

HAMLIN BANK
AND
TRUST COMPANY



2024 ANNUAL REPORT

HAMLIN BANK AND TRUST COMPANY

333 West Main Street

Smethport, PA 16749

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FINANCIAL HIGHLIGHTS

	2024	2023
<u>Dividends</u>		
Cash dividends, declared	\$ 4,304,905	\$ 4,358,756
Dividends per share, declared	12.00	12.00
<u>At year end December 31,</u>		
Total assets	\$ 435,416,573	\$ 437,725,414
Investment securities		
Debt securities, available for sale	92,876,173	118,446,027
Equity securities	34,135,815	31,569,430
Loans receivable, net	287,602,754	271,597,285
Deposits	330,716,432	321,490,075
Shareholders' equity	88,833,326	85,526,450
Book value per share	248.46	235.46
<u>For the year ended December 31,</u>		
Net interest income	\$ 13,894,420	\$ 15,461,572
Net income	5,585,932	3,802,787
Earnings per share	15.54	10.47
<u>Financial ratios for the year ended December 31,</u>		
Return on average shareholders' equity	6.41%	4.50%
Return on average assets	1.28%	0.86%
<u>Trust fund assets, market value</u>	\$ 104,454,602	\$ 100,104,938



TO OUR SHAREHOLDERS,

We are pleased to report a successful 2024 for Hamlin Bank with strong net income for the year ended December 31, 2024, of \$5.6 million, or \$15.54 per share, while maintaining robust capital and a sound liquidity position. These factors enable us to continue to reward our shareholders with our long-standing semi-annual dividend. During 2024, dividends declared and paid to shareholders were \$12.00 per share, consistent with 2023.

Although margin compression continued to challenge the industry, Hamlin Bank's core focus on serving their customers and communities needs, along with prudent balance sheet strategy, has provided the Bank with a strong foundation to succeed through these challenges.

Financial results

Net income grew 46.9% over prior year to \$5.6 million for the year ended December 31, 2024, from \$3.8 million for the year ended December 31, 2023, resulting in earnings per share of \$15.54 for the year ended December 31, 2024, compared to \$10.47 in the prior year. Challenges in margin compression continued in 2024, shrinking net interest income by \$1.6 million, or 10.1%, to \$13.9 million for the year ended December 31, 2024.

Helping to offset the margin compression experienced in 2024, noninterest income increased \$4.4 million over prior year to \$4.6 million for the year ended December 31, 2024, compared to \$225,000 for the year ended December 31, 2023. This increase was due to positive changes in the equity markets during 2024 which resulted in a \$3.3 million benefit for the year ended December 31, 2024, as our equity securities portfolio's fair value improved during the year.

Total assets were \$435.4 million at December 31, 2024, a slight decrease over prior year of \$2.3 million. This decrease in total assets was primarily due to the decrease in investment securities of \$25.6 million to \$92.9 million at December 31, 2024. During the first quarter of 2024, the Bank strategically sold a total of \$17.0 million of available-for-sale debt securities and equity securities to redeploy the assets into higher yielding loans and effectively reducing our borrowing needs. In addition, calls and maturities of \$9.8 million further reduced the investment securities balance slightly offset by an increase in the fair value of equity securities.

The bank had strong loan growth of \$15.9 million, or 5.8%, to \$290.9 million at December 31, 2024 from \$275.1 million at December 31, 2023. This growth was primarily in the mortgage loan portfolios and was achieved while maintaining strong credit quality standards. Net charge-offs remain low at 0.21% of average gross loans at December 31, 2024 compared to 0.19% at December 31, 2023.

Total deposits grew \$9.2 million over the prior year to \$330.7 million at December 31, 2024. This growth occurred within our time deposits as the bank competitively priced this product in 2024. New money, as well as a shift from other deposit categories, expanded our time deposits to \$81.9 million at December 31, 2024, an increase of \$23.4 million over prior year.

Hamlin Bank's community bank leverage ratio remained well above the "well capitalized" standards determined by bank regulators of 5.00%, with the Bank's ratio at 21.24% at December 31, 2024. This leverage ratio reflects a very strong capital position and the Bank's commitment to maintain a safe and sound financial institution while providing effective capital management.

Expanded footprint

At the beginning of 2024, we welcomed the Elk County community as we opened a new branch in St. Marys, Pennsylvania. This office broadens our footprint and enables us to extend our community bank product and services to a new market and new customers. We are excited at the initial customer response and look forward to continuing to serve and grow with Elk County.

During the fourth quarter of 2024, the bank initiated the process of entering a new community in Sheffield, PA. Construction is underway and we anticipate this new branch opening in the early part of 2025. The Hamlin Bank team is eager to expand our footprint into Warren County and are excited to serve this new market into the future.

Looking forward

The success of Hamlin Bank is a direct result of our dedicated employees. We are deeply grateful for their commitment and passion to serve our growing customer base and communities. Our focus remains steadfast on being the hometown bank that our communities take pride in doing business with. We look forward to continuing that tradition with our existing, loyal communities and expanding that same exceptional service to our new market in 2025.

We invite our shareholders to visit or telephone with questions regarding your investment in Hamlin Bank and Trust Company and we thank you for your continued support.

Sincerely,



Martin J. Digel
Executive Chairman



Jeffery A. Wilson
President and Chief Executive Officer



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Hamlin Bank and Trust Company
Smethport, Pennsylvania

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in Annual Report

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

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

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 7, 2025

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31,	
	2024	2023
ASSETS		
Cash and due from banks	\$ 6,414,862	\$ 5,456,041
Investment securities available for sale (amortized cost of \$99,435,557 and \$125,862,833, respectively)	92,876,173	118,446,027
Equity securities, at fair value	34,135,815	31,569,430
Loans receivable	290,947,098	275,063,749
Less allowance for credit losses	(3,344,344)	(3,466,464)
Loans receivable, net	287,602,754	271,597,285
Premises and equipment, net	7,076,032	6,330,705
Accrued interest and other assets	3,448,504	3,826,082
Other real estate owned	196,278	204,111
Prepaid defined benefits plans	3,666,155	295,733
TOTAL ASSETS	\$ 435,416,573	\$ 437,725,414
LIABILITIES		
Deposits:		
Noninterest-bearing demand	\$ 73,234,064	\$ 76,430,883
Interest-bearing demand	36,411,262	42,315,535
Money market	38,876,141	38,186,450
Savings	100,289,876	106,078,427
Time	81,905,089	58,478,780
Total deposits	330,716,432	321,490,075
Short-term borrowings	6,000,000	23,000,000
Deferred tax liabilities	4,047,422	2,463,843
Accrued interest and other liabilities	5,819,393	5,245,046
TOTAL LIABILITIES	346,583,247	352,198,964
SHAREHOLDERS' EQUITY		
Common stock, par value \$2.50; 371,814 and 377,511 shares authorized and issued, 357,533 and 363,230 shares outstanding at December 31, 2024 and 2023, respectively	929,535	943,778
Additional paid-in capital	7,266,285	8,313,322
Retained earnings	85,199,873	83,918,846
Accumulated other comprehensive loss	(4,493,146)	(7,580,275)
Treasury stock (14,281 shares, at cost)	(69,221)	(69,221)
TOTAL SHAREHOLDERS' EQUITY	88,833,326	85,526,450
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	\$ 435,416,573	\$ 437,725,414

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31,	
	2024	2023
INTEREST AND DIVIDEND INCOME		
Interest and fees on loans	\$ 15,164,006	\$ 13,192,816
Interest-bearing deposits in other institutions	144,901	293,174
Investment securities:		
Taxable interest	2,527,364	2,954,401
Tax-exempt interest	441,404	495,907
Dividends	1,307,829	1,346,466
Total interest and dividend income	<u>19,585,504</u>	<u>18,282,764</u>
INTEREST EXPENSE		
Deposits	4,956,249	2,390,731
Short-term borrowings	720,474	415,836
Financing lease	14,361	14,625
Total interest expense	<u>5,691,084</u>	<u>2,821,192</u>
NET INTEREST INCOME	13,894,420	15,461,572
Provision for credit losses	<u>475,000</u>	<u>450,000</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>13,419,420</u>	<u>15,011,572</u>
NONINTEREST INCOME		
Trust fee income	407,080	351,799
Service charges on deposits	422,271	429,845
Losses on sales of debt securities	(897,987)	-
Gains on sales of equity securities	809,167	-
Change in fair value of equity securities	3,275,502	(1,099,320)
Debit card fees	515,760	500,832
Other income	60,558	41,971
Total noninterest income	<u>4,592,351</u>	<u>225,127</u>
NONINTEREST EXPENSE		
Salaries and employee benefits	5,772,436	5,393,936
Net occupancy	619,977	496,792
Equipment and data processing	955,387	1,016,322
Federal deposit insurance	169,062	171,907
Losses/(gains) on real estate owned	75,130	(8,560)
Shares tax	573,523	583,795
Other expense	3,053,110	3,012,136
Total noninterest expense	<u>11,218,625</u>	<u>10,666,328</u>
Income before income taxes	6,793,146	4,570,371
Income tax expense	<u>1,207,214</u>	<u>767,584</u>
NET INCOME	<u>\$ 5,585,932</u>	<u>\$ 3,802,787</u>
EARNINGS PER SHARE	\$ 15.54	\$ 10.47
WEIGHTED-AVERAGE SHARES OUTSTANDING	359,408	363,317

