 million and $76.0 million in private label CMO securities, compared to an amortized cost and fair value of $83.3 million and $76.7 million at December 31, 2023, respectively.

The amortized cost and fair value of AFS securities at December 31, 2024 are shown below by contractual maturity. Expected maturities will differ from contractual maturities because borrowers have the right to prepay obligations with or without call or prepayment penalties. Since MBS are not due at a single maturity date, they are disclosed separately, rather than allocated over the maturity groupings below.

(Dollars in thousands)	Amortized Cost	Fair Value
Due in one year or less	$ 113	$ 112
Due after one year to five years	13,386	12,860
Due after five to ten years	55,904	50,348
Due after ten years or more	108,034	99,308
MBS	389,592	362,995
Total AFS Securities	$ 567,029	$ 525,623

The amortized cost and fair value of AFS securities pledged as collateral for certain deposit accounts, FHLB advances, FRB, and other borrowings were $483.9 million and $446.1 million at December 31, 2024, and $533.7 million and $490.5 million at December 31, 2023, respectively.

During the year ended December 31, 2024, we received $13.7 million in gross proceeds from sales of AFS securities and recognized gross gains of $408,000 and gross losses of $371,000. There were no sales of AFS securities during the year ended December 31, 2023.

The following tables summarize gross unrealized losses and the related fair value, aggregated by investment category and length of time that individual AFS securities have been in a continuous unrealized loss position at the dates indicated.

	December 31, 2024							
	Less than 12 Months			12 Months or More			Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Student Loan Pools	**$ 3,014**	**$ 10**	**4**	**$ 23,427**	**$ 193**	**22**	**$ 26,441**	**$ 203**
SBA Bonds	**10,795**	**154**	**12**	**24,319**	**2,248**	**46**	**35,114**	**2,402**
Tax Exempt Municipal Bonds	—	—	—	**6,058**	**688**	**5**	**6,058**	**688**
Taxable Municipal Bonds	—	—	—	**52,560**	**11,970**	**59**	**52,560**	**11,970**
MBS	**16,510**	**152**	**26**	**270,559**	**26,791**	**195**	**287,069**	**26,943**
	$ 30,319	**$ 316**	**42**	**$ 376,923**	**$ 41,890**	**327**	**$ 407,242**	**$ 42,206**

	December 31, 2023							
	Less than 12 Months			12 Months or More			Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses	#	Fair Value	Unrealized Losses
Student Loan Pools	$ 377	$ 1	1	$ 43,872	$ 727	34	$ 44,249	$ 728
SBA Bonds	2,200	5	4	39,151	2,672	63	41,351	2,677
Tax Exempt Municipal Bonds	—	—	—	12,965	908	12	12,965	908
Taxable Municipal Bonds	—	—	—	53,115	11,554	59	53,115	11,554
MBS	36,069	434	30	292,864	31,508	213	328,933	31,942
	$ 38,646	$ 440	35	$ 441,967	$ 47,369	381	$ 480,613	$ 47,809

At December 31, 2024, AFS securities consisted of 495 securities, 369 of which were in an unrealized loss position. The majority of unrealized losses are related to the Company's SBA bonds, MBS, and taxable municipal bonds. Management's evaluation of those securities is discussed below. The Company reviews its investment securities portfolio at least quarterly and more frequently when economic conditions warrant, assessing whether an allowance for credit loss is deemed necessary.

SBA Bonds

At December 31, 2024, there were 114 SBA Bonds, 58 of which had unrealized losses. These unrealized losses related principally to changes in market interest rates. The contractual terms of the investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is more likely than not that the Company will not be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company did not recognize unrealized losses into income at December 31, 2024. SBA securities are fully backed by the U.S. government.

MBS

At December 31, 2024, approximately 79% of the AFS MBS held by the Company were issued or guaranteed by an agency of the U.S. government such as Ginnie Mae, or by Government Sponsored Entities ("GSEs"), including Fannie Mae and Freddie Mac. The contractual cash flows of those investments are guaranteed by an agency of the U.S. Government. At December 31, 2024, there were 179 of these securities in an unrealized loss position. This impairment is believed to be caused by the current interest rate environment. Because the decline in market value is attributable to the current interest rate environment and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, unrealized losses were not recognized into income as of December 31, 2024.

Also included in MBS are private label collateralized mortgage obligation ("CMO") securities, which are issued by non-governmental real estate mortgage investment conduits and are not backed by the full faith and credit of the U.S. government. At December 31, 2024 we held 56 private label CMO securities with an amortized cost and fair value of $80.3 million and $76.0 million, respectively. At that date, 42 of these securities had unrealized losses. Of the 42 securities in a loss position, 32 were rated AA or higher by Moody's, Bloomberg, and/or S&P. In addition, each of the individual securities have credit enhancements and LTVs further reducing potential realized losses. This impairment is believed to be caused by the current interest rate environment. Because the decline in market value is attributable to the current interest rate environment and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, unrealized losses were not recognized into income as of December 31, 2024.

Municipal Bonds

At December 31, 2024 there were 5 tax exempt municipal securities and 59 taxable municipal securities that had unrealized losses. The Company believes the unrealized losses on those investments were caused by the interest rate environment and do not relate to the underlying credit quality of the issuers. Because the Company does not intend to sell the investments and it is not more likely than not that the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, unrealized losses were not recognized into income as of December 31, 2024. Each of the Municipal securities held were rated "A2" (Moody's) or "AA-" (S&P) or better.

Accrued interest receivable on AFS securities totaled $2.5 million at December 31, 2024 and was excluded from the estimate of credit losses.

NOTE 3 - INVESTMENTS, HELD TO MATURITY

HTM securities are recorded at amortized cost. The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of HTM securities at the dates indicated were as follows:

	December 31, 2024			
(Dollars in thousands)	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
US Treasury Bonds	$ **11,967**	$ —	$ **(39)**	$ **11,928**
Student Loan Pools	**13,202**	**333**	—	**13,535**
SBA Bonds	**8,168**	**145**	—	**8,313**
Taxable Municipal Bonds	**973**	—	**(20)**	**953**
MBS	**100,890**	**404**	**(5,121)**	**96,173**
Total HTM Securities	$ **135,200**	$ **882**	$ **(5,180)**	$ **130,902**

	December 31, 2023			
(Dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
US Treasury Bonds	$ 23,874	$ —	$ (278)	$ 23,596
FHLB Bond	1,000	—	—	1,000
Student Loan Pools	16,881	278	—	17,159
SBA Bonds	11,305	493	—	11,798
Taxable Municipal Bonds	962	—	(28)	934
MBS	109,050	96	(5,093)	104,053
Total HTM Securities	$ 163,072	$ 867	$ (5,399)	$ 158,540

At December 31, 2024, the amortized cost and fair value of HTM securities that were pledged as collateral for certain deposit accounts, FRB and other borrowings were $94.1 million and $89.8 million compared to an amortized cost and fair value of $107.5 million and $103.8 million at December 31, 2023, respectively.

At December 31, 2024, HTM securities had a combined book value of $135.2 million and an average book yield of 4.67%, which was calculated by multiplying the carrying value of each HTM security by its yield and dividing the sum of these results by the total carrying value. The following table includes a summary of the amortized cost and average book yield of HTM securities by contractual maturity at December 31, 2024. Since MBS do not have fixed maturity dates, they are disclosed separately.

	Carrying Value	**Average Book Yield**
HTM Securities:		
Due in one year or less	$ 11,967	3.49%
Due after one year through five years	1,868	4.50%
Due after five years through ten years	4,031	6.59%
Due after ten years	16,444	6.68%
MBS	100,890	4.41%
Total HTM Securities	$ 135,200	4.67%

The following tables summarize gross unrealized losses and the related fair value, aggregated by investment category and length of time that individual HTM securities have been in a continuous unrealized loss position at the dates indicated.

	December 31, 2024					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Treasury Bonds	$ —	$ —	$ 11,928	$ 39	$ 11,928	$ 39
Taxable Municipal Bonds	—	—	953	20	953	20
MBS	9,906	156	43,547	4,965	53,453	5,121
	$ 9,906	$ 156	$ 56,428	$ 5,024	$ 66,334	$ 5,180

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
(Dollars in thousands)	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
US Treasury Bonds	$ —	$ —	$ 23,596	$ 278	$ 23,596	$ 278
Taxable Municipal Bonds	—	—	934	28	934	28
MBS	40,732	458	58,731	4,635	99,463	5,093
	$ 40,732	$ 458	$ 83,261	$ 4,941	$ 123,993	$ 5,399

At December 31, 2024 and 2023, 47 and 55 individual HTM securities were in a loss position, respectively. We believe, based on industry analyst reports and credit ratings, that the deterioration in value was attributable to changes in market interest rates and was not in the credit quality of the issuer. We have the ability and intent to hold these securities to maturity.

The estimate of expected credit losses on HTM securities is primarily based on the ratings assigned to the securities by debt rating agencies and the average of the annual historical loss rates associated with those ratings. The Company then multiplies those loss rates, as adjusted for any modifications to reflect current conditions and reasonable and supportable forecasts as considered necessary, by the remaining lives of each individual security to arrive at a lifetime expected loss amount. Additionally, private label CMO securities which are not explicitly or implicitly guaranteed by the U.S. government are evaluated utilizing underlying pool data such as historical loss rates, loan-to-value ratios and credit enhancement data. At December 31, 2024, we held an amortized cost and fair value of $9.0 million and $8.9 million in HTM private label CMO securities, compared to an amortized cost and fair value of $14.6 million and $14.3 million at December 31, 2023, respectively. All MBS issued by government-sponsored corporations are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses. The state and local governments securities held by the Company are highly rated by major rating agencies.

As a result of the analysis, the allowance for credit losses for HTM securities was not considered to be material as of December 31, 2024. The following table summarizes the amortized cost and credit ratings of our HTM securities that were considered to have greater than zero percent credit loss probability at December 31, 2024.

Amortized Cost (Dollars in thousands)	2024 Amortized Cost
Taxable Municipal Bond	
AA	973
Total Taxable Municipal Bond	973
Private Label MBS	
AAA	6,673
A	1,186
Not Rated	—
Total Private Label	7,859

As of December 31, 2024, there were no HTM securities that were classified as either nonaccrual or 90 days or more past due and still accruing. Accrued interest receivable on HTM securities totaled $589,000 at December 31, 2024 and was excluded from the estimate of credit losses.

NOTE 4 - LOANS RECEIVABLE, NET

Loans receivable, net, at the dates indicated are summarized as follows:

	December 31,			
	2024		2023	
(Dollars in thousands)	**Balance**	**% of Total Gross Loans**	Balance	% of Total Gross Loans
Real Estate Loans:				
Construction	$ **109,928**	**15.7%**	$ 104,508	16.5%
Residential	**203,650**	**29.0%**	172,883	27.2%
Commercial	**288,509**	**41.2%**	264,802	41.7%
Commercial and Agricultural Loans	**36,870**	**5.3%**	33,286	5.3%
Consumer Loans:				
Home Equity Lines of Credit ("HELOC")	**37,837**	**5.4%**	34,497	5.4%
Other Consumer Loans	**23,843**	**3.4%**	24,520	3.9%
Total Loans Held For Investment, Gross	**700,637**	**100.0%**	634,496	100.0%
Less:				
Allowance For Credit Losses	**13,894**		12,569	
Deferred Loan Fees	**193**		365	
	14,087		12,934	
Loans Receivable Held For Investment, Net	$ **686,550**		$ 621,562	

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information regarding the borrowers' ability to pay off their loan in accordance with its terms. This information includes; but is not limited to, current financial and credit documentation, payment history, public information and current economic trends, among other factors. Risk ratings are used to rate the credit quality of loans for the purposes of determining the Bank's allowance for credit losses. The following definitions are used for credit quality risk ratings:

Pass - loans that are performing and are deemed adequately protected by the net worth of the borrower or the underlying collateral value. These loans are considered to have the least amount of risk in terms of determining the allowance for credit losses.

Caution - loans that do not currently expose the Bank to sufficient risk to warrant adverse classification but possess weaknesses.

Special Mention - loans that do not currently expose the Bank to sufficient risk to warrant adverse classification but possess more weaknesses than Caution loans.

Substandard - loans that typically have an identified weakness or weaknesses and are inadequately protected by the net worth of the borrower or collateral value. All loans 90 days or more past due are automatically classified in this category.

Doubtful - loans that have all the weaknesses of Substandard loans and those weaknesses make collection or liquidation highly questionable and improbable based on current conditions and values.

Loss - loans that are considered uncollectible and of such little values that their continuance as assets is not warranted.

The following table presents the Company's recorded investment in loans, excluding loans held for sale, by credit quality indicators, loan segment and year of origination as of December 31, 2024.

