

COMMERCIAL NATIONAL FINANCIAL CORPORATION

2024
ANNUAL
REPORT

Letter To Our Shareholders

Commercial National Financial Corporation earned \$1,841,000 during 2024. Earnings per share for 2024 were \$0.64. Dividends paid per share in 2024 were \$0.89.

At year-end 2023 there was strong market expectation for timely and extensive Federal Reserve Bank monetary policy easing beginning by first quarter 2024 following the Federal Reserve's unprecedentedly rapid and extensive 525 basis points of interest rate hikes between March 2022 and July 2023. However, such easing, which would materially benefit the Company's overall financial condition and performance by reducing marginal funding cost along with the deposit footing impeding attractiveness of non-deposit money market alternatives, only belatedly initiated in mid-September 2024. Undistributed earnings from 2022 and 2023 were at last fully utilized during 2024's third quarter to provide limited carryover capacity in augmenting 2024 dividend declarations. As a result, beginning in 2024's fourth quarter, ongoing dividend declarations were solely reliant on prevailing earnings expectations which continue to be influenced by a recently receding multiple decade high in Federal Reserve Bank driven marginal funding cost.

The Company's full-year 2024 return on average assets was 0.48% while return on average equity was 5.40%. Tax equivalent net interest margin for 2024 was 3.44%. Overhead costs in 2024 were reflective of optimum staffing to sustain operational continuity in the community branch office network, commercial business development and asset management/trust division along with area specific joint sales team focus. Fully insured well diversified core deposits comprised 87.36% of total deposits at year-end 2024 which very favorably compares to national banking industry metrics. Asset quality remained exceptionally strong across-the-board.

Year-end 2024 capital adequacy and strength greatly exceeded major banking industry benchmarks. Tier one risk-based, total risk-based, leverage and common equity tier one capital ratios at December 31, 2024 were 24.90%, 25.28%, 14.01% and 24.90% respectively. Tier one capital was \$56,870,000 and total risk-based capital was \$57,735,000 while book capital reflected a temporary after-tax accumulated other comprehensive loss stemming from net unrealized securities available-for-sale market value depreciation. As with many other insured depository institutions nationwide, the Company's securities portfolio has been adversely impacted by generationally elevated market interest rates and yields.

Commercial National Financial Corporation's traditional practice of optimizing dividends within the limitations imposed by banking regulation and earnings circumstance has not changed. That practice continues to be supported by exceptional asset quality and exceedingly strong capital which, together, provide a firm basis for future earnings and dividends improvement as conditions warrant. Providing an appropriate cash dividend income stream to all the Company's shareholders in the most equitable manner possible remains a long-standing top priority as we work to merit your confidence and support.

Respectfully,
Board of Directors,
Commercial National Financial Corporation

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Commercial National Financial Corporation

Opinion

We have audited the consolidated financial statements of Commercial National Financial Corporation and Subsidiary (the Corporation), which comprise the consolidated statements of financial condition as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive (loss) income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the "Letter to our Shareholders" but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated 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 consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or 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.

Baker Tilly US, LLP

Pittsburgh, Pennsylvania
March 13, 2025

Consolidated Statements of Financial Condition

	December 31,	
	2024	2023
	(Dollars in Thousands, Except per Share Amounts)	
Assets		
Cash and due from banks	\$ 3,743	\$ 4,274
Interest bearing deposits with banks	1,322	1,172
Cash and Cash Equivalents	5,065	5,446
Investment securities available for sale	156,076	161,832
Restricted investments in bank stock	1,671	1,244
Loans receivable	181,452	192,812
Allowance for credit losses	(865)	(1,162)
Net Loans	180,587	191,650
Premises and equipment, net	2,790	2,866
Accrued interest receivable	2,202	2,199
Investment in life insurance	19,083	18,534
Net deferred tax assets	6,419	5,664
Other assets	962	1,184
Total Assets	\$374,855	\$390,619
Liabilities and Shareholders' Equity		
Liabilities		
Deposits (all domestic):		
Non-interest bearing	\$145,735	\$156,767
Interest bearing	155,826	170,508
Total Deposits	301,561	327,275
Short-term borrowings	38,665	25,317
Other liabilities	1,854	1,891
Total Liabilities	342,080	354,483
Shareholders' Equity		
Common stock, par value \$2 per share; authorized 10,000,000 shares; issued 3,600,000 shares; outstanding 2,860,953 shares in 2024 and 2023	7,200	7,200
Retained earnings	62,440	63,145
Accumulated other comprehensive loss	(24,321)	(21,665)
Treasury stock, at cost, 739,047 shares in 2024 and 2023	(12,544)	(12,544)
Total Shareholders' Equity	32,775	36,136
Total Liabilities and Shareholders' Equity	\$374,855	\$390,619

See notes to consolidated financial statements.

Consolidated Statements of Income

	Years Ended December 31,	
	2024	2023
	(In Thousands, Except per Share Amounts)	
Interest Income		
Interest and fees on loans	\$ 8,214	\$ 8,215
Interest and dividends on investments:		
Taxable	4,404	4,601
Exempt from federal income taxes	1,794	2,023
Other	215	162
Total Interest Income	14,627	15,001
Interest Expense		
Deposits	208	188
Short-term borrowings	1,836	1,273
Total Interest Expense	2,044	1,461
Net Interest Income	12,583	13,540
Credit for Credit Losses	(293)	(372)
Net Interest Income after Credit for Credit Losses	12,876	13,912
Other Operating Income		
Asset management and trust fees	1,451	1,346
Service charges on deposit accounts and fees	644	652
Net security gains/(losses)	3	(6)
Income from investment in life insurance	524	514
Other income	120	110
Total Other Operating Income	2,742	2,616
Other Operating Expenses		
Salaries and employee benefits	8,111	7,747
Net occupancy	839	766
Furniture and equipment expense	552	534
Pennsylvania shares tax	328	293
Legal and professional fees	550	583
FDIC insurance	185	186
ATM expenses	505	482
Director fees	439	462
Software expense	453	442
Internet banking expense	294	278
Telephone expense	239	234
Other expenses	1,331	1,304
Total Other Operating Expenses	13,826	13,311
Income before Income Taxes	1,792	3,217
Income Tax (Benefit)/Expense	(49)	170
Net Income	\$ 1,841	\$ 3,047
Earnings per Share, Basic	\$ 0.64	\$ 1.07

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive (Loss)/Income

	Years Ended December 31,	
	2024	2023
	(In Thousands)	
Net Income	\$ 1,841	\$ 3,047
Other comprehensive (loss)/income, net of tax:		
Unrealized net (losses)/gains on securities		
Unrealized holding (losses)/gains arising during period		
(net of income tax (benefit)/expense of \$(706) in 2024 and \$957 in 2023)	(2,658)	3,602
Less: Reclassification adjustment for (gains)/losses included in net income (net of income tax (expense)/benefit of \$(1) in 2024 and \$2 in 2023) ⁽¹⁾⁽²⁾	(2)	4
Other comprehensive (loss)/income	(2,656)	3,606
Total Comprehensive (Loss)/Income	\$ (815)	\$ 6,653

(1) Gross amount included in net security gains/(losses) on consolidated statements of income 2024 - \$3 and 2023 - \$(6)

(2) The income tax effect included in income tax (benefit)/expense on consolidated statements of income

See notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2024 and 2023

(Dollars in thousands, except per share data)

