Community Bancorp, Inc.

Hillsdale, Michigan

Years Ended December 31, 2024 and 2023

Consolidated Financial Statements

CNB COMMUNITY BANCORP, INC.

TABLE OF CONTENTS

Rehmann

INDEPENDENT AUDITORS' REPORT

March 12, 2025

Board of Directors and Shareholders
CNB Community Bancorp, Inc.
Hillsdale, Michigan

Opinion

We have audited the consolidated financial statements of ***CNB Community Bancorp,*** **Inc.** (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***CNB Community Bancorp, Inc.*** as of December 31, 2024 and 2023, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, the Corporation's internal control over financial reporting as of December 31, 2024, based on criteria established in the Internal Control—Integrated Framework (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") and our report dated March 12, 2025, expressed an unqualified opinion.

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 *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation'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.

Rehmann Robson LLC

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except share data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	$ 71,681	$ 73,791
Certificates with other banks	210	-
Investment Securities		
Marketable equity securities	397	377
AFS debt securities, at fair value (amortized cost of $76,841 and $70,549) [1]	73,585	67,579
HTM debt securities, at amortized cost, net of allowance for credit losses of $0 [1]	52,905	106,866
Portfolio Loans	1,046,283	967,541
Allowance for credit loss	(13,234)	(12,967)
Total loans, net	1,033,049	954,574
Loans held for sale	1,019	436
Accrued interest receivable	4,840	4,973
Premises and equipment, net	11,347	10,670
Bank-owned life insurance	17,100	16,572
Goodwill	2,591	2,591
Other	11,569	7,532
Total assets	**$ 1,280,293**	**$ 1,245,961**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Noninterest-bearing demand	$ 218,553	$ 224,546
NOW, MMDA, and other interest-bearing deposits	552,253	545,307
Savings	141,763	160,331
Time	184,566	143,204
Total deposits	1,097,135	1,073,388
FHLB advances	62,500	50,000
Other borrowings	9,592	5,212
Accrued interest payable	870	782
Due to broker	-	12,637
Other	10,547	8,355
Total liabilities	**1,180,644**	**1,150,374**
Shareholders' equity		
Common stock, no par value; 4,000,000 shares authorized, 2,078,157 shares issued and outstanding (2,204,695 at December 31, 2023)	11,310	16,319
Unearned restricted stock awards	(1,073)	(1,029)
Retained earnings	92,226	83,565
Accumulated other comprehensive (loss) income	(2,814)	(3,268)
Total shareholders' equity	**99,649**	**95,587**
Total liabilities and shareholders' equity	**$ 1,280,293**	**$ 1,245,961**

[1] AFS is Available-for-Sale and HTM is Held-to-Maturity

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Year Ended December 31, 2024	Year Ended December 31, 2023
Interest and dividend income		
Loans, including fees	$ 59,380	$ 49,245
Debt securities		
Taxable	5,158	2,559
Tax-exempt	541	444
Dividends and other	2,159	5,064
Total interest and dividend income	**67,238**	**57,312**
Interest expense		
Deposits	19,753	16,380
Borrowed funds	2,951	296
Total interest expense	**22,704**	**16,676**
Net interest income	**44,534**	**40,636**
Provision for credit losses	962	600
Net interest income after provision for credit losses	**43,572**	**40,036**
Noninterest income		
Service charges on deposit accounts	1,273	1,253
Wealth Management fees	2,321	1,939
Gain on loans sold	613	664
ATM service charges	2,396	2,426
Net gain (loss) on equity securities	20	42
Net loan servicing fees	440	324
Other	1,106	1,086
Total noninterest income	**8,169**	**7,734**
Noninterest expenses		
Compensation and benefits	20,921	19,658
Occupancy and equipment, net	6,276	5,981
Marketing and public relations	868	866
ATM fees	1,596	1,384
Professional services	840	1,019
Data communications	1,752	1,057
FDIC assessment	1,102	-
Other	3,979	4,574
Total noninterest expenses	**37,334**	**34,539**
Income before federal income taxes	**14,407**	**13,231**
Federal income taxes	2,823	2,618
Net income	**$ 11,584**	**$ 10,613**
Net income per basic share of common stock	**$ 5.42**	**$ 4.91**

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME ("OCI")

(Dollars in thousands)

	Year Ended December 31,	
	2024	2023
Net income	$ 11,584	$ 10,613
Other comprehensive loss		
Available-for-sale debt securities		
Unrealized (losses) gains arising during the period	(312)	249
Tax effect	67	(51)
Unrealized (losses) gains on AFS securities, net of tax	(245)	198
Cash flow hedge		
Unrealized gains (losses) arising during the period	1,288	(997)
Reclassification adjustment for net interest income included in net income	(403)	(162)
Other comprehensive gain (loss) related to cash flow hedge, before income tax effect	885	(1,159)
Tax effect	(186)	244
Unrealized gains (losses) on cash flow hedge, net of tax	699	(915)
Other comprehensive gain (loss), net of tax	454	(717)
Comprehensive income	**$ 12,038**	**$ 9,896**

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands, except shares)

	Common Stock Shares	Common Stock Amount	Unearned Restricted Stock Awards	Retained Earnings	Accumulated Other Comprehensive (Loss) Income (Net of Taxes)	Total Shareholders' Equity
Balances, January 1, 2023	**2,189,581**	**$ 15,779**	**$ (1,037)**	**$ 75,945**	**$ (2,551)**	**$ 88,136**
Comprehensive income	-	-	-	10,613	(717)	9,896
Common stock grants (Note 17)	2,380	84	-	-	-	84
Restricted common stock awards, net of forfeitures (Note 17)	12,734	456	8	-	-	464
Dividends declared - $1.36 per share of common stock	-	-	-	(2,993)	-	(2,993)
Balances, December 31, 2023	**2,204,695**	**16,319**	**(1,029)**	**83,565**	**(3,268)**	**95,587**
Comprehensive income	-	-	-	11,584	454	12,038
Common stock grants (Note 17)	3,290	134	-	-	-	134
Restricted common stock awards, net of forfeitures (Note 17)	15,172	519	(44)	-	-	475
Common stock repurchase (Note 22)	(145,000)	(5,662)	-	-	-	(5,662)
Dividends declared - $1.37 per share of common stock	-	-	-	(2,923)	-	(2,923)
Balances, December 31, 2024	**2,078,157**	**$ 11,310**	**$ (1,073)**	**$ 92,226**	**$ (2,814)**	**$ 99,649**

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

CNB COMMUNITY BANCORP, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Year Ended December 31, 2024	2023
Operating activities		
Net income	$ 11,584	$ 10,613
Adjustments to reconcile net income to net cash provided by/ (used in) operating activities		
Depreciation	1,319	1,424
Amortization of mortgage servicing rights	470	557
Provision for credit losses	962	600
Share-based compensation	609	548
Net amortization of discounts/premiums on investments	567	(524)
Net gain on equity securities	(20)	(148)
Increase in cash surrender value of bank-owned life insurance	(528)	(406)
Net gain on foreclosed assets	-	(25)
Origination of loans held for sale	(17,072)	(14,117)
Proceeds from sales of loans	17,102	15,096
Net gain on sold loans	(613)	(664)
Net gain on disposal of premises and equipment	(198)	(334)
Deferred income taxes	(456)	(631)
Changes in operating assets and liabilities which provided (used) cash		
Accrued interest receivable	133	(1,183)
Accrued interest payable	88	487
Other assets	(3,807)	387
Other liabilities	2,533	1,998
Net cash provided by operating activities	**12,673**	**13,678**
Investing activities		
Activity in available-for-sale debt securities		
Purchases	(15,963)	(33,799)
Maturities, calls, and principal payments	57,905	2,251
Activity in held-to-maturity debt securities		
Purchases	(2,661)	(13,025)
Maturities, calls, and principal payments	7,795	6,205
Due to broker	(12,637)	-
Net change in certificates with other banks	(210)	245
Loan principal originations, net	(79,215)	(75,094)
Proceeds from sales of foreclosed assets	-	189
Net purchases of premises and equipment	(2,061)	(2,395)
Proceeds from sales of premises and equipment	263	458
Purchases of bank-owned life insurance	-	(455)
Net cash used in investing activities	**(46,784)**	**(115,420)**
Financing activities		
Acceptances and withdrawals of deposits, net	23,747	10,063
Net advances (repayments) of FHLB advances	12,500	50,000
Proceeds from other borrowings	6,000	-
Repayments of other borrowings	(1,620)	(1,403)
Common stock repurchase	(5,662)	-
Cash dividends paid on common stock	(2,964)	(2,986)
Net cash provided by financing activities	**32,001**	**55,674**
(Decrease) increase in cash and cash equivalents	**(2,110)**	**(46,068)**
Cash and cash equivalents, beginning of year	73,791	119,859
Cash and cash equivalents, end of year	**$ 71,681**	**$ 73,791**

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in thousands except per share data)

1. THE BUSINESS OF THE CORPORATION

Consolidation and Nature of Business

The consolidated financial statements include the accounts of ***CNB Community Bancorp, Inc***., a registered bank holding company (the "Corporation"), and its wholly-owned subsidiary County National Bank (the "Bank").

