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HSB BANCORP, INC. & SUBSIDIARY
ANNUAL
REPORT



2026



OUR MISSION

Our mission is to be the premier independent community bank within our defined market area. We are committed to being a reliable business partner and leader in the community, supporting our customers' financial objectives, empowering our employees, and increasing shareholder value.



Dear Fellow Shareholders,

As we close another successful year, I am pleased to share an overview of HSB Bancorp, Inc. and its wholly-owned subsidiary, Hebron Savings Bank – highlighting our performance, progress, and priorities. Throughout 2025, we continued to demonstrate the resilience and relevance of community banking, delivering strong results while investing thoughtfully in our franchise, our people, and the communities we serve.

Our success in 2025 was grounded in disciplined execution and an unwavering focus on relationships. Customers remained at the center of every decision we made, and our employees rose to the occasion once again, navigating a dynamic operating environment while achieving meaningful growth and operational progress. Together, these efforts produced solid financial results, strengthened our balance sheet, and reinforced our organization's long-term value proposition.

FINANCIAL PERFORMANCE

For the year ended December 31, 2025, the Company reported continued balance sheet growth driven by strong core deposit and loan activity within our local markets. Total consolidated assets increased to \$813.8 million, reflecting sustained customer demand and disciplined growth strategies. Deposits ended the year at \$700.2 million, reinforcing our position as a leading deposit holder across Wicomico, Somerset, and Dorchester Counties.

Loans held for investment increased to \$626.7 million, exceeding internal growth targets and underscoring our ability to meet the financing needs of local businesses and households. This growth was achieved without compromising credit quality or underwriting standards.

Consolidated net income for the year totaled \$12.9 million, reflecting prudent margin management and expense discipline. Capital levels remained robust, with our Tier 1 Leverage ratio increasing to 13.1%, well above regulatory “well capitalized” thresholds. These results affirm the strength of our balance sheet and our ability to support future growth.

At its core, our financial performance reflects a simple but enduring philosophy: serve our communities well, manage risk responsibly, and grow with intention. This approach has guided Hebron Savings Bank for more than a century and continues to do so today.

2025 HIGHLIGHTS

During the year, we made several important advances that strengthened our franchise and enhanced stakeholder value.

We expanded our physical presence with the opening of a new full-service office in Berlin, Maryland, marking our second location in Worcester County in less than one year. This expansion strengthens our ability to serve customers in a growing market while reinforcing our commitment to accessible, relationship-based banking. Operationally, we completed the consolidation of our Riverside Office into the Carroll Street Office in Salisbury. Given the proximity of the two locations, the transition was executed efficiently and with minimal disruption, preserving service continuity for customers while improving operational effectiveness.

We also completed the migration of our transfer agent services to Computershare, enhancing the shareholder experience through a best-in-class platform. The successful processing of our year-end dividend through Computershare validated the effectiveness of this transition.

In addition, the Board of Directors authorized a stock repurchase program of up to 75,000 shares or \$3 million, whichever is less, through December 31, 2026. This program reflects a balanced approach to capital management, providing liquidity to shareholders while preserving the organization's long-term financial strength.

Our performance and culture were further recognized through several external honors, including designation



as one of S&P Global Northeast's Best Performing Community Banks, a Bauer Financial 5-Star rating, and the Salisbury Area Chamber of Commerce Large Business of the Year award. We are equally proud that our employees were appointed to the Maryland State Business and Financial Literacy Advisory Boards, extending our impact beyond the Bank.

STRATEGY AND PRIORITIES

Looking forward, our strategy is anchored in five foundational priorities: Capital Management, Franchise Development, Systems and Technology, Risk Management, and People. These pillars guide how we allocate resources and evaluate opportunities, ensuring alignment with long-term objectives.

Franchise development remains a key focus in 2026, with an emphasis on advancing plans to expand into Sussex County, Delaware, which would represent our first location in the state. This initiative reflects a natural extension of our footprint and a disciplined approach to growth.

Equally important is our continued investment in people. As we work to become a true learning organization, we are prioritizing employee development, leadership readiness, and succession planning to ensure our team is equipped to support future growth.

We will also continue enhancing systems and technology to improve the customer experience, increase efficiency, and support strong risk management practices. These investments are essential to scalability and long-term competitiveness.

SHAREHOLDER VALUE

We remain grateful for the confidence and support of our shareholders. Dividends in 2025 totaled \$1.25 per share, and book value increased to \$61.87 per share, reflecting steady earnings and disciplined capital deployment. Earnings per share for the year were \$7.99.

The Board and Management remain focused on balancing near-term returns with long-term value creation.

COMMUNITY COMMITMENT

As a community bank, our role extends far beyond financial services. In 2025, employees dedicated more than 4,000 volunteer hours to initiatives that strengthen the communities we serve. These efforts included financial education programs, nonprofit board service, and broad participation in local events.

This commitment is not incidental—it is fundamental to who we are. We believe community impact and financial performance go hand in hand, and we are proud of the difference our employees make every day.

CONCLUSION AND OUTLOOK

The close of 2025 marked my second year as Chief Executive Officer and my first year serving on the Board of Directors. It remains a privilege to lead this organization and work alongside a team that embodies integrity, service, and accountability.

As we look ahead, we do so with confidence. Our foundation is strong, our strategy is clear, and our people are deeply committed to our mission. We are well-positioned to navigate change, seize opportunities, and continue delivering value to our shareholders.

On behalf of the Board of Directors, Management, and the employees of Hebron Savings Bank, thank you for your continued trust and support.

Sincerely,

A handwritten signature in black ink, appearing to read "Jennifer A. Poulsen".

Jennifer A. Poulsen
CEO and President



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INDEPENDENT AUDITORS' REPORT

Board of Directors
HSB Bancorp, Inc. & Subsidiary
Hebron, Maryland

Opinion

We have audited the accompanying consolidated financial statements of HSB Bancorp, Inc. and subsidiary (a Maryland corporation), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of HSB Bancorp, Inc. and subsidiary as of December 31, 2025 and 2024, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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 Consolidated Financial Statements section of our report. We are required to be independent of HSB Bancorp, Inc. and subsidiary 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 Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 judgement made by a reasonable user based on the consolidated 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 consolidated 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 consolidated 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 HSB Bancorp Inc. and subsidiary'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 consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about HSB Bancorp Inc. and subsidiary'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.

UHY LLP

Salisbury, Maryland
January 28, 2026



HSB BANCORP, INC. & SUBSIDIARY

CONSOLIDATED BALANCE SHEETS

December 31, 2025 and 2024

	2025	2024
ASSETS		
Cash and cash equivalents		
Cash and due from banks	\$ 10,146,062	\$ 10,465,539
Interest-bearing deposits in other banks	62,704,028	51,118,129
Total cash and cash equivalents	72,850,090	61,583,668
Debt securities available-for-sale, at fair value	75,152,357	79,294,536
Equity securities, at fair value	5,345,365	5,046,578
Loans held for sale	-	356,856
Loans held for investment	626,735,642	577,368,078
Less: allowance for credit losses	(8,508,560)	(8,600,000)
Loans, net	618,227,082	568,768,078
Accrued interest receivable on investment securities and loans	2,422,700	2,197,156
Bank premises and equipment, at cost,		
less accumulated depreciation	13,345,754	11,686,693
Restricted Securities, at cost	1,014,700	969,000
Common stock in the HSB Statutory Trust I	93,000	93,000
Other real estate owned	404,174	-
Operating lease right-of-use assets	585,719	755,906
Net deferred income tax assets	4,551,837	5,340,899
Bank owned life insurance	18,481,648	17,929,422
Other assets	1,346,582	1,869,521
Total assets	\$ 813,821,008	\$ 755,891,313
LIABILITIES		
Deposits:		
Non-interest bearing demand	\$ 291,229,982	\$ 255,055,499
NOW and Super NOW	32,075,059	29,271,581
Money market	57,947,469	51,128,477
Savings	117,338,358	118,231,670
Time, more than \$250,000	31,552,483	32,469,195
Other time	170,099,810	166,777,637
	700,243,161	652,934,059
Accrued interest payable on deposits and borrowings	1,218,796	1,316,807
Short-term borrowings	1,390,400	269,432
Long-term borrowings	5,004,295	8,174,184
Junior subordinated debentures owed to unconsolidated		
subsidiary trust	3,093,000	3,093,000
Operating lease liabilities	605,374	777,741
Other liabilities	2,787,463	2,845,268
Total liabilities	714,342,489	669,410,491
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS' EQUITY		
Common stock, par value \$.01, authorized 10,000,000 shares, issued		
and outstanding 2025 1,607,881 share and 2024 1,617,069	16,079	16,171
Surplus	5,761,710	6,201,001
Retained earnings	98,470,722	87,641,222
Accumulated other comprehensive loss, net of deferred		
tax benefit 2025 \$1,810,895; 2024 \$2,880,845	(4,769,992)	(7,377,572)
Total stockholders' equity	99,478,519	86,480,822
Total liabilities and stockholders' equity	\$ 813,821,008	\$ 755,891,313

The Notes to Consolidated Financial Statements are an integral part of these statements.



HSB BANCORP, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2025 and 2024

	2025	2024
INTEREST INCOME ON		
Loans, including fees	\$ 36,344,818	\$ 34,743,212
Investment securities:		
Taxable	2,159,560	2,988,167
Exempt from Federal income tax	74,385	123,354
Deposits in other banks	3,336,508	1,620,049
	41,915,271	39,474,782
INTEREST EXPENSE ON		
Deposits	7,489,742	6,014,317
Borrowings	210,445	274,122
Junior subordinated debentures	198,243	230,818
	7,898,430	6,519,257
NET INTEREST INCOME	34,016,841	32,955,525
(Recovery) provision for credit losses	(50,499)	218,123
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	34,067,340	32,737,402
NON-INTEREST INCOME		
Service charges on deposit accounts	1,219,457	1,302,061
Visa debit income	1,440,455	1,360,777
Earnings of investment in life insurance	552,226	474,689
Mortgage-banking revenue	31,587	57,333
Gains on disposition of other real estate owned, net	-	78,179
Losses on disposition of debt securities available-for-sale, net	-	(199,807)
Gains (losses) on disposition of other assets, net	135,959	(1,265)
Unrealized gains (losses) on equity securities	127,181	(45,999)
Other	86,143	165,697
	3,593,008	3,191,665
NON-INTEREST EXPENSES		
Salaries and benefits	12,595,813	11,901,603
Occupancy	2,846,323	2,675,547
Other expenses	5,028,230	4,978,692
	20,470,366	19,555,842
INCOME BEFORE TAXES ON INCOME	17,189,982	16,373,225
Federal and State income taxes	4,337,016	4,237,527
NET INCOME	\$ 12,852,966	\$ 12,135,698

The Notes to Consolidated Financial Statements are an integral part of these statements.



HSB BANCORP, INC. & SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2025 and 2024

	2025	2024
NET INCOME	\$ 12,852,966	\$ 12,135,698
Other comprehensive income, net of tax:		
Unrealized holding gain on debt securities available-for-sale arising during the period	3,597,530	688,804
Deferred income tax liabilities	(989,950)	(189,543)
Other comprehensive income, net of tax	2,607,580	499,261
Reclassification adjustment for net realized losses included in net income on debt securities available-for-sale	-	(199,807)
Deferred income tax benefit	-	54,982
Other comprehensive loss, net of tax	-	(144,825)
Total other comprehensive income	2,607,580	354,436
Comprehensive income	\$ 15,460,546	\$ 12,490,134

The Notes to Consolidated Financial Statements are an integral part of these statements.



HSB BANCORP, INC. & SUBSIDIARY

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
Years Ended December 31, 2025 and 2024

	Par Value \$0.01 Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Stockholders' Equity
Balances, January 1, 2024	\$ 16,171	\$ 6,201,001	\$ 77,526,860	\$ (7,732,008)	\$ 76,012,024
Net income	-	-	12,135,698	-	12,135,698
Other comprehensive income, net of tax	-	-	-	354,436	354,436
Cash dividends paid, \$1.25 per share	-	-	(2,021,336)	-	(2,021,336)
Balances, December 31, 2024	16,171	6,201,001	87,641,222	(7,377,572)	86,480,822
Net income	-	-	12,852,966	-	12,852,966
Other comprehensive income, net of tax	-	-	-	2,607,580	2,607,580
Stock-based compensation	17	58,754	-	-	58,771
Common shares repurchased	(109)	(498,045)	-	-	(498,154)
Cash dividends paid, \$1.25 per share	-	-	(2,023,466)	-	(2,023,466)
Balances, December 31, 2025	\$ 16,079	\$ 5,761,710	\$ 98,470,722	\$ (4,769,992)	\$ 99,478,519

The Notes to Consolidated Financial Statements are an integral part of these statements.