	Common Stock	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balance at December 31, 2022	\$7,200	\$63,073	\$(12,544)	\$(25,271)	\$32,458
Net income	0	3,047	0	0	3,047
Other comprehensive income	0	0	0	3,606	3,606
Cumulative effect of adoption of ASU 2016-13 Note 1	0	0	0	0	0
Cash dividends paid \$1.04 per share	0	(2,975)	0	0	(2,975)
Balance at December 31, 2023	\$7,200	\$63,145	\$(12,544)	\$(21,665)	\$36,136
Net income	0	1,841	0	0	1,841
Other comprehensive loss	0	0	0	(2,656)	(2,656)
Cash dividends paid \$0.89 per share	0	(2,546)	0	0	(2,546)
Balance at December 31, 2024	\$7,200	\$62,440	\$(12,544)	\$(24,321)	\$32,775

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

	Years Ended December 31,	
	2024	2023
	(In Thousands)	
Cash Flows from Operating Activities		
Net income	\$ 1,841	\$ 3,047
Adjustments to reconcile net income to net cash provided by Operating activities:		
Depreciation and amortization	413	400
Loss on disposal of fixed assets	4	0
Net security (gains)/losses	(3)	6
Net amortization of securities and loan fees	375	413
Credit for credit loss	(293)	(372)
Income from investment in life insurance	(524)	(514)
Deferred tax (benefit)/expense	(49)	170
Net decrease in accrued interest receivable and other assets	191	48
Net (decrease)/increase in accrued interest payable and other liabilities	(37)	152
Net Cash Provided by Operating Activities	1,918	3,350
Cash Flows from Investing Activities		
Sale of securities	2,039	6,066
Maturities, calls and principal repayments of securities	0	6,531
Redemption of restricted investments in bank stock	3,034	3,096
Purchase of restricted investments in bank stock	(3,461)	(3,710)
Net decrease in loans	11,342	8,597
Purchases of premises and equipment	(341)	(749)
Proceeds from life insurance	0	493
Net Cash Provided by Investing Activities	12,613	20,324
Cash Flows from Financing Activities		
Net decrease in deposits	(25,714)	(40,190)
Net increase in short-term borrowings	13,348	18,602
Dividends paid	(2,546)	(2,975)
Net Cash Used in Financing Activities	(14,912)	(24,563)
Net Decrease in Cash and Cash Equivalents	(381)	(889)
Cash and Cash Equivalents – Beginning	5,446	6,335
Cash and Cash Equivalents – Ending	\$ 5,065	\$ 5,446
Supplementary Cash Flows Information		
Interest paid	\$ 2,064	\$ 1,409
Income tax refund	\$ 225	\$ 0

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies

General

The accompanying consolidated financial statements include the accounts of Commercial National Financial Corporation and its wholly-owned subsidiary, Commercial Bank & Trust of PA (the Bank). All material intercompany transactions have been eliminated in consolidation.

As used in these notes to the consolidated financial statements, Commercial National Financial Corporation and its consolidated subsidiary are collectively referred to as the “Corporation.”

The Bank operates under a state bank charter and provides full banking services. Commercial National Financial Corporation is subject to regulation by the Federal Reserve Board and the Bank is subject to regulation by the Federal Deposit Insurance Corporation (FDIC) and the Pennsylvania Department of Banking and Securities. The Bank’s primary business consists of taking deposits and granting loans to customers who generally do business in the area of Westmoreland County, Pennsylvania.

As of December 31, 2024, the Corporation employed 78 people in full-time and part-time positions. Thirty-three (33) employees are represented by the United Auto Workers, Local 1799. In 2023, the Corporation and bargaining unit employees entered into a labor agreement that will expire in February 2029.

The following summary of accounting and reporting policies is presented to aid the reader in obtaining a better understanding of the consolidated financial statements and related financial data of the Corporation and its wholly-owned subsidiary contained in this report. Such policies conform to generally accepted accounting principles and to general practice within the banking industry.

Segments

Segments are components of a company that have discrete financial information available and are regularly evaluated by a chief operating decision maker (CODM) to assess performance and decide how resources are allocated. Substantially all of the Corporation’s operations occur through the Bank and involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of its banking operation, which constitutes the Corporation’s only operating segment for financial reporting purposes. The Corporation’s one reportable segment is determined by its Chief Executive Officer, who is designated the CODM, based upon information provided about the Corporation’s products and services offered, primarily community banking operations. Our CODM manages business activities on a consolidated basis and uses consolidated net income, as reported on the consolidated statements of income, to evaluate financial performance, allocate resources, and monitor budget versus actuals. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management’s compensation. The measure of segment assets is reported on the consolidated statements of financial condition as total assets at December 31, 2024 and 2023.

Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, and the realization of deferred tax assets.

Significant Concentrations of Credit Risk

Most of the Corporation’s activities are with customers located within Westmoreland County, Pennsylvania. Note 3 discusses the types of securities that the Corporation invests in. Note 4 discusses the types of lending that the Corporation engages in. The Corporation does not have any significant concentrations to any one industry or

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Significant Concentrations of Credit Risk (Continued)

customer. Although the Corporation has a diversified loan portfolio, exposure to credit loss can be adversely impacted by downturns in local economic and employment conditions.

Securities

Debt securities are classified as “securities available-for-sale” and reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of other comprehensive (loss)/income, net of the related deferred income tax effect.

For available-for-sale debt securities in an unrealized loss position, the Corporation 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 debt securities available-for-sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management 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 assessment 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 is recorded for the credit loss, limited by 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 (loss)/income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectability of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totals \$1,872,000 and \$1,832,000 at December 31, 2024 and 2023, respectively and is excluded from the estimate of credit losses.

Purchase premiums are amortized to the call date and discounts are accreted to maturity.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Corporation is generally amortizing these amounts over the contractual life of the loan.

The loans receivable portfolio is segmented into commercial, industrial and other commercial financing, commercial real estate, residential real estate, and loans to individuals.

For all segments of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further uncollectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses on loans. Interest received on nonaccrual loans, including individually evaluated loans, generally is either applied against principal or reported as interest income, according to management’s judgment as to the uncollectability 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

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Loans (Continued)

period of time (generally twelve months) and the ultimate uncollectability of the total contractual principal and interest is no longer in doubt. The past due status of all segments of loans receivable is determined based on contractual due dates for loan payments.

Allowance for Credit Losses on Loans

On January 1, 2023, the Corporation adopted Accounting Standards Update (ASU) 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This accounting standard replaced the previously utilized incurred loss model with a current expected credit loss (CECL) methodology. Upon adoption, the Corporation used the modified retrospective approach for all loans and unfunded commitments.

The allowance for credit losses on loans represents management's estimate of expected credit losses in the loan portfolio as of the statement of financial condition date and is recorded as a reduction to loans. The allowance for credit losses is increased by the provision for credit losses, and decreased by charge-offs, net of recoveries. Loans deemed to be uncollectible are charged against the allowance for credit losses, and subsequent recoveries, if any, are credited to the allowance. All, or part, of the principal balance of loans receivable is charged off to the allowance as soon as it is determined that the repayment of all, or part, of the principal balance is highly unlikely. Non-residential consumer loans are generally charged off no later than 90 days past due on a contractual basis, earlier in the event of bankruptcy, or if there is an amount deemed uncollectible. All identified losses are immediately charged off.

The Corporation made an accounting policy election to exclude accrued interest receivable from the amortized cost basis of loans. The amount of accrued interest receivable on loans excluded from estimate of credit losses totaled \$330,000 and \$367,000 as of December 31, 2024 and 2023, respectively.