The Corporation owns 100% of the issued and outstanding common shares of the Bank. The Bank is a community bank engaged in the business of commercial and retail banking services through its 13 full-service branches in Michigan located in Hillsdale, Jackson, Lenawee and Calhoun counties as well as its loan production offices in Jackson, Kalamazoo and Ingham County. Active competition, principally from other commercial banks, savings banks and credit unions, exists in the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

The Bank is a federally chartered bank and is a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations of the FDIC and the supervision of the Office of the Comptroller of the Currency ("OCC") and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations of the Federal Reserve Board governing bank holding companies.

Concentration Risks

The Bank's primary deposit products are interest-bearing and noninterest-bearing checking accounts, savings accounts, and time deposits; and its primary lending products are commercial and residential real estate mortgages, commercial, and consumer loans. The Bank does not have any significant concentrations with respect to any one industry, client, or depositor. The Bank also provides investment and trust services through its Wealth Management Division.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General

The accounting and reporting policies of the Corporation and its subsidiary conform with accounting principles generally accepted in the United States of America and prevailing practices within the financial services industry.

Reclassifications

Certain reclassifications have been made to the prior year balances to conform to classifications used in 2024.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates. Significant estimates include, but are not limited to, the determination of the allowance for credit losses, mortgage servicing rights, the valuation of intangible assets, the valuation of derivative instruments, and the fair value of other financial instruments.

Cash and Due from Banks

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, if any. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions that occasionally exceed federally insured limits. Management does not believe the Bank is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

The Bank had $3,400 and $2,600 as of December 31, 2024 and 2023, respectively in cash collateral on deposit with a counterparty to interest rate swap transactions. Income recorded on these funds totaled $144 and $15 for the years ended December 31, 2024 and 2023, respectively, and is reported as a component of interest income on investments. Further information on the derivative instruments is included in Note 14.

Certificates of Deposit

Certificates of deposit are held with other financial institutions, are carried at cost.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 3.

Investment Securities
Debt securities that management has the ability and positive intent to hold to maturity are classified as held HTM and are recorded at amortized cost. Debt securities not classified as HTM or trading are classified as AFS and recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Realized gains or losses on the sale of AFS debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

The Bank evaluates AFS debt securities in an unrealized loss position to determine whether the decline in the fair value below the amortized cost basis (impairment) is due to credit-related factors or noncredit-related factors. Any impairment that is not credit related is recognized in other comprehensive income, net of applicable taxes. Credit-related impairment is recognized as an allowance for credit losses (“ACL”) on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings. Both the allowance for credit losses and the adjustment to net income may be reversed if conditions change. However, if the Bank intends to sell an impaired AFS debt security or more likely than not will be required to sell such a security before recovering its amortized cost basis, the entire impairment amount is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. In evaluating AFS debt securities in unrealized loss positions for impairment and the criteria regarding its intent or requirement to sell such securities, the Bank considers the extent to which fair value is less than amortized cost, whether the securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuers' financial condition, among other factors. Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance for credit losses when management believes the uncollectability of an AFS debt security is confirmed or when either of the criteria regarding intent or requirement to sell is met. No security credit losses were recognized during the years ended December 31, 2024 or 2023. Accrued interest receivable on AFS debt securities totaled $341 and $303 at December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

For HTM debt securities, the Bank measures expected credit losses on a collective basis by major security type, then further disaggregated by sector and bond rating. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts based on current and expected changes in credit ratings and default rates. Based on the implied guarantees of the U. S. Government or its agencies related to certain of these HTM investment securities, and the absence of any historical or expected losses, substantially all qualify for a zero-loss assumption. Management has separately evaluated its HTM investment securities from obligations of state and political subdivisions utilizing the historical loss data represented by similar securities. As a result of this evaluation, management determined that the expected credit losses associated with these securities is not significant for financial reporting purposes and therefore, no allowance for credit losses has been recognized during the year ended December 31, 2024 or 2023. Accrued interest receivable on HTM debt securities totaled $372 and $490 December 31, 2024 and 2023, respectively, and is excluded from the estimate of credit losses.

Equity Securities without Readily Determinable Fair Values
Equity securities without readily determinable fair values are carried at cost minus impairment, if any, plus or minus adjustments resulting from observable price changes in orderly transactions for the identical or similar investment.

Included in equity securities without readily determinable fair values are the Bank’s holdings in Federal Home Loan Bank (“FHLB”) stock and Federal Reserve Bank (“FRB”) stock as well as other investments that are deemed to not have a readily determinable fair value and are included in other assets on the consolidated balance sheets.

(Dollars in thousands except per share data)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Equity securities without readily determinable fair values are held at cost and consist of the following holdings as of December 31:

	2024	2023
FHLB stock	$ 2,813	$ 2,250
FRB Stock	731	714
Other investments	597	597
Total	$ 4,141	$ 3,561

Loans
Loans that the Bank has the positive intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method. Accrued interest receivable related to loans totaled $4,127 and $4,180 at December 31, 2024 and 2023, respectively.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged-off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged-off is reversed against interest income; while interest accrued but not collected in prior years is reversed against the allowance for credit losses. Interest received on nonaccrual loans is either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily, as it is earned, according to the terms of the loan agreement.

Nonperforming credits within the loan portfolio are comprised of those loans accounted for on a nonaccrual basis and accruing loans contractually past due 90 days or more as to interest or principal payments.

Allowance for Credit Losses
The allowance for credit losses is a valuation account that is deducted from the loan's amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the recorded loan balance is confirmed as uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Regardless of the determination that a charge-off is appropriate for financial accounting purposes, the Bank manages its loan portfolio by continually monitoring, where possible, a borrower's ability to pay through the collection of financial information, delinquency status, borrower discussion, and the encouragement to repay in accordance with the original contract or modified terms, if appropriate.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. Historical credit loss experience provides the basis for the estimation of expected credit losses, which captures loan balances as of a point in time to form a cohort, then tracks the respective losses generated by that cohort of loans over the remaining life. The Bank identified and accumulated loan cohort historical loss data over the last twenty years. In situations where the Bank's actual loss history was not statistically relevant, the loss history of peers, defined as financial institutions with similar asset size and geographical, were utilized to create a minimum loss rate. Adjustments to historical loss information are made for differences in relevant current loan-specific risk characteristics, such as historical timing of losses relative to the loan origination. In its loss forecasting framework, the Bank incorporates forward-looking information through analysis of variables that have historically been key drivers of increases and decreases in credit losses. These variables include, but are not limited to changes in environmental conditions, such as Michigan unemployment rates, household debt levels, and U.S. gross domestic product.

Loans that do not share common risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a loan restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Bank.

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction, or an other-than-significant payment delay. When principal forgiveness is provided, the amount of the forgiveness is charged off against the allowance for credit losses.

The Bank has identified the following portfolio segments to evaluate and measure on a collective basis when similar risk characteristics exist in the allowance for credit losses:

Commercial:

Repayment of these loans is primarily based on the cash flow of the borrower, and secondarily on the underlying collateral provided by the borrower. A borrower's cash flow may be unpredictable, and collateral securing these loans may fluctuate in value. Most often, collateral includes accounts receivable, inventory, or equipment. Collateral securing these loans may depreciate over time, may be difficult to appraise, may be illiquid and may fluctuate in value based on the success of the business. Actual and forecasted changes in gross domestic product are believed to be a corollary to losses associated with these credits.

Commercial real estate:

Commercial properties consist primarily of owner occupied, non-owner occupied, and, to a lesser extent, multifamily. Owner occupied commercial real estate typically consists of buildings housing the owner's operations and is susceptible to changes in the financial condition of the business operated by the property owner. Non-owner occupied typically consist of buildings which are leased to others for their use and rely on rents as the primary source of repayment while multifamily properties are generally comprised of more than four rentable units, such as apartment buildings, with each unit intended to be occupied as the primary residence for one or more persons. All of the credits' risk of loss is primarily driven by general economic changes or changes in regional economies.

Residential real estate:

The most significant drivers of potential loss within the Bank's residential real estate portfolio relate to general, regional, or individual changes in economic conditions and their effect on employment and borrowers' cash flow. Risk in this portfolio is best measured by changes in borrower credit score and loan-to-value. Loss estimates are based on the general movement in local and economic conditions and its effects on employment and the value of homes and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

Consumer loans:

The majority of these consumer loans are secured by automobiles and recreational type collateral. These loans are susceptible to three primary risks; non-payment due to income loss, over-extension of credit and, when the borrower is unable to pay, shortfall in collateral value, if any. Typically, non-payment is due to loss of job and will follow general economic trends in the marketplace driven primarily by rises in the unemployment rate. Loss of collateral value can be due to market demand shifts, damage to collateral itself or a combination of those factors. Loss estimates are based on the general movement in local and economic conditions and its effects on employment and the Bank's historical loss experience adjusted to reflect the economic outlook and the unemployment rate.

