

# 2024 ANNUAL Report

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First Neighborhood Bancshares, Inc. & Subsidiary  
Consolidated Financial Statements  
December 31, 2024

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## **Independent Auditor's Report**

Board of Directors  
First Neighborhood Bancshares, Inc. and Subsidiary  
Toledo, Illinois

### ***Opinion***

We have audited the accompanying consolidated financial statements of First Neighborhood Bancshares, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, stockholder's equity, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of First Neighborhood Bancshares, Inc. and Subsidiary as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States ("GAAP").

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 First Neighborhood Bancshares, Inc. and Subsidiary and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

Management is responsible for the preparation and fair presentation of the financial statements in accordance with GAAP, 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 First Neighborhood Bancshares, Inc. and Subsidiary's ability to continue as a going concern for one year after the date the financial statements are available to be issued.

### ***Auditor's Responsibilities for the Audit of the Financial Statements***

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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 First Neighborhood Bancshares, Inc. and Subsidiary' 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 First Neighborhood Bancshares, Inc. and Subsidiary's ability to continue as a going concern for a reasonable period of time.

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

A handwritten signature in black ink that reads "Wipfli LLP". The signature is written in a cursive, flowing style.

Wipfli LLP

Aurora, Illinois  
April 28, 2025

**First Neighborhood Bancshares, Inc. and Subsidiary**  
**Consolidated Balance Sheets**  
**Years Ended December 31, 2024, and 2023**  
**(\$ in thousands)**

	2024	2023
<b>Assets</b>		
Cash and equivalents	\$ 21,415	\$ 20,866
Interest-bearing deposits	2,250	6,242
Fed funds sold	938	1,327
Securities available for sale, net of allowance for credit losses of \$0 and \$0 at December 31, 2024 and 2023, respectively (amortized cost of \$61,080 and \$57,859 at December 31, 2024 and 2023, respectively)	58,549	55,468
Equity securities	171	186
Loans held for sale	391	404
Loans, net of allowance for credit losses of \$6,139 and \$5,682 at December 31, 2024 and 2023, respectively	512,194	463,906
Premises and equipment	13,882	13,125
Bank-owned life insurance	13,361	13,131
Accrued interest receivable	6,346	4,764
Goodwill	1,093	1,093
Foreclosed real estate and other loan collateral	36	1,126
Other assets	11,833	10,345
<b>Total assets</b>	<b>642,459</b>	<b>591,983</b>
<b>Liabilities and Stockholders' Equity</b>		
Demand	\$ 109,657	\$ 113,287
NOW accounts	101,620	109,210
Savings	190,885	171,821
Time, \$250,000 and over	31,090	21,896
Other time	96,139	81,316
	<b>529,391</b>	<b>497,530</b>
Federal Home Loan Bank advances	42,000	30,000
Other liabilities	4,139	3,422
<b>Total liabilities</b>	<b>575,530</b>	<b>530,952</b>
<b>Stockholders' equity:</b>		
Common stock, \$1 par value; 200,000 shares authorized; 118,554 shares issued	119	119
Surplus	5,563	5,464
Retained earnings	70,924	64,777
Accumulated other comprehensive income (loss)	(1,795)	(1,695)
Unearned Employee Stock Ownership Plan shares	(2,982)	(3,269)
Treasury stock (17,078 shares in 2024; 16,096 shares in 2023)	(4,900)	(4,365)
<b>Total Stockholders' equity</b>	<b>66,929</b>	<b>61,031</b>
<b>Total liabilities and stockholders' equity</b>	<b>642,459</b>	<b>591,983</b>

*See notes to consolidated financial statements.*



**First Neighborhood Bancshares, Inc. and  
Subsidiary Consolidated Statements of Income  
Years Ended December 31, 2024, and 2023 (\$  
in thousands)**

	<b>2024</b>	<b>2023</b>
Interest income:		
Loans and fees on loans	\$ 33,572	\$ 25,691
Investments	2,196	1,520
Federal funds sold and other	1,591	2,113
<b>Total Interest Income</b>	<b>37,359</b>	<b>29,324</b>
Interest expense:		
Deposits	10,294	5,966
Other borrowings	1,731	1,032
<b>Total Interest Expense</b>	<b>12,025</b>	<b>6,998</b>
<b>Net interest income</b>	<b>25,334</b>	<b>22,326</b>
Provision for credit losses	2,857	(477)
<b>Net interest income after provision for credit losses</b>	<b>22,477</b>	<b>22,803</b>
Other income:		
Service fees	1,166	1,242
Increase in cash surrender value of life insurance	332	303
Gain on sale of loans held for sale	94	129
Other	3,938	3,121
<b>Total Other Income</b>	<b>5,530</b>	<b>4,795</b>
Other expense:		
Salaries and employee benefits	11,394	10,772
Occupancy expenses	2,150	1,829
Loss on sale of available for sale securities	678	-
Other	5,110	5,280
<b>Total Other Expense</b>	<b>19,332</b>	<b>17,881</b>
<b>Income before income taxes</b>	<b>8,675</b>	<b>9,717</b>
Income taxes	1,748	1,402
<b>Net income</b>	<b>6,927</b>	<b>8,315</b>

*See notes to consolidated financial statements.*

**First Neighborhood Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2024, and 2023**  
**(\$ in thousands)**

	<b>2024</b>	<b>2023</b>
Net income	<b>\$ 6,927</b>	<b>\$ 8,315</b>
Other comprehensive income (loss) before tax:		
Unrealized gain(loss) on securities	<b>(817)</b>	-
Reclassification adjustment for loss on securities	<b>678</b>	-
Unrealized net gain (loss) on securities	<b>(139)</b>	1,034
Other comprehensive income (loss) before tax	<b>(139)</b>	1,034
Income tax expense related to items of other comprehensive income (loss)	<b>39</b>	(294)
Other comprehensive income (loss), net of tax	<b>(100)</b>	740
<b>Comprehensive income</b>	<b>\$ 6,827</b>	<b>\$ 9,055</b>

*See notes to consolidated financial statements.*

**First Neighborhood Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Stockholder's Equity**  
**Years Ended December 31, 2024, and 2023**  
**(\$ in thousands, except for per share data)**

	Common Stock	Surplus	Retained Earnings	Accumulated Other Income (Loss)	Unearned Employee Stock Ownership Plan Shares	Treasury Stock	Total
Balance, January 1, 2023	\$ 119	\$ 5,379	\$ 59,315	\$ (2,435)	\$ (3,565)	\$ (3,742)	\$ 55,071
Day 1 impact of CECL adoption	-	-	(1,891)	-	-	-	(1,891)
Net Income	-	-	8,315	-	-	-	8,315
Other comprehensive income	-	-	-	740	-	-	740
Purchase of 1,198 shares of treasury stock						(623)	(623)
Employee Stock Ownership Plan shares allocated		85			296		381
Cash dividends (\$9.35 per share)	-	-	(962)	-	-	-	(962)
Balance, December 31, 2023	119	5,464	64,777	(1,695)	(3,269)	(4,365)	61,031
Net Income	-	-	6,927	-	-	-	6,927
Other comprehensive loss				(100)			(100)
Purchase of 1,404 shares of treasury stock						(730)	(730)
Sale of 422 shares of treasury stock						195	195
Employee Stock Ownership Plan shares allocated		99			287		386
Cash dividends (\$7.65 per share)			(780)				(780)
<b>Balance, December 31, 2024</b>	<b>\$ 119</b>	<b>\$ 5,563</b>	<b>\$ 70,924</b>	<b>\$ (1,795)</b>	<b>\$ (2,982)</b>	<b>\$ (4,900)</b>	<b>\$ 66,929</b>