HSB BANCORP, INC. & SUBSIDIARY



CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,852,966	\$ 12,135,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses, net	(50,499)	218,123
Depreciation	664,484	612,442
Amortization and accretion	(185,854)	(419,027)
Income on investment in life insurance	(552,226)	(474,689)
Gain on mortgage banking activities	(10,463)	(17,390)
Proceeds from sale of mortgage loans held for sale	759,394	1,220,882
Originations of loans held for sale	(392,075)	(1,560,348)
Stock-based compensation expense	58,771	-
Losses on sale of debt securities available-for-sale	-	199,807
Gain on other real estate owned	-	(78,179)
(Gain) losses on sale of other assets	(135,959)	1,265
Deferred income benefits	(200,888)	(59,778)
Fair value adjustment on equity securities	(127,181)	45,999
Changes in assets and liabilities:		
(Increase) decrease in accrued interest receivable	(225,544)	177,229
Decrease in deferred loan origination fees, net	543,895	334,025
Decrease (increase) in other assets	693,126	(735,574)
(Decrease) increase in accrued interest payable	(98,011)	650,235
Decrease in other liabilities	(230,172)	(644,197)
Net cash provided by operating activities	13,363,764	11,606,523
CASH FLOWS FROM INVESTING ACTIVITIES		
Liquidating distribution from equity security	-	3,987,365
Purchase of equity securities	(171,606)	(5,075,628)
Proceeds from sales of debt securities available-for-sale	-	38,449,423
Proceeds from maturities and paydowns of debt securities available-for-sale	7,925,564	10,033,873
Purchase of life insurance	-	(2,000,000)
(Purchase) redemption of restricted stock, net	(45,700)	161,100
Increase in loans, net	(50,356,576)	(39,947,271)
Proceeds from sale of other real estate owned	-	418,737
Proceeds from sale of other assets	455,590	-
Purchase premises and equipment	(2,643,175)	(1,838,274)
Net cash (used) provided by investing activities	(44,835,903)	4,189,325
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in demand, NOW, Super NOW, money market, and savings deposits, net	44,903,641	(7,786,786)
Increase in time deposits, net	2,405,461	31,840,839
Repayment of borrowings	(2,048,921)	(2,568,747)
Common shares repurchased	(498,154)	-
Cash dividends paid	(2,023,466)	(2,021,336)
Net cash provided by financing activities	42,738,561	19,463,970
Net increase in cash and cash equivalents	11,266,422	35,259,818
Cash and cash equivalents, beginning	61,583,668	26,323,850
Cash and cash equivalents, ending	\$ 72,850,090	\$ 61,583,668

The Notes to Consolidated Financial Statements are an integral part of these statements.

HSB BANCORP, INC. & SUBSIDIARY



CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2025 and 2024

	2025	2024
SUPPLEMENTARY CASH FLOW INFORMATION		
Interest paid	\$ 7,996,441	\$ 5,869,022
Income taxes paid	4,655,905	4,659,655
Unrealized appreciation on debt securities available-for sale	3,597,530	688,804
SUPPLEMENTARY NON-CASH INVESTING ACTIVITIES		
Loans converted to other real estate owned	\$ 404,174	\$ 340,559

The Notes to Consolidated Financial Statements are an integral part of these statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies

Hebron Savings Bank provides financial services to individuals and corporate customers, and is subject to competition from other financial institutions. The Bank is also subject to the regulations of certain Federal and State agencies and undergoes periodic examinations by those regulatory authorities. The accounting policies of the Bank conform, in all material respects, to U.S. generally accepted accounting principles and general practices within the banking industry.

Significant accounting policies not disclosed elsewhere in the consolidated financial statements are as follows:

Principles of Consolidation

The consolidated financial statements include the accounts of HSB Bancorp, Inc., (the "Company") and its wholly owned subsidiary, Hebron Savings Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated. The Parent Only financial information of the Company (see Note 19) accounts for the Bank using the equity method of accounting.

The Company determines whether it has a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity under accounting principles generally accepted in the United States. Voting interest entities are entities in which the total equity investment at risk is sufficient to enable the entity to finance itself independently and provides the equity holders with the obligation to absorb losses, the right to receive residual returns and the right to make decisions about the entity's activities. The Company consolidates voting interest entities in which it has all, or at least a majority of, the voting interest. As defined in applicable accounting standards, variable interest entities (VIEs) are entities that lack one or more of the characteristics of a voting interest entity. A controlling financial interest in an entity is present when an enterprise has a variable interest, or a combination of variable interest, that will absorb a majority of the entity's expected losses, receive a majority of the entity's expected residual returns, or both. The enterprise with a controlling financial interest, known as the primary beneficiary, consolidates the VIE. The Company's wholly owned subsidiary, HSB Statutory Trust I is a VIE for which the Company is not the primary beneficiary. Accordingly, the accounts of this entity are not included in the Company's consolidated financial statements.

Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain of the critical accounting estimates are more dependent on such judgment and in some cases may contribute to volatility in the Company's reported financial performance should the assumptions and estimates used change over time due to changes in circumstances. Actual results could differ from those estimates. The more significant areas in which management of the Company applies critical assumptions and estimates that are most susceptible to change in the short term include the calculation of the allowance for credit losses, the valuation of individually evaluated loans that do not fit within a portfolio segment, and the unrealized gain or loss on investment securities available-for-sale.

Securities Held-to-Maturity

Bonds, debt securities, notes, and debentures for which the Bank has the positive intent and ability to hold to maturity are reported at cost, adjusted for premiums and discounts that are recognized in interest income using methods approximating the interest method over the periods to maturity. Securities transferred into held-to-maturity from the available-for-sale portfolio are recorded at fair value at time of transfer with unrealized gains or losses reflected in equity and amortized over the remaining life of the security.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Securities Available-for-Sale

Debt securities designated as available-for-sale are stated at estimated fair value as determined by quoted market prices. They represent those securities, which management may decide to sell as part of the Bank's asset/liability strategy, or that may be sold in response to changing interest rates or liquidity needs. Changes in unrealized appreciation (depreciation) on securities available-for-sale are reported in other comprehensive income. Realized gains (losses) on securities available-for-sale are included in other income (expense) and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income. The gains and losses on securities sold are determined by the specific identification method. Premiums and discounts are recognized in interest income using the interest method over the period to maturity. Additionally, declines in the fair value of the individual investment securities below their cost that are other than temporary are reflected as realized losses in the consolidated statements of income.

Equity Securities and Other Securities

Equity securities with readily determinable fair values are carried at fair value, with changes in fair value reported in net income. Any equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments. The entirety of any impairment on equity securities is recognized in earnings.

Federal Home Loan Bank ("FHLB") stock is an equity interest in the FHLB, which does not have a readily determinable fair value because its ownership is restricted and it lacks a market. FHLB stock can be sold back only at its par value of \$100 per share and only to the FHLB or another member institution. FHLB stock is carried at cost and is periodically evaluated based on ultimate recovery of par.

Atlantic Community Bancshares, Inc. ("ACBI") common stock is an equity investment in ACBI. The shares are not registered and are subject to transfer restrictions. As the shares do not have a readily determinable fair value, the investment is carried at cost, less impairment, plus or minus changes resulting from observable price changes in orderly transactions for identical or similar investments.

FHLB stock and ACBI common stock are classified as restricted securities.

Mortgage Banking - Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Gains and losses on sales of mortgages are based on the difference between the selling price and the carrying value of the related loan sold. Gains and losses are recorded as a component of noninterest income in the consolidated statements of income.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Mortgage Banking - Servicing Assets

Servicing assets represent the allocated value of retained servicing rights on select loans sold. Servicing assets are recorded at fair value at the time of sale for the right to service the loans sold. Fair value is determined using a third-party proprietary discounted cash flow model. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using groupings of the underlying loans as to interest rates. Any impairment of a grouping is reported as a valuation allowance, to the extent that fair value is less than the capitalized amount for a grouping. At December 31, 2025 and 2024, the outstanding balance of loans serviced for others totaled **\$5,498,355** and \$5,325,000, respectively, and are not included in the accompanying consolidated balance sheet. At December 31, 2025 and 2024 the mortgage servicing rights associated with these outstanding balances were **\$44,065** and \$39,943, respectively, and are included with other assets in the consolidated balance sheets.

Loans Held for Investment

Loans held for investment are generally carried at the amount of unpaid principal, adjusted for unearned loan fees, which are amortized over the term of the loan using the effective interest rate method. Interest on loans is accrued based on the principal amounts outstanding. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status. When a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Cash collections on such loans are applied as reductions of the loan principal balance, and no interest income is recognized on those loans until the principal balance has been collected. Interest income on other nonaccrual loans is recognized only to the extent of interest payments received. The carrying value of nonaccrual loans is based on the present value of the loan's expected future cash flows or, alternatively, the observable market price of the loan or the fair value of the collateral, less any applicable selling costs.

Allowance for Credit Losses

The allowance for credit losses ("ACL") is a valuation account, measured as the difference between the amortized cost basis of loans and the net amount expected to be collected on loans, and represents the expected lifetime credit losses on loans. The ACL is maintained at a level believed adequate by management to absorb expected losses inherent in the loan portfolio and is based on the size and current risk characteristics of the loan portfolio, an assessment of individual problem loans, actual loss experience, the value of the underlying collateral, current economic events in specific industries and geographical areas, and other pertinent factors, including regulatory guidance and general economic conditions.

Determination of the ACL is inherently subjective, as it requires significant estimates, including the amounts and timing of historical loss experience and consideration of current economic trends, all of which may be susceptible to significant change. Loan losses are charged off against the ACL, while recoveries of amounts previously charged off are credited to the ACL. A provision for credit losses is charged to operations based on management's periodic evaluation of the factors previously mentioned, as well as other relevant factors. The amount of the ACL is based on ongoing, quarterly assessments by management.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses (Continued)

The Bank adopted ASU 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. This standard replaced the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (“CECL”) methodology. The Bank maintains an ACL for the expected credit losses of the loan portfolio as well as unfunded loan commitments. The CECL methodology requires an estimate of the credit losses over the life of a loan, or pooled loan segment, and replaced the previous “incurred” loss methodology’s threshold that delayed the recognition of a credit loss until it was probable that a loss event had incurred.

The ACL consists of the “allowance for credit losses – loans” and the “reserve for unfunded commitments”. The estimate of expected credit losses under the CECL methodology requires an estimate of credit losses for the remaining expected life of the financial asset using historical experience, current conditions, and reasonable and supportable forecasts and generally applies to financial assets measured at amortized cost, including loan receivables and some off-balance sheet credit exposures such as unfunded commitments to extend credit. An ACL is a valuation account that is deducted from or added to the amortized cost basis of financial assets to present the net amount expected to be collected over the contractual term of the assets.

The ACL reflects expected losses resulting from analyses developed through specific reserve allocations for individual loans and adjusted historical loss experience for each pooled loan segment. Portfolio segmentation is the process by which loans of similar risk characteristics are pooled together and is defined as the level at which the Bank develops and documents a systematic methodology to determine its ACL. The Bank segments its portfolio by FDIC Call Report codes. The historical loss experience is then determined for each pooled loan segment by annualizing the Bank’s net charge-offs from 2007, the beginning of the last economic cycle, through the most recent quarter. Consideration is then given as to whether the historical loss experience for each pooled loan segment should be adjusted for specific risks or current conditions at the reporting date that did not exist over the period for which it was determined. Nine qualitative factors and reasonable and supportable forecasts, made about future economic conditions or changes in collateral values, are used to determine these adjustments.

The Bank uses the Weighted Average Remaining Life (“WARM”) method to determine the historical loss experience for each pooled loan segment. The WARM method tracks charge-offs over the lives of the loans to determine an average historical charge-off rate for each pooled loan segment. The charge-off rate is then applied to future expected outstanding balances over the remaining lives of the loans to serve as a quantitative baseline for the historical loss rate. The Bank also considers qualitative adjustments to the historical loss rate for each pooled loan segment. The qualitative adjustments for each pooled loan segment consider the conditions over the look-back period for which the historical loss experience was based, and are split into two components: 1) pooled loan segment-specific risk characteristics or current conditions at the reporting date related to portfolio credit quality, remaining payments, volume and nature of the portfolio, credit culture and management, business environment, or other management factors; and 2) reasonable and supportable forecasts of future economic conditions and collateral values.

When management deems it to be appropriate, the Bank establishes a specific reserve for individually evaluated loans that do not share similar risk characteristics with the loans included in each respective pooled loan segment. These individually evaluated loans are removed from their respective pools and typically represent nonaccrual or other nonperforming loans.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Other Real Estate Owned (OREO)

OREO comprises properties acquired in partial or total satisfaction of problem loans. The properties are recorded at the lower of cost or fair value (appraised value) at the date acquired. Losses arising at the time of acquisition of such properties are charged against the allowance for credit losses. Gains realized from the sale OREO totaled \$78,179 for 2024. Expenses of operation are included in other expenses as detailed in Note 12. Property acquired through foreclosure proceedings totaled **\$404,174** and \$340,559 at December 31, 2025 and 2024, respectively. The Bank did not finance any sales of OREO during 2025 or 2024. At December 31, 2025 and 2024, loans secured by residential real estate properties in process of foreclosure totaled approximately **\$543,000** and \$261,000, respectively.

Reserve for Unfunded Commitments

The reserve for unfunded commitments is established through a provision for unfunded commitments charged to other expenses. The reserve is calculated by utilizing the same methodology and factors as the allowance for credit losses. The reserve, based on evaluations of the collectability of loans and prior loan loss experience, is an amount that management believes will be adequate to absorb possible losses on unfunded commitments (off-balance sheet financial instruments) that may become uncollectible in the future.

