



2024 Annual Report

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October 4, 2024



**INTEGRITY BANK FOR
BUSINESS 2024 ANNUAL REPORT**

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING STATEMENTS

This 2024 Annual Report (the “**Report**”) and the other written reports and oral statements made from time to time by Integrity Bank for Business, a Virginia banking corporation (the “**Bank**” or the “**Company**”), its officers, directors, and authorized representatives may contain “forward-looking statements” regarding future events and future results of the Company. Forward-looking statements can be identified by words such as “anticipates,” “estimates,” “intends,” “plans,” “goal,” “seek,” “believes,” “projects,” “will,” “expects,” “strategy,” “future,” “likely,” “may,” “should,” and similar references to future periods.

Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based only on the Company’s current beliefs, expectations, and assumptions regarding the future of its business, future plans and strategies, projections, anticipated events and trends, the economy, and other future conditions. Because forward-looking statements relate to the future, they are subject to inherent uncertainties, risks and changes in circumstances that are difficult to predict and many of which are outside of the Company’s control. Statements based on currently available information are subject to various risks and uncertainties that could cause actual results to differ materially from those projected or implied in the “forward-looking statements” and from historical trends. Certain “forward-looking statements” are based upon current assumptions of future events which may not prove to be accurate. The Company’s actual results and financial condition may differ materially from those results indicated in the forward-looking statements. Therefore, you should not rely on any of these forward-looking statements.

Any forward-looking statement made by the Company in this Report or any other written or oral information or reports is based only on information currently available to the Company and speaks only as of the date on which it is made. The Company undertakes no obligation to update any forward-looking statement, whether written or oral, that may be made from time to time, whether as a result of new information, future developments or otherwise.

NOT AN OFFERING OF SECURITIES; NOT LEGAL OR TAX ADVICE

This Report does not constitute an offer of a security to any person. In addition, this Report does not constitute legal or tax advice, and the recipient must not construe the contents of this Report, or any prior or subsequent communications from the Company or any of its directors, officers, employees, or representatives, as legal or tax advice.

PRESIDENT'S REPORT TO THE SHAREHOLDERS

In the literary classic, A Tale of Two Cities, Charles Dickens began his novel with the words, "It was the best of times, it was the worst of times..." Few sentences can describe today's economy and banking environment quite as succinctly.

On the one hand, we have an economy that had a Gross Domestic Product of 3.0% for the last calendar quarter. The unemployment rate for August was 4.2%, a rate that many economists consider to be full employment.

On the other hand, consumers face significantly higher prices for goods and services, particularly groceries, from the cumulative impact of inflation over the past three years. Interest rates are at their highest level in many years stressing consumers, commercial borrowers, and banks. Also, there are numerous predictions from "experts" that a recession is "around the corner" with particularly adverse consequences for commercial real estate investments and loans.

Pundits and politicians tell us that much lower short-term interest rates are also just "around the corner," and they contend (or pretend) that lower short-term interest rates are the panacea for all of our economic and banking issues. Night surely follows day, but there is no guarantee that lower short-term interest rates are the magic elixir for all economic and banking issues. There could be many different positive or negative impacts on specific economic issues from this.

So what should a community bank be doing in the face of so many uncertainties? My answer is a simple one. Change is the only certainty. With that certainty, we had to build a Bank prepared to overcome whatever economic and banking challenges that may arise.

We have done that. Integrity maintains high levels of liquidity and capital and only originates loans based on strong overall cash flows for our borrowers rather than transitory loan-to-value metrics for real estate that change quickly and dramatically in a recession and/or with higher interest rates. As we say, Integrity may not be "Too Big to Fail" but Integrity is "Too Strong to Fail".

Why do I say that? The answers are readily apparent. On June 30, 2024, Integrity had a tangible capital ratio over 20% and a ratio of total cash and unpledged securities to uninsured deposits over 150%. On that same date, Integrity did not have any past due loans over 30 days, nonperforming loans, or any real estate owned. Enough said.

In my most recent President's Message to Shareholders of Integrity Bank for Business, I gave you some clarification of the transitional loans and deposits that several of our friends and

shareholders had placed with the Bank to assist us in our infancy. I have nothing further to report to you other than our noninterest-bearing deposits on August 31, 2024 were \$29,254,000 compared to our noninterest-bearing deposits on June 30, 2023 of \$27,812,000, exclusive of transitional deposits. Once again, this demonstrates that our core noninterest-bearing deposits remain a stable source of funding for Integrity.

We are continuing our recruiting efforts for a new Chief Financial Officer and a new Chief Lending Officer. We hope to have some announcements for you on these positions before too long.

Finally, we are refining our plans for our new Outreach Program. Part of this Program will be focusing on our brand, Modern Local Banking, and enhancing our website to showcase what Integrity has to offer for local businesses. We are also implementing a call tracking program to follow the results of our Program and to make adjustments as we go along. This is an exciting addition to our ongoing efforts to increase the visibility of Integrity in our local business community.

The opportunities are there for us to grow Integrity safely. It is now up to us to take advantage of these opportunities.

Michael S. Ives
President & CEO
Integrity Bank for Business
September 3, 2024

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
of Integrity Bank for Business

Opinion

We have audited the accompanying financial statements of Integrity Bank for Business (a Virginia corporation), which comprise the balance sheets as of June 30, 2024 and 2023, and the related statements of operations, comprehensive income(loss), shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Integrity Bank for Business as of June 30, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the President's Report to the Shareholders but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

A handwritten signature in black ink that reads "Carmichael Nelson PLC". The signature is written in a cursive, flowing style.

September 26, 2024

INTEGRITY BANK FOR BUSINESS
BALANCE SHEET

	At June 30,	
	2024	2023
	<i>(in thousands except share data)</i>	
ASSETS		
Cash and due from banks	\$ 585	\$ 512
Interest-bearing deposits in other banks	30,281	39,587
Total cash and cash equivalents	30,866	40,099
Securities available for sale, at fair value	9,548	13,881
Securities held to maturity, at amortized cost	6,000	6,000
Loans held for investment net of allowance for loan losses of \$207 and \$218 at June 30, 2024 and 2023, respectively	41,273	38,951
Accrued interest receivable	191	194
Restricted securities, at cost	1,135	1,037
Premises and equipment, net	320	426
Other assets	1,217	1,247
Total assets	\$ 90,550	\$ 101,835
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	\$ 26,613	\$ 30,954
Interest-bearing	27,136	40,131
Total deposits	53,749	71,085
Borrowings from Federal Home Loan Bank of Atlanta	9,000	9,000
Borrowings from Federal Reserve Bank of Richmond	6,000	-
Other liabilities	699	648
Total liabilities	69,448	80,733
Commitments and contingencies		
Shareholders' equity		
Common stock, \$1 par value - 10,000,000 shares authorized; 2,473,408 and 2,460,179 shares issued and outstanding at June 30, 2024 and 2023, respectively	2,473	2,460
Additional paid-in capital	22,578	22,332
Accumulated deficit	(3,924)	(3,639)
Accumulated other comprehensive loss, net	(25)	(51)
Total shareholders' equity	21,102	21,102
Total liabilities and shareholders' equity	\$ 90,550	\$ 101,835

See accompanying notes to financial statements.

INTEGRITY BANK FOR BUSINESS
STATEMENT OF OPERATIONS

	For the Years Ended June 30,	
	2024	2023
	<i>(in thousands except share data)</i>	
Interest income		
Interest income and fees on loans	\$ 1,817	\$ 1,706
Interest on taxable investment securities	809	900
Other interest and dividend income	1,369	916
Total interest income	<u>3,995</u>	<u>3,522</u>
Interest expense		
Deposits	871	649
Borrowings	159	173
Total interest expense	<u>1,030</u>	<u>822</u>
Net interest income	2,965	2,700
Provision for loan losses	1	39
Net interest income after provision for loan losses	<u>2,964</u>	<u>2,661</u>
Noninterest income		
Service charges on deposit accounts	21	27
Other	11	15
Total noninterest income	<u>32</u>	<u>42</u>
Noninterest expense		
Compensation	1,961	1,781
Data processing	283	232
Occupancy	136	136
Furniture and equipment	227	257
Taxes and licenses	215	206
Professional fees	208	150
Loss on sale of investment securities	-	872
Other	281	284
Total noninterest expense	<u>3,311</u>	<u>3,918</u>
Net loss before benefit from income taxes	(315)	(1,215)
Benefit from income taxes	<u>(30)</u>	<u>(882)</u>
Net loss attributed to common stockholders	<u>\$ (285)</u>	<u>\$ (333)</u>
Loss per common share		
Basic	\$ (0.11)	\$ (0.13)
Diluted	<u>\$ (0.11)</u>	<u>\$ (0.13)</u>
Dividends per share	<u>\$ -</u>	<u>\$ -</u>
Weighted average shares outstanding - basic	2,489,153	2,490,915
Effect of dilutive equity awards	-	-
Weighted average shares outstanding - diluted	<u>2,489,153</u>	<u>2,490,915</u>

See accompanying notes to financial statements.

INTEGRITY BANK FOR BUSINESS
STATEMENT OF COMPREHENSIVE INCOME(LOSS)

	For the Years Ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Net loss attributed to common shareholders	<u>\$ (285)</u>	<u>\$ (333)</u>
Other comprehensive income/(loss):		
Change in net unrealized holding gain/(loss) on securities available for sale	32	(884)
Change in tax effect on net unrealized holding loss	(6)	186
Realized loss on sale of available for sale securities	-	872
Tax effect on realized gain	-	(183)
Valuation allowance for changes in tax effect on unrealized loss	-	11
Total other comprehensive income/(loss)	<u>26</u>	<u>2</u>
Total comprehensive loss	<u><u>\$ (259)</u></u>	<u><u>\$ (331)</u></u>

See accompanying notes to financial statements.