*See notes to consolidated financial statements*



**First Neighborhood Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024, and 2023**

<b>(\$ in thousands)</b>	<b>2024</b>	<b>2023</b>
Cash flows from operating activities:		
Net income	\$ 6,927	\$ 8,315
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	709	752
Provision for credit losses	2,857	(477)
Provision for deferred taxes	(282)	1,663
Employee stock ownership compensation expense	386	381
Net amortization of securities premiums and discounts	302	270
Increase in cash surrender value of bank-owned life insurance	(332)	(303)
Net loss on sales of foreclosed real estate and other loan collateral	995	603
Loss on sale of securities available for sale	(678)	-
Unrealized loss (gain) on equity securities	15	31
Gain on sale of loans held for sale	(94)	(129)
Loans originated for sale	(8,298)	(9,513)
Proceeds on loans sold	8,405	10,082
Change in assets and liabilities:		
Accrued interest receivable	(1,582)	(1,782)
Other assets	(1,250)	(3,828)
Other liabilities	717	2,862
<b>Net cash from operating activities</b>	<b>8,797</b>	<b>8,927</b>
Cash flows from investing activities:		
Change in interest bearing deposits	3,992	(2,261)
Purchases of securities available for sale	(31,673)	(11,335)
Calls, sales, maturities and paydowns of securities available for sale	28,151	6,028
Net increase in loans	(51,069)	(64,257)
Net decrease (increase) in federal funds sold	389	(594)
Proceeds from sales of foreclosed assets	19	155
Purchases of premises and equipment net of proceeds	(1,438)	(2,200)
<b>Net cash from investing activities</b>	<b>(51,629)</b>	<b>(74,464)</b>

(Continued)

**First Neighborhood Bancshares, Inc. and Subsidiary**  
**Consolidated Statements of Cash Flows (Continued)**  
**Years Ended December 31, 2024, and 2023**

<b>(\$ in thousands)</b>	<b>2024</b>	<b>2023</b>
Cash flows from financing activities:		
Net increase in demand, NOW and savings accounts	\$ 7,844	\$ 39,892
Net increase in time deposits	24,017	12,567
Proceeds from Federal Home Loan Bank advances	12,000	30,000
Payments on Federal Home Loan Bank advances	-	(20,000)
Net purchase of treasury stock	(535)	(623)
Cash dividends paid	(780)	(962)
Employee Stock Ownership Plan shares purchased	-	-
	<hr/>	<hr/>
<b>Net cash from financing activities</b>	<b>42,546</b>	<b>60,874</b>
<b>Net (decrease) increase in cash and cash equivalents</b>	<hr/>	<hr/>
	<b>(286)</b>	<b>(4,663)</b>
	<hr/>	<hr/>
Cash and cash equivalents:		
Beginning	20,866	27,583
Ending	<hr/>	<hr/>
	<b>\$ 21,415</b>	<b>\$ 20,866</b>
	<hr/>	<hr/>
Cash payments for:		
Interest paid to depositors	\$ 9,646	\$ 5,540
Interest paid to other borrowings	\$ 1,731	\$ 1,032
Income taxes	<hr/>	<hr/>
	<b>( \$ 1,906)</b>	<b>\$ 1,105</b>
	<hr/>	<hr/>
Supplemental schedule of noncash investing activities:		
Transfer of loans to foreclosed assets	(\$ 76)	\$ 12
Other non-cash - repossession of loans	<hr/>	<hr/>
	<b>\$ -</b>	<b>( \$ 135)</b>
	<hr/>	<hr/>

See notes to consolidated financial statements.

## Note. 1 Significant Accounting Policies

**Nature of operations:** First Neighborhood Bancshares, Inc. is a single-bank holding company that provides a full range of banking and financial services to individual and business customers through its wholly owned bank subsidiary located in central Illinois. The Bank is subject to competition from other financial institutions and non-financial institutions providing financial products. Additionally, First Neighborhood Bancshares, Inc. and its subsidiary are subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

**Principles of presentation:** The consolidated financial statements include the accounts of First Neighborhood Bancshares, Inc. (the Company) and its wholly owned subsidiary, First Neighbor Bank, N.A. (the Bank). All material intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements of First Neighborhood Bancshares, Inc. and Subsidiary have been prepared in accordance with accounting principles generally accepted in the United States of America and with general reporting practices prescribed for the banking industry.

In preparing the consolidated financial statements, Company management is required to make estimates and assumptions which significantly affect the amounts reported in the consolidated financial statements. Significant estimates which are particularly susceptible to change in a short period of time include the fair value of securities available for sale and the determination of the allowance for credit losses. Actual results could differ from those estimates.

### **Pending accounting pronouncements:**

ASU 2023-09, *Improvements to Income Tax Disclosures* – For entities other than public business entities, this standard requires qualitative disclosure about specific categories of reconciling items and individual jurisdictions that result in a significant difference between the statutory tax rate and the effective tax rate. The standard also requires entities to disclose certain disaggregated information regarding income (loss) before income taxes, income tax expense (benefit), and income taxes paid. Finally, the standard eliminates certain existing disclosure requirements. This new standard is effective for financial statements issued for annual periods beginning after December 15, 2025. Early adoption is permitted. The Bank is evaluating what impact this new standard will have on its financial statements.

**Comprehensive income:** Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the balance sheets, such items, along with net income, are components of comprehensive income.

**Cash and cash equivalents:** For the purpose of reporting cash flows in the financial statements, cash and cash equivalents include cash on hand, interest-bearing and non-interest-bearing accounts in other financial institutions, all of which have original maturities of three months or less and are utilized in the daily operations of the Company.

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve requirement ratios to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future.

The Company and Bank maintain its cash in deposit accounts which, at times, may exceed federally insured limits. The Company has not experienced any losses in such accounts. Management believes the Company is not exposed to any significant credit risk on cash and cash equivalents.

**Interest-bearing deposits:** Interest-bearing deposits consist of certificates of deposit at other financial institutions. The interest-bearing deposits are carried at cost.

**Equity securities:** Equity securities are carried at fair value with changes in fair value recognized in net income.

## Note. 1 Significant Accounting Policies (continued)

**Debt securities:** Debt securities are classified as available for sale and are carried at fair value, with unrealized gains and losses reported in other comprehensive income or loss. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

The past due status of a security is based on the contractual terms in the security. The accrual of interest on a security is discontinued when the security becomes 90 days delinquent or whenever management believes the issuer will be unable to make payments as they become due. When securities are placed on nonaccrual status, all unpaid accrued interest is reversed against interest income.

The Company evaluates individual securities available for sale in an unrealized loss position by first determining whether the decline in fair value below the amortized cost basis of the security has resulted from a credit loss or other factors. A credit loss exists when the present value of cash flows expected to be collected from the security is less than the amortized cost basis of the security. In determining whether a credit loss exists, the Company considers the extent to which the fair value is less than the amortized cost basis, adverse conditions related to the security, the industry, or geographic areas, the payment structure of the debt security, failure of the issuer to make scheduled payments, and any changes to the rating of the security. Impairment related to credit losses is recognized through an allowance for credit losses up to the amount that fair value is less than the amortized cost basis. Changes to the allowance are recognized through earnings as a provision for (or recovery of) credit losses. Impairment related to other factors is recognized in other comprehensive income.

The Company excludes accrued interest receivable from the amortized cost basis of securities available for sale when estimating credit losses and when presenting the required disclosures in the financial statements.

Accrued interest on securities available for sale totaling \$528 and \$375 at December 31, 2024, and 2023, respectively, was excluded from the amortized cost basis of securities available for sale and is included in accrued interest receivable on the consolidated balance sheets.

