

DIMECO, INC.
HONESDALE, PENNSYLVANIA

AUDIT REPORT
DECEMBER 31, 2024

DIMECO, INC.
AUDITED CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Dimeco, Inc.
Honesdale, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Dimeco, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023; the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended; and the related notes to the consolidated financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia



Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in Annual Report

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



Other Information Included in Annual Report (Continued)

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

S.H. Smalges P.C.

Cranberry Township, Pennsylvania
March 13, 2025

CONSOLIDATED BALANCE SHEET

	December 31,	
	2024	2023
(in thousands, except shares and per share data)		
Assets		
Cash and due from banks	\$ 7,005	\$ 8,047
Interest-bearing deposits in other banks	10,961	661
Total cash and cash equivalents	17,966	8,708
Investment securities available for sale	226,804	197,086
Equity securities	52	52
Loans, net of unearned income	775,302	722,446
Less allowance for credit losses	11,124	10,807
Net loans	764,178	711,639
Premises and equipment	19,274	20,154
Accrued interest receivable	4,163	3,788
Bank-owned life insurance	28,038	27,345
Other real estate owned	224	224
Other assets	19,086	20,965
TOTAL ASSETS	\$ 1,079,785	\$ 989,961
Liabilities		
Deposits:		
Noninterest-bearing	\$ 177,369	\$ 178,553
Interest-bearing	733,643	647,987
Total deposits	911,012	826,540
Short-term borrowings	-	15,677
Other borrowed funds	46,297	34,466
Accrued interest payable	1,072	759
Other liabilities	14,402	13,941
TOTAL LIABILITIES	972,783	891,383
Stockholders' Equity		
Common stock, \$.50 par value; 7,500,000 shares authorized; 2,650,888 and 2,647,587 shares issued in 2024 and 2023; 2,537,420 and 2,534,119 shares outstanding in 2024 and 2023, respectively	1,325	1,324
Capital surplus	11,278	11,002
Retained earnings	114,596	105,761
Accumulated other comprehensive loss	(16,665)	(15,977)
Treasury stock, at cost (113,468 shares)	(3,532)	(3,532)
TOTAL STOCKHOLDERS' EQUITY	107,002	98,578
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ 1,079,785	\$ 989,961

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF INCOME

(in thousands, except per share data)	Year Ended December 31,	
	2024	2023
Interest Income		
Interest and fees on loans	\$ 49,973	\$ 40,268
Investment securities:		
Taxable	6,711	5,753
Exempt from federal income tax	1,551	1,810
Other	592	436
Total interest income	<u>58,827</u>	<u>48,267</u>
Interest Expense		
Deposits	18,925	10,705
Short-term borrowings	782	2,779
Other borrowed funds	1,359	808
Total interest expense	<u>21,066</u>	<u>14,292</u>
Net Interest Income	37,761	33,975
Provision for credit losses	<u>1,328</u>	<u>833</u>
Net Interest Income After Provision for Credit Losses	<u>36,433</u>	<u>33,142</u>
Noninterest Income		
Service charges on deposit accounts	1,408	1,227
Mortgage loans held for sale gains, net	336	175
Investment securities losses, net	(41)	(40)
Equity security gains (losses), net	-	(3)
Brokerage commissions	2,497	2,138
Earnings on bank-owned life insurance	693	613
Debit card interchange fees	1,986	1,901
Other income	615	673
Total noninterest income	<u>7,494</u>	<u>6,684</u>
Noninterest Expense		
Salaries and employee benefits	16,770	15,850
Occupancy expense, net	2,233	2,433
Professional fees	1,201	1,061
Data processing expense	2,033	1,761
Communication expense	286	303
ATM expense	907	780
PA shares tax	753	350
Other expense	3,929	4,261
Total noninterest expense	<u>28,112</u>	<u>26,799</u>
Income before income taxes	15,815	13,027
Income taxes	<u>2,873</u>	<u>2,199</u>
NET INCOME	<u>\$ 12,942</u>	<u>\$ 10,828</u>
Earnings Per Share:		
Basic	\$ 5.12	\$ 4.27
Diluted	\$ 5.11	\$ 4.27

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

(in thousands)	Year Ended December 31, 2024	2023
Net income	\$ 12,942	\$ 10,828
Other comprehensive income (loss) :		
Unrealized (loss) gain on available for sale securities	(912)	5,118
Tax effect	192	(1,075)
	(720)	4,043
Investment securities losses, net	41	40
Tax effect	(9)	(8)
	32	32
Reclassification adjustment for gains on derivatives included in net income	-	(28)
Tax effect	-	6
	-	(22)
Other comprehensive (loss) income	(688)	4,053
Comprehensive income	\$ 12,254	\$ 14,881

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

	Common	Capital	Retained	Accumulated Other Comprehensive	Treasury	Total
(in thousands, except shares and per share data)	Stock	Surplus	Earnings	(Loss) Income	Stock	Stockholders' Equity
Balance, December 31, 2022	\$ 1,322	\$ 10,631	\$ 98,799	\$ (20,030)	\$ (2,709)	\$ 88,013
Net income			10,828			10,828
Adjustment for CECL adoption			50			50
Other comprehensive income				4,053		4,053
Stock compensation expense		225				225
Exercise of stock options (730 shares)		26				26
Employee stock purchase plan (3,637 shares)	2	120				122
Purchase of treasury stock (25,000 shares)					(823)	(823)
Cash dividends (\$1.54 per share)			(3,916)			(3,916)
Balance, December 31, 2023	\$ 1,324	\$ 11,002	\$ 105,761	\$ (15,977)	\$ (3,532)	\$ 98,578
Net income			12,942			12,942
Other comprehensive loss				(688)		(688)
Stock compensation expense		155				155
Exercise of stock options (100 shares)		4				4
Employee stock purchase plan (3,201 shares)	1	117				118
Cash dividends (\$1.62 per share)			(4,107)			(4,107)
Balance, December 31, 2024	\$ 1,325	\$ 11,278	\$ 114,596	\$ (16,665)	\$ (3,532)	\$ 107,002

The accompanying notes are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

(in thousands)	Year Ended December 31,	
	2024	2023
Operating Activities		
Net income	\$ 12,942	\$ 10,828
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	1,328	833
Depreciation and amortization	1,031	1,070
Amortization of premium and discount on investment securities, net	505	872
Accretion of net deferred loan origination fees	(371)	(414)
Investment securities losses, net	41	40
Equity securities losses (gains), net	-	3
Origination of loans held for sale	(9,299)	(5,784)
Proceeds from sale of loans	9,635	5,959
Mortgage loans held for sale gains, net	(336)	(175)
Increase in accrued interest receivable	(375)	(480)
Increase in accrued interest payable	313	545
Deferred federal income taxes	(291)	(111)
Earnings on bank-owned life insurance	(693)	(613)
Stock compensation expense	155	225
Increase in prepaid federal income taxes	52	81
Other, net	(507)	157
Net cash provided by operating activities	<u>14,130</u>	<u>13,036</u>
Investing Activities		
Investment securities available for sale:		
Proceeds from sales or calls	5,488	10,361
Proceeds from maturities or paydown	22,533	20,802
Purchases	(59,156)	(5,235)
Redemption of Federal Home Loan Bank stock	15,445	8,829
Purchase of Federal Home Loan Bank stock	(15,334)	(8,039)
Net increase in loans	(53,508)	(43,005)
Redemption of fixed annuity	2,993	-
Purchase of premises and equipment	(27)	(542)
Net cash used for investing activities	<u>(81,566)</u>	<u>(16,829)</u>
Financing Activities		
Net increase in deposits	84,472	38,966
Decrease in short-term borrowings	(15,677)	(49,487)
Proceeds from other borrowed funds	19,255	26,902
Repayment of other borrowed funds	(7,424)	(7,326)
Purchase of treasury stock	-	(823)
Proceeds from exercise of stock options	4	26
Proceeds from employee stock purchase and stock bonus plan	118	122
Cash dividends paid	(4,054)	(3,876)
Net cash provided by financing activities	<u>76,694</u>	<u>4,504</u>
Increase in cash and cash equivalents	9,258	711
Cash and cash equivalents at beginning of year	<u>8,708</u>	<u>7,997</u>
Cash and cash equivalents at end of year	<u><u>\$ 17,966</u></u>	<u><u>\$ 8,708</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting and reporting policies applied in the presentation of the accompanying financial statements follows:

Nature of Operations and Basis of Presentation

Dimeco, Inc. (the Company) is a Pennsylvania company organized as the holding company of The Dime Bank (the Bank). The Bank is a state-chartered bank and operates from seven locations in northeastern Pennsylvania. The Company and its subsidiary derive substantially all of their income from banking and bank-related services that include interest earnings on residential real estate, commercial mortgage, commercial and consumer financing as well as interest earnings on investment securities. The Company, through its subsidiary, provides deposit services including checking, savings and certificate of deposit (CD) accounts and investment services. The Company is supervised by the Federal Reserve Board, while the Bank is subject to regulation and supervision by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking.

The consolidated financial statements of the Company include its wholly owned subsidiary, the Bank. All inter-company items have been eliminated in preparing the consolidated financial statements. The investment in subsidiary on the parent company financial statements is carried at the parent company's equity in the underlying net assets of the Bank. Wealth management assets held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Balance Sheet, since such items are not assets of the Bank or the Company. In accordance with industry practice, wealth management fees are recorded on the Consolidated Statement of Income on a cash basis and approximate the fees that would have been recognized on the accrual basis.

The consolidated financial statements have been prepared in conformity with U.S. GAAP. In preparing the consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the consolidated balance sheet date and revenues and expenses for the period. Actual results could differ significantly from those estimates.

Investment Securities

Investment securities are classified at the time of purchase, based on management's intention and ability, as securities available for sale. Debt securities have been classified as available for sale to serve principally as a source of liquidity. Unrealized holding gains and losses for available for sale securities are reported as a separate component of stockholders' equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method and included in noninterest income. Amortization of premium and discounts for U.S. government agencies, obligations of states and political subdivisions and corporate securities use the constant yield method. Amortization of premium and discounts for collateralized mortgage obligations is a two-step proration method. This method uses a proration component and the calculated final amortization/accretion date. Mortgage-backed securities and Small Business Administration (SBA) securities also use a two-step proration method that has a proration component and a three-month historical constant pre-payment rate (CPR) and periodic discounted cash flow yield. The SBA securities are included in the U.S. government agency category. Interest and dividends on investment securities are recognized as income when earned.