	December 31, 2024							
	Term Loans by Year of Origination							
(Dollars in thousands)	**2024**	**2023**	**2022**	**2021**	**2020**	**Prior**	**Revolving**	**Total**
Real Estate - Construction								
Pass	$ 13,446	$ 1,791	$ 13,688	$ 9,830	$ 683	$ 33,644	$ 5,300	$ 78,382
Caution	7,182	3,661	4,932	62	118	12,176	233	28,364
Special Mention	364	75	—	—	—	781	—	1,220
Substandard	134	697	—	199	118	735	79	1,962
Total Real Estate - Construction	21,126	6,224	18,620	10,091	919	47,336	5,612	109,928
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Real Estate - Residential								
Pass	25,712	38,130	42,248	6,611	6,651	16,280	11,131	146,763
Caution	9,170	17,725	9,839	3,742	4,586	3,244	174	48,480
Special Mention	1,097	2,016	63	413	248	64	—	3,901
Substandard	165	1,736	841	362	—	1,402	—	4,506
Total Real Estate - Residential	36,144	59,607	52,991	11,128	11,485	20,990	11,305	203,650
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Real Estate - Commercial								
Pass	29,719	27,652	51,892	44,891	12,724	27,983	1,696	196,557
Caution	17,770	15,057	7,994	15,307	3,315	8,076	2,415	69,934
Special Mention	198	138	874	438	1,201	11,109	99	14,057
Substandard	167	6,015	775	259	—	745	—	7,961
Total Real Estate - Commercial	47,854	48,862	61,535	60,895	17,240	47,913	4,210	288,509
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Commercial and Agricultural								
Pass	5,750	3,239	2,992	2,370	320	470	4,457	19,598
Caution	9,233	3,356	941	889	10	814	952	16,195
Special Mention	7	429	—	70	—	—	100	606
Substandard	21	174	102	30	10	41	93	471
Total Commercial and Agricultural	15,011	7,198	4,035	3,359	340	1,325	5,602	36,870
Current Period Gross Write-Offs	—	23	35	—	—	2	22	82
Home Equity Lines of Credit								
Pass	163	—	—	—	—	—	28,979	29,142
Caution	—	—	—	—	—	—	7,612	7,612
Special Mention	98	—	—	—	—	—	436	534
Substandard	—	—	—	—	—	—	549	549
Total Home Equity Lines of Credit	261	—	—	—	—	—	37,576	37,837
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Other Consumer								
Pass	5,328	3,386	2,205	776	338	52	5,039	17,124
Caution	2,550	1,501	1,243	434	217	78	285	6,308
Special Mention	132	56	22	—	—	—	8	218
Substandard	—	31	39	81	26	5	11	193
Total Other Consumer	8,010	4,974	3,509	1,291	581	135	5,343	23,843
Current Period Gross Write-Offs	—	40	18	4	6	13	164	245
Total Loans	$ 128,406	$ 126,865	$ 140,690	$ 86,764	$ 30,565	$ 117,699	$ 69,648	$ 700,637
Total Current Period Gross Write-Offs	$ -	$ 63	$ 53	$ 4	$ 6	$ 15	$ 186	$ 327

The table below summarizes the balance by credit quality rating and loan segment, excluding loans held for sale, at December 31, 2023.

	December 31, 2023							
	Term Loans by Year of Origination							
(Dollars in thousands)	2023	2022	2021	2020	2019	Prior	Revolving	Total
Real Estate - Construction								
Pass	$ 31,811	$ 21,125	$ 15,431	$ 1,518	$ 617	$ 1,322	$ 5,089	$ 76,913
Caution	4,073	14,381	1,192	3,148	275	333	150	23,552
Special Mention	—	29	—	—	1,072	457	—	1,558
Substandard	143	310	333	133	1,474	92	—	2,485
Total Real Estate - Construction	36,027	35,845	16,956	4,799	3,438	2,204	5,239	104,508
Current Period Gross Write-Offs	—	—	—	—	—	1	—	1
Real Estate - Residential								
Pass	28,352	36,426	12,290	14,164	3,991	22,239	9,708	127,170
Caution	15,050	10,397	5,954	1,497	1,546	4,134	149	38,727
Special Mention	2,291	158	430	394	—	190	—	3,463
Substandard	574	—	618	—	48	2,283	—	3,523
Total Real Estate - Residential	46,267	46,981	19,292	16,055	5,585	28,846	9,857	172,883
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Real Estate - Commercial								
Pass	12,702	48,077	49,377	16,593	17,806	52,848	2,375	199,778
Caution	16,951	4,880	4,212	5,197	12,831	8,468	20	52,559
Special Mention	213	900	452	408	—	5,485	100	7,558
Substandard	—	342	57	—	—	4,508	—	4,907
Total Real Estate - Commercial	29,866	54,199	54,098	22,198	30,637	71,309	2,495	264,802
Current Period Gross Write-Offs	—	—	—	—	—	—	—	—
Commercial and Agricultural								
Pass	4,763	5,991	6,672	643	348	2,128	4,205	24,750
Caution	3,732	1,131	1,715	67	16	207	816	7,684
Special Mention	458	22	100	9	7	90	—	686
Substandard	—	—	—	1	—	62	103	166
Total Commercial and Agricultural	8,953	7,144	8,487	720	371	2,487	5,124	33,286
Current Period Gross Write-Offs	—	—	16	—	—	—	—	16
Home Equity Lines of Credit								
Pass	—	—	—	—	—	—	27,192	27,192
Caution	—	—	—	—	—	—	6,290	6,290
Special Mention	—	—	—	—	—	—	401	401
Substandard	—	—	—	—	—	—	614	614
Total Home Equity Lines of Credit	—	—	—	—	—	—	34,497	34,497
Current Period Gross Write-Offs	—	—	—	—	—	—	1	1
Other Consumer								
Pass	6,543	3,874	1,580	740	190	63	4,922	17,912
Caution	2,316	1,975	911	468	137	51	295	6,153
Special Mention	77	123	—	—	—	—	6	206
Substandard	67	36	73	48	10	6	9	249
Total Other Consumer	9,003	6,008	2,564	1,256	337	120	5,232	24,520
Current Period Gross Write-Offs	—	23	17	17	—	11	89	157
Total Loans	$ 130,116	$ 150,177	$ 101,397	$ 45,028	$ 40,368	$ 104,966	$ 62,444	$ 634,496
Total Current Period Gross Write-Offs	$ -	$ 23	$ 33	$ 17	$ -	$ 12	$ 90	$ 175

Past Due and Non-accrual Loans

The following tables present an age analysis of past due balances by category at the dates indicated.

	December 31, 2024					
(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or More Past Due**	**Total Past Due**	**Current**	**Total Loans Receivable**
Construction Real Estate	$ **3,755**	$ **35**	$ **1,156**	$ **4,946**	$ **104,982**	$ **109,928**
Residential Real Estate	**2,038**	**864**	**382**	**3,284**	**200,366**	**203,650**
Commercial Real Estate	**1,708**	**140**	**630**	**2,478**	**286,031**	**288,509**
Commercial and Agricultural	**991**	**-**	**305**	**1,296**	**35,574**	**36,870**
Consumer HELOC	**164**	**26**	**21**	**211**	**37,626**	**37,837**
Other Consumer	**216**	**117**	**46**	**379**	**23,464**	**23,843**
Total	$ **8,872**	$ **1,182**	$ **2,540**	$ **12,594**	$ **688,043**	$ **700,637**

	December 31, 2023					
(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Current	Total Loans Receivable
Construction Real Estate	$ 971	$ —	$ 643	$ 1,614	$ 102,894	$ 104,508
Residential Real Estate	1,103	47	240	1,390	171,493	172,883
Commercial Real Estate	500	519	336	1,355	263,447	264,802
Commercial and Agricultural	81	1	2	84	33,202	33,286
Consumer HELOC	347	64	21	432	34,065	34,497
Other Consumer	273	138	46	457	24,063	24,520
Total	$ 3,275	$ 769	$ 1,288	$ 5,332	$ 629,164	$ 634,496

At December 31, 2024 and 2023, the Bank did not have any loans that were 90 days or more past due and still accruing interest. At December 31, 2024, $4.1 million in non-accrual loans were current, $287,000 were 30-59 days past due, and $714,000 were 60-89 days past due. The remaining non-accrual loans were 90 or more days past due. Our strategy is to work with our borrowers to reach acceptable payment plans while protecting our interests in the existing collateral. In the event an acceptable arrangement cannot be reached, we may have to acquire these properties through foreclosure or other means and subsequently sell, develop, or liquidate them.

The following table shows non-accrual loans by category at the dates indicated. There were no non-accrual loans with an allowance at December 31, 2023.

	December 31, 2024			December 31, 2023
	Nonaccrual Loans			Nonaccrual Loans
(Dollars in thousands)	With No Allowance	With an Allowance	Total	With No Allowance
Construction Real Estate	$ **1,438**	$ **—**	$ **1,438**	$ 868
Residential Real Estate	**1,503**	**204**	**1,707**	1,307
Commercial Real Estate	**3,658**	—	**3,658**	4,125
Commercial and Agricultural	**331**	—	**331**	50
Consumer HELOC	**424**	—	**424**	413
Other Consumer	**78**	—	**78**	62
Total Nonaccrual Loans	$ **7,432**	$ **204**	$ **7,636**	$ 6,825

The Company did not recognize any interest income on nonaccrual loans during the year ended December 31, 2024. The following table represents the accrued interest receivables written off by reversing interest income during the year ended December 31, 2024 :

	For the Year Ended December 31,	
(Dollars in thousands)	**2024**	**2023**
Construction Real Estate	**$ 1**	**$** 22
Residential Real Estate	**26**	7
Commercial Real Estate	**5**	1
Commercial and Agricultural	**5**	1
Other Consumer	**4**	3
Total Loans	**$ 41**	**$** 34

Allowance for Credit Losses

The table below shows the activity in the allowance for credit losses on loans by loan category for the years ended year December 31, 2024 and 2023.

	For the Year Ended December 31, 2024						
		Real Estate		Commercial and	Consumer		
(Dollars in thousands)	**Construction**	**Residential**	**Commercial**	**Agricultural**	**HELOC**	**Other**	**Total**
Beginning Balance	$ **1,828**	$ **3,551**	$ **5,052**	$ **808**	$ **731**	$ **599**	$ **12,569**
Provision for (Reversal of) Credit Losses	**41**	**581**	**310**	**237**	**53**	**258**	**1,480**
Charge-Offs	**—**	—	—	**(82)**	**—**	**(245)**	**(327)**
Recoveries	**35**	**50**	**25**	**27**	**3**	**32**	**172**
Ending Balance	$ **1,904**	$ **4,182**	$ **5,387**	$ **990**	$ **787**	$ **644**	$ **13,894**

	For the Year Ended December 31, 2023						
		Real Estate		Commercial and	Consumer		
(Dollars in thousands)	Construction	Residential	Commercial	Agricultural	HELOC	Other	Total
Beginning Balance	$ 2,323	$ 2,124	$ 4,805	$ 875	$ 599	$ 452	$ 11,178
Adjustment to Allowance for Credit Loss on Adoption of ASU 2016-13	264	462	(341)	112	108	179	784
Provision for (Reversal of) Credit Losses	(775)	911	569	(189)	(13)	98	601
Charge-Offs	(1)	—	—	(16)	(1)	(157)	(175)
Recoveries	17	54	19	26	38	27	181
Ending Balance	$ 1,828	$ 3,551	$ 5,052	$ 808	$ 731	$ 599	$ 12,569

Allowance for Credit Losses and Collateral Dependent Loans

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

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

In accordance with our policy, non-accrual commercial loans under $200,000 and non-accrual consumer loans under $100,000 are excluded from the review of individual loans when calculating the allowance for credit losses due to materiality. These loans are included in the pooled loans balances of the allowance for credit losses calculation. The following table summarizes the amortized cost of collateral dependent loans:

	As of December 31,	
(Dollars in thousands)	**2024**	**2023**
Construction Real Estate	**$ 1,156**	$ 643
Residential Real Estate	**849**	668
Commercial Real Estate	**3,426**	3,567
Consumer HELOC	**295**	332
Total	**$ 5,726**	$ 5,210

Modifications to Borrowers Experiencing Financial Difficulty

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

Modifications made to borrowers experiencing financial difficulty typically have their impact already factored into the allowance for credit losses. This is due to the measurement methodologies utilized in estimating the allowance. Consequently, a change to the allowance for credit losses is generally not recorded upon modification. Occasionally, the Company modifies loans by providing principal forgiveness on certain of its real estate loans. When principal forgiveness is provided, the amortized cost basis of the asset is written off against the allowance for credit losses. The amount of the principal forgiveness is deemed to be uncollectible; therefore, that portion of the loan is written off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the allowance for credit losses.

In some cases, the Company will modify a certain loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. As such multiple types of modifications may have been made on the same loan within the current reporting period. The combination is at least two of the following: a term extension, principal forgiveness, and interest rate reduction. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The Company had no modified loans to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023.

Allowance for Credit Losses - Unfunded Commitments

The Company maintains an allowance for credit losses - unfunded commitments for credit exposures such as unfunded balances for existing lines of credit and commitments to extend future credit, as well as both standby and commercial letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable (i.e., commitment cannot be canceled at any time). The allowance for credit losses - unfunded commitments is adjusted through the provision for (reversal of) credit losses. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans, and are discussed in this footnote. The allowance for credit losses - unfunded commitments at December 31, 2024 is separately classified on the balance sheet within "Other Liabilities."