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,	
	<u>2024</u>	<u>2023</u>
Net income	\$ 5,585,932	\$ 3,802,787
Other comprehensive income:		
Unrealized gain on available for sale securities	857,422	2,686,309
Income tax effect	(180,059)	(564,126)
Change in unrecognized pension costs	3,050,336	919,895
Income tax effect	<u>(640,570)</u>	<u>(193,178)</u>
Other comprehensive income, net of tax	<u>3,087,129</u>	<u>2,848,900</u>
Comprehensive income	<u>\$ 8,673,061</u>	<u>\$ 6,651,687</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2022	\$ 944,913	\$ 8,410,247	\$ 84,474,815	\$ (10,429,175)	\$ (69,221)	\$ 83,331,579
Net income	-	-	3,802,787	-	-	3,802,787
Other comprehensive income	-	-	-	2,848,900	-	2,848,900
Retirement of common stock (454 shares)	(1,135)	(96,925)	-	-	-	(98,060)
Cash dividends declared (\$12.00 per share)	-	-	(4,358,756)	-	-	(4,358,756)
Balance, December 31, 2023	\$ 943,778	\$ 8,313,322	\$ 83,918,846	\$ (7,580,275)	\$ (69,221)	\$ 85,526,450
Net income	-	-	5,585,932	-	-	5,585,932
Other comprehensive income	-	-	-	3,087,129	-	3,087,129
Retirement of common stock (5,697 shares)	(14,243)	(1,047,037)	-	-	-	(1,061,280)
Cash dividends declared (\$12.00 per share)	-	-	(4,304,905)	-	-	(4,304,905)
Balance, December 31, 2024	<u>\$ 929,535</u>	<u>\$ 7,266,285</u>	<u>\$ 85,199,873</u>	<u>\$ (4,493,146)</u>	<u>\$ (69,221)</u>	<u>\$ 88,833,326</u>

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,	
	2024	2023
OPERATING ACTIVITIES		
Net income	\$ 5,585,932	\$ 3,802,787
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization, net	335,030	185,230
Net (accretion) amortization on debt securities	(406,109)	(358,754)
Amortization of deferred loan costs, net	97,453	97,617
Equity securities (gains) losses	(3,275,502)	1,099,320
Gains on sale of equity securities	(809,167)	-
Losses on sale of debt securities	897,987	-
Provision for credit losses	475,000	450,000
Change in deferred income taxes	762,948	(253,989)
Losses (gains) on sale of real estate owned	21,009	(23,645)
Writedowns on real estate owned, net	49,242	15,085
Increase (decrease) in accrued interest receivable	28,506	(39,819)
Increase in accrued interest payable	483,565	502,243
Other, net	(411,021)	(100,607)
Net cash provided by operating activities	<u>3,834,873</u>	<u>5,375,468</u>
INVESTING ACTIVITIES		
Investment securities available for sale:		
Proceeds from sales of securities	16,101,190	-
Proceeds from maturities and calls	9,834,208	11,924,455
Purchases	-	(950,620)
Proceeds from sale of equity securities	1,518,284	-
Increase in loans, net	(16,679,596)	(21,433,351)
Acquisitions of premises and equipment	(1,092,201)	(2,931,955)
Proceeds from the sale of real estate owned	39,256	514,667
Purchase of regulatory stock	(2,380,000)	(2,020,000)
Redemption of regulatory stock	2,968,100	1,020,000
Net cash provided by (used for) investing activities	<u>10,309,241</u>	<u>(13,876,804)</u>
FINANCING ACTIVITIES		
Increase (decrease) in deposits, net	9,226,357	(32,366,061)
(Decrease) increase in short-term borrowings, net	(17,000,000)	23,000,000
Retirement of common stock	(1,061,280)	(98,060)
Finance lease payments	(11,283)	(11,019)
Cash dividends paid	(4,339,087)	(4,361,480)
Net cash used for financing activities	<u>(13,185,293)</u>	<u>(13,836,620)</u>
Increase (decrease) in cash and cash equivalents	958,821	(22,337,956)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>5,456,041</u>	<u>27,793,997</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 6,414,862</u>	<u>\$ 5,456,041</u>
SUPPLEMENTAL INFORMATION:		
Cash paid during the year for:		
Interest	\$ 5,207,519	\$ 2,318,949
Income taxes	1,207,214	769,408
Noncash investing transactions:		
Real estate loans transferred to real estate owned	\$ 676,345	\$ 606,387

See accompanying notes to the consolidated financial statements.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

Hamlin Bank and Trust Company (the “Bank”) is a state-chartered bank located in Smethport, Pennsylvania. The Bank’s principal sources of revenue emanate from its portfolio of residential real estate, commercial mortgage, commercial, and consumer loans, as well as interest on investment securities and a variety of deposit and trust services provided to its customers through seven locations. The Bank is supervised by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking.

The consolidated financial statements of the Bank include the accounts of the wholly owned subsidiary, Hamlin Corporation. All significant intercompany transactions have been eliminated in consolidation. The investment in subsidiary on the Bank’s financial statements is carried at the Bank’s equity in the underlying net assets of the subsidiary.

The U.S. generally accepted accounting principles (GAAP) followed by the Bank and the methods of applying these principles conform to U.S. generally accepted accounting principles and to general practice within the banking industry. In preparing the financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the balance sheet date and reported amounts of revenues and expenses for the period. Actual results could differ from those estimates.

Investment Securities

The Bank has classified debt securities as available for sale to serve principally as a source of liquidity. Investment securities are recorded at fair value, with unrealized holding gains and losses reported as a separate component of shareholders’ equity, net of tax, until realized. Realized securities gains and losses are computed using the specific identification method for debt securities and by the average cost method for marketable equity securities. Interest and dividends on investment securities are recognized as income when earned. Premiums and discounts are recognized in interest income using the interest method over the period to maturity.

Allowance for Credit Losses – Available for Sale Securities

For available for sale securities in an unrealized loss position, the Bank first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income.

For available for sale debt securities that do not meet the aforementioned criteria, the Bank evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bank considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses (“ACL”) is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

The ACL on available for sale debt securities is included within investment securities available for sale on the Consolidated Balance Sheet. Changes in the ACL are recorded within the provision for credit losses on the Consolidated Statement of Income. Losses are charged against the allowance when the Bank believes the collectability of an available for sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Accrued interest receivable on available for sale debt securities totaled \$618,377 and \$732,755 at December 31, 2024 and 2023, respectively, and is included within accrued interest and other assets on the Consolidated Statements of Financial Condition. This amount is excluded from the estimate of expected credit losses. Available for sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Equity Securities

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

Federal Home Loan Bank Stock

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

Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein. Management considered that the FHLB maintains regulatory capital ratios in excess of all regulatory capital requirements, liquidity appears adequate, and new shares of FHLB stock continue to change hands at the \$100 par value and at the resumption of dividends.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are generally reported at their principal amount net of unearned income and the allowance for credit losses. Interest on all loans is recognized as income when earned on the accrual method. The Bank’s general policy is to stop accruing interest on loans when it is determined that reasonable doubt exists as to the collectability of additional interest. Payments received on nonaccrual loans are recorded as income or applied against principal according to management’s judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time, and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Loan origination fees and certain direct loan origination costs are being deferred and the net amount is amortized as an adjustment of the related loan’s yield, based on the interest method. The Bank is amortizing these amounts over the contractual life of the related loans.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses

The ACL is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, current conditions, and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

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

The ACL is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the allowance for credit losses using the following methods: residential real estate, commercial real estate, construction real estate, commercial and industrial, and consumer. These segments are analyzed in smaller cohort groupings based on similar risk characteristics.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on the unemployment forecast and management judgment. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates utilizing a straight-line method over a one-year reversion period. The qualitative adjustments for current conditions are based upon changes in lending policies and practices, experience and ability of lending staff, quality of the Bank's loan review system, value of underlying collateral, the existence of and changes in concentrations and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

Accrued interest receivable on loans totaled \$798,776 and \$712,904 at December 31, 2024 and 2023, respectively, and is included within accrued interest and other assets on the Consolidated Statement of Financial Condition.

The Bank has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income.

A loan is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans deemed collateral-dependent, the Bank elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. Substantially all of the collateral consists of various types of business assets or real estate.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses (Continued)

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and, therefore, should be individually assessed. We evaluate all commercial and industrial and commercial real estate loans, as well as residential and installment loans that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral, and 3) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from 3 to 20 years for furniture, fixtures, and equipment, and 10 to 40 years for buildings. Expenditures for maintenance and repairs are charged against income, as incurred. Costs of major additions and improvements are capitalized.