Long-Lived Assets

The carrying value of long-lived assets and certain identifiable intangibles, including goodwill, is reviewed by the Bank for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, as prescribed in ASU 2011-10, *Property, Plant and Equipment (Topic 360)*.

Premises, Equipment, and Depreciation

Land is carried at cost. Other premises and equipment are carried at cost net of accumulated depreciation. Depreciation is computed using the straight-line and accelerated methods over the estimated useful lives of the assets. Estimated useful lives of buildings and land improvements, and furniture and equipment range from 5 – 50 years and 5 – 15 years, respectively. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

Income Taxes

The provision for federal and state income taxes is based upon the results of operations, adjusted for tax exempt income. Deferred income taxes are provided for the temporary differences between carrying amounts and tax basis of assets and liabilities and are measured at the enacted tax rates that will be in effect when the differences reverse.

Temporary differences, which give rise to deferred tax benefits, relate principally to the allowance for credit losses, lease liabilities, OREO property, accrued supplemental retirement benefits, accrued vacation, unearned income on loans and net unrealized depreciation on securities available-for-sale. Temporary differences, which give rise to deferred tax liabilities, relate principally to right-of-use assets, mortgage serving rights, and accumulated depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Income Taxes (Continued)

The benefit of an uncertain tax position is recognized in the financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination by the applicable taxing authority, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. Interest and penalties associated with unrecognized tax benefits are recognized as a component of income tax expense.

Revenue Recognition

Revenue from contracts with customers are presented under ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, and all subsequent ASUs that modified Topic 606. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams such as deposit related fees, interchange fees and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams in-scope of Topic 606 are discussed below.

Service Charges on Deposit Accounts. Service charges on deposit accounts consist of monthly service fees, check orders, and other deposit account related fees. The Company's performance obligation for monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Check orders and other deposit account related fees are largely transactional based, and therefore, the Company's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or at the end of the month through a direct charge to customers' accounts.

Other Noninterest Income. Other noninterest income consists of: fees, other service charges, safety deposit box rental fees, and other miscellaneous revenue streams. Fees and other service charges are primarily comprised of debit card income, ATM fees, merchant services income, and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Company's debit cards are processed through card payment networks. ATM fees are primarily generated when a Company cardholder uses a non-Company ATM. Merchant services income mainly represents fees charged to merchants to process their debit card transactions, in addition to account management fees. Other service charges include revenue from processing wire transfers, cashier's checks, and other services. The Company's performance obligation for fees and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment.

Credit Risk

The Bank has deposits in other financial institutions in excess of amounts insured by the Federal Deposit Insurance Corporation (FDIC). At December 31, 2025 and 2024, the balances carried in excess of the limit were **\$15,048,495** and \$4,781,941, respectively.

Cash and Cash Equivalents

The Bank has included cash and due from banks, Federal funds sold, and interest-bearing deposits in other banks with maturities less than three months as cash and cash equivalents for the purposes of reporting cash flows.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 1. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents (Continued)

The Bank had **\$48,086,081** and \$46,206,094 of cash on hand and on deposit with the Federal Reserve Bank as of December 31, 2025 and 2024, respectively. The amounts on deposit at the Federal Reserve Bank earn interest.

The Bank was required to maintain a non-interest bearing cash reserve at one of its correspondent banks against its corporate credit card account. Such reserve amounted to \$100,000 during the year ended December 31, 2024. The reserve requirement was lifted during 2025.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Other Comprehensive Income (Loss)

The Bank records unrealized gains and losses on available for sale securities in accumulated other comprehensive income, net of taxes. Unrealized gains and losses on available for sale securities are reclassified into earnings as the gains or losses are realized upon sale of the securities. The credit component of unrealized losses on available for sale securities that are determined to be other-than-temporary impaired are reclassified into earnings at the time the determination is made.

Advertising Costs

The Bank expenses advertising costs for the period in which they are incurred. The Bank incurred advertising costs totaling **\$91,218** and \$123,981, for the years 2025 and 2024, respectively.

Financial Statement Presentation

Certain amounts in the prior year's financial statements have been reclassified to conform to the current year's presentation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 2. Debt and Equity Securities

Securities available-for-sale are as follows:

	December 31, 2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and obligations of U.S. government agencies	\$ 22,975,602	\$ -	\$ 1,360,972	\$ 21,614,630
Obligations of States and political subdivisions	6,759,785	726	337,504	6,423,006
Mortgage-backed securities and CMOs	51,997,857	3,502	4,886,638	47,114,721
	\$ 81,733,244	\$ 4,228	\$ 6,585,114	\$ 75,152,357

	December 31, 2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and obligations of U.S. government agencies	\$ 23,368,611	\$ -	\$ 2,456,767	\$ 20,911,844
Obligations of States and political subdivisions	7,458,963	-	668,007	6,790,956
Mortgage-backed securities and CMOs	58,645,377	152	7,053,793	51,591,736
	\$ 89,472,951	\$ 152	\$ 10,178,567	\$ 79,294,536

The following is a summary of gross unrealized losses and fair values, aggregated by investment category and length of time that individual securities have been in continuous unrealized loss position:

	December 31, 2025					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and obligations of U.S. government agencies	\$ -	\$ -	\$ 21,614,630	\$ 1,360,972	\$ 21,614,630	\$ 1,360,972
Obligations of States and political subdivisions	-	-	5,752,649	337,504	5,752,649	337,504
Mortgage-backed securities and CMOs	-	-	45,839,968	4,886,638	45,839,968	4,886,638
Total securities with unrealized losses	\$ -	\$ -	\$ 73,207,248	\$ 6,585,114	\$ 73,207,248	\$ 6,585,114

	December 31, 2024					
	Less than 12 months		12 months or more		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury and obligations of U.S. government agencies	\$ 798,130	\$ 34,705	\$ 20,113,714	\$ 2,422,062	\$ 20,911,844	\$ 2,456,767
Obligations of States and political subdivisions	299,425	5,575	6,491,532	662,432	6,790,957	668,007
Mortgage-backed securities and CMOs	-	-	51,574,643	7,053,793	51,574,643	7,053,793
Total securities with unrealized losses	\$ 1,097,555	\$ 40,280	\$ 78,179,889	\$ 10,138,287	\$ 79,277,444	\$ 10,178,567

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 2. Debt and Equity Securities (Continued)

For individual securities classified as either available-for-sale or held-to-maturity, the Bank must determine whether a decline in fair value below the amortized cost basis is other than temporary. If the decline in fair value is considered to be other than temporary, the cost basis of the individual security shall be written down to the fair value as a new cost basis and the amount of the write-down shall be included in earnings (that is, accounted for as a realized loss). At December 31, 2025, the Bank held 28 obligations of U.S. government agencies, 6 U.S. Treasuries, 12 obligations of States and political subdivisions, 69 mortgage-backed securities, and 78 CMOs having continuous unrealized loss positions for more than 12 months. Management has reviewed the investments and determined through various valuation methods that the unrealized loss positions as of December 31, 2025 are temporary unrealized losses relating primarily to changes in market interest rates over the yields available at the time the underlying securities were purchased and that the losses are not due to reasons of credit quality.

In addition to the above analysis, management feels it has the ability and intent to hold the securities for a period of time sufficient for a recovery of their amortized cost basis.

The Company did not sell any debt securities available-for-sale during 2025. The Company recorded a loss of \$199,807 on debt securities available-for-sale sold during 2024.

Equity securities with a fair value of **\$5,345,365** at December 31, 2025 and \$5,046,578 at December 31, 2024 are presented separately on the balance sheet. The Company recorded a gain of **\$127,181** and a loss of \$45,999 on the equity securities during the years ended December 31, 2025 and 2024, respectively, related to changes in the fair value on the equity securities.

Contractual maturities of investment securities at December 31, 2025 and December 31, 2024 are shown below. Actual maturities may differ from contractual maturities because debtors may have the right to call or prepay obligations with or without call or prepayment penalties. Mortgage-backed securities have no stated maturity and primarily reflect investments in various Pass-through and Participation Certificates issued by the Federal National Mortgage Association and the Government National Mortgage Association. Repayment of mortgage-backed securities is affected by the contractual repayment terms of the underlying mortgages collateralizing these obligations and the current level of interest rates.

The following is a summary of maturities of securities available-for-sale:

	December 31, 2025	
	Securities	
	Available-for-Sale	
	Amortized	Fair
	Cost	Value
Amounts maturing:		
One year or less	\$ 21,297,105	\$ 20,116,230
After one year through five years	38,465,731	36,396,637
After five years through ten years	21,970,407	18,639,490
After ten years	-	-
	\$ 81,733,244	\$ 75,152,357

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 2. Debt and Equity Securities (Continued)

	December 31, 2024	
	Securities	
	Available-for-Sale	
	Amortized	Fair
Amounts maturing:	Cost	Value
One year or less	\$ 19,280,800	\$ 17,246,010
After one year through five years	44,002,995	40,536,714
After five years through ten years	26,189,156	21,511,812
After ten years	-	-
	\$ 89,472,951	\$ 79,294,536

The Bank has pledged certain debt securities as collateral for deposits of certain government agencies and municipalities, as well as to secure borrowing capacity at a correspondent bank and the Federal Reserve Bank. The carrying value of the pledged securities totaled **\$9,289,201** and \$8,923,289 at December 31, 2025 and 2024, respectively.

Note 3. Bank Owned Life Insurance

The Bank has purchased bank owned life insurance policies on certain current and former employees as a means to generate tax-exempt income which is used to offset a portion of current and future employee benefit costs. Bank owned life insurance is recorded at the cash surrender value of the policies. Changes in the cash surrender value are included in noninterest income. The cash surrender value of the bank owned life insurance policies totaled **\$18,481,648** and \$17,929,422 at December 31, 2025 and 2024, respectively.

Note 4. Loans and Allowance for Credit Losses

The Bank makes loans to customers primarily throughout the Lower Eastern Shore of Maryland and Lower Sussex County of Delaware. The principal categories of the loan portfolio are as follows:

	2025	2024
Real estate loans:		
Construction	\$ 98,420,684	\$ 94,272,932
Residential Mortgages	176,130,639	178,558,498
Commercial Mortgages	302,062,566	260,686,290
	576,613,889	533,517,720
Commercial & industrial loans	44,255,011	41,183,544
Consumer loans	7,082,281	3,338,456
	627,951,181	578,039,720
Less: unearned income on loans	1,215,539	671,642
	626,735,642	577,368,078
Less: allowance for credit losses	8,508,560	8,600,000
	\$ 618,227,082	\$ 568,768,078

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 4. Loans and Allowance for Credit Losses (Continued)

Management has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the ACL, the Bank segments its loan portfolio by FDIC Call Report codes. For reporting purposes, these loan segments are aggregated by the following product types: Real Estate Loans, Commercial and Industrial, and Consumer. Real estate loans are further divided into the following three classes: Construction (which includes construction, land development, and other land loans), Residential Mortgages, and Commercial Mortgages. Pooled loan segments are reviewed and analyzed quarterly using the Bank's annualized net charge-offs from January 1, 2007, to the most recent quarter-end. The quantitative historical loss rate is then adjusted for reasonable and supportable economic forecasts and the following qualitative factors:

1. Changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices.
2. Changes in the experience, depth, and ability of management.
3. Changes in the quality of the loan review system.
4. Changes in the concentrations of credit within the pool.
5. Changes in the nature, volume, and growth rate of the loan portfolio.
6. Trends in past due, non-accrual, and adversely classified loans not captured in the pools.
7. Changes in the value of the underlying collateral for collateral-dependent loans.
8. Changes in competition, legal, and regulatory factors.
9. Imprecision risk of the economic outlook and model.

In accordance with ASU 2016-13 individually evaluated loans that do not fit within a portfolio segment are specifically identified and individually analyzed to determine the amount of their expected loss. Loans with a balance of \$75,000 or greater that are either on nonaccrual or risk rated substandard, doubtful or loss are individually analyzed to determine their valuation and reserve amounts. The establishment of a specific reserve does not necessarily mean that the loan with the specific reserve will definitely incur loss at the reserve level. It is only an estimation of potential loss based upon anticipated events. A specific reserve will not be established unless loss elements can be determined and quantified based on known facts.

The total ACL reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2025 and 2024.