The Bank assigns a risk rating to certain loans and periodically performs detailed internal reviews of all commercial loans over a certain threshold as well as lines of credit. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Classified:

***Substandard*:** Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well-defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They 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 those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged-off immediately.

The majority of the Bank's consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's Loss Mitigation Department for resolution. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amount's and actual losses incurred.

Although management believes the allowance to be appropriate, ultimate losses may vary from its periodic estimates. At least quarterly, the Board of Directors reviews the appropriateness of the allowance, including consideration of the relevant risks in the portfolio, current economic conditions, and other factors. If the Board of Director's and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulator periodically reviews the appropriateness of the allowance. The regulatory agency may require changes to the allowance based on its judgment about information available at the time of their examination.

Off-Balance Sheet Credit Related Financial Instruments
In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded only when they are funded.

The allowance for credit losses on off-balance sheet credit exposures is a liability account, calculated in accordance with Accounting Standards Codification ("ASC") 326, representing expected credit losses over the contractual period for which the Bank is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Bank has the unconditional right to cancel the obligation. Adjustments to the allowance are reported in the consolidated statement of income as a component of credit loss expense. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans as if such commitments were funded. The allowance balance for credit losses on off-balance sheet credit exposures as of December 31, 2024 and 2023 was $508 and $285, respectively, and is included in other liabilities. The liability for credit losses was increased by $223 and $285 for the year ended December 31, 2024 and 2023, respectively.

Loans Held for Sale
Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Transfers of Financial Assets
Transfers of financial assets, including mortgage loans held for sale, as described above, 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 legally isolated from the Bank, (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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, as disclosed in Note 6, the Bank has no substantive continuing involvement related to these loans.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derivative Instruments and Hedging Activities

The Corporation formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. This documentation includes linking fair value or cash flow hedges to specific assets and liabilities on the balance sheet or to specific firm commitments or forecasted transactions. For those derivative instruments that are designated and qualify for special hedge accounting, the Corporation designates the hedging instrument, based upon the exposure being hedged, as either a fair value hedge or a cash flow hedge. For derivative instruments that are designated and qualify as a cash flow hedge (i.e., hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income, net of related tax. The Corporation considers any economic mismatch between the hedging instrument and the hedged transaction in its ongoing assessment of hedge effectiveness. If the hedging instrument is not highly effective at achieving offsetting cash flows attributable to the revised contractually specified interest rate(s), hedge accounting will be discontinued. At that time, accumulated other comprehensive income would be frozen and amortized, as long as the forecasted transactions are still probable of occurring. For derivative instruments designated and qualifying as a fair value hedge (i.e., hedging the exposure to changes in the fair value of an asset or liability or an identified portion thereof that is attributable to the hedged risk), the gain or loss on the derivative instrument, as well as the offsetting gain or loss on the hedged item attributable to the hedged risk, are recognized in current earnings during the period of the change in fair values. Hedge accounting is discontinued prospectively when (1) a derivative is no longer highly effective in offsetting changes in the fair value or cash flow of a hedged item, (2) a derivative expires or is settled, (3) it is no longer likely that a forecasted transaction associated with the hedge will occur, or (4) it is determined that designation of a derivative as a hedge is no longer appropriate.

The Corporation is exposed to losses if a counterparty fails to make its payments under a contract in which the Corporation is in the net receiving position. The Corporation anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Corporation is a party settle monthly or quarterly. In addition, the Corporation obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Corporation has netting agreements with which it does business.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through purchase or through sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds, and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on the fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

Servicing fee income is recorded for fees earned for servicing loans for others. The fees are based on a contractual percentage of the outstanding principal, or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income, a component of noninterest income.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are in the normal course of business held for sale. When property is acquired, any excess of the recorded investment in the loan balance and accrued interest income over the estimated fair value of the property less estimated selling costs is charged against the allowance for credit losses. Any excess of the fair value over the loan balance less estimated selling costs is recorded as noninterest income. A valuation allowance for losses on other real estate may be maintained to provide for temporary declines in value. The valuation allowance is established through a provision for losses on other real estate which is included in other expenses. Subsequent gains or losses on sales or writedowns resulting from permanent impairments are recorded in other income or expense as incurred. Foreclosed assets are included in other assets on the accompanying consolidated balance sheets.

Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or estimated fair value less costs to sell.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Premises and Equipment
Land is carried at cost. Premises and equipment are carried at cost, less accumulated depreciation, which is computed using the straight-line method based upon the estimated useful lives of the related assets that ranges from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur. Management evaluates these assets to determine whether based upon an event or changes in circumstances surrounding the underlying assets, the carrying values have been impaired.

Leases
The Bank enters into leases in the normal course of business primarily for occupancy of certain branches, ATM locations, and support offices. Leases are classified as operating or finance leases at the lease commencement date. Right-of-use assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make cash payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of the lease payments over the lease term. Leases with original lease terms of 12 months or less are not recognized with the consolidated balance sheets. Operating lease expense consists of lease costs allocated over the remaining lease terms on a straight line basis. Lease expense is included in occupancy and equipment expenses on our consolidated statements of income. The Bank uses the FHLB borrowing rate at lease commencement date in determining the present value of future payments.

Bank-Owned Life Insurance (“BOLI”)
The Bank has purchased life insurance policies on certain members of management. Bank owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income or expenses on the consolidated statements of income.

Goodwill
Goodwill consists of amounts paid in excess of the fair value of identifiable net assets acquired. Goodwill is not amortized but is assessed at least annually for impairment or on an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below the carrying value.

Income Taxes
Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

The Corporation analyzes its filing positions in the jurisdictions where it is required to file income tax returns, as well as all open tax years in these jurisdictions. The Corporation also reports interest and penalties attributable to income taxes, if any, as a component of its noninterest expenses.

Net Income Per Share
Basic earnings per share (“EPS”) represents income available to common stockholders divided by the weighted-average number of common shares outstanding less unvested restricted stock during the year, which was 2,138,108 and 2,161,673 during 2024 and 2023, respectively. Diluted EPS reflects additional common shares, which were 8,876 and 7,043 during 2024 and 2023, respectively, that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate solely to outstanding restricted stock awards (Note 17) and are determined by the treasury stock method.

Subsequent Events
In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2024, the most recent consolidated balance sheet presented herein, through the date these consolidated financial statements were available to be issued.

3. FAIR VALUE MEASUREMENTS

The Bank utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Investments in AFS debt securities and equity securities are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, loans held for sale, foreclosed assets, mortgage servicing rights, HTM securities and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or writedowns of individual assets. Additionally, the Bank uses the exit price notion measuring fair value of financial instruments for disclosure purposes.

3. FAIR VALUE MEASUREMENTS (Continued)

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities
Debt securities classified as AFS and equity securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. Level 2 securities include government-sponsored enterprises, state and municipal bonds, and corporate debt securities in active markets. The Bank did not have Level 3 investment securities valued on a recurring basis at December 31, 2024 or 2023.

Impaired Loans
Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, market value of similar debt, enterprise value, and liquidation value. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2024 and 2023, impaired loans were evaluated based on the fair value of the collateral or discounted cash flows. Impaired loans where an allowance is established based on the discounted cash flow analysis or fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank records the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price or if fair value is determined based on discounted cash flow analysis, the Bank records the impaired loan as nonrecurring Level 3.

Foreclosed Assets
The carrying amounts for foreclosed assets are reported in the consolidated balance sheets in other assets. Upon transfer from the loan portfolio, foreclosed assets are adjusted to fair value and subsequently are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral, or management's estimation of the value of the collateral less the costs to sell. When the fair value of the collateral is based on an observable market price or a current appraised value, the Bank classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value, and there is no observable market price, the Bank classifies the foreclosed asset as nonrecurring Level 3.

