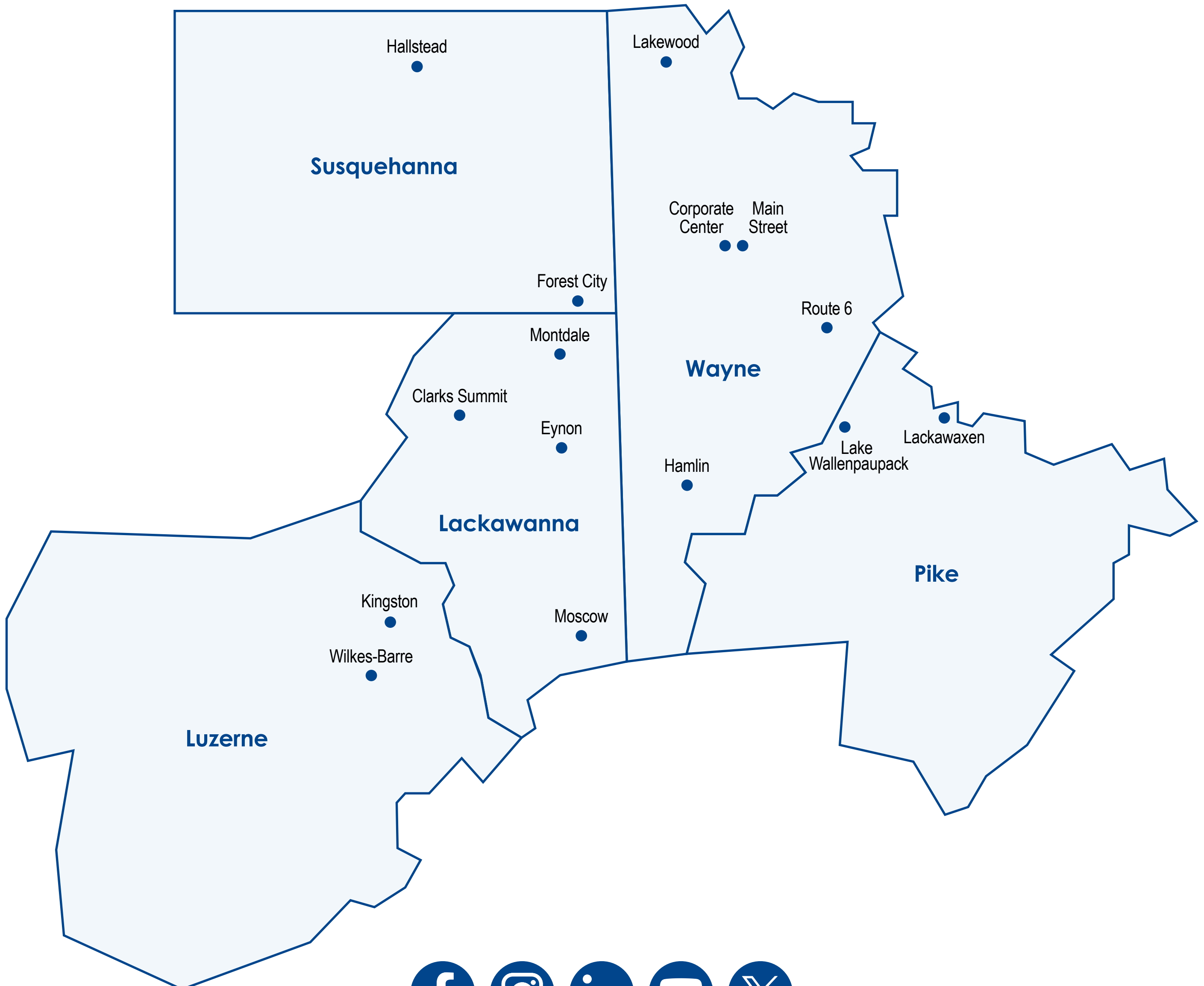
ANNUAL REPORT

HONAT BANCORP, INC.

2024

LOCATIONS



PERSONAL BANKING • BUSINESS BANKING • WEALTH MANAGEMENT

Honat Bancorp, Inc. (HONT: US OTC) is the parent company of its wholly owned subsidiary, The Honesdale National Bank. Headquartered in Honesdale, Pennsylvania, we strive to achieve unparalleled levels of financial performance through superior service in meeting our customers' personal banking, business banking, and wealth management needs while acting in the best interest of our employees, our customers, our communities, and our shareholders.

The Honesdale National Bank (HNB), established in 1836, holds the distinction of being the area's oldest, independent, community bank headquartered in Northeastern Pennsylvania, with thirteen full-service offices across Wayne, Pike, Susquehanna, Lackawanna, and Luzerne Counties. Financial Services and Trust solutions for our customers are serviced through our HNB Financial Group headquartered in Honesdale. The HNB Mortgage Center headquartered in Wilkes-Barre, Pennsylvania supports mortgage operations.

Investments are: Not FDIC Insured • May Lose Value • Not Financial Institution Guaranteed • Not a Deposit • Not Insured by Any Federal Government Agency

The Honesdale National Bank

Consolidated Financial Report

December 31, 2024

Honat Bancorp, Inc. and its Subsidiary,

The Honesdale National Bank

1836-2024

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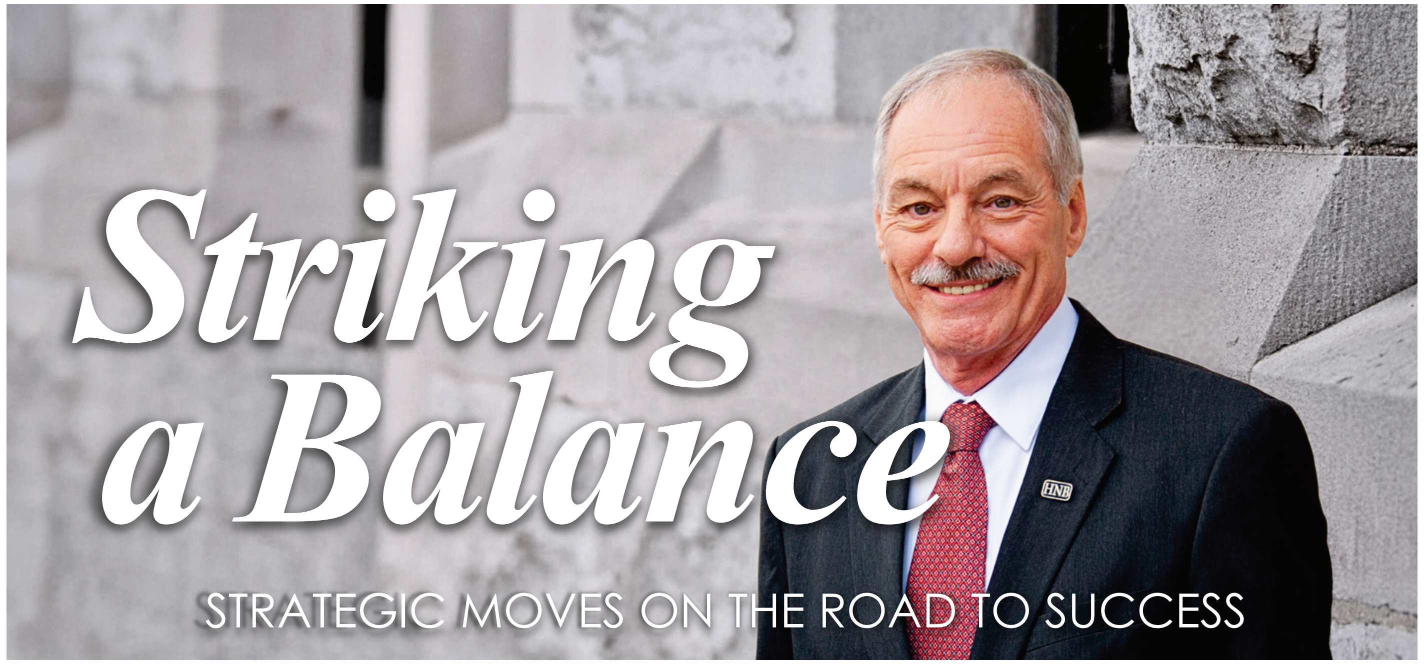
A MESSAGE FROM THE PRESIDENT



Surpassing $1 billion in assets marks yet another significant milestone in the history of The Honesdale National Bank. Over our 188-year history, we have celebrated many such achievements, each serving as both a testament to our progress and a catalyst for further growth. This accomplishment reflects the collective efforts of our committed team.