The allowance for credit losses (ACL) is maintained at a level considered adequate to provide for losses. The Corporation has contracted with a third-party vendor to assist in its calculation of the ACL related to the Corporation's loan portfolio under ASU 2016-13. The Corporation has opted to utilize the Weighted Average Remaining Maturity (WARM) method to calculate the ACL which uses an average annual charge-off rate. This average annual charge-off rate contains loss content over several vintages and is used as a foundation for estimating the credit loss content for loans by segmented pools at the balance sheet date and is used to determine a historical charge-off rate. When estimating expected credit losses, the Corporation considers forward-looking information that is both reasonable, supportable, and relevant to assessing the collectability of cash flows. Reasonable and supportable forecasts are used for a period shorter than the contractual term. Reasonable and supportable forecasts may vary by portfolio segment or individual forecast input. These forecasts may include data from internal sources, external sources, or a combination of both.

The methodology used to determine the ACL also includes a qualitative component in which the Corporation adjusts expected credit loss estimates for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. Changes in the level of the Corporation's ACL may not always be directionally consistent with changes in the level of qualitative factor adjustments due to the incorporation of reasonable and supportable forecasts in estimating expected losses. Management considers qualitative factors that are relevant to the Corporation as of the reporting date, which may include but are not limited to:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans as well as other loan modifications.
6. Quality of the Corporation's loan review system, and the degree of oversight by the Corporation's Board of Directors.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans (Continued)

7. Changes in the underlying value of collateral for loans that are not collateral-dependent.
8. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
9. Effect of external factors, such as competition and legal and regulatory requirements.

Each factor is assigned a value to reflect low, medium, or high risk based on management's best judgment using relevant information available at the time of the evaluation. Adjustments to the factors are supported through documentation of changes in conditions in a chart accompanying the allowance for credit losses on loans calculation.

The following discusses key risks within each portfolio for which the allowance for credit losses is calculated from:

Commercial, industrial and other financing – These loans are made to operating companies or manufacturers for the purpose of production, operating capacity, accounts receivable, inventory or equipment financing. Cash flow from the operations of the company is the primary source of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the industry of the company. Collateral for these types of loans often do not have sufficient value in a distressed or liquidation scenario to satisfy the outstanding debt.

Commercial real estate – These loans are secured by commercial purpose real estate, including both owner occupied properties and investment properties for various purposes such as strip malls and apartment buildings. Individual projects as well as global cash flows are the primary sources of repayment for these loans. The condition of the local economy is an important indicator of risk, but there are also more specific risks depending on the collateral type as well as the business prospects of the lessee, if the project is not owner occupied.

Residential real estate – These are loans secured by first lien position 1-4 family residences, including purchase money mortgages. We currently originate fixed-rate, fully amortizing mortgage loans with maturities of 15 to 30 years. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The state of the local housing market can also have a significant impact on this portfolio, since low demand and/or declining home values can limit the ability of borrowers to sell a property and satisfy the debt.

Loans to individuals – Loans made to individuals may be secured by junior lien positions on a borrower's primary residence or other assets of the borrower, as well as unsecured loans. This segment includes home equity loans, auto loans, and secured or unsecured lines. The primary source of repayment for these loans is the income and assets of the borrower. The condition of the local economy, in particular the unemployment rate, is an important indicator of risk for this segment. The value of the collateral, if there is any, is less likely to be a source of repayment due to less certain collateral values.

A loan is individually evaluated when it does not share the same risk characteristics as the loans collectively evaluated. Factors considered by management in determining expected credit loss include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as individually evaluated. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Expected credit losses are measured on a loan-by-loan basis for commercial and industrial loans and commercial real estate loans by either the present value of expected future cash flows discounted at the loan's effective interest rate or the fair value of the collateral if the loan is collateral dependent.

An allowance for credit losses is established for an individually evaluated loan if its carrying value exceeds its estimated fair value. The estimated fair values of substantially all of the Corporation's individually evaluated loans are measured based on the estimated fair value of the loan's collateral.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Allowance for Credit Losses on Loans (Continued)

For commercial loans secured by real estate, estimated fair values are determined primarily through third-party appraisals. When a real estate secured loan is deemed to be individually evaluated, a decision is made regarding whether an updated certified appraisal of the real estate is necessary. This decision is based on various considerations, including the age of the most recent appraisal, the loan-to-value ratio based on the original appraisal and the condition of the property. Appraised values are discounted to arrive at the estimated selling price of the collateral, which is considered to be the estimated fair value. The discounts also include estimated costs to sell the property.

For commercial and industrial loans secured by non-real estate collateral, such as accounts receivable, inventory and equipment, estimated fair values are determined based on the borrower's financial statements, inventory reports, accounts receivable aging's or equipment appraisals or invoices. Indications of value from these sources are generally discounted based on the age of the financial information or the quality of the assets.

The Corporation utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns an asset quality rating (risk grade) to all loans. The borrower's overall financial condition, repayment sources, guarantors and value of collateral, if appropriate, are evaluated annually for commercial loans that meet certain dollar thresholds per Bank policy. Such evaluations for commercial and consumer loans are also made when credit deficiencies arise, such as delinquent loan payments. Credit quality risk ratings include categories of "pass," "special mention," "substandard" and "doubtful." Assets which do not currently expose the insured institution to sufficient risk, warrant classification as "pass." Assets that are not classified as "pass" and possess weaknesses are required to be designated "special mention." If uncorrected, the potential weaknesses may result in deterioration of the repayment prospects. An asset is considered "substandard" if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. "Substandard" assets include those characterized by the "distinct possibility" that the insured institution will sustain "some loss" if the deficiencies are not corrected. Assets classified as "doubtful" have all of the weaknesses inherent in those classified "substandard" with the added characteristic that the weaknesses present make "collection or liquidation in full," on the basis of currently existing facts, conditions, and values, "highly questionable and improbable."

In addition, Federal regulatory agencies, as an integral part of their examination process, periodically review the Corporation's allowance for credit losses and may require the Corporation to recognize additions to the allowance based on their judgments about information available to them at the time of their examination, which may not be currently available to management. Based on management's comprehensive analysis of the loan portfolio, management believes the current level of the allowance for credit losses is adequate.

Allowance for Credit Losses on Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded in the consolidated statements of financial condition when they are funded. The Corporation estimates expected credit losses over the contractual period in which the Corporation is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The allowance for credit losses on off-balance sheet financial instruments is adjusted through credit loss expense and recorded to the statements of income under credit for credit losses. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Foreclosed Real Estate

Foreclosed real estate is comprised of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure. A loan is classified as in-substance foreclosure when the Bank has taken possession of the collateral regardless of whether formal foreclosure proceedings take place. Foreclosed real estate is initially recorded at fair value, net of estimated selling costs, at the date of foreclosure establishing a new cost basis. After foreclosure, valuations are periodically performed by management and the assets are carried at the lower of cost or fair value minus estimated costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in other expenses. Foreclosed

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Foreclosed Real Estate (Continued)

real estate was \$0 at December 31, 2024 and 2023. In addition, there were no residential foreclosures in process at December 31, 2024 and one residential foreclosure in process at December 31, 2023 for \$50,000.

Premises and Equipment

Premises and equipment are carried at cost less accumulated depreciation and amortization. For financial statement reporting purposes, depreciation is computed both on straight-line and accelerated methods over the estimated useful life of the premises and equipment. Charges for maintenance and repairs are expensed as incurred. Amortization is charged over the term of the respective lease or the estimated useful life of the asset, whichever is shorter.