Allowance for Credit Losses – Available for Sale Securities

The Company measures available-for-sale debt securities in an unrealized loss position, on at least a quarterly basis, for impairment. An investment security is deemed impaired if the fair value of the investment is less than its amortized cost. We consider both our intent to sell and the likelihood that we will not have to sell the investment securities before recovery of their amortized cost basis during our evaluation. If we intend to sell the investment security or if it is more likely than not that we will be required to sell the investment security, the entire impairment is recorded in earnings. For available-for-sale debt securities that do not meet these criteria, we evaluate whether the decline in fair value has resulted from credit losses or other factors. In making this assessment we consider the issuer of the securities and their creditworthiness, any changes to the rating of the security and any adverse conditions specifically related to the security, among other factors. Also, we may evaluate the business and financial outlook of the issuer, as well as broader economic performance indicators.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses – Available for Sale Securities (continued)

If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense in the Consolidated Statement of Income. Losses are charged against the allowance when we believe the uncollectibility of an available-for-sale security is confirmed or when there is an intent or requirement to sell the security.

Accrued interest receivable on available-for-sale debt securities totaled \$1.3 million at December 31, 2024, and \$1.2 million at December 31, 2023, and is included within accrued interest receivable on the consolidated balance sheet. This amount is excluded from the estimate of credit losses. Available-for-sale securities are typically as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. The receivable for interest income that is accrued but not collected is reversed against interest income when the debt security is placed on nonaccrual status. No debt securities were on nonaccrual status as of December 31, 2024, or 2023.

Equity Securities

Equity securities are held at fair value. Holding gains and losses are recorded in non-interest income. Dividends on equity securities are recognized as income when earned.

Restricted Stock

Common stock of the Federal Home Loan Bank of Pittsburgh (FHLB) and the Atlantic Community Bankers Bank (ACBB) represents ownership in institutions that are wholly owned by other financial institutions. These securities are accounted for at cost and are classified with other assets.

The Bank is a member of FHLB and as such, is required to maintain a minimum investment in stock of FHLB that varies with the level of advances outstanding with FHLB. The stock is bought from and sold to FHLB based upon its \$100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost, and evaluated for impairment by management. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (a) the significance of the decline in net assets of FHLB as compared to the capital stock amount and the length of time this situation has persisted; (b) commitments by FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (c) the impact of legislative and regulatory changes on the customer base of FHLB and; (d) the liquidity position of FHLB.

Management evaluated the stock of both ACBB and FHLB and concluded that the stock was not impaired for the periods presented herein. This evaluation took into consideration regulatory capital ratios and liquidity. In addition, new shares of ACBB and FHLB stock continue to exchange hands at the \$250 and \$100 par value, respectively.

Mortgage Loans Held for Sale

In general, fixed rate residential mortgage loans originated by the Bank that qualify for sale in the secondary market are held for sale and are carried at the aggregate lower of cost or fair value. Such loans sold are generally serviced by the Bank.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: 1) the assets have been isolated from the Company; 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets; and 3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Loans

Loans are stated at the principal amount outstanding, net of any unearned income, deferred loan fees and the allowance for credit losses. Interest on consumer loans is credited to operations over the term of each loan using a method which results in a level yield or the simple interest method. Interest income on mortgage loans is accrued on the amortized balance. Interest income on other loans is accrued on the principal amount outstanding. Loan fees which represent an adjustment to interest yield are deferred and amortized over the life of the loan. Loans on which the accrual of interest has been discontinued are designated as nonaccrual loans. Accrual of interest on loans is generally discontinued when it is determined that a reasonable doubt exists as to the collectability of additional interest. When a loan is placed on nonaccrual status, unpaid interest is charged against income. Payments received on nonaccrual loans are either applied to principal or reported as interest income according to management's judgment as to the collectability of principal. Loans are returned to accrual status when past due principal and interest is collected and the collection of principal is probable.

Accrued interest receivable on loans totaled \$2.8 million at December 31, 2024, and \$2.6 million at December 31, 2023, and is included within accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses.

Allowance for Credit Losses (ACL)

The ACL is a valuation reserve established and maintained by charges against operating income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share similar risk characteristics with other loans and are individually evaluated.

The ACL for homogeneous loans is calculated using a life-time loss rate methodology with both a quantitative and a qualitative analysis that is applied on a quarterly basis. The ACL model is comprised of 5 distinct portfolio segments: 1) Commercial and Industrial, or C&I, 2) Commercial Real Estate, or CRE, 3) Construction and Development, 4) Residential Real Estate and 5) Consumer. Each segment has a distinct set of risk characteristics monitored by management. Our quantitative model uses historic data back to the second quarter of 2009. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast is for a period of two years and is based on the unemployment forecast and management judgment. For periods beyond our two-year reasonable and supportable forecast, we revert to historical loss rates utilizing a straight-line method over a one-year reversion period.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Allowance for Credit Losses (continued)

The qualitative adjustments for current conditions are based upon the following factors:

- Changes in lending policies and procedures,
- Changes in national, regional, and local economic and business conditions,
- Changes in nature and volume of the portfolio and in terms of loans,
- Changes in the experience, ability, and depth of lending management and other relevant staff,
- Changes in the volume and severity of past due loans, the volume of nonaccrual loans, and the volume and severity of adversely classified or graded loans,
- Changes in the value of underlying collateral for collateral-dependent loans,
- Changes in any concentration of credit, and
- Other external factors such as competition and legal and regulatory requirements.

These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. We evaluate our entire loan portfolio that meet the following criteria: 1) when nonaccrual loans are greater than \$250,000, 2) Restructured residential mortgages greater than \$100,000, 3) Loans over 90 days past due greater than \$100,000 and still accruing interest, 4) Loans modifications to borrowers experiencing financial difficulty that are accruing interest or are on nonaccrual.

Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs, selling costs, transfer tax and standard legal fees. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

For off-balance-sheet credit exposures, we estimate expected credit losses over the contractual period in which we are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable. The liability for credit losses on off-balance-sheet credit exposures is adjusted through a provision for credit loss on the Consolidated Statements of Income.

We estimate the liability balance using relevant available information, from internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. The estimate includes a consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Off-balance-sheet exposures that are not unconditionally cancellable have been identified for the mortgage, home equity, commercial real estate, and commercial loan portfolios.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is principally computed on the straight-line method over the estimated useful lives of the related assets, which range from 3 to 20 years for furniture and equipment and 5 to 31 years for office buildings and improvements. Leasehold improvements are amortized over the shorter of their estimated useful lives or their respective lease terms, which range from 5 to 20 years. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank-Owned Life Insurance (BOLI)

The Bank owns insurance on the lives of a certain group of key employees. The policies were purchased to help offset the increase in the costs of various fringe benefit plans including healthcare. The cash surrender value of these policies is included as an asset on the Consolidated Balance Sheet, and any increases in cash surrender value are recorded as noninterest income on the Consolidated Statement of Income. In the event of the death of an insured individual under these policies, the Bank would receive a death benefit which would be recorded as noninterest income.

Other Real Estate Owned

Real estate acquired by foreclosure is classified on the Consolidated Balance Sheet at its fair value minus estimated costs of sale. Prior to foreclosure, the value of the underlying collateral is written down by a charge to the allowance for credit losses, if necessary. Any subsequent write-downs are charged against operating expenses. Operating expenses of such properties, net of related income and losses on their disposition, are included as other real estate owned expense.

Income Taxes

The Company and the Bank file a consolidated federal income tax return. Deferred tax assets or liabilities are computed based on the difference between the financial statement and the income tax basis of assets and liabilities using the enacted marginal tax rates. Deferred income tax expenses or benefits are based on the changes in the deferred tax asset or liability from period to period.

Earnings Per Share

The Company provides dual presentation of basic and diluted earnings per share. Basic earnings per share are calculated utilizing net income as reported as the numerator and average shares outstanding as the denominator. The computation of diluted earnings per share differs in that the dilutive effects of any options and non-vested restricted stock grants are adjusted for in the denominator.

Stock Based Compensation

The Company accounts for stock-based compensation issued to employees, and where appropriate non-employees, at fair value. Under fair value provisions, stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the appropriate vesting period using the straight-line method. The amount of stock-based compensation recognized at any date must at least equal the portion of the grant date fair value of the award that is vested at that date and as a result it may be necessary to recognize the expense using a ratable method. Determining the fair value of stock-based awards at the date of grant requires judgment, including estimating the expected term of the stock options and the expected volatility of the Company's stock. In addition, judgment is required in estimating the amount of stock-based awards that are expected to be forfeited.

Mortgage Servicing Rights (MSRs)

The Bank has agreements for the express purpose of selling loans in the secondary market. The Bank maintains servicing rights for most of these loans. MSRs are carried at the lower of cost or fair value. Originated MSRs are recorded by allocating total costs incurred between the loan and servicing rights based on their relative fair values. MSRs are amortized in proportion to the estimated servicing income over the estimated life of the servicing portfolio. MSRs are a component of other assets on the Consolidated Balance Sheet.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Derivative Instruments and Hedging Activities

The Bank records all derivatives on the Consolidated balance sheet at fair value. The accounting for changes in fair value of derivatives depends on the intended use of the derivative, whether the Bank elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability of expected future cash flows are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes of the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Bank may enter into derivative contracts that are intended to economically hedge certain of its risk, even though the hedge accounting does not apply, or the Bank elects not to apply hedge accounting. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings. Changes in the fair value of derivatives designated as cash flow hedges are recorded in accumulated other comprehensive income (loss) and are reclassified into the income statement when the hedge item affects earnings. Hedge ineffectiveness and gains on losses on the excluded component of a derivative in assessing hedge effectiveness are recorded in earnings. The interest rate swap with the swap counterparty and the hedging agreement is a derivative contract. As the interest rate swap and the customer hedging agreement are structured to offset each other, changes to the underlying market values of these instruments do not result in an impact to earnings; however, there may be fair value adjustments related to credit quality variations between counterparties, which may impact earnings as required by FASB ASC 820.

Revenue Recognition

The primary sources of the revenue the Company recognizes emanates from interest and dividend income on loans and securities along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit card fees and income on bank owned life insurance which are not in the scope of Accounting Standards Codification (ASC) 606, Revenue from Contracts with Customers. Services within the scope of ASC 606 include income from fiduciary activities, brokerage fees, service charges on deposits accounts, other service income, ATM fees, interchange fees and gain on sale of other real estate owned, net. For these accounts, fees are related to specific customer transactions that are attributable to specific performance obligations of the Bank where revenue is recognized at a defined point in time, completion of the requested service/transaction.

Segment Reporting

ASC Topic 280 – Segment reporting identifies operating segments as components of an enterprise which are evaluated regularly by the Company’s Chief Operating Decision Maker, our Chief Executive Officer, in deciding how to develop strategy, allocate resources and assess performance.