Real Estate Owned

Real estate owned acquired in settlement of foreclosed loans is carried as a component of other assets at the lower of cost or fair value less estimated cost to sell. Direct costs incurred in the foreclosure process and subsequent holding costs incurred on such properties are recorded as expenses of current operations.

As of December 31, 2024 and 2023, the Bank had \$196,278 and \$204,111, respectively, of foreclosed residential real estate property obtained by physical possession, which is recorded as a component of other assets on the Consolidated Statements of Financial Condition. As of December 31, 2024, the Bank had \$955,238 of loans secured by residential real estate properties, for which foreclosure proceedings are in process, according to local jurisdictions.

Trust Department

Trust Department assets (other than cash deposits) held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying Consolidated Statements of Financial Condition, since such items are not assets of the Bank.

Pension Plan and Other Post-Retirement Plans

The Bank maintains a noncontributory defined benefit pension plan covering substantially all employees. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement.

The Bank also maintains a noncontributory defined benefit post-retirement plan covering all employees. The plan provides a level of life insurance coverage to retirees that is based upon their annual compensation prior to retirement.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes

Deferred tax assets and liabilities are reflected at currently enacted income tax rates, applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Comprehensive Income

The Bank is required to present comprehensive income in a full set of general-purpose financial statements for all periods presented. Other comprehensive income is composed of unrealized holding gains and losses on the available for sale securities portfolio and change in unrecognized pension costs.

Cash Equivalents

For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and due from banks.

Earnings Per Share

The Bank currently maintains a simple capital structure; therefore, there are no dilutive effects on earnings per share. As such, earnings per share are calculated by dividing net income by the weighted-average number of shares of stock outstanding during the year.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year classifications. Such reclassifications had no effect on net income or shareholders' equity.

2. REVENUE RECOGNITION

The Bank has several products and services for which it recognized revenues in accordance with Accounting Standards Update No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. Topic 606 is applicable to noninterest revenue streams, such as trust income, deposit-related fees, interchange fees, and merchant income. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606. Noninterest revenue streams in scope of Topic 606 are discussed below.

Trust Department Fees

Trust and asset management income is primarily comprised of fees earned from the management and administration of trusts and other customer assets. The Bank's performance obligation is generally satisfied over time, and the resulting annual fees are based on the market value of assets held in the account as valued at the end of each quarter. Payment is generally received within a few days after the end of the quarter via a debit from the customers' accounts. The Bank does not earn performance-based incentives. Additional services, including, but not limited to, additional accountings and supervision of personal affairs for the elderly may be provided on a case-by-case basis. The Bank's performance obligation for these transactional-based services is generally satisfied, and related revenue recognized, at a point in time (i.e., as incurred). Payment is received shortly after services are rendered.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

2. REVENUE RECOGNITION (Continued)

Service Charges

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

Debit Card Network Fees

The Bank earns interchange fees from debit cardholder transactions conducted primarily through the Mastercard payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, net of card network fees, concurrently with the transaction processing services provided to the cardholder.

Gain on Sale of Other Real Estate Owned ("OREO")

The Bank records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of delivery of an executed deed. When the Bank finances the sale of OREO to the buyer, management assesses whether the buyer is committed to perform the buyer's obligation under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on the sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain on sale if a significant financing component is present.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES AVAILABLE FOR SALE

Debt Securities Available for Sale

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale are as follows at December 31:

	2024				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies	\$ 48,712,483	\$ -	\$ (3,622,452)	\$ -	\$ 45,090,031
Obligations of states and political subdivisions	17,920,708	8	(1,772,876)	-	16,147,840
Corporate securities	32,802,366	40,177	(1,204,241)	-	31,638,302
Total	<u>\$ 99,435,557</u>	<u>\$ 40,185</u>	<u>\$ (6,599,569)</u>	<u>\$ -</u>	<u>\$ 92,876,173</u>

	2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
U.S. government agencies	\$ 69,057,285	\$ 12,843	\$ (4,750,786)	\$ -	\$ 64,319,342
Obligations of states and political subdivisions	20,367,751	6,126	(1,664,567)	-	18,709,310
Corporate securities	36,437,797	93,932	(1,114,354)	-	35,417,375
Total	<u>\$ 125,862,833</u>	<u>\$ 112,901</u>	<u>\$ (7,529,707)</u>	<u>\$ -</u>	<u>\$ 118,446,027</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

The following tables show the Bank's gross unrealized losses and fair values, aggregated by investment category and length of time that the individual securities have been in a continuous unrealized loss position, at December 31.

	2024					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies \$	3,584,342	\$ (47,424)	\$ 41,505,689	\$ (3,575,028)	\$ 45,090,031	\$ (3,622,452)
Obligations of states and political subdivisions	1,745,552	(15,904)	14,202,280	(1,756,972)	15,947,832	(1,772,876)
Corporate securities	7,131,876	(109,698)	20,183,169	(1,094,543)	27,315,045	(1,204,241)
Total	<u>\$ 12,461,770</u>	<u>\$ (173,026)</u>	<u>\$ 75,891,138</u>	<u>\$ (6,426,543)</u>	<u>\$ 88,352,908</u>	<u>\$ (6,599,569)</u>

	2023					
	Less Than Twelve Months		Twelve Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
U.S. government agencies \$	-	\$ -	\$ 62,525,848	\$ (4,750,786)	\$ 62,525,848	\$ (4,750,786)
Obligations of states and political subdivisions	976,864	(3,137)	16,026,322	(1,661,430)	17,003,186	(1,664,567)
Corporate securities	505,262	(9,606)	27,701,644	(1,104,748)	28,206,906	(1,114,354)
Total	<u>\$ 1,482,126</u>	<u>\$ (12,743)</u>	<u>\$ 106,253,814</u>	<u>\$ (7,516,964)</u>	<u>\$ 107,735,940</u>	<u>\$ (7,529,707)</u>

At December 31, 2024, the Bank had 23 available for sale securities that have been in a gross unrealized loss position for less than 12 months with depreciation of 1.4 percent from the Bank's amortized cost basis. At December 31, 2024, the Bank had 120 available for sale securities that have been in a gross unrealized loss position for greater than 12 months with depreciation of 7.8 percent from the Bank's amortized cost basis. The gross unrealized loss positions were primarily related to securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. Government, are widely recognized as "risk free," and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealized loss position, and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity. Therefore, as of December 31, 2024, no ACL was required for available for sale securities.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

3. INVESTMENT SECURITIES AVAILABLE FOR SALE (Continued)

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

	Amortized Cost	Fair Value
Due in one year or less	\$ 2,976,343	\$ 2,959,326
Due after one year through five years	49,997,918	47,898,498
Due after five years through ten years	45,046,087	40,744,617
Due after ten years	1,415,209	1,273,732
Total	<u>\$ 99,435,557</u>	<u>\$ 92,876,173</u>

The Bank had proceeds of \$16,101,190 from the sale of debt securities during 2024, resulting in gross realized losses of \$897,987. The Bank did not sell any debt securities during 2023. Investment securities with carrying values of \$32,678,582 and \$64,319,342 were pledged to secure public deposits and for other purposes as required by law at December 31, 2024 and 2023, respectively.

Equity Securities

The following table presents the net gains and losses on equity investments recognized in earnings during the years ended December 31, 2024 and 2023, and the portion of unrealized gains and losses for the periods that related to equity investments held at December 31, 2024 and 2023.

	Year Ended December 31, 2024	2023
Net equity security gains (losses) recognized during the year	\$ 4,084,669	\$ (1,099,320)
Net gains realized due to sale of equity securities during the year	<u>(809,167)</u>	<u>-</u>
Net equity security unrealized gains (losses) recognized during the year	<u>\$ 3,275,502</u>	<u>\$ (1,099,320)</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

4. LOANS

Major classifications of loans are summarized as follows:

	2024	2023
Real estate:		
Residential	\$ 246,719,834	\$ 233,393,718
Commercial	15,089,587	12,038,353
Construction	1,011,050	861,917
Commercial and industrial	6,477,831	6,562,325
Consumer	21,648,796	22,207,436
	<u>290,947,098</u>	<u>275,063,749</u>
Less allowance for credit losses	<u>3,344,344</u>	<u>3,466,464</u>
Net loans	<u>\$ 287,602,754</u>	<u>\$ 271,597,285</u>

At December 31, 2024 and 2023, the amounts in the table above included net deferred loan origination costs of \$268,024 and \$246,487, respectively.

The Bank's primary business activity is with customers located within its local trade area, which is primarily McKean County in northwestern Pennsylvania. Although the Bank has a diversified loan portfolio at December 31, 2024 and 2023, loans outstanding to individuals and businesses are dependent upon the local economic conditions in its immediate trade area.