In the normal course of loan portfolio management, loan originators are responsible for the continuous assessment of credit risk arising from the individual borrowers within their portfolio and for assigning appropriate risk ratings. Credit Administration is responsible for the subsequent review and approval of the risk ratings and for ensuring the integrity and operation of the risk rating system and maintenance of the Bank's Watch List. The Bank contracts with an independent third-party loan review firm that reviews and validates the internal credit risk program on a quarterly basis. Results of these reviews and management's responses are presented to the Bank's Audit Committee for review and approval. The loan review process complements and reinforces the risk identification and assessment decisions made by loan originators and credit personnel as well as the Bank's policies and procedures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 4. Loans and Allowance for Credit Losses (Continued)

The activity in the ACL for 2025 and 2024 is as follows:

	December 31, 2025						
	Real Estate Loans			Commercial and		Immaterial	
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Difference	Total
Beginning Balance	\$ 1,830,083	\$ 2,863,509	\$ 2,923,372	\$ 848,434	\$ 115,393	\$ 19,209	\$ 8,600,000
Charge-offs	-	(2,449)	-	-	(94,065)	-	(96,514)
Recoveries	-	5,225	-	40,118	10,230	-	55,573
Provision	(145,933)	(92,922)	474,711	(476,455)	209,309	(19,209)	(50,499)
Ending Balance	1,684,150	2,773,363	3,398,083	412,097	240,867	-	8,508,560

Ending Balance of:

Individually evaluated for impairment:

Related loan balance	-	468,232	489,487	339,934	-	-	1,297,653
Balance in allowance	-	-	-	-	-	-	-

Collectively evaluated for impairment:

Related loan balance	98,420,684	175,662,407	301,573,079	43,915,077	7,082,281	-	626,653,528
Balance in allowance	1,684,150	2,773,363	3,398,083	412,097	240,867	-	8,508,560

Total

Related loan balance	98,420,684	176,130,639	302,062,566	44,255,011	7,082,281	-	627,951,181
Balance in allowance	1,684,150	2,773,363	3,398,083	412,097	240,867	-	8,508,560

	December 31, 2024						
	Real Estate Loans			Commercial and		Immaterial	
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	Difference	Total
Beginning Balance	\$ 1,951,732	\$ 2,964,240	\$ 2,764,249	\$ 1,053,466	\$ 33,253	\$ (166,940)	\$ 8,600,000
Charge-offs	-	(24,221)	(974)	(74,029)	(243,526)	-	(342,750)
Recoveries	-	93,376	974	25,333	4,944	-	124,627
Provision	(121,649)	(169,886)	159,123	(156,336)	320,722	186,149	218,123
Ending Balance	1,830,083	2,863,509	2,923,372	848,434	115,393	19,209	8,600,000

Ending Balance of:

Individually evaluated for impairment:

Related loan balance	-	755,345	694,153	2,090,099	-	-	3,539,597
Balance in allowance	-	-	-	523,803	-	-	523,803

Collectively evaluated for impairment:

Related loan balance	94,272,932	177,803,153	259,992,137	39,093,445	3,338,456	-	574,500,123
Balance in allowance	1,830,083	2,863,509	2,923,372	324,631	115,393	19,209	8,076,197

Total

Related loan balance	94,272,932	178,558,498	260,686,290	41,183,544	3,338,456	-	578,039,720
Balance in allowance	1,830,083	2,863,509	2,923,372	848,434	115,393	19,209	8,600,000

Estimating the appropriate ACL involves a high degree of management judgment. The Bank's process for determining the appropriate ACL may result in a range of estimates for expected credit losses. As such, the Bank has established a tolerance level between the ACL calculation and the actual balance in the allowance. As of December 31, 2024, the ACL included an immaterial difference of \$19,209 which was within the tolerance level established by Bank policy at that time. The Bank no longer maintains a tolerance level for this calculation.



NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 4. Loans and Allowance for Credit Losses (Continued)

Following is an aging analysis by loan class and amount as of December 31, 2025 and 2024:

December 31, 2025							
	Real Estate Loans			Commercial and Industrial		Consumer	Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer		
30-89 Days Past Due	\$ -	\$ 1,156,013	\$ -	\$ -	\$ -	\$ 326	\$ 1,156,339
Greater than 90 Days Past Due	-	-	-	-	-	-	-
Nonaccrual loans - non current	-	343,760	-	-	-	-	343,760
Total Past Due	-	1,499,773	-	-	-	326	1,500,099
Current nonaccrual loans	-	375,741	-	339,934	-	12,035	727,710
Current accrual loans	98,420,684	174,255,125	302,062,566	43,915,077	-	7,069,920	625,723,372
Total Loans	\$ 98,420,684	\$ 176,130,639	\$ 302,062,566	\$ 44,255,011	\$ -	\$ 7,082,281	\$ 627,951,181

December 31, 2024							
	Real Estate Loans			Commercial and Industrial		Consumer	Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer		
30-89 Days Past Due	\$ -	\$ 1,565,894	\$ -	\$ 200,441	-	\$ 2,151	\$ 1,768,486
Greater than 90 Days Past Due	-	-	-	-	-	-	-
Nonaccrual loans - non current	-	654,686	174,336	-	-	-	829,022
Total Past Due	-	2,220,580	174,336	200,441	-	2,151	2,597,508
Current nonaccrual loans	-	178,495	-	-	-	-	178,495
Current accrual loans	94,272,932	176,159,423	260,511,954	40,983,103	-	3,336,305	575,263,717
Total Loans	\$ 94,272,932	\$ 178,558,498	\$ 260,686,290	\$ 41,183,544	\$ -	\$ 3,338,456	\$ 578,039,720

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 4. Loans and Allowance for Credit Losses (Continued)

The Bank's policies, consistent with regulatory guidelines, provide for the classification of loans that are considered to be of lesser quality as special mention, substandard, or doubtful assets. Special mention is a warning or watch classification, which portrays one or more deficiencies in the credit quality of the borrower or the pledged collateral. Substandard loans include loans with a high loan-to-value ratio or credits that are unable to adjust due to unfavorable industry or economic conditions. Loans classified as doubtful are critical credits with an element of probable loss and insufficient collateral. The risk ratings are adjusted, as necessary, if loans become delinquent, if significant adverse information is discovered regarding the underlying credit, and/or if the normal periodic reviews of the underlying credits indicate that a change in risk rating is appropriate. A summary of the risk rating of loans receivable as of December 31, 2025 and 2024 is as follows:

December 31, 2025						
	Real Estate Loans			Commercial and		Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	
Pass	\$ 96,598,075	\$ 172,069,276	\$ 279,780,873	\$ 42,231,290	\$ 7,070,246	\$ 597,749,760
Special Mention	775,349	2,153,663	21,792,206	1,607,472	-	26,328,690
Substandard	1,047,260	1,907,700	489,487	416,249	12,035	3,872,731
Doubtful	-	-	-	-	-	-
	\$ 98,420,684	\$ 176,130,639	\$ 302,062,566	\$ 44,255,011	\$ 7,082,281	\$ 627,951,181

December 31, 2024						
	Real Estate Loans			Commercial and		Total
	Construction	Residential Mortgages	Commercial Mortgages	Industrial	Consumer	
Pass	\$ 91,955,307	\$ 175,066,864	\$ 237,214,573	\$ 38,849,386	\$ 3,338,456	\$ 546,424,586
Special Mention	1,482,798	1,360,958	20,039,312	119,717	-	23,002,785
Substandard	834,827	2,130,676	3,432,405	2,214,441	-	8,612,349
Doubtful	-	-	-	-	-	-
	\$ 94,272,932	\$ 178,558,498	\$ 260,686,290	\$ 41,183,544	\$ 3,338,456	\$ 578,039,720

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 4. Loans and Allowance for Credit Losses (Continued)

When management identifies a loan to be individually evaluated, the impairment is measured based on the fair value of the collateral, less applicable selling costs, or the present value of expected future cash flows, discounted at the loan's effective interest rate. If management determines that the value of the loan to be individually evaluated is less than the carrying value of the loan, impairment is recognized through a reserve amount or charge-off to the ACL. The total ACL reflects management's estimate of loan losses inherent in the loan portfolio as of December 31, 2025 and 2024.

Individually evaluated loans as of December 31, 2025 and 2024, are as follows:

	December 31, 2025						
	Real Estate Loans			Commercial and Industrial		Consumer	Total
	Construction	Residential Mortgages	Commercial Mortgages				
Recorded Investment with a related allowance	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Recorded Investment with no related allowance	-	468,232	489,487	339,934	-	-	1,297,653
Total Recorded Investment	\$ -	\$ 468,232	\$ 489,487	\$ 339,934	\$ -	\$ -	\$ 1,297,653
Unpaid Principal Balance	\$ -	\$ 518,172	\$ 643,854	\$ 339,934	\$ -	\$ -	\$ 1,501,960
Related Allowance	-	-	-	-	-	-	-
Average Recorded Investment	-	471,291	504,652	344,967	-	-	1,320,910
Interest Income Recognized	-	12,860	47,303	41,751	-	-	101,914

	December 31, 2024						
	Real Estate Loans			Commercial and Industrial		Consumer	Total
	Construction	Residential Mortgages	Commercial Mortgages				
Recorded Investment with a related allowance	\$ -	\$ -	\$ -	\$ 2,090,099	\$ -	\$ -	\$ 2,090,099
Recorded Investment with no related allowance	-	755,345	694,153	-	-	-	1,449,498
Total Recorded Investment	\$ -	\$ 755,345	\$ 694,153	\$ 2,090,099	\$ -	\$ -	\$ 3,539,597
Unpaid Principal Balance	\$ -	\$ 801,030	\$ 674,184	\$ 2,090,099	\$ -	\$ -	\$ 3,565,313
Related Allowance	-	-	-	523,803	-	-	523,803
Average Recorded Investment	-	771,892	535,696	2,271,992	-	-	3,579,580
Interest Income Recognized	-	33,172	47,759	129,270	-	-	210,201

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loan reaches 90 days past due. When a loan is placed on nonaccrual status, the accrued unpaid interest receivable is reversed against interest income, and future payments are applied to principal. Loans are returned to accrual status when the borrower makes at least six regularly scheduled payments and the collectability is no longer doubtful. Information regarding these loans as of December 31, 2025 and 2024 is summarized as follows:

	Real Estate Loans			Commercial and Industrial		Consumer	Total
	Construction	Residential Mortgages	Commercial Mortgages				
	December 31, 2025	\$ -	\$ 719,501	\$ -	\$ 339,934	\$ 12,035	\$ -
December 31, 2024	\$ -	\$ 833,181	\$ 174,336	\$ -	\$ -	\$ -	\$ 1,007,517

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 4. Loans and Allowance for Credit Losses (Continued)

Management strives to identify borrowers in financial difficulty early and work with them to modify their loan to more affordable terms before their loan reaches nonaccrual status. These modified terms may include rate reductions, principal or interest forgiveness, or other actions intended to minimize the loss and to avoid foreclosure or repossession of the collateral.

On January 1, 2023, the Bank adopted ASU 2022-02, *Financial Instruments—Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates Troubled Debt Restructuring (“TDR”) recognition and measurement guidance and instead requires loan refinancing and restructuring guidance to determine whether a modification results in a new loan or a continuation of an existing loan. If a loan is modified for a borrower who is experiencing financial difficulties and the modifications are considered to be more than minor, the loan is subject to certain disclosure requirements outlined in ASU 2022-02. During 2025 and 2024 the Bank did not modify any loans for borrowers which met the disclosure requirements outlined in ASU 2022-02.

In the normal course of banking business, loans are made to senior officers and directors and their affiliated interests. In the opinion of management, these loans are consistent with sound banking practices, are within regulatory lending limitations, and do not involve more than the normal risk of collectability.

Loans to senior officers, directors, and their affiliates at December 31, 2025 and 2024 are summarized as follows:

	2025	2024
Loans, beginning	\$ 16,472,000	\$ 15,656,000
Additions	472,000	4,780,000
Repayments/eliminations	(3,437,000)	(3,964,000)
Loans, ending	\$ 13,507,000	\$ 16,472,000

Outstanding loan commitments and unused lines and letters of credit were approximately as follows:

	2025	2024
Loan commitments, including approved loans and unused lines of credit	\$ 135,478,000	\$ 102,526,000
Letters of credit	4,661,000	4,743,000

Loan commitments and lines of credit are agreements to lend to customers as long as there is no violation of any conditions of the contracts. Loan commitments generally have interest rates fixed at current market amounts, fixed expiration dates, and may require payment of a fee. Lines of credit generally have variable interest rates. Many of the loan commitments and lines of credit are expected to expire without being drawn upon; accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer’s creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management’s credit evaluation. Collateral held varies but may include deposits held in financial institutions, U.S. Treasury securities, other marketable securities, accounts receivable, inventory, property and equipment, personal residences, income-producing commercial properties, and land under development. Personal guarantees are also obtained to provide added security for certain commitments.