Derivatives
Interest rate swaps are reported at fair value utilizing Level 2 inputs. Substantially all of the derivative instruments held by the Corporation for risk management purposes are traded in over-the-counter markets where quoted market prices are not readily available. The Corporation measures fair value using models that use primarily market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. In addition, the Corporation obtains third party valuation sources.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Bank believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

Assets and Liabilities Recorded at Fair Value on a Recurring Basis
The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31:

2024	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets				
Debt securities				
U.S Government agencies and sponsored agencies	$ -	$ 61,971	$ -	$ 61,971
State and municipal	-	8,423	-	8,423
Corporate	-	3,191	-	3,191
Equity securities	-	397	-	397
Liabilities				
Interest rate swaps	-	693	-	693
Total net assets at fair value	$ -	$ 74,675	$ -	$ 74,675

2023	Fair Value			
	Level 1	Level 2	Level 3	Total
Assets				
Debt securities				
U.S Government agencies and sponsored agencies	$ -	$ 55,800	$ -	$ 55,800
State and municipal	-	8,690	-	8,690
Corporate	-	3,089	-	3,089
Equity securities	-	377	-	377
Liabilities				
Interest rate swaps	-	(2,521)	-	(2,521)
Total net assets at fair value	$ -	$ 65,435	$ -	$ 65,435

Assets Recorded at Fair Value on a Nonrecurring Basis
The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31:

2024	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Impaired loans [(1)]	$ -	$ -	$ 720	$ 720

2023	Assets at Fair Value			
	Level 1	Level 2	Level 3	Total
Impaired loans [(1)]	$ -	$ -	$ 199	$ 199

[(1)] Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans and discounted cash flow method for cash flow dependent loans, had a book value amount of $720 and $199 as of December 31, 2024 and 2023, respectively, resulting in a specific allocation to the allowance for credit losses of $411 and $6, respectively for the years then ended.

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2024:

	Level 3 Instruments			
Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Impaired loans	$ 720	Discounted Appraisal Value	Discount applied to collateral appraisal	9% - 12%

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2023:

	Level 3 Instruments			
Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Range**
Impaired loans	$ 199	Discounted Appraisal Value	Discount applied to collateral appraisal	9% - 12%

The carrying amounts and estimated fair values of financial instruments not recorded at fair value on the consolidated balance sheets as of December 31, are as follows:

		Fair Value			
2024	**Carrying Amount**	**Level 1**	**Level 2**	**Level 3**	**Total**
Assets:					
Cash and due from banks	$ 71,681	$ 71,681	$ -	$ -	$ 71,681
Investment in debt securities held-to-maturity	52,905	-	49,051	-	49,051
FHLB stock	2,813	-	2,813	-	2,813
FRB stock	731	-	731	-	731
Total loans, net	1,033,049	-	992,457	-	992,457
Loans held for sale	1,019	-	1,019	-	1,019
Accrued interest receivable	4,840	4,840	-	-	4,840
Mortgage servicing rights	784	-	-	3,339	3,339
Liabilities:					
Noninterest-bearing demand	$ 218,553	$ -	$ 218,553	$ -	$ 218,553
Interest-bearing deposits	878,582	-	880,031	-	880,031
FHLB advances	62,500	-	62,049	-	62,049
Other borrowings	9,592	-	9,592	-	9,592
Accrued interest payable	870	870	-	-	870

(Dollars in thousands except per share data)

3. FAIR VALUE MEASUREMENTS (Continued)

2023	Carrying Amount	Fair Value Level 1	Level 2	Level 3	Total
Assets:					
Cash and due from banks	$ 73,791	$ 73,791	$ -	$ -	$ 73,791
Investment in debt securities held-to-maturity	106,866	-	101,851	-	101,851
FHLB stock	2,250	-	2,250	-	2,250
FRB stock	714	-	714	-	714
Total loans, net	954,574	-	918,018	-	918,018
Loans held for sale	436	-	436	-	436
Accrued interest receivable	4,973	4,973	-	-	4,973
Mortgage servicing rights	1,032	-	-	3,658	3,658
Liabilities:					
Noninterest-bearing demand	$ 224,546	$ -	$ 224,546	$ -	$ 224,546
Interest-bearing deposits	848,842	-	886,102	-	886,102
FHLB advances	50,000	-	49,794	-	49,794
Other borrowings	5,212	-	5,212	-	5,212
Accrued interest payable	782	782	-	-	782

4. INVESTMENT IN DEBT SECURITIES

The amortized cost and fair value of HTM and AFS debt securities, including gross unrealized gains and losses, at December 31 consisted of the following:

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government agencies and sponsored agencies	$ 63,722	$ 75	$ 1,826	$ 61,971
State and municipal	9,495	-	1,072	8,423
Corporate	3,650	-	459	3,191
Total available-for-sale	**76,867**	**75**	**3,357**	**73,585**
Held-to-maturity				
U.S. Government agencies and sponsored agencies	42,120	-	3,854	38,266
State and municipal	10,035	-	-	10,035
Corporate	750	-	-	750
Total held-to-maturity	**52,905**	**-**	**3,854**	**49,051**
Total	**$ 129,772**	**$ 75**	**$ 7,211**	**$ 122,636**

(Dollars in thousands except per share data)

4. INVESTMENT IN DEBT SECURITIES (Continued)

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale				
U.S. Government agencies and sponsored agencies	$ 57,277	$ 56	$ 1,533	$ 55,800
State and municipal	9,622	-	932	8,690
Corporate	3,650	-	561	3,089
Total available-for-sale	**70,549**	**56**	**3,026**	**67,579**
Held-to-maturity				
U.S. Government agencies and sponsored agencies	88,254	-	5,015	83,239
State and municipal	17,862	-	-	17,862
Corporate	750	-	-	750
Total held-to-maturity	**106,866**	**-**	**5,015**	**101,851**
Total	**$ 177,415**	**$ 56**	**$ 8,041**	**$ 169,430**

There was no allowance for credit losses recorded for AFS or HTM debt securities as of or for the years ended December 31, 2024 and 2023.

Investment securities with carrying values of $1,058 and $1,164 as of December 31, 2024 and 2023, respectively, were pledged to secure public deposits or for other purposes as required by law.

The amortized cost and fair value of HTM and AFS debt securities grouped by contractual maturity at December 31, 2024, are summarized as follows:

2024	Maturity					
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	Securities Not Due at a Single Maturity Date	Total
Available-for-sale						
U.S. Government agencies and sponsored agencies	$ 16	$ 217	$ -	$ 540	$ 62,949	$ 63,722
State and municipal	-	-	8,169	1,326	-	9,495
Corporate	-	400	3,250	-	-	3,650
Total available-for-sale	16	617	11,419	1,866	62,949	76,867
Held-to-maturity						
U.S. Government agencies and sponsored agencies	13,468	7,901	1,955	-	18,796	42,120
State and municipal	3,440	2,425	2,673	1,497	-	10,035
Corporate	-	-	750	-	-	750
Total held-for-maturity	16,908	10,326	5,378	1,497	18,796	52,905
Total amortized cost	**$ 16,924**	**$ 10,943**	**$ 16,797**	**$ 3,363**	**$ 81,745**	**$ 129,772**
Fair value	**$ 16,846**	**$ 10,410**	**$ 15,127**	**$ 3,142**	**$ 77,111**	**$ 122,636**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Because of their variable payments, mortgage-backed securities, included within U.S. Government agencies and sponsored agencies, are not reported by a specific maturity grouping.

There were no gross realized gains or losses on AFS securities during 2024 or 2023.

(Dollars in thousands except per share data)

4. INVESTMENT IN DEBT SECURITIES (Continued)

Information pertaining to AFS debt securities with unrealized losses aggregated by investment category for which an allowance for credit losses has not been recorded and the length of time that individual securities have been in a continuous loss position at December 31, is as follows:

2024	Less Than Twelve Months		Twelve Months or More		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
Available-for-sale					
U.S. Government agencies and sponsored agencies	$ 474	$ 29,539	$ 1,352	$ 9,045	$ 1,826
State and municipal	-	-	1,072	8,423	1,072
Corporate	4	396	455	2,795	459
Total available-for-sale	**$ 478**	**$ 29,935**	**$ 2,879**	**$ 20,263**	**$ 3,357**

2023	Less Than Twelve Months		Twelve Months or More		Total Unrealized Losses
	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	
Available-for-sale					
U.S. Government agencies and sponsored agencies	$ 113	$ 23,954	$ 1,420	$ 9,162	$ 1,533
State and municipal	-	-	932	8,690	932
Corporate	-	-	561	2,689	561
Total available-for-sale	**$ 113**	**$ 23,954**	**$ 2,913**	**$ 20,541**	**$ 3,026**

As of December 31, 2024 and 2023, no allowance for credit losses has been recognized on AFS securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon management's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to the AFS securities and in consideration of historical credit loss experience and internal forecasts, specific to the Corporation's securities portfolio.

Management measures expected credit losses on HTM securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to U.S. Government agencies and sponsored agencies, it is expected that the securities will not be settled at prices less than the amortized cost bases of the securities as such securities are backed by the full faith and credit of and/or guaranteed by the U.S. Government. At December 31, 2024 and 2023 none of these securities are past due or on nonaccrual. Accordingly, no allowance for credit losses has been recorded for these securities.

The number of securities in an unrealized loss position as of December 31, 2024 and 2023 was 82 and 86, respectively.