The exceptional increase in Total Loans Net of Allowance for Credit Losses is a result of the dedicated efforts of our loan department. Funding was sourced through the hard work of our branch office staff and business development officers, who generated local deposits, as well as through strategic reallocations from our investment portfolio. Our Net Interest Income saw a significant increase, which more than compensated for the rise in Non-Interest Expenses. Every segment of Non-Interest Income contributed to the overall improvement in Net Interest Income this year.

Exceptional efforts by our Trust Department and Honesdale National Bank Financial Services (HNBFS) teams led to record-breaking income for both departments. We are pleased to share that our Trust Department distributed over $500,000 to local charities and non-profits through various managed trust relationships. Alongside our growth in assets and income, we also expanded our range of products and services in 2024.

In February, Honat Bancorp, Inc. launched electronic "book" shares along with an online portal that allows shareholders to vote on proxies digitally, manage their holdings, and access shareholder communications. In May, we upgraded our HNB Online and Mobile Banking platforms, delivering a more modern and user-friendly experience. Additionally, we have launched two new real-time payment systems for our customers, powered by FedNow and RTP, enabling instant payment processing.

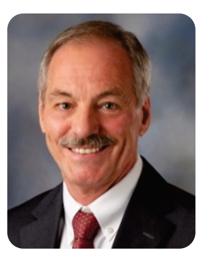
As part of our commitment to improving service delivery speed, we have also strengthened security measures. With the implementation of our core processor's latest security offering, we now have advanced software to better detect fraud automatically and provide timely reports, helping to prevent loss. These service provisions were carefully supported by significant operational improvements.

Our IT department has upgraded the network and infrastructure to boost performance, enhance security, streamline management, reduce costs, and, most importantly, empower our skilled team to deliver better service to our customers.

To further grow our market share, we expanded our presence by opening a new office in Moscow, Pennsylvania. In July, we launched a location at 330 North Main Street, and we are currently building a state-of-the-art, full-service facility at 203 North Main Street, with plans to relocate there in 2025.

As I retire after over four decades of service in community banking, I am confident that we are well positioned for the future, thanks to a dedicated and committed Board of Directors and an exceptional team of employees who are deeply motivated by their care and concern for our customers and the communities we serve. I am proud to have served in such a quality institution as The Honesdale National Bank.

Kate Bryant is stepping into her new roles as President and CEO with 20 years of experience at HNB. Not only is she an outstanding banker, but she is also a passionate advocate for the culture that has been instrumental in our Bank's success. With her leadership and the unwavering commitment of our team, we are poised to continue on that path.



Thomas E. Sheridan Jr.

Thomas E. Sheridan, Jr.
President & Chief Executive Officer

HONAT BANCORP, INC. AND ITS SUBSIDIARY

A FORWARD FROM KATE BRYANT

As we launch into 2025 and I assume my new role as your CEO, I am honored to lead our team in continuing the legacy of success that we have been building on for the past 188 years. Reflecting on our past achievements, I know that balancing the best interests of our shareholders, employees, customers, and communities has been and will remain paramount to our longevity.

For our shareholders, delivering consistent, steady performance will continue to remain at our forefront. Our performance is the result of a diversified balance sheet, ongoing investment, and a conservative approach to managing our business. As we continue to keep our focus on providing profitable growth, capitalizing on opportunities and maintaining diversification will remain priorities.

Our team of employees is at the heart of our success. Investing in our employees and maintaining our culture is essential to managing our ability to expand our customer base and capitalize on efficiencies as we face new and different challenges and opportunities. I am grateful for the commitment and dedication they demonstrate to our customers day in and day out.

One of our Bank's competitive advantages remains the loyalty of our customer base, and we recognize that their loyalty in choosing HNB for their financial solutions is crucial to our ongoing sustainability. HNB will continue to focus on cultivating experiences that drive our growth and fortify banking relationships for years to come. The *HNB & me* experience is deep-rooted in our establishing and maintaining customer relationships which enables our ability to navigate the increasingly competitive banking landscape.

We have been and remain committed to being a community bank. Beyond delivering a personalized banking experience, community banking is committed to supporting the infrastructure of our region for collective sustainability. HNB is invested in the viability of our towns, industries, and resources as demonstrated by our corporate commitments and the generous volunteerism of our employees. The investment of financial, human, and intellectual resources will continue to ensure our Bank's active role in growing the opportunities of greater NEPA.

Stepping into the role of CEO is an honor and one for which I am deeply grateful. Our past successes are attributable to the ongoing support of our shareholders, dedication of our employees, loyalty of our customers, and evolution of our thriving communities. HNB's progress was led by board and management teams who upheld our commitment to strategic thinking and our core values. These commitments are what has led us to the $1 billion Bank we are today. I look forward to continuing this legacy of success well into the future with your support.

Katherine M. Bryant

Katherine M. Bryant
President & Chief Executive Officer

FINANCIAL HIGHLIGHTS

	2024	2023	Net Change
	(In Thousands, Except per Share and Ratio Data)		
Assets, Liabilities & Equity			
Total Assets	$ **1,042,585**	$ 963,210	$ 79,375
Loans, Net of Allowance	**769,348**	683,884	85,464
Total Deposits	**891,415**	822,547	68,868
Total Shareholder Equity	**133,572**	124,830	8,742
Income & Expense			
Interest Income	$ **52,088**	$ 42,721	$ 9,367
Interest Expense	**15,902**	8,694	7,208
Net Income	**13,001**	12,866	135
Per Share Data			
Book Value per Share	$ **92.04**	$ 86.02	$ 6.02
Earnings per Share	$ **9.06**	$ 8.90	$ 0.16
Cash Dividend per Share	$ **2.75**	$ 2.63	$ 0.12
Market Value per Share	$ **120.00**	$ 117.51	$ 2.49
Select Ratios			
Return on Average Assets	**1.31%**	1.37%	
Return on Average Equity	**10.06%**	10.86%	
Loans, Net to Deposits	**86.31%**	83.14%	
Allowance for Credit Losses to Total Loans	**1.57%**	1.65%	

HONAT BANCORP, INC. AND ITS SUBSIDIARY

COMPANY ACHIEVEMENTS

Breaking Ground

IN MOSCOW, PA

HNB OPENS 13TH FULL-SERVICE OFFICE

330 NORTH MAIN STREET, MOSCOW, PENNSYLVANIA

GOLD WINNER

– in –

TIMES LEADER'S 2024

BEST PLACES TO WORK

HNB SURPASSES

$1Billion

IN ASSETS AND GROWING

280 BENEFITING ORGANIZATIONS

– through –

HNB'S COMMITMENT TO COMMUNITY

3,300+ HOURS

GENEROUSLY DONATED

– through –

EMPLOYEES' PERSONAL

VOLUNTEERISM

30.58%

HNB FINANCIAL SERVICES

REVENUE INCREASE

$617,000

12.51%

TRUST DEPARTMENT

REVENUE INCREASE

$780,000

Record Breaking!

TOP GROSSING YEARS

– for –

HNB FINANCIAL GROUP

REVENUE GENERATION

HNB FINANCIAL SERVICES
and HNB TRUST DEPARTMENT

JOHN BURLEIN RETIRES

– from –

BOARD OF DIRECTORS

AFTER *55* YEARS

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Stockholders
Honat Bancorp, Inc.
Honesdale, Pennsylvania

Opinion

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information Included in Annual Report

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

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

S.R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
February 28, 2025

CONSOLIDATED BALANCE SHEET

	Years Ended December 31, 2024	2023
	(In Thousands, Except Share Data)	
Assets		
Cash and Due from Banks	$ **7,788**	$ 8,984
Interest-Bearing Deposits	**31,731**	26,910
Short-Term Investments	**868**	689
Total Cash and Cash Equivalents	**40,387**	36,583
Securities Available for Sale at Fair Value, Net of Allowance for Credit Losses 2024 and 2023: $0	**179,433**	189,870
Mortgage Loans Held for Sale	**712**	1,337
Loans Receivable, Net of Allowance for Credit Losses 2024 and 2023: $12,286 and $11,453	**769,348**	683,884
Investment in Restricted Stock, at Cost	**1,020**	874
Premises and Equipment:		
Operating Lease Right-of-Use Asset	**1,063**	1,085
Other Premises and Equipment	**6,828**	6,943
Accrued Interest Receivable	**4,648**	4,260
Bank-Owned Life Insurance	**27,124**	26,513
Other Assets	**12,022**	11,861
Total Assets	$ **1,042,585**	$ 963,210
Liabilities		
Deposits		
Non-Interest-Bearing	$ **273,680**	$ 257,351
Interest-Bearing	**617,735**	565,196
Total Deposits	**891,415**	822,547
Operating Lease Liabilities	**1,078**	1,096
Accrued Interest Payable	**6,366**	4,892
Other Liabilities	**10,154**	9,845
Total Liabilities	$ **909,013**	$ 838,380
Stockholders' Equity		
Common Stock, Par Value $.20 Per Share; Authorized 5,000,000 Shares Issued 1,800,000 Shares; Outstanding 2024 and 2023: 1,433,048 and 1,434,625 Shares	**360**	360
Surplus	**2,543**	2,543
Retained Earnings	**158,033**	148,976
Accumulated Other Comprehensive Loss	**(10,453)**	(10,318)
Treasury Stock, at Cost, 2024 and 2023: 366,952 and 365,375 Shares	**(16,911)**	(16,731)
Total Stockholders' Equity	**133,572**	124,830
Total Liabilities and Stockholders' Equity	$ **1,042,585**	$ 963,210