While the bank monitors the revenue streams of the various products and services, operations are managed, and financial performance is evaluated on an entity-wide basis. The bank provides a variety of financial services to individuals and small businesses through its branch network in Wayne, Pike and Lackawanna counties. Its primary deposit products are checking, savings and CD accounts, and its primary lending products are commercial, residential and construction mortgages, small business and consumer loans.

Management has determined that the Company has one reportable segment consisting of community banking. Operating segments are aggregated into one segment, as operating results for all segments are similar. Accordingly, all the financial service operations are considered by management to be aggregated in one reportable operating segment.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Segment Reporting (continued)

The accounting policies for the community banking segment are the same as those of our consolidated entity. The Chief Operating Decision Maker assesses performance and decides how to allocate resources based on net income that also is reported on the income statement as consolidated net income. The measure of segment assets is reported on the balance sheet as total consolidated assets.

Net income is used to monitor budget versus actual results. The Chief Operating Decision Maker uses two primary performance measures to evaluate performance: return on average assets (ROAA) and return on average equity (ROAE). ROAA measures how efficiently a bank generates income based on the amount of assets or size of a company. ROAE measures the efficiency of a company in generating income based on the amount of equity or capital utilized. The Chief Operating Decision Maker also uses net income in competitive analysis by benchmarking to the bank's competitors.

Cash Flows

The Company has defined cash and cash equivalents as cash and due from banks and interest-bearing deposits in other banks that have original maturities of 90 days or less.

Amounts paid for interest and income taxes and noncash activities are as follows (in thousands):

	2024	2023
Cash paid during the year for:		
Interest	\$ 20,752	\$ 13,748
Income taxes	\$ 3,404	\$ 1,978
Noncash investing activities:		
Dividends payable	\$ 1,066	\$ 1,013
Changes in unrealized holding (losses) and gains on available for sale securities	\$ (871)	\$ 5,158

Accounting Pronouncements Adopted in 2024

In November 2023, the FASB issued ASU 2023-07, Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires public entities to disclose information about their reportable segments' significant expenses on an interim and annual basis. This ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The bank adopted this guidance and disclosed its segment reporting that is included in the summary of significant accounting policies.

In March 2023, the FASB issued ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*. ASU 2023-02 permits reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. ASU 2023-02 is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2023. The bank adopted this guidance, and it is disclosed in the consolidated statement of income and within Note 20- Qualified Affordable Housing Project Investments.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Recent Accounting Pronouncements

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which provides for improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. This guidance is effective for public business entities for annual periods beginning after December 15, 2024, and for annual periods beginning after December 15, 2025, for all other entities. This Update is not expected to have a significant impact on the Company's financial statements.

In March 2024, the FASB issued ASU 2024-01, Compensation – Stock Compensation (Topic 718), amended the guidance in ASC 718 to add an example showing how to apply the scope guidance to determine whether profits interest and similar awards should be accounted for as share-based payment arrangements. For public business entities, the guidance is effective for fiscal years beginning after December 15, 2024, and interim periods within those fiscal years. For all other entities, it is effective for fiscal years beginning after December 15, 2025, and interim periods within those fiscal years. This Update is not expected to have a significant impact on the Company's financial statements.

Reclassification of Comparative Amounts

Certain comparative amounts for prior years have been reclassified to conform to current year presentations. The reclassified amounts did not affect net income or stockholders' equity.

NOTE 2 - EARNINGS PER SHARE

There are no convertible securities that would affect the numerator in calculating basic and diluted earnings per share; therefore, net income as presented on the Consolidated Statement of Income will be used as the numerator. The following table sets forth the composition of the weighted-average common shares (denominator) used in the basic and diluted earnings per share computation for the years ended December 31:

	2024	2023
Weighted-average common shares issued	2,648,657	2,644,986
Average treasury stock shares	(113,468)	(99,561)
Average unearned nonvested shares	(5,086)	(7,704)
Weighted-average common shares and common stock equivalents used to calculate basic earnings per share	2,530,103	2,537,721
Additional common stock equivalents (stock options) used to calculate diluted earnings per share	370	142
Weighted-average common shares and common stock equivalents used to calculate diluted earnings per share	<u>2,530,473</u>	<u>2,537,863</u>

For the years ended December 31, 2024, and 2023, the Company excluded from the computation of diluted weighted average shares the impact of 42,610, and 57,730 options to purchase shares of the Company's common stock as the effect would have been anti-dilutive.

NOTE 3 - INVESTMENT AND EQUITY SECURITIES

The amortized costs and fair value of investment securities at December 31 are summarized as follows (in thousands):

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
U.S. government agencies	\$ 4,462	\$ -	\$ (194)	\$ 4,268
Mortgage-backed securities of government-sponsored entities	20,487	-	(3,509)	16,978
Collateralized mortgage obligations of government-sponsored entities	97,613	232	(6,222)	91,623
Obligations of states and political subdivisions:				
Taxable	14,765	-	(2,836)	11,929
Tax-exempt	68,311	1	(7,698)	60,614
Asset backed securities	14,529	37	(50)	14,516
Corporate securities	27,732	448	(1,304)	26,876
Total	<u>\$ 247,899</u>	<u>\$ 718</u>	<u>\$ (21,813)</u>	<u>\$ 226,804</u>
	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
AVAILABLE FOR SALE				
U.S. government agencies	\$ 4,651	\$ 1	\$ (227)	\$ 4,425
Mortgage-backed securities of government-sponsored entities	22,608	1	(3,263)	19,346
Collateralized mortgage obligations of government-sponsored entities	79,507	68	(6,492)	73,083
Obligations of states and political subdivisions:				
Taxable	15,301	-	(2,919)	12,382
Tax-exempt	68,404	134	(5,812)	62,726
Asset backed securities	9,998	8	(83)	9,923
Corporate securities	16,841	-	(1,640)	15,201
Total	<u>\$ 217,310</u>	<u>\$ 212</u>	<u>\$ (20,436)</u>	<u>\$ 197,086</u>

Securities with unrealized losses are evaluated quarterly to determine if the decline in fair value has resulted from credit losses or other factors. Management does not believe that any individual unrealized losses as of December 31, 2024, and 2023, are indicative of a credit loss and no allowance for credit loss has been established.

NOTE 3 - INVESTMENT AND EQUITY SECURITIES (continued)

The following table summarizes debt securities available for sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2024, aggregated by security type and length of time in a continuous loss position (in thousands):

	2024					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$ 737	\$ (1)	\$ 3,417	\$ (193)	\$ 4,154	\$ (194)
Mortgage-backed securities						
of government-sponsored entities	-	-	16,761	(3,509)	16,761	(3,509)
Collateralized mortgage obligations						
of government-sponsored entities	19,695	(436)	46,324	(5,786)	66,019	(6,222)
Obligations of states and political subdivisions:						
Taxable	-	-	11,929	(2,836)	11,929	(2,836)
Tax-exempt	7,566	(94)	51,845	(7,604)	59,411	(7,698)
Asset backed securities	6,822	(36)	1,492	(14)	8,314	(50)
Corporate securities	6,821	(151)	11,733	(1,153)	18,554	(1,304)
Total	<u>\$ 41,641</u>	<u>\$ (718)</u>	<u>\$ 143,501</u>	<u>\$ (21,095)</u>	<u>\$ 185,142</u>	<u>\$ (21,813)</u>

At December 31, 2024, the Company had 1 government sponsored agency security, 20 collateralized mortgage obligation securities, 14 obligations of state and political subdivisions securities, 6 asset backed securities and 7 corporate securities that have been in a gross unrealized loss position for less than 12 months with depreciation of 1.7 percent from the Company's amortized cost basis.

At December 31, 2024, the Company had 15 U.S. government agency securities, 110 government sponsored mortgage backed or collateralized mortgage obligation securities, 130 obligations of state and political subdivisions securities, 3 asset backed securities and 26 corporate securities that have been in a gross unrealized loss position for greater than 12 months with depreciation of 12.8 percent from the Company's amortized cost basis.

Unrealized losses have not been recognized into income because the issuer(s) bonds are of high credit quality (S&P rating of BBB- or higher and/or Moody's Baa3 or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

Most of the unrealized losses are related to the Company's collateral mortgage obligations, mortgage-backed securities and obligations of state and political subdivisions. The decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and the Company does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuer(s) continues to make timely principal and interest payments on the bonds. The Company evaluates if a credit loss exists by monitoring to ensure it has adequate credit support and the Company has not recognized any expected credit losses on these securities at December 31, 2024.

NOTE 3 - INVESTMENT AND EQUITY SECURITIES (continued)

The following table shows the Company's fair value and gross unrealized losses, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31, 2023 (in thousands):

	2023					
	Less than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies	\$ -	\$ -	\$ 4,263	\$ (227)	\$ 4,263	\$ (227)
Mortgage-backed securities						
of government-sponsored entities	-	-	19,058	(3,263)	19,058	(3,263)
Collateralized mortgage obligations						
of government-sponsored entities	1,870	(11)	62,380	(6,481)	64,250	(6,492)
Obligations of states and political subdivisions:						
Taxable	-	-	12,382	(2,919)	12,382	(2,919)
Tax-exempt	1,096	(7)	51,725	(5,805)	52,821	(5,812)
Asset backed securities	3,481	(18)	4,461	(65)	7,942	(83)
Corporate securities	2,387	(94)	11,114	(1,546)	13,501	(1,640)
Total debt securities	<u>\$ 8,834</u>	<u>\$ (130)</u>	<u>\$ 165,383</u>	<u>\$ (20,306)</u>	<u>\$ 174,217</u>	<u>\$ (20,436)</u>

At December 31, 2023, the Company had 3 government sponsored mortgage backed or collateralized mortgage obligation securities, 3 obligations of state and political subdivisions securities, 3 asset backed securities and 4 corporate securities that have been in a gross unrealized loss position for less than 12 months with depreciation of 1.4 percent from the Company's amortized cost basis.

At December 31, 2023, the Company had 15 U.S. government agency securities, 123 government sponsored mortgage backed or collateralized mortgage obligation securities, 126 obligations of state and political subdivisions securities, 6 asset backed securities and 27 corporate securities that have been in a gross unrealized loss position for greater than 12 months with depreciation of 11 percent from the Company's amortized cost basis.

Unrealized losses have not been recognized into income because the issuer(s) bonds are of high credit quality (S&P rating of BBB- or higher and/or Moody's Baa3 or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuer(s) continues to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

Most of the unrealized losses are related to the Company's collateral mortgage obligations, mortgage-backed securities and obligations of state and political subdivisions. The decline in fair value is attributable to changes in interest rates and illiquidity, and not credit quality, and the Company does not have the intent to sell these securities, and it is likely that it will not be required to sell the securities before their anticipated recovery. The issuer(s) continues to make timely principal and interest payments on the bonds. The Company evaluates if a credit loss exists by monitoring to ensure it has adequate credit support and the Company has not recognized any expected credit losses on these securities at December 31, 2023.