The following table presents the balance and activity in the allowance for credit losses - unfunded loan commitments.

Allowance for Credit Losses - Unfunded Commitments	For the Year Ended December 31,	
(Dollars in thousands)	**2024**	**2023**
Beginning Balance	**$ 859**	**$ —**
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13	—	1,214
Reversal of provision for unfunded commitments	**(110)**	(355)
Ending Balance	**$ 749**	**$** 859

NOTE 5 - PREMISES AND EQUIPMENT, NET AND LEASES

Premises and equipment, net, at the dates indicated are summarized as follows:

	December 31,	
(Dollars in thousands)	**2024**	2023
Land	$ **7,082**	$ 6,179
Buildings and Improvements	**33,465**	32,416
Furniture and Equipment	**11,926**	11,797
Construction in Progress	**281**	413
Total Premises and Equipment	**52,754**	50,805
Less: Accumulated Depreciation	**(23,433)**	(22,168)
Total Premises and Equipment, Net	$ **29,321**	$ 28,637

Construction in progress of $281,000 at December 31, 2024 primarily included building and construction costs associated with renovations to our existing branches. Depreciation expense on premises and equipment was $2.1 million for both the years ended December 31, 2024 and 2023. Loss on disposal of premises and equipment was $1,000 and $29,000 during 2024 and 2023, respectively.

The Company has operating leases on six of its branches. During the year ended December 31, 2024, the Company made cash payments in the amount of $475,000 for operating leases. The lease expense recognized during this period was $514,000 and is included in occupancy expense within the Consolidated Statements of Income. The operating lease liability had a net decrease of $483,000 during the year ended December 31, 2024. At December 31, 2024, the Company had operating lease ROU assets of $927,000 and an operating lease liability of $959,000 recorded on its consolidated balance sheet compared to operating lease ROU assets of $1.4 million and an operating lease liability of $1.4 million at December 31, 2023. The lease agreements have maturity dates ranging from 2025 through 2028, some of which include options for multiple five or ten year extensions. At December 31, 2024, the remaining weighted average lease term was 2.3 years and the weighted average discount rate used was 3.2%.

The ROU asset and lease liability are recognized at lease commencement by calculating the present value of lease payments over the lease term. The ROU assets also include any initial direct costs incurred and lease payments made at or before the commencement date and are reduced by any lease incentives.

At December 31, 2024, future undiscounted lease payments for operating leases with initial terms of one year or more were as follows:

Year ended December 31,	*(Dollars in thousands)*
2025	$ 475
2026	364
2027	147
2028	10
Total undiscounted lease payments	996
Less: effect of discounting	37
Present value of estimated lease payments (lease liability)	$ 959

NOTE 6 - GOODWILL

Goodwill was $1.2 million at both December 31, 2024 and 2023. In accordance with accounting guidance, the Company conducts an annual evaluation of its goodwill as of December 31 each year. Following these evaluations, the Company concluded that no impairment existed. As a result, there was no goodwill write-down for the years ended December 31, 2024 and 2023.

NOTE 7 - FHLB STOCK

The Bank, as a member of the FHLB of Atlanta, is required to acquire and hold shares of capital stock in the FHLB of Atlanta in an amount equal to a membership component, which was equal to 0.07% of total Bank assets at both December 31, 2024 and 2023, plus a transaction component equal to 4.75% of outstanding advances (borrowings) from the FHLB of Atlanta at December 31, 2024 and 2023, respectively. The Bank was in compliance with this requirement with an investment in FHLB of Atlanta stock of $1.1 million and $922,000 at December 31, 2024 and 2023, respectively. As there is no readily available market for this stock and no quoted fair value, it is carried at cost, consistent with the historical practice of redeeming the stock at par.

NOTE 8 - OTHER REAL ESTATE OWNED

The Bank had no OREO at December 31, 2024 and 2023. Transactions in OREO for the years indicated are summarized as follows:

(Dollars in thousands)	**2024**	2023
Balance, beginning of year	$ —	$ 120
Additions	—	—
Sales	—	(105)
Write-downs	—	(15)
Balance, end of year	$ —	$ —

There were no sales of OREO property and no OREO transactions during the year ended December 31, 2024. There was one OREO property sold during the year ended December 31, 2023 for gross proceeds of $107,000, which resulted in a related gain on sale of OREO in the amount of $2,000.

NOTE 9 - DEPOSITS

Deposits outstanding at the dates indicated are summarized below by account type as follows:

Deposit Type (Dollars in thousands)	December 31, 2024	2023
Checking	$ **483,275**	$ 473,936
Money Market	**443,572**	401,992
Savings	**87,630**	88,319
Certificates of Deposit	**309,556**	230,750
Total Deposits	$ **1,324,033**	$ 1,194,997

The Bank had $5.4 and $5.0 million in brokered deposits which are included in checking and money market deposits above at December 31, 2024 and 2023. In addition, the Bank had $25.8 million and $6.5 million in brokered time deposits at December 31, 2024 and 2023, respectively, with a weighted average interest rate of 4.50% and 4.54%, respectively. Brokered time deposits are included in certificates of deposit above and below. At December 31, 2024 and 2023, the Bank had $55,000 and $57,000, respectively, in overdrafts that were reclassified to loans.

Total uninsured deposits (those that met or exceeded the FDIC insurance limit of $250,000) totaled $365.8 million and $327.7 million at December 31, 2024 and 2023, respectively. The uninsured amounts are estimates based on the methodologies and assumptions used for the Bank's regulatory reporting requirements. The Bank had no deposit relationships greater than 5.0% of outstanding deposits at December 31, 2024, compared to one deposit relationship totaling approximately 5.2% of outstanding deposits at December 31, 2023.

Certificate of deposits that exceeded the FDIC insurance limit of $250,000 totaled $96.0 million and $50.2 million at December 31, 2024 and 2023, respectively.

The amounts and scheduled maturities of all certificates of deposit at the dates indicated were as follows:

(Dollars in thousands)	December 31, 2024	2023
Within 1 Year	$ **253,065**	$ 198,325
After 1 Year, Within 2 Years	**33,035**	16,568
After 2 Years, Within 3 Years	**14,547**	9,487
After 3 Years, Within 4 Years	**3,777**	2,636
After 4 Years, Within 5 Years	**4,551**	3,734
After 5 Years	**581**	—
Total Certificates of Deposits	$ **309,556**	$ 230,750

NOTE 10 - FHLB ADVANCES AND FRB BORROWINGS

FHLB advances are secured by a blanket collateral agreement with the FHLB by pledging the Company's portfolio of residential first mortgage loans and investment securities. The Bank's total pledged collateral for FHLB advances had an amortized cost and fair value of $48.1 million and $39.3 million at December 31, 2024 and $53.6 million and $44.1 million at December 31, 2023, respectively. At December 31, 2024 and 2023, the Company had $453.5 million and $424.4 million, respectively, in borrowing capacity at the FHLB based on the collateral value of pledged investment securities and loans. There were no outstanding FHLB advances at December 31, 2024 and 2023.

The Company had $50.0 million in outstanding borrowings under the FRB Term Funding Program ("BTFP") with a weighted average borrowing rate of 4.76% at December 31, 2024 compared to $119.2 million with a weighted average borrowing rate of 4.60% at December 31, 2023. During 2023, we elected to participate in the BTFP to refinance existing FRB discount window borrowings at a lower fixed rate. Advances under the program have a one-year term and are priced at the OIS rate plus 10 basis points on the day the advance is made. Effective January 24, 2024, the FRB announced that future advances through the program's expiration on March 11, 2024, would be set at no lower than the interest rate on reserve balances in effect at the time of the advance.

Depository institutions may borrow from the FRB discount window for periods as long as 90 days, and borrowings are prepayable and renewable by the borrower daily. At December 31, 2024, we had pledged as collateral for these borrowings investment securities with an amortized cost and fair value of $370.2 million and $341.0 million, compared to an amortized cost and fair value of $381.0 million and $350.6 million, respectively, at December 31, 2023.

During the third quarter of 2023, the Company entered the FRB's Borrower-In-Custody ("BIC") program, which allows for the pledging of various loan types to secure FRB borrowings. As of December 31, 2024, the Company had pledged loan collateral for FRB borrowings with an amortized cost and collateral value of $84.9 million and $66.2 million, respectively, compared to pledged loan collateral with an amortized cost and collateral value of $93.5 million and $65.5 million at December 31, 2023, respectively.

NOTE 11 - OTHER BORROWINGS

The Bank had $27.8 million and $19.2 million in other borrowings at December 31, 2024 and 2023, respectively. These borrowings consist of short-term repurchase agreements with certain commercial demand deposit customers for sweep accounts. The repurchase agreements typically mature within one to three days and the interest rate paid on these borrowings floats monthly with money market type rates. At both December 31, 2024 and 2023, the interest rate paid on the repurchase agreements was 1.49%. The maximum amount outstanding at any month end during the year ended December 31, 2024 was $28.0 million compared to $29.5 million during the year ended December 31, 2023. The Bank had pledged as collateral for these repurchase agreements investment securities with amortized costs and fair values of $42.1 million and $39.7 million at December 31, 2024 and $44.7 million and $42.0 million at December 31, 2023, respectively.

NOTE 12 - JUNIOR SUBORDINATED DEBENTURES

On September 21, 2006, Security Federal Statutory Trust (the "Trust"), a wholly-owned subsidiary of the Company, issued and sold fixed and floating rate capital securities of the Trust (the "Capital Securities"), which are reported on the consolidated balance sheet as junior subordinated debentures, generating proceeds of $5.2 million. The Trust loaned these proceeds to the Company to use for general corporate purposes, primarily to provide capital to the Bank.

As of a result of the discontinuation of LIBOR, effective June 30, 2023, the Capital Securities transitioned from its floating rate of three month LIBOR plus 170 basis points to a replacement floating rate of three month Secured Overnight Financing Rate ("SOFR") as adjusted by the relevant spread adjustment of 0.26161 plus 170 basis points. As of December 31, 2024 and 2023, this was a rate per annum equal to 6.32% and 7.35%, respectively.

The distribution rate payable on the Capital Securities is cumulative and payable quarterly in arrears. The Company has the right, subject to events of default, to defer payments of interest on the Capital Securities for a period not to exceed 20 consecutive quarterly periods, provided that no extension period may extend beyond the maturity date of December 15, 2036. The Company has no current intention to exercise its right to defer payments of interest on the Capital Securities. The Capital Securities mature or are mandatorily redeemable upon maturity on December 15, 2036, or upon earlier optional redemption as provided in the indenture. The Company has had the right to redeem the Capital Securities in whole or in part since September 15, 2011.

NOTE 13 - SUBORDINATED DEBENTURES

In November 2019, the Company sold and issued to certain institutional investors $17.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2029 (the "10-Year Notes") and $12.5 million in aggregate principal amount of 5.25% fixed-to-floating rate subordinated notes due 2034 (the "15-Year Notes", and together with the 10-Year Notes, the "Notes").

The 10-Year Notes have a stated maturity of November 22, 2029, and bear interest at a fixed rate of 5.25% per year, from and including November 22, 2019 but excluding November 22, 2024. From and including November 22, 2024 to but excluding the maturity date or early redemption date, the interest rate shall reset semi-annually to an interest rate equal to the then-current three-month LIBOR rate plus 369 basis points. The 15-Year Notes have a stated maturity of November 22, 2034, and bear interest at a fixed rate of 5.25% per year, from and including November 22, 2019 but excluding November 22, 2029. From and including November 22, 2029 to but excluding the maturity date or early redemption date, the interest rate for the 15-Year Notes shall reset semi-annually to an interest rate equal to the then-current three-month LIBOR rate plus 357 basis points. The Notes are payable semi-annually in arrears on June 1 and December 1 of each year commencing June 1, 2020.

The Notes are not subject to redemption at the option of the holder and may be redeemed by the Company only under certain limited circumstances prior to November 22, 2024, with respect to the 10-Year Notes, and November 22, 2029, with respect to the 15-Year Notes. The Company may redeem the 10-Year Notes and the 15-Year Notes at its option, in whole at any time, or in part from time to time, after November 22, 2024 and November 22, 2029, respectively. The Notes are unsecured, subordinated obligations of the Company and rank junior in right to payment to the Company's current and future senior indebtedness, and each Note is equal in right to payment with respect to the other Notes.

In November 2024, the Company redeemed the 10-Year Notes, which had an aggregate principal balance of $16.5 million. At December 31, 2024, we had a remaining balance of $10.0 million, comprised of all 15-Year Notes. We may redeem the 15-Year Notes at our option, in whole at any time, or in part from time to time, after November 22, 2029.The Notes included a remedy in the event that LIBOR is discontinued. The Company will evaluate the remedy to determine an appropriate benchmark replacement for LIBOR at the early redemption date.

The Notes have been structured to qualify as Tier 2 capital for the Company under applicable regulatory guidelines. The Company used the net proceeds from the sale of the Notes to fund the redemption of the convertible senior debentures and for general corporate purposes to support future growth.