See Notes to Consolidated Financial Statements, pages 12-40

HONAT BANCORP, INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2024	2023
	(In Thousands, Except Share and Per Share Data)	
Interest Income		
Loans Receivable, Including Fees	$ **45,551**	$ 37,111
Securities:		
Taxable	**2,656**	3,058
Tax Exempt	**1,928**	1,850
Other	**1,953**	702
Total Interest Income	**52,088**	42,721
Interest Expense		
Deposits	**15,902**	8,622
Short-Term Debt and Other	**-**	72
Total Interest Expense	**15,902**	8,694
Net Interest Income	**36,186**	34,027
Provision for Credit Losses		
Provision for Credit Loss – Loans	**950**	650
Provision for Credit Loss – Off-Balance Sheet Commitments	**-**	-
Total Provision for Credit Losses	**950**	650
Net Interest Income After Provision for Credit Losses	**35,236**	33,377
Other Income		
Customer Service Fees	**2,842**	2,785
Mortgage Banking	**608**	548
Income from Fiduciary Accounts	**780**	693
Gain on Equity Securities	**-**	395
Gain on Sale of Credit Card Portfolio	**-**	118
Bank-Owned Life Insurance Earnings	**595**	554
Other	**630**	604
Total Other Income	**5,455**	5,697
Other Expenses		
Salaries and Wages	**10,210**	9,495
Employee Benefits	**5,151**	4,743
Occupancy	**1,459**	1,296
Data Processing	**1,427**	1,079
Furniture and Equipment	**777**	752
Advertising and Promotion	**693**	668
Legal and Professional	**628**	457
Donations	**444**	573
State Tax	**569**	897
Federal Deposit Insurance	**436**	409
Other	**3,087**	3,128
Total Other Expenses	**24,881**	23,497
Income Before Federal Income Tax Expense	**15,810**	15,577
Federal Income Tax Expense	**2,809**	2,711
Net Income	$ **13,001**	$ 12,866
Earnings Per Share	$ **9.06**	$ 8.90
Average Shares Outstanding	**1,434,307**	1,445,008

See Notes to Consolidated Financial Statements, pages 12-40

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2024	2023
	(In Thousands)	
Net Income	**$ 13,001**	$ 12,866
Other Comprehensive (Loss) Income		
Unrealized (Loss) Income on Securities Available for Sale	**(171)**	5,653
Tax Effect	**36**	(1,187)
Total Other Comprehensive (Loss) Income	**(135)**	4,466
Comprehensive Income	**$ 12,866**	$ 17,332

See Notes to Consolidated Financial Statements, pages 12-40

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
	(In Thousands, Except Share and Per Share Data)					
Balance: December 31, 2022	$ 360	$ 2,543	$ 139,406	$ (14,784)	$ (13,953)	$ 113,572
Net Income	-	-	12,866	-	-	12,866
Cumulative Effect of Adoption of ASU 2016-13	-	-	505	-	-	505
Other Comprehensive Income	-	-	-	4,466	-	4,466
Purchase of Treasury Stock, 23,268 Shares	-	-	-	-	(2,778)	(2,778)
Dividends Declared ($2.63 Per Share)	-	-	(3,801)	-	-	(3,801)
Balance: December 31, 2023	$ 360	$ 2,543	$ 148,976	$ (10,318)	$ (16,731)	$ 124,830
Net Income	**-**	**-**	**13,001**	**-**	**-**	**13,001**
Other Comprehensive Loss	**-**	**-**	**-**	**(135)**	**-**	**(135)**
Purchase of Treasury Stock, 1,577 Shares	**-**	**-**	**-**	**-**	**(180)**	**(180)**
Dividends Declared ($2.75 Per Share)	**-**	**-**	**(3,944)**	**-**	**-**	**(3,944)**
Balance: December 31, 2024	**$ 360**	**$ 2,543**	**$ 158,033**	**$ (10,453)**	**$ (16,911)**	**$ 133,572**

See Notes to Consolidated Financial Statements, pages 12-40

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2024	2023
	(In Thousands)	
Cash Flows from Operating Activities		
Net Income	$ 13,001	$ 12,866
Adjustments to Reconcile Net Income to Net Cash Provided by Operating Activities		
Provision for Credit Losses	950	650
Provision for Depreciation and Amortization	622	583
Net Amortization of Securities Premiums and Discounts	637	762
Gain on Equity Securities	-	(395)
Accretion of Deferred Loan Fees	(429)	(445)
Amortization of Mortgage Servicing Rights, Net of Change in Valuation Allowance	257	277
Amortization of Equity Investment in Partnership	503	503
Deferred Income Taxes	(169)	47
Loans Originated for Sale	(13,536)	(10,828)
Proceeds from Sale of Mortgage Loans	14,520	9,829
Net Gains on Sale of Loans	(359)	(224)
Gain on Sale of Credit Card Portfolio	-	(118)
Bank-Owned Life Insurance Earnings	(595)	(554)
Decrease in Escrow Payable	(318)	(329)
Increase in Accrued Interest Receivable	(388)	(358)
Increase in Accrued Interest Payable	1,474	4,468
Other, Net	327	1,642
Net Cash Provided by Operating Activities	16,497	18,376
Cash Flows from Investing Activities		
Purchase of Investment Securities Available for Sale	(20,988)	-
Proceeds from Maturities or Principal Repayments	30,619	38,184
Proceeds from Sale of Equity Securities	-	829
Proceeds from Sale of Credit Card Portfolio	-	972
Net Increase in Loans	(86,146)	(59,205)
Purchase of Restricted Stock, at Cost	(353)	(2,534)
Redemption of Restricted Stock, at Cost	208	3,274
Purchase of Premises, Equipment, Software, and Licensing	(761)	(785)
Purchase of Bank-Owned Life Insurance	(16)	(15)
Net Cash Used for Investing Activities	(77,437)	(19,280)
Cash Flows from Financing Activities		
Net Increase in Deposits	68,868	42,512
Net Paydowns on Short-Term Borrowings	-	(16,000)
Purchase of Treasury Stock	(180)	(2,778)
Dividends Paid	(3,944)	(3,801)
Net Cash Provided by Financing Activities	64,744	19,933
Net Increase in Cash and Cash Equivalents	3,804	19,029
Cash and Cash Equivalents: Beginning	36,583	17,554
Cash and Cash Equivalents: Ending	$ 40,387	$ 36,583
Supplementary Cash Flows Information		
Interest Paid	$ 14,428	$ 4,226
Income Taxes Paid	$ 2,325	$ 1,520
Supplementary Schedule of Noncash Investing and Financing		
Investment Securities Matured Not Yet Settled	$ -	$ 1,000
Initial Recognition of Right-of-Use Asset	$ 88	$ 580
Initial Recognition of Lease Liability	$ 88	$ 580
Impact of CECL Adoption	$ -	$ 505
Transfer of Loans to Repossessed Assets	$ 137	$ -

See Notes to Consolidated Financial Statements, pages 12-40

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Honat Bancorp, Inc. (Company), the Bank holding company, and its wholly owned subsidiary, The Honesdale National Bank (Bank). All intercompany accounts and transactions have been eliminated.

Nature of Operations

The Bank operates under a national bank charter and provides full banking services, including trust services. As a national bank, the Bank is subject to regulation of the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation (FDIC). The Bank holding company is subject to regulation of the Federal Reserve Bank (FRB). The areas served by the Bank are principally Lackawanna, Luzerne, Pike, Susquehanna, and Wayne Counties, in Pennsylvania.

Estimates and Assumptions

The preparation of 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 Consolidated Balance Sheet and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Material estimates that are most immediately susceptible to significant change are: the determination of the allowance for credit losses, determination of other-than-temporary impairment of securities, impairment of mortgage servicing rights, fair values of financial instruments and the valuation of deferred tax assets.