5. ALLOWANCE FOR CREDIT LOSSES

Management has an established methodology to determine the adequacy of the ACL that assesses the risks and losses inherent in the loan portfolio. For purposes of determining the ACL, the Bank has segmented certain loans in the portfolio by product type and age of delinquency. Loans are segmented into the following pools: residential real estate, commercial real estate, commercial and industrial, and consumer.

Changes in the allowance for credit losses by portfolio segment for the years ended December 31 are as follows:

	Residential Real Estate	Commercial Real Estate	Commercial and Industrial	Consumer	Unallocated	Total
Allowance for credit losses – loans						
Balance at December 31, 2022	\$ 1,708,394	\$ 137,130	\$ 336,229	\$ 1,217,615	\$ 107,727	\$ 3,507,095
Provisions (credit) for credit losses	591,113	(80,621)	(100,453)	51,879	(11,918)	450,000
Loans charged off	(95,732)	(808)	(10,000)	(622,420)	-	(728,960)
Recoveries of loans previously charged off	27,784	14,909	15,993	179,643	-	238,329
Balance at December 31, 2023	<u>\$ 2,231,559</u>	<u>\$ 70,610</u>	<u>\$ 241,769</u>	<u>\$ 826,717</u>	<u>\$ 95,809</u>	<u>\$ 3,466,464</u>
Provisions (credit) for credit losses	241,974	11,891	(94,219)	358,986	(43,632)	475,000
Loans charged off	(223,460)	(1,228)	-	(585,842)	-	(810,530)
Recoveries of loans previously charged off	21,569	20,459	16,909	154,473	-	213,410
Balance at December 31, 2024	<u><u>\$ 2,271,642</u></u>	<u><u>\$ 101,732</u></u>	<u><u>\$ 164,459</u></u>	<u><u>\$ 754,334</u></u>	<u><u>\$ 52,177</u></u>	<u><u>\$ 3,344,344</u></u>

The total allowance for credit losses reflects management's estimate of credit losses inherent in the loan portfolio at the Consolidated Statements of Financial Condition date. The Bank considers the allowance for credit losses adequate to cover credit losses inherent in the credit portfolio at December 31, 2024. The following tables present the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on whether the loans are collectively or individually evaluated as of December 31, 2024 and 2023.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

		2024					
		Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Allowance for credit losses:							
Individually evaluated	\$	43,260	\$ -	\$ -	\$ -	\$ 1,856	\$ 45,116
Collectively evaluated		<u>2,228,382</u>	<u>101,732</u>	<u>-</u>	<u>164,459</u>	<u>752,478</u>	<u>3,299,228</u>
Total ending allowance balance	\$	<u>2,271,642</u>	<u>101,732</u>	<u>-</u>	<u>164,459</u>	<u>754,334</u>	<u>3,344,344</u>
Loans:							
Individually evaluated	\$	1,257,969	\$ 305,242	\$ -	\$ 70,351	\$ 14,910	\$ 1,648,472
Collectively evaluated		<u>245,461,865</u>	<u>14,784,345</u>	<u>1,011,050</u>	<u>6,407,480</u>	<u>21,633,886</u>	<u>289,298,626</u>
Total ending loans balance	\$	<u>246,719,834</u>	<u>15,089,587</u>	<u>1,011,050</u>	<u>6,477,831</u>	<u>21,648,796</u>	<u>290,947,098</u>
		2023					
		Residential Real Estate	Commercial Real Estate	Construction Real Estate	Commercial and Industrial	Consumer	Total
Allowance for credit losses:							
Individually evaluated	\$	11,239	\$ -	\$ -	\$ -	\$ 4,137	\$ 15,376
Collectively evaluated		<u>2,220,320</u>	<u>70,610</u>	<u>-</u>	<u>241,769</u>	<u>822,580</u>	<u>3,451,088</u>
Total ending allowance balance	\$	<u>2,231,559</u>	<u>70,610</u>	<u>-</u>	<u>241,769</u>	<u>826,717</u>	<u>3,466,464</u>
Loans:							
Individually evaluated	\$	1,298,189	\$ 201,403	\$ -	\$ 72,787	\$ 41,832	\$ 1,614,211
Collectively evaluated		<u>232,095,529</u>	<u>11,836,950</u>	<u>861,917</u>	<u>6,489,538</u>	<u>22,165,604</u>	<u>273,449,538</u>
Total ending loans balance	\$	<u>233,393,718</u>	<u>12,038,353</u>	<u>861,917</u>	<u>6,562,325</u>	<u>22,207,436</u>	<u>275,063,749</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information

The Bank's internally assigned grades are as follows:

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

Substandard – loans that have a well-defined weakness based on objective evidence and are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected. Substandard loans typically consist of residential real estate loans contractually past due 90 days or more, and commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 60 to 89 days.

Doubtful – loans classified as doubtful have all the weaknesses inherent in a substandard asset. In addition, these weaknesses make collection or liquidation in full highly questionable and improbable, based on existing circumstances. Doubtful loans typically consist of commercial real estate, construction real estate, commercial and industrial, and consumer loans contractually past due 90 days or more.

Nonperforming loans consist of loans that are on a nonaccrual basis and loans contractually past due 90 days or more but are not on nonaccrual status because they are well secured or in the process of collection.

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

HAMLIN BANK AND TRUST COMPANY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information

		Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized	Revolving Loans Converted	
		2024	2023	2022	2021	2020	Prior	Cost Basis	to Term	Total
December 31, 2024 Residential Real Estate	Risk Rating									
	Pass	\$ 45,516,496	\$ 43,220,205	\$ 35,628,406	\$ 32,127,758	\$ 18,854,129	\$ 68,668,816	\$ -	\$ -	\$ 244,015,810
	Substandard	82,896	107,116	497,780	480,782	254,446	1,281,004	-	-	2,704,024
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	\$ 45,599,392	\$ 43,327,321	\$ 36,126,186	\$ 32,608,540	\$ 19,108,575	\$ 69,949,820	\$ -	\$ -	\$ 246,719,834
Residential Real Estate										
	Current period gross charge-offs	\$ 329	\$ -	\$ -	\$ -	\$ -	\$ 223,131	\$ -	\$ -	\$ 223,460
Commercial Real Estate										
	Risk Rating									
	Pass	\$ 5,048,070	\$ 3,019,482	\$ 1,820,866	\$ 1,094,356	\$ 749,848	\$ 2,918,712	\$ -	\$ -	\$ 14,651,334
	Substandard	-	-	25,042	100,880	-	288,180	-	-	414,102
	Doubtful	-	-	-	-	-	24,151	-	-	24,151
	Total	\$ 5,048,070	\$ 3,019,482	\$ 1,845,908	\$ 1,195,236	\$ 749,848	\$ 3,231,043	\$ -	\$ -	\$ 15,089,587
Commercial Real Estate										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,228	\$ -	\$ -	\$ 1,228
Construction Real Estate										
	Risk Rating									
	Pass	\$ 572,232	\$ 10,944	\$ 21,436	\$ 72,248	\$ 150,558	\$ 183,632	\$ -	\$ -	\$ 1,011,050
	Substandard	-	-	-	-	-	-	-	-	-
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	\$ 572,232	\$ 10,944	\$ 21,436	\$ 72,248	\$ 150,558	\$ 183,632	\$ -	\$ -	\$ 1,011,050
Construction Real Estate										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial & Industrial										
	Risk Rating									
	Pass	\$ 2,344,283	\$ 2,466,901	\$ 856,127	\$ 296,233	\$ 48,738	\$ 372,870	\$ -	\$ -	\$ 6,385,152
	Substandard	-	51,660	-	-	-	-	-	-	51,660
	Doubtful	-	15,799	-	25,220	-	-	-	-	41,019
	Total	\$ 2,344,283	\$ 2,534,360	\$ 856,127	\$ 321,453	\$ 48,738	\$ 372,870	\$ -	\$ -	\$ 6,477,831
Commercial & Industrial										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Consumer										
	Risk Rating									
	Pass	\$ 11,717,600	\$ 6,076,463	\$ 2,426,785	\$ 729,824	\$ 189,625	\$ 52,505	\$ -	\$ -	\$ 21,192,802
	Substandard	93,583	141,645	56,607	-	9,076	-	-	-	300,911
	Doubtful	43,698	59,869	39,687	340	-	11,489	-	-	155,083
	Total	\$ 11,854,881	\$ 6,277,977	\$ 2,523,079	\$ 730,164	\$ 198,701	\$ 63,994	\$ -	\$ -	\$ 21,648,796
Consumer										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Total										
	Risk Rating									
	Pass	\$ 65,198,681	\$ 54,793,995	\$ 40,753,620	\$ 34,320,419	\$ 19,992,898	\$ 72,196,535	\$ -	\$ -	\$ 287,256,148
	Substandard	176,479	300,421	579,429	581,662	263,522	1,569,184	-	-	3,470,697
	Doubtful	43,698	75,668	39,687	25,560	-	35,640	-	-	220,253
	Total	\$ 65,418,858	\$ 55,170,084	\$ 41,372,736	\$ 34,927,641	\$ 20,256,420	\$ 73,801,359	\$ -	\$ -	\$ 290,947,098