Bank Owned Life Insurance

The Corporation invests in bank owned life insurance (BOLI) as a tax deferred investment and a source of funding for employee benefit expenses. BOLI involves the purchase of life insurance by the Corporation on a chosen group of employees. The Corporation is the owner and beneficiary of the policies. This life insurance investment is carried at the cash surrender value of the underlying policies. Income from the investment in the policies is included in other operating income on the consolidated statements of income and are not subject to income taxes unless surrendered. The Corporation does not intend to surrender these policies, and, accordingly, no deferred taxes have been recorded on the earnings from these policies.

Advertising Costs

The Corporation follows the policy of charging the costs of advertising to expense as incurred. Total advertising expense for the years ended December 31, 2024 and 2023 was \$34,000 and \$30,000, respectively, which are included within other expenses on the consolidated statements of income.

Asset Management and Trust Operations

Trust income is recorded on the cash basis, which approximates the accrual basis of accounting. Securities and other property held by the Corporation in a fiduciary or agency capacity for customers of the Trust Department are not assets of the Corporation and, accordingly, are not included in the accompanying consolidated financial statements. Assets under management in the trust department totaled \$223,814,000 and \$201,125,000 at December 31, 2024 and 2023, respectively.

Income Taxes

Deferred income tax assets and liabilities are determined based on the differences between financial statement carrying amounts and the tax basis of existing assets and liabilities. These differences are measured at the enacted tax rates that will be in effect when these differences reverse. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion of the deferred tax assets will not be realized. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes. The Corporation and its subsidiary file a consolidated federal income tax return.

Earnings per Share

Basic earnings per share have been calculated on the weighted average number of shares outstanding of 2,860,953 in 2024 and 2023. The Corporation currently maintains a simple capital structure, thus there are no dilutive effects on earnings per share.

Treasury Stock

The acquisition of treasury stock is recorded under the cost method. At the date of subsequent reissue, the treasury stock is reduced by the cost of such stock on the average cost basis, with any excess proceeds being credited to retained earnings.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Statements of Cash Flows

For purposes of reporting cash flows, the Corporation has defined cash and cash equivalents as those amounts included in the consolidated statement of financial condition captions, “Cash and due from banks” and “Interest bearing deposits with banks.”

Transfers of Financial Assets

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

Comprehensive (Loss)/Income

Comprehensive (loss)/income consists of net income and other comprehensive (loss)/income. Other comprehensive (loss)/income includes unrealized (losses)/gains on securities available-for-sale which are recognized as a separate component of shareholders’ equity.

Restricted Investment in Bank Stock

Federal law requires the Bank, a member institution of the Federal Home Loan Bank system, to hold stock of its district Federal Home Loan Bank (FHLB) according to a predetermined formula. This restricted investment is carried at cost and consists of the common stock of FHLB of Pittsburgh.

Subsequent Events

The Corporation has evaluated events and transactions occurring subsequent to the balance sheet date of December 31, 2024 for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through March 13, 2025, the date these consolidated financial statements were available to be issued.

Accounting Standards Adopted in 2024

On January 1, 2024, the Corporation adopted ASU 2023-07, Segment Reporting - Improvements to Reportable Segment Disclosures (Topic 280). This ASU requires disclosure of incremental segment information on an annual basis for all public entities, including entities with one reportable segment. Such incremental disclosures include information about significant segment expenses, how chief operating decision makers (CODM) measure a segment’s profit or loss, and qualitative information about how a CODM assesses segment performance. As the Corporation has only one reportable segment (community banking segment), this ASU did not have a material effect on the Corporation’s consolidated financial statements.

Accounting Standards Recently Issued

During December 2023, the Financial Accounting Standards Board (FASB) issued ASU Update No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU No. 2023-09 enhances the transparency and decision usefulness of income tax disclosures. The amendments in this ASU require consistent categories and greater disaggregation of information in the rate reconciliation and income taxes paid disaggregated by jurisdiction. ASU No. 2023-09 is effective for fiscal years beginning after December 15, 2024. Early adoption is permitted. The amendments in this ASU should be applied on a prospective basis. Retrospective application is permitted. The Corporation is currently assessing the effect that ASU No. 2023-09 will have on its results of operations, financial position and cash flows.

Notes to Consolidated Financial Statements

Note 1 – Summary of Significant Accounting Policies (Continued)

Accounting Standards Recently Issued (Continued)

In December of 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures (Subtopic 220-40), which requires disclosure of certain costs and expenses in the notes to the financial statements. The amendments in this ASU will become effective for fiscal years beginning after December 15, 2026, and will be effective for interim periods with fiscal years beginning after December 15, 2027, with early adoption permitted. The amendments will be applied prospectively with the option for retrospective application. The Corporation is currently evaluating the impact of the standard to its financial statement disclosures.

Note 2 - Cash and Due from Banks

Regulations of the Board of Governors of the Federal Reserve System impose uniform reserve requirements on all depository institutions with transaction accounts and non-personal time deposits. Reserves are maintained in the form of vault cash and balances held with the Federal Reserve Bank. On March 26, 2020, the reserve requirement ratios were set to zero percent by the Federal Reserve Board. The Bank also maintains deposits with the Federal Reserve Bank and other banks for various services such as check clearing.

Note 3 - Securities

The following tables summarize the amortized cost, fair value, and allowance for credit losses of securities available-for-sale at December 31, 2024 and 2023 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss:

(In Thousands)
December 31, 2024

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Allowance for Credit Losses</u>	<u>Fair Value</u>
Obligations of states and political subdivisions	<u>\$ 186,861</u>	<u>\$ 0</u>	<u>\$ (30,785)</u>	<u>\$ 0</u>	<u>\$ 156,076</u>
	<u><u>\$ 186,861</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ (30,785)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 156,076</u></u>

(In Thousands)
December 31, 2023

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Allowance for Credit Losses</u>	<u>Fair Value</u>
Obligations of states and political subdivisions	<u>\$ 189,256</u>	<u>\$ 35</u>	<u>\$ (27,459)</u>	<u>\$ 0</u>	<u>\$ 161,832</u>
	<u><u>\$ 189,256</u></u>	<u><u>\$ 35</u></u>	<u><u>\$ (27,459)</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 161,832</u></u>

Notes to Consolidated Financial Statements

Note 3 – Securities (Continued)

The amortized cost and fair value of securities at December 31, 2024 by contractual maturity 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
	(In Thousands)	
Due within one year	\$ 4,753	\$ 4,733
Due after one year through five years	6,202	5,962
Due after five years through ten years	21,875	20,169
Due after ten years	154,031	125,212
	<u>\$186,861</u>	<u>\$156,076</u>

Securities with amortized cost and fair values of \$85,465,000 and \$66,836,000, respectively, at December 31, 2024 and \$87,601,000 and \$70,554,000, respectively, at December 31, 2023 were pledged to secure public deposits and for other purposes required or permitted by law.

In 2024, the Corporation sold available for sale securities with gross realized gains of \$3,000.

In 2023, the Corporation sold available for sale securities with gross realized gains of \$20,000 and gross realized losses of \$26,000.