Significant Group Concentrations of Credit Risk

Most of the Bank's activities are with customers located within Northeastern Pennsylvania. Notes 4 and 5 discuss the types of securities that the Bank and Company invest in, respectively. Note 6 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations in any one industry or customer. Although the Bank has a diversified loan portfolio at December 31, 2024 and 2023, its debtors' ability to honor their contracts is influenced by the region's economy.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents include cash and due from banks, interest-bearing deposits, and short-term investments, all of which have original maturities of 90 days or less.

Trust Assets

Assets of the Trust Department are not included in these financial statements because they are not assets of the Bank. Revenues of the Trust Department are included in income from fiduciary accounts on the Consolidated Statements of Income.

Short-Term Investments

Short-term investments consist of federal funds sold investments.

Securities

Securities classified as available for sale are those securities that the Bank intends to hold for an indefinite period, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movement in interest rates, changes in maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Securities available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. The Bank amortizes premiums and discounts to the call date, maturity date, or based on average life factoring in prepayment assumptions as applicable. Management determines the appropriate classification of securities at the time of purchase and reevaluates such designation as of each Consolidated Balance Sheet date.

Allowance for Credit Losses – Available for Sale Securities

The Bank measures expected credit losses on available for sale securities when the Bank intends to sell or when 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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

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

Accrued interest receivable on the available for sale securities totaled $1,145,000 and $1,103,000 at December 31, 2024 and 2023, respectively, and is included within accrued interest receivable on the Consolidated Balance Sheet. This amount is excluded from the estimate of expected credit losses. Available for sale securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the collectability of principal or interest. When an available for sale security is placed on nonaccrual, unpaid interest previously credited to income is reversed.

Short-Term Investments

Short-term investments consist of federal funds sold investments.

Investment in Restricted Stock, at Cost

The Bank holds restricted stock in the FRB, the Federal Home Loan Bank (FHLB) of Pittsburgh, and the Atlantic Community Bankers Bank (ACBB) which is carried at cost. The Bank holds $110,000 of FRB stock at December 31, 2024 and 2023. The Bank holds $10,000 of ACBB stock at December 31, 2024 and 2023. The Bank holds $900,000 and $755,000 of FHLB stock at December 31, 2024 and 2023, respectively.

The FHLB stock is bought from and sold to the FHLB based upon its $100 par value. The stock does not have a readily determinable fair value and as such is classified as restricted stock, carried at cost, and evaluated for impairment as necessary. The stock's value is determined by the ultimate recoverability of the par value rather than by recognizing temporary declines. The determination of whether the par value will ultimately be recovered is influenced by criteria such as the following: (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount and the length of time this situation has persisted; (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance; (3) the impact of legislative and regulatory changes on the customer base of the FHLB; and (4) the liquidity position of the FHLB. Management evaluated the stock and concluded that the stock was not impaired for the periods presented herein.

Mortgage Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lowest of either cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through charges to income.

Mortgage Servicing Rights

An asset is recognized for mortgage servicing rights acquired through purchase or origination. Amounts capitalized are reported in other assets on the Consolidated Balance Sheet and are amortized in proportion to, and over the period of, estimated net servicing income. If mortgage loans are sold with servicing retained, the total cost of the mortgage loans is allocated to the loans and servicing rights based on their relative fair values. The Bank performs a periodic review for impairment in the fair value of mortgage servicing rights. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is recognized through a valuation allowance, with a corresponding charge on the Consolidated Statements of Income, to the extent the fair value is less than the capitalized amount.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future until maturity or payoff are stated at their outstanding unpaid principal balances, net of any ACL and any deferred fees or costs. Accrued interest receivable on loans receivable totaled $3,503,000 $3,157,000 at December 31, 2024 and 2023, respectively, and was reported in accrued interest receivable on the Consolidated Balance Sheet and is excluded from the estimate of credit losses. 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 Bank is generally amortizing these amounts over the contractual life of the related loans. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

The loans receivable portfolio is segmented into commercial and retail loans. Commercial loans consist of the following classes: commercial and industrial, commercial real estate, and commercial real estate construction loans. Retail loans consist of the following classes: residential real estate, residential real estate construction, home equity lines of credit, and consumer loans.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due for commercial loans, or 180 days past due for residential loans, or management has serious doubts about further collectability of principal or interest, even though the loan may be 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. Interest received on nonaccrual loans generally is either applied against the principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current and has performed in accordance with the contractual terms for a reasonable period and the ultimate collectability of the total contractual principal and interest is no longer in doubt.

Allowance for Credit Losses – Loans

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

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

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

The ACL is measured on a collective pool basis when similar risk characteristics exist. The Bank has identified the following portfolio segments and measures the ACL using the following methods. Loans are classified into three high-level segments: commercial and industrial, commercial real estate, and retail. These segments are analyzed in smaller cohort groupings based on similar risk characteristics.

The commercial and industrial portfolio is further segmented by the North American Industry Classification System (NAICS) and risk rating. Lifetime loss rates are determined using national historic loss data collected from financial institutions. By tracking the history of the individual loans in the data consortium, lifetime loss rates are calculated, and the model applies these realized lifetime loss rates to the commercial and industrial portfolio.

The commercial real estate portfolio is further segmented based on loan-to-value (LTV) and property details. Lifetime loss rates are determined using peer data from a select local peer group consisting of 21 financial institutions. This methodology was chosen since the Bank's geographic footprint typically lags national trends, therefore, utilizing a local peer group will be more indicative of loss rates. Expected prepayments are figured in the calculations using bank historical data. In accordance with the standard, reasonable supportable forecasts are followed by a mean-reverting pattern for the remaining term of the loan, adjusted for expected prepayments.

The retail segment includes loans issued to consumers that are secured by residential real estate, home equity lines of credit, and other consumer loans. The retail portfolio is further segmented by vintage (origination year), initial credit score, loan term, and geography (borrower state). Lifetime loss rates are determined based on Equifax industry-level retail credit performance data and applied to the loans in the retail portfolio.

Quantitative results are augmented with qualitative factor adjustments which are determined based on specific conditions present in the portfolio. The qualitative adjustments for current conditions are based upon delinquency trends, loan growth, changes in lending policies and practices, experience and ability of lending staff, quality of the Bank's loan review system, the existence of and changes in concentrations, and other external factors.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Losses – Loans (Continued)

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

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. The Bank evaluates commercial loans that have become 90 days past due, residential loans that have become 180 days past due, or when management has serious doubts about further collectability of principal or interest, even if the loan may be performing.

A financial asset is considered collateral-dependent when the debtor is experiencing financial difficulty and repayment is expected to be provided substantially through the sale or operation of the collateral. For all classes of loans and leases deemed collateral-dependent, the Bank elected the practical expedient to estimate expected credit losses based on the collateral's fair value less cost to sell. In most cases, the Bank records a partial charge-off to reduce the loan's carrying value to the collateral's fair value less cost to sell. Substantially all of the collateral consists of various types of real estate including residential properties; commercial properties such as retail centers, office buildings, and lodging; agriculture land; and vacant land.

Specific reserves are established based on the fair value of the collateral when the loan is collateral dependent for measuring the ACL. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge off is taken if the fair value of the loan is less than the loan balance.

Transfers of Financial Assets

Transfers of financial assets, including loan and loan participation sales, 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.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed on the straight-line method over the estimated useful lives of the related assets, which range from three to fifteen years for furniture and equipment. Buildings are amortized over their estimated useful lives, which is over a 40-year period. Expenditures for maintenance and repairs are charged against income as incurred. Costs of major additions and improvements are capitalized.

Leases

The Bank recognizes the assets and liabilities that arise from leases in the balance sheet. The Bank recognized lessees of operating right-of-use assets but did not have any finance right-of-use assets in 2024 or 2023. The additional lease disclosures can be found in Note 7.

Foreclosed Assets

Foreclosed assets consist of property acquired through a foreclosure proceeding or acceptance of a deed in lieu of foreclosure and loans classified as in-substance foreclosure (ISF). A loan is classified as ISF when the Bank has taken possession of the collateral, regardless of whether formal proceedings take place. Foreclosed assets initially are 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. In addition, any gain or loss realized upon disposal is included in other income or expense. There were no foreclosed assets at December 31, 2024 or 2023. As of December 31, 2024, the Bank had $918,000 in loans that were in the process of foreclosure although the Bank did not have possession of the property.