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information (Continued)

		Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
December 31, 2023		2023	2022	2021	2020	2019	Prior			
Residential Real Estate										
	Risk Rating									
	Pass	\$ 48,146,630	\$ 41,203,055	\$ 36,492,616	\$ 21,854,558	\$ 17,776,693	\$ 65,541,732	\$ -	\$ -	\$ 231,015,284
	Substandard	87,865	-	296,481	354,986	378,730	1,260,372	-	-	2,378,434
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	<u>\$ 48,234,495</u>	<u>\$ 41,203,055</u>	<u>\$ 36,789,097</u>	<u>\$ 22,209,544</u>	<u>\$ 18,155,423</u>	<u>\$ 66,802,104</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 233,393,718</u>
Residential Real Estate										
	Current period gross charge-offs	\$ 13,251	\$ -	\$ -	\$ -	\$ -	\$ 82,481	\$ -	\$ -	\$ 95,732
Commercial Real Estate										
	Risk Rating									
	Pass	\$ 3,444,243	\$ 2,117,977	\$ 1,410,627	\$ 825,409	\$ 1,053,592	\$ 2,944,428	\$ -	\$ -	\$ 11,796,276
	Substandard	-	-	21,064	-	-	86,672	-	-	107,736
	Doubtful	-	-	70,064	-	-	64,277	-	-	134,341
	Total	<u>\$ 3,444,243</u>	<u>\$ 2,117,977</u>	<u>\$ 1,501,755</u>	<u>\$ 825,409</u>	<u>\$ 1,053,592</u>	<u>\$ 3,095,377</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,038,353</u>
Commercial Real Estate										
	Current period gross charge-offs	\$ 808	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 808
Construction Real Estate										
	Risk Rating									
	Pass	\$ 272,464	\$ 71,646	\$ 94,917	\$ 187,011	\$ 95,441	\$ 103,503	\$ -	\$ -	\$ 824,982
	Substandard	-	-	-	-	-	36,935	-	-	36,935
	Doubtful	-	-	-	-	-	-	-	-	-
	Total	<u>\$ 272,464</u>	<u>\$ 71,646</u>	<u>\$ 94,917</u>	<u>\$ 187,011</u>	<u>\$ 95,441</u>	<u>\$ 140,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 861,917</u>
Construction Real Estate										
	Current period gross charge-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial & Industrial										
	Risk Rating									
	Pass	\$ 3,995,634	\$ 1,407,630	\$ 627,239	\$ 204,271	\$ 8,271	\$ 284,858	\$ -	\$ -	\$ 6,527,903
	Substandard	-	-	-	-	-	-	-	-	-
	Doubtful	-	-	24,769	9,653	-	-	-	-	34,422
	Total	<u>\$ 3,995,634</u>	<u>\$ 1,407,630</u>	<u>\$ 652,008</u>	<u>\$ 213,924</u>	<u>\$ 8,271</u>	<u>\$ 284,858</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,562,325</u>
Commercial & Industrial										
	Current period gross charge-offs	\$ -	\$ -	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Consumer										
	Risk Rating									
	Pass	\$ 13,485,810	\$ 5,553,238	\$ 1,904,679	\$ 420,014	\$ 98,481	\$ 35,435	\$ -	\$ -	\$ 21,497,657
	Substandard	118,952	202,912	104,658	54,339	224	10,259	-	-	491,344
	Doubtful	63,265	90,558	50,963	12,587	1,062	-	-	-	218,435
	Total	<u>\$ 13,668,027</u>	<u>\$ 5,846,708</u>	<u>\$ 2,060,300</u>	<u>\$ 486,940</u>	<u>\$ 99,767</u>	<u>\$ 45,694</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 22,207,436</u>
Consumer										
	Current period gross charge-offs	\$ 162,309	\$ 292,172	\$ 117,051	\$ 31,005	\$ 8,159	\$ 11,724	\$ -	\$ -	\$ 622,420
Total										
	Risk Rating									
	Pass	\$ 69,344,781	\$ 50,353,546	\$ 40,530,078	\$ 23,491,263	\$ 19,032,478	\$ 68,909,956	\$ -	\$ -	\$ 271,662,102
	Substandard	206,817	202,912	422,203	409,325	378,954	1,394,238	-	-	3,014,449
	Doubtful	63,265	90,558	145,796	22,240	1,062	64,277	-	-	387,198
	Total	<u>\$ 69,614,863</u>	<u>\$ 50,647,016</u>	<u>\$ 41,098,077</u>	<u>\$ 23,922,828</u>	<u>\$ 19,412,494</u>	<u>\$ 70,368,471</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 275,063,749</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Information (Continued)

Following are tables that include an aging analysis of the recorded investment of past-due loans as of December 31, 2024 and 2023.

2024						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 9,538,104	\$ 4,004,932	\$ 2,704,025	\$ 16,247,061	\$ 230,472,773	\$ 246,719,834
Commercial	459,213	414,103	24,151	897,467	14,192,120	15,089,587
Construction	35,106	35,965	-	71,071	939,979	1,011,050
Commercial and industrial	799,207	51,660	51,019	901,886	5,575,945	6,477,831
Consumer	1,063,114	300,911	155,083	1,519,108	20,129,688	21,648,796
Total	\$ 11,894,744	\$ 4,807,571	\$ 2,934,278	\$ 19,636,593	\$ 271,310,505	\$ 290,947,098
2023						
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total Loans
Real estate:						
Residential	\$ 9,081,157	\$ 3,787,586	\$ 2,378,434	\$ 15,247,177	\$ 218,146,541	\$ 233,393,718
Commercial	575,853	107,737	134,340	817,930	11,220,423	12,038,353
Construction	50,692	-	36,935	87,627	774,290	861,917
Commercial and industrial	161,486	-	44,422	205,908	6,356,417	6,562,325
Consumer	1,098,363	491,345	218,435	1,808,143	20,399,293	22,207,436
Total	\$ 10,967,551	\$ 4,386,668	\$ 2,812,566	\$ 18,166,785	\$ 256,896,964	\$ 275,063,749

Individually Evaluated Loans

The following tables present the amortized cost basis of individually evaluated loans as of December 31, 2024 and 2023. Changes in the fair value of the collateral for individually evaluated loans are reported as a provision for credit losses or a reversal of provision of credit losses in the period of change.

	Type of Collateral	
	Business Assets	Real Estate
December 31, 2024		
Real estate:		
Residential	\$ -	\$ 1,257,969
Commercial	-	305,242
Commercial and industrial	70,351	-
Consumer	14,910	-
Total	\$ 85,261	\$ 1,563,211

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Individually Evaluated Loans (Continued)

	Type of Collateral	
	Business Assets	Real Estate
December 31, 2023		
Real estate:		
Residential	\$ -	\$ 1,298,190
Commercial	-	201,403
Consumer	-	-
Commercial and industrial	72,787	-
Consumer	-	41,831
Total	<u>\$ 72,787</u>	<u>\$ 1,541,424</u>

Nonaccrual Loans

Loans are evaluated for nonaccrual status upon 90 days delinquency unless adequately secured by real estate. When a loan is placed in nonaccrual status, previously accrued but unpaid interest is deducted from interest income.

The following tables present loans that are on nonaccrual status and that are 90 days delinquent and still accruing interest by portfolio segment as of December 31, 2024 and 2023:

December 31, 2024	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90+ Days Still Accruing	Total Nonperforming
Real estate:					
Residential	\$ 65,521	\$ -	\$ 65,521	\$ 2,704,025	\$ 2,769,546
Commercial	339,945	-	339,945	24,151	364,096
Construction	35,965	-	35,965	-	35,965
Commercial and industrial	51,019	-	51,019	15,799	66,818
Consumer	-	-	-	155,083	155,083
Total	<u>\$ 492,450</u>	<u>\$ -</u>	<u>\$ 492,450</u>	<u>\$ 2,899,058</u>	<u>\$ 3,391,508</u>

December 31, 2023	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90+ Days Still Accruing	Total Nonperforming
Real estate:					
Residential	\$ 65,521	\$ -	\$ 65,521	\$ 2,378,434	\$ 2,443,955
Commercial	277,744	-	277,744	-	277,744
Construction	36,935	-	36,935	-	36,935
Commercial and industrial	58,092	-	58,092	-	58,092
Consumer	-	-	-	218,435	218,435
Total	<u>\$ 438,292</u>	<u>\$ -</u>	<u>\$ 438,292</u>	<u>\$ 2,596,869</u>	<u>\$ 3,035,161</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications to Borrower's Experiencing Financial Difficulty

Occasionally, the Bank will modify the contractual terms of loans to a borrower experiencing financial difficulties as a way to mitigate loss, proactively work with borrowers in financial difficulty, or to comply with regulations regarding the treatment of certain bankruptcy filing and discharge situations. Loans are designated as modified when, as part of an agreement to modify the original contractual terms of the loan as a result of financial difficulties of the borrower, the Bank grants the borrower a concession on the terms that would not otherwise be considered. Typically, such concessions may consist of a reduction in interest rate to a below-market rate, taking into account the credit quality of the note, extension of additional credit based on receipt of adequate collateral, or a deferment or reduction of payments (principal or interest) that materially alters the Bank's position or significantly extends the note's maturity date, such that the present value of cash flows to be received is materially less than those contractually established at the loan's origination. When principal forgiveness is provided, the amount forgiven is charged off against the allowance for credit losses on loans.