INTEGRITY BANK FOR BUSINESS
STATEMENT OF SHAREHOLDERS' EQUITY
At and For the Years Ended June 30, 2024 and June 30, 2023

	Common Stock		Additional	Accumulated	Accumulated	
	Shares	Amount	Paid-in	Deficit	Other	Total
			Capital		Comprehensive	
					Income (Loss)	
			<i>(in thousands except share data)</i>			
Balance, July 1, 2022	2,446,950	\$ 2,447	\$ 22,088	\$ (3,306)	\$ (53)	\$ 21,176
Net loss				(333)	-	(333)
Other comprehensive loss				-	2	2
Total comprehensive loss				(333)	2	(331)
Issuance of common stock at \$10.00 per share, net	15,000	15	(15)	-	-	-
Common stock shares withheld for taxes	(1,771)	(2)	(15)	-	-	(17)
Equity-based compensation expense	-	-	274	-	-	274
Balance, June 30, 2023	<u>2,460,179</u>	<u>\$ 2,460</u>	<u>\$ 22,332</u>	<u>\$ (3,639)</u>	<u>\$ (51)</u>	<u>\$ 21,102</u>
Net loss				(285)	-	(285)
Other comprehensive loss				-	26	26
Total comprehensive loss				(285)	26	(259)
Issuance of common stock at \$10.00 per share, net	15,000	15	(15)	-	-	-
Common stock shares withheld for taxes	(1,771)	(2)	(13)	-	-	(15)
Equity-based compensation expense	-	-	274	-	-	274
Balance, June 30, 2024	<u>2,473,408</u>	<u>\$ 2,473</u>	<u>\$ 22,578</u>	<u>\$ (3,924)</u>	<u>\$ (25)</u>	<u>\$ 21,102</u>

See accompanying notes to financial statements.

INTEGRITY BANK FOR BUSINESS
STATEMENT OF CASH FLOWS

	For the Years Ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Cash flows from operating activities:		
Net loss	\$ (285)	\$ (333)
Adjustments to reconcile net loss to net cash flows from operating activities:		
Provision for loan loss	1	39
Amortization of deferred fees and costs, net	(28)	(87)
Depreciation, amortization and accretion, net	53	(9)
Stock based compensation	274	274
Change in unrealized (gain)/loss on available for sale securities	(6)	13
Net deferred tax impact on operating activities	(23)	(895)
Net Losses on:		
Sale of securities	-	872
Sale, disposal, or impairment of property, plant, and equipment	2	-
Changes in assets/liabilities, net		
Interest receivable and other assets	56	17
Interest payable and other liabilities	39	(55)
Net cash provided by/(used in) operating activities	<u>83</u>	<u>(164)</u>
Cash flows from investing activities:		
Proceeds from maturities and principal repayments of securities available for sale	5,306	2,196
Proceeds from sales of securities available for sale	-	24,001
Purchases of securities available for sale	(866)	(15,895)
Net increase in loans held for investment	(2,283)	(3,410)
Net increase in holdings of restricted securities	(98)	(366)
Purchases of premises and equipment, net	(24)	(14)
Net cash provided by investing activities	<u>2,035</u>	<u>6,512</u>
Cash flows from financing activities:		
Net increase in deposits	(17,336)	11,136
Net increase in Federal Home Loan Bank advances	-	9,000
Net increase in borrowings from Federal Reserve Bank of Richmond	6,000	-
Common stock shares withheld for taxes	(15)	(17)
Net cash provided by/(used in) financing activities	<u>(11,351)</u>	<u>20,119</u>
Change in cash and cash equivalents	<u>(9,233)</u>	<u>26,467</u>
Cash and cash equivalents, beginning of period	40,099	13,632
Cash and cash equivalents, end of period	<u><u>\$ 30,866</u></u>	<u><u>\$ 40,099</u></u>
Supplemental disclosure:		
Interest paid	\$ 892	\$ 821

See accompanying notes to financial statements.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Integrity Bank for Business (the “Bank”) is a Virginia state-chartered banking corporation engaged in the general commercial and retail banking business. The Bank was incorporated on July 28, 2020, and opened for business on May 3, 2021. The Bank has one full-service branch conducting general commercial banking business with its customers who are located primarily in the cities of Virginia Beach, Norfolk, and Chesapeake in the Hampton Roads area of Virginia.

Use of Estimates

The accounting and reporting policies of the Bank conform to accounting principles generally accepted in the United States of America (“U.S. GAAP”) within the banking industry. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the period presented. Actual results could differ from those estimates. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for losses on loans and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

The Bank invests in a variety of securities, principally obligations of the United States, U.S. government sponsored enterprises, and mortgage-backed securities. Note 2 presents information regarding the Bank’s investment activities. Substantially all of the Bank’s lending activities are with customers located in southeastern Virginia. Note 3 presents information regarding the Bank’s lending activities. Bank management does not believe the Bank has any significant concentrations of loans by industry or customer.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash on hand and amounts due from banks. The Bank maintains a total of \$300,000 in demand deposit accounts as compensating balances at two corresponding banks who provide a total of \$10 million in unsecured federal funds facility borrowing lines at the years ended June 30, 2024 and 2023.

Investment Securities

Investment securities are classified in three categories and accounted for as follows:

- Debt securities that the Bank has the positive intent and ability to hold to maturity are classified as held-to-maturity securities and reported at amortized cost.
- Debt securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and reported at fair value, with unrealized gains and losses included in earnings.
- Debt securities not classified as either held-to-maturity or trading securities are classified as available-for-sale securities and reported at fair value, with unrealized gains and losses excluded from earnings and reported as other comprehensive income/(loss), a separate component of shareholders’ equity.

Gains and losses on sales of securities are computed based on specific identification of the adjusted cost of each security, are recognized on trade date, and are included in other income.

Amortization of premiums and accretion of discounts are computed by the effective yield method and recognized in interest income.

Declines in the fair value of individual held-to-maturity and available-for-sale securities that are other than temporary, if any, are included in earnings as realized losses. Other than temporarily impaired ("OTTI") guidance for investments states that an impairment is OTTI if any of the following conditions exist: (1) the entity intends to sell the security; (2) it is more likely than not that the entity will be required to sell the security before recovery of its amortized cost basis; or (3) the entity does not expect to recover the security's entire amortized cost basis even if the entity does not intend to sell. If a decline in market value of a security is related solely to changes in interest rates, that decline in market value may not need to be considered as OTTI.

Loans

The Bank grants commercial, commercial real estate, and mortgage loans for business purposes to business clients in its principal lending area of the cities of Virginia Beach, Norfolk, and Chesapeake in the state of Virginia. Loans are reported at their principal outstanding balance, net of charge-offs, deferred loan fees and costs on originated loans, unearned income, and unamortized premiums or discounts, if any, on purchased loans. Interest income is generally recognized when income is earned using the interest method. Loan origination fees and certain direct loan origination costs are deferred and the net amounts are amortized as an adjustment to yield on the respective loans.

Current Expected Credit Losses ("CECL")

The Bank maintains an allowance for loan losses ("ALLL") as a contra account to loan balances and a liability for a reserve for unfunded commitments ("ACL") at a level which, in management's best estimate, represents the expected future credit losses related to its existing loan portfolio and any off-balance sheet loan commitments. The amount of the allowance is affected by: (1) loan charge-offs, which decrease the allowance, (2) recoveries on loans previously charged-off, which increase the allowance, and (3) the provision for loan losses charged to income, which increases the allowance.

The Bank analyzes its loan portfolio through ongoing credit review processes and constructs a comprehensive allowance analysis for its loan portfolio at least quarterly. The comprehensive allowance analysis is used to estimate the ALLL using a quantitative method that considers a variety of factors. The components of this analysis are (1) historical loss data derived from a peer group of banks adjusted by an evaluation of the economic environment on both a local and national level, (2) the creditworthiness of the Bank's client base, and (3) the Bank's overall risk tolerance and lending culture. This analysis is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

In order to make these subjective analyses of the credit quality of its loan portfolio, the Bank is relying on the experience of its professional management team which combines a strict adherence to credit culture and a thorough knowledge of the client base.

The Bank evaluates various loans individually for impairment based on guidance for receivables. A loan is considered impaired when it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. An evaluation is based upon either discounted cash flows or collateral evaluations. If the evaluation shows that a particular loan is impaired, then a specific reserve is established, or a charge-off is recorded, for the amount of any such impairment.

For loans not deemed to be impaired, the Bank makes estimates of losses for groups of loans as provided by guidance for contingencies. As part of the loan loss reserve methodology, loans are placed into one of two major categories or segments of loans: (1) commercial and industrial loans, and (2) commercial real estate loans.

In addition, the bank may provide unfunded commitments and standby letters of credit to its business clients for business needs. These balances are typically not recorded on the balance sheet. An allowance for CECL is calculated on these unfunded extensions of credit based on management's expectation of average usage of the commitment during the current quarter. This allowance is recorded as a liability in ACL and added to the current year's provision expense. When these financial instruments are funded, an appropriate allowance is recorded for the current expected loss.

Investment instruments, classified as either available for sale or held to maturity, are evaluated for potential losses and an appropriate credit loss is applied. Collectibility is assessed based on the risk-weighted rating of the various instruments to determine the credit loss associated with such instruments. U.S. Government and U.S. Government sponsored agency bonds, which carry either an explicit or implied guarantee, receive no allowance.

Income Recognition on Nonaccrual Loans

Loans are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. If a loan or a portion of a loan is classified as "doubtful", or is partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time and there is a sustained period of repayment performance by the borrower.

While a loan is classified as nonaccrual, and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding, existing unpaid accrued interest is reversed, and the accrual of interest is stopped. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. At June 30, 2024 and 2023, the Bank had no loans classified as nonaccrual.