Letters of credit are commitments issued to guarantee the performance of a customer to a third party. Loan commitments and letters of credit are made on the same terms, including collateral, as outstanding loans. The Bank has accrued credit losses of **\$322,630** and \$375,000, respectively, related to these financial instruments with off-balance sheet risk in other liabilities at December 31, 2025 and 2024.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 5. Premises, Equipment, and Depreciation

Bank premises and equipment are as follows:

December 31, 2025				
	Cost	Accumulated Depreciation		Net
Land and construction in progress	\$ 4,438,748	\$ -	\$	4,438,748
Buildings and land improvements	11,684,495	4,452,340		7,232,155
Furniture and equipment	9,921,734	8,246,883		1,674,851
	\$ 26,044,977	\$ 12,699,223	\$	13,345,754
December 31, 2024				
	Cost	Accumulated Depreciation		Net
Land and construction in progress	\$ 4,756,387	\$ -	\$	4,756,387
Buildings and land improvements	9,990,769	4,377,067		5,613,702
Furniture and equipment	9,711,663	8,395,059		1,316,604
	\$ 24,458,819	\$ 12,772,126	\$	11,686,693

Depreciation expense totaled **\$664,484** and \$612,442 for the years ended December 31, 2025 and 2024, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 6. Income Taxes

Components of income tax expense for the years ended December 31, 2025 and 2024 are as follows:

	2025		2024
Currently payable			
Federal	\$ 3,174,317	\$	3,020,075
State	1,363,587		1,277,230
Total current	4,537,904		4,297,305
Deferred income benefits			
Federal	(140,660)		(41,856)
State	(60,228)		(17,922)
Total deferred	(200,888)		(59,778)
	\$ 4,337,016	\$	4,237,527

A reconciliation of tax computed at the federal statutory tax rate of 21% for the years ended December 31, 2025 and 2024 to the actual tax expense is as follows:

	2025		2024
Tax at federal statutory rate	\$ 3,609,896	\$	3,438,374
Tax effect of:			
Tax exempt income	(233,697)		(205,179)
Prior year deferred tax asset adjustment	(78,750)		-
Other	9,913		9,479
State income taxes, net of federal benefit	1,029,654		994,853
	\$ 4,337,016	\$	4,237,527

Income taxes included in other assets on the balance sheet are as follows:

	2025		2024
Federal income tax refund claims	\$ 801	\$	231,561
State income tax refund claims	117,200		130,787
Deferred tax assets:			
Allowance for credit losses	\$ 2,341,343	\$	2,366,505
Reserve for unfunded commitments	88,780		-
Lease liabilities	166,584		214,015
Accrued supplemental retirement benefits	45,358		21,031
Stock-based compensation	12,842		-
Accrued vacation	151,637		156,071
Other real estate owned	28,223		-
Unearned income on loans	253,237		125,582
Net unrealized depreciation on securities available-for-sale	1,810,895		2,800,845
	4,898,899		5,684,049
Deferred tax liabilities:			
Right-of-use assets	161,175		208,006
Mortgage servicing rights	12,126		10,992
Accumulated depreciation	173,761		124,152
	347,062		343,150
Net deferred income tax assets	\$ 4,551,837	\$	5,340,899

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 6. Income Taxes (Continued)

Management has determined that no valuation allowance is required as it believes it is more likely than not that all of the deferred tax assets will be fully realizable in the future. At December 31, 2025 and 2024, management believes there are no uncertain tax positions under ASC Topic 740 Income Taxes. The Bank's federal and state income tax returns for 2022, 2023, and 2024 are subject to examination by the IRS and/or state tax authorities, generally for three years after they were filed. The 2025 income returns will be filed in 2026.

Note 7. Junior Subordinated Debentures owed to Unconsolidated Subsidiary Trust

The Company sponsored a trust, HSB Statutory Trust I, of which 100% of the common equity is owned by the Company. Trust I was formed for the purpose of issuing Company-obligated mandatorily redeemable capital securities (the capital securities) to third-party investors and investing the proceeds from the sale of such capital securities solely in junior subordinated debt securities of the Company (the debentures). The debentures held by the trust are the sole assets of that trust. Trust I is a variable interest entity (VIE), however, since the Company is not the primary beneficiary of this arrangement, the accounts of this entity are not included in the consolidated financial statements. Distributions on the capital securities issued by the trust are payable quarterly with a floating rate of 3-month LIBOR plus 1.85%. Effective July 3, 2023 the 3-month LIBOR was replaced with the 3-month SOFR plus .26161%. The capital securities are subject to mandatory redemption, in whole or in part, upon repayment of the debentures. The Company has entered into agreements which, taken collectively, fully and unconditionally guarantee the capital securities subject to the terms of each of the guarantees. Both the capital securities of the statutory trust and the junior subordinated debentures are scheduled to mature on June 2035, unless called by the Company.

Despite the fact that HSB Statutory Trust I is not included in the Company's consolidated financial statements, the trust preferred securities issued by these subsidiary trusts are included in the Tier 1 capital of the Company for regulatory capital purposes. Federal Reserve Board rules limit the aggregate amount of restricted core capital elements (which includes trust preferred securities, among other things) that may be included in the Tier 1 capital of most bank holding companies to 25% of all core capital elements, including restricted core capital elements, net of goodwill less any associated deferred tax liability. Amounts of restricted core capital elements in excess of these limits generally may be included in Tier 2 capital. The current quantitative limits do not preclude the Company from including the \$3.0 million in trust preferred securities outstanding in Tier 1 capital.

Note 8. Deposits

Time deposits and their remaining maturities at December 31, 2025 are approximately as follows:

2026	\$	173,815,000
2027		11,719,000
2028		5,327,000
2029		6,992,000
2030		3,799,000
	\$	201,652,000

Interest expense on deposits for the years ended December 31, 2025 and 2024 is as follows:

	2025		2024
NOW, Super NOW and money market	\$ 1,260,632	\$	986,188
Savings	238,494		299,350
Time, more than \$250,000	841,425		792,791
Other time	5,149,191		3,935,988
	\$ 7,489,742	\$	6,014,317

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 8. Deposits (Continued)

Deposit balances of senior officers and directors and their affiliated interests totaled **\$14,010,274** and \$13,883,372 at December 31, 2025 and 2024, respectively.

Overdraft deposit balances, included in loans, totaled **\$106,624** and \$99,213 at December 31, 2025 and 2024, respectively.

The Bank began offering time deposits through the Certificate of Deposit Account Registry Service (CDARS) in 2019 through a third-party provider. These deposits totaled **\$18,519,543** and \$18,461,459 at December 31, 2025 and 2024, respectively, and are included in other time deposits on the balance sheet.

Note 9. Benefit Plans

The Bank has a 401(k) profit sharing plan covering substantially all full-time employees. The plan requires the Bank to match employee contributions up to 5% of compensation, as defined under the plan, and permits additional contributions at the discretion of management.

Expense under this plan totaled **\$348,267** and \$332,999 for the years ended December 31, 2025 and 2024, respectively.

The Bank maintains a Supplemental Executive Retirement Plan ("SERP") to provide certain additional retirement benefits to participating executives. The SERP is designed to provide post-retirement benefits to supplement other sources of retirement income such as social security and 401(k) benefits. The benefits will be paid for a period of 20 years after retirement. The annual amount of the benefits is based upon the participating executives' years of completed service. In order to receive the full annual benefit, by the participating executives' separation from service, they must complete at least ten years of service. The Bank accrues the cost of these post-retirement benefits during the working career of the executives. As of December 31, 2025 and 2024, the SERP accumulated liability totaled **\$164,834** and \$72,428, respectively. For the years ended December 31, 2025 and 2024, the Bank recognized expense of **\$88,406** and \$40,434, respectively, related to the SERP. Benefits expected to be paid in 2026 are \$0.

Note 10. Stock-Based Compensation

In July 2024, the Company's Board of Directors adopted the HSB Bancorp, Inc. 2024 Equity Incentive Plan (the "2024 Equity Plan"), which provides for the issuance of up to 75,000 shares of the Company's common stock to directors, officers, and employees. The 2024 Equity Plan will remain in effect until terminated by the Board of Directors.

As of December 31, 2024, no equity awards had been granted under the 2024 Equity Plan, and 75,000 shares remained available for issuance.

The Company's common stock is not publicly traded. The grant-date fair value of equity awards is determined by the Board of Directors in good faith based on the average of known arm's-length trades during the twelve months preceding the grant date, excluding the highest and lowest trades.

During the year ended December 31, 2025, the Company granted 1,703 restricted stock units to outside directors, in connection with the achievement of certain 2024 metrics. These awards were fully vested on the grant date and had a grant-date fair value of **\$58,771**. The Company recognized **\$58,771** of share-based compensation expense during the year ended December 31, 2025 related to these awards.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 10. Stock-Based Compensation (Continued)

During the year ended December 31, 2025, outside directors elected to receive a portion of their annual cash retainer in equity under the Company's 2024 Equity Plan. Accordingly, the Company recognized share-based compensation expense and recorded accrued share-based compensation of **\$46,667** as of December 31, 2025, representing the fixed dollar value of equity awards earned but not yet issued based on the elected portion of the directors' annual retainer.

The number of shares to be issued will be determined on the issuance date based on the fair value of the Company's common stock at that time. These equity awards are expected to be issued in 2026.

As of December 31, 2025, a total of 73,297 shares remained available for issuance under the 2024 Equity Plan.

Subsequent to December 31, 2025, the Company granted 5,405 restricted stock units of the Company's common stock to certain executive officers and employees of Hebron Savings Bank. The restricted stock units had a grant-date fair value of \$221,028, based on a weighted-average stock price of \$40.88. The awards will cliff vest after three years of service. Compensation expense related to these awards will be recognized over the requisite service period.

Note 11. Lease Commitments

The Company adopted ASU 2016-02, *Leases (Topic 842)*, on January 1, 2022, using a modified-retrospective approach, whereby comparative periods were not restated. No cumulative effect adjustment to the opening balance of retained earnings was required. The Company also elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things allowed the Company to carry forward the historical lease classifications. Additionally, the Company elected the hindsight practical expedient to determine the lease term for existing leases.

The Bank leases one of its branch facilities and the land on which one of its branch facilities resides. These leases are classified as operating leases. Leases with an initial term of 12 months or less, as well as leases with a discounted present value of future cash flows below \$25,000, are not recorded on the consolidated balance sheet, and the related lease expense is recognized over the lease term. The Company has elected the practical expedient to not recognize short-term leases on the consolidated balance sheet and instead account for them as executory contracts.

During 2025, the Bank paid out and terminated its lease for a portion of a parking lot at one of its branch facilities. Any remaining lease obligation associated with this arrangement was fully settled in 2025, and no lease asset or liability related to this lease remained outstanding as of year-end.

Certain leases include options to renew, with renewal terms that can extend the lease term, typically for five years. Lease assets and liabilities include related renewal options that are reasonably certain of being exercised. The Company has determined that it will place a limit on exercises of available lease renewal options that would extend the lease term up to a maximum of fifteen years, from the adoption date of ASU 2016-02. The life of leased assets is limited by the expected lease term. Variable payments for the Company's proportionate share of property taxes are not included in lease payments used to determine lease liability and are recognized as variable costs when incurred.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 11. Lease Commitments (Continued)

The following tables present information about the Company's leases for the years ended December 31, 2025 and December 31, 2024:

	2025	2024
Balance Sheet		
Operating Lease Amounts		
Right-of-use asset	\$ 585,719	\$ 755,906
Lease liability	605,374	777,741
Income Statement		
Operating lease cost classified as premises and equipment	\$ 122,087	\$ 104,064
Weighted average lease term - Operating Leases (Yrs.)	8.56	9.44
Weighted average discount rate - Operating Leases (1)	2.16%	2.15%
Operating outgoing cash flows from operating leases	\$ 124,266	\$ 98,569

(1) The discount rate was developed by using the fixed rate credit advance borrowing rate at the Federal Home Loan Bank of Atlanta for a term correlating to the remaining term of each lease. Management believes this rate closely mirrors its incremental borrowing rate for similar terms.

Minimum lease payments for the next five years and thereafter, assuming renewal options are exercised, are as follows:

2026	\$ 82,334
2027	83,552
2028	86,481
2029	87,761
2030	89,073
2031 and thereafter	232,267
Total undiscounted cash flows	661,468
Less: Discount	(56,094)
Lease Liabilities	\$ 605,374

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 12. Other Operating Expenses

Other operating expenses include the following:

	2025	2024
Advertising and marketing	\$ 139,051	\$ 180,057
ATM and debit card processing	953,505	828,478
Bank service charges	103,959	98,447
Courier and travel	275,178	232,258
Data processing outsourced	748,335	629,523
Directors' fees	348,750	469,171
Donations	105,407	94,633
Dues and subscriptions	138,020	109,960
FDIC and Maryland assessments	428,961	389,615
Insurance	166,438	171,654
Loan collection and OREO operating	121,859	94,711
Long and short	(48,659)	4,658
Other fees	63,113	56,416
Postage	162,405	161,717
Professional services	599,501	642,754
Seminars	62,864	61,583
Stationery, printing, and supplies	392,031	385,013
Telephone	313,696	348,044
Reverse provision for unfunded commitments	(52,370)	-
Miscellaneous	6,186	20,000
	\$ 5,028,230	\$ 4,978,692

Note 13. Borrowings and Credit Facilities

The Bank has borrowings from the FHLB totaling **\$6,394,695** and \$8,443,616 at December 31, 2025 and 2024, respectively. Interest rates on the borrowings are fixed and range from .9125% to 5.94%, maturing at various dates through August 2038. Based on lendable collateral value, the Bank has available for future borrowings approximately **\$65,000,000** and \$63,000,000 at December 31, 2025 and 2024, respectively. The Bank has pledged approximately **\$108,000,000** and \$112,000,000 at December 31, 2025 and 2024, respectively, of its wholly owned residential (1-4 units) first mortgage loan portfolio, as collateral for this credit facility. The Bank has purchased stock of the FHLB as a condition for obtaining a credit facility from the FHLB.