There were no loan modifications to borrowers experiencing financial difficulty during the years ended December 31, 2024 or 2023. During the years ended December 31, 2024 and 2023, no modified loans defaulted within 12 months of restructuring. There were no charge-offs on modified loans during the years ended December 31, 2024 or 2023.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	2024	2023
Land and improvements	\$ 1,496,602	\$ 708,544
Buildings and improvements	8,594,524	5,923,512
Furniture, fixtures, and equipment	2,959,277	3,052,164
Right-of-use asset	88,835	100,679
Construction in process	586,370	3,404,828
	<u>13,725,608</u>	<u>13,189,727</u>
Less accumulated depreciation	<u>6,649,576</u>	<u>6,859,022</u>
Total	<u>\$ 7,076,032</u>	<u>\$ 6,330,705</u>

Depreciation charged to operations was \$335,030 in 2024 and \$185,230 in 2023.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

7. DEPOSITS

Time deposits at December 31, 2024, mature \$66,104,068, \$4,189,778, and \$11,611,243 during 2025, 2026, and 2027, respectively.

The aggregate of all time deposit accounts of \$250,000 or more amounted to \$28,321,879 and \$18,169,131 at December 31, 2024 and 2023, respectively.

Maturities on time deposits of \$250,000 or more at December 31, 2024, are as follows:

Three months or less	\$ 14,667,188
Three to six months	8,267,092
Six to twelve months	-
Over one year	5,387,599
Total	<u>\$ 28,321,879</u>

8. SHORT-TERM BORROWINGS

Federal Home Loan Bank Advances

The Bank has entered into a borrowing agreement with a revolving line-of-credit agreement on April 6, 2018, whereby it can borrow up to \$169,158,950 from the FHLB. All borrowings from the FHLB are secured by a blanket lien on qualified collateral, defined principally as investment securities and mortgage loans that are owned by the Bank, free and clear of any liens or encumbrances. At December 31, 2024, the outstanding balance was \$6,000,000 with a rate of 4.77 percent. The average balance during the year was \$12,877,322 with a weighted-average rate during the year of 5.59 percent. The maximum month-end balance for the year was \$35,000,000. The maturity date on the revolving line of credit is January 2, 2025. At December 31, 2023, the outstanding balance was \$23,000,000 with a rate of 5.72 percent. The average balance during the year was \$7,364,110 with a weighted-average rate during the year of 5.65 percent. The maximum month-end balance for the year was \$23,000,000. The maturity date on the revolving line of credit was January 2, 2025.

The Bank also has a federal funds borrowing facility with Atlantic Community Bankers Bank ("ACBB") in the amount of \$5,000,000. Borrowings of up to \$5,000,000 are available on an unsecured basis for a period of 14 calendar days. ACBB may request that the facility be fully secured if the Bank extends beyond the 14-day period permitted. ACBB reserves the right to discontinue the federal funds borrowing facility at their discretion without notice. If no notice is given, the facility will expire on June 30, 2025. The Bank had no outstanding balances on the federal funds borrowing facility as of December 31, 2024 or 2023.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

9. LEASE

The Bank accounts for its leases in accordance with ASC Topic 842, *Leases*. The Bank has one financing lease.

	December 31,	
	2024	2023
Financing lease cost:		
Amortization of right-of-use asset	\$ 11,844	\$ 11,844
Interest expense	2,517	2,781
Total lease cost	<u>\$ 14,361</u>	<u>\$ 14,625</u>

The following table presents the weighted-average remaining lease term and discount rate for the lease outstanding at December 31, 2024:

	<u>Financing</u>
Weighted-average remaining term (months)	90
Weighted-average discount rate	2.37%

The following table presents the undiscounted cash flows due related to the financing lease as of December 31, 2024:

Undiscounted cash flows due within:	
2025	\$ 13,800
2026	13,800
2027	14,400
2028	15,000
2029	15,000
2030 and thereafter	<u>37,500</u>
Total undiscounted cash flows	109,500
Discount on cash flows	<u>(9,434)</u>
Total lease liability	<u>\$ 100,066</u>

10. INCOME TAXES

The provision for income taxes consists of the following:

	2024	2023
Current	\$ 444,266	\$ 1,021,573
Deferred	<u>762,948</u>	<u>(253,989)</u>
Total provision	<u>\$ 1,207,214</u>	<u>\$ 767,584</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAXES (Continued)

The following temporary differences gave rise to the net deferred tax liabilities:

	2024	2023
Deferred tax assets:		
Allowance for credit losses	\$ 567,827	\$ 589,330
Impairment of investment securities	108,338	108,338
Other employee benefits	62,479	97,430
Net unrealized losses on investment securities	1,377,470	1,557,530
Other	6,559	5,292
Total gross deferred tax assets	<u>2,122,673</u>	<u>2,357,920</u>
Equity securities fair market value adjustment	(4,036,264)	(3,392,299)
Investment securities basis adjustments	(1,227,125)	(1,183,235)
Defined pension benefit plan	(832,371)	(159,534)
Premises and equipment	(74,335)	(86,695)
Total gross deferred tax liabilities	<u>(6,170,095)</u>	<u>(4,821,763)</u>
Net deferred tax liabilities	\$ <u>(4,047,422)</u>	\$ <u>(2,463,843)</u>

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

The reconciliation of the federal statutory rate and the Bank's effective income tax rate is as follows:

	2024		2023	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 1,426,561	21.0 %	\$ 959,778	21.0 %
Effect of tax-free income	(95,078)	(1.4)	(106,064)	(2.3)
Nondeductible interest expense	10,722	0.2	5,782	0.1
Dividend received deduction	(137,322)	(2.0)	(141,379)	(3.1)
Other, net	2,331	0.0	49,467	1.1
Actual tax expense and effective rate	\$ <u>1,207,214</u>	<u>17.8 %</u>	\$ <u>767,584</u>	<u>16.8 %</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

10. INCOME TAXES (Continued)

GAAP prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. Benefits from tax positions should be recognized in the financial statements only when it is more likely than not that the tax position will be sustained upon examination by the appropriate taxing authority that would have full knowledge of all relevant information. A tax position that meets the more-likely-than-not recognition threshold is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Tax positions that previously failed to meet the more-likely-than-not recognition threshold should be recognized in the first subsequent financial reporting period in which that threshold is met. Previously recognized tax positions that no longer meet the more-likely-than-not recognition threshold should be derecognized in the first subsequent financial reporting period in which that threshold is no longer met.

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Bank recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statements of Income. With few exceptions, the Bank is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2021.

11. EMPLOYEE BENEFITS

The Bank sponsors a trusted, noncontributory defined benefit pension plan covering substantially all employees and officers. The plan calls for benefits to be paid to eligible employees at retirement based primarily upon years of service with the Bank and compensation rates near retirement. The Bank's funding policy is to make annual contributions, if needed, based upon the funding formula developed by the plan's actuary.

The Bank also sponsors a defined post-retirement life insurance plan covering all employees and retirees. The plan provides for life insurance upon retirement for life. The benefit is based on a percentage of annual compensation immediately preceding retirement, and the benefit is reduced annually by 10 percent of compensation until the benefit reaches a minimum of \$6,000.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFITS (Continued)

Obligations and Funded Status

The following table sets forth the change in the plan assets and the projected benefit obligations at December 31:

	Pension Benefits		Other Benefits	
	2024	2023	2024	2023
Change in benefit obligation:				
Benefit obligation at beginning of year	\$ 25,395,057	\$ 23,248,293	\$ 463,953	\$ 453,231
Service cost	495,808	525,517	14,809	13,935
Interest cost	1,167,841	1,130,992	21,697	22,093
Actuarial loss (gain)	(1,781,786)	1,555,000	(189,118)	(12,140)
Benefits paid	(1,220,685)	(1,064,745)	(13,826)	(13,166)
Benefit obligation at end of year	<u>24,056,235</u>	<u>25,395,057</u>	<u>297,515</u>	<u>463,953</u>
Change in plan assets:				
Fair value of plan assets at beginning of year	26,154,743	23,046,667	-	-
Actual return gain on plan assets	2,885,847	3,972,821	-	-
Employer contribution	200,000	200,000	13,826	13,166
Benefits paid	(1,220,685)	(1,064,745)	(13,826)	(13,166)
Fair value of plan assets at end of year	<u>28,019,905</u>	<u>26,154,743</u>	<u>-</u>	<u>-</u>
Funded status	<u>\$ 3,963,670</u>	<u>\$ 759,686</u>	<u>\$ (297,515)</u>	<u>\$ (463,953)</u>
Amounts recognized in accumulated other comprehensive income consist of:				
Net loss (gain)	<u>\$ (270,337)</u>	<u>\$ 2,617,213</u>	<u>\$ (601,521)</u>	<u>\$ (438,735)</u>
Total	<u>\$ (270,337)</u>	<u>\$ 2,617,213</u>	<u>\$ (601,521)</u>	<u>\$ (438,735)</u>

The accumulated benefit obligation for the defined benefit pension plan was \$21,705,247 and \$22,513,524 at December 31, 2024 and 2023, respectively.