Bank-Owned Life Insurance

The Bank invests in bank-owned life insurance (BOLI) as a source of funding for employee benefit expenses. BOLI involves the purchasing of life insurance by the Bank on a chosen group of employees. The Bank 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 increase in cash surrender value of the policies is included in other income on the Consolidated Statements of Income, net of expenses.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Split Dollar Life Insurance

The Bank recognizes a liability related to the post-retirement benefits covered by an endorsement split dollar life insurance arrangement. The employer, who is also the policy holder, has a liability for the benefit it is providing to its employees. As such, the liability recognized during the employee's active service period is based on the future cost of insurance to be incurred during the employee's retirement. As of December 31, 2024 and 2023, the liability benefit balance is $775,000 and $737,000, respectively, and is included in other liabilities on the accompanying Consolidated Balance Sheet. The related benefit expense is recorded as a component of employee benefits expense on the Consolidated Statements of Income. The Bank reported related benefits expense of $38,000 and $33,000 for 2024 and 2023, respectively.

Equity Investment in Partnerships

Equity investment in partnerships represents the Bank's limited partnership investment in low-income housing projects. The projects are owned by the partnerships, and the housing units developed qualify for federal low-income housing tax credits. The Bank elects to participate in these investments to aid in offering affordable housing in our communities and to reach the objective of the Community Reinvestment Act (CRA).

The investments are accounted for under the proportional amortization method unless the requirements are not met, in which case, the equity method is used. The investment's amortized balance is $2,045,000 and $2,548,000 at December 31, 2024 and 2023, respectively, and is included in other assets on the accompanying Consolidated Balance Sheet. The Bank amortized $503,000 of this equity investment during 2024 and 2023. The Bank recognized a credit to federal income tax expense of $117,000 during 2024 and 2023 due to federal low-income housing tax credits.

Treasury Stock

Purchases are accounted for under the cost method whereby the entire cost of the acquired stock is recorded as treasury stock. Gains and losses on the subsequent reissuance of shares are credited or charged to surplus in excess of par value using the average-cost method.

Advertising and Promotion

The Bank follows the policy of charging the costs of advertising to expense as incurred.

Income Taxes

Deferred income taxes are provided on the liability method, whereby deferred tax assets are recognized for deductible temporary differences and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax basis. 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. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment. Honat Bancorp, Inc. and its subsidiary file a consolidated federal income tax return.

Earnings per Share

The Company currently maintains a simple capital structure; thus, there are no dilutive effects on earnings per share. Earnings per share are calculated by dividing net income by the weighted average number of shares outstanding for the periods.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on securities available for sale, are reported as a separate component of the Stockholders' Equity section of the Consolidated Balance Sheet. Such items, along with net income, are the components of comprehensive income as presented on the Consolidated Statements of Comprehensive Income.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off-balance sheet financial instruments consisting of commitments to extend credit and letters of credit. Such financial instruments are recorded on the Consolidated Balance Sheet when they are funded.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Allowance for Credit Loss on Off-Balance Sheet Exposures

The Bank estimates expected credit losses over the contractual period in which the Bank is exposed to credit risk through a contractual obligation to extend credit, unless the obligation is unconditionally cancellable by the Bank. The allowance for credit losses on off-balance sheet credit exposures is adjusted through the provision 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.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on prior year net income and stockholders' equity.

Segment Reporting

The Company's reportable segment is determined by the Board of Directors, who is the designated chief operating decision maker. The Company primarily provides products and services related to banking operations. Segments are determined by information provided to the chief operating decision maker. This information is utilized to determine the performance of various components of the Bank which are then consolidated as operating results for all segments are similar. Accordingly, all the banking operations are considered by management to be aggregated in one reportable operating segment. The chief operating decision maker will evaluate the financial performance of the Company's business components by evaluating revenues and expenses versus budget expectations. The chief operating decision maker utilizes revenue, expenses and overall net profitability to determine pricing and measure the Bank's return on assets. The chief operating decision maker uses consolidated net income versus competitors' results to assess relative performance. This analysis along with evaluation of actual results versus budget are used in determining overall performance and compensation. Loans, investments, deposits, mortgage banking activities, trust and broker/dealer services provide banking revenues. Interest expense, provision for credit losses, and payroll provide the significant expenses for banking operations. All operations are domestic.

The accounting policies for the banking operations segments are the same as those of the consolidated entity. Information utilized in the performance assessment by the chief operating decision maker is consistent with the level of aggregation disclosed in the Consolidated Statements of Income. The measure of segments assessed is reported on the Consolidated Balance Sheet as total consolidate assets.

NOTE 2: REVENUE RECOGNITION

The Bank generates revenue associated with financial instruments including interest on loans and investments and certain other non-interest sources including: investment security gains or losses, loan servicing charges, gain on the sale of loans and bank-owned life insurance (BOLI) income. These forms of revenue are not subject to the scope of ASU 2014-09 Topic 606. Revenues previously described accounted for 93% of revenue generated in 2024 and 92% of revenue generated in 2023.

Non-interest income generated by the Bank, which is subject to the guidelines established in Topic 606, includes the following:

- Customer service fees are generated from transactions or services such as: an account analysis fee, monthly service fee, overdraft fee, transaction fee, merchant services fee, or other deposit account related fee. Fees are charged when the service or transaction is completed or on an ongoing monthly basis as earned.
- Income from fiduciary accounts is comprised of the fees earned from managing and administering trusts and customers' investment portfolios. Fees are typically collected on a monthly basis as a percentage of the assets under management.
- Brokerage and insurance fees are comprised of commissions on the sale of investment products including: stocks, bonds, mutual funds, annuities, and life insurance products, which are realized at the time the underlying investment product is bought or sold.
- Other non-interest income or expenses include revenues generated from the gain or loss on the sale of other real estate owned and other assets. These gains or losses are realized at the time of sale or in response to some additional factor which triggers a reduction in the realized value of the underlying property such as a reduction in an appraised value. If the sale of a property is financed by the Bank, revenue is generally recognized when control of the property has been transferred to the buyer.

NOTE 2: REVENUE RECOGNITION (CONTINUED)

The following table represents those revenue streams identified that are the result of a contract with the customer or a service or transaction provided:

	December 31, 2024	December 31, 2023
	(In Thousands)	
Customer Service Fees		
ATM/Debit Card Fees	**$ 1,564**	$ 1,530
Overdraft Fees, Net	**697**	686
Merchant Services	**202**	201
Account Activity Service Fees	**241**	241
Other	**138**	127
Total Customer Service Fees	**2,842**	2,785
Income from Fiduciary Activities	**780**	693
Brokerage and Insurance Fees	**617**	473
Other	**(40)**	118
Total Revenue Subject to Topic 606	**$ 4,199**	$ 4,069

NOTE 3: MORTGAGE BANKING ACTIVITIES

HNB Mortgage, a division of the Bank, originates mortgage loans for portfolio investment or for sale in the secondary market. Loans sold to the Federal National Mortgage Association (FNMA) are made without recourse. Loans sold to the Federal Home Loan Bank System (FHLB) include a credit enhancement resulting in shared credit risk. HNB Mortgage also services loans for the benefit of others, consisting of: collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors, and foreclosure processing. Loan servicing income is recorded upon receipt and includes servicing fees from investors and certain charges collected from borrowers.

The total cost of mortgage loans originated for sale is allocated between the mortgage servicing rights and the mortgage loans based on their relative fair values. The mortgage servicing rights are capitalized as assets and amortized over the period of estimated net servicing income. Additionally, they are subject to an impairment analysis based on their fair value in future periods. The Bank recorded an increase in fair value of $18,000 and $23,000 during 2024 and 2023, respectively, resulting in a valuation reserve against the mortgage servicing rights of $5,000 and $23,000 at December 31, 2024 and 2023, respectively.

Activity in mortgage servicing rights for the years ended are as follows:

	December 31, 2024	December 31, 2023
	(In Thousands)	
Beginning Balance	**$ 1,158**	$ 1,343
Amounts Capitalized	**113**	92
Amortization	**(275)**	(300)
Increase in Valuation Allowance	**18**	23
Ending Balance	**$ 1,014**	$ 1,158

Mortgage servicing rights are included in other assets on the accompanying Consolidated Balance Sheet. Mortgage loans serviced for others totaled $208,892,000 and $218,359,000 at December 31, 2024 and 2023, respectively. In connection with loans serviced for others, the Bank held borrowers' escrow balances of $2,832,000 and $2,811,000 at December 31, 2024 and 2023, respectively.