NOTE 3 - INVESTMENT AND EQUITY SECURITIES (continued)

The amortized cost and fair values of debt securities at December 31, 2024, by contractual maturity, are shown below. Expected maturities of mortgage-backed securities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties (in thousands):

	Amortized Cost	Fair Value
Due in one year or less	\$ 20,916	\$ 19,937
Due after one year through five years	66,901	63,065
Due after five years through ten years	69,040	64,083
Due after ten years	91,042	79,719
Total debt securities	<u>\$ 247,899</u>	<u>\$ 226,804</u>

The following table is a summary of proceeds received, gross gains, and gross losses realized on the sale, call, and merger of investment securities for the years ended December 31 (in thousands):

	2024	2023
Proceeds	\$ 5,488	\$ 10,361
Gross gains	\$ 16	\$ 20
Gross losses	\$ (57)	\$ (60)

Investment securities that were pledged to secure deposits, short-term borrowings and for other purposes as required by law as of December 31 are as follows (in thousands):

	2024	2023
Amortized cost	\$ 80,476	\$ 112,551
Fair value	\$ 72,547	\$ 102,747

Equity Securities

The following summary of unrealized and realized gains and losses recognized in net income on equity securities for the years ended December 31 are as follows (in thousands):

	2024	2023
Net realized gains	\$ -	\$ -
Net unrealized (losses) gains	-	(3)
Net (losses) gains	<u>\$ -</u>	<u>\$ (3)</u>

There were no sales of equity securities in 2024 or 2023.

NOTE 4 - LOANS

Major classifications of loans at December 31 are as follows (in thousands):

	2024	2023
Commercial	\$ 91,204	\$ 97,232
Construction and development	49,443	53,993
Commercial real estate	450,778	405,087
Consumer	30,800	23,214
Residential real estate	153,077	142,920
Total	<u>\$ 775,302</u>	<u>\$ 722,446</u>

Total loans were net of unearned income of \$3.8 million and \$2.3 million at December 31, 2024, and 2023, respectively.

Real estate loans serviced for others which are not included in the Consolidated Balance Sheet totaled \$91.8 million and \$92 million, respectively at December 31, 2024, and 2023. Commercial loans serviced for others which are not included in the Consolidated Balance Sheet totaled \$52.4 million and \$49.5 million at December 31, 2024, and 2023, respectively.

In the normal course of business, loans are extended to officers and directors, their families, and corporations in which they are beneficially interested as stockholders, officers, or directors. A summary of loan activity for those officers and directors with aggregate loan balances in excess of \$60,000 for the year ended December 31, 2024, and 2023, is as follows (in thousands):

December 31, 2023	Additions	Amounts Collected	December 31, 2024
\$ 17,654	\$ 9,032	\$ 5,675	\$ 21,011
December 31, 2022	Additions	Amounts Collected	December 31, 2023
\$ 17,936	\$ 1,563	\$ 1,845	\$ 17,654

The Bank's primary business activity is with customers located within its local trade area. Generally, the Bank grants commercial, residential and consumer loans. The Bank also selectively funds and purchases commercial and residential loans outside of its local trade area provided such loans meet the Bank's credit policy guidelines. At December 31, 2024, and 2023, the Bank had approximately \$159 million and \$162 million, respectively, of outstanding loans to summer camps and recreational facilities in the northeastern United States. Although the Bank has a diversified loan portfolio at December 31, 2024, and 2023, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

NOTE 5—ALLOWANCE FOR CREDIT LOSSES

The total allowance reflects management's estimate of credit losses inherent in the loan portfolio at the balance sheet date. The Bank considers the allowance for credit losses adequate to cover credit losses inherent in the loan portfolio. The following tables present by portfolio segment, the allowance for credit losses for the years ended December 31 (in thousands):

2024							
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Unallocated	Total
Allowance for credit losses:							
Beginning balance	\$ 1,679	\$ 1,399	\$ 6,383	\$ 334	\$ 1,012	\$ -	\$ 10,807
Charge-offs	(1,057)	-	-	(269)	(9)	-	(1,335)
Recoveries	129	-	95	85	4	-	313
Provision *	888	(245)	301	301	94	-	1,339
Ending balance	<u>\$ 1,639</u>	<u>\$ 1,154</u>	<u>\$ 6,779</u>	<u>\$ 451</u>	<u>\$ 1,101</u>	<u>\$ -</u>	<u>\$ 11,124</u>

In 2024, the ACL for loans increased by \$317 thousand due to an overall increase in the loan portfolio and a slight increase in the historical loss rate. The commercial portfolio reserve decreased, however, the provision increased due to an evaluation of one specific relationship and likelihood there could be a loss.

2023							
	Commercial	Construction & Development	Commercial Real Estate	Consumer	Residential Real Estate	Unallocated	Total
Allowance for credit losses:							
Beginning balance	\$ 1,898	\$ 566	\$ 6,154	\$ 186	\$ 1,623	\$ 161	\$ 10,588
Impact of CECL adoption	45	682	23	2	(655)	(161)	(64)
Charge-offs	(82)	-	(160)	(116)	-	-	(358)
Recoveries	88	-	190	32	3	-	313
Provision *	(270)	151	176	230	41	-	328
Ending balance	<u>\$ 1,679</u>	<u>\$ 1,399</u>	<u>\$ 6,383</u>	<u>\$ 334</u>	<u>\$ 1,012</u>	<u>\$ -</u>	<u>\$ 10,807</u>

* Excludes provision for credit losses for unfunded commitments.

In 2023, due to the CECL adoption, all qualitative factor reserves were reallocated across all loan categories. Additionally, the use of peer historical loss data was implemented in 2023 as a more conservative approach to calculate our ACL.

NOTE 5 –ALLOWANCE FOR CREDIT LOSSES (continued)

Credit Quality Information

The following tables represent credit exposures by assigned grades for the years ended December 31, 2024, and 2023. The grading analysis estimates the capability of the borrower to repay the contractual obligations of the loan agreements as scheduled or at all. The Bank's internal credit risk grading system is based on experiences with similarly graded loans.

The Bank's internally assigned grades are as follows:

Pass – loans which are protected by the current net worth and paying capacity of the obligor or by the value of the underlying collateral.

Special Mention – loans where a potential weakness or risk exists, which could cause a more serious problem if not corrected.

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances.

Loss – loans classified as a loss are considered uncollectable, or of such value that continuance as an asset is not warranted.

Loans are graded by either independent loan review or internal review. Internally reviewed loans were assigned a risk weighting by the loan officer and approved by the loan committee but have not undergone a formal loan review by an independent party. These loans are typically smaller dollar balances that have not experienced delinquency issues. The following tables summarize the credit quality information for each loan type by risk rating and current period gross charge-offs for 2024 and 2023. Balances are net of unearned income and include overdrafts, loan settlement and loan unposted, as of December 31 (in thousands):

NOTE 5 –ALLOWANCE FOR CREDIT LOSSES (continued)
Credit Quality Information (continued)

	Term Loans Amortized by Origination Year						Revolving Lines*	Revolving Lines Converted to Term Loans*	Total
	2024	2023	2022	2021	2020	Prior			
Commercial:									
Risk Rating									
Pass	\$ 11,448	\$ 12,516	\$ 10,597	\$ 6,936	\$ 7,797	\$ 24,737	\$ 11,167	\$ 526	\$ 85,724
Special Mention	645	1,037	470	203	72	243	200	-	2,870
Substandard	233	7	256	528	229	1,357	-	-	2,610
Total commercial	<u>\$ 12,326</u>	<u>\$ 13,560</u>	<u>\$ 11,323</u>	<u>\$ 7,667</u>	<u>\$ 8,098</u>	<u>\$ 26,337</u>	<u>\$ 11,367</u>	<u>\$ 526</u>	<u>\$ 91,204</u>
Commercial:									
Current period gross charge-offs	\$ -	\$ (15)	\$ -	\$ -	\$ -	\$ (2)	\$ -	\$ (1,040)	\$ (1,057)
Construction and development:									
Risk Rating									
Pass	\$ 1,473	\$ 4,746	\$ 11,128	\$ 3,013	\$ 2,306	\$ 11,986	\$ 9,479	\$ 748	\$ 44,879
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	1,472	-	3,092	-	-	4,564
Total construction and development	<u>\$ 1,473</u>	<u>\$ 4,746</u>	<u>\$ 11,128</u>	<u>\$ 4,485</u>	<u>\$ 2,306</u>	<u>\$ 15,078</u>	<u>\$ 9,479</u>	<u>\$ 748</u>	<u>\$ 49,443</u>
Construction and development:									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:									
Risk Rating									
Pass	\$ 41,821	\$ 50,630	\$ 82,116	\$ 45,101	\$ 67,009	\$ 97,003	\$ 28,883	\$ 13,595	\$ 426,158
Special Mention	7,040	-	-	-	5,007	1,959	-	-	14,006
Substandard	-	562	2,854	-	768	6,430	-	-	10,614
Total commercial real estate	<u>\$ 48,861</u>	<u>\$ 51,192</u>	<u>\$ 84,970</u>	<u>\$ 45,101</u>	<u>\$ 72,784</u>	<u>\$ 105,392</u>	<u>\$ 28,883</u>	<u>\$ 13,595</u>	<u>\$ 450,778</u>
Commercial real estate:									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer:									
Risk Rating									
Pass	\$ 15,351	\$ 10,527	\$ 3,709	\$ 807	\$ 224	\$ 115	\$ 57	\$ -	\$ 30,790
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	3	4	3	-	-	-	-	10
Total consumer	<u>\$ 15,351</u>	<u>\$ 10,530</u>	<u>\$ 3,713</u>	<u>\$ 810</u>	<u>\$ 224</u>	<u>\$ 115</u>	<u>\$ 57</u>	<u>\$ -</u>	<u>\$ 30,800</u>
Consumer:									
Current period gross charge-offs	\$ (200)	\$ (11)	\$ (29)	\$ (16)	\$ (3)	\$ (10)	\$ -	\$ -	\$ (269)
Residential real estate:									
Risk Rating									
Pass	\$ 21,596	\$ 20,610	\$ 29,912	\$ 21,416	\$ 14,360	\$ 29,640	\$ 12,688	\$ 803	\$ 151,025
Special Mention	-	154	-	-	-	708	-	-	862
Substandard	-	-	120	55	18	904	-	93	1,190
Total residential real estate	<u>\$ 21,596</u>	<u>\$ 20,764</u>	<u>\$ 30,032</u>	<u>\$ 21,471</u>	<u>\$ 14,378</u>	<u>\$ 31,252</u>	<u>\$ 12,688</u>	<u>\$ 896</u>	<u>\$ 153,077</u>
Residential real estate:									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (9)	\$ -	\$ -	\$ (9)
Total loans	<u>\$ 99,607</u>	<u>\$ 100,792</u>	<u>\$ 141,166</u>	<u>\$ 79,534</u>	<u>\$ 97,790</u>	<u>\$ 178,174</u>	<u>\$ 62,474</u>	<u>\$ 15,765</u>	<u>\$ 775,302</u>

*amortized cost basis

There were no loans in a doubtful or loss at December 31, 2024.