Restructured Loans

Upon the adoption of CECL, any loan considered to be a troubled debt restructuring is now considered to be "Modification to a Borrower Experiencing Financial Difficulty" ("MBEFD"). Loans are considered for status as a MBEFD if, for economic or legal reasons, a concession has been granted to the borrower related to the borrower's financial difficulties that the Bank would not have otherwise considered for borrowers with similar circumstances. The Bank restructures certain loans in instances where a determination is made that greater economic value will be realized under new terms rather than through foreclosure, liquidation or other disposition. The terms of the renegotiation generally involve some or all of the following characteristics: a reduction in the interest pay rate to reflect actual operating income, an other-than-insignificant extension of the loan maturity date to allow time for stabilization of operating income, and/or partial forgiveness of principal and interest.

The carrying value of a restructured loan is reduced by the fair value of assets or equity interest received from the borrower, if any. The Bank generally continues to classify restructured nonaccrual loans as nonaccrual until such time as the loans demonstrate performance. The accrual of interest resumes when such loans can demonstrate performance, generally evidenced by twelve months of pre- or post-restructuring payment performance in accordance with the restructured terms, and supported by a well-documented credit evaluation to support that the borrower is no longer experiencing financial difficulties by the presence of other significant factors. In addition, at the time of restructuring, loans are classified as impaired. At June 30, 2024 and 2023, the Bank had no loans classified as impaired.

Off Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank enters into commitments to extend credit and issue standby letters of credit. Such financial instruments are recorded as a loan when they are funded.

Premises and Equipment

Leasehold improvements and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets, ranging from 3 years to 7 years. The costs of major improvements are capitalized, while costs of ordinary maintenance and repairs are charged to expense as incurred.

Leases

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

The Bank's long-term lease agreements are classified as operating leases. These leases offer the options to extend the lease terms. The Bank uses the base, non-cancelable, lease term when recognizing a lease asset and liability, unless it is reasonably certain that the Bank will exercise an option to extend the lease term. The lease agreements do not provide for residual value guarantees and have no restrictions or covenants that would impact dividends or require incurring additional financial obligations. Note 5 provides additional information related to leases.

Restricted Securities

The Bank's holdings of restricted securities totaled \$1,135,000 and \$1,037,000 at June 30, 2024 and 2023, respectively, consisting of stock in the Federal Reserve Bank of Richmond ("FRB") and stock in the Federal Home Loan Bank of Atlanta ("FHLB"). The Bank is required to hold stock in the FRB and the FHLB as a condition of membership with each of these correspondent banks. The amount of stock required to be held by the Bank is periodically assessed by each bank, and the Bank may be subject to purchase or surrender of the stock held in these banks, as determined by their respective calculations. No ready market exists for these securities and they have no quoted market value. However, redemption of these securities has historically been at par value and can only be redeemed by the respective issuer. Restricted security holdings are recorded at cost.

Income Taxes

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to net operating losses, differences between the basis of investment securities, deferred loan fees, allowance for loan losses, premises and equipment, and stock compensation plans for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled.

Deferred tax assets are reduced if it is more likely than not that the Bank will not realize the benefits of these tax assets. Accounting Standards Codification Topic 740, *Income Taxes*, requires that companies assess whether a valuation allowance should be established against their deferred tax assets based on the consideration of all available evidence using a "more-likely-than-not" standard. Management considers both positive and negative evidence and analyzes changes in near-term market conditions as well as other factors which may impact future operating results. In making such judgments, significant weight is given to evidence that can be objectively verified. The deferred tax assets are analyzed no less than annually for changes affecting realization.

The Bank analyzes tax positions taken or expected to be taken on its tax returns to determine if it has any liability related to uncertain tax positions in accordance with guidance on income taxes. Liabilities, if any, resulting from this evaluation are recorded in the current period. The years ended June 30, 2023, 2022, and 2021 remain subject to examination by federal and state tax authorities. The Bank recognizes interest and/or penalties related to income tax matters, if any, in other expense.

Stock Compensation Plans

At June 30, 2024, the Bank has one stock-based compensation plan, the Integrity Bank 2021 Equity Incentive Plan, approved by the Bank's shareholders effective November 9, 2021. The Bank has adopted accounting guidance related to share-based payments, which requires that the fair value of equity instruments, such as stock options, be recognized as an expense in the issuing entity's financial statements as services are performed. See Note 8 for additional information.

The Bank's Board of Directors granted, effective December 1, 2021, 247,990 stock options to certain executives under the 2021 Equity Incentive Plan. One third of the shares vest each year on their anniversary date beginning on December 1, 2022, and on each December 1 thereafter until fully vested. Upon the death or permanent disability of the executive or a change of control of the Bank, any remaining unvested shares will vest immediately.

In addition, on December 1, 2021, the Bank's Board of Directors granted, effective December 1, 2021, 45,000 shares of restricted stock to certain executives under the 2021 Equity Incentive Plan. One third of the shares vest each year on their anniversary date beginning on December 1, 2022, and on each December 1 thereafter until fully vested. Upon the death or permanent disability of the executive or a change of control of the Bank, any remaining unvested shares will vest immediately.

As defined in the 2021 Incentive Plan, as shares of the Bank are not traded on any public marketplace, fair value of the shares is determined in good faith by the Bank at grant date based on evaluation of available data. In addition, where applicable and to the extent the share-recipients are not entitled to dividends until the shares vest, the grant date fair value of the award is reduced by the present value of the dividends expected to be paid on the underlying shares during the service period, discounted at the appropriate risk-free interest rate.

Stock Warrants

The Organizers of the Bank invested significant time and effort to form the Bank, and they provided \$1.4 million of initial at-risk capital to cover organizational expenses and contribute to the capitalization of the Bank prior to its opening. In recognition of the financial risk and efforts they undertook in organizing the Bank, each Organizer received, for no additional consideration, a warrant for one share of common stock for each \$10.00 of capital he or she placed at risk. The warrants have an exercise price of \$10.00 per share, the initial offering price. The warrants will be exercisable in whole or in part during the ten-year period following the date the Bank opened for business. If the Virginia Bureau of Financial Institutions (the "BFI"), FRB or Federal Deposit Insurance Corporation (the "FDIC") issues a capital directive or other order requiring the Bank to obtain additional capital, the warrants will be forfeited if not immediately exercised.

Loss Per Common Share

Basic loss per common share represents the loss attributable to common shareholders divided by the weighted-average number of common shares outstanding during the period. Diluted loss per common share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Bank relate to outstanding stock options, restricted stock, and warrants and are determined using the treasury stock method.

Comprehensive Income/(Loss)

Accounting principles generally require that recognized revenue and expenses, and realized gains and losses, be included in net income/(loss). Although certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the equity section of the balance sheet, such items, along with net income/(loss), are components of comprehensive income/(loss). These items are also reflected in the Statement of Comprehensive Income/(Loss).

Business Segments

The Bank currently reports its activities as a single business segment. In determining appropriate segment definition and reporting, the Bank considers components of the business about which financial information relating to performance and resource allocation is available and regularly evaluated by management. Management determines components for which it will implement performance and resource measurement procedures based upon criteria of relative importance and materiality to the organization.

Recent Accounting Pronouncements

The following is a summary of recent authoritative pronouncements:

In December 2023, the FASB published ASU 2023-08, *Accounting for and Disclosure of Crypto Assets*, intended to improve the accounting for and disclosure of certain crypto assets. The new standard responds to feedback from stakeholders of all backgrounds who indicated that improving the accounting for and disclosure of crypto assets should be a top priority. The amendments in the ASU improve the accounting for certain crypto assets by requiring an entity to measure those crypto assets at fair value each reporting period with changes in fair value recognized in net income. The amendments also improve the information provided to investors about an entity's crypto asset holdings by requiring disclosure about significant holdings, contractual sale restrictions, and changes during the reporting period.

The amendments in the ASU apply to all assets that meet all the following criteria:

- Meet the definition of intangible asset as defined in the FASB Accounting Standards Codification
- Do not provide the asset holder with enforceable rights to or claims on underlying goods, services, or other assets
- Are created or reside on a distributed ledger based on blockchain or similar technology
- Are secured through cryptography
- Are fungible
- Are not created or issued by the reporting entity or its related parties.

The amendments in the ASU are effective for all entities for fiscal years beginning after December 15, 2024, including interim periods within those fiscal years. Early adoption is permitted for both interim and annual financial statements that have not yet been issued (or made available for issuance). If amendments are adopted in an interim period, they must be adopted as of the beginning of the fiscal year that includes that interim period. As the Bank does not hold any crypto assets, management does not expect adoption of this standard will have any impact on its financial statements.

In December 2023, the FASB published ASU 2023-09, *Improvements to Income Tax Disclosures*, that addresses requests for improved income tax disclosures from investors, lenders, creditors, and other allocators of capital (collectively, "investors") that use the financial statements to make capital allocation decisions. The ASU improves the transparency of income tax disclosures by requiring (1) consistent categories and greater disaggregation of information in the rate reconciliation and (2) income taxes paid disaggregated by jurisdiction. It also includes certain other amendments to improve the effectiveness of income tax disclosures. For public business entities, the ASU is effective for annual periods beginning after December 15, 2024. For other entities, the amendments are effective for annual periods beginning after December 15, 2025. Early adoption

is permitted for annual financial statements that have not yet been issued or made available for issuance. Management expects there to be no impact on its financial statements upon the adoption of this standard.

On March 21, 2024, the FASB issued ASU 2024-01, *Compensation - Stock Compensation - Scope Application of Profits Interest and Similar Awards*, which clarifies how an entity determines whether a profits interest or similar award (hereafter a "profits interest award") is (1) within the scope of Accounting Standards Codification (ASC) 718, *Compensation — Stock Compensation*, or (2) not a share-based payment arrangement and therefore within the scope of other guidance. Certain entities, typically private companies, provide employees and other nonemployees with profits interest and similar awards to align compensation with the company's operating performance and provide those holders with the opportunity to participate in future profits and/or equity appreciation of the company. The Private Company Council and other stakeholders noted diversity in practice in accounting for these awards either as share-based payment arrangements under ASC 718 or under other guidance similar to cash bonus or profit-sharing arrangements. The ASU adds an illustrative example to ASC 718 which shows how an entity should apply the guidance in ASC 718 to determine whether a profits interest award is within the scope of ASC 718. The guidance in ASU 2024-01 applies to all entities that issue profits interest awards as compensation to employees or nonemployees in exchange for goods or services. For public business entities, ASU 2024-01 is effective for annual periods beginning after December 15, 2024, and interim periods within those annual periods. For all other entities, the amendments are effective for annual periods beginning after December 15, 2025, and interim periods within those annual periods. Early adoption is permitted. Management expects there to be no impact on its financial statements upon the adoption of this guidance.