NOTE 4: SECURITIES

The following table presents the amortized cost, gross unrealized gains and losses, approximate fair value, and allowance for credit losses (ACL) of investment securities available for sale as of December 31, 2024 and 2023, respectively:

December 31, 2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (In Thousands)	Allowance for Credit Losses	Fair Value
Available for Sale					
U.S. Treasury Securities	$ 22,507	$ -	$ (289)	$ -	$ 22,218
U.S. Government Agency Securities	19,500	-	(328)	-	19,172
States and Political Subdivisions	81,274	30	(4,488)	-	76,816
U.S. Government-Sponsored Agency Mortgage-Backed Securities	60,497	-	(6,863)	-	53,634
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	8,886	-	(1,293)	-	7,593
Total	$ 192,664	$ 30	$ (13,261)	$ -	$ 179,433

December 31, 2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses (In Thousands)	Allowance for Credit Losses	Fair Value
Available for Sale					
U.S. Treasury Securities	$ 31,085	$ -	$ (637)	$ -	$ 30,448
U.S. Government Agency Securities	15,500	-	(653)	-	14,847
States and Political Subdivisions	76,552	132	(3,746)	-	72,938
U.S. Government-Sponsored Agency Mortgage-Backed Securities	69,758	-	(6,723)	-	63,035
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	10,035	-	(1,433)	-	8,602
Total	$ 202,930	$ 132	$ (13,192)	$ -	$ 189,870

The amortized cost and fair value of securities available for sale by contractual maturity are shown below, excluding mortgage-backed securities and collateralized mortgage obligations, which are shown gross. Expected maturities may differ from contractual maturities because the securities may be called or prepaid with or without any penalties.

	December 31, 2024	
	Amortized Cost	Fair Value
	(In Thousands)	
Available for Sale		
Due in One Year or Less	$ 21,692	$ 21,434
Due after One Year through Five Years	24,740	24,273
Due after Five Years through Ten Years	7,698	7,488
Due after Ten Years	69,151	65,011
	123,281	118,206
U.S. Government-Sponsored Agency Mortgage-Backed Securities	60,497	53,634
U.S. Government-Sponsored Agency Collateralized Mortgage Obligations	8,886	7,593
Total	$ 192,664	$ 179,433

There were no proceeds from sales received during the year ended December 31, 2024 or 2023.

NOTE 4: SECURITIES (CONTINUED)

The following tables show securities gross unrealized losses and fair value for which an allowance for credit losses has not been recorded, aggregated by security category and length of time that individual available for sale securities have been in a continuous unrealized loss position as December 31, 2024 and 2023:

December 31, 2024	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Treasury Securities	$ 946	$ (13)	$ 21,272	$ (276)	$ 22,218	$ (289)
U.S. Government Agency Securities	8,915	(85)	10,257	(243)	19,172	(328)
States and Political Subdivisions	20,974	(439)	51,529	(4,049)	72,503	(4,488)
U.S. Government-Sponsored Agency Mortgage-Backed	-	-	53,634	(6,863)	53,634	(6,863)
U.S. Government-Sponsored Collateralized Mortgage	-	-	7,593	(1,293)	7,593	(1,293)
Total Temporarily Impaired Securities	$ 30,835	$ (537)	$ 144,285	$ (12,724)	$ 175,120	$ (13,261)

December 31, 2023	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
			(In Thousands)			
U.S. Treasury Securities	$ 929	$ (11)	$ 29,519	$ (626)	$ 30,448	$ (637)
U.S. Government Agency Securities	-	-	14,847	(653)	14,847	(653)
States and Political Subdivisions	4,090	(15)	56,521	(3,731)	60,611	(3,746)
U.S. Government-Sponsored Agency Mortgage-Backed	-	-	63,035	(6,723)	63,035	(6,723)
U.S. Government-Sponsored Collateralized Mortgage	-	-	8,602	(1,433)	8,602	(1,433)
Total Temporarily Impaired Securities	$ 5,019	$ (26)	$ 172,524	$ (13,166)	$ 177,543	$ (13,192)

The Bank reviews its position quarterly and has asserted at December 31, 2024 and 2023, the declines outlined in the previous tables represent temporary declines and the Bank does not intend to sell these securities nor is it more likely that the Bank will be required to sell these securities before recovery of their cost basis, which may be at maturity. There were 244 positions that were in an unrealized loss position as of December 31, 2024. The gross unrealized loss positions were primarily related to securities issued by U.S. government agencies or U.S. government-sponsored enterprises. These securities carry the explicit and/or implicit guarantee of the U.S. Government, are widely recognized as "risk free," and have a long history of zero credit loss. Total gross unrealized losses were primarily attributable to changes in interest rates, relative to when the investment securities were purchased, and not due to the credit quality of the investment securities. The Bank does not intend to sell the investment securities that were in an unrealized loss position and it is not more likely than not that the Bank will be required to sell the investment securities before recovery of their amortized cost basis, which may be at maturity. Therefore, as of December 31, 2024 and 2023, no ACL was required for available for sale securities.

States and Political Subdivision Securities

As of December 31, 2024 and 2023, respectively, all state and political subdivision securities were rated investment grade with a fair value of $72,503,000 and $60,611,000 which reflected unrealized losses of $4,488,000 and $3,746,000. Declines in the fair value of these securities are attributable to changes in interest rates, not credit quality.

U.S. Government-Sponsored Agency Mortgage-Backed Securities

U.S. government-sponsored agency mortgage-backed securities held by the Bank were issued by U.S. government sponsored entities and agencies. The unrealized losses of $6,863,000 is attributable to changes in interest rates and illiquidity.

Securities with a carrying value of $56,118,000 and $71,743,000 at December 31, 2024 and 2023, respectively, were pledged to secure deposits.

NOTE 5: EQUITY SECURITIES

The Company has separated the presentation of equity investments on the Consolidated Balance Sheet and reflected changes in fair value in net income.

Proceeds from the sale of equity securities were $829,000 during 2023, resulting in a realized gain of $395,000. The Company did not hold or sell any equity securities during 2024.

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES

The composition of net loans receivable are as follows:

	December 31, 2024	2023
	(In Thousands)	
Loans Receivable		
Commercial		
Commercial and Industrial	$ 113,145	$ 95,430
Commercial Real Estate	411,235	364,011
Commercial Real Estate Construction	20,377	16,719
Total Commercial	544,757	476,160
Retail		
Home Equity Lines of Credit	58,449	56,548
Residential Real Estate	123,879	111,736
Residential Real Estate Construction	23,377	19,436
Consumer	32,418	32,455
Total Retail	238,123	220,175
Total Loans	782,880	696,335
Deduct:		
Allowance for Credit Losses	12,286	11,453
Deferred Loan Fees, Net	1,246	998
Loans Receivable, Net	$ 769,348	$ 683,884

The loan composition presents loan categories as utilized by the Bank according to the allowance for credit losses (ACL) methodology. The Bank extends commercial, residential and consumer loans. The Bank's primary business activity is with customers located within the five-county area in northeastern Pennsylvania where the Bank's branch network operates. The Bank will occasionally extend credit beyond this region to customers when credit policy guidelines are met. The Bank's loan portfolio is considered diversified as of December 31, 2024 and 2023 although loans to individuals and businesses will be dependent on the economic conditions of the region in which the Bank operates.

Allowance for Credit Losses and Loans

The ACL breaks down the loan portfolio into three high-level segments: commercial and industrial, commercial real estate, and retail. These segments are analyzed in smaller cohort groupings based on similar risk characteristics. The commercial and industrial portfolio is further segmented by the North American Industry Classification System (NAICS) and risk rating. Lifetime loss rates are determined using a data consortium containing historical loan and borrower information from contributing banks. By tracking the history of the individual loans in the data consortium, lifetime loss rates are calculated, and the model applies these realized lifetime loss rates to the commercial and industrial portfolio. The commercial real estate portfolio is further segmented based on loan-to-value (LTV) and property details. Lifetime loss rates are determined using peer data from twenty-one of the Bank's peers. This methodology was chosen since the Bank's geographic footprint typically lags national trends. Expected prepayments are figured in the calculations. Quantitative results are augmented with qualitative factor adjustments which are determined based on specific conditions present in the portfolio. The retail portfolio is further segmented by vintage (origination year), initial credit score, loan term, and geography (borrower's state). Lifetime loss rates are determined based on Equifax industry-level retail credit performance data and applied to the loans in the retail portfolio.

HONAT BANCORP, INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Allowance for Credit Losses and Loans (Continued)

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

December 31, 2024	Beginning Balance	Charge-Offs	Recoveries	Provisions (Reductions)	Ending Balance
			(In Thousands)		
Allowance for Credit Losses					
Commercial and Industrial	$ 824	$ (55)	$ 14	$ 243	$ 1,026
Commercial Real Estate	7,652	-	5	320	7,977
Commercial Real Estate Construction	551	-	-	128	679
Home Equity Lines of Credit	699	-	-	173	872
Residential Real Estate	1,093	-	7	(72)	1,028
Residential Real Estate Construction	152	-	-	(2)	150
Consumer	513	(128)	40	104	529
Unallocated	(31)	-	-	56	25
Total	$ 11,453	$ (183)	$ 66	$ 950	$ 12,286

The growth in both commercial and industrial and commercial real estate loan portfolios resulted in an increase in the provision allocation.