NOTE 5- ALLOWANCE FOR CREDIT LOSSES (continued)
Credit Quality Information (continued)

	Term Loans Amortized by Origination Year						Revolving Lines*	Revolving Lines Converted to Term Loans*	Total
	2023	2022	2021	2020	2019	Prior			
Commercial:									
Risk Rating									
Pass	\$ 16,134	\$ 11,248	\$ 9,168	\$ 7,897	\$ 12,092	\$ 16,247	\$ 12,940	\$ 5,970	\$ 91,696
Special Mention	1,230	632	291	172	580	-	226	462	3,593
Substandard	17	(31)	542	10	(5)	1,395	-	15	1,943
Total commercial	<u>\$ 17,381</u>	<u>\$ 11,849</u>	<u>\$ 10,001</u>	<u>\$ 8,079</u>	<u>\$ 12,667</u>	<u>\$ 17,642</u>	<u>\$ 13,166</u>	<u>\$ 6,447</u>	<u>\$ 97,232</u>
Commercial:									
Current period gross charge-offs	\$ (14)	\$ (59)	\$ -	\$ (8)	\$ (1)	\$ -	\$ -	\$ -	\$ (82)
Construction and development:									
Risk Rating									
Pass	\$ 423	\$ 4,017	\$ 2,592	\$ 4,398	\$ 95	\$ 12,677	\$ 8,086	\$ 17,011	\$ 49,299
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	1,472	-	-	3,222	-	-	4,694
Total construction and development	<u>\$ 423</u>	<u>\$ 4,017</u>	<u>\$ 4,064</u>	<u>\$ 4,398</u>	<u>\$ 95</u>	<u>\$ 15,899</u>	<u>\$ 8,086</u>	<u>\$ 17,011</u>	<u>\$ 53,993</u>
Construction and development:									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:									
Risk Rating									
Pass	\$ 41,548	\$ 61,865	\$ 45,619	\$ 77,780	\$ 27,554	\$ 89,960	\$ 28,778	\$ 20,705	\$ 393,809
Special Mention	99	-	-	-	-	2,599	-	-	2,698
Substandard	-	-	-	1,017	6,556	1,007	-	-	8,580
Total commercial real estate	<u>\$ 41,647</u>	<u>\$ 61,865</u>	<u>\$ 45,619</u>	<u>\$ 78,797</u>	<u>\$ 34,110</u>	<u>\$ 93,566</u>	<u>\$ 28,778</u>	<u>\$ 20,705</u>	<u>\$ 405,087</u>
Commercial real estate:									
Current period gross charge-offs	\$ (60)	\$ (100)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (160)
Consumer:									
Risk Rating									
Pass	\$ 14,444	\$ 5,773	\$ 1,734	\$ 668	\$ 440	\$ 82	\$ 55	\$ -	\$ 23,196
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	7	6	1	4	-	-	-	18
Total consumer	<u>\$ 14,444</u>	<u>\$ 5,780</u>	<u>\$ 1,740</u>	<u>\$ 669</u>	<u>\$ 444</u>	<u>\$ 82</u>	<u>\$ 55</u>	<u>\$ -</u>	<u>\$ 23,214</u>
Consumer:									
Current period gross charge-offs	\$ (57)	\$ (18)	\$ (26)	\$ (3)	\$ (7)	\$ -	\$ (5)	\$ -	\$ (116)
Residential real estate:									
Risk Rating									
Pass	\$ 21,572	\$ 25,398	\$ 24,178	\$ 16,533	\$ 6,872	\$ 27,549	\$ 12,212	\$ 6,526	\$ 140,840
Special Mention	157	-	-	-	446	286	-	-	889
Substandard	-	-	-	-	-	1,191	-	-	1,191
Total residential real estate	<u>\$ 21,729</u>	<u>\$ 25,398</u>	<u>\$ 24,178</u>	<u>\$ 16,533</u>	<u>\$ 7,318</u>	<u>\$ 29,026</u>	<u>\$ 12,212</u>	<u>\$ 6,526</u>	<u>\$ 142,920</u>
Residential real estate:									
Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total loans	<u>\$ 95,624</u>	<u>\$ 108,909</u>	<u>\$ 85,602</u>	<u>\$ 108,476</u>	<u>\$ 54,634</u>	<u>\$ 156,215</u>	<u>\$ 62,297</u>	<u>\$ 50,689</u>	<u>\$ 722,446</u>

*amortized cost basis

There were no loans in a doubtful or loss position at December 31, 2023.

NOTE 5- ALLOWANCE FOR CREDIT LOSSES (continued)**Age Analysis of Past Due Loans by Class**

The following tables which include an aging analysis of the amortized cost of past due loans as of December 31 including loans which are in nonaccrual status (in thousands):

	2024					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans
Commercial	\$ 166	\$ 63	\$ 479	\$ 708	\$ 90,496	\$ 91,204
Construction and development	243	1,472	-	1,715	47,728	49,443
Commercial real estate	320	-	90	410	450,368	450,778
Consumer	147	-	-	147	30,653	30,800
Residential real estate	483	111	287	881	152,196	153,077
Total	<u>\$ 1,359</u>	<u>\$ 1,646</u>	<u>\$ 856</u>	<u>\$ 3,861</u>	<u>\$ 771,441</u>	<u>\$ 775,302</u>

	2023					
	30-59 Days Past Due	60-89 Days Past Due	90 Days Or Greater	Total Past Due	Current	Total Loans
Commercial	\$ 10	\$ 15	\$ 17	\$ 42	\$ 97,190	\$ 97,232
Construction and development	-	-	1,472	1,472	52,521	53,993
Commercial real estate	778	97	319	1,194	403,893	405,087
Consumer	39	4	-	43	23,171	23,214
Residential real estate	385	435	8	828	142,092	142,920
Total	<u>\$ 1,212</u>	<u>\$ 551</u>	<u>\$ 1,816</u>	<u>\$ 3,579</u>	<u>\$ 718,867</u>	<u>\$ 722,446</u>

NOTE 5- ALLOWANCE FOR CREDIT LOSSES (continued)**Collateral Dependent Loans**

The following tables present individually analyzed and collateral dependent loans by classes of loan type (in thousands):

	2024			
	Type of Collateral			
	Real Estate	Blanket Lien	Other	Total
Commercial	\$ 618	\$ -	\$ -	\$ 618
Construction and development	1,472	-	-	1,472
Commercial real estate	7,981	-	-	7,981
Consumer	-	-	-	-
Residential real estate	696	-	-	696
Total	<u>\$ 10,767</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,767</u>

	2023			
	Type of Collateral			
	Real Estate	Blanket Lien	Other	Total
Commercial	\$ 663	\$ 8	\$ -	\$ 671
Construction and development	1,472	-	-	1,472
Commercial real estate	5,157	-	-	5,157
Consumer	-	-	-	-
Residential real estate	597	-	-	597
Total	<u>\$ 7,889</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ 7,897</u>

Nonperforming Loans

The following tables present the amortized cost basis of loans on nonaccrual status and loan past due over 90 days still accruing interest as of December 31, 2024, and 2023 (in thousands):

	2024				
	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans > 90 days and Accruing	Total Nonperforming
Commercial	\$ 453	\$ 778	\$ 1,231	\$ -	\$ 1,231
Construction and development	1,472	-	1,472	-	1,472
Commercial real estate	7,742	166	7,908	-	7,908
Consumer	-	10	10	-	10
Residential real estate	275	761	1,036	-	1,036
Total	<u>\$ 9,942</u>	<u>\$ 1,715</u>	<u>\$ 11,657</u>	<u>\$ -</u>	<u>\$ 11,657</u>

NOTE 5 –ALLOWANCE FOR CREDIT LOSSES (continued)**Nonperforming Loans** (continued)

In 2024, cash payments received and applied to interest on nonaccrual loans were \$775 thousand. There are three nonperforming loans with foreclosure probable. The residential real estate loan is secured by a first lien on the mortgage. The two commercial real estate loans are secured by first lien on the mortgage.

	2023				
	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans > 90 days and Accruing	Total Nonperforming
Commercial	\$ 3	\$ 538	\$ 541	\$ -	\$ 541
Construction and development	1,472	-	1,472	-	1,472
Commercial real estate	4,658	825	5,483	-	5,483
Consumer	-	17	17	-	17
Residential real estate	283	517	800	-	800
Total	<u>\$ 6,416</u>	<u>\$ 1,897</u>	<u>\$ 8,313</u>	<u>\$ -</u>	<u>\$ 8,313</u>

In 2023, cash payments received and applied to interest on nonaccrual loans were \$1 million.

There are four nonperforming loans with foreclosure probable. The residential real estate loan is secured by a first lien on the mortgage. Two of the commercial real estate loans are secured by first lien on the mortgage while the other commercial real estate loan is secured by corporate guarantee and assignment of leases and rents.

Modifications to Borrowers Experiencing Financial Difficulty

The following tables show the amortized cost at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty during the years ended December 31, 2024, and 2023: (dollars in thousands):

	2024	
	Payment Deferral	
	Amortized Cost	% of Total Class Financing Receivable
Commercial real estate	\$ 119	0.02%
Total	<u>\$ 119</u>	
	2023	
	Interest Rate Reduction	
	Amortized Cost	% of Total Class Financing Receivable
Commercial real estate	\$ 137	0.02%
Total	<u>\$ 137</u>	

NOTE 5—ALLOWANCE FOR CREDIT LOSSES (continued)**Modifications to Borrowers Experiencing Financial Difficulty** (continued)

There are no commitments to the lend to the borrowers included in the tables above.

2023	
Interest Rate Reduction	
Loan Type	Financial Effect
Commercial real estate	Reduced weighted average contractual interest rate from 7.04% to 5.60%

The Bank closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification's efforts. The following tables depict the performance of loans that have been modified in the last 12 months (in thousands):

2024					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Residential real estate	\$ 119	\$ -	\$ -	\$ -	\$ -
Total	<u>\$ 119</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
2023					
	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due
Commercial real estate	\$ 84	\$ 53	\$ -	\$ -	\$ 53
Total	<u>\$ 84</u>	<u>\$ 53</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 53</u>

Defaulted modifications to borrowers experiencing financial difficulty are defined as loans having a payment default of 90 days or more after the restructuring takes place that were modified within the last 12 months prior to defaulting.