**Other investments:** Other investments are included in other assets on the consolidated balance sheets. Other investments include equity securities without a readily determinable fair value, Federal Home Loan Bank (FHLB) stock, Federal Reserve Bank (FRB) stock, and Bankers Bank (BB) stock. The Company elected to account for equity securities without readily determinable fair values using the alternative measurement method. Under this method, these securities are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. The Company is required to hold FHLB stock and FRB stock as a member of the FHLB and FRB, respectively, and transfer of the stock is substantially restricted. The FHLB stock is pledged as collateral for outstanding FHLB advances. FHLB stock and FRB stock are evaluated for impairment on an annual basis.

**Rate lock commitments:** The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (rate lock commitments). Rate lock commitments on mortgage loans that are intended to be sold are considered derivatives. Rate lock commitments are recorded only to the extent of fees received since recording the estimated fair value of these commitments would not have a significant impact on the financial statements.

**Loans held for sale:** Loans held for sale are those loans the Bank has the intent to sell in the foreseeable future. They consist of mortgage loans originated and held for sale to investors in the secondary market. Loans held for sale are carried at the lower of aggregate cost or estimated market value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Gains and losses on sale of loans are recognized at settlement dates and are determined by the difference between the sale proceeds and the carrying amount of the loans.

## Note. 1 Significant Accounting Policies (continued)

**Loans:** Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of outstanding unpaid principal, adjusted for charge-offs and an allowance for credit losses. Interest on loans is recognized by the simple interest method on daily balances of the principal amounts outstanding. Loan origination fees and direct origination costs are recognized as income or expense when received or incurred since capitalization of these fees and costs would not have a significant impact on the financial statements.

The past due status of a loan is based on the contractual terms in the loan agreement. The accrual of interest on a loan is discontinued when the loan becomes 90 days delinquent or whenever management believes the borrower will be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash basis if collection of the remaining recorded investment in the loan is still expected or using the cost-recovery method when collection of the remaining recorded investment is in doubt. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Management considers the following when assessing risk in the Company's loan portfolio segments:

### Construction and Land Development loans

Construction and land development loans are secured by vacant land and/or property that are in the process of improvement, including (a) land development preparatory to erecting vertical improvements or (b) the onsite construction of industrial, commercial, residential, or farm buildings. The loan proceeds are controlled by the borrower and distributed for the improvement of real estate in which the borrower holds a mortgage. These loans typically have a maximum maturity between six months and one year. The repayment of these loans is typically through permanent financing following completion of the construction. Real estate construction loans are inherently riskier than loans on completed properties as the unimproved nature and the financial risks of construction significantly enhance the risks of real estate loans. These loans are closely monitored and subject to other industry guidelines.

### Residential Real Estate loans

Residential real estate loans are affected by the local residential real estate market, the local economy, and, for variable rate mortgages, movement in indices tied to these loans. At the time of origination, the Company evaluates the borrower's repayment ability through a review of debt to income and credit scores. Appraisals are obtained to support the loan amount. Financial information is obtained from the borrowers and/or the individual project to evaluate cash flows sufficiency to service debt at the time of origination. Residential real estate loans consist of closed-end loans, revolving open-end loans, and construction loans. One-to-four family residential loans generally carry less risk than other loan types as they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Repayment depends on the individual borrower's capacity.

### Commercial Real Estate loans

Commercial real estate loans consist of non-farm, non-residential real estate and multi-family residential real estate. Commercial real estate loans generally have greater credit risks compared to one-to-four family residential real estate loans, as they usually involve larger loan balances secured by non-homogeneous or specific-use properties. Repayment of these loans typically relies on the successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market.

### Commercial loans

The following are primary types of commercial loans: machinery and equipment, business loans secured by inventory or accounts receivable, floor plan loans and operating expenses for businesses. Commercial loans are secured by business assets or may be unsecured. Repayment is directly dependent on the successful operation of the borrower's business and the borrower's ability to convert the assets to operating revenue and possess greater risk than most other types of loans should the repayment capacity of the borrower not be adequate.

## Note. 1 Significant Accounting Policies (continued)

### Farmland loans

Loans secured by farmland generally carry less credit risk than commercial real estate but generally carry greater risk than residential real estate loans. Farmland loans usually involve loan balances that are larger than typical residential real estate loans and are secured by specific use agricultural properties. Generally, repayment depends on the agricultural operations of the borrower and any supplemental income generated by the borrower.

### Agricultural loans

The following are primary types of agricultural loans: livestock financing, machinery and equipment and operating expenses for farmers. Agricultural operating lines may be made on a short-term basis up to one year. Other agricultural loans may have maximum maturities between three and five years. Agricultural operation loans generally carry less credit risk than industrial loans but still possess collateral risk due to the special-use nature of the business assets securing the loans. Generally, repayment depends on the agricultural operations of the borrower and any supplemental income generated by the borrower.

### Installment loans

Installment loans consist of loans to individuals. Installment loans are either secured by depreciating collateral, including automobiles, or unsecured and may consist of single-pay personal loans, including overdraft and overdraft protection accounts, credit cards and other small miscellaneous loans. Consumer loans tend to carry more risk than real estate loans; however, they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Loan collections are dependent on the borrower's continuing financial stability and thus are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

**Allowance for Credit Losses and Unfunded Loan Commitments:** The allowance for credit losses on loans is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the Company's loan portfolio. The allowance for credit losses on loans is established through provisions for credit losses charged against earnings. When available information confirms that specific loans, or portions thereof, are uncollectible, these amounts are charged against the allowance for credit losses on loans, and subsequent recoveries, if any, are credited to the allowance for credit losses on loans.

The current expected credit loss model ("CECL") considers historical loss rates and other qualitative adjustments, as well as a new forward-looking component that considers reasonable and supportable forecasts over the expected life of each loan. To develop the allowance for credit losses on loans estimate under the CECL model, the Company segments the loan portfolio into loan pools based on loan type and similar credit risk elements; performs an individual evaluation of certain collateral dependent and other credit-deteriorated loans; calculates the historical loss rates for the segmented loan pools; applies the loss rates over the calculated life of the collectively evaluated loan pools; adjusts for forecasted macro-level economic conditions and other anticipated changes in credit quality; and determines qualitative adjustments based on factors and conditions unique to the Company's loan portfolio.

The qualitative factors are based on current general economic conditions and other qualitative risk factors both internal and external to the Company. In general, such valuation allowances are determined by evaluating, among other things: (i) valuation of underlying collateral; (ii) loan underwriting, policy and procedures; (iii) national and local economic factors; (iv) nature and volume of the loan portfolio; (v) depth and experience of management and staff; (vi) non-accrual, past due and classified trend; (vii) internal/external loan review and oversight; (viii) concentrations of credit; and (ix) impact of competition, legal and regulatory issues. Management evaluates the degree of risk that each one of these components has in terms of the quality of the loan portfolio on a quarterly basis. Based on each component's risk factor, a qualitative adjustment to the reserve may be applied to the appropriate loan categories.

Under the CECL model, loans that do not share similar risk characteristics with loans in their respective pools are individually evaluated for expected credit losses and are excluded from the collectively evaluated loan credit loss estimates. Management individually evaluates all nonaccrual and collateral dependent loans over \$500. For loans individually evaluated, a specific reserve is estimated based on either the fair value of collateral or the discounted value of expected future cash flows.

## Note. 1 Significant Accounting Policies (continued)

Management evaluates all collectively evaluated loans using the Advanced Probability of Default Method methodology. The Advanced Probability of Default Method methodology is a type of logistical regression panel model which uses loan level data to derive the probability of default and probability of attrition to arrive at a loss estimate.