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

New Accounting Standard Adoption

During June 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-13 (the "ASU"), "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments." The amendments in this ASU, among other things, require the measurement of all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will now use forward-looking information to better inform their credit loss estimates. Many of the loss estimation techniques applied today will still be permitted, although the inputs to those techniques will change to reflect the full amount of expected credit losses. In addition, the ASU amends the accounting for credit losses on available-for-sale debt securities and purchased financial assets with credit deterioration. The FASB has issued multiple updates to ASU 2016-13 as codified in Topic 326, including ASU's 2019-04, 2019-05, 2019-10, 2019-11, 2020-02, and 2020-03. The ASU is effective for fiscal years beginning after December 15, 2022, including interim periods within those fiscal years. Please see the section above entitled Current Expected Credit Losses ("CECL") and Note 3 – Loans Held for Investment, Net for further discussions on the methodology used by the Bank for this calculation.

The Bank adopted this ASU effective in the first quarter of its fiscal year beginning July 1, 2023. For the year ending June 30, 2024, there was no material impact on the financial statements from the adoption of this ASU.

NOTE 2 - SECURITIES

The tables below present amortized cost, unrealized gains and losses, and fair value of the Bank's investments in securities at June 30, 2024 and 2023.

	At June 30, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available for Sale				
Mortgage-backed securities	\$ 9,579	\$ 12	\$ 43	\$ 9,548
Total securities available for sale	9,579	12	43	9,548
Securities Held to Maturity				
U.S. government sponsored enterprises	6,000	-	108	5,892
Total securities held to maturity	6,000	-	108	5,892
Total securities	\$ 15,579	\$ 12	\$ 151	\$ 15,440

	At June 30, 2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
	(in thousands)			
Securities Available for Sale				
U.S Treasury securities	\$ -	\$ -	\$ -	\$ -
Mortgage-backed securities	13,945	4	68	13,881
Total securities available for sale	13,945	4	68	13,881
Securities Held to Maturity				
U.S. government sponsored enterprises	6,000	-	227	5,773
Total securities held to maturity	6,000	-	227	5,773
Total securities	\$ 19,945	\$ 4	\$ 295	\$ 19,654

At June 30, 2024, investment securities having an amortized cost of \$6,000,000 and an estimated fair value of \$5,892,000 had been made available for pledging against borrowings at the FRB and were held at the FRB for safekeeping. At June 30, 2023, investment securities having an amortized cost of \$6,000,000 and an estimated fair value of \$5,773,000 had been made available for pledging against borrowings at the FHLB and were held at the FHLB for safekeeping. At June 30, 2024 and 2023, no investment securities had been made available for pledging against public funds.

Current year unrealized losses on investment securities, if any, were a result of changes in interest rates during the periods and were considered by management to be temporary given the credit ratings on these investment securities and the short duration of any unrealized losses. The Bank intends to hold these investments in debt securities to maturity and it is more-likely-than-not that the Bank will not be required to sell these investments before a recovery of its investment. Additionally, the Bank's mortgage-backed securities were entirely issued by either U.S. government agencies or U.S. government-sponsored enterprises. Collectively, these entities provide a guarantee, which is either explicitly or implicitly supported by the full faith and credit of the U.S. government, that investors in such mortgage-backed securities will receive timely principal and interest payments.

The tables below quantify the amount of the Bank's available for sale and held to maturity investment portfolios that have carried unrealized losses for a duration greater than twelve months at June 30, 2024 and 2023.

	At June 30, 2024					
	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
	(in thousands)					
Available for Sale Securities (AFS)						
Mortgage-backed securities	\$ 3,222	\$ 28	\$ 2,368	\$ 15	\$ 5,590	\$ 43
Total temporarily impaired securities AFS	<u>\$ 3,222</u>	<u>\$ 28</u>	<u>\$ 2,368</u>	<u>\$ 15</u>	<u>\$ 5,590</u>	<u>\$ 43</u>
Held to Maturity Securities (HTM)						
U.S. government sponsored enterprises	\$ -	\$ -	\$ 5,892	\$ 108	\$ 5,892	108
Total temporarily impaired securities HTM	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,892</u>	<u>\$ 108</u>	<u>\$ 5,892</u>	<u>\$ 108</u>

At June 30, 2023						
Less Than 12 Months		12 Months or More		Total		
Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
(in thousands)						
Available for Sale Securities (AFS)						
Mortgage-backed securities	\$ 13,881	\$ 68	\$ -	\$ -	\$ 13,881	\$ 68
Total temporarily impaired securities AFS	<u>\$ 13,881</u>	<u>\$ 68</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 13,881</u>	<u>\$ 68</u>
Held to Maturity Securities (HTM)						
U.S. government sponsored enterprises	\$ -	\$ -	\$ 5,773	\$ 227	\$ 5,773	227
Total temporarily impaired securities HTM	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,773</u>	<u>\$ 227</u>	<u>\$ 5,773</u>	<u>\$ 227</u>

The amortized cost and fair value of investment securities at June 30, 2024, by contractual maturity, are reflected below. Actual maturities will differ from contractual maturities because some securities may be called or prepaid prior to their contractual maturity.

At June 30, 2024					
Securities Available for Sale			Securities Held to Maturity		
Amortized Cost	Fair Value		Amortized Cost	Fair Value	
(in thousands)			(in thousands)		
Due in one year or less	\$ 174	\$ 174	\$ 6,000	\$ 5,892	
Due after one year through five years	2,383	2,368	-	-	
Due after five years through ten years	3,077	3,048	-	-	
Due after ten years	3,945	3,958	-	-	
Total	<u>\$ 9,579</u>	<u>\$ 9,548</u>	<u>\$ 6,000</u>	<u>\$ 5,892</u>	

At June 30, 2024, the average life of available for sale securities was 0.84 years for those securities due after one year through five years, 2.92 years for those securities due after five years through ten years, and 2.58 years for those securities due after ten years.

There were no sales of securities available for sale during the year ended June 30, 2024. Consequently, there were no gross proceeds from sales of securities available for sale and no gross realized gains or gross realized losses associated with any securities sales during the fiscal year 2024. Gross proceeds from sales of securities available for sale were \$24,001,000 for the year ended June 30, 2023, and there were gross realized losses of \$872,000 associated with these

sales. Losses on the sale of investment securities are recorded as of the trade date using the specific identification method.

NOTE 3 – LOANS HELD FOR INVESTMENT, NET

Loans at June 30, 2024 and 2023, consisted of the following:

	At June 30,	
	2024	2023
	<i>(in thousands)</i>	
Commercial	\$ 5,496	\$ 8,190
Commercial real estate	35,984	30,979
Total loans	41,480	39,169
Allowance for loan losses	(207)	(218)
Total loans, net	\$ 41,273	\$ 38,951

All loan amounts were presented net of unearned fees and costs at June 30, 2024 and 2023.

The Bank engages in a wide range of lending activities, which include the origination, primarily in our market area, of (1) commercial business loans, (2) commercial real estate loans, (3) and other business loans secured by residential mortgage loans.

The Bank's Loan Policy provides general guidance on underwriting of loans, risk management, credit approval, loan administration and problem asset management. The Loan Policy is designed to help ensure that loan growth is accompanied by acceptable asset quality with uniform and consistently applied approval, administration and documentation practices and standards. Substantially all of the Bank's loans have been granted to customers within the Bank's primary lending area.

Commercial Business Lending

The Bank actively solicits commercial business loans of all types. Commercial business loans include revolving lines of credit to provide working capital, term loans to finance the purchase of vehicles and equipment, letters of credit to guarantee payment and performance, and other loans to assist businesses in cash management or growth opportunities.

Revolving lines of credit are typically secured by various assets of the borrower, provide for the acceleration of repayment upon any event of default, are monitored monthly or quarterly to ensure compliance with loan covenants, when appropriate, and are re-underwritten annually before renewal. Interest rates on revolving lines of credit are generally variable. Term loans are generally advanced for the purchase of, and are secured by, vehicles and equipment and are normally fully amortized over a term of two to five years, on either a fixed or variable rate basis. In general, these credit facilities carry the unconditional guarantees of the owners and/or shareholders of the borrower.

Commercial Real Estate Lending

Commercial real estate loans are primarily secured by real property and the income arising from such property. The proceeds of commercial real estate loans are generally used by the borrower to finance or refinance the cost of acquiring and/or improving a commercial property. The properties that typically secure these loans are office and warehouse facilities, retail facilities and other commercial properties. In addition, the Bank makes loans secured by special purpose facilities such as hotels, mini-storage warehouses and manufacturing facilities. The Bank actively seeks to make commercial real estate loans to borrowers who will occupy or use the financed property in connection with their normal business operations. The Bank also makes commercial real estate loans for other purposes if the borrower is in strong financial condition and presents a

substantial business opportunity for the Bank, taking into account (when circumstances warrant) the extent to which the property is leased or pre-leased.

Commercial real estate loans are usually amortized over a period of time ranging from 15 years to 25 years and usually have a term to maturity ranging from five years to 15 years. These loans normally include provisions for interest rate adjustments after the loan is three to five years old. We may extend longer interest rate adjustment periods to particularly credit-worthy borrowers. The Bank's maximum loan-to-value ratio for a commercial real estate loan is 85%; however, this maximum can be waived for particularly strong borrowers on an exception basis. Most commercial real estate loans are further secured by one or more unconditional personal guarantees.