At December 31, 2025, the scheduled maturities of borrowings are approximately as follows:

2026	\$ 1,390,000
2027	1,590,000
2028	1,280,000
2029	-
2030	-
2031 and thereafter	2,135,000
	\$ 6,395,000

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 13. Borrowings and Credit Facilities (Continued)

Additionally, the Bank has two unsecured credit facilities, each with borrowing availability of \$10.0 million, with correspondent banks and a secured credit availability of \$8,000,000 with another correspondent bank for short-term liquidity needs, if necessary. The secured credit facility must be collateralized with securities at the time of usage. At December 31, 2025 and 2024, there were no borrowings outstanding under the unsecured or secured credit facilities. At December 31, 2025, securities pledged under the secured credit facility had an amortized cost and fair value of \$41,690 and \$39,330, respectively. At December 31, 2024, securities pledged under the secured credit facilities had an amortized cost and fair value of \$55,690 and \$51,143, respectively.

Note 14. Regulatory Capital Requirements

The Company and the Bank are subject to various regulatory capital requirements administered by federal and state banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary, actions by regulators that, if undertaken, could have a direct material effect on the individual and consolidated financial statements. The Company and the Bank must meet specific capital adequacy guidelines that involve quantitative measures of the assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The Common Equity Tier 1, Tier 1 and Total capital ratios are calculated by dividing the respective capital amounts by risk-weighted assets. Risk-weighted assets are calculated based on regulatory requirements and include total assets, with certain exclusions, allocated by risk weight category, and certain off-balance-sheet items, among other things. The leverage ratio is calculated by dividing Tier 1 capital by adjusted quarterly average total assets, which exclude goodwill and other intangible assets, among other things.

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

The capital conservation buffer is designed to absorb losses during periods of economic stress and, as detailed above, effectively increases the minimum required risk-weighted capital ratios. The Basel III Capital Rules also provide for a "countercyclical capital buffer" that is applicable to only certain covered institutions and does not have any current applicability to the Company or Bank. Banking institutions with a ratio of Common Equity Tier 1 capital to risk-weighted assets below the effective minimum (4.5% plus the capital conservation buffer and, if applicable, the countercyclical capital buffer) will face constraints on dividends, equity repurchases and compensation based on the amount of the shortfall.

Management believes, as of December 31, 2025 and 2024, that the Company and Bank meet all capital adequacy requirements to which it is subject. The most recent notification from the FDIC categorized the Bank as "well capitalized" under the regulatory framework for prompt corrective action. To be categorized as "well capitalized" the Bank must maintain minimum Common Equity Tier 1, Tier 1 and Total capital to risk-weighted assets and Tier I leverage ratios. There have been no conditions or events since that notification that management believes have changed the Bank's category.

As discussed in Note 7, the capital securities held by the HSB Statutory Trust I qualifies as Tier 1 capital for the Company under Federal Reserve Board guidelines.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 14. Regulatory Capital Requirements (Continued)

A comparison of capital as of December 31, 2025 and 2024 for the Company and Bank is presented below. The minimum required capital amounts presented include the minimum required capital levels as of December 31, 2025 and December 31, 2024. Capital amounts and ratios for minimum capital adequacy presented in the following table do not include capital conservation buffers. Capital levels required to be considered well capitalized are based upon prompt corrective action regulations, as amended to reflect the changes under the Basel III Capital Rules.

As of December 31, 2025	Actual		For Minimum Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)						
Company	\$ 115,707,000	17.0%	\$ 54,450,000	8.0%	\$ -	N/A
Bank	115,647,000	16.9%	54,841,000	8.0%	68,552,000	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	107,193,000	15.7%	40,861,000	6.0%	-	N/A
Bank	107,074,000	15.6%	41,130,000	6.0%	54,839,000	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Company	104,193,000	15.3%	30,645,000	4.5%	-	N/A
Bank	107,074,000	15.6%	30,847,000	4.5%	44,557,000	6.5%
Tier I Capital (to Average Assets)						
Company	107,193,000	13.1%	32,631,000	4.0%	-	N/A
Bank	107,074,000	13.1%	32,620,000	4.0%	40,775,000	5.0%

As of December 31, 2024	Actual		For Minimum Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Total Capital (to Risk-Weighted Assets)						
Company	\$ 104,401,000	17.2%	\$ 48,530,000	8.0%	\$ -	N/A
Bank	104,306,000	17.2%	48,525,000	8.0%	60,656,000	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Company	96,802,000	16.0%	36,392,000	6.0%	-	N/A
Bank	96,707,000	15.9%	36,394,000	6.0%	48,525,000	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Company	93,802,000	15.5%	27,303,000	4.5%	-	N/A
Bank	96,707,000	15.9%	27,295,000	4.5%	39,427,000	6.5%
Tier I Capital (to Average Assets)						
Company	96,802,000	12.6%	30,853,000	4.0%	-	N/A
Bank	96,707,000	12.5%	30,839,000	4.0%	38,549,000	5.0%

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 14. Regulatory Capital Requirements (Continued)

According to FDIC capital guidelines, the Bank is considered to be "Well Capitalized."

Under Maryland banking law, the Board of Directors may declare cash dividends from undivided profits after providing for expenses, losses, interest and taxes accrued or due.

Note 15. Stock Repurchase Program

During 2025, the Company repurchased 10,891 shares of its common stock for an aggregate cost of approximately **\$498,000**. All shares repurchased were retired and returned to authorized but unissued shares, resulting in a reduction of shareholders' equity.

The repurchases were made pursuant to a stock repurchase program authorized by the Company's Board of Directors and subject to a non-objection from the Federal Reserve Bank, which permits the Company to repurchase up to the lesser of 75,000 shares or \$3,000,000 of its common stock through December 31, 2026.

Note 16. Fair Values of Financial Instruments

Disclosure about Fair Value of Financial Instruments ("ASC Topic 825") requires the disclosure of the estimated fair values of financial instruments. Quoted market prices, where available, are shown as estimates of fair values. Because no quoted market prices are available for a significant part of the Company's financial instruments, the fair values of such instruments have been derived based on the amount and timing of future cash flows and estimated discount rates.

Present value techniques used in estimating the fair value of many of the Company's financial instruments are significantly affected by the assumptions used. Fair values derived from using present value techniques are not substantiated by comparisons to independent markets and, in many cases, could not be realized in immediate settlement of the instruments.

ASC Topic 825 excludes certain financial instruments and all nonfinancial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 16. Fair Values of Financial Instruments (Continued)

The following table shows the estimated fair values and the related carrying values of the Bank's financial instruments at December 31, 2025 and 2024. Items that are not financial instruments are not included.

	2025		2024	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Financial assets:				
Cash and due from banks	\$ 10,146,062	\$ 10,146,062	\$ 10,465,539	\$ 10,465,539
Interest-bearing deposits in other banks	62,704,028	62,704,028	51,118,129	51,118,129
Debt securities available-for-sale	75,152,357	75,152,357	79,294,536	79,294,536
Equity securities	5,345,365	5,345,365	5,046,578	5,046,578
Loans held for sale	-	-	356,856	356,856
Loans, net	618,227,082	632,450,084	568,768,078	573,823,079
Accrued interest receivable	2,422,700	2,422,700	2,197,156	2,197,156
Federal Home Loan Bank stock	1,014,700	1,014,700	969,000	969,000
Common stock-Statutory Trust I	93,000	93,000	93,000	93,000
Cash value of life insurance	18,481,648	18,481,648	17,929,422	17,929,422
Financial liabilities:				
Deposits	\$ 700,243,161	\$ 662,085,152	\$ 652,934,059	\$ 610,743,055
Accrued interest payable	1,218,796	1,218,796	1,316,807	1,316,807
Short-term borrowings	1,390,400	1,390,400	269,432	269,432
Long-term borrowings	5,004,295	4,856,286	8,174,184	7,826,176
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	2,734,386	3,093,000	2,564,644
Unrecognized financial instruments:				
Commitments to extend credit	135,478,000	135,478,000	102,526,000	102,526,000
Standby letters of credit	4,661,000	4,661,000	4,743,000	4,743,000

For purposes of the above disclosures of estimated fair value, the following assumptions were used:

Cash and cash equivalents

The estimated fair value for cash and due from banks, interest-bearing deposits in other banks, and Federal funds sold is considered to approximate cost because of their short-term nature.

Investment Securities

Fair values for securities are based on quoted market prices, where available. If quoted market prices are not available, fair values are based on quoted market prices of comparable instruments. See Note 17 for further discussion.

Loans Held for Sale

Loans held for sale are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors.



Note 16. Fair Values of Financial Instruments (Continued)

Servicing Assets

The fair value of servicing assets is determined using a valuation model administered by a third party that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, servicing costs, forward curves, default rates, loss severities, and discount rates.

Loans

The estimated fair value for certain homogeneous categories of loans, such as residential mortgages, is based on the quoted market price for securities backed by similar loans, adjusted for differences in loan characteristics. The estimated fair value of other loans is determined by discounting future cash flows using current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

Deposits

The estimated fair value of deposits with no stated maturity, such as non-interest-bearing demand deposits, savings, NOW and super NOW accounts and money market accounts, is equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The fair value of certificates of deposit is based on the rates currently offered for deposits of similar maturities. The fair value estimates do not include the benefit that results from the low-cost funding provided by the deposit liabilities compared to the cost of borrowing funds in the market.

Borrowings

The estimated fair value approximates carrying value for short-term borrowings. The fair value of long-term fixed rate borrowings is estimated by discounting future cash flows using current interest rates currently offered for similar financial instruments.

Junior Subordinated Debentures

Fair value is usually estimated based on quoted market prices of similar instruments. If quoted market prices are not available the fair value is determined by using the discounted value of expected cash flows using market rates.

Other Assets and Liabilities

Other assets and liabilities of the Bank that are not defined as financial instruments are not included in the above disclosures, such as property and equipment. Also, non-financial instruments typically not recognized in the financial statements nevertheless may have value but are not included in the above disclosures. These include, among other items, the estimated earnings power of core deposit accounts, the trained work force, customer goodwill, and similar items.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 16. Fair Values of Financial Instruments (Continued)

The following table presents the carrying amount, fair value, and placement in the fair value hierarchy of the Bank's financial instruments not disclosed elsewhere as of December 31, 2025 and 2024. This table excludes financial instruments for which the carrying amount approximates fair value.

December 31, 2025					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Loans, net	\$ 618,227,082	\$ 632,450,084	-	-	\$ 632,450,084
Financial Liabilities:					
Deposits	700,243,161	662,085,152	-	662,085,152	-
Short-term borrowings	1,390,400	1,390,400	-	1,390,400	-
Long-term borrowings	5,004,295	4,856,286	-	4,856,286	-
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	2,734,386	-	2,734,386	-
December 31, 2024					
	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
Financial Assets:					
Loans held for sale	\$ 356,856	\$ 356,856	-	\$ 356,856	-
Loans, net	568,768,078	573,823,079	-	-	573,823,079
Financial Liabilities:					
Deposits	652,934,059	610,743,055	-	610,743,055	-
Short-term borrowings	269,432	269,432	-	269,432	-
Long-term borrowings	8,174,184	7,826,176	-	7,826,176	-
Junior subordinated debentures owed to unconsolidated subsidiary trust	3,093,000	2,564,644	-	2,564,644	-

Note 17. Fair Value Measurements

ASU 2022-03, *Fair Value Measurement (Topic 820)* provides a framework for measuring and disclosing fair value under generally accepted accounting principles. ASU 2022-03 requires disclosures about the fair value of assets and liabilities recognized in the balance sheet in periods subsequent to initial recognition, whether the measurements are made on a recurring basis (for example, available-for-sale investment securities) or on a nonrecurring basis (for example, individually evaluated loans and OREO).

ASC Topic 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASU 2022-03 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 17. Fair Value Measurements (Continued)

Fair Value Hierarchy

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

Level 2 – Valuation is based on observable inputs including quoted prices in active markets for similar assets or liabilities, quoted prices for identical or similar assets and liabilities in less active markets, and model-based valuation techniques for which significant assumptions can be derived primarily from or corroborated by observable data in the market.

Level 3 – Valuation is based on model-based techniques that use one or more significant inputs or assumptions that are unobservable in the market.

In determining the appropriate levels, the Bank performs a detailed analysis of assets and liabilities that are subject to ASU 2022-03.

The following table presents fair value measurements on a recurring basis as of December 31, 2025 and 2024:

December 31, 2025				
	Level 1	Level 2	Level 3	Fair Value
Securities available-for-sale:				
U.S. Treasury and obligations of U.S. government agencies	\$ -	\$ 21,614,630	\$ -	\$ 21,614,630
Obligations of States and political subdivisions	-	6,423,006	-	6,423,006
Mortgage-backed securities and CMOs	-	47,114,721	-	47,114,721
	-	75,152,357	-	75,152,357
Equity	5,345,365	-	-	5,345,365
Total	\$ 5,345,365	\$ 75,152,357	\$ -	\$ 80,497,722

December 31, 2024				
	Level 1	Level 2	Level 3	Fair Value
Securities available-for-sale:				
U.S. Treasury and obligations of U.S. government agencies	\$ -	\$ 20,911,844	\$ -	\$ 20,911,844
Obligations of States and political subdivisions	-	6,790,956	-	6,790,956
Mortgage-backed securities and CMOs	-	51,591,736	-	51,591,736
	-	79,294,536	-	79,294,536
Equity	5,046,578	-	-	5,046,578
Total	\$ 5,046,578	\$ 79,294,536	\$ -	\$ 84,341,114

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 17. Fair Value Measurements (Continued)

Level 1 securities are based on quoted market prices. When quoted market prices are not available, Level 2 securities are based on the data provider's logic matrix table for quoted market prices of comparable instruments. Level 3 securities are valued by default matrix pricing. The Company obtains fair value measurements from an independent pricing service.