The probability of default is based on the loss history of a product, product lifecycle, behavioral attributes, and economic environment. The majority this information is based upon bank specific data. However, the lifecycles are determined by the collection of data within a shared pool of loans which encompasses 20 years. Behavior attributes are specific to the type of loan product as different products utilize different attributes. The economic environment correlates losses to index rates which are the same as the Federal Reserve Bank. This is forecasted over 24 months before reverting to historical loss factor.

The Probability of Attrition is based on three components: attrition lifecycle, seasonality, and behavior attributes. Attrition lifecycles estimates are based on data with a shared data pool. Seasonality is based on attrition data within the shared pool as well. Behavioral attributes are applied at the account level and are like the behavioral attributes in the probability of default section above.

**Transfers of financial assets:** The Company sells financial assets in the normal course of business. Most of the Company's financial asset sales are residential mortgage loan sales primarily to government-sponsored enterprises through established programs and commercial loan sales through participation agreements. In accordance with the accounting guidance for asset transfers, the Company considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the consolidated balance sheets. For loans sold under participation agreements, the Company also considers the terms of the loan participation agreement and whether they meet the definition of a participating interest and thus qualify for derecognition. Apart from servicing, the Company's continuing involvement with financial assets sold is minimal and generally limited to the market customary representation and warranty clauses.

**Goodwill:** Costs in excess of the estimated fair value of identifiable net assets acquired for transactions accounted for as business combinations are recorded as an asset by the Company. Annually or more frequently, if warranted, the Company reviews goodwill for events or circumstances that may indicate a change in recoverability of the underlying basis.

**Intangible assets:** Intangible assets are included in other assets and represent the intangible value of customer relationships resulting from deposit liabilities and services assumed and are amortized on a straight-line basis over periods of 15 years. On a periodic basis, the Company reviews the core deposit intangible assets for events or circumstances that may indicate a change in recoverability of the underlying basis.

**Premises and equipment:** Premises and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

**Foreclosed real estate and other loan collateral:** Real estate properties and other loan collateral acquired through, or in lieu of, loan foreclosures are recorded at fair value, less cost to sell at the time of acquisition. After acquisition, valuations are periodically performed by management and the real estate and other loan collateral is carried at the lower of carrying amount or fair value less cost to sell.

Subsequent write-downs estimated on the later valuations, gains or losses on sales, revenue and expenses from operations are included in other income or other expenses.

Residential real estate loans that are in the process of foreclosure totaled \$146 at December 31, 2024, and \$146 at December 31, 2023.

**Bank owned life insurance:** The Company has purchased life insurance policies on certain key employees. Life insurance is measured at the amount that could be realized under the insurance contract, which is generally the cash surrender value of the policy, as of the policy statement date.



## Note. 1 Significant Accounting Policies (continued)

**Revenue from contracts with customers:** The core revenue recognition principle requires the Company to recognize revenue to depict the transfer of services or products to customers in an amount that reflects the consideration to which the Company expects to be entitled to receive in exchange for those services or products recognized as performance obligations are satisfied. The guidance includes a five-step model to apply to revenue recognition, consisting of the following; (1) identify the contract with a customer [member]; (2) identify the performance obligation(s) within the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligation(s) within the contract; and (5) recognize revenue when (or as) the performance obligation(s) are/is satisfied.

The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Since performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying revenue recognition principles (ASC 606) that significantly affects the determination of the amount and timing of revenue from contracts with customers.

The following significant revenue-generating transactions are within the scope of ASC 606, which are presented in the statement of income as components of non-interest income:

**Service fees** – The Company earns fees from its deposit customers for transaction-based and overdraft services. Transaction-based fees, such as ATM use fees, wires, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request.

Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company's performance obligation.

**Interchange fees** – Customers use a bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company is considered an agent with respect to these transactions. Interchange fee payments received, net of related expenses, are recognized as income daily, concurrently with the transaction processing services provided to the cardholder through the payment networks. There are no contingent debit card interchange fees recorded by the Company that could be subject to a claw-back in future periods. Interchange fees totaled \$832 and \$774 at December 31, 2024, and 2023, respectively.

**Insurance commissions** – Insurance agency commissions are received from insurance carriers for the agency's share of commissions from customer premium payments. These commissions are recorded into income when checks are received from the insurance carriers, and there is no contingent portion associated with these commission checks that may be clawed back by the carrier in the future. There may be a short time-lag in recording revenue when cash is received instead of recording the revenue when the policy is signed by the customer, but the time lag is insignificant and does not impact the revenue recognition process. The Company has evaluated the potential amount of premium refunds due to customers when policies are cancelled and has determined such amounts are insignificant. Insurance commissions totaled \$29 and \$22 at December 31, 2024, and 2023, respectively.

**Investment brokerage commissions and fees** – Brokerage commissions and fees primarily relate to investment advisory and brokerage activities as well as the sale of other non-deposit investment products to customers of the Company. Fees earned for brokerage activities, such as facilitating securities transactions, are generally recognized at the time of transaction execution. Commissions or fees earned on the sale of other non-deposit investment products are primarily recognized on a monthly basis based on the executed sales dates. Investment brokerage commissions and fees totaled \$752 and \$682 at December 31, 2024, and 2023, respectively.

**Net gain (loss) on sales of foreclosed assets** – The Company records a gain or loss from the sale of other real estate when control of the property transfers to the buyer, which generally occurs at the time of an executed deed and transfer of control is completed. When the Company finances the sale to the buyer, the Company assesses whether the buyer is committed to perform their obligations under the contract and whether the Company expects to collect substantially all of the transaction price. Once these criteria are met, the asset is derecognized and the gain or loss on the sale is recognized. In determining the gain or loss on the sale, the Company adjusts the transaction price and related gain (loss) on sale if the financing does not include market terms.

## **Note. 1 Significant Accounting Policies (continued)**

**Income taxes:** Deferred taxes are provided using the liability method. Deferred tax assets are recognized for deductible temporary differences and operating loss and tax credit carryforwards and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the consolidated financial statement amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all the deferred tax assets will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

When tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while others are subject to uncertainty about the merits of the position taken or the amount of the position that would be ultimately sustained. The benefit of a tax position is recognized in the consolidated financial statements in the period during which, based on all available evidence, management believes it is more likely than not that the position will be sustained upon examination, including the resolution of appeals or litigation processes, if any. Tax positions taken are not offset or aggregated with other positions. Tax positions that meet the more-likely-than-not recognition threshold are measured as the largest amount of tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. Management believes that the Company maintains no uncertain tax positions for tax reporting purposes and accordingly, no liability is required to be recorded.

With few exceptions, the Company is no longer subject to federal or state examination by tax authorities for years ending before December 31, 2021.

**Off-balance-sheet instruments:** In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments, including commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

**Concentration of credit risk:** A majority of the Company's loans and off-balance sheet commitments have been granted to borrowers in the Company's market area. The concentrations of credit by type are set forth in Note 4. The Company's exposure to credit risk is significantly affected by economic changes in the Company's market area.

**Legal contingencies:** Various legal claims arise from time to time in the normal course of business. In the opinion of management, any liability resulting from such proceedings would not have a material impact on the financial statements of the Company.

**Advertising:** Advertising costs are expensed as incurred.

**Reclassifications:** None

**Stock compensation plans:** In October 2022, the Bank entered into a stock appreciation rights plan with two executive officers. The plan grants the executives the conditional right to future compensation; where the value of compensation is determined by the appreciation of Company stock between the award date and the exercise date, after a vesting period. The plans vest incrementally over a period of 5 to 10 years. The amount of stock appreciation rights granted each year varies based on bank performance, or at the discretion of the Board of Directors if the performance metrics are not met.