Certain commercial real estate loans are structured as mini-permanent loans. The amortization period, term and interest rates for these loans vary based on borrower preferences and our assessment of the loan and the degree of risk involved. If the borrower prefers a fixed rate of interest, we usually offer a loan with a fixed rate of interest for a term of three to five years with an amortization period of up to 25 years and the remaining balance of the loan due and payable in a single balloon payment at the end of the initial term. If the borrower prefers a variable or floating rate of interest, we usually offer a loan with a variable interest rate tied to a readily recognizable index, such as the Wall Street Journal's prime rate, for a term of three to five years with an amortization period of up to 25 years and the remaining balance of the loan due and payable in a single balloon payment at the end of the initial term.

Loans secured by commercial real estate are generally larger and involve a greater degree of risk than residential mortgage loans. Because payments on loans secured by commercial real estate are usually dependent on successful operation or management of the properties securing such loans, repayment of such loans is subject to changes in both general and local economic conditions and the borrower's business and income. As a result, events beyond our control, such as a continued or worsening downturn in the local economy, could adversely affect the performance of our commercial real estate loan portfolio. We seek to minimize these risks by lending to established customers or experienced real estate developers and generally restricting our commercial real estate loans to our primary market area. Emphasis is placed on the income producing characteristics and repayment capacity of the collateral and the cash flow and liquidity of the borrower and each guarantor.

The Bank does make land acquisition loans for future use to borrowers with strong cash flow and liquidity. The Bank's maximum loan to value ratio for a land acquisition is 65%; however, this maximum can be waived for a particularly strong borrower on an exception basis.

Residential Mortgage Lending

The Bank does not provide consumer mortgage loans, but will provide business purpose loans secured by residential properties to current or prospective business clients. These loans are made on similar terms and conditions as commercial real estate loans.

Allowance for Loan Losses

In the first quarter of the Bank's fiscal year ended June 30, 2024, the Bank adopted CECL methodology for the calculation of its expected losses on loans. The Bank utilizes the SCALE Model developed by the FRB for this calculation as appropriate for banks with asset size less than \$1 billion. This model presents a format for calculating expected credit losses related to the Bank's loan portfolio by providing aggregate loss rate data for banks with asset size from \$1 billion to \$10 billion collected from quarterly Call Reports, comparative peer to institution net loan loss comparatives, a table for the Bank's qualitative adjustments, and tables for loans assessed according to portfolio segments as well as for those that are individually assessed.

A summary of the CECL calculation for the current year, as well as other activity in the allowance for loan and credit losses for the year ended June 30, 2024, is presented in the table below.

	Balance at June 30, 2023	Charge-offs	Recoveries (in thousands)	Provision (Benefit)	Balance at June 30, 2024
Allowance for loan loss	\$ 218	\$ -	\$ -	\$ (11)	\$ 207
Commercial Real Estate		-	-		-
Commercial		-	-		-
Total allowance for loan loss	\$ 218	\$ -	\$ -	\$ (11)	\$ 207
Reserve for unfunded loan commitments	-			12	12
Allowance for Loan and Credit Loss	\$ 218	\$ -	\$ -	\$ 1	\$ 219

A summary of the activity in the allowance for loan losses account calculated using ASC-310 Allowance for Loan and Lease Losses and ASC-450-20 Contingencies: Loss Contingencies for the year ended June 30, 2023 is presented in the table below:

	Balance at June 30, 2022	Charge-offs	Recoveries (in thousands)	Provision (Benefit)	Balance at June 30, 2023
Allowance for loan loss	\$ 179	\$ -	\$ -	\$ 39	\$ 218
Commercial Real Estate		-	-		-
Commercial		-	-		-
Total allowance for loan loss	\$ 179	\$ -	\$ -	\$ 39	\$ 218
Reserve for unfunded loan commitments	-			-	-
Allowance for Loan and Credit Loss	\$ 179	\$ -	\$ -	\$ 39	\$ 218

All loans at June 30, 2024 and 2023 were current with no loans past due more than 30 days nor were there nonperforming assets at June 30, 2024 or 2023, respectively.

The Bank utilizes an internal credit classification system to manage the credit quality of its loan portfolio. Loans categorized as “special mention” show signs of potential weaknesses and/or negative trends that may, if not corrected, inadequately protect the Bank’s credit position. These loans require a high level of supervision but are not in such a deteriorated condition that problems cannot be readily corrected with immediate action. Loans categorized as “substandard” have well-defined credit weaknesses which, if not corrected, could constitute undue and unwarranted credit risk which could impact the Bank negatively. Loans categorized as “doubtful” have credit weaknesses which make collection in full highly questionable with a high possibility for loss. Any loan whose principal and interest repayment sources have deteriorated to such a degree that principal and interest payments in full are not reasonably expected, are deemed uncollectible and are to be charged-off within 30 days of the assignment of such designation.

All other loans are categorized as “not criticized or classified”, having no material deficiencies and with primary sources of repayment that are adequate and well-defined.

The following table presents a summary of commercial and commercial real estate loans classified by this internal credit classification at June 30, 2024:

	Commercial	Commercial Real Estate	Total
			(in thousands)
Category:			
Special mention	\$ -	\$ -	\$ -
Substandard	-	-	-
Doubtful	-	-	-
Not criticized or classified	5,496	35,984	41,480
Total Loans	\$ 5,496	\$ 35,984	\$ 41,480

The following table presents a summary of commercial and commercial real estate loans classified by this internal credit classification at June 30, 2023:

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Total</u>
	<i>(in thousands)</i>		
Category:			
Special mention	\$ -	\$ -	\$ -
Substandard	-	-	-
Doubtful	-	-	-
Not criticized or classified	8,190	30,979	39,169
Total Loans	<u>\$ 8,190</u>	<u>\$ 30,979</u>	<u>\$ 39,169</u>

The following tables present an allocation of the Bank's allowance for loan losses and the respective loans evaluated based on its allowance methodology at June 30, 2024.

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Unallocated</u>	<u>Total</u>
	<i>(in thousands)</i>			
Allowance for loan losses:				
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	39	187	(19)	207
Total Ending Balance	<u>\$ 39</u>	<u>\$ 187</u>	<u>\$ (19)</u>	<u>\$ 207</u>

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Total</u>
	<i>(in thousands)</i>		
Total loans:			
Individually evaluated for impairment	\$ -	\$ -	\$ -
Collectively evaluated for impairment	5,496	35,984	41,480
Total Ending Balance	<u>\$ 5,496</u>	<u>\$ 35,984</u>	<u>\$ 41,480</u>

The following tables present an allocation of the Bank's allowance for loan losses and the respective loans evaluated based on its allowance methodology at June 30, 2023.

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Unallocated</u>	<u>Total</u>
		<i>(in thousands)</i>		
Allowance for loan losses:				
Individually evaluated for impairment	\$ -	\$ -	\$ -	\$ -
Collectively evaluated for impairment	33	124	61	218
Total Ending Balance	<u>\$ 33</u>	<u>\$ 124</u>	<u>\$ 61</u>	<u>\$ 218</u>

	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Total</u>
		<i>(in thousands)</i>	
Total loans:			
Individually evaluated for impairment	\$ -	\$ -	\$ -
Collectively evaluated for impairment	8,190	30,979	39,169
Total Ending Balance	<u>\$ 8,190</u>	<u>\$ 30,979</u>	<u>\$ 39,169</u>

At the time of restructuring, loans that are considered troubled are evaluated for impairment allowances based on collateral value, expected cash flows and/or financial strength of the borrower. Any such loan deemed impaired may be assigned a specific allowance in the calculation of allowance for loan losses. If there are subsequent payment defaults on troubled debt restructured loans, additional evaluations are conducted to determine impairment levels. No impairment allowance was deemed necessary at June 30, 2024 or 2023. No loans were restructured during the years ended June 30, 2024 or 2023.

Loans are generally classified as nonaccrual if they are past due as to maturity or payment of principal or interest for a period of more than 90 days, unless such loans are well-secured and in the process of collection. If a loan or a portion of a loan is classified as “doubtful” or is partially charged off, the loan is generally classified as nonaccrual. Loans that are on a current payment status or past due less than 90 days may also be classified as nonaccrual if repayment in full of principal and/or interest is in doubt.

Loans may be returned to accrual status when all principal and interest amounts contractually due (including arrearages) are reasonably assured of repayment within an acceptable period of time and there is a sustained period of repayment performance by the borrower.

While a loan is classified as nonaccrual, and the future collectibility of the recorded loan balance is doubtful, collections of interest and principal are generally applied as a reduction to principal outstanding, existing unpaid accrued interest is reversed, and the accrual of interest is stopped. When the future collectibility of the recorded loan balance is expected, interest income may be recognized on a cash basis. The Bank had no past due, restructured, nonperforming, or nonaccrual loans, and no residential real estate loans in the process of foreclosure at June 30, 2024 or 2023.

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment consisted of the following:

	At June 30,	
	2024	2023
	<i>(in thousands)</i>	
Leasehold improvements	\$ 272	\$ 272
Equipment, furniture and fixtures	255	251
Computer equipment and software	176	161
Premises and equipment, at cost	703	684
Less - accumulated depreciation	(383)	(258)
Total premises and equipment, net	\$ 320	\$ 426

Depreciation expense for the years ended June 30, 2024 and 2023 was \$128,000 and \$125,000, respectively. The Bank had no impaired assets at June 30, 2024 and experienced a \$2,000 loss on the disposal of assets with a book value of \$5,000 during the year ending June 30, 2024. No assets were disposed or impaired during the year ended June 30, 2023.

NOTE 5 – LEASES

The Bank leases approximately 5,000 square feet of office space for executive offices and a branch in Virginia Beach, VA. The initial term of this lease is five years, has no residual value guarantees or covenants, and is classified as an operating lease. Subsequent extensions of the initial lease term are not automatic and are not included in the calculation of lease liabilities as management was not reasonably certain to exercise such options at that time. The right-of-use asset and the lease liability are included in other assets and other liabilities, respectively, on the balance sheet.