Components of Net Periodic Benefit Cost

	Pension Benefits		Other Benefits	
	2024	2023	2024	2023
Service cost	\$ 495,808	\$ 525,517	\$ 14,809	\$ 13,935
Interest cost	1,167,841	1,130,992	21,697	22,093
Expected return on plan assets	(1,780,207)	(1,575,275)	-	-
Amortization of net loss	<u>124</u>	<u>95,372</u>	<u>(26,332)</u>	<u>(30,164)</u>
Net periodic (benefit) cost	<u>\$ (116,434)</u>	<u>\$ 176,606</u>	<u>\$ 10,174</u>	<u>\$ 5,864</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFITS (Continued)

Components of Net Periodic Benefit Cost

The estimated net loss that will be amortized from accumulated other comprehensive loss into the net periodic (benefit) cost in 2025 is as follows:

	Pension Benefits	Other Benefits
Net loss	\$ -	\$ (35,035)
Total	\$ -	\$ (35,035)

Assumptions

The weighted-average assumptions used to determine benefit obligations at December 31 are as follows:

	Pension Benefits		Other Benefits	
	2024	2023	2024	2023
Discount rate	5.25 %	4.75 %	4.75 %	5.00 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	3.00	4.00	4.00	4.00

The weighted-average assumptions used to determine net periodic benefit cost for years ended December 31 are as follows:

	Pension Benefits		Other Benefits	
	2024	2023	2024	2023
Discount rate	4.75 %	5.00 %	5.00 %	3.00 %
Expected long-term return on plan assets	7.00	7.00	7.00	7.00
Rate of compensation increase	4.00	4.00	4.00	3.00

The long-term rate of return on plan assets gives consideration to returns currently being earned on plan assets, as well as future rates expected to be earned.

Plan Assets

The Bank's defined benefit pension plan weighted-average asset allocations at December 31 by asset category are as follows:

<u>Asset Category</u>	2024	2023
Balanced Funds	100 %	100 %

The Plan holds balanced funds that aim for 60 percent investment in stocks and 40 percent in bonds, which provides diversification by investing in both growth and income securities.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

11. EMPLOYEE BENEFITS (Continued)

Plan Assets (Continued)

The following tables set forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2024 and 2023:

		December 31, 2024			
		Level I	Level II	Level III	Total
Assets:					
Vanguard Balanced Index Fund #869	\$	14,810,550	\$ -	\$ -	\$ 14,810,550
Vanguard Wellington Fund #521		4,188,703	-	-	4,188,703
Vanguard Star Fund #56		9,020,652	-	-	9,020,652
Total assets at fair value	\$	<u>28,019,905</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>28,019,905</u>

		December 31, 2023			
		Level I	Level II	Level III	Total
Assets:					
Vanguard Balanced Index Fund #869	\$	13,476,153	\$ -	\$ -	\$ 13,476,153
Vanguard Wellington Fund #521		8,835,690	-	-	8,835,690
Vanguard Star Fund #56		3,842,900	-	-	3,842,900
Total assets at fair value	\$	<u>26,154,743</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>26,154,743</u>

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2024.

Mutual Funds

Mutual funds are valued at the net asset value (NAV) of shares held by the plan at year-end.

The method described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the plan 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.

Cash Flows

The Bank expects to contribute \$100,000 to its defined benefit pension plan in 2025.

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

	Plan Benefits
2025	\$ 1,502,000
2026	1,513,000
2027	1,580,000
2028	1,558,000
2029	1,533,000
Thereafter	<u>7,499,000</u>
Total	\$ <u>15,185,000</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

12. COMMITMENTS

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

The off-balance-sheet commitments at December 31 comprise the following:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	\$ 5,281,390	\$ 9,565,368
Standby letters of credit	<u>1,529,283</u>	<u>1,700,008</u>
Total	<u>\$ 6,810,673</u>	<u>\$ 11,265,376</u>

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the loan agreement. These commitments consist primarily of available commercial lines of credit and mortgage loan commitments. The Bank uses the same credit policies in making loan commitments and conditional obligations as it does for on-balance-sheet instruments. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, as deemed necessary, is based upon management's credit evaluation in compliance with the Bank's lending policy guidelines. Customers use credit commitments to ensure funds will be available for working capital purposes and capital expenditures and to ensure access to funds at specified terms and conditions.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Performance letters of credit represent conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These instruments are issued primarily to support bid or performance-related contracts. The coverage period for these instruments is typically a one-year period, with an annual renewal option subject to prior approval by management. Fees earned from the issuance of these letters are recognized over the coverage period. For secured letters of credit, the collateral is typically Bank deposit instruments or customer business assets.

13. REGULATORY RESTRICTIONS

Cash and Due From Banks

Effective March 26, 2020, the Federal Reserve reduced reserve requirements to zero for all depository institutions. There were no required federal reserves included in "Cash and due from banks" at December 31, 2024 and 2023. The required reserves are used to facilitate the implementation of monetary policy by the Federal Reserve System. The required reserves are computed by applying prescribed ratios to the classes of average deposit balances. These are held in the form of vault cash and a depository amount held with the Federal Reserve Bank.

Dividends

The Pennsylvania Banking Code restricts the availability of additional paid-in capital for dividend purposes. At December 31, 2024, additional paid-in capital funds of \$7,266,285 were not available for dividends.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

14. REGULATORY CAPITAL REQUIREMENTS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weightings, and other factors. Management believes, as of December 31, 2024 and 2023, that the Bank meets all capital adequacy requirements to which it is subject.

In November 2019, federal bank regulatory agencies finalized a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than \$10 billion in total consolidated assets, limited amounts of off-balance-sheet exposures and trading assets and liabilities, and a leverage ratio greater than 9 percent. The community bank leverage ratio framework was effective on January 1, 2020. The Bank elected to adopt the optional community bank leverage ratio framework in the first quarter of 2020.

The leverage ratios of the Bank at December 31, 2024 and 2023, are as follows:

	2024			2023	
	Amount	Ratio		Amount	Ratio
Tier 1 capital <u>(to average assets)</u>					
Actual	\$ 91,429,580	21.24 %	\$	90,850,773	21.24 %
For capital adequacy purposes	17,220,724	4.00		17,110,882	4.00
To be well capitalized	21,525,905	5.00		21,388,602	5.00

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. FAIR VALUE MEASUREMENTS

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

- Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.
- Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.
- Level III: Valuations derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

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

The following tables present the assets measured on a recurring basis on the Consolidated Statements of Financial Condition at their fair value as of December 31, 2024 and 2023, by level within the fair value hierarchy. Financial assets and liabilities are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

		December 31, 2024			
		Level I	Level II	Level III	Total
Investment securities available for sale:					
U.S. government agencies	\$	-	\$ 45,090,031	\$ -	\$ 45,090,031
Obligations of states and political subdivisions		-	16,147,840	-	16,147,840
Corporate securities		-	31,638,302	-	31,638,302
Equity securities in financial institutions		34,135,815	-	-	34,135,815
Total	\$	<u>34,135,815</u>	<u>\$ 92,876,173</u>	<u>\$ -</u>	<u>\$ 127,011,988</u>
		December 31, 2023			
		Level I	Level II	Level III	Total
Investment securities available for sale:					
U.S. government agencies	\$	-	\$ 64,319,342	\$ -	\$ 64,319,342
Obligations of states and political subdivisions		-	18,709,310	-	18,709,310
Corporate securities		-	35,417,375	-	35,417,375
Equity securities in financial institutions		31,569,430	-	-	31,569,430
Total	\$	<u>31,569,430</u>	<u>\$ 118,446,027</u>	<u>\$ -</u>	<u>\$ 150,015,457</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. FAIR VALUE MEASUREMENTS (Continued)

The following tables present the assets measured on a nonrecurring basis on the Consolidated Statements of Financial Condition at their fair value as of December 31, 2024 and 2023, by level within the fair value hierarchy. Individually evaluated loans that are collateral-dependent are written down to fair value. Techniques used to value the collateral that secure the impaired loan include quoted market prices for identical assets classified as Level I inputs and observable inputs, employed by certified appraisers, and in-house appraisers, for similar assets classified as Level II inputs. In cases where valuation techniques included inputs that are unobservable and are based on estimates and assumptions developed by management based on the best information available under each circumstance, the asset valuation is classified as Level III inputs.

OREO is measured at fair value, less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less cost to sell.