**Subsequent events:** Subsequent events have been evaluated through April 28, 2025, which is the date the financial statements were available to be issued.

## Note 2. Interest-Bearing Deposits

Interest-bearing deposits consist of certificates of deposit at other financial institutions. Certificates of deposit are in denominations of \$250 or less and are fully insured by the FDIC and/or NCUA.

Certificates of deposit are held at cost. As of December 31, 2024, and 2023, certificates of deposit totaled \$2,250 and \$6,242, respectively. The certificates of deposit at December 31, 2024, are scheduled to mature as follows:

Year Ending December 31,	
2025	\$ 1,000
2026	750
2027	250
Thereafter	250
	<u>\$ 2,250</u>

## Note 3. Available for Sale Securities

The amortized cost and estimated fair value of available for sale securities with gross unrealized gains and losses at December 31, 2024, and 2023 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2024				
U.S. government agencies	\$ 988	\$ -	\$ 150	\$ 838
Mortgage-backed securities	31,338	28	1,335	30,030
States and political subdivisions	19,410	-	749	18,661
Corporate bonds	9,344	67	391	9,020
Total debt securities	<u>\$ 61,080</u>	<u>\$ 95</u>	<u>\$ 2,625</u>	<u>\$ 58,549</u>

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
2023				
U.S. government agencies	\$ 11,673	\$ 25	\$ 534	\$ 11,164
States and political subdivisions	23,100	64	661	22,503
Mortgage-backed securities	15,282	79	971	14,390
Corporate bonds	7,804	142	535	7,411
Total debt securities	<u>\$ 57,859</u>	<u>\$ 310</u>	<u>\$ 2,701</u>	<u>\$ 55,468</u>

Financial models or prices paid for similar securities are the basis for estimation of fair values on debt securities. The valuation estimate could change considerably due to interest rates and other key inputs, resulting in a material change in the estimated fair value of debt securities.

**Note 3. Available for Sale Securities (continued)**

The amortized cost and fair value of debt securities at December 31, 2024, by contractual maturity, are shown below.

The actual maturity of mortgage-backed securities may differ from the stated maturity because the mortgages underlying the securities may be called or repaid without penalties. Therefore, these securities are not included in the maturity categories in the following maturity summary.

	Available for Sale 2024	
	Amortized Cost	Fair Value
Due in one year or less	\$ 2,671	\$ 2,731
Due after one year through five years	5,280	5,287
Due after five years through ten years	13,949	13,101
Due after ten years	7,842	7,400
Mortgage-backed securities	31,338	30,030
	<u>\$ 61,080</u>	<u>\$ 58,549</u>

The following table shows the fair value and gross unrealized losses of securities available for sale with unrealized losses at December 31, 2024 and 2023, aggregated by investment category and length of time that individual securities have been in an unrealized loss position:

Available for sale: <b>2024</b>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ -	\$ -	\$ 838	\$ 150	\$ 838	\$ 150
State and political subdivisions	3,027	104	6,236	645	9,263	749
Mortgage-backed securities	15,870	615	7,639	720	23,509	1,335
Corporate bonds	1,868	39	2,648	352	4,516	391
Total	<u>\$ 20,765</u>	<u>\$ 758</u>	<u>\$ 17,361</u>	<u>\$ 1,867</u>	<u>\$ 38,126</u>	<u>\$ 2,625</u>

Available for sale: <b>2023</b>	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. government agencies	\$ -	\$ -	\$ 10,535	\$ 534	\$ 10,535	\$ 534
State and political subdivisions	1,363	14	10,544	647	11,907	661
Mortgage-backed securities	167	1	12,112	970	12,279	971
Corporate bonds	1,451	49	2,014	486	3,465	535
Total	<u>\$ 2,981</u>	<u>\$ 64</u>	<u>\$ 35,205</u>	<u>\$ 2,637</u>	<u>\$ 38,186</u>	<u>\$ 2,701</u>

**Note 3. Available for Sale Securities (continued)**

The following table presents the number and aggregate depreciation from the Company's amortized cost basis of debt securities in a continuous unrealized loss position by security type at December 31, 2024:

	Number of Securities	Aggregate Depreciation
U.S. government agencies	1	15.10%
Mortgage-related securities	29	5.37%
States and political subdivisions	14	7.48%
Corporate bonds	6	7.97%
Total	50	-

These unrealized losses related principally to the changes in interest rates and were not caused by changes in the financial condition of the issuer. In reaching the conclusion that an allowance for credit losses is unnecessary, management observed the securities were issued by a government body or agency, the securities continue to be highly rated where applicable, the issuer continues to make contractual payments, and the quality of any underlying assets or credit enhancements has not changed. Since management has the ability to hold debt securities for the foreseeable future, the Company expects to recover the amortized cost basis of these securities before they are sold or mature.

At December 31, 2024, the amortized cost of debt securities pledged to secure public deposits and for other purposes required or permitted by law was \$21,399. At December 31, 2023, the amortized cost of debt securities pledged to secure public deposits and for other purposes required or permitted by law was \$30,622.

The following is a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses for the years ended December 31, 2024 and 2023:

	2024	2023
Proceeds from sales of securities	\$ 21,097	\$ -
Gross gains on sales	-	-
Gross losses on sales	\$ 678	\$ -

#### Note 4. Loans

A summary of loans by type follows:

	December 31,	
	2024	2023
Agricultural	\$ 61,322	\$ 56,502
Commercial	124,016	116,792
Commercial Real Estate	99,628	106,376
Construction and Land Development	12,449	16,614
Farmland	84,072	65,128
Installment	35,071	38,848
Residential Real Estate	101,775	69,328
	518,333	469,588
Less allowance for credit losses	6,139	5,682
	<u>\$ 512,194</u>	<u>\$ 463,906</u>

Loans serviced by the Company for others approximated \$131,404 and \$137,735 at December 31, 2024 and 2023, respectively. Loans serviced for others are not included in the accompanying consolidated balance sheets, and mortgage servicing rights were deemed immaterial. Servicing loans for others consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing.

The Company purchased consumer loans from Upgrade Inc. Upgrade loans totaled \$9,255 and \$14,098 as of December 31, 2024, and 2023, respectively. These amounts are included in the installment loan category in the “summary of loans by type” table above.

Deposit accounts in an overdraft position and reclassified as loans totaled \$90 and \$102 at December 31, 2024 and 2023, respectively.

**Note 4. Loans (continued)**

Activity in the allowance for credit losses on loans by portfolio segment follows:

**2024**

	Agricultural	Commercial	Commercial Real Estate	Construction and Land Development	Farmland	Installment	Residential Real Estate	Total
Balance at January 1, 2023	\$ 186	\$ 2,264	\$ 876	\$ 50	\$ 149	\$ 552	\$ 509	\$ 4,586
Impact of adoption of ASC 326	293	578	422	40	306	185	414	2,238
Provision for credit losses	(62)	(125)	(90)	(8)	(65)	(39)	(88)	(477)
Loans charged-off	(313)	(618)	(451)	(42)	(327)	(198)	(442)	(2,391)
Recoveries of loans previously charged off	226	446	325	31	236	143	319	1,726
Balance at December 31, 2023	330	2,545	1,082	71	299	643	712	5,682
Provision for credit losses	\$338	\$634	\$549	\$69	\$463	\$193	\$511	2,757
Loans charged-off	(372)	(753)	(605)	(76)	(510)	(213)	(618)	(3,147)
Recoveries of loans previously charged off	88	204	169	18	146	51	171	847
Balance at December 31, 2024	\$ 384	\$ 2,630	\$ 1,195	\$ 82	\$ 398	\$ 674	\$ 776	\$ 6,139

At December 31, 2024 and 2023, the Company maintained a reserve for unfunded loan commitments totaling \$223 and \$123 respectively, which is included in other liabilities on the accompanying consolidated balance sheets. As part of the adoption of ASU No. 2016- 13, the Company recorded an initial adjustment to the reserve for unfunded commitments of \$123. There was one provision of \$100 for credit losses on unfunded commitments for the year ended December 31, 2024.