NOTE 14 - INCOME TAXES

Income tax expense was comprised of the following for the years indicated below:

	Year Ended December 31,	
(Dollars in thousands)	**2024**	2023
Current:		
Federal	$ **2,551**	$ 2,510
State	**391**	79
Total Current Tax Expense	**2,942**	2,589
Deferred:		
Federal	**(229)**	(287)
State	**44**	(14)
Total Deferred Tax Benefit	**(185)**	(301)
Total Income Tax Expense	$ **2,757**	$ 2,288

The Company's income taxes differ from those computed at the statutory federal income tax rate for the years indicated, as follows:

	Year Ended December 31,	
(Dollars in thousands)	**2024**	2023
Tax at Statutory Income Tax Rate	$ **2,639**	$ 2,620
State Tax	**426**	51
Tax Exempt Interest	**(82)**	(126)
Tax Credits	**(96)**	(75)
Life Insurance	**(148)**	(133)
Valuation Allowance	**(73)**	(63)
Other	**91**	14
Total Income Tax Expense	$ **2,757**	$ 2,288

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities at December 31, 2024 and 2023 are presented below. Net deferred tax assets or liabilities were included in other assets or other liabilities at December 31, 2024 and 2023.

	December 31,	
(Dollars in thousands)	**2024**	2023
Deferred Tax Assets:		
Deferred Compensation	$ **960**	$ 897
Provision for Credit Losses	**2,985**	2,722
Reserve for Unfunded Commitments	**161**	186
Other Real Estate Owned	**75**	96
Net Fees Deferred for Financial Reporting	**52**	58
Net Operating Losses	**328**	401
Unrealized Loss on AFS Securities	**10,313**	11,615
Tax Credits	**—**	268
Other	**120**	34
Total Gross Deferred Tax Assets	**14,994**	16,277
Less: Valuation Allowance	**(328)**	(401)
Total Deferred Tax Assets	**14,666**	15,876
Deferred Tax Liabilities:		
FHLB Stock Basis Over Tax Basis	**72**	72
Depreciation	**1,247**	946
Prepaid Expenses	**40**	202
Total Deferred Tax Liability	**1,359**	1,220
Net Deferred Tax Asset	$ **13,307**	$ 14,656

The Company measures deferred tax assets and liabilities using enacted tax rates that will apply in the years in which the temporary differences are expected to be recovered or paid. Deferred tax assets represent the future tax benefit of deductible differences and, if it is more likely than not that a tax asset will not be realized, a valuation allowance is required to reduce the recorded deferred tax assets to net realizable value. As of December 31, 2024, management has determined that it is more likely than not that the total deferred tax asset will be realized except for the deferred tax asset associated with state net operating loss carryforwards, and, accordingly, has established a valuation allowance only for this item. The change in the valuation allowance was approximately $63,000. The Company had state net operating losses attributable to the non-bank entities of $8.3 million and $10.2 million for the years ended December 31, 2024 and 2023, respectively.

Retained earnings at December 31, 2024 included tax bad debt reserves of $2.1 million, for which no provision for federal income tax has been made. If, in the future, these amounts are used for any purpose other than to absorb bad debt losses, including dividends, stock redemptions, or distributions in liquidation, or the Company ceases to be qualified as a bank holding company, they may be subject to federal income tax at the prevailing corporate tax rate. At December 31, 2024, the Company had no material unrecognized tax benefits or accrued interest and penalties. It is the Company's policy to account for interest and penalties accrued relative to unrecognized tax benefits as a component of income tax expense. Tax returns for 2021 and subsequent years are subject to examination by taxing authorities.

NOTE 15 - REGULATORY MATTERS

The Bank, as a state-chartered, federally insured savings bank, is subject to the capital requirements established by the FDIC. Under the FDIC's capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting and other factors.

The Company is a bank holding company registered with the Board of Governors of the Federal Reserve System (the "Federal Reserve"). Bank holding companies are subject to capital adequacy requirements of the Federal Reserve under the Bank Holding Company Act of 1956, as amended, and the regulations of the Federal Reserve. For a bank holding company with less than $3.0 billion in assets, the capital guidelines apply on a bank only basis and the Federal Reserve expects the holding company's subsidiary banks to be well-capitalized under the prompt corrective action regulations.

Based on its capital levels at December 31, 2024, the Bank exceeded all regulatory capital requirements as of that date. Consistent with the Bank's goals to operate a sound and profitable organization, it is the Bank's policy to maintain a "well-capitalized" status under the regulatory capital categories of the FDIC. Based on capital levels at December 31, 2024, the Bank was considered to be "well-capitalized" under applicable regulatory requirements. Management monitors the capital levels to provide for current and future business opportunities and to maintain the Bank's "well-capitalized" status.

The tables below provide the Bank’s regulatory capital requirements and actual results at December 31, 2024 and 2023.

	Actual		For Capital Adequacy		To Be Well Capitalized	
(Dollars in Thousands)	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2024						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	$ 158,748	18.7%	$ 50,913	6.0%	$ 67,883	8.0%
Total Risk-Based Capital (To Risk Weighted Assets)	169,405	20.0%	67,883	8.0%	84,854	10.0%
Common Equity Tier 1 Capital (To Risk Weighted Assets)	158,748	18.7%	38,184	4.5%	55,155	6.5%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	158,748	9.9%	64,277	4.0%	80,346	5.0%
December 31, 2023						
Tier 1 Risk-Based Core Capital (To Risk Weighted Assets)	$ 150,129	18.2%	$ 49,391	6.0%	$ 65,854	8.0%
Total Risk-Based Capital (To Risk Weighted Assets)	160,457	19.5%	65,854	8.0%	82,318	10.0%
Common Equity Tier 1 Capital (To Risk Weighted Assets)	150,129	18.2%	37,043	4.5%	53,506	6.5%
Tier 1 Leverage (Core) Capital (To Adjusted Tangible Assets)	150,129	9.8%	61,076	4.0%	76,345	5.0%

In addition to the minimum capital requirements, the Bank must maintain a capital conservation buffer, which consists of additional Common Equity Tier 1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends, repurchasing shares, and paying discretionary bonuses. At December 31, 2024 the Bank’s conservation buffer was 12.0%.

NOTE 16 - EMPLOYEE BENEFIT PLANS

The Company participates in a multiple employer defined contribution employee benefit plan covering substantially all employees with six months or more of service. The Company matches a portion of the employees’ contributions and the plan has a discretionary profit sharing provision. Total employer contributions were $404,000 and $368,000 for the years ended December 31, 2024 and 2023, respectively, which are included within Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

The Company has an Employee Stock Purchase Plan (“ESPP”). The ESPP allows employees of the Company to purchase stock quarterly through a payroll deduction at a discount calculated as 15% of the market value with a floor equal to the Company’s book value. The ESPP, which was approved by stockholders in April 2018, became effective July 1, 2018. Participation in the ESPP is voluntary. Employees are limited to investing $25,000 or 5% of their annual salary, whichever is lower, during the year. There were 1,914 shares of common stock purchased through the ESPP during the year ended December 31, 2024 compared to 2,319 shares purchased during 2023.

In 2014, the Company implemented an Incentive Compensation Plan (the "Plan"). Incentive awards are based on the financial and operating performance of the Company as well as other participant specific objectives. The Plan allows employees of the Company to earn up to 7.5 days of their annual salary for successfully completing specific goals established by the participants and their respective supervisors plus an additional 2.5 days of their annual salary if the Company meets an annual predetermined net operating income amount determined by the Board of Directors.

In 2016, the Company implemented a Quarterly Branch Incentive Compensation Plan (the "Branch Incentive Plan"), and all branch employees were moved from the Plan to the Branch Incentive Plan. This plan is for retail branch employees only and pays incentive on a quarterly basis based on specific performance goals established for each branch location.

The Company also implemented an Incentive Compensation Plan for executive level officers (the "Executive Plan"). Under this plan, incentive awards are based on contributions to performance as measured by critical operating and financial ratios, and other participant specific objectives. The Company must meet the annual predetermined net operating income amount determined by the Board of Directors for any incentive awards to be paid under the Executive Plan. If the Company does not meet the required net income amount, no incentives are paid under the Executive Plan regardless of the executive's performance on individual objectives or entity wide objectives.

Participation in the ESPP, the Plan, the Branch Incentive Plan and the Executive Plan is voluntary. During the years ended December 31, 2024 and 2023, the Company incurred expenses of $225,000 and $238,000, respectively, related to these incentive plans, which are included in Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

Certain officers of the Company participate in a supplemental retirement plan. These benefits are not qualified under the Internal Revenue Code and they are not funded. During the years ended December 31, 2024 and 2023, the Company incurred expenses of $471,000 and $411,000, respectively, for this plan, which are included in Compensation and Employee Benefits within the Company's Consolidated Statements of Income.

NOTE 17 - BANK OWNED LIFE INSURANCE

BOLI provides key person life insurance on certain officers of the Company. The cash value of the life insurance policies is recorded as a separate line item in the accompanying balance sheets at $28.7 million and $28.0 million at December 31, 2024 and 2023, respectively. The earnings portion of the insurance policies grows tax deferred and helps offset the cost of the Company's benefits programs. The Company recorded earnings of $706,000 and $636,000 for the growth in the cash surrender value of life insurance during the years ended December 31, 2024 and 2023, respectively. The Company received no death benefits during the years ended December 31, 2024 and 2023.

NOTE 18 - COMMITMENTS AND CONTINGENCIES

In the ordinary course of business, the Bank has various outstanding commitments and contingent liabilities that are not reflected in the accompanying consolidated financial statements. In addition, the Bank is a defendant in certain claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material adverse effect on the consolidated financial condition of the Company.

In conjunction with its lending activities, the Bank enters into various commitments to extend credit. The Bank also issues letters of credit. Loan commitments (unfunded loans and unused lines of credit) and letters of credit are issued to accommodate the financing needs of the Bank's customers. Loan commitments are agreements by the Bank to lend at a future date, so long as there are no violations of any conditions established in the agreement. Letters of credit commit the Bank to make payments on behalf of customers when certain specified events occur.

Financial instruments where the contract amount represents the Bank's credit risk include commitments under pre-approved but unused lines of credit of $147.1 million and $157.9 million and letters of credit of $5.1 million and $3.4 million at December 31, 2024 and 2023, respectively. These loan and letter of credit commitments are subject to the same credit policies and reviews as loans on the balance sheet. Collateral, both the amount and nature, is obtained based upon management's assessment of the credit risk. Since many of the extensions of credit are expected to expire without being drawn, the total commitment amounts do not necessarily represent future cash requirements.

Included in the loan commitments noted above were unused credit card loan commitments of $13.4 million and $11.3 million and undisbursed loans in process of $11.3 million and $13.3 million at December 31, 2024 and 2023, respectively. The Bank also had $1.1 million in outstanding commitments on mortgage loans approved but not yet closed at December 31, 2024 compared to $2.2 million at December 31, 2023. These commitments, which are funded subject to certain limitations, extend over varying periods of time with the majority being funded within 45 days.

At December 31, 2024 and 2023, the Bank had outstanding commitments to sell approximately $599,000 and $967,000 of loans, respectively, which encompassed the Bank's held for sale loans. The Bank also has commitments to sell mortgage loans not yet closed, on a best efforts basis. Under this arrangement, the Bank suffers no penalty if it is unable to deliver the loans to potential buyers. The fair value of the Bank's commitment to originate mortgage loans at committed interest rates and to sell such loans to permanent investors is deemed insignificant.

NOTE 19 - RELATED PARTY TRANSACTIONS

Certain directors, executive officers and companies with which they are affiliated are customers of, and have banking transactions with, the Bank in the ordinary course of business. Loans to directors, executive officers and their affiliates are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable arms-length transactions. A summary of loan transactions with directors, executive officers and their affiliates for the years indicated, is as follows:

	Years Ended December 31,	
(Dollars in thousands)	**2024**	2023
Balance, Beginning of Period	$ **1,002**	$ 683
New Loans	**—**	370
Less Loan Payments	**(106)**	(51)
Balance, End of Period	$ **896**	$ 1,002

Loans to all employees, officers, and directors of the Company constituted approximately 3.04% and 3.44% of the Company's total shareholders' equity at December 31, 2024 and 2023, respectively. Deposits from executive officers and directors of the Company and their related interests were approximately $21.9 million and $21.0 million at December 31, 2024 and 2023 and have substantially the same terms, including interest rates, as those prevailing at the time with other non-related depositors.

The Company leased office space from a related party during the years ended December 31, 2024 and 2023. The lease is with a company in which the related party, who is a director of the Company, has an ownership interest. The Company incurred rent expense of $108,000 and $110,000 for the years ended December 31, 2024 and 2023, respectively, related to this lease. We believe the transactions with respect to this lease were made on terms that are comparable to those which would be made with unaffiliated persons.

NOTE 20 - PARENT COMPANY ONLY CONDENSED FINANCIAL STATEMENTS

The following is condensed financial information of Security Federal Corporation (Parent Company only). The primary asset is its investment in the Bank subsidiary and the principal source of income for the Company is equity in undistributed earnings from the Bank.