The additional provision designated for the home equity lines of credit of $173,000 supported the overall growth in the portfolio. In addition, the expected loss rate for this portfolio also increased during the year.

As of December 31, 2024, the Bank ascertains that home prices and delinquency rates have stabilized and unemployment rates may decline slightly. These variables contributed to the reduction in the allowance allocation for residential real estate loans even though the residential real estate portfolio grew year over year by over $12 million.

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

December 31, 2023	Beginning Balance	Impact of Adopting ASC 326	Charge-Offs	Recoveries	Provisions (Reductions)	Ending Balance
				(In Thousands)		
Allowance for Credit Losses						
Commercial and Industrial	$ 1,208	$ (67)	$ (10)	$ 35	$ (342)	$ 824
Commercial Real Estate	6,553	364	-	14	721	7,652
Commercial Real Estate Construction	488	335	-	-	(272)	551
Home Equity Lines of Credit	809	(235)	-	-	125	699
Residential Real Estate	1,492	(648)	-	22	227	1,093
Residential Real Estate Construction	138	(37)	-	-	51	152
Consumer	478	(79)	(89)	32	171	513
Unallocated	-	-	-	-	(31)	(31)
Total	$ 11,166	$ (367)	$ (99)	$ 103	$ 650	$ 11,453

As of December 31, 2023, the Bank expects that the markets in which it operates will experience a decline in economic conditions based primarily on higher interest rates causing an increase in the level and trend of delinquencies over the next year. The historical loss experience is adjusted for these expectations.

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Age Analysis of Past Due Loans Receivable

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of December 31, 2024 and 2023:

December 31, 2024	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
			(In Thousands)			
Commercial and Industrial	$ 113,043	$ 76	$ 26	$ -	$ 102	$ 113,145
Commercial Real Estate	409,751	1,067	-	417	1,484	411,235
Commercial Real Estate Construction	20,377	-	-	-	-	20,377
Home Equity Lines of Credit	58,138	271	-	40	311	58,449
Residential Real Estate	122,146	878	187	668	1,733	123,879
Residential Real Estate Construction	23,114	263	-	-	263	23,377
Consumer	32,215	179	24	-	203	32,418
Total	$ 778,784	$ 2,734	$ 237	$ 1,125	$ 4,096	$ 782,880

December 31, 2023	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
			(In Thousands)			
Commercial and Industrial	$ 95,367	$ 18	$ 45	$ -	$ 63	$ 95,430
Commercial Real Estate	363,644	216	151	-	367	364,011
Commercial Real Estate Construction	16,719	-	-	-	-	16,719
Home Equity Lines of Credit	56,528	20	-	-	20	56,548
Residential Real Estate	110,956	199	83	498	780	111,736
Residential Real Estate Construction	19,436	-	-	-	-	19,436
Consumer	32,228	218	9	-	227	32,455
Total	$ 694,878	$ 671	$ 288	$ 498	$ 1,457	$ 696,335

Loan Origination/Risk Management

The basic objectives of the lending activities of the Bank are to profit from the investment of funds into good loans and to serve the credit needs of, and promote economic development within, the Bank's market areas. The Board of Directors recognizes that certain risks are inherent in lending money and commits the Bank to this activity with that in mind. The scope of the Bank's lending activities is influenced by the belief that a sound financial (asset/liability) management function forms the basis for successful lending activities. Management divides the loan portfolio into classes to monitor risk, which are the same as the portfolio segments.

Lending strategies and policies are influenced by competitive, economic, and regulatory factors. A reporting system supplements the review process by providing management with reports related to loan production, loan quality, concentrations of credit, loan delinquencies, and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

Commercial and industrial loans are underwritten after evaluating and understanding the borrower's business operation. Underwriting standards are designed to promote relationship banking rather than transactional banking. Current and projected cash flows are examined to determine the ability of borrowers to repay their obligations as agreed. Commercial and industrial loans are primarily made based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Most commercial and industrial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee.

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Loan Origination/Risk Management (Continued)

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts, and the repayment of these loans is generally largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. Management monitors and evaluates commercial real estate loans based on collateral type and risk grade criteria.

Residential real estate loans, which include home equity term loans and lines of credit, are subject to underwriting standards that are influenced by regulatory requirements, loan-to-value percentages, debt-to-income ratios, and overall credit worthiness of the borrower.

The Bank utilizes an automated underwriting data system on direct and indirect consumer loans. In an effort to monitor and manage consumer loan risk, policies and procedures are developed and modified in accordance with changes in the portfolio and economic climate.

Concentrations of Credit
Diversification within the loan portfolio is important to minimize the risks involved in lending. Management will be alert to the development of such concentrations and report them to the Board of Directors for evaluation of the risk involved and for determination of a proper course of action. The Bank is aware of concentrations of credit in the real estate sector in rental of residential buildings which is 13.7% of total loans. Management has developed reports to monitor these and all components of the portfolio in an effort to minimize risk.

Nonaccrual and Past Due Loans
Loans are considered past due if the required principal and interest payments have not been received as of the date such payments were due. Loans are placed on nonaccrual status when, in management's opinion, the borrower may be unable to meet payment obligations as they become due, as well as when required by regulatory provisions. Loans may be placed on nonaccrual status regardless of whether or not such loans are considered past due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Interest income is subsequently recognized only to the extent cash payments are received in excess of principal due. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and maintained current for a period of at least six months.

Nonperforming Loans

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest:

December 31, 2024	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
			(In Thousands)		
Residential Real Estate	$ 600	$ -	$ 600	$ 133	$ 733
Commercial Real Estate	770	-	770	246	1,016
Home Equity	-	-	-	40	40
Commercial and Industrial	2	-	2	-	2
Balance	$ 1,372	$ -	$ 1,372	$ 419	$ 1,791

December 31, 2023	Nonaccrual with No ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
			(In Thousands)		
Residential Real Estate	$ 598	$ -	$ 598	$ -	$ 598
Commercial Real Estate	552	-	552	-	552
Balance	$ 1,150	$ -	$ 1,150	$ -	$ 1,150

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators

The Bank categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Bank analyzes loans individually to classify the loans as to credit risk. This analysis includes all loans regardless of outstanding balance. This analysis is performed on an ongoing basis.

The Bank uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard: Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

A meeting of the Asset Quality Committee is held quarterly to discuss any changes in ratings of loans and the appropriate administrative action to be taken for each account. If applicable, an estimate of loss to the Bank will be discussed, as recommended by loan review personnel. The Asset Quality Committee consists of loan officers, credit administration, collection personnel and others as necessary.

Loan review personnel report to the Board of Directors with results and recommendations concerning the review process on a quarterly basis. In addition, the Bank utilizes an outside consultant to perform an independent loan review from time to time as may be necessary in accordance with regulatory requirements.

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

Based on the most recent analysis performed, the following table presents the recorded investment in non-homogeneous loans by internal risk rating system as of December 31, 2024 (in thousands):

December 31, 2024	Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	2021	2020	Prior			
Commercial and Industrial									
Risk Rating									
Pass	$ 22,879	$ 11,479	$ 6,257	$ 4,519	$ 2,594	$ 9,516	$ 49,735	$ 4,992	$ 111,971
Special Mention	-	-	104	-	-	-	956	-	1,060
Substandard	29	52	22	-	2	5	4	-	114
Total	22,908	11,531	6,383	4,519	2,596	9,521	50,695	4,992	113,145
Commercial and Industrial									
Current Period Gross Charge-Offs	-	19	-	35	-	1	-	-	55
Commercial Real Estate									
Risk Rating									
Pass	73,359	42,056	49,433	49,065	39,737	65,119	15,478	65,833	400,080
Special Mention	4,029	-	-	190	-	-	40	-	4,259
Substandard	100	450	2,844	239	129	2,500	541	93	6,896
Total	77,488	42,506	52,277	49,494	39,866	67,619	16,059	65,926	411,235
Commercial Real Estate									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Commercial Real Estate Construction									
Risk Rating									
Pass	148	-	-	-	-	575	3,091	16,563	20,377
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total	148	-	-	-	-	575	3,091	16,563	20,377
Commercial Real Estate Construction									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Total									
Risk Rating									
Pass	96,386	53,535	55,690	53,584	42,331	75,210	68,304	87,388	532,428
Special Mention	4,029	-	104	190	-	-	996	-	5,319
Substandard	129	502	2,866	239	131	2,505	545	93	7,010
Total	$ 100,544	$ 54,037	$ 58,660	$ 54,013	$ 42,462	$ 77,715	$ 69,845	$ 87,481	$ 544,757