**Note 4. Loans (continued)**

Information regarding accrued interest written off by reversing interest income during the years ended December 31, 2024, and 2023, follows:

<b>2024</b>	Residential Real Estate	Commercial Real Estate	Agricultural	Commercial	Installment	Total
Accrued interest written off to interest income	\$ 35	\$ 126	\$ 18	\$ 39	\$ 2	\$ 220

<b>2023</b> Accrued	Residential Real Estate	Commercial Real Estate	Agricultural	Commercial	Installment	Total
interest written off to interest income	\$ 26	\$ 130	\$ 18	\$ 37	\$ 1	\$ 212

Information regarding collateral dependent loans as of December 31, 2024, and 2023, follows:

<b>2024</b>	Recorded Investment	Related Allowance
Agricultural	\$ 114	\$ -
Commercial	7,333	414
Commercial Real Estate	706	-
Construction and Land Development	3,419	-
Farmland	92	-
Installment	16	3
Residential Real Estate	1,039	31
Total	\$ 12,719	\$ 448

<b>2023</b>	Recorded Investment	Related Allowance
Agricultural	\$ -	\$ -
Commercial	8,373	38
Commercial Real Estate	1,631	-
Construction and Land Development	-	-
Farmland	105	-
Installment	34	9
Residential Real Estate	831	24
Total	\$ 10,974	\$ 71

**Note 4. Loans (continued)**

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for credit losses. The credit metrics monitored differ depending on the loan's class. A description of the general characteristics of loan grades is as follows:

- Grades 1 through 4 are credit grades that generally pass all of the criteria necessary for a loan to be an on-going, satisfactorily performing receivable.
- A grade 5 credit is typically a performing credit grade, but the credit may have one potential weakness that, without corrective action, could potentially affect the collectability of the credit at a later time.
- A grade 6 credit is a credit with a well-defined weakness or weaknesses that jeopardize loan repayment. These types of credits have often times become seriously past due in repayment.
- A grade 7 credit is a credit that has deteriorated to a point where full collection of debt is highly improbable.
- A credit graded at 8 will result in a partial or complete charge-off of the credit, where a loss has been clearly identified.

The following table presents risk grades segregated by loan class:

<b>2024</b>				
<b>Loan Category</b>	<b>Grades 1-4</b>	<b>Grade 5</b>	<b>Grade 6</b>	<b>Total</b>
Agricultural	\$ 60,905	\$ -	\$ 417	\$ 61,322
Commercial	114,637	223	9,155	124,016
Commercial Real Estate	98,019	255	1,354	99,628
Construction and Land Development	9,030	-	3,419	12,449
Farmland	83,980	-	92	84,072
Installment	35,007	-	64	35,071
Residential Real Estate	100,279	-	1,496	101,775
<b>Total</b>	<b>\$ 501,858</b>	<b>\$ 478</b>	<b>\$ 15,997</b>	<b>\$ 518,333</b>

  

<b>2023</b>				
<b>Loan Category</b>	<b>Grades 1-4</b>	<b>Grade 5</b>	<b>Grade 6</b>	<b>Total</b>
Agricultural	\$ 56,502	-	-	\$ 56,502
Commercial	110,171	347	6,274	116,792
Commercial Real Estate	104,280	264	1,832	106,376
Construction and Land Development	16,614	\$ -	\$ -	16,614
Farmland	65,023	-	105	65,128
Installment	38,813	-	35	38,848
Residential Real Estate	68,124	-	1,204	69,328
<b>Total</b>	<b>\$ 459,527</b>	<b>\$ 611</b>	<b>\$ 9,450</b>	<b>\$ 469,588</b>

**Note 4. Loans (continued)**

Information regarding the credit quality indicators most closely monitored for residential real estate and installment loans by class as of December 31, 2024, and 2023, follows:

<b>2024</b>	Performing	Non-performing	Total
Installment	\$ 33,927	\$ 1,144	\$ 35,071
Residential Real Estate	99,967	1,808	101,775
Total	\$ 133,894	\$ 2,952	\$ 136,846

<b>2023</b>	Performing	Non-performing	Total
Installment	\$ 37,833	\$ 1,015	\$ 38,848
Residential Real Estate	67,471	1,857	69,328
Total	\$ 105,304	\$ 2,872	\$ 108,176

Loan aging information as of December 31, 2024, and 2023, follows:

<b>2024</b>	Current	Loans Past Due 30-89 Days	Loans Past Due 90+ days	Total Loans
Agricultural	\$ 58,726	\$ 2,596	\$ -	\$ 61,322
Commercial	123,331	671	13	124,016
Commercial Real Estate	99,628	-	-	99,628
Construction and Land Development	12,302	33	114	12,449
Farmland	78,914	332	4,826	84,072
Installment	32,867	853	1,351	35,071
Residential Real Estate	101,083	7	685	101,775
Total	\$ 506,851	\$ 4,493	\$ 6,989	\$ 518,333

<b>2023</b>	Current	Loans Past Due 30-89 Days	Loans Past Due 90+ days	Total Loans
Agricultural	\$ 56,502	-	-	\$ 56,502
Commercial	111,513	2,032	3,247	116,792
Commercial Real Estate	105,361	326	689	106,376
Construction and Land Development	16,614	\$ -	\$ -	16,614
Farmland	65,071	57	-	65,128
Installment	38,381	435	32	38,848
Residential Real Estate	67,782	805	741	69,328
Total	\$ 461,224	\$ 3,655	\$ 4,709	\$ 469,588

**Note 4. Loans (continued)**

Information regarding nonaccrual loans for the years ended December 31, 2024, and 2023, follows:

<b>2024</b>	Nonaccrual Loans with No Allowance for Credit Losses	Nonaccrual Loans with an Allowance for Credit Losses	Total Nonaccrual Loans	Interest Income Recognized on Nonaccrual Loans
Agricultural	\$ 114	\$ -	\$ 114	\$ 7
Commercial	6,567	377	6,944	59
Commercial Real Estate	706	93	799	1
Construction and Land Development	3,419	-	3,419	149
Farmland	92	-	92	6
Installment	13	2	15	15
Residential Real Estate	958	81	1,039	-
<b>Total</b>	<b>\$ 11,869</b>	<b>\$ 553</b>	<b>\$ 12,422</b>	<b>\$ 237</b>

<b>2023</b>	Nonaccrual Loans with No Allowance for Credit Losses	Nonaccrual Loans with an Allowance for Credit Losses	Total Nonaccrual Loans	Interest Income Recognized on Nonaccrual Loans
Agricultural	\$ -	\$ -	\$ -	\$ -
Commercial	5,807	46	5,854	35
Commercial Real Estate	1,617	-	1,617	1
Construction and Land Development	-	-	-	-
Farmland	105	-	104	-
Installment	12	22	34	2
Residential Real Estate	616	215	831	7
<b>Total</b>	<b>\$ 8,157</b>	<b>\$ 283</b>	<b>\$ 8,440</b>	<b>\$ 45</b>

No loans were 90+ days past-due and accruing interest at December 31, 2024, or December 31, 2023.

The Company did not have any loan modifications to borrowers experiencing financial difficulty in the year ended December 31, 2024, or December 31, 2023.

At December 31, 2024, and December 31, 2023, the Company had no commitments to lend any additional funds on loans modified to borrowers experiencing financial difficulty.