Condensed Balance Sheet Data

	December 31,	
(In Thousands)	**2024**	2023
Assets:		
Cash	$ **28,009**	$ 26,842
Investment Securities	**40,881**	50,211
Investment in Security Federal Statutory Trust	**155**	155
Investment in Security Federal Bank	**128,834**	116,279
Accrued Interest Receivable	**122**	200
Accounts Receivable and Other Assets	**77**	11,163
Total Assets	$ **198,078**	$ 204,850
Liabilities and Shareholders' Equity:		
Accounts Payable and Other Liabilities	$ **534**	$ 833
Long-term Debt	**15,155**	31,655
Shareholders' Equity	**182,389**	172,362
Total Liabilities and Shareholders' Equity	$ **198,078**	$ 204,850

Condensed Statements of Income Data

	Years Ended December 31,	
(In Thousands)	**2024**	2023
Income:		
Equity in Earnings of Security Federal Bank	$ **8,840**	$ 9,595
Interest Income	**3,000**	2,574
Total Income	**11,840**	12,169
Expenses:		
Interest Expense	**1,673**	1,755
Other Expenses	**63**	65
Total Expenses	**1,736**	1,820
Income Before Income Taxes	**10,104**	10,349
Income Tax Expense	**297**	159
Net Income	**9,807**	10,190
Preferred Stock Dividends	**926**	-
Net Income Available to Common Shareholders	$ **8,881**	$ 10,190

Condensed Statements of Cash Flow Data

	Years Ended December 31,	
(In Thousands)	**2024**	2023
Operating Activities:		
Net Income	$ **9,807**	$ 10,190
Adjustments to Reconcile Net Income to Net Cash Provided (Used) by Operating Activities:		
Equity in Earnings of Security Federal Bank	**(8,620)**	(9,595)
Discount Accretion and Premium Amortization, Net	**13**	(235)
Change in Accrued Interest Receivable	**78**	(10)
Change in Accounts Receivable and Other Assets	**11,085**	(10,970)
Change in Accounts Payable and Other Liabilities	**(299)**	678
Net Cash Provided (Used) by Operating Activities	**12,064**	(9,942)
Investing Activities:		
Purchase of Investment Securities	**(5,031)**	(2,934)
Proceeds from Principal Paydowns and Maturities of Investment Securities	**14,360**	13,777
Investment in Subsidiary	**—**	(660)
Net Cash Provided by Investing Activities	**9,329**	10,183
Financing Activities:		
Repurchase of Subordinated Debentures	**(16,500)**	—
Proceeds from Employee Stock Plan Purchases	**49**	57
Purchase of Treasury Stock	**(1,052)**	(582)
Cash Dividends on Preferred Stock	**(926)**	—
Cash Dividends on Common Stock	**(1,797)**	(1,687)
Net Cash Used by Financing Activities	**(20,226)**	(2,212)
Net Increase (Decrease) in Cash	**1,167**	(1,971)
Cash at Beginning of Period	**26,842**	28,813
Cash at End of Period	$ **28,009**	$ 26,842

NOTE 21 - CARRYING AMOUNTS AND FAIR VALUE OF FINANCIAL INSTRUMENTS

GAAP requires the Company to disclose fair value of financial instruments measured at amortized cost on the balance sheet and to measure that fair value using an exit price notion, the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date under current market conditions.

Accounting guidance emphasizes that fair value is a market-based measurement, not an entity-specific measurement. Therefore, a fair value measurement should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, the guidance establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within Levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within Level 3 of the hierarchy).

The following three levels of inputs may be used to measure fair value:

Level 1 - Valuation is based upon quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access. Level 1 assets and liabilities include debt and equity securities and derivative contracts that are traded in an active exchange market, as well as U.S. Treasuries and money market funds.

Level 2 - Valuation is based upon quoted prices for similar assets and liabilities in active markets, as well as inputs that are observable for the asset or liability (other than quoted prices), such as interest rates, foreign exchange rates, and yield curves that are observable at commonly quoted intervals. Level 2 assets and liabilities include debt securities with quoted prices that are traded less frequently than exchange-traded instruments, mortgage-backed securities, municipal bonds, corporate debt securities and derivative contracts whose value is determined using a pricing model with inputs that are observable in the market or can be derived principally from or corroborated by observable market data. This category generally includes certain derivative contracts.

Level 3 - Valuation is generated from model-based techniques that use at least one significant assumption based on unobservable inputs for the asset or liability, which are typically based on an entity's own assumptions, as there is little, if any, related market activity. In instances where the determination of the fair value measurement is based on inputs from different levels of the fair value hierarchy, the level in the fair value hierarchy within which the entire fair value measurement falls is based on the lowest level input that is significant to the fair value measurement in its entirety. The assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the asset or liability.

The following is a description of the valuation methodologies used for assets and liabilities recorded at fair value.

Investment Securities AFS

Investment securities AFS are recorded at fair value on a recurring basis. At December 31, 2024, the Company's investment portfolio was comprised of student loan pools, government and agency bonds, MBS issued by government sponsored agencies or GSEs, private label CMO securities and municipal securities. Fair value measurement is based upon prices obtained from third party pricing services that use independent pricing models which rely on a variety of factors including reported trades, broker/dealer quotes, benchmark yields, economic and industry events and other relevant market information. As such, these securities are classified as Level 2.

Mortgage Loans Held for Sale

The Company originates fixed rate residential loans on a servicing released basis in the secondary market. Loans closed but not yet settled with institutional investors are carried in the Company's loans held for sale portfolio. These loans are fixed rate residential loans that have been originated in the Company's name and have closed. Virtually all of these loans have commitments to be purchased by investors and the majority of these loans were locked in by price with the investors on the same day or shortly thereafter that the loan was locked in with the Company's customers. Therefore, these loans present very little market risk for the Company.

The Company usually delivers to, and receives funding from, the investor within 30 days. Commitments to sell these loans to the investor are considered derivative contracts and are sold to investors on a "best efforts" basis. The Company is not obligated to deliver a loan or pay a penalty if a loan is not delivered to the investor. As a result of the short-term nature of these derivative contracts, the fair value of the mortgage loans held for sale in most cases is the same as the value of the loan amount at its origination. These loans are classified as Level 2.

Land Held for Sale

Land held for sale is reported at the lower of the carrying amount or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the collateral value less estimated selling costs. The Company records land held for sale as nonrecurring level 3.

Collateral Dependent Loans

The Company does not record loans held for investment at fair value on a recurring basis. However, from time to time, the Company designates individually evaluated loans with higher risk as collateral dependent loans and an allowance for credit losses is established as necessary. Collateral dependent loans are loans for which the repayment is expected to be provided substantially through the operation or sale of the collateral and the borrower is experiencing financial difficulty. These loans do not share common risk characteristics and are not included within the collectively evaluated loans for determining the allowance for credit losses. Under CECL, for collateral dependent loans, the Company has adopted the practical expedient to measure the allowance for credit losses based on the fair value of collateral. The allowance for credit losses is calculated on an individual loan basis based on the shortfall between the fair value of the loan's collateral, which is adjusted for estimated costs to sell, and amortized cost. If the fair value of the collateral exceeds the amortized cost, no allowance is required.

Fair value is estimated using one of the following methods: fair value of the collateral less estimated costs to sell, discounted cash flows, or market value of the loan based on similar debt. The fair value of the collateral less estimated costs to sell is the most frequently used method. Typically, the Company reviews the most recent appraisal and if it is over 24 months old will request a new third party appraisal. Depending on the particular circumstances surrounding the loan, including the location of the collateral, the date of the most recent appraisal and the value of the collateral relative to the recorded investment in the loan, management may order an independent appraisal immediately or, in some instances, may elect to perform an internal analysis. For instance, in scenarios where the collateral on a nonperforming commercial real estate loan is outside the Company's primary market area, management would usually order an independent appraisal promptly - either at the time the loan becomes nonperforming or immediately following the determination that the loan is collateral dependent. Conversely, for a nonperforming commercial real estate loan where management is familiar with the property and surrounding areas, and the original appraisal value significantly exceeds the recorded investment in the loan, management may choose to perform an internal analysis. This involves reviewing and adjusting the previous appraisal value for current conditions, including recent sales of similar properties in the area and relevant economic trends. These valuations are reviewed at a minimum on a quarterly basis.

Those collateral dependent loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2024, all collateral dependent loans were evaluated based on the fair value of the collateral. Loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. The Company records collateral dependent loans as nonrecurring Level 3.

The tables below present the balances of assets measured at fair value on a recurring basis at the dates indicated. There were no liabilities measured at fair value on a recurring basis as of December 31, 2024 and 2023.

	December 31, 2024			December 31, 2023		
(Dollars in thousands)	**Level 1**	**Level 2**	**Level 3**	Level 1	Level 2	Level 3
Student Loan Pools	$ —	$ **39,584**	$ —	$ —	$ 50,366	$ —
SBA Bonds	—	**64,426**	—	—	76,753	—
Tax Exempt Municipal Bonds	—	**6,058**	—	—	21,236	—
Taxable Municipal Bonds	—	**52,560**	—	—	53,115	—
MBS	—	**362,995**	—	—	336,170	—
Total	$ —	$ **525,623**	$ —	$ —	$ 537,640	$ —

The Company may be required, from time to time, to measure certain assets at fair value on a nonrecurring basis. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period. The table below presents assets measured at fair value on a nonrecurring basis at the dates indicated, aggregated by the level in the fair value hierarchy within which those measurements fall. There were no liabilities measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023.

	December 31, 2024			
Assets (in thousands):	**Level 1**	**Level 2**	**Level 3**	**Total**
Mortgage Loans Held For Sale	$ —	$ **599**	$ —	$ **599**
Land Held For Sale	—	—	**938**	**938**
Collateral Dependent Loans	—	—	**5,726**	**5,726**
Total	$ —	$ **599**	$ **6,664**	$ **7,263**

	December 31, 2023			
Assets (in thousands):	Level 1	Level 2	Level 3	Total
Mortgage Loans Held For Sale	$ —	$ 967	$ —	$ 967
Land Held For Sale	—	—	938	938
Collateral Dependent Loans	—	—	5,210	5,210
Total	$ —	$ 967	$ 6,148	$ 7,115

For Level 3 assets measured at fair value on a recurring or non-recurring basis, the significant unobservable inputs used in the fair value measurements at the dates indicated were as follows:

Level 3 Assets	**Valuation Technique**	**Significant Unobservable Inputs**	**2024 Range**	**2023 Range**
Land Held for Sale	Appraised Value/Comparable Sales	Discounts to appraised values for estimated holding or selling costs	10%	10%
Collateral Dependent Loans	Appraised Value	Discounts to appraised values or cash flows for estimated holding and/or selling costs or age of appraisal	10 - 12%	10 - 12%

For assets and liabilities not presented on the balance sheet at fair value, the following methods are used to determine fair value:

Cash and cash equivalents—The carrying amount of these financial instruments approximates fair value. All mature within 90 days and do not present unanticipated credit concerns.

Certificates of deposits with other banks—Fair value is based on market prices for similar assets.

Investment Securities HTM—Valued at quoted market prices or dealer quotes.

Loans Receivable, Net—The fair value of loans is estimated using an exit price notion. The exit price notion uses a discounted cash flows technique to calculate the present value of expected future cash flows for a financial instrument and incorporates other factors, such as enhanced credit risk, illiquidity risk and market factors that sometimes exist in exit prices in dislocated markets. The credit risk assumption is intended to approximate the fair value that a market participant would realize in a hypothetical orderly transaction. The Company's loan portfolio is initially fair valued using a segmented approach. The Company divides its loan portfolio into the following categories: commercial real estate, commercial and agricultural, residential real estate, construction, consumer HELOCs and all other consumer loans. The results are then adjusted to account for credit risk as described above. A further credit risk discount must be applied using a discounted cash flow model to compensate for illiquidity risk, based on certain assumptions included within the discounted cash flow model, primarily the use of discount rates that better capture inherent credit risk over the lifetime of a loan. This consideration of enhanced credit risk provides an estimated exit price for the Company's loan portfolio. For variable-rate loans that reprice frequently and have no significant change in credit risk, fair values approximate carrying values.

FHLB Stock—The fair value approximates the carrying value.

Deposits—The fair value of demand deposits, savings accounts, and money market accounts is the amount payable on demand at the reporting date. The fair value of fixed-maturity certificates of deposits is estimated by discounting the future cash flows using rates currently offered for deposits of similar remaining maturities.

FHLB Advances and Borrowings from the FRB—Fair value is estimated using discounted cash flows with current market rates for borrowings with similar terms.

Other Borrowed Money—The carrying value of these short term borrowings approximates fair value.

Subordinated Debentures—The fair value is estimated by discounting the future cash flows using the current rates at which similar debenture offerings with similar terms and maturities would be issued by similar institutions. As discount rates are based on current debenture rates as well as management estimates, the fair values presented may not be indicative of the value negotiated in an actual sale.

Junior Subordinated Debentures—The carrying value of junior subordinated debentures approximates fair value.

The following tables summarize the carrying value and estimated fair value of the Company's financial instruments at the dates indicated, presented in accordance with the applicable accounting guidance.