The following table shows the Corporation's gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024:

(In Thousands)					
December 31, 2024					
	Less than 12 Months		12 Months or More		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	<u>\$ 15,460</u>	<u>\$ (464)</u>	<u>\$140,616</u>	<u>\$(30,321)</u>	<u>\$156,076</u>
	<u>\$ 15,460</u>	<u>\$ (464)</u>	<u>\$140,616</u>	<u>\$(30,321)</u>	<u>\$156,076</u>
					<u>\$(30,785)</u>

Notes to Consolidated Financial Statements

Note 3 – Securities (Continued)

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

(In Thousands)					
December 31, 2023					
	Less than 12 Months		12 Months or More		Total
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value Unrealized Losses
Obligations of states and political subdivisions	\$ 5,225	\$ (55)	\$149,178	\$(27,404)	\$154,403 \$(27,459)
	<u>\$ 5,225</u>	<u>\$ (55)</u>	<u>\$149,178</u>	<u>\$(27,404)</u>	<u>\$154,403</u> <u>\$(27,459)</u>

Unrealized losses on municipal bonds have not been recognized into income because of the high credit quality of the bond portfolio. The Corporation currently owns one hundred three (103) bonds, with six (6) rated best quality, ninety-one (91) rated high quality, five (5) rated upper medium grade and one (1) not rated. Management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates. The issuers continue to make timely principal and interest payment on the bonds. The fair value is expected to recover as the bonds approach maturity. As of December 31, 2024, there were one hundred three (103) municipal bonds in an unrealized loss position. Twelve (12) municipal bonds were in an unrealized loss position for less than 12 months and ninety-one (91) municipal bonds were in an unrealized loss position for 12 months or more as of December 31, 2024. Based on the Corporation's analysis management believes that the unrealized losses are temporary in nature and are a result of the current interest rate environment and not a reflection of credit quality.

Note 4 - Loans

Loans are summarized as follows:

	December 31,	
	2024	2023
	(Dollars in Thousands)	
Commercial, Industrial & Other	\$ 8,157	\$ 7,041
Commercial Real Estate	56,438	66,616
Residential Real Estate	109,480	112,218
Loans to Individuals	7,377	6,937
	<u>\$181,452</u>	<u>\$192,812</u>

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2024:

	Commercial Industrial & Other	Commercial Real Estate	Residential Real Estate	Loans to Individuals	Total
Beginning Balance	\$ 68	\$ 394	\$ 655	\$ 29	\$ 1,146
Charge-offs	0	0	0	(3)	(3)
Recoveries	0	0	0	0	0
Provision/(Credit)	<u>2</u>	<u>(138)</u>	<u>(161)</u>	<u>(2)</u>	<u>(299)</u>
Ending Balance	<u>\$ 70</u>	<u>\$ 256</u>	<u>\$ 494</u>	<u>\$ 24</u>	<u>\$ 844</u>

The following table presents the activity in the allowance for credit losses on unfunded commitments for the year ended December 31, 2024 as follows:

Balance at December 31, 2023	\$ 15
Provision for credit losses	<u>6</u>
Balance at December 31, 2024	<u>\$ 21</u>

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	Commercial Industrial & Other	Commercial Real Estate	Residential Real Estate	Loans to Individuals	Total
Beginning Balance prior to adoption of ASC 326	\$ 118	\$ 647	\$ 744	\$ 26	\$ 1,535
Impact of adopting ASC 326	0	0	0	0	0
Charge-offs	(2)	(12)	(17)	(2)	(33)
Recoveries	1	0	0	0	1
Provision/(Credit)	<u>(49)</u>	<u>(241)</u>	<u>(72)</u>	<u>5</u>	<u>(357)</u>
Ending Balance	<u>\$ 68</u>	<u>\$ 394</u>	<u>\$ 655</u>	<u>\$ 29</u>	<u>\$ 1,146</u>

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss (Continued)

The following table presents the activity in the allowance for credit losses on unfunded commitments for the year ended December 31, 2023 was as follows:

Balance at December 31, 2022	\$	0
CECL adoption adjustment		0
Provision for credit losses		<u>15</u>
Balance at December 31, 2023	\$	<u>15</u>

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2024:

(Dollars in Thousands)

	Nonaccrual With No Allowance For Credit Loss	Nonaccrual With Allowance For Credit Loss	Total
Commercial, Industrial & Other	\$ 22	\$ 0	\$ 22
Commercial real estate	0	0	0
Residential real estate	94	0	94
Loans to individuals	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 116</u>	<u>\$ 0</u>	<u>\$ 116</u>

There were no loans past due over 89 days still accruing as of December 31, 2024.

The following table presents the amortized cost basis of loans on nonaccrual status as of December 31, 2023:

(Dollars in Thousands)

	Nonaccrual With No Allowance For Credit Loss	Nonaccrual With Allowance For Credit Loss	Total
Commercial, Industrial & Other	\$ 0	\$ 0	\$ 0
Commercial real estate	0	0	0
Residential real estate	50	0	50
Loans to individuals	<u>0</u>	<u>0</u>	<u>0</u>
Total	<u>\$ 50</u>	<u>\$ 0</u>	<u>\$ 50</u>

There were no loans past due over 89 days still accruing as of December 31, 2023.

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss (Continued)

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2024:

(Dollars in Thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, Industrial & Other	\$ 0	\$ 22	\$ 0	\$ 22	\$ 8,135	\$ 8,157
Commercial real estate	0	0	0	0	56,438	56,438
Residential real estate	0	0	0	0	109,480	109,480
Loans to individuals	<u>48</u>	<u>0</u>	<u>0</u>	<u>48</u>	<u>7,329</u>	<u>7,377</u>
Total	<u>\$ 48</u>	<u>\$ 22</u>	<u>\$ 0</u>	<u>\$ 70</u>	<u>\$181,382</u>	<u>\$181,452</u>

The following table presents the classes of the loan portfolio summarized by the past due status as of December 31, 2023:

(Dollars in Thousands)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
Commercial, Industrial & Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 7,041	\$ 7,041
Commercial real estate	0	0	0	0	66,616	66,616
Residential real estate	0	0	50	50	112,168	112,218
Loans to individuals	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>6,937</u>	<u>6,937</u>
Total	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 50</u>	<u>\$ 50</u>	<u>\$192,762</u>	<u>\$192,812</u>

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2024 by year of origination:

	2024	2023	2022	2021	Prior	Revolving	Total
Commercial, Industrial & Other:							
Pass	\$ 2,498	\$ 357	\$ 1,705	\$ 506	\$ 2,519	\$ 480	\$ 8,065
Special Mention	0	0	0	0	0	0	0
Substandard	0	0	0	0	92	0	92
Doubtful	0	0	0	0	0	0	0
Total Commercial, Industrial & Other Loans	\$ 2,498	\$ 357	\$ 1,705	\$ 506	\$ 2,611	\$ 480	\$ 8,157
Commercial Real Estate:							
Pass	\$ 193	\$ 1,028	\$ 2,969	\$ 8,270	\$ 42,894	\$ 453	\$ 55,807
Special Mention	0	0	0	0	631	0	631
Substandard	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0
Total Commercial Real Estate Loans	\$ 193	\$ 1,028	\$ 2,969	\$ 8,270	\$ 43,525	\$ 453	\$ 56,438
Residential Real Estate:							
Pass	\$ 9,052	\$ 8,361	\$ 13,455	\$ 18,182	\$ 60,015	\$ 262	\$ 109,327
Special Mention	0	0	0	0	0	0	0
Substandard	0	91	0	0	62	0	153
Doubtful	0	0	0	0	0	0	0
Total Residential Real Estate Loans	\$ 9,052	\$ 8,452	\$ 13,455	\$ 18,182	\$ 60,077	\$ 262	\$ 109,480
Loans to Individuals:							
Pass	\$ 1,467	\$ 1,764	\$ 762	\$ 275	\$ 764	\$ 2,345	\$ 7,377
Special Mention	0	0	0	0	0	0	0
Substandard	0	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0	0
Total Loans to Individuals	\$ 1,467	\$ 1,764	\$ 762	\$ 275	\$ 764	\$ 2,345	\$ 7,377
Total Loans:							
Pass	\$ 13,210	\$ 11,510	\$ 18,891	\$ 27,233	\$ 106,192	\$ 3,540	\$ 180,576
Special Mention	0	0	0	0	631	0	631
Substandard	0	91	0	0	154	0	245
Doubtful	0	0	0	0	0	0	0
Total Loans	\$ 13,210	\$ 11,601	\$ 18,891	\$ 27,233	\$ 106,977	\$ 3,540	\$ 181,452
Gross Charge Offs:							
Commercial Industrial & Other	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0	\$ 0
Commercial Real Estate	0	0	0	0	0	0	0
Residential Real Estate	0	0	0	0	0	0	0
Loans to Individuals	0	0	0	0	3	0	3
Total Gross Charge Offs	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3	\$ 0	\$ 3