The effect of the modifications made to borrowers experiencing financial difficulty is already included in the ACL because the measurement methodologies used to estimate the ACL. Therefore, a change to the ACL is generally not recorded upon modification. If principal forgiveness is provided, that portion of loan will be charged off, resulting in a reduction of the amortized cost basis and a corresponding adjustment to the ACL. An assessment of whether the borrower is experiencing financial difficulty is made on the date of modification.

NOTE 6 - PREMISES AND EQUIPMENT

A summary by asset classification at December 31 is as follows (in thousands):

	2024	2023
Land	\$ 3,521	\$ 3,521
Premises and improvements	22,499	22,472
Furniture and equipment	4,757	4,785
Leasehold improvements	1,179	1,179
Total, at cost	31,956	31,957
Less accumulated depreciation	12,682	11,803
Net premises and equipment	<u>\$ 19,274</u>	<u>\$ 20,154</u>

Depreciation and amortization expense was \$906 and \$945 thousand, in 2024 and 2023, respectively.

NOTE 7 - DEPOSITS

Deposits at December 31 are summarized as follows (in thousands):

	2024	2023
Demand - noninterest-bearing	\$ 177,369	\$ 178,553
Demand - interest-bearing	162,091	162,132
Money market	77,619	88,031
Savings	120,878	125,208
Time deposits of \$250,000 or more	118,540	80,567
Other time deposits	254,515	192,049
Total	<u>\$ 911,012</u>	<u>\$ 826,540</u>

Included in the deposit accounts are deposits of one customer relationship totaling \$36.8 million and \$31.9 million at December 31, 2024, and 2023, respectively. This customer is a public fund relationship, and all deposits have bonds pledged or letters of credit through the FHLB to cover any balances over FDIC insured limit.

The following table summarizes the maturity distribution of time deposits at December 31, 2024 (in thousands):

2025	\$ 345,604
2026	19,658
2027	6,620
2028	751
2029	422
Total	<u>\$ 373,055</u>

Brokered deposits totaled \$64.6 million and \$56.3 million for the years ended December 31, 2024, and 2023, respectively.

NOTE 8 - SHORT-TERM BORROWINGS

Short-term borrowings consist of borrowings from correspondent banks. Average amounts outstanding during the year represent daily average balances and average interest rates represent interest expense divided by the related average balance.

The outstanding balances and related information for short-term borrowings at December 31 are summarized as follows (in thousands):

	2024		2023	
	Amount	Rate	Amount	Rate
Balance at year-end	\$ -	0.00%	\$ 15,677	5.68%
Average balance outstanding during the year	\$ 13,813	5.66%	\$ 51,773	5.37%
Maximum amount outstanding at any month-end	\$ 36,558		\$ 78,490	

FHLB borrowings are subject to annual renewal, incur no service charges and are secured by a blanket security agreement on certain investment securities, qualifying loans, and the Bank's investment in FHLB stock. At December 31, 2024, the Bank's remaining borrowing capacity with FHLB was approximately \$313 million. The Bank has unsecured lines of credit with correspondent banks in the amount of \$22 million. In addition, the Bank has the ability to borrow overnight at the Federal Reserve Bank of Philadelphia (Fed) discount window based on the level of collateral pledged. At December 31, 2024, the balance available was approximately \$23 million.

NOTE 9 - OTHER BORROWED FUNDS

Other borrowed funds consist of FHLB fixed rate advances at December 31 as follows (in thousands):

Description	Maturity Range		Weighted-Average Rate	Stated Interest Rate Range		2024	2023
	From	To		From	To		
Fixed rate	03/31/25	05/30/25	3.48%	.95%	4.79%	\$ 15,191	\$ 17,041
Fixed rate amortizing	12/31/25	11/01/28	4.42%	2.31%	5.26%	31,106	17,425
Total						<u>\$ 46,297</u>	<u>\$ 34,466</u>

The following table represents maturities/repayments and weighted average rates of the remaining FHLB advances (in thousands):

Year Ending December 31,	Maturities/ Repayments	Weighted-Average Rate
2025	\$ 26,687	4.13%
2026	10,937	4.34%
2027	8,227	4.53%
2028	446	5.05%
Total	<u>\$ 46,297</u>	4.21%

NOTE 10- DERIVATIVE FINANCIAL INSTRUMENTS

In 2018, the Bank entered into an interest rate swap to hedge the interest rate risk related to a fixed rate commercial loan. Under the commercial loan agreement, the Bank entered into a variable rate loan agreement with a customer in addition to a hedging agreement, which serves to effectively convert the customer's variable rate into a fixed rate. The Bank then entered into a corresponding interest rate swap agreement with a swap counterparty in order to economically hedge its exposure to the customer hedging agreement. The interest rate swap with the swap counterparty and the hedging agreement with the customer are not designated as hedges under FASB ASC 815. The customer hedging agreement meets the definition of a derivative contract (ASC 815-10-83) that must be bifurcated (ASC 815-15-25-1) and accounted for as a standalone derivative. The market value of both the interest rate swap and the customer hedging agreement are carried on the balance sheet at their underlying market values.

Changes in the underlying market values of the interest rate swap and the customer hedging agreement are recorded in current earnings. There was no effect on earnings in any periods presented. At December 31, 2024, based upon the swap contract values, a U.S. Government-sponsored mortgage-backed security was pledged for collateral with the third-party financial institution with a fair value \$353 thousand.

As of December 31, summary information regarding these derivatives is presented below (in thousands):

2024					
Interest Rate Derivative	Notional Amount	Interest Rate Paid	Interest Rate Received	Maturity Date	Unrealized Gain
Commercial Loan	\$ 2,046	Fixed	1 month SOFR plus margin	2028	\$ -
2023					
Interest Rate Derivative	Notional Amount	Interest Rate Paid	Interest Rate Received	Maturity Date	Unrealized Gain
Commercial Loan	\$ 2,223	Fixed	1 month SOFR plus margin	2028	\$ -

The following table presents the fair values of derivative instruments in the balance sheet as of December 31 (in thousands):

Interest rate derivatives	Balance Sheet		Balance Sheet	
	Location	Fair Value	Location	Fair Value
2024	Other assets	\$ 37	Other liabilities	\$ 37
2023	Other assets	\$ 16	Other liabilities	\$ 16

NOTE 11 - DIVIDEND REINVESTMENT AND STOCK PURCHASE PLAN

The Company maintains a Dividend Reinvestment and Stock Purchase Plan (the DRP Plan). Participation is available to all common stockholders. The DRP Plan provides each participant with a simple and convenient method of purchasing additional common shares without payment of any brokerage commission or other service fees.

A participant in the DRP Plan may elect to reinvest dividends on all or part of his or her shares to acquire additional common stock. Participants may also make cash contributions for the purchase of additional shares of common stock. A participant may withdraw from the DRP Plan at any time. The following table represents the number of shares purchased by stockholders through the DRP Plan:

	2024	2023
Shares purchased through dividend reinvestment	28,373	25,213
Shares purchased through cash contributions	230	773
Total shares	28,603	25,986

The Company offers an Employee Stock Purchase Plan that allows eligible employees the opportunity through payroll deductions to purchase shares of the Company stock at a discounted rate with no additional fees. Employees purchased 3,201 shares in 2024 and 3,637 shares in 2023 under this program.

NOTE 12 - EMPLOYEE BENEFITS

Retirement Plan

The Bank maintains a section 401(k) employee savings and investment plan for substantially all employees and officers of the Bank. The Bank's contribution to the plan is based on 100 percent matching of voluntary contributions up to 3 percent and 50 percent matching on the next 2 percent of individual compensation. Additionally, the Bank may contribute a discretionary amount each year. For each of the years of 2024 and 2023, the Board of Directors authorized an additional 4 percent and 3 percent, respectively of each eligible employee's compensation. Employee contributions are vested at all times, and Bank contributions are fully vested after five years. Contributions for 2024 and 2023, to this plan amounted to \$722 and \$719 thousand, respectively.

Supplemental Retirement Plan

The Bank maintains a Salary Continuation Plan for certain officers of the Bank to provide guaranteed consecutive postretirement payments totaling a predetermined amount over a ten or fifteen-year period. As of December 31, 2024, and 2023 these balances were \$5.2 million and \$4.9 million, respectively. Expenses for the years ended December 31, 2024, and 2023 amounted to \$558 and \$545 thousand, respectively, and are included as a component of salaries and employee benefits.

Stock Compensation Plans

On April 25, 2019, the 2019 Equity Incentive Plan was approved by shareholders. A total of 200,000 shares are included for issuance or transfer. The plan will terminate on the day preceding the tenth anniversary of the date of shareholder ratification. These awards may be made as incentive stock options, non-qualified stock options, or stock awards and a maximum of 25,000 shares can be awarded per individual per calendar year. Options are granted at no less than the fair value of the Company's common stock on the date of grant.

There were no options from the 2019 Equity Incentive Plan granted in 2024 or 2023. There were no shares of restricted stock from the 2019 Equity Incentive Plan granted in 2024 or 2023.

Stock options and restricted stock granted to directors vested over two years. Stock options and restricted stock granted to officers vested over five years. All stock options expire ten years after the grant. The weighted average period over which these expenses were recognized was approximately five years for employees and two years for directors.

NOTE 12 - EMPLOYEE BENEFITS (continued)**Stock Compensation Plans** (continued)

The Company expenses the fair value of all share-based compensation over the requisite service periods. The fair value of both stock options and restricted stock are expensed on a straight-line basis. The Company classifies share-based compensation for employees within salaries and employee benefits and for directors within other expense on the Consolidated Statement of Income. Additionally, the Company reports the expense associated with the grants as an adjustment to operating cash flows.

As of December 31, the following was expensed as compensation expense relating to share-based compensation (in thousands):

	<u>2024</u>	<u>2023</u>
Stock options	\$ 43	\$ 64
Restricted stock	\$ 112	\$ 161

As of December 31, 2024, there was a tax benefit of \$33 thousand, in 2023 there was tax benefit of \$47 thousand, 2022 there was a tax benefit recognized of \$32 thousand.