	December 31, 2024				
	Carrying	Fair Value			
(In Thousands)	Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	$ 178,277	$ 178,277	$ 178,277	$ —	$ —
Certificates of Deposits with Other Banks	1,250	1,250	—	1,250	—
AFS Securities	525,623	525,623	—	525,623	—
HTM Securities	135,200	130,902	—	130,902	—
Loans Receivable, Net	686,550	677,282	—	—	677,282
FHLB Stock	1,089	1,089	1,089	—	—
Financial Liabilities:					
Deposits:					
Checking, Savings and Money Market Accounts	$ 1,014,477	$ 1,014,477	$ 1,014,477	$ —	$ —
Certificate Accounts	309,556	309,355	—	309,355	—
Borrowings from FRB	50,000	50,010	50,010	—	—
Other Borrowed Money	27,809	27,809	27,809	—	—
Subordinated Debentures	10,000	7,371	—	7,371	—
Junior Subordinated Debentures	5,155	5,155	—	5,155	—

	December 31, 2023				
	Carrying	Fair Value			
(In Thousands)	Amount	Total	Level 1	Level 2	Level 3
Financial Assets:					
Cash and Cash Equivalents	$ 128,284	$ 128,284	$ 128,284	$ —	$ —
Certificates of Deposits with Other Banks	2,350	2,350	—	2,350	—
AFS Securities	537,640	537,640	—	537,640	—
HTM Securities	163,072	158,540	—	158,540	—
Loans Receivable, Net	621,562	610,410	—	—	610,410
FHLB Stock	922	922	922	—	—
Financial Liabilities:					
Deposits:					
Checking, Savings and Money Market Accounts	$ 964,247	$ 964,247	$ 964,247	$ —	$ —
Certificate Accounts	230,750	229,278	—	229,278	—
Borrowings from FRB	119,200	118,926	118,926	—	—
Other Borrowed Money	19,180	19,180	19,180	—	—
Subordinated Debentures	26,500	23,036	—	23,036	—
Junior Subordinated Debentures	5,155	5,155	—	5,155	—

At December 31, 2024, the Company had $152.1 million of off-balance sheet financial commitments. These commitments are to originate loans and unused consumer lines of credit and credit card lines. Because these obligations are based on current market rates, if funded, the original principal is considered to be a reasonable estimate of fair value.

Fair value estimates are made on a specific date, based on relevant market data and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale the Bank's entire holdings of a particular financial instrument.

Because no active market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, current interest rates and prepayment trends, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters of significant judgment and therefore cannot be determined with precision. Changes in any of these assumptions used in calculating fair value would also significantly affect the estimates. Fair value estimates are based on existing on- and off-balance sheet financial instruments without attempting to estimate the value of anticipated future business and the value of assets and liabilities that are not considered financial instruments. For example, the Company has significant assets and liabilities that are not considered financial assets or liabilities including deposit franchise values, loan servicing portfolios, deferred tax liabilities, and premises and equipment.

In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in any of these estimates. The Company has used management's best estimate of fair value on the above assumptions. Thus, the fair values presented may not be the amounts which could be realized in an immediate sale or settlement of the instrument. In addition, any income taxes or other expenses that would be incurred in an actual sale or settlement are not taken into consideration in the fair value presented.

NOTE 22 - NON-INTEREST INCOME

The following table presents non-interest income for the years indicated. All revenue from contracts with customers within the scope of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) is recognized in non-interest income, except for gains on the sale of OREO, which are included in non-interest expense when applicable.

	Year Ended December 31,	
	2024	**2023**
Non-interest income (in thousands):		
Gain on Sale of Investments, net (1)	$ **37**	$ —
Gain on Sale of Loans (1)	**779**	626
Service Fees on Deposit Accounts	**1,243**	1,220
Commissions From Insurance Agency (1)	**791**	784
Trust Income	**2,265**	1,860
BOLI Income (1)	**706**	636
ATM and Check Card Fee Income	**3,170**	3,018
Grant Income (1)	**500**	437
Other (1)	**756**	809
Total non-interest income	$ **10,247**	$ 9,390

(1) NOT WITHIN THE SCOPE OF ASC 606

Revenue Recognition

The following is a discussion of key revenues within the scope of the current revenue guidance.

In accordance with Topic 606, revenues are recognized when control of promised goods or services is transferred to customers in an amount that reflects the consideration the Bank expects to be entitled to in exchange for those goods or services. To determine revenue recognition for arrangements that an entity determines are within the scope of Topic 606, management performs the following five steps: (i) identify the contract(s) with a customer; (ii) identify the performance obligations in the contract; (iii) determine the transaction price; (iv) allocate the transaction price to the performance obligations in the contract; and (v) recognize revenue when (or as) the performance obligation is satisfied.

The five-step model is only applied to contracts when it is probable that the entity will collect the consideration it is entitled to in exchange for the goods or services it transfers to the customer. At contract inception, once the contract is determined to be within the scope of Topic 606, the Bank assesses the goods or services that are promised within each contract and identifies those that contain performance obligations, and assesses whether each promised good or service is distinct. The amount of the transaction price that is allocated to the respective performance obligation is recognized as revenue when (or as) the performance obligation is satisfied.

Service Fees on Deposit Accounts

The Bank earns fees from its deposit customers for account maintenance, transaction-based and overdraft services. Account maintenance fees consist primarily of account fees and analyzed account fees charged on deposit accounts monthly. The performance obligation is satisfied and the fees are recognized monthly as the service period is completed. Transaction-based fees on deposits accounts are charged to deposit customers for specific services provided to the customer, such as non-sufficient funds fees, overdraft fees, and wire fees. The performance obligation is completed as the transaction occurs and the fees are recognized at the time each specific service is provided to the customer.

Trust Income

Trust income includes monthly advisory fees that are based on assets under management and certain transaction fees that are assessed and earned monthly, concurrently with the investment management services provided to the customer. The Bank does not charge performance based fees for its trust services and does not currently have any institutional clients, hedge funds or mutual funds.

ATM and Check Card Fee Income

Check card fee income represents fees earned when a debit card issued by the Bank is used. The Bank earns interchange fees from debit cardholder transactions through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. The performance obligation is satisfied and the fees are earned when the cost of the transaction is charged to the card. Certain expenses directly associated with the debit card are recorded on a net basis with the fee income.

NOTE 23 - PREFERRED STOCK

On May 24, 2022, the Company entered into a Letter Agreement (the "initial Agreement") with the U.S. Department of Treasury under the Emergency Capital Investment Program ("ECIP"). Established by the Consolidated Appropriations Act, 2021, the ECIP was created to encourage low- and moderate-income community financial institutions and minority depository institutions to provide loans, grants, and forbearance for small businesses, minority-owned businesses, and consumers, especially low-income and underserved communities, including counties with persistent poverty, that may be disproportionately impacted by the economic effect of the COVID-19 pandemic by providing direct and indirect capital investments in low- and moderate-income community financial institutions.

Pursuant to the initial Agreement, the Company agreed to issue and sell 82,949 shares of Preferred Stock for an aggregate purchase price of $82.9 million in cash. This ECIP investment is treated as tier 1 capital. The Preferred Stock bears no dividend for the first 24 months following the investment date. Thereafter, the dividend rate will be adjusted, not higher than 2%, based on the lending growth criteria listed in the initial Agreement. After the tenth anniversary of the investment date, the dividend rate will be fixed based on the average annual amount of lending in years two through 10. Dividends will be payable quarterly in arrears on March 15, June 15, September 15, and December 15.

The Preferred Stock may be redeemed at the option of the Company on or after the fifth anniversary of issuance (or earlier in the event of loss of regulatory capital treatment), subject to the approval of the appropriate federal banking regulator and in accordance with the federal banking agencies' regulatory capital regulations. The Preferred Stock is reported on the Consolidated Balance Sheets as Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP.

On January 10, 2025, the Company entered into an ECIP Securities Purchase Option Agreement (the "Agreement") with the Treasury. Pursuant to the Agreement, Treasury granted the Company an option to purchase all of the Preferred Stock during the Option Period, which is the first fifteen years following the Original Closing Date. The purchase price for the Preferred Stock pursuant to the purchase option is determined based on a formula equal to the present value of the Preferred Stock, calculated as set forth in the Agreement, together with any accrued and unpaid dividends thereon, as of the closing date. Subject to variations in interest rates and the equity risk premium, which are components included in the purchase price calculation, the Company presently expects that the purchase price will be at a substantial discount from the face value of the Preferred Stock.

The purchase option may not be exercised during the ECIP period, which is the first ten years following the Original Closing Date unless and until at least one of the Threshold Conditions under the Agreement has been met. The Threshold Conditions are as follows: during the ten years that follow the Original Closing Date (the "ECIP Period") either (1) over any sixteen consecutive quarters, an average of at least 60% of the Company's Total Originations, as defined pursuant to the terms of the ECIP, qualifies as "Deep Impact Lending," as defined pursuant to the terms of the ECIP (the "Deep Impact Condition"); (2) over any twenty-four consecutive quarters, an average of at least 85% of the Company's Total Originations qualifies as "Qualified Lending," as defined pursuant to the terms of the ECIP (the "Qualified Lending Condition"); or (3) the Preferred Stock has a dividend rate of no more than 0.5%, which dividend rate is calculated pursuant to the ECIP and the terms thereof, at each of six consecutive Reset Dates, as defined in the ECIP.

The earliest possible date by which a Threshold Condition may be met is June 30, 2026, which is the end of the sixteenth consecutive quarter following the Original Closing Date. However, the Company does not currently meet any of the Threshold Conditions to exercise the purchase option, and there can be no assurance if and when the Threshold Conditions will be met. At present, the Company has reported no consecutive quarters for which it has met both the Deep Impact and Qualified Lending Conditions. The Preferred Stock currently has a dividend rate of 2.0%.

In addition to the requirement that a Threshold Condition be met, the Agreement requires that the Company meet certain other eligibility conditions in order to exercise the purchase option in the future, including compliance with the terms of the original ECIP purchase agreement and the terms of the Preferred Stock, maintaining qualification as either a CDFI or an MDI, and meeting other legal and regulatory criteria. Although the Company currently meets the general eligibility criteria, other than satisfying one of the Threshold Conditions, there can be no assurance that the Company will meet such criteria in the future.

NOTE 24 - SUBSEQUENT EVENTS

Subsequent events are events or transactions that occur after the balance sheet date but before financial statements are issued. Recognized subsequent events are events or transactions that provide additional evidence about conditions that existed at the date of the balance sheet, including the estimates inherent in the process of preparing financial statements. Non-recognized subsequent events are events that provide evidence about conditions that did not exist at the date of the balance sheet but arose after that date.

Management has reviewed the events occurring through the date the financial statements were issued and no additional subsequent events occurred requiring accrual or disclosure.

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

None.

Item 9A. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures: An evaluation of the Company's disclosure controls and procedures (as defined in Section 13a-15(e) of the Securities Exchange Act of 1934 (the "Act")) was carried out as of December 31, 2024 under the supervision and with the participation of the Company's Chief Executive Officer (principal executive officer), Chief Financial Officer (principal financial officer), and several other members of the Company's senior management as of the end of the period covered by this report. The Company's Chief Executive Officer and Chief Financial Officer concluded that based on their evaluation at December 31, 2024, the Company's disclosure controls and procedures were effective in ensuring that the information required to be disclosed by the Company in the reports it files or submits under the Act is (i) accumulated and communicated to the Company's management (including the Chief Executive Officer and Chief Financial Officer) in a timely manner to allow timely decisions regarding required disclosure, specified in the SEC’s rules and forms, and (ii) recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms.

(b) Report of Management on Internal Control over Financial Reporting: The management of the Company is responsible for establishing and maintaining adequate internal control over financial reporting. The internal control process has been designed under our supervision to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2024, utilizing the framework established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2024 was effective.

Our internal control over financial reporting includes policies and procedures that pertain to the maintenance of records that accurately and fairly reflect, in reasonable detail, transactions and dispositions of assets; and provide reasonable assurances that: (1) transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States; (2) receipts and expenditures are being made only in accordance with authorizations of management and the directors of the Company; and (3) unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the Company's financial statements are prevented or timely detected.

All internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

This 2024 Form 10-K does not include an attestation report of the Company's independent registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's independent registered public accounting firm pursuant to rules of the SEC that permit the Company to provide only management's report in this 2024 Form 10-K.

(c) Changes in Internal Controls: There have been no changes in the Company's internal control over financial reporting during the quarter ended December 31, 2024 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Item 9B. Other Information

(a) None.

(b) During the quarter ended December 31, 2024, no director or officer (as defined in Rule 16a-1(f) under the Act) of the Company adopted or terminated a “Rule 10b5-1 trading arrangement” or “non-Rule 10b5-1 trading arrangement,” as each term is defined in Item 408(a) of Regulation S-K.

Item 9C. Disclosure Regarding Foreign Jurisdictions that Prevent Inspections

Not applicable.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Directors. The information contained under the section captioned "Proposal 1 - Election of Directors" in the 2025 Proxy Statement is incorporated herein by reference.

Executive Officers. For information regarding the executive officers of the Company and the Bank, see the information contained herein under the section captioned "Item 1. Business - Executive Officers."

Delinquent Section 16(a) Reports. None.

Nominating Procedures. There have been no material changes to the procedures by which stockholders may recommend nominees to our Board of Directors since last disclosed to stockholders.