December 31, 2024				
	Level I	Level II	Level III	Total
Collateral-dependent loans	\$ -	\$ -	\$ 1,603,356	\$ 1,603,356
Other real estate owned	-	-	196,278	196,278
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,799,634</u>	<u>\$ 1,799,634</u>
December 31, 2023				
	Level I	Level II	Level III	Total
Collateral-dependent loans	\$ -	\$ -	\$ 1,598,834	\$ 1,598,834
Other real estate owned	-	-	204,111	204,111
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,802,945</u>	<u>\$ 1,802,945</u>

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

15. FAIR VALUE MEASUREMENTS (Continued)

The following tables present additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Bank uses Level III inputs to determine fair value:

December 31, 2024				
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
Collateral-dependent loans	\$ 1,603,356	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 10% (9.5%)
Other real estate owned	\$ 196,278	Appraisal of collateral (1), (2)		
December 31, 2023				
	<u>Fair Value</u>	<u>Valuation Techniques</u>	<u>Unobservable Input</u>	<u>Range (Weighted Average)</u>
Collateral-dependent loans	\$ 1,598,834	Appraisal of collateral (1)	Appraisal adjustments (2)	0% - 10% (9.2%)
Other real estate owned	\$ 204,111	Appraisal of collateral (1), (2)		

(1) Fair value is generally determined through appraisals of the underlying collateral, which generally include various Level III inputs that are not identifiable.

(2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses. The range and weighted average of liquidation expenses and other appraisal adjustments are presented as a percent of the appraisal.

HAMLIN BANK AND TRUST COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

16. ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Unrealized Gains on Available-for-Sale Securities (1)	Unrecognized Pension Costs (1)	Total
Balance as of December 31, 2022	\$ (7,981,440)	\$ (2,447,735)	\$ (10,429,175)
Other comprehensive income before reclassification	2,122,183	802,061	2,924,244
Amount reclassified from accumulated other comprehensive loss	-	(75,344)	(75,344)
Total other comprehensive income	<u>2,122,183</u>	<u>726,717</u>	<u>2,848,900</u>
Balance as of December 31, 2023	\$ (5,859,257)	\$ (1,721,018)	\$ (7,580,275)
Other comprehensive income before reclassification	(32,047)	2,409,864	2,377,817
Amount reclassified from accumulated other comprehensive loss	709,410	(98)	709,312
Total other comprehensive income	<u>677,363</u>	<u>2,409,766</u>	<u>3,087,129</u>
Balance as of December 31, 2024	<u><u>\$ (5,181,894)</u></u>	<u><u>\$ 688,748</u></u>	<u><u>\$ (4,493,146)</u></u>

(1) All amounts are net of tax. Related income taxes are calculated using an income tax rate of 21 percent.

The following tables present significant amounts reclassified out of each component of accumulated other comprehensive income for the years ended December 31, 2024 and 2023:

	Amount Reclassified From Accumulated Other Comprehensive Loss (2)		Affected Line Item in the Consolidated Statement of Income
Details about accumulated other comprehensive loss:	2024	2023	
Unrealized gain (loss) on available for sale securities	\$ (897,987)	\$ -	Losses on sales of debt securities
Tax effect – expense	188,577	-	Income tax expense
Net of tax	(709,410)	-	
Net unrecognized pension costs	124	95,372	Other noninterest expense
Tax effect – benefit	(26)	(20,028)	Income tax expense
Net of tax	98	75,344	
Total reclassifications from accumulated other comprehensive loss	\$ (709,312)	\$ 75,344	

(2) Amounts in parenthesis indicate debits.

17. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 7, 2025, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosure.

BOARD OF DIRECTORS, OFFICERS AND EMPLOYEES

Board of Directors

T. Charles Chambers	Andrew O. Kane	John W. Pierotti
Martin J. Digel	Kenneth C. Kane	Jeffrey A. Wilson
Daniel J. Hartle	Douglas E. Kuntz	John H. Yoder

Advisory Board

Kane

Jonathan H. Benedict	Martin J. Digel	David J. Malone
Kelly J. Brinkley	Kenneth C. Kane	Jon R. Peterson

Eldred

Gregory C. Bell	Martin J. Digel	David J. Malone
Jonathan H. Benedict	Shannon M. Johnston	Lance L. Ours

Bradford

Jonathan H. Benedict	Douglas E. Kuntz	Margaret C. Tornatela
Martin J. Digel	David J. Malone	Beth A. Tingley
Daniel J. Hartle		

Olean

Jonathan H. Benedict	Daniel J. Hartle	John W. Pierotti
Martin J. Digel	Kenneth C. Kane	Lance L. Ours

Officers

Martin J. Digel	Executive Chairman of the Board
Jeffrey A. Wilson.....	President and Chief Executive Officer
Jonathan H. Benedict	Senior Vice President, Senior Loan Officer
David C. Yoder.....	Vice President, Information Security and Technology Officer
Jacqueline N. Snell.....	Chief Financial Officer
Mischelle G. Heffner.....	Corporate Secretary and Treasurer
Jon R. Peterson.....	Manager, St. Marys, PA Branch and Mortgage Loan Officer
Kelly J. Brinkley	Manager, Kane, PA Branch and Mortgage Loan Officer
Shannon M. Johnston.....	Manager - Eldred, PA Branch and Mortgage Loan Officer
Tammy L. Oknefski	Manager, Mount Jewett, PA Branch and Mortgage Loan Officer
Lance L. Ours.....	Manager, Olean, NY Branch and Mortgage Loan Officer
Beth A. Tingley	Manager, Bradford, PA Branch and Mortgage Loan Officer
Jennifer J. Southard.....	Assistant Manager, Eldred, PA Branch and Loan Officer
Brian P. Bailey	Technology Manager
Julie A. Blint	Loan Officer
Christine A. Burdick	Mortgage Loan Officer
Brook M. Cesa	Installment Loan Officer and Collections Officer
Lisa M. Clark	Assistant Treasurer
Kimberly A. Conn.....	Compliance/BSA Officer, Loan Credit Review Manager
Jeanmarie A. McClure	Trust Officer
W. Graham Nannen.....	Mortgage Loan Officer and Bank Security Officer
Drew A. Shaffer	Mortgage Loan Officer
Michael A. Smith	Audit Manager
Kyle J. Tyssee	Mortgage Loan Officer
Julia G. VanGorder.....	Customer Service Manager

EMPLOYEES

Smethport

Shirley J. Bigley
Melissa A. Connolly
Crystal D. Connor
Cory M. Craig
Joseph E. Crisman
Regena D. Dudley
Jennifer M. Gault
Erica L. Geitner
Damien J. Giambrone

Julie B. Graves
Jeannine D. Gray
Kerry D. Green
Sarah E. Irons
Melissa A. Keech
Ruth N. Line
Virginia I. Miller
Ashley K. Nolte
Katelin E. Rooke

Jessica M. Seipp
Daisy M. Smith
Haley M. Snyder
Sherri L. Spaich
Laurie J. Strang
Sandra K. Swanson
Daniel L. Thompson
Wendy E. Whitsell
Cindi L. Wymer

Bradford

Jessica J. Baca
Kassidy J. Didomizio
Judy A. Gilmore

Catherine J. McQuitty
Makayla R. Pope
Amy L. Spitler

Brandon A. Tinder

Eldred

Tina M. Burford
Morgan J. Burrows
Lisa L. Eaton

Amy S. Gray
Collene M. Green
Josie A. Lamont

Andrea M. Plummer
Tamala L. Vaughn

Kane

Jadilyne M. Baca
Joseph R. Bernhard
Nia M. Bush

Melody D. Gatewood
Hannah J. Gregory
Deborah L. Kilmer

Denice M. Klaiber
Karen M. Lawton
Kim Y. Maze

Mount Jewett

Elizabeth J. Mishler
Linda I. Motts

Tammy M. Nolte

Shelby R. Stewart

Olean

Theresa B. Gray
Kimberly M. Greene
Terri L. Howard

Deanna J. Langworthy
Alisha M. Raineri

Maggie E. Tuttle
Emily R. Wonderly

St. Marys

Casey L. Cousins
Jesse T. DeWald

Toni E. Harlan
Sophia R. McManus

Karin M. Stong

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814-887-555

Bank Headquarters

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35 E. Main Street 16740
814-778-5441

Manager: Tammy L. Alexis

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Manager: Beth E. Tingley

OLEAN, NY OFFICE

2102 W. State Street 14760
716-543-4000

Manager: Lance L. Ours

ELDRED, PA OFFICE

151 Main Street 16731
814-225-4767

Manager: Shannon M. Johnston
Assistant Manager: Jennifer J. Southard

ST. MARYS, PA OFFICE

443 Bruxelles Street 15857
814-971-4060

Manager: Jon R. Peterson

KANE, PA OFFICE

34 Frailey Street 16735
2 Birch Street 16735
814-837-8200

Manager: Kelly J. Brinkley

THE BANK THAT TAKES CARE
OF ITS CUSTOMERS



MEMBER FDIC