The unrealized loss on our AFS and HTM securities portfolio resulted from purchases made in a lower rate environment.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Bank grants commercial, residential mortgage, and consumer loans to clients situated primarily in Hillsdale, Jackson, Lenawee, Calhoun, Kalamazoo, and Ingham counties. The ability of the Bank's debtors to honor their repayment obligations is dependent upon the real estate and general economic conditions of this region. Substantially all of the consumer and residential mortgage loans are secured by various items of property, while commercial loans are secured primarily by business assets, real estate, and personal guarantees; a portion of the loans are unsecured.

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Loans are summarized as follows at December 31:

	2024	2023
Commercial	$ 244,964	$ 243,374
Commercial real estate	591,981	515,904
Residential real estate	170,632	167,271
Consumer	38,357	40,787
Total loans	1,045,934	967,336
Net deferred loan origination costs/(fees)	349	205
Allowance for credit closes	(13,234)	(12,967)
Loans, net	$ 1,033,049	$ 954,574

The following table represents the activity in the allowance for credit losses by portfolio segment for the years ended December 31:

2024	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance at beginning of year	$ **2,975**	$ **6,954**	$ **2,128**	$ **748**	$ **162**	$ **12,967**
Provision for (reduction to) credit losses	1,078	(6)	(333)	163	(162)	740
Loans charged-off	(236)	(549)	-	(28)	-	(813)
Recoveries	259	51	25	5	-	340
Balance at end of year	$ **4,076**	$ **6,450**	$ **1,820**	$ **888**	$ **-**	$ **13,234**

2023[1]	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Unallocated	Total
Allowance for credit losses:						
Balance at beginning of year	$ **2,802**	$ **6,791**	$ **1,158**	$ **323**	$ **1,816**	$ **12,890**
Provision for (reduction to) credit losses	487	72	963	447	(1,654)	315
Loans charged-off	(341)	-	-	(46)	-	(387)
Recoveries	27	91	7	24	-	149
Balance at end of year	$ **2,975**	$ **6,954**	$ **2,128**	$ **748**	$ **162**	$ **12,967**

[1] The Bank adopted ASC 326 and did not recognize an increase in the ACL for loans upon implementation.

The following table provides collateral information by loan class for collateral dependent loans with a specific reserve. The amortized cost of collateral dependent loans by class of loans at December 31 is as follows:

2024	Loan Class				
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	Total
Collateral Type					
Real estate	$ -	$ 189	$ -	$ -	$ 189
Other	531	-	-	-	531
Total	$ **531**	$ **189**	$ **-**	$ **-**	$ **720**

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

2023	Loan Class				Total
	Commercial	Commercial Real Estate	Residential Real Estate	Consumer	
Collateral Type					
Real estate	$ -	$ 190	$ -	$ -	$ 190
Other	9	-	-	-	9
Total	**$ 9**	**$ 190**	**$ -**	**$ -**	**$ 199**

The following table shows the class of loans allocated by management's internal risk ratings as of December 31, 2024:

Credit risk profile by risk rating	Term Loans Amortized Cost Basis by Year of Origination						
	2024	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial							
Pass	$ 33,380	$ 26,644	$ 39,579	$ 31,572	$ 31,742	$ 76,148	$ 239,065
Special Mention	177	105	73	-	136	189	680
Classified	689	48	85	1,239	1,577	1,581	5,219
Total	$ 34,246	$ 26,797	$ 39,737	$ 32,811	$ 33,455	$ 77,918	$ 244,964
Gross write offs:	$ 1	$ -	$ 4	$ 200	$ -	$ 31	$ 236
Commercial real estate							
Pass	$ 102,756	$ 94,148	$ 115,638	$ 84,995	$ 130,092	$ 32,632	$ 560,261
Special Mention	5,171	273	-	-	1,199	137	6,780
Classified	2,026	3,939	665	315	13,098	4,897	24,940
Total	$ 109,953	$ 98,360	$ 116,303	$ 85,310	$ 144,389	$ 37,666	$ 591,981
Gross write offs:	$ -	$ 500	$ -	$ 49	$ -	$ -	$ 549
Residential real estate							
Pass	$ 19,787	$ 26,429	$ 24,770	$ 24,750	$ 38,298	$ 31,846	$ 165,880
Special Mention	30	92	239	138	587	280	1,366
Classified	1,048	-	-	-	1,949	389	3,386
Total	$ 20,865	$ 26,521	$ 25,009	$ 24,888	$ 40,834	$ 32,515	$ 170,632
Gross write offs:	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Consumer							
Pass	$ 6,306	$ 6,789	$ 6,913	$ 4,646	$ 9,699	$ 3,458	$ 37,811
Special Mention	-	26	4	-	-	-	30
Classified	-	-	-	-	516	-	516
Total	$ 6,306	$ 6,815	$ 6,917	$ 4,646	$ 10,215	$ 3,458	$ 38,357
Gross write offs:	$ 16	$ -	$ 8	$ -	$ 4	$ -	$ 28

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table shows the class of loans allocated by management's internal risk ratings as of December 31, 2023:

Credit risk profile by risk rating	Term Loans Amortized Cost Basis by Year of Origination					
	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Commercial						
Pass	$ 32,485	$ 48,489	$ 38,901	$ 41,458	$ 75,666	$ 236,999
Special Mention	328	150	186	182	443	1,289
Classified	-	143	1,368	1,405	2,170	5,086
Total	$ 32,813	$ 48,782	$ 40,455	$ 43,045	$ 78,279	$ 243,374
Gross write offs:	$ -	$ 191	$ -	$ 150	$ -	$ 341
Commercial real estate						
Pass	$ 97,150	$ 114,895	$ 99,034	$ 152,492	$ 26,667	$ 490,238
Special Mention	210	956	1,960	3,914	617	7,657
Classified	2,693	1,516	49	12,753	998	18,009
Total	$ 100,053	$ 117,367	$ 101,043	$ 169,159	$ 28,282	$ 515,904
Gross write offs:	$ -	$ -	$ -	$ -	$ -	$ -
Residential real estate						
Pass	$ 32,890	$ 26,871	$ 26,445	$ 47,648	$ 29,902	$ 163,756
Special Mention	97	290	147	710	559	1,803
Classified	-	-	-	1,203	509	1,712
Total	$ 32,987	$ 27,161	$ 26,592	$ 49,561	$ 30,970	$ 167,271
Gross write offs:	$ -	$ -	$ -	$ -	$ -	$ -
Consumer						
Pass	$ 8,892	$ 8,623	$ 6,079	$ 14,494	$ 2,410	$ 40,498
Special Mention	74	84	16	15	-	189
Classified	-	5	-	59	36	100
Total	$ 8,966	$ 8,712	$ 6,095	$ 14,568	$ 2,446	$ 40,787
Gross write offs:	$ 46	$ -	$ -	$ -	$ -	$ 46

The following tables show an aging analysis of the loan portfolio by time past due as of December 31:

2024	**Accruing Interest**				
	Current	**30-89 Days Past Due**	**More Than 90 Days Past Due**	**Total Nonaccrual**	**Total Loans**
Commercial	$ 242,813	$ 722	$ 15	$ 1,414	$ 244,964
Commercial real estate	586,127	512	249	5,093	591,981
Residential real estate	169,406	1,194	12	20	170,632
Consumer	38,289	64	4	-	38,357
Total	**$ 1,036,635**	**$ 2,492**	**$ 280**	**$ 6,527**	**$ 1,045,934**

2023	**Accruing Interest**				
	Current	**30-89 Days Past Due**	**More Than 90 Days Past Due**	**Total Nonaccrual**	**Total Loans**
Commercial	$ 240,542	$ 1,484	$ 242	$ 1,106	$ 243,374
Commercial real estate	506,370	5,418	545	3,571	515,904
Residential real estate	164,459	2,053	603	156	167,271
Consumer	40,621	166	-	-	40,787
Total	**$ 951,992**	**$ 9,121**	**$ 1,390**	**$ 4,833**	**$ 967,336**

(Dollars in thousands except per share data)

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following tables shows the ending balance of nonaccrual loans by category as of the date indicated:

	Nonaccrual Loans					
	As of December 31, 2024			As of December 31, 2023		
	Nonaccrual with no allowance for credit losses	Nonaccrual with an allowance for credit losses	Total nonaccrual	Nonaccrual with no allowance for credit losses	Nonaccrual with an allowance for credit losses	Total nonaccrual
Commercial	$ 883	$ 531	$ 1,414	$ 1,097	$ 9	$ 1,106
Commercial real estate	5,093	-	5,093	3,571	-	3,571
Residential real estate	20	-	20	156	-	156
Consumer	-	-	-	-	-	-
Total	**$ 5,996**	**$ 531**	**$ 6,527**	**$ 4,824**	**$ 9**	**$ 4,833**

The Bank did not recognize any interest income on nonaccrual loans during the years ended December 31, 2024 and 2023.