As of December 31, the following was unrecognized compensation related to the plan (in thousands):

	<u>2024</u>	<u>2023</u>
Stock options	\$ 70	\$ 113
Restricted stock	\$ 174	\$ 286

A summary of the Company's stock award activity for the year ended December 31 is as follows:

	<u>2024</u>	<u>Weighted-Average Exercise Price</u>
Stock options:		
Outstanding, beginning of year	60,630	\$ 39.67
Exercised	<u>(100)</u>	\$ 35.90
Outstanding, end of year	<u><u>60,530</u></u>	\$ 39.67
Restricted stock awards:		
Nonvested, beginning of year	8,618	\$ 40.25
Vested	<u>(4,060)</u>	\$ 39.64
Nonvested, end of year	<u><u>4,558</u></u>	\$ 40.80

NOTE 12 - EMPLOYEE BENEFITS (continued)**Stock Compensation Plans** (continued)

The following table summarizes characteristics of stock options outstanding at December 31, 2024:

Exercise Price	Outstanding			Exercisable	
	Shares	Average Remaining Life	Average Exercise Price	Shares	Average Exercise Price
\$ 40.30	23,200	4.05	\$ 40.30	23,200	\$ 40.30
\$ 36.00	8,820	5.26	\$ 36.00	7,380	\$ 36.00
\$ 35.90	13,810	6.22	\$ 35.90	9,490	\$ 35.90
\$ 44.44	14,700	7.64	\$ 44.44	7,142	\$ 44.44
Total	<u>60,530</u>		Total	<u>47,212</u>	

On February 23, 2017, the Company adopted an employee stock bonus plan. Stock is issued at no cost to certain employees. Expense associated with this plan is included in salaries and employee benefits. There were no expenses related to the plan year ended December 31, 2024, or 2023. A total of 750 shares of common stock are reserved under the plan. There were no shares issued in 2024, or 2023.

	2024	2023
Available shares to be issued	435	435
Granted	-	-
Shares issued	-	-
Remaining shares	<u>435</u>	<u>435</u>

NOTE 13 - INCOME TAXES

Income tax expense at December 31 consists of the following (in thousands):

	2024	2023
Currently payable-federal	\$ 3,011	\$ 2,182
Currently payable-state	153	128
Deferred taxes	<u>(291)</u>	<u>(111)</u>
Total provision	<u>\$ 2,873</u>	<u>\$ 2,199</u>

NOTE 13 - INCOME TAXES (continued)

The components of the net deferred tax assets and liabilities at December 31 are as follows (in thousands):

	2024	2023
Deferred tax assets:		
Allowance for credit losses	\$ 2,439	\$ 2,375
Salary continuation plan	1,102	1,040
Nonaccrual loans	291	207
Stock options and grants	47	54
Right of use-leases	394	415
Accrued compensation	84	84
Partnership investment	537	497
Unrealized loss on investment securities	4,430	4,247
Total	<u>9,324</u>	<u>8,919</u>
Deferred tax liabilities:		
Premises and equipment	375	453
Deferred loan origination fees, net	116	115
Prepaid contribution	94	64
Lease liability	373	395
Total	<u>958</u>	<u>1,027</u>
Net deferred tax assets	<u>\$ 8,366</u>	<u>\$ 7,892</u>

No valuation allowance was established at December 31, 2024, and 2023, in view of the Company's ability to carryback taxes paid in previous years and certain tax strategies and anticipated future taxable income as evidenced by the Company's earnings potential.

A reconciliation between the expected statutory income tax rate and the effective income tax rate follows (in thousands):

	2024		2023	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 3,321	21.0 %	\$ 2,736	21.0 %
State tax, net of federal tax benefit	121	.8	101	.8
Tax-exempt income	(436)	(2.8)	(451)	(3.4)
BOLI earnings	(146)	(.9)	(129)	(1.0)
Nondeductible interest	205	1.3	161	1.2
Partnership investment tax credit	(271)	(1.7)	(271)	(2.1)
Other, net	79	.5	52	.4
Effective income tax and rate	<u>\$ 2,873</u>	<u>18.2 %</u>	<u>\$ 2,199</u>	<u>16.9 %</u>

The Company prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information.

NOTE 13 - INCOME TAXES (continued)

A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. The Company's federal and state income tax returns for taxable years through 2020 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES

Commitments

In the normal course of business, there are outstanding commitments and contingent liabilities such as commitments to extend credit, financial guarantees and letters of credit that are not reflected in the accompanying Consolidated Financial Statements. The Company does not anticipate any losses as a result of these transactions. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the Consolidated Balance Sheet. The contractual or notional amounts of those instruments reflect the extent of involvement the Company has in the particular classes of financial instruments.

Financial instruments whose contractual amounts represent credit risk at December 31 are as follows (in thousands):

	2024	2023
Commitments to extend credit	\$ 100,144	\$ 84,875
Standby letters of credit	\$ 4,063	\$ 7,318

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements.

Standby letters of credit represent conditional commitments issued by the Company to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized at the expiration of the coverage period.

As of December 31, 2024, and 2023, the balance of the ACL for off balance sheet credit exposures was \$493 thousand and \$505 thousand, respectively which relates to unfunded loan commitments.

Operating leases in which the Company is the lessee are recorded as operating lease Right of Use (ROU) assets and operating lease liabilities, included in other assets and other liabilities, respectively, on the consolidated balance sheets. The Company does not currently have any finance leases. Operating lease ROU assets represent the right to use an underlying asset during the lease term and operating lease liabilities represent the obligation to make lease payments arising from the lease.

The Company elected to adopt the transition method, which uses a modified retrospective transition approach. ROU assets and operating lease liabilities are recognized as of the date of adoption based on the present value of the remaining lease payments using a discount rate that represents the Company's incremental borrowing rate at the date of initial application.

NOTE 14 - COMMITMENTS AND CONTINGENT LIABILITIES (continued)

Commitments (continued)

Operating lease expense, which is comprised of amortization of the ROU asset and the implicit interest accreted on the operating lease liability, is recognized on a straight-line basis over the lease term and is recorded in occupancy and equipment expense in the consolidated statements of income and other comprehensive income. The leases relate to Bank branches with remaining lease terms of generally 1 to 5 years. Certain lease arrangements contain extension options which are typically 5 years at the then fair market rental rates. As these extension options are generally considered reasonably certain of exercise, they are included in the lease term.

At December 31, 2024, operating lease ROU assets were \$1.8 million, and operating lease liabilities were \$1.9 million. At December 31, 2023, operating lease ROU assets were \$1.9 million, and operating lease liabilities were \$2 million.

December 31, 2024

Weighted average remaining lease term- operating leases in years	17.1
Weighted average discounted rate-operating leases	3.59%

The following table summarizes aggregate lease maturities and obligations as of December 31, 2024 (in thousands):

2025	\$ 183
2026	184
2027	184
2028	185
2029	186
2030 and thereafter	<u>1,626</u>
Total lease payments	2,548
Less: interest	<u>672</u>
Present value of lease liability	<u>\$ 1,876</u>

Rental expense amounted to \$186 and \$241 thousand for the years ended December 31, 2024, and 2023, respectively.

Contingent Liabilities

The Company and its subsidiary are involved in various legal actions from the normal course of business activities. Management believes the liability, if any, arising from such actions will not have a material adverse effect on the Company's financial position.

NOTE 15 - REGULATORY RESTRICTIONS

Cash and Due From Banks

The Bank is no longer required to maintain reserved funds in cash or on deposit with Fed.

Dividends

The Pennsylvania Banking Code restricts the availability of capital funds for payment of dividends by all state-chartered banks to the surplus of the Bank. Accordingly, at December 31, 2024, the balance in the capital surplus account totaling approximately \$1.8 million is unavailable for dividends.

NOTE 16 - REGULATORY CAPITAL REQUIREMENTS

Federal regulations require the Company and the Bank to maintain minimum amounts of capital. Specifically, each is required to maintain certain minimum dollar amounts of ratios of Common Equity Tier 1, Total, and Tier 1 Capital to Risk-Weighted Assets and of Tier 1 Capital to Average Assets.

In addition to the capital requirements, the Federal Deposit Insurance Corporation Insurance Act (FDICIA) established five capital categories ranging from well capitalized to critically undercapitalized. Should any institution fail to meet the requirements to be considered adequately capitalized, it would become subject to a series of increasingly restrictive regulatory actions.

As of December 31, 2024, and 2023, the FDIC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, Common Equity Tier 1 Risk-Based, Tier 1 Risk-Based, Total Risk-Based, and Tier 1 Leverage Capital ratios must be at least 6.5%, 8%, 10%, and 5%, respectively.

The Company's capital position does not differ significantly from the Bank's capital position. The Company's actual capital ratios (using the definitions from the prompt corrective action rules) are presented in the following tables, which shows the Company met all regulatory capital requirements.

At December 31, 2024, and 2023, the Company's capital levels were as follows (in thousands):

	2024		2023	
	Amount	Ratio	Amount	Ratio
<u>Total Capital</u>				
<u>(to Risk-Weighted Assets)</u>				
Actual	\$ 135,284	14.23%	\$ 125,420	14.44%
For capital adequacy purposes	\$ 84,087	8.00%	\$ 79,316	8.00%
To be well capitalized	\$ 105,109	10.00%	\$ 99,145	10.00%
<u>Tier I Capital</u>				
<u>(to Risk-Weighted Assets)</u>				
Actual	\$ 123,667	13.01%	\$ 114,554	13.18%
For capital adequacy purposes	\$ 57,029	6.00%	\$ 52,131	6.00%
To be well capitalized	\$ 76,039	8.00%	\$ 69,508	8.00%
<u>Tier I Capital</u>				
<u>(to Average Assets)</u>				
Actual	\$ 123,667	11.77%	\$ 114,554	11.55%
For capital adequacy purposes	\$ 42,043	4.00%	\$ 39,658	4.00%
To be well capitalized	\$ 5,254	5.00%	\$ 49,573	5.00%
<u>Common Equity Tier 1</u>				
<u>(to Risk-Weighted Assets)</u>				
Actual	\$ 123,667	13.01%	\$ 114,554	13.18%
For capital adequacy purposes	\$ 42,772	4.50%	\$ 39,098	4.50%
To be well capitalized	\$ 61,781	6.50%	\$ 56,475	6.50%

NOTE 17 – FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchical disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels defined by the Company are as follows:

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities include items for which quoted prices are available but traded less frequently, and items that are fair valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Assets and liabilities that have little to no pricing observability as of the reported date. These items do not have two-way markets and are measured using management's best estimate of fair value, where the inputs into the determination of fair value require significant management judgment or estimation.

This hierarchy requires the use of observable market data when available.

The following is a description of the valuation methodologies the Company uses for financial instruments recorded at fair value on either a recurring or nonrecurring basis:

Securities Available for Sale

Securities available for sale consists of debt securities. These securities are recorded at fair value on a recurring basis. At December 31, all of these securities used valuation methodologies involving market-based or market derived information, collectively Level I and Level II measurements, to measure fair value.

The Company closely monitors market conditions involving assets that have become less actively traded. If the fair value measurement is based upon recent observable market activity of such assets or comparable assets (other than forced or distressed transactions) that occur in sufficient volume, and do not require significant adjustment using unobservable inputs, those assets are classified as Level I or Level II; if not, they are classified as Level III. Making this assessment requires significant judgment.