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss (Continued)

The following table presents the classes of the loan portfolio summarized by the aggregate pass rating and the classified ratings of special mention, substandard and doubtful within the Corporation's internal risk rating system as of December 31, 2023 by year of origination:

	2023	2022	2021	Prior	Revolving	Total
Commercial, Industrial & Other:						
Pass	\$ 462	\$ 2,131	\$ 633	\$ 2,865	\$ 824	\$ 6,915
Special Mention	0	0	0	0	0	0
Substandard	0	0	0	126	0	126
Doubtful	0	0	0	0	0	0
Total Commercial, Industrial & Other Loans	\$ 462	\$ 2,131	\$ 633	\$ 2,991	\$ 824	\$ 7,041
Commercial Real Estate:						
Pass	\$ 1,060	\$ 3,413	\$ 8,784	\$ 52,126	\$ 466	\$ 65,849
Special Mention	0	0	0	717	0	717
Substandard	0	0	0	50	0	50
Doubtful	0	0	0	0	0	0
Total Commercial Real Estate Loans	\$ 1,060	\$ 3,413	\$ 8,784	\$ 52,893	\$ 466	\$ 66,616
Residential Real Estate:						
Pass	\$ 9,375	\$ 14,882	\$ 19,774	\$ 68,113	\$ 0	\$ 112,144
Special Mention	0	0	0	0	0	0
Substandard	0	0	0	74	0	74
Doubtful	0	0	0	0	0	0
Total Residential Real Estate Loans	\$ 9,375	\$ 14,882	\$ 19,774	\$ 68,187	\$ 0	\$ 112,218
Loans to Individuals:						
Pass	\$ 2,089	\$ 887	\$ 426	\$ 669	\$ 2,866	\$ 6,937
Special Mention	0	0	0	0	0	0
Substandard	0	0	0	0	0	0
Doubtful	0	0	0	0	0	0
Total Loans to Individuals	\$ 2,089	\$ 887	\$ 426	\$ 669	\$ 2,866	\$ 6,937
Total Loans:						
Pass	\$ 12,986	\$ 21,313	\$ 29,617	\$ 123,773	\$ 4,156	\$ 191,845
Special Mention	0	0	0	717	0	717
Substandard	0	0	0	250	0	250
Doubtful	0	0	0	0	0	0
Total Loans	\$ 12,986	\$ 21,313	\$ 29,617	\$ 124,740	\$ 4,156	\$ 192,812
Gross Charge Offs:						
Commercial Industrial & Other	\$ 0	\$ 0	\$ 0	\$ 2	\$ 0	\$ 2
Commercial Real Estate	0	0	0	12	0	12
Residential Real Estate	0	0	0	17	0	17
Loans to Individuals	0	0	0	2	0	2
Total Gross Charge Offs	\$ 0	\$ 0	\$ 0	\$ 33	\$ 0	\$ 33

Notes to Consolidated Financial Statements

Note 5 – Allowance for Credit Loss (Continued)

The Corporation did not have any loans that were individually evaluated for credit losses at December 31, 2024 or December 31, 2023.

The Corporation did not make any modifications to borrowers in financial distress during the years ended December 31, 2024 and 2023.

Note 6 - Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated statements of financial condition. The contract or notional amount of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not issue any other instruments with significant off-balance-sheet risk.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit written is represented by the contract or notional amount of those instruments. The Corporation uses the same credit policies in making such commitments and conditional obligations as it does for on-balance-sheet instruments. The following table identifies the contract or notional amount of those instruments:

	December 31,	
	2024	2023
	(In Thousands)	
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit, including unused lines of credit	\$29,354	\$28,845
Standby letters of credit	223	275

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. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment and income-producing commercial properties.

Outstanding letters of credit written are conditional commitments issued by the Corporation to secure the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twenty-four months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Corporation requires collateral supporting these letters of credit as deemed necessary. The maximum undiscounted exposure related to these commitments at December 31, 2024 and 2023 was \$223,000 and \$275,000, respectively, and the approximate value of underlying collateral upon liquidation that would be expected to cover this maximum potential exposure was \$0 and \$20,000 as of December 31, 2024 and 2023. The amount of the liability as of December 31, 2024 and 2023 for guarantees under standby letters of credit issued is not material.

Notes to Consolidated Financial Statements

Note 7 - Premises and Equipment

The composition of premises and equipment at December 31, 2024 and 2023 is as follows:

	<u>2024</u>	<u>2023</u>
	(In Thousands)	
Land	\$ 437	\$ 437
Premises	6,756	6,709
Leasehold improvements	281	281
Furniture and equipment	<u>7,057</u>	<u>6,804</u>
	14,531	14,231
Accumulated depreciation and amortization	<u>(11,741)</u>	<u>(11,365)</u>
	<u><u>\$ 2,790</u></u>	<u><u>\$ 2,866</u></u>

Depreciation and amortization expenses were \$413,000 and \$400,000 for the years ended December 31, 2024 and 2023, respectively.

Note 8 – Operating Lease Commitments and Contingencies

The Corporation leases two branch locations. Both leases are classified as operating leases.

The weighted-average remaining lease term is 6.35 years. The discount rate used in determining the lease liability for each individual lease was the Corporation's FHLB fixed advance rate which corresponded with the remaining lease term. At December 31, 2024, the discount rates ranged from 2.00% to 2.20% with a weighted-average discount rate of 2.09%.

At December 31, 2024, right-of-use assets of \$318,000 were included in other assets, and the related liabilities totaling \$318,000 were included in other liabilities. In 2024, operating lease expenses totaling \$59,000 are included in occupancy expense.

At December 31, 2023, right-of-use assets of \$365,000 were included in other assets, and the related liabilities totaling \$366,000 were included in other liabilities. In 2023, operating lease expenses totaling \$59,000 are included in occupancy expense.

A maturity analysis of the Corporation's lease liabilities at December 31, 2024 is as follows (in thousands):

2025	\$ 59
2026	59
2027	59
2028	59
2029	59
Thereafter	<u>66</u>
Total lease payments	<u>\$361</u>
Discount on cash flows	(43)
Total lease liabilities	<u>\$318</u>

Notes to Consolidated Financial Statements

Note 9 - Deposits

Deposits at December 31, 2024 and 2023 are detailed as follows:

	<u>2024</u>	<u>2023</u>
	(In Thousands)	
Non-interest bearing accounts	\$145,735	\$156,767
Savings accounts	86,910	88,335
NOW accounts	28,077	30,778
Money market accounts	24,117	31,547
Time deposits	<u>16,722</u>	<u>19,848</u>
	<u><u>\$301,561</u></u>	<u><u>\$327,275</u></u>

Time deposit amounts with balances in excess of \$250,000 amounted to \$0 and \$356,000 at December 31, 2024 and 2023, respectively.