Audit Committee and Audit Committee Financial Expert. The Company has a separately-designated standing Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act. The Audit Committee of the Company is composed of Directors Moore (Chairperson), Alexander, Clyburn, Cummins, Harmon, Simmons, Thomas, and Toole. Directors Moore, Alexander, Clyburn, Cummins, Harmon and Thomas are independent, as independence is defined for audit committee members in the listing standards of The Nasdaq Stock Market, LLC. Although Security Federal's common stock is not listed on Nasdaq, it has chosen to apply Nasdaq's definition of independence, as permitted by the SEC. For 2024, the Board of Directors determined that Ms. Cummins is an "audit committee financial expert" as defined by the SEC rules and regulations.

Code of Ethics. The Board of Directors has adopted a Code of Ethics for the Company's officers (including its senior financial officers), directors and employees. The Code is applicable to the Company's principal executive officer and senior financial officers. The Company has posted its Code of Ethics on its website www.securityfederalbank.com.

Item 11. Executive Compensation

The information contained in the section captioned "Executive Compensation" in the 2025 Proxy Statement is incorporated herein by reference.

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

(a) Security Ownership of Certain Beneficial Owners. The information contained in the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the 2025 Proxy Statement is incorporated herein by reference.
(b) Security Ownership of Management. The information contained in the section captioned "Security Ownership of Certain Beneficial Owners and Management" in the 2025 Proxy Statement is incorporated herein by reference.
(c) Changes in Control. The Company is not aware of any arrangements, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.
(d) Equity Compensation Plan Information. There were no securities to be issued upon exercise of outstanding options, warrants and rights, and no securities remaining available for future issuance under the Company's equity compensation plans as of December 31, 2024.

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

Related Transactions. The information contained in the section captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters - Corporate Governance - Related Party Transactions" in the 2025 Proxy Statement is incorporated herein by reference.

Director Independence. The information contained in the section captioned "Meetings and Committees of the Board of Directors and Corporate Governance Matters - Corporate Governance - Director Independence" in the 2025 Proxy Statement is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information contained under the section captioned "Independent Registered Public Accounting Firm" in the 2025 Proxy Statement is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedules

1. Financial Statements. For a list of the financial statements filed as part of this report see Part II - Item 8.

2. Financial Statement Schedules. All schedules have been omitted as the required information is either inapplicable or contained in the Consolidated Financial Statements or related Notes contained in the Annual Report filed as an exhibit hereto.

3. Exhibit Index:

3.1	Articles of Incorporation, as amended (1)
3.2	Amended and Restated Bylaws (2)
4.1	Form of Stock Certificate of the Company and other instruments defining the rights of security holders, including indentures (3)
4.2	Description of Capital Stock of Security Federal Corporation (4)
10.1	Form of 2006 Salary Continuation Agreement (5)
10.2	Form of Security Federal Split Dollar Agreement (5)
10.3	2018 Employee Stock Purchase Plan (6)
10.4	Letter Agreement, Dated May 24, 2022 between Security Federal Corporation and the U.S. Department of Treasury, with respect to the issuance of Senior Non-Cumulative Perpetual Preferred Stock, Series ECIP (7)
10.5	ECIP Securities Purchase Option Agreement dated January 10, 2025, by and between Security Federal Corporation and the U.S. Department of Treasury (9)
14	Code of Ethics (8)
19	Security Federal Corporation Insider Trading and Confidentiality Policies and Procedures
21	Subsidiaries of Registrant (4)
23	Consent of Elliott Davis, LLC
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act
32	Certification of Chief Executive Officer and Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act
101	The following materials from Security Federal Corporation's Annual Report on Form 10-K for the year ended December 31, 2024, formatted in Inline Extensible Business Reporting Language (iXBRL): (1) Consolidated Balance Sheets; (2) Consolidated Statements of Income; (3) Consolidated Statements of Comprehensive Income; (4) Consolidated Statements of Changes in Shareholders' Equity; (5) Consolidated Statements of Cash Flows; and (6) Notes to Consolidated Financial Statements
104	Cover Page Interactive Date File (formatted as inline XBRL and contained in Exhibit 101)

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(1) Filed on June 26, 1998, as an exhibit to the Company's Proxy Statement and incorporated herein by reference.
(2) Filed on January 10, 2024, as an exhibit to the Company’s Current Report on Form 8-K dated January 4, 2024 and incorporated herein by reference.
(3) Filed on August 12, 1987 as an exhibit to the Company's Registration Statement on Form 8-A and incorporated herein by reference.
(4) Filed on March 24, 2023 as an exhibit to the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 and incorporated herein by reference.
(5) Filed on May 24, 2006 as an exhibit to the Company's Current Report on Form 8-K dated May 18, 2006 and incorporated herein by reference.
(6) Filed on March 28, 2018, as an exhibit to the Company’s Proxy Statement and incorporated herein by reference.
(7) Filed on June 8, 2022, as an exhibit to the Company's Current Report on Form 8-K dated May 24, 2022 and incorporated herein by reference.
(8) The Company elects to satisfy Regulation S-K §229.406(c) by posting its Code of Ethics on its website at www.securityfederalbank.com.
(9) Filed on January 14, 2025, as an exhibit to the Company's Current Report on Form 8-K dated January 10, 2025 and incorporated herein by reference.

Item 16. Form 10-K Summary

None.

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.

SECURITY FEDERAL CORPORATION

Date: March 14, 2025

/s/ J. Chris Verenes
J. Chris Verenes
Chief Executive Officer and Director
(Duly Authorized Representative)

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 and on the dates indicated.

By:	/s/ J. Chris Verenes J. Chris Verenes Chief Executive Officer and Director (Principal Executive Officer)	March 14, 2025
By:	/s/Darrell Rains Darrell Rains Chief Financial Officer (Principal Financial and Accounting Officer)	March 14, 2025
By:	/s/Roy G. Lindburg Roy G. Lindburg President and Director	March 14, 2025
By:	/s/Timothy W. Simmons Timothy W. Simmons Chairman of the Board and Director	March 14, 2025
By:	/s/Frank M. Thomas, Jr. Frank M. Thomas, Jr. Director	March 14, 2025
By:	/s/Frampton W. Toole III Frampton W. Toole III Director	March 14, 2025
By:	/s/Richard T. Harmon Richard T. Harmon Director	March 14, 2025
By:	/s/Robert E. Alexander Robert E. Alexander Director	March 14, 2025
By:	/s/Jessica T. Cummins Jessica T. Cummins Director	March 14, 2025
By:	/s/Thomas L. Moore Thomas L. Moore Director	March 14, 2025
By:	/s/William Clyburn William Clyburn Director	March 14, 2025
By:	/s/Harry O. Weeks, Jr. Harry O. Weeks, Jr. Director	March 14, 2025

SECURITY FEDERAL CORPORATION

POLICIES AND PROCEDURES GOVERNING TRADING IN SECURITIES AND CONFIDENTIALITY OF INSIDE INFORMATION FOR OFFICERS, DIRECTORS and EMPLOYEES

Summary. The Securities and Exchange Commission ("SEC") and private attorneys have been, and continue to be, active in the enforcement of the insider trading laws. The purpose of this policy is to avoid even the appearance of improper conduct on the part of officers, directors and employees of Security Federal Corporation and its subsidiaries (collectively, the "Corporation"), as well as their household members, family members and controlled entities, as defined below. This policy governs transactions in the Corporation's securities, and the handling of confidential information about the Corporation and the companies with which it does business.

Material Nonpublic Information. As officers, directors and employees of a financial institution and a publicly traded company, we have a legal obligation to maintain the confidentiality of nonpublic information obtained in the course of our business. This obligation precludes the use by officers, directors and employees, for direct or indirect personal gain or profit, of nonpublic information (also known as inside information) received in connection with our business activities.

The engagement in securities transactions while aware of material nonpublic information (insider trading) or the communication of such information to others who engage in securities trading (tipping) violates the federal securities laws. Such violations are likely to result in harsh consequences for the individuals involved, including exposure to investigations by the SEC, criminal and civil prosecution, disgorgement of any profits realized or losses avoided through the use of the nonpublic information, penalties of up to three times such profits or losses, whichever is greater, criminal penalties of up to 25 years in prison and/or a fine of up to $5 million and exposure to additional liability in private actions. While the regulatory and law enforcement agencies typically concentrate their efforts on the individuals who trade, or who provide inside information to others who trade, the federal securities laws also impose potential liability on companies and other "controlling persons" if they fail to take reasonable steps to prevent insider trading by company personnel. As a result, insider trading violations expose the Corporation, its directors, officers and other personnel acting in supervisory capacities to civil liabilities and penalties for the actions of employees under their control who engage in insider trading violations.

The SEC has adopted a rule for fair disclosure, *Regulation FD*, which prohibits selective disclosure of material nonpublic information by U.S. public companies, such as the Corporation. In particular, Regulation FD applies to disclosures made by the Corporation, or any person acting on its behalf, such as an executive officer, director, investor relations or public relations officer, and any other officer, employee or agent of the Corporation who regularly communicates with securities market professionals or stockholders of the Corporation. Violations of Regulation FD can subject a company, or persons acting on its behalf, to SEC enforcement action, fines and other penalties. The SEC has indicated that the establishment of "an appropriate policy, and the issuer’s adherence to it, may often be relevant in determining the issuer's intent with regard to selective disclosure."

The Corporation, therefore, has adopted this policy to ensure that material nonpublic information will not be used by officers, directors and employees (or their affiliates), that such persons comply with federal and state securities laws restricting trading in the Corporation's securities and that the confidentiality of information we receive in the course of our business is maintained. Strict compliance with this policy is expected of all officers and directors and their affiliates, and any infringement thereof may result in sanctions.

Persons/Entities Subject to the Policy. This policy applies to all officers, directors and employees of the Corporation and its subsidiaries ("Insiders"). It also applies to all family members or other persons who live in an Insider's household (including children away at school), and any family members who do not live in the Insider's household but whose transactions in the Corporation's securities the Insider directs, influences or controls (collectively, "Family Members"). Each Insider is responsible for the transactions of Family Members and should make them aware of the need to discuss with the Insider any trades in the Corporation's securities before they occur.

This policy also applies to any entities controlled or influenced by an Insider, including any corporations, partnerships or trusts ("Controlled Entities"), and transactions by Controlled Entities should be treated under this policy and applicable securities laws as if they were for the Insider's own account.

Securities Subject to the Policy. As used in this policy, the term "securities" includes common stock, options to purchase common stock and any other securities such as preferred stock, trust preferred securities, warrants and debt securities, as well as derivative securities, such as exchange-traded options.

1. THE BASIC TRADING POLICY - No trading by Insiders, Family Members or Controlled Entities (i) during the period beginning four weeks prior to the end of the fiscal quarter or year and continuing until two complete business days after the public release of earnings for such period, and (ii) while they possess material nonpublic information concerning either the Corporation or any other company with which the Corporation has business dealings and continuing until two complete business days after the public release of such information or until such information is no longer material.

No Insider, Family Member or Controlled Entity may purchase or sell (or recommend that anyone else purchase or sell) any security issued by the Corporation during the period beginning four weeks prior to the end of the fiscal quarter or the fiscal year end and continuing until two business days after the release of the Corporation's earnings for such period.

No Insider, Family Member or Controlled Entity may purchase or sell (or recommend that anyone else purchase or sell) any security, whether or not issued by the Corporation or a company with which the Corporation has a business relationship, while such person possesses material nonpublic information concerning such company and continuing until two complete business days after the public release of such information or until such information is no longer material. As a corollary to this policy, any person with knowledge of material nonpublic information acquired in the course of the Corporation's business may not communicate to any person outside the Corporation or to a Corporation employee who does not have a need to know such information in connection with the performance of his or her duties to the Corporation.

"Material information" means information relating to any company with publicly traded securities (including but not limited to the Corporation), the public dissemination of which likely would affect the market price of any of its securities, or which likely would be considered important by a reasonable investor in determining whether to buy, sell or hold such securities. Any information that could be expected to affect a company's stock price, whether it is positive or negative, should be considered. Materiality is based on an assessment of the facts and circumstances. While it is impossible to list all types of information that might be deemed material under particular circumstances, information dealing with the following subjects is often found material:

- earnings estimates or results, including changes to previously announced earnings guidance;
- a change in dividend policy or the declaration of a stock split;
- proposals or plans for acquisitions, including mergers and tender offers;
- sales of substantial assets;
- changes in debt ratings;
- securities offerings or the establishment of a repurchase program for Corporation securities;
- significant operational issues, including write-downs of assets, additions to reserves for bad debts or contingent liabilities or changes in non-performing assets;
- liquidity problems;
- significant management developments;
- major pricing or marketing changes;
- cybersecurity risks and incidents including vulnerabilities or breaches;
- pending or threatened significant litigation or regulatory developments, including investigations by governmental bodies;
- a change in auditors or notification that the auditor's reports may no longer be relied upon;
- significant expansion of operations, whether geographic or otherwise;
- cybersecurity risks and incidents, including vulnerabilities or breaches; and
- any other information, which, if known, would likely influence the decisions of investors.