The Company uses prices from independent pricing services and, to a lesser extent, indicative (non-binding) quotes from independent brokers to measure securities.

Equity Securities

Equity securities are recorded at fair value on a recurring basis. At December 31, these securities used valuation methodologies involving market-based information as Level 1 measurements to measure fair value.

Derivative Instruments

Derivates are recorded at fair value on a recurring basis. At December 31, these derivatives used valuation methods involving discounted net present value of the fixed and floating cash flow streams.

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables present the assets reported on the Consolidated Balance Sheet at their fair value as of December 31, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement (in thousands):

	2024			
	Level 1	Level II	Level III	Total
Assets:				
U.S. government agencies	\$ -	\$ 4,268	\$ -	\$ 4,268
Mortgage-backed securities				
of government-sponsored entities	-	16,978	-	16,978
Collateralized mortgage obligations				
of government-sponsored entities	-	89,011	2,612	91,623
Obligations of states and political subdivisions:				
Taxable	-	11,929	-	11,929
Tax-exempt	-	60,614	-	60,614
Asset backed securities	-	14,516	-	14,516
Corporate securities	-	24,426	2,450	26,876
Total debt securities	\$ -	\$ 221,742	\$ 5,062	\$ 226,804
Equity securities of financial institutions	\$ 52	\$ -	\$ -	\$ 52
Derivatives	\$ -	\$ 37	\$ -	\$ 37
Liabilities:				
Derivatives	\$ -	\$ 37	\$ -	\$ 37

	2023			
	Level 1	Level II	Level III	Total
Assets:				
U.S. government agencies	\$ -	\$ 4,425	\$ -	\$ 4,425
Mortgage-backed securities				
of government-sponsored entities	-	19,346	-	19,346
Collateralized mortgage obligations				
of government-sponsored entities	-	73,083	-	73,083
Obligations of states and political subdivisions:				
Taxable	-	12,382	-	12,382
Tax-exempt	-	62,726	-	62,726
Asset backed securities	-	9,923	-	9,923
Corporate securities	-	13,285	1,916	15,201
Total debt securities	\$ -	\$ 195,170	\$ 1,916	\$ 197,086
Equity securities of financial institutions	\$ 52	\$ -	\$ -	\$ 52
Derivatives	\$ -	\$ 16	\$ -	\$ 16
Liabilities:				
Derivatives	\$ -	\$ 16	\$ -	\$ 16

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Balance Sheet at their fair value as of December 31 by level within the fair value hierarchy. Other real estate fair value is determined by current appraisal less management estimate of market volatility or by a current market offering adjusted for volatility, both classified as Level III inputs. Individually evaluated loans that are collateral dependent are written down to fair value through the establishment of specific reserves. Techniques used to value the collateral that secure the individually evaluated loan include quoted market prices for identical assets classified as Level I inputs; observable inputs, employed by certified appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs. Mortgage servicing rights fair value is estimated by discounting future cash flows using current market inputs at which loans with similar terms and qualities would be made to borrowers of similar credit quality. Where quoted market prices were available, primarily for certain residential mortgage loans, such market rates were utilized as estimates for fair value. Those valuations are as follows (in thousands):

	2024			
	Level 1	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Other real estate owned	\$ -	\$ -	\$ 224	\$ 224
Mortgage servicing rights	\$ -	\$ -	\$ 694	\$ 694
	2023			
	Level 1	Level II	Level III	Total
Assets measured on a nonrecurring basis:				
Individually evaluated loans	\$ -	\$ -	\$ 770	\$ 770
Other real estate owned	\$ -	\$ -	\$ 224	\$ 224
Mortgage servicing rights	\$ -	\$ -	\$ 678	\$ 678

NOTE 17 – FAIR VALUE MEASUREMENTS (continued)

The following tables provide information describing the valuation processes used to determine nonrecurring fair value measurements categorized within Level III of the fair value hierarchy as follows (in thousands):

2024				
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
Other real estate owned	\$ 224	Appraised values/tax assessment	Management discount for property type and recent market volatility	42.72% discount
Mortgage servicing rights	\$ 694	Discounted cash flows	Market rates	10.5% - 11.5% discount (10.84%)
2023				
	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
Individually evaluated loans	\$ 770	Appraised values	Management discount for property type and recent market volatility	29.99%-39.73% discount (33.42%)
Other real estate owned	\$ 224	Appraised values/tax assessment	Management discount for property type and recent market volatility	42.72% discount
Mortgage servicing rights	\$ 678	Discounted cash flows	Market rates	10.5% - 11.5% discount (10.81%)

NOTE 18 - FAIR VALUE DISCLOSURE

The estimated fair values of the Company's financial instruments carried at cost at December 31 are as follows (in thousands):

2024					
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	\$ 17,966	\$ 17,966	\$ -	\$ -	\$ 17,966
Net loans	\$ 764,178	\$ -	\$ -	\$ 763,715	\$ 763,715
Accrued interest receivable	\$ 4,163	\$ 4,163	\$ -	\$ -	\$ 4,163
Regulatory stock	\$ 3,948	\$ 3,948	\$ -	\$ -	\$ 3,948
Bank-owned life insurance	\$ 28,038	\$ 28,038	\$ -	\$ -	\$ 28,038
Financial liabilities:					
Deposits	\$ 911,012	\$ 537,957	\$ -	\$ 371,621	\$ 909,578
Other borrowed funds	\$ 46,297	\$ -	\$ -	\$ 46,475	\$ 46,475
Accrued interest payable	\$ 1,072	\$ 1,072	\$ -	\$ -	\$ 1,072
2023					
	Carrying Value	Level I	Level II	Level III	Total Fair Value
Financial assets:					
Cash and cash equivalents	\$ 8,708	\$ 8,708	\$ -	\$ -	\$ 8,708
Net loans	\$ 711,639	\$ -	\$ -	\$ 691,935	\$ 691,935
Accrued interest receivable	\$ 3,788	\$ 3,788	\$ -	\$ -	\$ 3,788
Regulatory stock	\$ 4,060	\$ 4,060	\$ -	\$ -	\$ 4,060
Fixed annuity	\$ 2,993	\$ 2,993	\$ -	\$ -	\$ 2,993
Bank-owned life insurance	\$ 27,345	\$ 27,345	\$ -	\$ -	\$ 27,345
Financial liabilities:					
Deposits	\$ 826,540	\$ 553,924	\$ -	\$ 270,749	\$ 824,673
Short-term borrowings	\$ 15,677	\$ 15,677	\$ -	\$ -	\$ 15,677
Other borrowed funds	\$ 34,466	\$ -	\$ -	\$ 34,354	\$ 34,354
Accrued interest payable	\$ 759	\$ 759	\$ -	\$ -	\$ 759

NOTE 18 - FAIR VALUE DISCLOSURE (continued)

Financial instruments are defined as cash, evidence of ownership interest in an entity, or a contract which creates an obligation or right to receive or deliver cash or another financial instrument from/to a second entity on potentially favorable or unfavorable terms.

Fair value is defined as the amount at which a financial instrument could be exchanged in a current transaction between willing parties other than in a forced or liquidation sale. If a quoted market price is available for a financial instrument, the estimated fair value would be calculated based upon the market price per trading unit of the instrument.

If no readily available market exists, the fair value estimates for financial instruments should be based upon management's judgment regarding current economic conditions, interest rate risk, expected cash flows, future estimated losses and other factors as determined through various option pricing formulas or simulation modeling.

As many of these assumptions result from judgments made by management based upon estimates that are inherently uncertain, the resulting estimated fair values may not be indicative of the amount realizable in the sale of a particular financial instrument. In addition, changes in assumptions on which the estimated fair values are based may have a significant impact on the resulting estimated fair values.

As certain assets such as deferred tax assets and premises and equipment are not considered financial instruments, the estimated fair value of financial instruments would not represent the full value of the Company.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table presents the changes in accumulated other comprehensive (loss) income by component net of tax for the years ended December 31, 2024, and 2023 (in thousands):

	Unrealized (losses) gains on available for sale securities ⁽¹⁾	Cash Flow Hedge	Total
Balance as of December 31, 2022	\$ (20,052)	\$ 22	\$ (20,030)
Other comprehensive gain before reclassification	\$ 4,043	\$ -	\$ 4,043
Amount reclassified from accumulated other comprehensive income (loss)	32	(22)	10
Total other comprehensive gain	4,075	(22)	4,053
Balance as of December 31, 2023	\$ (15,977)	\$ -	\$ (15,977)
Other comprehensive loss before reclassification	\$ (720)	\$ -	\$ (720)
Amount reclassified from accumulated other comprehensive loss	32	-	32
Total other comprehensive loss	(688)	-	(688)
Balance as of December 31, 2024	\$ (16,665)	\$ -	\$ (16,665)

⁽¹⁾ All amounts are net of tax. Amounts in parentheses indicate debits.

NOTE 19 – ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME (continued)

The following table presents amounts reclassified out of each component of other comprehensive (loss) income for the years ended December 31, 2024, and 2023 (in thousands):

Components of accumulated other comprehensive (loss) income	Amount reclassified from accumulated other comprehensive (loss) income ⁽¹⁾		Affected line item in the consolidated statement of income
	2024	2023	
Unrealized losses on available for sale securities	\$ (41)	\$ (40)	Investment securities losses, net
Unrealized gain on hedging activity	-	28	Interest expense
	<u>9</u>	<u>2</u>	Income taxes
	<u>\$ (32)</u>	<u>\$ (10)</u>	Net of taxes

⁽¹⁾ Amounts in parentheses indicate debits.

NOTE 20 – QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS

The Bank invests in qualified affordable housing projects. At December 31, 2024, and 2023, the balance of the investment for qualified affordable housing projects was \$826 thousand and \$1.2 million. These balances are reflected in the other assets line on the consolidated balance sheet. There were no unfunded commitments related to the investments in qualified affordable housing projects at December 31, 2024, or 2023.

During the years ended December 31, 2024, and 2023, the Bank recognized investment loss with respect to its investment in qualified affordable housing projects of \$340 thousand and \$346 thousand, respectively, which was included within other income on the consolidated statement of income. Additionally, during the years ended December 31, 2024, and 2023, the Bank recognized tax credits and other benefits from its investment in affordable housing tax credits of \$271 thousand each year which is included in income taxes and consolidated statement of income.

NOTE 21 – SUBSEQUENT EVENTS

The Company assessed events occurring subsequent to December 31, 2024, through March 13, 2025, for potential recognition and disclosure in the consolidated financial statements. No other events have occurred that would require adjustment to or disclosure in the consolidated financial statements.