The initial lease term for the Virginia Beach facility, which began in 2020, is for 69 months expiring in May 2026 with three renewal options of five years each. The Bank pays a minimum rent plus annual adjustments of 2.5% after the first 33 months. An operating cost adjustment covering operating costs, real estate taxes, and utilities, that exceed those incurred in the base year of calendar year 2021 will be assessed to each tenant based on leasable area. The Bank's pro-rata portion is 6.81% of those costs, if so charged. Rent expense for the Virginia Beach facility for each of the years ended June 30, 2024 and 2023 was \$81,000. There were no operating cost adjustments in the years ended June 30, 2024 or 2023.

A summary of the lease liability and right-of-use asset is as follows:

	At June 30,	
	2024	2023
	<i>(in thousands)</i>	
Lease liability	\$ 200	\$ 296
Right-of-use asset	\$ 149	\$ 221
Remaining lease term in years	1.92	2.92
Discount rate (%)	3.25 %	3.25 %

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total of operating lease liabilities at June 30, 2024 was as follows:

	June 30,
Year	2024
	Amount
	<i>(in thousands)</i>
2025	\$ 107
2026	100
Total lease payments	\$ 207
Less Interest	(7)
Present value of lease liabilities	\$ 200

NOTE 6 – DEPOSITS

Interest-bearing deposits consisted of the following at June 30, 2024 and 2023:

	At June 30,	
	2024	2023
	<i>(in thousands)</i>	
Money market and NOW	\$ 27,044	\$ 39,991
Savings	92	135
Certificates of deposit \$250,000 and over	-	-
Other time deposits	-	5
Total interest-bearing deposits	\$ 27,136	\$ 40,131

At June 30, 2024, there were no time deposits.

NOTE 7 – SECURITIES SOLD UNDER AGREEMENTS TO REPURCHASE AND OTHER BORROWINGS

Securities sold under agreements to repurchase are used to facilitate the needs of customers, are classified as secured borrowings, and generally mature within one day from the transaction date. The Bank had no agreements to repurchase securities during the years ended June 30, 2024 or 2023.

The Bank has arrangements with various banks which enable the Bank to borrow up to \$10,000,000 in federal funds on an unsecured overnight basis at a variable rate. At least once during each fiscal year, the Bank tests its ability to borrow from these federal funds facilities up to the maximum amount for one day at that day's applicable interest rate. There were no outstanding federal funds purchased at June 30, 2024 or 2023.

Information concerning such other borrowings is summarized as follows:

	As of and for the years ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Balance at end of year	\$ -	\$ -
Average balance during the year	\$ 27	\$ 82
Weighted average interest rate during the year	6.22 %	4.33 %
Interest expense during the year	\$ 2	\$ 4
Maximum month-end balance during the year	\$ -	\$ 5

In addition, the Bank is a member of the FHLB which has established a credit availability for the Bank in an amount equal to 25% of the Bank's total assets. Borrowings are secured primarily by a blanket collateral agreement on the Bank's loan's portfolio with additional collateralization provided by qualifying investment securities on an as needed basis. At June 30, 2024, the Bank had borrowings totaling \$9,000,000 from the FHLB that were collateralized entirely by the Bank's qualifying loan portfolio. At June 30, 2023 the Bank had borrowings totaling \$9,000,000 from the FHLB, for which securities having an amortized cost and market value of \$6,000,000 and \$5,773,000, respectively, had been pledged.

Information regarding borrowings from the FHLB is summarized as follows:

	As of and for the years ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Balance at end of year	\$ 9,000	\$ 9,000
Average balance during the year	\$ 466	\$ 3,668
Weighted average interest rate during the year	5.54 %	4.56 %
Interest expense during the year	\$ 26	\$ 170
Maximum month-end balance during the year	\$ 16,000	\$ 10,000

In response to the collapse of two large regional banks in March and April of 2023, the FRB developed the Bank Term Funding Program (“BTFP”) to support liquidity issues of banks impacted by downstream effects of these failures. The terms of the lending program provided a below-market interest rate on collateralized fundings of 100% of the face value of pledged securities carrying an explicit or implied guarantee of the U.S. Government. The Bank borrowed \$6,000,000 for one year at a 4.76% interest rate, pledging its FHLB 3% Callable Agency Bond as collateral. This loan can be repaid at any time before its maturity in January 2025 with no pre-payment penalty. Information regarding this borrowing from the Federal Reserve System is summarized as follows:

	As of and for the years ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Balance at end of year	\$ 6,000	\$ -
Average balance during the year	\$ 2,738	\$ -
Weighted average interest rate during the year	4.76 %	- %
Interest expense during the year	\$ 131	\$ -
Maximum month-end balance during the year	\$ 6,000	\$ -

NOTE 8 – EMPLOYEE AND DIRECTOR BENEFIT PLANS

2021 Equity Incentive Plan

Effective November 9, 2021, upon approval by a majority of the shareholders of the Bank at its Annual Meeting, the Bank adopted the 2021 Equity Incentive Plan and accounting guidance related to share-based payments, which requires that the fair value of equity instruments, such as stock options and restricted stock, be recognized as an expense in the issuing entity's financial statements as services are performed. The Bank had no existing equity incentive plans prior to this date.

Under the 2021 Equity Incentive Plan, the Board of Directors may grant up to 15% of the Bank's issued and outstanding common stock. This amount, representing 367,042 stock options, stock appreciation rights, restricted stock and certain other equity awards, in the aggregate, may be issued to officers and nonemployee directors of the Bank. The Board of Directors may approve the grant of nonstatutory stock options and options qualifying as incentive stock options. As the Bank's stock is not traded on any stock exchange, the option price of these stock options will be the Fair Market Value of the Bank's common stock on the date of grant as determined initially in good faith by the Bank taking into consideration all available information.

Employee Stock Option Awards

Stock options totaling 247,990 were granted under the 2021 Equity Incentive Plan on December 1, 2021. The fair value of each stock option award was estimated on the measurement date using a Black-Scholes valuation model that used assumptions described below. Expected volatility was based on management's review of the average volatility of a sample of lightly traded peer community bank stocks over the expected term of similar stock options. The expected term represented the period of time that stock options granted were expected to be outstanding and was

estimated based on management's business plan and provisions of the grant including the contractual term and vesting schedule. The risk-free interest rate was the U.S. Treasury zero coupon yield curve in effect on the measurement date for the period corresponding to the expected life of the option.

The estimates of fair value derived from the Black-Scholes option pricing model are theoretical values for stock options, and changes in assumptions used in the model could result in materially different fair value estimates. The actual value of the stock options will depend on the market value of the Bank's common stock when the options are exercised. The fair value of options granted during 2021 were estimated with the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	20%
Risk-free interest rate	0.85%
Expected life of options	3 years
Fair value of options granted during period	\$1.50

Stock option awards granted under the 2021 Equity Incentive Plan provide for accelerated vesting under certain circumstances as defined in the Plan, such as a change of control with respect to the Bank, the optionee's death or permanent disability and, if the optionee is an employee of the Bank, resignation for good reason or termination without cause, subject to any limitations under applicable law. Occurrence of these events may cause the requisite service period to be less than reflected in the schedule above and may accelerate unamortized stock-based compensation expense recognized at that time. No option may be exercised after ten (10) years from the date of grant.

The following tables present a summary of stock option activity during the years ended June 30, 2024 and 2023:

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Term(years)</u>	<u>Aggregate Intrinsic Value</u>
				<i>(in thousands)</i>
Shares outstanding at June 30, 2023	247,990	\$ 10.00		
Granted	-	-		
Exercised	-	-		
Forfeited/expired	-	-		
Shares outstanding at June 30, 2024	<u>247,990</u>	<u>\$ 10.00</u>	<u>7.42</u>	<u>\$ -</u>
Shares exercisable at June 30, 2024	<u>165,327</u>	<u>\$ 10.00</u>	<u>7.42</u>	<u>\$ -</u>

	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Term(years)</u>	<u>Aggregate Intrinsic Value</u>
				(in thousands)
Shares outstanding at June 30, 2022	247,990	\$ 10.00		
Granted	-	-		
Exercised	-	-		
Forfeited/expired	-	-		
Shares outstanding at June 30, 2023	<u>247,990</u>	<u>\$ 10.00</u>	<u>8.43</u>	<u>\$ -</u>
Shares exercisable at June 30, 2023	<u>82,663</u>	<u>\$ 10.00</u>	<u>8.43</u>	<u>\$ -</u>

The Bank's stock is not publicly traded on any over-the-counter stock market. The determination of the exercise price at grant date was based on the subscription price of the initial stock offering that was concluded in August 2021.

The aggregate intrinsic value in the table above represents the total pre-tax intrinsic value (the difference between the Bank's closing stock price on the last trading day of the quarter and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2024. The amount changes based on the fair market value of the Bank's common stock, as reflected by stock market prices. The Bank's current policy is to issue new shares of common stock to satisfy option exercises. There were no shares that were "in-the-money" at either June 30, 2024 or 2023.

Restricted Stock Awards

The Bank's Board of Directors granted, effective December 1, 2021, 45,000 shares of restricted stock to certain executives and officers under the Integrity 2021 Equity Incentive Plan. As with stock options, the fair market value at grant date of the restricted stock was determined in good faith by the Bank taking into consideration all available information, and was based on the stock subscription price of the initial offering that concluded in August 2021.

The following table presents a summary of restricted stock award activity for the period of July 1, 2023 to June 30, 2024.

	<u>Shares</u>	<u>Fair Value at Grant Date</u>
Shares outstanding at July 1, 2023	30,000	\$ 10.00
Granted	-	-
Vested	(15,000)	10.00
Forfeited/expired	-	-
Shares outstanding at June 30, 2024	<u>15,000</u>	<u>\$ 10.00</u>

The following table presents a summary of restricted stock award activity for the period of July 1, 2022 to June 30, 2023.