The following table details the number of loans and the recorded investment in loans that were modified for borrowers experiencing financial difficulty during the years ended December 31:

2024	Total Modification				
	Principal Deferrals		Principal Deferrals and Interest Rate Adjustment		
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Total Modifications
Commercial	-	$ -	1	$ 685	$ 685
Commercial real estate	-	-	3	2,321	2,321
Residential real estate	1	68	-	-	68
Total	**1**	**$ 68**	**4**	**$ 3,006**	**$ 3,074**

The Bank had no modifications on credits to borrowers in financial distress during the year ended December 31, 2023 or defaults in 2024 and 2023 on modifications for borrowers in financial distress during the previous 12 months. There were no principal balance differences between pre-modification and post-modification of loans to borrowers in financial distress and any adjustment on payment deferrals were immaterial for the year ended December 31, 2023.

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Bank provides multiple types of concessions on one specific loan. If after the initial concession is granted, the borrower continues to experience financial distress an additional modification may be granted. The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified due to financial difficulty or whose loans are on nonaccrual status.

6. MORTGAGE SERVICING

The Bank services mortgage loans for others which generally consists of collecting principal and interest payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Mortgage loans serviced as of December 31, 2024 and 2023, approximated $271,000 and $284,000, respectively; such loans are not included on the accompanying consolidated balance sheets.

The estimated fair value of mortgage servicing rights was approximately $3,339 and $3,658 at December 31, 2024 and 2023, respectively. The fair value of servicing rights was determined using a discount rate of 10.50% and 11.00%, respectively, and prepayment speeds ranging from 6.06% to 13.99% and 6.35% to 11.23%, respectively.

(Dollars in thousands except per share data)

6. MORTGAGE SERVICING (Continued)

The following summarizes the carrying value and the changes therein of mortgage servicing rights for the years ended December 31:

	2024	2023
Balance at beginning of year	$ 1,032	$ 1,411
Mortgage servicing rights capitalized	222	178
Mortgage servicing rights amortized	(470)	(557)
Balance at end of year	**$ 784**	**$ 1,032**

7. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following assets at December 31:

	2024	2023
Land and improvements	$ 1,528	$ 1,528
Buildings and improvements	10,731	9,423
Leasehold improvements	1,392	1,392
Furniture and equipment	14,209	13,173
Construction-in-process	-	501
Total	27,860	26,017
Less: accumulated depreciation	(16,513)	(15,347)
Premises and equipment, net	$ 11,347	$ 10,670

Depreciation expense was $1,319 and $1,424 in 2024 and 2023, respectively.

8. LEASES

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases a short-term borrowing rate at lease commencement date is used to calculate the present value of lease payments when the implicit rate is not known. Our borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors.

Right-of-use assets and operating lease liabilities, and the associated consolidated balance sheet classifications as of December 31:

	Balance Sheet Classification	2024
Right-of-use-assets:		
Operating leases	Other assets	$ 1,682
Lease liability:		
Operating leases	Accrued interest payable and other liabilities	$ 1,692

Lease expense was $347 and $321 for 2024 and 2023, respectively.

The following presents annual future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024:

Year	Amount
2025	$ 428
2026	437
2027	364
2028	280
2029	196
Thereafter	97
Net operating lease liabilities	$ 1,802
Less: imputed interest	(110)
Total lease liabilities	**$ 1,692**

(Dollars in thousands except per share data)

8. LEASES (Continued)

As of December 31, 2024, we have a weighted average remaining lease term of approximately 4.5 years, and utilized a weighted average discount rate of 2.96% to determine the present value of the lease payments over the lease term. Such leases have remaining terms ranging from 2.4 years to 6 years. Lease totals and activity in 2023 was not deemed material and as such were not reflected on the consolidated balance sheet.

9. DEPOSITS

Scheduled annual maturities of time deposits for each of the five years succeeding December 31, 2024, are summarized as follows:

Year	Amount
2025	$ 165,131
2026	14,209
2027	4,439
2028	468
2029	319
Total	$ 184,566

Time deposits that meet or exceed the FDIC insurance limit for the years ending December 31, 2024 and 2023 were $49,297 and $45,309, respectively.

10. BORROWED FUNDS

Federal Home Loan Bank Advances
FHLB advances and their contractual maturities are summarized as follows at December 31:

		2024	2023
Fixed-rate advances:			
January 8, 2025	5.36%	$ 12,500	$ -
December 21, 2026	4.21%	25,000	25,000
December 20, 2027	4.07%	15,000	15,000
December 19, 2028	3.96%	10,000	10,000
Total FHLB advances		$ 62,500	$ 50,000

None of the above advances require principal payments until maturity. Outstanding FHLB borrowings were collateralized by a blanket lien on all qualified loans with lendable values totaling approximately $317,000 and $302,000 at December 31, 2024 and 2023, respectively.

Other Borrowings
The Corporation entered into commercial term loan facilities in the amount of $10,000 and $6,000 in May of 2020 and September of 2024, respectively. The facilities require principal and interest payments of $136 and $92 each month at a fixed rate of interest of 3.75% and 7.50%, respectively. The maturity dates are May 28, 2027 and September 19, 2031. The Corporation had an outstanding balance on these term loans of $9,592 and $5,212 as of December 31, 2024 and 2023, respectively. Borrowings in these facilities are collateralized by 100% of the Bank's outstanding common stock. Scheduled annual principal maturities of the term notes for December 31 are summarized as follows:

Year	Amount
2025	$ 2,201
2026	2,314
2027	1,472
2028	863
2029	932
2030	1,005
2031	805
Total	$ 9,592

Additionally, the Corporation has available a line of credit of $7,000 that matures every three years. As of December 31, 2024, and 2023, the line had not been drawn upon.

(Dollars in thousands except per share data)

11. FEDERAL INCOME TAXES

The provision for federal income taxes consisted of the following components for the years ended December 31:

	2024	2023
Current	$ 3,279	$ 2,533
Deferred	(456)	85
Income taxes	$ 2,823	$ 2,618

Federal income tax expense differs from the statutory federal income tax rate applied to pre-tax income primarily due to tax-exempt income earned for both 2024 and 2023.

Deferred tax assets (liabilities) consisted of the following:

	2024	2023
Deferred tax assets:		
Allowance for credit losses	$ 2,648	$ 2,645
Deferred compensation	509	385
Unrealized loss on available-for-sale investment securities	684	617
Unrealized loss on cash flow hedge	57	-
Other	276	129
Total deferred tax assets	4,174	3,776
Deferred tax liabilities:		
Deferred loan costs	(880)	(824)
Premises and equipment	(621)	(661)
Other	(1,142)	(1,339)
Total deferred tax liabilities:	(2,643)	(2,824)
Net deferred tax assets	$ 1,531	$ 952

The provision for income taxes differences from amounts computed by applying the statutory Federal income tax rate to operating income before income taxes. The significant items comprising these differences consisted of the following:

	2024	2023
Federal income tax, at statutory rate	21.0%	21.0%
Interest on obligations of state and political subdivisions	(0.8%)	(0.8%)
Net increase in cash surrender value of bank owned life insurance	(0.8%)	(0.6%)
Other	0.2%	0.2%
Effective tax rate	19.6%	19.8%

Management concluded that there are no material uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for 2021 through 2024, the years which remain subject to examination by major tax jurisdictions as of December 31, 2024. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2024 or 2023, and management is not aware of any claims for such amounts by federal or state income tax authorities.

12. RELATED PARTY TRANSACTIONS

Loans
In the ordinary course of business, the Bank grants loans to certain directors, executive officers, and their affiliates. Such loans aggregated $2,790 and $2,315 as of December 31, 2024 and 2023, respectively.

Deposits
Deposits of Corporation directors, executive officers, and their affiliates were $3,658 and $2,760 at December 31, 2024 and 2023, respectively.

(Dollars in thousands except per share data)

13. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit-related financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its clients. These financial instruments may include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making such commitments, including requirements for collateral, as it does for on-balance sheet instruments; no significant losses are anticipated as a result of these commitments.

The following financial instruments were outstanding whose contract amounts represent credit risk at December 31:

	Contract Amount	
	2024	**2023**
Unfunded commitments under lines of credit	$ 237,374	$ 242,702
Standby letters of credit	6,422	7,339

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit, and overdraft protection agreements are commitments for possible future extensions of credit to existing clients. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at variable rates of interest; a portion is unsecured.

Standby letters of credit are conditional commitments issued by the Bank to guarantee a client's performance to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially, all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to clients. The Bank generally holds collateral supporting those commitments if deemed necessary and at December 31, 2024 and 2023, such collateral amounted to approximately $33,000 and $36,000, respectively. Guarantees that are not derivative contracts are not significant and have not been recorded on the Corporation's consolidated balance sheets. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2024 or 2023.