The Bank had no significant transfers of available-for-sale securities in which the fair value measurements are valued on a recurring basis between Level 1 and Level 2 during the periods ending December 31, 2025 or 2024.

The Bank may also be required, from time to time, to measure certain other financial assets and liabilities at fair value on a non-recurring basis in accordance with GAAP. The following table presents fair value measurements on a non-recurring basis as of December 31, 2025 and 2024:

December 31, 2025					
	Amortized Cost	Allowance for Credit Losses	Carrying Amount	Fair Value	Fair Value Hierarchy
Individually evaluated loans	\$ 1,297,653	\$ -	\$ 1,297,653	\$ 1,297,653	Level 3
Other real estate owned	404,174	-	404,174	404,174	Level 2
	\$ 1,701,827	\$ -	\$ 1,701,827	\$ 1,701,827	

December 31, 2024					
	Amortized Cost	Allowance for Credit Losses	Carrying Amount	Fair Value	Fair Value Hierarchy
Individually evaluated loans	\$ 3,539,597	\$ 523,803	\$ 3,015,794	\$ 3,015,794	Level 3

The Bank is predominantly a cash flow lender with real estate serving as collateral on a majority of loans. In accordance with ASU 2010-20 *Receivables (Topic 310)*, individually evaluated loans are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. The Bank determines such fair values from independent appraisals. When appropriate, management may also reduce the independent appraised value based on the current listing price of real estate for sale, prior experience in selling similar real estate or other factors not considered in the independent appraisal. In addition, on non-collateral dependent individually evaluated loans the impairment is measured as the present value of expected future cash flows. All individually evaluated loans are classified as Level 3 inputs.

Non-Financial Assets and Non-Financial Liabilities:

The Corporation has no non-financial assets or non-financial liabilities measured at fair value on a recurring basis. Certain non-financial assets and non-financial liabilities typically measured at fair value on a non-recurring basis include foreclosed assets (upon initial recognition or subsequent impairment), non-financial assets and non-financial liabilities measured at fair value in the second step of a goodwill impairment test, and intangible assets and other non-financial long-lived assets measured at fair value for impairment assessment.

In accordance with ASU 2011-10, *Property, Plant and Equipment (Topic 360)*, foreclosed real estate (OREO) is adjusted to fair value, resulting in an impairment charge, which is included in earnings for the year. Foreclosed real estate, which is considered to be a non-financial asset, is valued using a market approach. The values are determined using current market prices of similar real estate assets, less costs to sell, which the Bank considers to be Level 2 inputs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 18. Date of Management's Review

In preparing the financial statements, the Bank has evaluated events and transactions for potential recognition or disclosure through January 28, 2026, the date that the financial statements were available to be issued.

Note 19. Parent Company Financial Information

Comparative Balance Sheets, Statements of Income, and Statements of Cash Flows for HSB Bancorp, Inc. (Parent Only) are presented below:

BALANCE SHEETS December 31, 2025 and 2024

	2025	2024
ASSETS		
Cash and due from banks	\$ 136,781	\$ 109,440
Investment in Bank	102,303,665	89,328,385
Investment in the HSB Statutory Trust I	93,000	93,000
Other assets	45,591	51,335
Total assets	\$ 102,579,037	\$ 89,582,160
LIABILITIES		
Borrowed funds from subsidiary	\$ 3,093,000	\$ 3,093,000
Accrued interest payable on borrowed funds	7,518	8,338
Total liabilities	3,100,518	3,101,338
STOCKHOLDERS' EQUITY		
Common stock	16,079	16,171
Surplus	5,761,710	6,201,001
Retained earnings	98,470,722	87,641,222
Accumulated other comprehensive loss	(4,769,992)	(7,377,572)
Total stockholders' equity	99,478,519	86,480,822
Total liabilities and stockholders' equity	\$ 102,579,037	\$ 89,582,160

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS



Note 19. Parent Company Financial Information (Continued)

The borrowed funds from subsidiary balance represents the junior subordinated debt securities payable to the wholly owned subsidiary trust that was deconsolidated as a result of applying the provisions of FIN 46. The Company continues to guarantee the capital securities issued by the trust, which totaled \$3,000,000 at December 31, 2025 (see Note 7 for further discussions on FIN 46R).

STATEMENTS OF INCOME Years Ended December 31, 2025 and 2024

	2025	2024
Dividend income from bank	\$ 2,714,695	\$ 2,246,498
Undistributed net income of bank	10,308,929	10,081,366
Other operating income	5,961	6,941
Other operating expenses	(221,984)	(250,191)
Income before taxes	12,807,601	12,084,614
Income tax benefits (*)	(45,365)	(51,084)
NET INCOME	\$ 12,852,966	\$ 12,135,698

(*) Benefits from filing a consolidated federal income tax return.

STATEMENTS OF CASH FLOWS Years Ended December 31, 2025 and 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 12,852,966	\$ 12,135,698
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed net income of subsidiary	(10,308,929)	(10,081,366)
Changes in assets or liabilities:		
Decrease (increase) in other assets	5,744	(1,674)
Decrease in liabilities	(820)	(1,324)
Net cash provided by operating activities	2,548,961	2,051,334
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid	(2,023,466)	(2,021,336)
Common shares repurchased	(498,154)	-
Net cash used in financing activities	(2,521,620)	(2,021,336)
Net increase in cash	27,341	29,998
Cash, beginning of year	109,440	79,442
Cash, end of year	\$ 136,781	\$ 109,440



HEBRON SAVINGS BANK – A REPORT TO THE COMMUNITY

With more than 115 years of history, Hebron Savings Bank remains deeply committed to the well-being of the communities we serve, exceptional customer service, and a loyal, engaged workforce. Over the past year, innovative strategies and thoughtful leadership have positioned Hebron Savings Bank as a leader in financial performance, corporate responsibility, and as a standout community bank on the eastern shore.

Our focus on the customer sets us apart. Providing service that goes beyond expectations is not an aspiration—it is our standard. Independent, third-party customer surveys reflect a 98% satisfaction rate, demonstrating that customers feel valued and supported. This level of care drives strong loyalty and retention, reinforcing our belief that good service strengthens both relationships and communities.

Community support is a cornerstone of Hebron Savings Bank. Through philanthropic giving, community event sponsorships, employee volunteerism, and innovative banking programs, the Bank actively invests in the places we call home. In 2025, Hebron Savings Bank donated more than \$81,000 to local nonprofit organizations, sponsored 196 community events, and employees volunteered over 4,000 hours. These efforts are meaningful not only to the community, but also to the employees who proudly support them. In a memorable example of leadership and commitment, CEO Jenn Poulsen even rappelled down “The Ross” building in downtown Salisbury to support the United Way. The people of the eastern shore know they can count on Hebron Savings Bank.

This year, Hebron Savings Bank was also honored as Large Business of the Year by the Salisbury Area Chamber of Commerce, recognizing the Bank’s growth, innovation, and dedication to superior customer service.

As a local bank, Hebron Savings Bank offers homebuyer programs designed to meet the unique needs of the shore communities, providing affordable options for first-time homebuyers, traditional mortgage solutions, and expert guidance for those building new homes. The commercial lending team is equally focused on supporting the regional business community, with expertise in agriculture, commercial development, business operations, and tailored lines of credit. Business Development Officers work closely with local entrepreneurs, multi-generational businesses, professional organizations, and agribusinesses.

Guided by a comprehensive strategic plan, the Bank continues to grow responsibly. Building on a legacy dating back to 1910, Hebron Savings Bank is a leading deposit holder within our four-county branch area of Wicomico, Dorchester, Somerset, and Worcester counties.

With more than 140 employees and an average tenure of nearly nine years, Hebron Savings Bank is proud to be a strong local employer. Our dedicated employees are the foundation of our culture, our service, and our continued success in the communities we serve.



*United Way of the Lower Eastern Shore Workplace Campaign. Our employees raised over \$15,000 for United Way!
2024-2025*



10th Anniversary Celebration of our branch located at 2801 Ocean Gateway, Cambridge, MD. Music, Food, and a Special \$500 donation to the Harriet Tubman Museum which runs the Harriet Tubman Museum and Educational Center. January 22, 2025



Grand Opening & Ribbon Cutting Ceremony of Hebron Savings Bank Berlin, 1006 Main Street Berlin, MD 21811. Hebron Savings Bank presented a special donation of \$1,000 to the Assateague Coastal Trust during the Grand Opening event. This donation recognizes the organization's efforts to protect the coastal environment and culture of the surrounding region. October 29, 2025



National Teach Children to Save Day - Our employees taught lessons about the importance of saving money to over 640 local students! April 24, 2025



Over the Edge for ALICE was a unique fundraising and awareness event organized by the United Way of the Lower Eastern Shore to support local residents classified as ALICE—which stands for Asset Limited, Income Constrained, Employed, those citizens who work but still struggle to afford basic needs.

In the event, participants (called "Edgers") raised money and then rappelled down the 14-story Ross building in downtown Salisbury, Maryland, using the dramatic activity to draw attention and funds for programs that help these hardworking neighbors move toward financial stability. May 2, 2025





BOARD OF DIRECTORS

HSB Bancorp, Inc. and Hebron Savings Bank



VICTOR H. LAWS III
Chairman of the Board

Victor H. Laws, III has been a practicing lawyer on the Lower Eastern Shore since 1978. The law firm is currently known as Laws, Insley & Benson, P.A. Among his professional highlights, Vic served as a United States Magistrate Judge (part-time) from 1988 to 2012 and has been a member of the Maryland Supreme Court's Standing Committee on the Rules of Practice and Procedure since 2016.

Vic was first elected to the Board of Directors of Hebron Savings Bank in 1987 and has been re-elected annually to boards of the Bank and its holding company since then. Vic has served as Chairman of the Board since 2019.

Vic has been a trustee of the Richard A. Henson Foundation since 2012 and is active at the Wicomico Rotary Club and Asbury United Methodist Church. Prior community activities include the Salisbury Area Chamber of Commerce (past president), Greater Salisbury Committee, Salvation Army advisory board, Leadership Maryland, and co-chair of the Task Force that brought minor league baseball to the Eastern Shore.

Vic lives in Salisbury with his wife Jean. They have two adult children, both happily married, and a grandson.



JOSEPH L. GAST
Board Member

Joe Gast is President of Avery Hall Insurance, which he joined in 1984. With more than four decades of experience in the insurance and financial services industry, Mr. Gast brings deep expertise in risk management, leadership, and strategic planning.

Mr. Gast began his career at U.S.F.&G Insurance Company, where he worked from 1978 to 1984. He holds a Bachelor's Degree in Arts and Science from the University of Delaware. His professional designations include Chartered Property & Casualty Underwriter (CPCU), earned in 1984, and Chartered Financial Consultant (ChFC), earned in 2004, both thru The American College.

Actively engaged in the community, Mr. Gast currently serves on the board of the Recovery Resource Center and previously served as a board member of the YMCA of the Chesapeake and the Greater Salisbury Committee. He is also a past member of the Nanticoke Rotary Club.

Mr. Gast's longstanding professional leadership and commitment to community involvement reflect his dedication to responsible stewardship and service.



BOARD OF DIRECTORS

HSB Bancorp, Inc. and Hebron Savings Bank



BRENT C. MILLER
Board Member

Brent C. Miller, CCIM, CPM is Executive Managing Director and Senior Advisor at SVN | Miller Commercial Real Estate. A licensed commercial real estate broker in Maryland, Delaware, Virginia, and Pennsylvania, Brent specializes in the sale, leasing, and management of retail, office, and industrial properties throughout the Delmarva Peninsula, Mid-Atlantic, and Southeast.

With more than 35 years of industry experience, Brent has successfully closed over 1,000 commercial real estate transactions. Under his leadership, SVN | Miller Commercial Real Estate—headquartered in Salisbury and Easton, Maryland—has consistently ranked among SVN's Top 10 offices nationwide out of more than 225 locations.

The firm has earned numerous honors, including SVN Firm of the Year, Salisbury Area Chamber of Commerce Business of the Year, the Coastal Association of Realtors Outstanding Commercial Realtor Award, and the National Commercial Award from the National Association of Realtors. Brent was also recognized as a Massimo Master Broker.

Brent has been named an Honorary Alumnus of Salisbury University, recognizing his professional accomplishments, leadership, and service to the regional community. He is actively involved in the Greater Salisbury Committee and the Wicomico County Rotary Club, and serves on the Advisory Board of Directors for SVN International.

He holds the prestigious Certified Commercial Investment Member (CCIM) and Certified Property Manager (CPM) designations and is an active member of the International Council of Shopping Centers (ICSC). Brent is also the Founder and Principal of Synergy Investments; a commercial real estate investment and syndication firm focused on building generational wealth through property acquisitions and active asset management.



FRANK J. NARR, JR
Board Member

Frank Narr has been a resident of Cambridge and Dorchester County for more than three decades and has devoted his professional and civic life to strengthening the community he calls home. A native of Gaithersburg, Maryland, he holds a Bachelor of Arts degree in Business Administration from Franklin & Marshall College and an MBA in Entrepreneurship from Indiana University.