	<u>Shares</u>	<u>Fair Value at Grant Date</u>
Shares outstanding at July 1, 2022	45,000	\$ 10.00
Granted	-	-
Vested	(15,000)	10.00
Forfeited/expired	-	-
Shares outstanding at June 30, 2023	<u>30,000</u>	<u>\$ 10.00</u>

The amount charged against income, before income tax benefit of \$41,000, in relation to stock-based payment arrangements was \$274,000 in each of the years ended June 30, 2024 and 2023. At June 30, 2024, unrecognized compensation expense, net of estimated forfeitures, related to unvested stock option and restricted stock grants was \$114,000 and was expected to be recognized over a weighted average period of 0.4 years as follows:

	Stock-Based Compensation Expense	
	<u>(in thousands)</u>	
2025	\$	114
Total	\$	114

Stock Warrants

The Organizers invested significant time and effort to form the Bank, and they provided \$1.4 million of initial at-risk capital to cover organizational expenses and contribute to the capitalization of the Bank. In recognition of the financial risk and efforts they undertook in organizing the Bank, each Organizer received, for no additional consideration, a warrant to receive one share of common stock for each \$10.00 of capital he or she placed at risk. The 140,000 warrants have an exercise price of \$10.00 per share, the initial offering price. The warrants are exercisable in whole or in part during the ten-year period following the date the Bank opened for business. If the BFI, the FRB, or FDIC issues a capital directive or other order requiring the Bank to obtain additional capital, the warrants will be forfeited if not immediately exercised.

The fair value of the issued warrants was determined using the Black-Scholes option pricing model with the following assumptions:

Expected dividend yield	0.00%
Expected stock price volatility	20%
Risk-free interest rate	1.63%
Expected life of warrants	10 years
Fair value of warrants granted during perio	\$3.12

The warrants estimated fair value upon issuance was \$436,800 and represents an offset to additional paid in capital.

401(k) Retirement Program

Effective October 1, 2021, the Board of Directors adopted a 401(k) Retirement Program (the "401(k) Plan"). Eligible employees who have completed the required months of service are eligible to participate and make contributions to the 401(k) Plan. The Bank makes employer matching contributions under the Safe Harbor Matching Plan and expensed \$35,000 and \$34,000 for 401(k) Plan matching contributions during the years ended June 30, 2024 and 2023, respectively.

NOTE 9 – SHARES OUTSTANDING AND EARNINGS PER SHARE RECONCILIATION

The Bank calculates its basic and diluted earnings/(loss) per common share ("EPS") in accordance with generally accepted accounting principles related to earnings/(loss) per share.

The components of the Bank's EPS calculations are as follows:

For the Years Ended June 30,		
	2024	2023
	<i>(in thousands, except share and per share data)</i>	
Basic loss per share		
Net loss relevant to common stockholders	\$ (285)	\$ (333)
Weighted average common shares outstanding	2,489,153	2,490,915
Loss per common share - basic	<u>\$ (0.11)</u>	<u>\$ (0.13)</u>
Effect of dilutive securities		
Weighted average common shares outstanding during the period	2,489,153	2,490,915
Effect of dilutive equity awards	-	-
Weighted diluted average common shares outstanding during the period	2,489,153	2,490,915
Loss per common share - assuming dilution	<u>\$ (0.11)</u>	<u>\$ (0.13)</u>

Basic loss per common share is calculated by dividing the net loss by the weighted average number of common shares with voting rights outstanding during the period. Diluted loss per common share is calculated by applying the treasury stock method. Under the treasury stock method, the exercise of dilutive stock options is assumed. The sum of the assumed proceeds of (a) the stock option exercises and (b) the unamortized compensation expense on in-the-money options not yet recognized pursuant to generally accepted accounting principles for share-based payments (see "Note 8 – Employee and Director Benefit Plans") are assumed to be used to purchase common stock at the average market price during the period. The incremental shares (the difference between the number of shares assumed issued and the number of shares assumed purchased), if any, are included in the denominator of the diluted loss per share calculation.

Any difference in the number of shares used for basic loss per common share and diluted loss per common share results solely from the dilutive effect of equity awards. Restricted stock shares on an average of 21,310 shares and 36,230 shares that were unvested and unissued and that have all voting and dividend rights as issued shares prior to vesting were participating securities and were included in computing basic and diluted loss per share for the years ended June 30, 2024 and 2023, respectively. Options on an average of 247,990 shares for each of the years ended June 30, 2024 and 2023, and 140,000 shares of unexercised warrants during the years ended June 30, 2024 and 2023, were not included in computing diluted loss per share, because the effects of the corresponding stock options were antidilutive. Tangible book value per issued and outstanding share was \$8.53 and \$8.58 at June 30, 2024 and 2023, respectively.

As a de novo bank, having only opened in May 2021, the regulatory rules prevent the Bank from the payment of dividends, and, accordingly, none have been declared for any period through June 30, 2024.

NOTE 10 – OTHER NONINTEREST INCOME AND EXPENSE

The components of other noninterest income for the periods indicated are as follows:

For the Years Ended June 30,		
	2024	2023
	<i>(in thousands)</i>	
Noninterest income		
Debit card transaction fees	\$ 5	\$ 10
Other	6	5
Total noninterest income	<u>\$ 11</u>	<u>\$ 15</u>

The Bank records revenue based on ASU No.2016-20 "Revenue from Contracts with Customers" ("Topic 606"). Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. The Bank's services that fall within the scope of Topic 606 are presented within non-interest income and are recognized as revenue as the Bank satisfies its obligation to the customer. A description of the Bank's noninterest revenue streams is discussed below:

Service Charges on Deposit Accounts - The Bank earns fees from its deposit customers for overdraft, monthly service fees, and other deposit account related fees. Overdraft fees are recognized when the overdraft occurs. The Bank's performance obligation for monthly service fees is generally satisfied over the period in which the service is provided. Other deposit account related fees are largely transactionally based and, therefore, the Bank's performance obligation is satisfied, and related revenue is recognized within the same period that the services are rendered.

Interchange Income, Net - The Bank earns interchange fees from debit cardholder transactions conducted through various payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services.

Other Service Charges and Fees - The Bank earns fees from its customers for transaction-based services. Services include safe deposit box rentals, debit/ATM card income, cashier's check issuances, stop-payment and wire transfer fees. In each case, these fees and service charges are recognized in income at the time or within the same period that the services are rendered.

The components of other noninterest expense for the periods indicated are as follows:

	For the Years Ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Noninterest expense		
Insurance	\$ 90	\$ 85
Telephone	38	36
FDIC insurance	57	57
Shareholder expense	21	15
Other miscellaneous	75	91
Total noninterest expense	\$ 281	\$ 284

The Bank maintains a key man life insurance policy on its Chief Executive Officer in the amount of \$2.5 million. The policy has no cash surrender value and the Bank is the sole beneficiary. The Bank had recorded an expense of \$45,000 related to this policy within insurance expense during each of the years ended June 30, 2024 and 2023.

NOTE 11 – INCOME TAXES

The principal components of income tax expense/(benefit) for the periods indicated are as follows:

For the Years Ended June 30,

	2024	2023
	<i>(in thousands)</i>	
Federal income tax benefit - current	\$ -	\$ -
Deferred federal income tax expense(benefit)	(30)	(226)
Valuation allowance	-	(656)
Income tax expense(benefit)	\$ (30)	\$ (882)

A reconciliation of income tax expense(benefit) calculated at the federal statutory rate and that shown in the Statement of Operations is summarized as follows for the periods indicated:

For the Years Ended June 30,

	2024	2023
	<i>(in thousands)</i>	
Federal income tax expense(benefit)	-	-
(at 21% statutory rate)	\$ (66)	\$ (255)
Effect of life insurance premiums	9	9
Effect of equity based compensation	21	17
Other	6	3
Valuation allowance	-	(656)
Income tax expense(benefit)	\$ (30)	\$ (882)

The cumulative net deferred tax asset was included in other assets on the balance sheet at June 30, 2024 and 2023. The components of the asset are as follows:

At June 30,

	2024	2023
	<i>(in thousands)</i>	
Deferred Tax Assets		
Net operating loss	\$ 746	\$ 712
Allowance for loan losses	46	46
Non-qualifying options	42	33
Organizational expense	132	143
Net unrealized loss on available for sale securities	7	13
Other	2	5
Total deferred tax assets	975	952
Deferred Tax Liabilities		
Deferred loan costs, net	57	51
Depreciation on premises and equipment	-	6
Total deferred tax liabilities	57	57
Net Deferred Tax Assets	918	895
Less Valuation Allowance	-	-
Carrying value of deferred tax assets	\$ 918	\$ 895

The net deferred tax asset is included in other assets on the balance sheet. Accounting Standards Codification Topic 740, *Income Taxes*, requires that a valuation allowance is to be provided to offset any portion of a deferred tax benefit that may not be realized in the future based on the consideration of all available evidence using a “more likely than not” standard. The deferred tax assets are analyzed no less than annually for changes affecting realization. Management concluded that it would recognize a valuation allowance for the entirety of the net deferred tax asset at June 30, 2022 in order to satisfy the “more likely than not” standard until sustained profitability was achieved. During the fourth operating quarter of the fiscal year ending June 30, 2023,

management concluded during its annual review of the allowance that it was “more likely than not” that the bank will realize the deferred tax benefit with the basis for sustained profitability having been achieved. Accordingly, the allowance offsetting the entirety of deferred tax asset was reversed and taken into income. The net operating losses available to offset future taxable income amounts to \$3.6 million at June 30, 2024 and \$3.4 million at June 30, 2023.

The Bank files tax returns in the United States federal jurisdiction. Management has analyzed the tax positions taken or expected to be taken in its tax returns and has concluded it has no liability related to uncertain tax positions in accordance with generally accepted accounting standards for income tax purposes. Tax returns for fiscal years ending in 2021, 2022, and 2023 and subsequent years are subject to examination by taxing authorities.

NOTE 12 – RELATED PARTY TRANSACTIONS

The Bank has loan and deposit transactions with certain of its executive officers and directors, and with companies in which the officers and directors have a financial interest.