Information about a company generally is not material if its public dissemination would not have an impact on the price of the company's publicly traded securities. Whether information is material will depend on the particular facts and circumstances. When doubt exists as to whether non-public information is material, insiders should presume that it is.

Information that has not been disclosed to the public generally is nonpublic. To show that information is public, you should be able to point to some evidence that it has been widely disseminated. Information generally would be deemed widely disseminated if it has been disclosed, for example, in the Dow Jones broad tape; news wire services such as AP, UPI, or Reuters; radio or television; newspapers or magazines; or widely circulated public disclosure documents filed with the SEC, such as prospectuses or proxies.

"Nonpublic information" includes information available only to a select group of analysts, brokers or institutional investors and undisclosed facts that are the subject of rumors, even if the rumors are widely circulated.

In all cases, the responsibility for determining whether an individual is in possession of material nonpublic information rests with that individual, and any action on the part of the Corporation or any employee or director of the Corporation does not constitute legal advice or insulate an individual from liability under applicable securities laws.

Exceptions. This policy does not apply to the following transactions, except as specifically noted:

Stock Option Exercises. This policy does not apply to the exercise of employee stock options. The policy does apply to any sale of stock as part of a broker-assisted cashless exercise of an option or any other market sale for the purpose of generating the cash needed to pay the exercise price of an option.

401(k) Plan. This policy does not apply to purchases of Corporation securities in the Corporation's resulting from periodic contributions of money to the plan pursuant to a payroll deduction election.

Employee Stock Purchase Plan. This policy does not apply to purchases of Corporation securities in the employee stock purchase plan resulting from periodic contributions of money to the plan pursuant to the election made at the time of enrollment in the plan but the policy does apply to the sale of shares purchased in the Employee Stock Purchase Plan.

2. PROHIBITION AGAINST SHORT-TERM TRADING IN THE SECURITIES

The Corporation has a policy against short-term trading by Insiders, Family Members and Controlled Entities in the securities of the Corporation or our customers, including short sales of, and options for, such securities. Insiders, Family Members and Controlled Entities who purchase securities of the Corporation or a customer are expected to retain such securities for at least six months. Sale of such securities prior to the expiration of the six-month period will be deemed an infringement of this policy unless such sale has been approved by the appropriate officer based upon a significant and unexpected change in the financial circumstances of the purchaser, such as that occasioned by the death or serious illness of a family member or other substantial justification, subject to the limitations on purchases and sales by officers and directors outlined in Section 3 below.

3. ADDITIONAL RESTRICTIONS APPLICABLE TO EXECUTIVE OFFICERS AND DIRECTORS

A. RESALE RESTRICTIONS

The Securities Act of 1933 requires every person who offers or sells securities to register such securities with the SEC unless an exemption from registration is available. An exemption frequently relied upon by executive officers and directors for public sales of securities of their companies is Rule 144 under the 1933 Act. The rule is available for public sales by any person of "restricted securities" (i.e., securities acquired in a private offering or certain other types of exempt offerings) and for sales by controlling persons (known as "affiliates") of any securities, whether restricted or unrestricted.

Requirements of Rule 144. Rule 144 contains five conditions, although the applicability of some of these conditions will depend on the circumstances of the sale:

1. **Current Public Information**. Current information about the Corporation must be publicly available at the time of sale. The Corporation's periodic reports filed with the SEC ordinarily satisfies this requirement.

2. **Holding Period**. Restricted securities must be held and fully paid for by the seller for a period of six months prior to sale. The holding period requirement, however, does not apply to securities held by affiliates that were acquired either in the open market or in a public offering of securities registered under the 1933 Act. In some cases, such as those involving gifts or bequests, the holding period of another person can be "tacked" to the seller's holding period for computation purposes.

3. **Volume Limitations**. The amount of securities which can be sold during any three-month period cannot exceed the greater of (i) one percent of the outstanding shares of the class, or (ii) the average weekly reported trading volume for shares of the class during the four calendar weeks preceding the filing of the notice of sale referred to below.

4. **Manner of Sale**. The securities must be sold in unsolicited brokers' transactions or directly to a market-maker.

5. **Notice of Sale**. The seller must file a notice of the proposed sale with the SEC at the time the order to sell is placed with the broker, unless the amount to be sold neither exceeds 5,000 shares nor involves sale proceeds greater than $50,000.

Treatment of Gifts. Bona fide gifts are not deemed to involve sales of stock, so they can be made at any time without limitation on the amount of the gift. Donees who receive restricted securities from an affiliate generally will be subject to the same restrictions under Rule 144 that would have applied to the donor for a period of up to two years following the gift, depending on the circumstances.

B. PRIVATE SALES

Directors and officers also may sell securities in a private transaction. Although there is no statutory provision or SEC rule expressly dealing with private sales, the general view is that such sales can safely be made by affiliates if the party acquiring the securities understands he is acquiring restricted securities that must be held for at least six months before the securities will be eligible for resale to the public under Rule 144. It is recommended that you consult with counsel prior to engaging in any private sale of the Corporation's securities.

C. RESTRICTIONS ON PURCHASES OF COMPANY SECURITIES

In order to prevent market manipulation, the SEC has adopted Regulation M and Rule 10b-18 under the 1934 Act. Regulation M generally prohibits the Corporation or any of its affiliates from buying the Corporation's stock in the open market during certain periods while a public offering is taking place. Rule 10b-18 sets forth guidelines for purchases of the Corporation's stock by the Corporation or its affiliates while a stock repurchase program is occurring. While the guidelines are optional, compliance with them provides immunity from a stock manipulation charge. You should consult with the Corporation if you desire to make purchases of the Corporation's stock during any period that the Corporation is making a public offering or buying stock from the public.

D. DISGORGEMENT OF PROFITS ON SHORT-SWING TRANSACTIONS

Section 16 of the 1934 Act applies to directors and executive officers of the Corporation and to any person owning more than ten percent of any registered class of the Corporation's equity securities. It is intended to deter such persons (collectively referred to below as “insiders") from misusing confidential information about their companies for personal trading gain. The general effect of Section 16 is to restrict the trading activities of insiders with respect to the securities of their companies by requiring public disclosure under Section 16(a) of their trades, permitting the recovery under Section 16(b) of any profits realized by them on certain transactions, and prohibiting them under Section 16(c) from engaging in short sales. The methods employed by Section 16 are separately discussed below.

Recovery of Short-Swing Profits. Under 16(b), any profit realized by an insider on a "short-swing" transaction (i.e., a purchase and sale, or sale and purchase, of the Corporation's equity securities within a period of less than six months) must be disgorged to the Corporation upon demand by the Corporation or a stockholder acting on its behalf. By law, the Corporation cannot waive or release any claim it may have under Section 16(b), or enter into an enforceable agreement to provide indemnification for amounts recovered under the section.

Strict Liability Provision. Liability under Section 16(b) is imposed in a mechanical fashion without regard to whether the insider intended to violate the section. Good faith, therefore, is not a defense. All that is necessary for a successful claim is to show that the insider realized profits on a short-swing transaction. When computing recoverable profits on multiple purchases and sales within a six-month period, the courts maximize the recovery by matching the lowest purchase price with the highest sale price, the next lowest purchase price with the next highest sale price, and so on. The use of this method makes it possible for an insider to sustain a net loss on a series of transactions while having recoverable profits.

Broad Application. The terms "purchase" and "sale" are construed under Section 16(b) to cover a broad range of transactions, including acquisitions and dispositions in tender offers and certain corporate reorganizations. Moreover, purchases and sales by an insider may be matched with transactions by any person (such as certain family members) whose securities are deemed to be beneficially owned by the insider.

Limitations on Liability. The SEC has mitigated the impact of Section 16(b) in some situations by providing exemptions from liability (such as those for transactions under certain employee benefit plans). Further, the courts have indicated that it is permissible for insiders to structure their transactions to avoid the application of Section 16(b). We suggest that before engaging in any transaction involving the Corporation's equity securities, directors and executive officers consult with the CEO to discuss the potential applicability of Section 16(b).

E. PROHIBITION ON SHORT SALES

Under Section 16(c), insiders are prohibited from effecting "short sales" of the Corporation's equity securities. A "short sale" is one involving securities that the seller does not own at the time of sale, or, if owned, are not delivered within 20 days after the sale or deposited in the mail or other usual channels of transportation within five days after the sale.

F. MARGIN ACCOUNTS AND PLEDGES

Securities held in a margin account may be sold by the broker without the customer's consent if the customer fails to meet a margin call. Similarly, securities pledged (or hypothecated) as collateral for a loan may be sold in foreclosure if the borrower defaults on the loan. Accordingly, if you hold the Corporation's securities in a margin account or otherwise pledge the Corporation's securities as collateral for a loan, you should be aware that doing so carries with it the risk of insider trading liability if you fail to meet a margin call or if you default on the loan.

G. NO TRADING DURING PENSION FUND BLACKOUT PERIOD

Regulation BTR (which stands for blackout trading restriction) prohibits executive officers and directors from trading in issuer equity securities acquired in connection with employment as an executive officer or service as a director when employees are not permitted to trade because of a pension fund blackout period. By law, the Corporation is required to give notice to executive officers and directors of upcoming blackout periods. Accordingly, executive officers and directors should know when blackout periods are in place.

H. RULE 10b5-1 PLANS

Rule 10b5-1 allows individuals and issuers that trade Corporation common stock under a plan that was entered into in good faith at a time when the individual or issuer does not possess material nonpublic about the Corporation. Rule 10b5-1 plans are permitted under this policy but the requirements of 10b5-1 are complex and anyone planning to enter into such a plan should contact the CEO prior to doing so. In addition, anyone planning to enter into a Rule 10b5-1 plan should consider the illiquidity of the Corporation’s common stock before doing so.

I. REGULATORY FILINGS

Each officer and director of the Corporation is responsible for any regulatory filings related to his or her stock ownership including, but not limited to, filings under the Change of Control Act, Bank Holding Company Act or related obligations. Form 4 filings should be coordinated with the Corporation as should any required Schedule 13D or Schedule 13G filings.

J. POST TERMINATION TRANSACTIONS

This policy continues to apply to you as long as you are in possession of material non-public information even after you have terminated employment or service as a director. This mean that if you are award of material non-public information when your employment or service terminates, you may not trade in the Corporation’s securities until that information has become public or is no longer material, unless the trade occurs pursuant to a pre-approved Rule 10b5-1 trading plan established prior to the termination of your employment or service.

In addition, non-exempt transaction (such as open market purchases and sales) that occur after cessation of insider status may be reportable for Section 16 purposes, but only if they occur within six months of an opposite-way non-exempt transaction that you engaged in while still an insider.

4. MAINTENANCE OF CONFIDENTIALITY OF NONPUBLIC INFORMATION OBTAINED FROM CUSTOMERS

All Insiders are expected to maintain the confidentiality of nonpublic information received by the Corporation in its business dealings or otherwise. Disclosure of such information to persons inside the Corporation who have no need to know of the information or persons outside the Corporation, whether or not in the form of a recommendation to purchase or sell the securities of the Corporation or a customer or the securities of any other publicly traded company with respect to which the Corporation has nonpublic information, is prohibited. You should not discuss confidential information within the hearing range of outsiders, including friends and relatives. It is particularly important to exercise care and refrain from discussing nonpublic information in public places, such as elevators, trains, taxis, airplanes, restrooms, restaurants, and other places where the discussions might be overheard, or through other means by which this information could be disseminated, such as in internet chat rooms, message boards or similar means.

5. QUESTIONS

All questions relating to this policy should be addressed to the CEO of the Corporation or the President of the Corporation.

Exhibit 23

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to incorporation by reference in Registration Statement No. 333-225297 on Form S-8 of Security Federal Corporation of our report dated March 14, 2025, relating to the consolidated financial statements of Security Federal Corporation and Subsidiaries, appearing in this Annual Report on Form 10-K of Security Federal Corporation for the year ended December 31, 2024.

/s/ Elliott Davis, LLC

Columbia, South Carolina
March 14, 2025

Exhibit 31.1

Certification Required
by Rules 13a-14(a) under the Securities Exchange Act of 1934

I, J. Chris Verenes, certify that:

1. I have reviewed this annual report on Form 10-K of Security Federal Corporation;

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(s) 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(s) 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 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 14, 2025

/s/J. Chris Verenes
J. Chris Verenes
Chief Executive Officer

Exhibit 31.2

Certification Required
by Rules 13a-14(a) under the Securities Exchange Act of 1934

I, Darrell Rains, certify that:

1. I have reviewed this annual report on Form 10-K of Security Federal Corporation;

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(s) 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(s) 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 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 14, 2025

/s/Darrell Rains
Darrell Rains
Chief Financial Officer

Exhibit 32

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
OF SECURITY FEDERAL CORPORATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

The undersigned hereby certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and in connection with this Annual Report on Form 10-K, that:

1. the report fully complies with the requirements of Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, and
2. the information contained in the report fairly presents, in all material respects, the company's financial condition and results of operations.

/s/J. Chris Verenes	/s/Darrell Rains
J. Chris Verenes	Darrell Rains
Chief Executive Officer	Chief Financial Officer

Dated: March 14, 2025