14. DERIVATIVE FINANCIAL INSTRUMENTS

The Bank through normal operations is exposed to certain risks arising from business operations and/or overall economic conditions. Management of operational risks is predominately through internal controls as well as decisions by management so as to mitigate these risks while management of economic risks, including interest rate, credit, and liquidity primarily are managed through the amount and duration of our assets and liabilities up to and including the use of derivative financial instruments. Specifically, the Bank enters into derivative financial instruments so as to manage exposures arising from receipt or payment of actual or projected future cash amounts, the value of which are determined by interest rates. Our derivative financial instruments are used as one tool in managing differences in the amount, timing, and duration of our known or expected cash receipts and our known or expected cash payments principally related to our mortgage loans and deposits.

Forward Loan Sale Commitments
To protect against the price risk inherent in derivative loan commitments and mortgage loans held for sale, the Bank utilizes both "mandatory delivery" and "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "mandatory delivery" contract, the Bank commits to deliver a certain principal amount of mortgage loans to an investor at a specified price on or before a specified date. If the Bank fails to deliver the amount of mortgages necessary to fulfill the commitment by the specified date, it is obligated to pay a "pair-off" fee, based on then-current market prices, to the investor to compensate the investor for the shortfall.

With a "best efforts" contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of mortgage loans held for sale. The notional amount of fixed rate forward loan sale commitments was $1,019 and $436 at December 31, 2024 and 2023, respectively.

The fair value of the rate lock loan commitments related to the origination of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in these consolidated financial statements.

(Dollars in thousands except per share data)

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Collateral Requirements
To reduce credit risk related to the use of derivative instruments, the Bank might deem it necessary to obtain collateral. The amount and nature of the collateral obtained is based on the Bank's credit evaluation of the client. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant and equipment, and real estate. If the counterparty does not have the right and ability to redeem the collateral or the Bank is permitted to sell or re-pledge the collateral on short notice, the Bank records the collateral in its consolidated balance sheet at fair value with a corresponding obligation to return it.

Interest Rate Swap Designated as Fair Value Hedge:
On August 25, 2023, the Bank entered into an interest rate swap agreement with a notional amount of approximately $55.0 million, effectively converting certain fixed rate mortgage loans into floating. The swap has a 5-year maturity with no change to the notional amount for the first two years and then amortization for the remaining life to approximately under $28 million. The relationship has been designated and qualifies as a fair value hedge and, as such, changes in the fair value are recorded as an adjustment to the loan portfolio specifically represented in the hedge. The hedge was determined to be fully effective during 2024 and 2023 and management expects it to remain effective for the remaining term.

The carrying amount of the hedged asset was $79,157 and $87,508 as of December 31, 2024 and 2023, respectively. The cumulative basis adjustment is included in net portfolio loans on the consolidated balance sheet. The fair value of the swap is included in other assets on the consolidated balance sheet.

Interest Rate Swap Designated as Cash Flow Hedge:
On August 25, 2023, the Bank entered into an interest rate swap agreement with a notional amount of $40 million, effectively converting the variable rate of the underlying specific fixed rate deposit accounts. The swap has a 5-year maturity with no change to the minimum notional amount over the term. The relationship has been designated and qualifies as a cash flow hedge and, as such, changes in the fair value are recorded in accumulated other comprehensive income (loss) to the extent the relationship is an effective hedge.

The fair value is recorded in other liabilities and no amount of ineffectiveness has been included in net income. The amount included in accumulated other comprehensive income (loss) would be reclassified to current earnings should the hedge no longer be considered effective. Amounts related to the swap reported in OCI will be reclassified to interest income as interest payments are made on the deposits. At December 31, 2024, the Corporation expected $5 of the unrealized loss to be reclassified as an increase to interest expense during 2025.

The effect of the cash flow hedge accounting on OCI for the year ended December 31, was as follows:

2024	Amount of Gain (Loss) recognized in OCI on derivative	Location of Gain (Loss) reclassified from OCI into Income	Amount of Gain (Loss) reclassified from OCI into Income
Interest Rate Swap	$ (885)	Interest Expense	$ 403
2023	**Amount of Gain (Loss) recognized in OCI on derivative**	**Location of Gain (Loss) reclassified from OCI into Income**	**Amount of Gain (Loss) reclassified from OCI into Income**
Interest Rate Swap	$ (1,159)	Interest Expense	$ 162

(Dollars in thousands except per share data)

14. DERIVATIVE FINANCIAL INSTRUMENTS (Continued)

Summary information about the interest rate swaps designated as of December 31, is as follows:

	2024	2023
Fair value hedge designation:		
Notional amounts	$ 55,000	$ 55,000
Hedge item	441	1,372
Interest rate contract designed as hedging instrument	(419)	(1,362)
Maturity Date	August 25, 2028	August 25, 2028
Cash flow hedge designation:		
Notional amounts	$ 40,000	$ 40,000
Fair value of hedge	(274)	(1,159)
Maturity date	August 25, 2028	August 25, 2028
Gain/(loss) recognized in other comprehensive income	(216)	(915)

Income recorded on these swap transactions totaled $914 and $377 for the years ended December 31, 2024 and 2023, respectively, and is reported as a component of interest income on loans and interest expense on deposits.

15. REGULATORY MATTERS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum regulatory capital requirements can initiate certain mandatory, and possible additional discretionary actions by the federal banking agencies that, if undertaken, could have a direct material effect on the Corporation's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines involving quantitative measures of their assets, liabilities, and certain off-balance sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weighting, and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on AFS securities is not included in computing regulatory capital. Quantitative measurements established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes as of December 31, 2024 and 2023, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2024, and 2023, the most recent notifications from the OCC categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the most recent notification that management believes have changed the Bank's category.

(Dollars in thousands except per share data)

15. REGULATORY MATTERS (Continued)

The Corporation's and the Bank's actual and required capital amounts and ratios are as follows:

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2024	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital to risk weighted assets						
Corporation	$ 112,714	11.0%	$ 107,869	10.5%	$ N/A	N/A
Bank	119,359	11.6%	107,866	10.5%	102,729	10.0%
Tier 1 (core) capital to risk weighted assets						
Corporation	99,873	9.7%	87,290	8.5%	N/A	N/A
Bank	106,518	10.4%	87,287	8.5%	82,152	8.0%
Common Tier 1 (CETI)						
Corporation	99,873	9.7%	71,885	7.0%	N/A	N/A
Bank	106,518	10.4%	71,883	7.0%	66,749	6.5%
Tier 1 (core) capital to average assets						
Corporation	99,873	8.0%	49,822	4.0%	N/A	N/A
Bank	106,518	8.6%	49,820	4.0%	62,275	5.0%

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital to risk weighted assets						
Corporation	$ 108,104	11.4%	$ 99,445	10.5%	$ N/A	N/A
Bank	110,814	11.7%	99,442	10.5%	94,706	10.0%
Tier 1 (core) capital to risk weighted assets						
Corporation	96,265	10.2%	80,407	8.5%	N/A	N/A
Bank	98,975	10.5%	80,405	8.5%	75,675	8.0%
Common Tier 1 (CETI)						
Corporation	96,265	10.2%	66,218	7.0%	N/A	N/A
Bank	98,975	10.5%	66,216	7.0%	61,486	6.5%
Tier 1 (core) capital to average assets						
Corporation	96,265	8.1%	47,659	4.0%	N/A	N/A
Bank	98,975	8.3%	47,658	4.0%	59,572	5.0%

Restrictions on Cash and Amounts Due from Banks
The Bank may be required by regulatory agencies to maintain legal cash reserves based on the level of certain client deposits. There were no required reserve balances at December 31, 2024 and 2023.

Restrictions on Dividends, Loans, and Advances
Federal and state banking regulations place certain restrictions on dividends paid and the amount of loans or advances that can be extended by the Bank to the Corporation.

(Dollars in thousands except per share data)

15. REGULATORY MATTERS (Continued)

Prior approval of the Federal Reserve Board and OCC is required if the total dividends declared by the Bank in a calendar year exceed the sum of the retained net income of the Bank for the current year plus its retained net income for the two preceding years, less any required transfers from retained earnings to common stock (as defined). In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital standards. At January 1, 2024, the Bank's retained earnings available for the legal payment of dividends, without prior approval from regulators, was approximately $20,904.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's contributed capital (par value common stock and additional paid-in capital). Accordingly, at December 31, 2024, Bank funds available for loans or advances to the Corporation amounted to approximately $2,449.

16. CONTINGENCIES

Litigation
The Corporation may be party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues
As a result of acquiring real estate in foreclosure proceedings, the Bank is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted at December 31, 2024.