A summary of related party loan activity for the Bank during the period indicated is set forth in the following table:

	For the Years Ended June 30,	
	2024	2023
	<i>(in thousands)</i>	
Balance, July 1	\$ 1,068	\$ 4,913
Originations	3,984	400
Repayments	(1,155)	(4,245)
Balance, June 30	<u>\$ 3,897</u>	<u>\$ 1,068</u>

In the opinion of management, such related party loans are made in the ordinary course of business on substantially the same terms, including interest rate and collateral, as those prevailing at the same time for comparable loans to unrelated persons and did not involve more than the normal risk of collectibility or present other unfavorable features.

Commitments to extend credit and letters of credit to such related parties amounted to \$468,000 and \$1,700,000 at June 30, 2024 and 2023, respectively.

Deposits from related parties held by the Bank amounted to \$13,522,000 and \$14,859,000 at June 30, 2024 and 2023, respectively.

NOTE 13 – COMMITMENTS AND FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET CREDIT RISK

The Bank is a party to financial instruments with off-balance sheet credit risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit in the form of loans or loans approved but not yet funded, and standby letters of credit. These instruments involve, to varying degrees, elements of risk which have not been recognized in the Bank's balance sheet.

Loan commitments are agreements to extend credit to a customer so long as there are no violations of the applicable contract terms prior to the funding. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee by the customer. Because certain of the commitments are expected to be withdrawn or expire unused, the total commitment amount does not necessarily represent future cash requirements. Standby letters of credit are written unconditional commitments to guarantee the payment or the performance of a Bank customer to a third party.

The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance-sheet instruments. Unless otherwise noted, the Bank requires collateral or other security to support financial instruments with credit risk. In addition, the Bank records a

liability for an Allowance for Credit Losses (“ACL”) based on management’s estimated usage in the current quarter of these commitments at the same loss rate as applied to its loan portfolio, adjusting the loan loss provision accordingly. Contractual amounts for financial instruments whose contract amounts represent off-balance sheet credit risk at June 30, 2024 and 2023 are set forth in the following table:

	At June 30,	
	2024	2023
	<i>(in thousands)</i>	
Commitments to extend credit	\$ 4,153	\$ 6,041
Performance letters of credit	20	20
Total Commitments	\$ 4,173	\$ 6,061

Substantially all of the Bank’s loan portfolio consists of commercial and commercial real estate loans to customers located primarily in the cities of Virginia Beach, Norfolk, and Chesapeake in the state of Virginia. Accordingly, the ultimate collectibility of a substantial portion of the Bank’s portfolio may be susceptible to changes in local market conditions.

The Bank maintains a portion of its cash balances with several financial institutions, which at times may exceed federally insured limits. There was \$10,000 in uninsured balances at each year ended June 30, 2024 and 2023.

NOTE 14 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements may result in certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components (such as interest rate risk), risk weighting and other factors.

In July 2013, the FDIC and other federal banking agencies approved the final rules implementing the Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (commonly known as Basel III).

On January 1, 2015, banks became subject to the Basel III Capital Rules which revises definitions of regulatory capital, the new minimum regulatory capital ratios, and various regulatory capital adjustments and deductions according to transition provision and timelines. The revised rules now require the Bank to maintain (i) a minimum ratio of Common Tier 1 capital to risk-weighted assets of at least 4.5%, plus a 2.5% “capital conservation buffer”, (ii) a minimum ratio of Tier 1 capital to risk-weighted assets of at least 6.0% plus the capital conservation buffer of 2.5%, (iii) a minimum ratio of total capital to risk-weighted assets of at least 8.0% plus the capital conservation buffer of 2.5%, and (iv) a minimum leverage ratio of 4.0%.

On September 17, 2019, the FDIC finalized a rule that introduced an optional simplified measure of capital adequacy for qualifying community banking organizations (i.e. the community bank leverage ratio (“CBLR”) framework) as required by the Economic Growth, Regulatory Relief and Consumer Protection Act. The CBLR framework is designed to reduce burden by removing the requirements for calculating and reporting risk-based capital ratios for qualifying community banking organizations that opt into the framework. In order to qualify for the CBLR framework, a community banking organization must have a tier 1 leverage ratio of at least 9 percent, less than \$10 billion in total consolidated assets, and limited amounts of off-balance sheet exposures and trading assets and liabilities. A qualifying bank that opts into the CBLR framework and meets all requirements under the framework will be considered to have met the well-capitalized ratio requirements under Prompt Corrective Action regulations and is not required to report or calculate risk-based capital. The Bank had not opted into the CBLR framework at June 30, 2024.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum capital amounts and ratios (set forth in the table below) of total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined), and of Tier 1 capital to average assets (as defined). Management believes that, as of June 30, 2024, the Bank met all capital adequacy requirements to which it is subject; further, the Bank was “well capitalized” under the applicable regulatory framework. To be categorized as well capitalized, the Bank must maintain the minimum total risk-based, Tier 1 risk-based and Tier 1 leverage ratios set forth in the table below. At June 30, 2024, the Bank’s total risk-based capital, Tier 1 risk-based capital, and Tier 1 capital (leverage) ratios were 45.08%, 44.62%, and 25.84% respectively, all in excess of the minimum requirements. At June 30, 2023, the Bank’s total risk-based capital, Tier 1 risk-based capital, and Tier 1 capital (leverage) ratios were 46.61%, 46.13%, and 23.21% respectively, all in excess of the minimum requirements. There were no conditions or events that management believes have changed the Bank’s categorization.

The capital amounts and ratios for the Bank at June 30, 2024 and 2023 are presented in the following table:

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
<u>At June 30, 2024</u>						
Total Capital to Risk-Weighted Assets	\$ 21,346	45.08 %	\$ 3,788	8.00 %	\$ 4,735	10.00 %
Tier 1 Capital to Risk-Weighted Assets	\$ 21,127	44.62 %	\$ 2,841	6.00 %	\$ 3,788	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 21,127	44.62 %	\$ 2,131	4.50 %	\$ 3,078	6.50 %
Tier 1 Leverage Ratio to Average Assets	\$ 21,127	25.84 %	\$ 3,271	4.00 %	\$ 4,089	5.00 %

	Actual		For Capital Adequacy Purposes		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
<i>(dollars in thousands)</i>						
<u>At June 30, 2023</u>						
Total Capital to Risk-Weighted Assets	\$ 21,370	46.61 %	\$ 3,668	8.00 %	\$ 4,585	10.00 %
Tier 1 Capital to Risk-Weighted Assets	\$ 21,152	46.13 %	\$ 2,751	6.00 %	\$ 3,668	8.00 %
Common Equity Tier 1 Capital to Risk-Weighted Assets	\$ 21,152	46.13 %	\$ 2,063	4.50 %	\$ 2,980	6.50 %
Tier 1 Leverage Ratio to Average Assets	\$ 21,152	23.21 %	\$ 3,645	4.00 %	\$ 4,557	5.00 %

NOTE 15 – DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The Bank uses fair value measurements to record certain assets and to determine fair value disclosures. The Bank does not have any liabilities that are measured at fair value. Securities available for sale are recorded at fair value on a recurring basis. The Bank had no assets measured at fair value on a nonrecurring basis in accordance with GAAP at June 30, 2024 and 2023. The Bank refers to the “Fair Value Measurements and Disclosures” topic of the FASB Accounting Standards Codification (“ASC 820”) to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. ASC 820 establishes guidance for a hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs.

Fair Value Hierarchy

The guidance establishes three levels of the fair value hierarchy inputs as follows:

Level 1: Valuation is based on quoted prices in active markets for identical assets or liabilities.

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

Level 3: Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Investment Securities Available for Sale

Investment securities available for sale are recorded at fair value on a recurring basis. Fair value is measured by quoted prices, if available (Level 1). If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss assumptions. Level 2 securities include mortgage-backed securities issued by government agencies or by government sponsored entities.

Assets and liabilities measured at fair value on a recurring basis at June 30, 2024 and 2023, are summarized below:

At June 30, 2024	Level 1	Level 2	Level 3	Fair Value
		<i>(in thousands)</i>		
Available for sale securities				
Mortgage-backed securities	\$ -	\$ 9,548	\$ -	\$ 9,548
Total available for sale securities	\$ -	\$ 9,548	\$ -	\$ 9,548
At June 30, 2023	Level 1	Level 2	Level 3	Fair Value
		<i>(in thousands)</i>		
Available for sale securities				
Mortgage-backed securities	\$ -	\$ 13,881	\$ -	\$ 13,881
Total available for sale securities	\$ -	\$ 13,881	\$ -	\$ 13,881

NOTE 16 – SUBSEQUENT EVENTS

The Bank has evaluated subsequent events that have occurred after the balance sheet date, but before the financial statements have been issued. There are two types of subsequent events (1) recognized, or those 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, and (2) nonrecognized, or those that provide evidence about conditions that did not exist at the date of the balance sheet but arose about that date.

Subsequent events have been considered through September 26, 2024, the date the financial statements are available to be issued. Based on the evaluation, the Bank has not

identified any recognized or nonrecognized subsequent events that would have required adjustment to or disclosure in the audited financial statements.

INTEGRITY BANK FOR BUSINESS SHAREHOLDER INFORMATION

ANNUAL MEETING

Integrity Bank for Business intends to hold its 2024 Annual Meeting of Shareholders at 10:00 a.m. on Thursday, November 7, 2024 at The Westin, Virginia Beach Town Center, 4535 Commerce Street, Virginia Beach, Virginia 23462.

EXECUTIVE OFFICE AND BRANCH

Integrity Bank for Business
2901 S. Lynnhaven Road, Suite 100
Virginia Beach, VA 23452

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email: investor.relations@integritybankva.com

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Board of Directors

(Pictured from left to right)

Matthew R. Nusbaum

L. Allan Parrott, Jr.

J. Van Rose, Jr.

Michael S. Ives

Peter M. Meredith, Jr.

David L. Kaufman

Donna L. Scassera

David A. Arias