In the normal course of business, loans are made to executive officers, directors and the Employee Stock Ownership Plan and to parties which the Company or its directors and executive officers have the ability to significantly influence their management or operations (related parties). In the opinion of management, the terms of these loans, including interest rates and collateral, are similar to those prevailing for comparable transactions with other customers and do not involve more than a normal risk of collectability. At December 31, 2024 and 2023, the aggregate amount of such borrowings, including unused lines of credit, was \$2,386 and \$6,953, respectively.

## Note 5. Premises and Equipment

Premises and equipment consist of:

	December 31,	
	2024	2023
Land	\$ 1,457	\$ 1,318
Buildings	16,744	14,515
Furniture and fixtures	7,421	7,030
Construction in progress	536	1,895
	26,158	24,758
Less accumulated depreciation	12,276	11,633
	<u>\$ 13,882</u>	<u>\$ 13,125</u>

## Note 6. Deposits

At December 31, 2024, the scheduled maturities of time deposits are as follows:

Years ended December 31,	Amount
2025	\$116,785
2026	8,235
2027	563
2028	775
2029	871
	<u>\$127,229</u>

The Bank is under an agreement with brokers that provides deposits obtained from their customers at specified interest rates for an identified fee or so called “brokered deposits”. Brokered deposits of \$15,994, and \$19,560 are included in the balance on time deposits and savings as of December 31, 2024, and 2023, respectively.

## Note 7. Federal Home Loan Bank Advances

The Company had \$42,000 and \$30,000 in outstanding advances from the Federal Home Loan Bank (FHLB) at December 31, 2024, and 2023, respectively. Advances at December 31, 2024 bear an average interest rate of 4.71 percent.

At December 31, 2024, the scheduled maturities of FHLB Advances are as follows:

Year ended December 31,	Amount
2025	\$ 32,000
2026	10,000
	<u>\$ 42,000</u>

Advances from the FHLB are collateralized by certain qualifying collateral, such as loans, held by the bank as of December 31, 2024, and 2023 which totaled \$148,199 and \$143,521, respectively. The bank had excess collateral value of \$41,724 as of December 31, 2024, which can be used for additional advances.

## Note 8. Income Taxes

The income taxes consist of:

	<u>December 31,</u>	
Federal:	<u>2024</u>	<u>2023</u>
Current	\$ 704	\$ 2,409
Deferred	<u>339</u>	<u>(1,606)</u>
	1,043	803
State:		
Current	762	656
Deferred	<u>(57)</u>	<u>(57)</u>
	705	599
	<u>\$ 1,748</u>	<u>\$ 1,402</u>

The reconciliation of the expected income tax expense computed at the maximum statutory rate of 21 percent to the reported income tax expense follows:

<u>December 31,</u>	<u>2024</u>	<u>2023</u>
Expected income taxes	\$ 1,821	\$ 2,041
<i>Increase (decrease) in income taxes resulting from:</i>		
State income taxes, net of federal tax benefit	-	10
Tax-exempt interest and dividends	(113)	(113)
Increase in cash surrender value	(48)	(64)
Other	<u>88</u>	<u>(472)</u>
	<u>\$ 1,748</u>	<u>\$ 1,402</u>

**Note 8. Income Taxes (continued)**

The components of deferred income tax assets and liabilities follows:

December 31,	2024	2023
Deferred tax assets:		
Allowance for credit losses	\$ 1,744	\$ 1,518
Unrealized loss on securities available for sale	1,128	696
Premise and equipment	82	84
Other deferred tax assets	530	1,020
	<u>\$ 3,484</u>	<u>\$ 3,318</u>
Deferred tax liabilities:		
Goodwill	(201)	(201)
Intangible assets	1	(2)
FHLB stock dividends	(11)	(11)
Unrealized gain on securities available for sale	-	-
Other deferred tax liabilities	(33)	(14)
	<u>(244)</u>	<u>(228)</u>
Net deferred tax asset	<u>\$ 3,240</u>	<u>\$ 3,090</u>



## Note 9. Employee Benefits

**Profit Sharing and 401(k) plans:** The Bank has a contributory employee profit sharing plan and 401(k) plan which covers substantially all employees. Employer contributions to the plan are at the discretion of the Board of Directors and amounted to \$115 and \$108 for the years ended December 31, 2024, and 2023, respectively. The Company previously entered into a supplemental executive retirement plan with a former executive officer which allowed for the deferment of compensation during employment and payout after retirement.

**Stock Appreciation Rights Plan:** In October 2022, the Bank entered into a stock appreciation rights plan with two executive officers. The plan grants the executives the conditional right to future compensation; where the value of compensation is determined by appreciation of Company stock between the award date and the exercise date, after a vesting period. The plans vest incrementally over a period of 5 to 10 years. The amount of stock appreciation rights granted each year may vary based on performance, or at the discretion of the Board of Directors. The liability outstanding at the year ended December 31, 2024, and 2023 was \$101 and \$24, respectively.

**Employee Stock Ownership Plan (ESOP):** The Company has established an ESOP that is a defined-contribution plan which satisfies the requirements of the Employee Retirement Income Security Act of 1974. Employees over 20 years of age with at least 1,000 hours of service in a 12-month period are eligible to participate. Benefits vest over a six-year period and in full after six years of qualified service.

Dividends on shares held by the ESOP are paid to the ESOP trust and, together with Company contributions, are used by the ESOP to repay principal and interest on the outstanding notes. Shares are released for allocation to participants based upon the ratio of the current year's debt service to the sum of total principal and interest payments over the life of the notes.

Because the stock is not publicly traded, the Company has an obligation to repurchase the shares from the plan participants as they are terminated.

Purchase of stock by the ESOP is as follows:

	Year Acquired	Amount Financed	Balance Outstanding	Shares Purchased	Unreleased Shares
Shares previously purchased and allocated				43,684	
Internally financed with First Neighbor Bank, N.A.	2016	\$ 406	\$ 189	1,193	477
	2017	395	211	1,146	532
	2018	291	175	696	366
	2019	655	436	1,540	955
	2020	918	673	2,416	1,663
	2021	873	768	1,877	1,579
	2022	793	729	1,738	1,535
			\$ 3,181	54,290	7,107

## Note 9. Employee Benefits (continued)

Loans financed from First Neighbor Bank, N.A. are at a prime rate plus 0.5 percent (9.00% at December 31, 2024, and adjustable each December 31). Loans are payable in between fifteen and twenty-five equal annual payments. All payments plus accrued interest are due on December 31.

As shares are committed to be released from unallocated shares, compensation expense will be recognized in an amount equal to the current market value of the shares. Compensation expense recorded for the current years ended December 31, 2024, and 2023, for the ESOP was \$386 and \$381, respectively. In addition, the Company elected to make \$238 in cash contributions for the year ended December 31, 2023. The Company has not yet made the 2024 cash contribution, but expects to do so in 2025, with an effective date of December 31, 2024. This contribution will not materially impact the bank's reported financial condition or performance.

The following table reflects the shares held by the plan:

	December 31,	
	2024	2023
Shares allocated (fair value as of December 31, 2024, and 2023, \$25,341 and \$23,800, respectively)	46,498	45,770
Shares committed to be released	685	704
Unreleased shares (fair value as of December 31, 2024, and 2023, \$3,873 and \$4,064, respectively)	7,107	7,816
	<u>54,290</u>	<u>54,290</u>

## Note 10. Commitments, Contingencies, and Credit Risk

In the normal course of business, there are outstanding various contingent liabilities such as claims and legal actions which are not reflected in the consolidated financial statements. In the opinion of management, no material losses are anticipated as a result of these actions or claims.