17. SHARE-BASED PAYMENTS

Stock Compensation Plan
A Stock Compensation Plan was adopted by the Corporation in July 2022 and replaced the 2015 Plan whose shares have all been issued. The aggregate number of shares that may be issued and outstanding pursuant to the exercise of options, and the granting of restricted stock awards or stock appreciation rights under the 2022 Plan may not exceed in aggregate 160,000 common shares. There are no such stock options nor stock appreciation rights awarded under the plans as of December 31, 2024 and 2023.

Under the provisions of the plan, the Corporation cannot be obligated to "cash-settle" any of the restricted stock awards through redemption. The fair value of restricted stock at the grant date was determined by the Corporation's Board of Directors based on the weighted-average selling price of the Corporation's common stock for the previous month ($34.43 and $35.77 per share weighted for May of 2024 and May of 2023, respectively). The shares become vested over a five-year period. The shares vest on December 31 of each year if the designated performance criteria are met for that year. During the period the shares are not vested, the grantee may not sell, assign, transfer or pledge the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Predominately, unvested restricted stock is immediately forfeited when the employment of a grantee is terminated prior to retirement date. Noninterest expense is recognized for the fair value of the vested shares as of the vesting date.

	2024		2023	
	Shares	Weighted Average Grant Date Fair Value	Shares	Weighted Average Grant Date Fair Value
Nonvested beginning of year:	27,924	$ 36.84	28,049	$ 37.09
Granted	16,735	34.43	15,500	35.77
Vested	(13,220)	35.92	(12,859)	28.95
Forfeited	(1,563)	36.38	(2,766)	36.75
Nonvested at end year	**29,876**	**$ 35.92**	**27,924**	**$ 36.84**

Included within the Corporation's consolidated statements of income is compensation expense of $475 and $440 in 2024 and 2023, respectively, and directors' and advisory members' fees expense of $0 and $24 in 2024 and 2023, respectively related to the vested shares, as applies under each plan. Diluted earnings per share were impacted by approximately $0.12 and $0.09 for 2024 and 2023, respectively, as a result of these common stock equivalents. As of December 31, 2024, and 2023, cumulative unrecognized compensation costs related to nonvested restricted stock awards are presented as a reduction of shareholders' equity. As of December 31, 2024, there was $1,073 of total remaining unrecognized compensation expense related to nonvested restricted stock awards. The remaining expense is expected to be recognized over a weighted-average service period of 3.07 years.

(Dollars in thousands except per share data)

17. SHARE-BASED PAYMENTS (Continued)

Equity Compensation
The Board of Directors equity compensation is based upon similar criteria to the stock compensation plan but without the vesting period. Noninterest expense was recognized for the fair value of the shares upon issuance. Included in the consolidated statements of income in 2024 and 2023 is directors' and advisory members' expense of $134 and $84, respectively.

18. OTHER EMPLOYEE BENEFIT PLANS

Defined Contribution Plans
A noncontributory profit sharing plan covers all eligible employees following the completion of three months of employment who are 18 years of age or older. Contributions to the plan are made periodically to the employees' plan account. The amount of each contribution is discretionary as determined by the Board of Directors.

The Bank also has a complimentary Safe Harbor 401(k) plan for eligible employees, following three consecutive months of service. The Bank makes a "Safe Harbor" matching contribution in the amount of 100% of the employees' contribution. The percentage rate applies to only the first 5% of the employees' plan salary.

Compensation expense related to the noncontributory pension/profit sharing plan was approximately $1,181 and $1,363 in 2024 and 2023, respectively. Contributions to the Safe Harbor 401(k) plan were $719 and $617 in 2024 and 2023, respectively.

Bank-Owned Life Insurance
The Bank has invested $14,455 in two separate single premium, bank-owned, endorsement split-dollar life insurance programs. Such policies are recorded at their cash surrender value, estimated to be $17,100 and $16,572 as of December 31, 2024 and 2023, respectively. Bank-owned life insurance is an alternative investment vehicle, generally non-liquid, which may generate additional earnings to offset various benefit plan expenses. The earnings on the insurance are not taxed unless withdrawn or surrendered prior to the death of the insured. Any changes in cash surrender value of the policies are recorded as either noninterest income or noninterest expenses in the consolidated statements of income.

Employee Cash Incentive Plan
The Bank established various nonqualified plans of deferred compensation benefits for its eligible key employees effective January 1, 2022. The Plan is intended to provide certain officer and executives deferred compensation as an incentive and reward for their contribution to the success of the Corporation. Predominantly, the payments are lump sum on predetermined dates. The amount contributed for past performance and required contribution schedule was $1,532 and $1,333 as of December 31, 2024 and 2023, respectively. These are included in other liabilities on the consolidated balance sheet. Additionally, the accumulated liability for these plans totaled $1,780 and $1,524 as of December 31, 2024 and 2023, respectively.

Deferred Directors Fees Plan
Effective April 1, 2018, the Corporation established a deferred directors fees plan maintained primarily for the purpose of providing the option to defer compensation for eligible directors. Participants are 100% vested at all times and amounts are payable in one lump sum. As of December 31, 2024, and 2023, the Corporation has a liability recorded on the consolidated balance sheet of $645 and $499, respectively, including interest earned.

19. SUPPLEMENTAL CASH FLOWS INFORMATION

Non-Cash Financing Activities
As of December 31, 2024, and 2023, common stock dividends declared in the amount of $1,039 and $1,080, respectively, were unpaid and included in other liabilities on the consolidated balance sheets.

Other Cash Flows Information
Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2024	2023
Interest	$ 22,616	$ 16,189
Income taxes	$ 2,741	$ 1,273

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 in qualified affordable housing projects was $263 and $396, respectively. The Bank accounts for these investments using the proportional amortization method. These balances are reflected in other assets on the consolidated balance sheets. Total unfunded commitments related to the investments in qualified affordable housing projects totaled $37 and $46 at December 31, 2024 and 2023. The Bank expects to fulfill these commitments through 2034.

(Dollars in thousands except per share data)

20. QUALIFIED AFFORDABLE HOUSING PROJECT INVESTMENTS (Continued)

During 2024 and 2023, the Bank amortized $137 and $148, respectively, which was included in income tax expense. Additionally, during 2024 and 2023, the Corporation recognized tax credits and other benefits from its investment in affordable housing tax credits of $134 and $147, respectively.

21. REVENUE FROM CONTRACTS WITH CLIENTS

The Bank's primary revenue stream accounted for under ASC 606 relates to service charges on deposit accounts.

Consistent with Topic 606, noninterest income covered by this guidance is recognized, as services are transferred to our clients, in an amount that reflects the consideration we expect to be entitled to in exchange for those services. A description of the Bank's revenue streams accounted for under ASC 606 follows:

Service Charges on Deposit Accounts: The Bank earns fees from its deposit clients for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the client's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the client's account balance.

Interchange Income: The Bank earns interchange fees from debit cardholder transactions conducted through the Mastercard payment network. These balances are reflected in ATM service charges on the consolidated statement of income. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Wealth Management Fees (Gross): The Corporation earns wealth management fees from its contracts with clients to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted monthly or quarterly services and are generally assessed based on a tiered scale of the market value of assets under management (AUM) at quarter-end. Other related services provided include financial planning services and the fees the Corporation earns, which are based on a fixed fee schedule, are recognized when the services are rendered.

22. COMMON STOCK ACTIVITY

During 2024, the Corporation approved a stock repurchase plan authorizing the repurchase of up to 145,000 common stock shares. The costs associated with the repurchase of $5,662 was charged entirely to common stock. All of the shares were repurchased in 2024.

23. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of AOCI and details the components of OCI, including the amount of income tax expense (benefit) allocated to each component of OCI:

	Unrealized Holding Gain (Losses) on Securities AFS	Unrealized Gain (Losses) on Cash Flow Hedges	Total
January 1, 2023	$ (2,551)	$ -	$ (2,551)
Unrealized gains (losses) arising during the year	249	(997)	(748)
Reclassification adjustments for net (gains) losses	-	(162)	(162)
Net unrealized gains (losses)	249	(1,159)	(910)
Taxes effect (1)	(51)	244	193
OCI, net of tax	198	(915)	(717)
December 31, 2023	$ (2,353)	$ (915)	$ (3,268)
Unrealized gains (losses) arising during the year	(312)	1,288	976
Reclassification adjustments for net (gains) losses	-	(403)	(403)
Net unrealized gains (losses)	(312)	885	573
Taxes effect (1)	67	(186)	(119)
OCI, net of tax	(245)	699	454
December 31, 2024	$ (2,598)	$ (216)	$ (2,814)

(1) Based on federal income tax rate of 21% for all years presented.

(Dollars in thousands except per share data)

23. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Continued)

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income	
	2024	2023
Realized gains (losses) on cash flow hedge [2]	$ 403	$ 162
Tax effect [1]	(85)	(34)
Net Income	$ 318	$ 128

[1] Based on federal income tax rate of 21% for all years presented.
[2] Realized gains (losses) on cash flow hedge are represented in interest income (interest expense) on the corresponding income statement.

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