Time deposits at December 31, 2024 had the following scheduled maturities (in thousands):

2025	\$ 8,320
2026	2,957
2027	1,968
2028	1,735
2029	1,731
Thereafter	<u>11</u>
	<u><u>\$16,722</u></u>

Note 10 - Short-Term Borrowings

Short-term borrowings consisted of \$38,665,000 in FHLB borrowings at December 31, 2024 and \$25,317,000 in FHLB borrowings at December 31, 2023.

The outstanding balances and related information of short-term borrowings are summarized as follows:

	<u>Years Ended December 31,</u>	
	<u>2024</u>	<u>2023</u>
	(Dollars in Thousands)	
Average balance during the year	\$33,177	\$23,123
Average interest rate during the year	5.53%	5.50%
Maximum month-end balance	\$40,254	\$30,563
Balance at year-end	\$38,665	\$25,317
Weighted average interest rate at end of the year	4.63%	5.66%

Advances from the FHLB of Pittsburgh are secured by the Bank's investment in the common stock of FHLB of Pittsburgh and the Corporation's qualifying loans. The maximum borrowing capacity from the FHLB at December 31, 2024 is approximately \$121,000,000. At December 31, 2024, the Corporation's remaining FHLB borrowing capacity is approximately \$82,000,000. In addition, at December 31, 2024 the Corporation has unused lines of credit from financial institutions of \$6,000,000.

Notes to Consolidated Financial Statements

Note 11 – Revenue Recognition

The majority of the Corporation's revenues are derived from interest income and other related sources, primarily loans and investment securities, and are excluded from ASC 606. Non-interest revenue streams in-scope of ASC 606 are discussed below.

Asset Management and Trust Fees

The Corporation earns Trust, Agency and Custody account fees from its contracts with customers to manage assets for investment, and/or to transact on their accounts. These fees are primarily earned over time as the Corporation provides the contracted services and are assessed based on a tiered scale of the market value of assets under management at month end. Payment is generally received a few days after month end through a direct charge to customers' accounts.

Service Charges on Deposit Accounts

Service charges and fees on deposit accounts consist of transaction-based fees, account maintenance fees, and overdraft service fees for various retail and business deposit customers. Transaction-based fees, such as stop payment charges, are recognized at the time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

Fees, Interchange Income, and Other Service Charges

Fees, interchange income, and other service charges are primarily comprised of debit card income, ATM fees, merchant services income and other service charges. Debit card income is primarily comprised of interchange fees earned whenever the Corporation's debit cards are used to purchase goods or services from a merchant via a card payment network, such as MasterCard. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value. ATM fees are comprised of fees earned whenever a Corporation's ATM or debit card is used at a non-Corporation ATM or a non-Corporation cardholder uses a Corporation ATM. ATM fees represent a fixed fee for the convenience to cardholders for accessibility of funds. Merchant services income mainly represents fees charged to merchants serviced by a third party vendor under contract with the Corporation for debit or credit card processing, and represents a percentage of the underlying transaction value. Other service charges include revenue from services provided to our retail or business customers, which may include fees for wire transfer processing, bill pay services, cashier's checks and other services. The Corporation's performance obligation for fees, interchange income and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically immediately or in the following month.

Gain/Losses on Sale of OREO

The Corporation 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 an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations 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 sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. There were no sales of OREO in which the Corporation financed the sale during the years ended December 31, 2024 and 2023.

Notes to Consolidated Financial Statements

Note 11 – Revenue Recognition (Continued)

Contract Balances

The Corporation's non-interest revenue streams are largely based on transactional activity. Consideration is often received immediately or shortly after the Corporation satisfies its performance obligation and revenue is recognized. The Corporation does not typically enter into long-term revenue contracts with customers, and therefore, does not experience significant contract balances. As of December 31, 2024 and 2023, the Corporation did not have any significant contract balances.

The following presents other operating income, segregated by revenue streams in-scope and out-of-scope of ASC 606, for the years ended December 31, 2024 and 2023:

	<u>2024</u>	<u>2023</u>
	(In Thousands)	
In-Scope of ASC 606		
Asset management and trust fees	\$ 1,396	\$ 1,297
Service charges on deposit accounts	285	281
Fees, interchange income and other service charges	412	423
Loss on sale of other real estate	<u>0</u>	<u>0</u>
Other operating income (in-scope of ASC 606)	<u>2,093</u>	<u>2,001</u>
Other operating income (out of scope of ASC 606)	<u>649</u>	<u>615</u>
Total Other Operating Income	<u>\$ 2,742</u>	<u>\$ 2,616</u>

Note 12 - Employee Benefit Plans

The Corporation sponsors an employee profit sharing plan available to all employees with at least one year of service. The Corporation contributes to the plan, as determined by the Board of Directors, in an amount not to exceed 15% of compensation of eligible participants. For the years ended December 31, 2024 and 2023, the amount was 5% of compensation of eligible participants. The expense for the employee benefit plans was \$273,000 and \$232,000 for the years ended December 31, 2024 and 2023, respectively and is included within salaries and employee benefits on the consolidated statements of income.

Notes to Consolidated Financial Statements

Note 13 - Income Taxes

The components of the net deferred tax asset at December 31, 2024 and 2023, are as follows:

	<u>2024</u>	<u>2023</u>
	<u>(In Thousands)</u>	
Allowance for credit losses	\$ 84	\$ 146
Lease liability	67	77
Other	45	0
Unrealized net loss on securities available for sale	<u>6,465</u>	<u>5,759</u>
Total Deferred Tax Assets	<u>6,661</u>	<u>5,982</u>
Deferred loan fees	31	34
Right-of-use asset	67	77
Depreciation	136	204
Other	<u>8</u>	<u>3</u>
Total Deferred Tax Liabilities	<u>242</u>	<u>318</u>
Net Deferred Tax Asset	<u><u>\$ 6,419</u></u>	<u><u>\$ 5,664</u></u>

The income tax(benefit)/expense for the years ended December 31, 2024 and 2023 is summarized as follows:

	<u>2024</u>	<u>2023</u>
	<u>(In Thousands)</u>	
Current tax expense	\$ 0	\$ 0
Deferred tax (benefit)/expense	<u>(49)</u>	<u>170</u>
	<u><u>\$ (49)</u></u>	<u><u>\$ 170</u></u>

Notes to Consolidated Financial Statements

Note 13 - Income Taxes (Continued)

The tax provision for financial reporting purposes differs from the amount computed by applying the statutory federal income tax rate of 21% in 2024 and 2023 to income before income taxes. The differences for the years ended December 31, 2024 and 2023 are as follows:

	2024		2023	
	(Dollars in Thousands)			
Tax at statutory rates	\$ 376	21.0%	\$ 676	21.0%
Decrease resulting from:				
Tax-exempt income	(380)	(21.2)	(456)	(14.2)
Non-deductible interest expense	55	3.1	46	1.4
Increase in investment in life insurance	(104)	(5.8)	(98)	(3.0)
Other	4	0.1	2	0.1
	<u>\$ (49)</u>	<u>(2.8)%</u>	<u>\$ 170</u>	<u>5.3%</u>

The Corporation periodically reviews its tax position and applies a “more likely than not” recognition threshold for all tax uncertainties. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. The Corporation establishes a valuation allowance when it is more likely than not that the Corporation will not be able to realize the benefit of the deferred tax assets or when future deductibility is uncertain. Periodically, the valuation allowance is reviewed and adjusted based on management’s assessment of realizable deferred tax assets. The Corporation had no unrecognized tax positions at December 31, 2024 and 2023. The Corporation is no longer subject to U.S. federal income tax examinations for the years prior to 2021. With limited exception, the Corporation is no longer subject to state income tax examinations for years prior to 2021.