Mr. Narr began his career as a Certified Public Accountant with Arthur Andersen & Co. in Washington, D.C. and later in Philadelphia. After relocating to Cambridge in 1993, he became deeply involved in local leadership and economic development. He served as the first Executive Director of Sailwinds Park, Inc., the nonprofit organization established to guide the redevelopment of Cambridge's waterfront. During his tenure, he helped advance numerous transformational projects, including the Visitor Center, boardwalk, shoreline protection, and community recreational amenities, and was part of the team that attracted the Hyatt Regency and IRONMAN events to Cambridge.

Mr. Narr later served as Chief Financial Officer of ISG International, a Cambridge-based national insurance brokerage and captive insurer. Over a 25-year period, he was part of the leadership team that successfully grew and evolved the company through multiple acquisitions.

Now retired from full-time corporate leadership, Mr. Narr continues to provide financial oversight for his wife's medical practice and serves as Treasurer of Cambridge Waterfront Development, Inc., where he has been a board member for seven years. In 2024, he was elected to the Board of Directors of Hebron Savings Bank.

Mr. Narr's longstanding commitment to community service includes leadership roles with the Dorchester Chamber of Commerce, Sailwinds Park, Inc., and the Dorchester County Family YMCA. He is the inaugural recipient of the C. Robert Spedden Service Award, recognizing exceptional long-term contributions to economic development in Dorchester County.



BOARD OF DIRECTORS

HSB Bancorp, Inc. and Hebron Savings Bank



MELANIE B. TAWES
Board Member

Melanie B. Tawes, CPA, is the owner and operator of Tawes and Associates, CPA, P.A., where she provides comprehensive accounting and financial services to individuals and businesses throughout the region.

A lifelong resident of Somerset County, Ms. Tawes is deeply committed to her community. She is an active member of the local Chamber of Commerce and Mt. Olive Church, reflecting her longstanding dedication to civic and community involvement.

Ms. Tawes is a 1991 graduate of Washington High School and earned her degree from Salisbury University in 1994. She resides in Princess Anne with her husband, Scott, and their two daughters



SUSAN WILGUS-MURPHY
Board Member

Susan Wilgus-Murphy is a business leader, entrepreneur, and community advocate with deep roots on Maryland's Eastern Shore. She is a graduate of Salisbury University, where she earned a degree in Business Management, and has built a successful career spanning insurance, financial services, real estate, and community leadership.

Ms. Murphy is the Owner of Wilgus Insurance Agency, HAC Funding, Wilgus Financial, and Wilgus Murphy Properties, and is an active commercial real estate investor. Her professional work reflects a strong commitment to helping individuals, families, and businesses achieve long-term financial security and sustainable growth.

Highly engaged in civic and healthcare leadership, Ms. Murphy serves as Chairman of the TidalHealth Peninsula Board and is a member of the TidalHealth Foundation Board. She is also involved with the Greater Salisbury Committee and is a graduate of Shore Leadership, underscoring her dedication to regional leadership and community service.

Ms. Murphy is married to C.R. Murphy, CPA. Together they have three married children and one grandson. She values family, faith, and community and is committed to making a lasting, positive impact on the Eastern Shore.



BOARD OF DIRECTORS

HSB Bancorp, Inc. and Hebron Savings Bank



DARRON S. WHITEHEAD
Board Member

Darron Whitehead is a retired Maryland State Police officer with 22 years of distinguished service. Following his law enforcement career, he co-founded Whitehead Real Estate Executives with his wife, Vicky, where he has established himself as a highly respected leader in the regional real estate market.

In 2025, Mr. Whitehead was honored as Best Realtor in Wicomico County for the tenth consecutive year by Coastal Style Magazine, and was also named Best Realtor on the Eastern Shore by Metropolitan Magazine. Additionally, Whitehead Real Estate Executives was recognized as Best Real Estate Team and Best Real Estate Company in Wicomico County by Coastal Style Magazine.

Mr. Whitehead is deeply committed to education, discipline, and mentorship. He serves as Lead Instructor at the Salisbury School of Martial Arts and is the founder of Kenshido, a modern martial arts system. His credentials include an 8th Degree Black Belt in Isshinryu, a 2nd Degree Black Belt in Shorinji Kempo, and experience as a former kickboxer and Krav Maga Police Defensive Tactics Instructor.

Active in community and civic service, Mr. Whitehead is Head Trustee of the Church Board at Emmanuel Church and serves on the board of Main Street Boxing, where he was the first amateur boxer trained by Head Coach Hal Chernoff more than three decades ago. He recently completed his appointment on the Wicomico County Police Accountability Board.

Mr. Whitehead takes great pride in serving on the Hebron Savings Bank Board, where he is committed to advancing the Bank's mission of exceptional service and strong community engagement.

He and his wife have been married for over 36 years and are the proud parents of four children and grandparents to three granddaughters.

HONORARY DIRECTORS

MARK S. HOLLOWAY

ROBERT E. HOLLOWAY

CHARLES W. KELLY

E. SCOTT TAWES

THOMAS C. THOMPSON

EDWARD Q. WILGUS



OFFICERS



JENNIFER A. POULSEN
CEO & President

Jennifer A. Poulsen is a member of the Board of Directors and serves as Chief Executive Officer and President of Hebron Savings Bank. With nearly 40 years of experience in community banking, Ms. Poulsen brings deep expertise in executive leadership, strategic planning, talent development, and operational management. In addition to her leadership at Hebron Savings Bank, she shares her knowledge and experience with organizations both within and beyond the banking industry.

Ms. Poulsen is actively engaged in industry leadership and advocacy. She serves as a Board Member of the Maryland Bankers Association and Maryland Bankers Solutions Board, is the Maryland representative on the American Bankers Association Community Bankers Council, and is a member of the American Bankers Association Women's CEO Forum. Through these roles, she represents the banking industry in government relations efforts at both the state and federal levels.

Locally, Ms. Poulsen serves on the Salisbury Area Chamber of Commerce Board of Directors and its Executive Committee, representing the business community through the Government and Business Affairs Committee. She also serves on the Salisbury-Wicomico Economic Development Board and Executive Committee, as well as the Greater Salisbury Committee, representing Hebron Savings Bank. In addition, she has been appointed to the 2026-2027 Comptroller of Maryland's Financial Literacy Advisory Council.

Ms. Poulsen is a graduate of Butler County Community College and holds SPHR and SHRM-SCP professional certifications in human resources. She resides in Worcester County, Maryland.



BRIAN GOTTSCHALK
Executive Vice President

Brian Gottschalk serves Chief Lending Officer of Hebron Savings Bank, bringing more than 23 years of experience in banking, including over a decade in executive leadership roles.

Since joining the Bank, Mr. Gottschalk has strengthened and expanded the lending division by building high-performing teams and broadening business lines. His leadership has included the establishment of a residential mortgage lending division and a dedicated agriculture lending team, reflecting a commitment to relationship-driven banking and sustainable community growth.

Mr. Gottschalk is actively engaged in regional economic development. He serves on the Board of Directors of Maryland Capital Enterprises and is a member of the Business Advisory Council for the Comptroller of Maryland.

He earned his undergraduate degree from York College of Pennsylvania and is a graduate of the Stonier Graduate School of Banking at The Wharton School of the University of Pennsylvania. Outside of his professional responsibilities, Mr. Gottschalk enjoys coaching youth baseball and softball and spending time with his wife, Carrie, and their four children.



OFFICERS



MARYBETH MUIR
Senior Vice President

Marybeth Muir oversees Retail Banking, the Customer Care Center, Project Management, Vendor Management, Disaster Recovery, and Marketing.

Ms. Muir brings more than four decades of leadership experience in financial services, with deep expertise in retail banking, customer experience, deposit and electronic operations, strategic planning, and process modernization. Prior to joining Hebron Savings Bank, she held senior leadership roles at Presidential Bank, Middleburg Financial Corporation, Chevy Chase Bank, and Bank of America/NationsBank. Throughout her career, she has led large teams, implemented enterprise-wide technology initiatives, managed brand conversions, strengthened operational resilience, and driven customer-focused growth.

Known for her collaborative leadership style and strong community orientation, Ms. Muir is committed to delivering high-quality service, developing strong teams, and ensuring the Bank remains responsive to the evolving needs of its customers and communities. She attended the Universities of Northern Colorado and Arizona with a focus on mining engineering and is a Certified Project Management Professional (PMP).

Ms. Muir resides in Hebron, Maryland, and enjoys gardening and textile arts as a master weaver.



LARRY ROHLFING
Executive Vice President

Larry Rohlring serves as Chief Credit Officer of Hebron Savings Bank. With more than 30 years of experience in banking, he brings extensive expertise in commercial credit and lending, supported by an early-career foundation in accounting. In his role, Mr. Rohlring oversees the Bank's Credit Department, Loan Operations, Collections, and Special Assets, providing disciplined risk management and strategic oversight across the organization.

Mr. Rohlring has been with Hebron Savings Bank for seven years and is recognized for his thoughtful approach to credit administration, operational oversight, and portfolio management. His broad professional background enables him to align sound credit practices with the Bank's long-term strategic objectives while supporting sustainable growth.

He holds a Bachelor of Science in Business Administration, with a concentration in accounting, from the University of Delaware, and earned his Master of Business Administration from Wilmington University.

Mr. Rohlring is actively involved in the community and has volunteered for many years with a local Habitat for Humanity affiliate, where he currently serves on the Finance Committee. He has also been engaged with his local Boy Scout troop, previously serving as Scoutmaster. He resides in Georgetown, Delaware, and enjoys reading in his spare time.



OFFICERS



MATTHEW SHAFFER
Senior Vice President

Matthew Shaffer serves as Compliance and Fraud Officer at Hebron Savings Bank, bringing more than 30 years of experience and a strong commitment to community banking. In this role, he leads the Bank's compliance and fraud risk management framework, including risk assessment, training, monitoring, and reporting, to ensure adherence to regulatory requirements and the ongoing effectiveness of the Bank's compliance program.

Mr. Shaffer is a graduate of Wilmington University with a degree in Criminal Justice and holds multiple financial industry certifications, including Certified Regulatory Compliance Manager (CRCM), Certified AML Fraud Professional (CAFP), and Certified Anti-Money Laundering Specialist (CAMS).

He resides in Sussex County, Delaware.



KIMBERLY T. THOMAS
Executive Vice President

Kimberly T. Thomas serves as Chief Financial Officer of Hebron Savings Bank. In this role, she oversees the Bank's finance and accounting functions, asset liability management, enterprise risk management, financial and regulatory reporting, data processing, human resources, and electronic banking operations. She provides strategic leadership focused on strengthening the Bank's financial and capital position and supporting long-term growth.

Ms. Thomas serves as a key liaison with regulatory agencies and external auditors, maintaining strong working relationships and ensuring compliance with evolving regulatory requirements. She also oversees the Bank's internal audit function, including coordination with the outsourced internal audit firm, to promote strong internal controls, sound governance practices, and organizational accountability.

With nearly 30 years of experience in financial services and accounting, Ms. Thomas brings deep expertise in community banking, strategic planning, budgeting and forecasting, risk management, and operational oversight. Her leadership approach emphasizes operational discipline and a strong commitment to the Bank's long-term financial strength and stability.

Prior to joining Hebron Savings Bank in 2015, Ms. Thomas held an executive leadership position in community banking, with responsibility for finance, operations, technology, and enterprise risk management. Earlier in her career, she worked in public accounting, providing audit and financial reporting services to financial institutions, governmental entities, and both for-profit and nonprofit organizations.

Ms. Thomas holds a Bachelor of Arts degree in Political Science, with a minor in Communications, from Salisbury State University and completed the Accounting Professional Studies Program in 1998. She is a Certified Public Accountant (CPA) and resides in Dorchester County, Maryland.



HEBRON SAVINGS BANK LOCATIONS

Hebron

101 N. Main Street
Hebron, MD 21830

Salisbury / Quantico Square

1008 W. Main Street
Salisbury, MD 21801

Salisbury / Carroll Street

415 East Carroll Street
Salisbury, MD 21804

Salisbury / North Salisbury Blvd

2730 North Salisbury Boulevard
Salisbury, MD 21801

Salisbury / Mt. Hermon Road

1310 Mt. Hermon Road
Salisbury, MD 21804

Fruitland

108 East Cedar Lane
Fruitland, MD 21826

Sharptown

303 Main Street
Sharptown, MD 21861

Vienna

100 Market and Race Streets
Vienna, MD 21869

Princess Anne

30499 Mt. Vernon Road
Princess Anne, MD 21853

Cambridge / Route 50

2801 Ocean Gateway
Cambridge, MD 21613

Cambridge / Cedar Street

6 Cedar Street
Cambridge, MD 21613

Pocomoke

600 Linden Avenue
Pocomoke City, MD 21851

Berlin

10006 North Main Street
Berlin, MD 21811

Crisfield

57 Richardson Avenue
Crisfield, MD 21817

The Customer Care Center is available Monday – Thursday 8:00am to 5:00pm
and Fridays 8:00am to 6:00pm

410-749-1185

www.hebronsavingsbank.com



📍 101 N. MAIN STREET, HEBRON MD 21830

🌐 WWW.HEBRONSAVINGSBANK.COM