The Bank is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of their customers. These financial instruments include commitments to extend credit and letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets. The contract amounts of those instruments reflect the extent of involvement the Bank has in particular classes of financial instruments.

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

Standby letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing, and similar transactions. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. In the event the customer does not perform in accordance with the terms of the agreement with the third party, the Bank would be required to fund the commitment. The maximum potential amount of future payments the Bank could be required to make is represented by the contractual amount shown in the summary below. If the commitment is funded, the Bank would be entitled to seek recovery from the customer. At December 31, 2024, and 2023, no amounts have been recorded as liabilities for the Bank's potential obligations under these guarantees.

## Note 10. Commitments, Contingencies, and Credit Risk (continued)

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and letters of credit is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as they do for on-balance-sheet instruments. Financial instruments whose contract amounts represent credit risk at December 31, 2024, and 2023, follows:

	Variable Rate Commitment	Fixed Rate Commitment	Total Commitment
	2024		
Commitments to extend credit and standby letters of credit	\$ 4,946	\$ 78,543	\$ 83,489
	2023		
Commitments to extend credit and standby letters of credit	\$ 8,603	\$ 91,110	\$ 99,713

## Note 11. Capital Requirements

The Company's primary source of cash is dividends from the Bank. By regulation, First Neighbor Bank, N.A. is prohibited from paying dividends in excess of the current year's net income plus the retained net earnings from the prior two years, without regulatory approval. At December 31, 2024, First Neighbor Bank, N.A. had \$19,880 of retained earnings available for the payment of dividends without obtaining prior regulatory approval. As a practical matter, dividends distributed by the Bank are restricted to amounts that maintain prudent capital levels.

The Bank is subject to various regulatory capital requirements administered by federal and/or state agencies that involve the quantitative measure of their assets, liabilities, and certain off-balance-sheet items, as calculated under regulatory accounting practices. Failure to meet minimum capital requirements may cause regulatory bodies to initiate certain discretionary and/or mandatory actions that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Quantitative measures established by regulations to ensure capital adequacy require the Bank to maintain certain minimum capital ratios as set forth in the table below. In September 2019, the regulatory agencies adopted a final rule, which became effective January 1, 2020, creating the Community Bank Leverage Ratio (CBLR) for institutions with total consolidated assets of less than \$10 billion, and meet other qualifying criteria. Qualifying institutions who elect to use the CBLR framework and maintain a leverage capital ratio above 9% are considered to have satisfied the generally applicable risk-based and leverage capital requirements in the regulatory agencies' capital rules and to have met the well-capitalized ratio requirements. In April 2020, as directed by Section 4012 of the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act, regulatory agencies introduced temporary changes to the CBLR. These changes, which subsequently were adopted as a final rule, temporarily reduced the CBLR requirement to 8% through the end of calendar year 2020. Beginning in calendar year 2021, the CBLR requirement increased to 8.5% for the calendar year before returning to 9% for calendar year 2022. Management elected to use the CBLR framework for the Bank.

## Note 11. Capital Requirements (continued)

Management believes, as of December 31, 2024, the Bank meets all capital adequacy requirements to which they are subject to, and there were no conditions or events subsequent to December 31, 2024, that would change the Bank's capital category.

CBLR: First Neighbor Bank, N.A.	Actual Amount	Actual Ratio	Minimum Required Amount	Minimum Required Ratio
2024	\$ 66,912	10.46%	\$ 57,591	9.00%
2023	\$ 60,553	10.20%	\$ 53,429	9.00%

## Note 12. Fair Value Measurements

Current accounting guidance defines fair value and establishes a framework for measuring fair value. It also emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and sets out a fair value hierarchy with the highest priority being quoted prices in active markets. Under this guidance, fair value measurements are disclosed by level within that hierarchy.

As defined in this guidance, fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Company uses various methods including market, income and cost approaches. Based on these approaches, the Company often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique.

These inputs can be readily observable, market corroborated, or generally unobservable inputs. The Company utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Company is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

- Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
- Level 2 – Significant observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

For the years ended December 31, 2024 and 2023, the application of valuation techniques applied to similar assets and liabilities has been consistent. The following is a description of the valuation methodologies used for instruments measured at fair value:

Securities available for sale (recurring): The fair value of the Company's U.S. Treasury securities available for sale are determined using Level 1 inputs. The fair value of the Company's securities available for sale is determined using Level 2 inputs, which the Company obtains from an independent pricing service. The independent pricing service evaluations are based on market data. The market inputs that the independent pricing service normally seeks for evaluations of securities include: benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data including market research publications. For certain security types, additional inputs may be used, or some of the market inputs may not be applicable.

## Fair Value Measurements (continued)

Evaluators may prioritize inputs differently on any given day for any security based on market conditions, and not all inputs listed are available for use in the evaluation process for each security evaluation on a given day. Because the data utilized was observable, the securities have been classified as Level 2.

*Equity securities (recurring): The practical expedient has been elected for the equity security for which a quoted market price is not available.*

**Individually evaluated loans measured using a practical expedient, the loan's observable market price or the fair value of the collateral if the loan is collateral dependent (nonrecurring):** Individually evaluated loans are evaluated and valued at the time the loan is identified as a potential for credit loss, at the lower of unpaid principal balance or fair value. Fair value is measured based on the value of the collateral securing these loans and is classified at a Level 3 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable and is determined based on appraisals by qualified licensed appraisers hired by the Company. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business.

**Foreclosed real estate and other loan collateral (nonrecurring):** Foreclosed assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

### Assets and Liabilities at Fair Value on a Recurring Basis

The following table summarizes assets measured at fair value on a recurring basis as of December 31, 2024, and 2023, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government agencies	\$ 838	\$ -	\$ 838	\$ -
Mortgage-backed securities	30,030	-	30,030	-
State and political subdivisions	18,661	-	18,661	-
Corporate bonds	9,020	-	9,020	-
Equity securities	171	171	-	-

	December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
U.S. government agencies	\$ 11,164	\$ -	\$ 11,164	\$ -
Mortgage-backed securities	14,390	-	14,390	-
State and political subdivisions	22,503	-	22,503	-
Corporate bonds	7,411	-	7,411	-
Equity securities	186	186	-	-

### Fair Value Measurements (continued)

The following presents quantitative information regarding nonrecurring Level 3 fair value measurements at December 31, 2024, and 2023:

Year	Asset Category	Fair Value	Valuation Technique	Unobservable Input	Range/Weighted Average
2024	Collateral dependent loans	\$ 7,940	Market	Management discount on appraised values	10%-20%
	Foreclosed real estate and other loan collateral	\$ 36	Market	Management discount on appraised values	10%-20%
2023	Collateral dependent loans	\$ 9,167	Market	Management discount on appraised values	10%-20%
	Foreclosed real estate and other loan collateral	\$ 1,126	Market	Management discount on appraised values	10%-20%

At December 31, 2024 individually evaluated loans with a recorded investment of \$8,388 and a valuation allowance of \$448 were carried at a fair value of \$7,940.

At December 31, 2023 individually evaluated loans with a recorded investment of \$9,238 and a valuation allowance of \$71 were carried at a fair value of \$9,167.

### Note 13. Intangible Assets

Activity in customer intangible assets are as follows:

	Year Ended December 31,	
	2024	2023
Customer intangible, at beginning of year	\$ 445	\$ 543
Additions	-	-
Dispositions	-	-
Amortization	(83)	(98)
Customer intangible, at end of year	\$ 362	\$ 445

Future expenses for the amortization of customer intangibles is as follows:

Years Ending December 31,	Amount
2025	\$ 55
2026	55
2027	55
2028	54
2029	27
Thereafter	116
	<u>\$ 362</u>