Note 14 - Fair Value of Financial Instruments

FASB ASC-820 establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC-820 are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

Notes to Consolidated Financial Statements

Note 14 - Fair Value of Financial Instruments (Continued)

For assets measured at fair value on a recurring basis, the fair value measurement by level within the fair value hierarchy are as follows:

	(Level 1) Quoted Prices In active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
December 31, 2024:		(In Thousands)	
Obligations of states and political subdivisions	\$ 0	\$156,076	\$ 0
	<u>\$ 0</u>	<u>\$156,076</u>	<u>\$ 0</u>
December 31, 2023:			
Obligations of states and political subdivisions	\$ 0	\$161,832	\$ 0
	<u>\$ 0</u>	<u>\$161,832</u>	<u>\$ 0</u>

The Corporation utilizes a third party in determining the fair values for securities held as available for sale. For the Corporation's municipal bonds, the third party utilizes benchmark yields, reported trades, broker/dealer quotes, issuer spreads, Municipal Market Data benchmarks (MMD) and reference data including market research publications.

We may be required to measure certain other financial assets at fair value on a nonrecurring basis. These adjustments to fair value usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets. The Level 3 disclosures shown below represent the carrying value of loans for which adjustments are primarily based on the appraised value of collateral or the present value of expected future cash flows, which often results in significant management assumptions and input with respect to the determination of fair value. There were no realized or unrealized gains or losses relating to Level 3 financial assets and liabilities measured on a nonrecurring basis for the years ended December 31, 2024 and 2023.

At December 31, 2024 and 2023, there were no assets measured at fair value on a nonrecurring basis.

Notes to Consolidated Financial Statements

Note 14 - Fair Value of Financial Instruments (Continued)

The carrying amounts and fair values of the Corporation's financial instruments as of December 31, 2024 are presented in the following table:

(Dollars in Thousands)

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices In Active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Financial Assets:					
Cash and due from banks	\$ 3,743	\$ 3,743	\$ 3,743	\$ 0	\$ 0
Interest bearing deposits with banks	1,322	1,322	1,322	0	0
Securities available for sale	156,076	156,076	0	156,076	0
Restricted investment in bank stock	1,671	1,671	0	1,671	0
Net loans receivable	180,587	163,579	0	0	163,579
Accrued interest receivable	2,202	2,202	0	2,202	0
Financial liabilities:					
Deposits	\$301,561	\$288,151	\$ 0	\$288,151	\$ 0
Short-term borrowings	38,665	38,665	0	38,665	0
Accrued interest payable	51	51	0	51	0

The carrying amounts and fair values of the Corporation's financial instruments as of December 31, 2023 are presented in the following table:

(Dollars in Thousands)

	Carrying Amount	Fair Value Estimate	(Level 1) Quoted Prices In Active Markets For Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Financial Assets:					
Cash and due from banks	\$ 4,274	\$ 4,274	\$ 4,274	\$ 0	\$ 0
Interest bearing deposits with banks	1,172	1,172	1,172	0	0
Securities available for sale	161,832	161,832	0	161,832	0
Restricted investment in bank stock	1,244	1,244	0	1,244	0
Net loans receivable	191,650	174,820	0	0	174,820
Accrued interest receivable	2,199	2,199	0	2,199	0
Financial liabilities:					
Deposits	\$327,275	\$313,760	\$ 0	\$313,760	\$ 0
Short-term borrowings	25,317	25,317	0	25,317	0
Accrued interest payable	71	71	0	71	0

Notes to Consolidated Financial Statements

Note 15 - Related Party Transactions

Some of the Corporation's or the Bank's directors, principal officers, and their related interests had transactions with the Bank in the ordinary course of business. All loans and loan commitments in such transactions were made on substantially the same terms, including collateral and interest rates, as those prevailing at the time for comparable transactions with others. In the opinion of management, these transactions with related parties do not involve more than normal risk of collectability or present other unfavorable features. It is anticipated that further such extensions of credit will be made in the future. The aggregate amount outstanding to these directors and principal officers was approximately \$243,000 and \$366,000 at December 31, 2024 and 2023, respectively. During 2024, there were no advances and repayments totaled \$123,000.

In the ordinary course of business, executive officers and directors of the Corporation, and their related interests, were deposit customers of the Bank. Pursuant to the Bank's policies, such deposits are on the same terms as those prevailing at the time for comparable deposits with persons who are not related to the Corporation. At December 31, 2024 and 2023, executive officers and directors had approximately \$6,599,000 and \$7,176,000, respectively, in deposits with the Bank.

Note 16 - Capital Requirements and Regulatory Restrictions

The Bank is subject to legal limitations on the amount of dividends that can be paid to the Corporation. The Pennsylvania Banking Code restricts the payment of dividends, generally to the extent of its retained earnings.

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the consolidated 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 assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk-weighting and other factors.

Effective January 1, 2015, the Bank became subject to new capital requirements adopted by federal banking agencies. These new requirements create a new required ratio for common equity Tier 1 ("CET1") capital, increase the Tier 1 capital ratio requirements, change the risk weight of certain assets for purposes of the risk-based capital ratios, and change what qualifies as capital for purposes of meeting these various capital requirements.

In addition to the above new requirements, the Bank will have to maintain a capital conservation buffer consisting of additional CET1 capital greater than 2.5% of risk-weighted assets above the required minimum levels in order to avoid limitations on paying dividends and discretionary bonuses. This new capital conservation buffer requirement was phased in beginning in January 2016.

Quantitative measures established by regulation to ensure capital adequacy require the maintenance of minimum amounts and ratios (set forth in the tables below) of Total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 Capital (as defined) to average assets (as defined) and the common equity Tier 1 capital (as defined). Management believes, as of December 31, 2024, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the regulatory agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum Total risk-based, Tier 1 risk-based, Tier 1 leverage and common equity Tier 1 ratios as set forth in the table below. There are no conditions or events since those notifications that management believes have changed those categories.

Notes to Consolidated Financial Statements

Note 16 - Capital Requirements and Regulatory Restrictions (Continued)

The following table presents the risk-based and leverage capital amounts and ratios at December 31, 2024 and 2023 for the Bank:

	Actual		For Capital Adequacy Purposes		To be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in Thousands)						
As of December 31, 2024						
Total capital (to risk-weighted assets)	\$57,735	25.3%	\$≥18,269	≥8.0%	\$≥22,836	≥10.0%
Tier 1 capital (to risk-weighted assets)	56,870	24.9	≥13,702	≥6.0	≥18,269	≥ 8.0
Tier 1 capital (to average assets)	56,870	14.0	≥16,242	≥4.0	≥20,302	≥ 5.0
CET1 capital (to risk-weighted assets)	56,870	24.9	≥10,276	≥4.5	≥14,844	≥ 6.5
As of December 31, 2023						
Total capital (to risk-weighted assets)	\$58,737	24.8%	\$≥18,914	≥8.0%	\$≥23,643	≥10.0%
Tier 1 capital (to risk-weighted assets)	57,575	24.4	≥14,186	≥6.0	≥18,914	≥ 8.0
Tier 1 capital (to average assets)	57,575	13.5	≥17,056	≥4.0	≥21,320	≥ 5.0
CET1 capital (to risk-weighted assets)	57,575	24.4	≥10,639	≥4.5	≥15,368	≥ 6.5

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