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

The following table presents the recorded investment in non-homogeneous loans by internal risk rating system as of December 31, 2023 (in thousands):

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Commercial and Industrial									
Risk Rating									
Pass	$15,277	$ 8,000	$ 8,044	$ 3,753	$ 4,805	$ 6,389	$ 42,061	$ 5,229	$ 93,558
Special Mention	90	-	-	58	-	-	1,445	-	1,593
Substandard	20	29	58	-	12	-	16	144	279
Total	15,387	8,029	8,102	3,811	4,817	6,389	43,522	5,373	95,430
Commercial and Industrial									
Current Period Gross Charge-Offs	-	5	-	-	-	-	-	5	10
Commercial Real Estate									
Risk Rating									
Pass	44,891	59,298	54,693	45,730	13,361	60,325	13,193	62,719	354,210
Special Mention	-	-	866	-	673	3,500	41	1,059	6,139
Substandard	460	154	244	151	68	2,331	254	-	3,662
Total	45,351	59,452	55,803	45,881	14,102	66,156	13,488	63,778	364,011
Commercial Real Estate									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Commercial Real Estate Construction									
Risk Rating									
Pass	-	-	-	-	-	642	3,582	12,495	16,719
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	642	3,582	12,495	16,719
Commercial Real Estate Construction									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Total									
Risk Rating									
Pass	60,168	67,299	62,738	49,482	18,166	67,356	58,836	80,443	464,488
Special Mention	90	-	866	58	673	3,500	1,486	1,059	7,732
Substandard	480	182	302	151	80	2,331	270	144	3,940
Total	$60,738	$67,481	$63,906	$49,691	$18,919	$ 73,187	$ 60,592	$ 81,646	$ 476,160

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

The Bank monitors the credit risk profile by payment activity for the retail segment. Loans past due 90 days or more and loans on nonaccrual status are considered nonperforming. Nonperforming loans are reviewed monthly. The following table presents the amortized cost in residential and consumer loans based on payment activity (in thousands):

December 31, 2024	Term Loans Amortized Cost Basis by Origination Year 2024	2023	2022	2021	2020	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Home Equity Lines of Credit									
Payment Performance									
Performing	$ -	$ -	$ -	$ -	$ -	$ -	$ 58,409	$ -	$ 58,409
Nonperforming	-	-	-	-	-	-	40	-	40
Total	-	-	-	-	-	-	58,449	-	58,449
Home Equity Lines of Credit									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Residential Real Estate									
Payment Performance									
Performing	25,412	16,325	19,625	14,294	7,127	38,235	-	2,128	123,146
Nonperforming	-	-	-	-	-	733	-	-	733
Total	25,412	16,325	19,625	14,294	7,127	38,968	-	2,128	123,879
Residential Real Estate									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Residential Real Estate Construction									
Payment Performance									
Performing	1,086	5,125	4,518	2,648	642	8,948	-	410	23,377
Nonperforming	-	-	-	-	-	-	-	-	-
Total	1,086	5,125	4,518	2,648	642	8,948	-	410	23,377
Residential Real Estate Construction									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Consumer									
Payment Performance									
Performing	9,021	8,263	9,164	2,796	1,141	1,527	506	-	32,418
Nonperforming	-	-	-	-	-	-	-	-	-
Total	9,021	8,263	9,164	2,796	1,141	1,527	506	-	32,418
Consumer									
Current Period Gross Charge-Offs	10	78	22	7	-	11	-	-	128
Total									
Payment Performance									
Performing	35,519	29,713	33,307	19,738	8,910	48,710	58,915	2,538	237,523
Nonperforming	-	-	-	-	-	733	40	-	600
Total	$35,519	$29,713	$33,307	$19,738	$ 8,910	$49,443	$ 58,955	$ 2,538	$ 238,123

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Credit Quality Indicators (Continued)

The following table presents the amortized cost in residential and consumer loans based on payment activity as of December 31, 2023 (in thousands):

December 31, 2023	Term Loans Amortized Cost Basis by Origination Year 2023	2022	2021	2020	2019	Prior	Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
Home Equity Lines of Credit									
Payment Performance									
Performing	$ -	$ -	$ -	$ -	$ -	$ 3	$ 56,545	$ -	$ 56,548
Nonperforming	-	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	3	56,545	-	56,548
Home Equity Lines of Credit									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Residential Real Estate									
Payment Performance									
Performing	18,258	21,793	15,593	7,776	6,864	38,667	-	2,187	111,138
Nonperforming	-	-	-	-	-	598	-	-	598
Total	18,258	21,793	15,593	7,776	6,864	39,265	-	2,187	111,736
Residential Real Estate									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Residential Real Estate Construction									
Payment Performance									
Performing	879	5,047	2,737	660	955	8,688	-	470	19,436
Nonperforming	-	-	-	-	-	-	-	-	-
Total	879	5,047	2,737	660	955	8,688	-	470	19,436
Residential Real Estate Construction									
Current Period Gross Charge-Offs	-	-	-	-	-	-	-	-	-
Consumer									
Payment Performance									
Performing	12,105	11,571	3,904	1,859	719	1,757	540	-	32,455
Nonperforming	-	-	-	-	-	-	-	-	-
Total	12,105	11,571	3,904	1,859	719	1,757	540	-	32,455
Consumer									
Current Period Gross Charge-Offs	6	14	13	2	46	8	-	-	89
Total									
Payment Performance									
Performing	31,242	38,411	22,234	10,295	8,538	49,115	57,085	2,657	219,577
Nonperforming	-	-	-	-	-	598	-	-	598
Total	$31,242	$38,411	$22,234	$10,295	$8,538	$49,713	$ 57,085	$ 2,657	$ 220,175

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, an interest rate concession, a term extension, or a significant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2024, disaggregated by portfolio segment and type of concession granted:

Term Extension

	Amortized Cost (In Thousands)	% of Total of Portfolio
Commercial and Industrial	$ 35	0.01%
Residential Real Estate	99	0.08%
Total	**$ 134**	

The Bank has not committed to lend any additional proceeds to the borrowers included in the previous table. The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2024:

Loan Type	Financial Effect
Commercial and Industrial	Term extended by 84 months and payment re-amortized to include outstanding principal and accrued interest outstanding.
Residential Real Estate	Term extended by 60 months and payment re-amortized resulting in a reduction in the monthly obligation for the borrower.

The following table shows the amortized cost basis at the end of the reporting period of the loans modified to borrowers experiencing financial difficulty during the year ended December 31, 2023, disaggregated by portfolio segment and type of concession granted:

Combination — Additional Advance, Term Extension, and Interest Only Payments

	Amortized Cost Basis (In Thousands)	% of Total of Portfolio
Commercial Real Estate	$ 972	0.27%
Total	$ 972	

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Modifications to Borrowers Experiencing Financial Difficulty (Continued)

Combination — Additional Advance, Term Extension, and Interest Only Payments (Continued)

The Bank has not committed to lend any additional proceeds beyond the initial advance granted at the time of the modification to the borrowers included in the previous table. The following table describes the financial effect of the modifications made to borrowers experiencing financial difficulty during the year ended December 31, 2023:

Loan Type	Financial Effect
Commercial Real Estate	Consolidated existing debt, issued additional funds for working capital, and granted interest only payments for 12 months.

The Bank did not incur any payment default during the period from loans that were modified in the 12 months before default to borrowers experiencing financial difficulty for the years ended December 31, 2024 and 2023. The loan modified as of December 31, 2023 was fully paid off by the borrower during 2024.

Upon the Bank's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

The Bank closely monitors the performance of the loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tables depict the performance of loans that have been modified in the last 12 months as of December 31, 2024 and 2023 (in thousands):

December 31, 2024	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Commercial and Industrial	$ 35	$ -	$ -	$ -	$ -
Residential Real Estate	99	-	-	-	-
	$ 134	$ -	$ -	$ -	$ -

December 31, 2023	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due
Commercial Real Estate	$ 972	$ -	$ -	$ -	$ -
	$ 972	$ -	$ -	$ -	$ -

Individually Evaluated Loans

The following table presents the amortized cost basis of individually evaluated loans of December 31, 2024. Declines in the fair value of the collateral for individually evaluated loans are reported as a provision for credit losses in the period of change if impairment is identified.

December 31, 2024	Type of Collateral: Business	Type of Collateral: Real Estate
	(In Thousands)	
Commercial and Industrial	$ 2	$ -
Commercial Real Estate	-	770
Residential Real Estate	-	600
Total	$ 2	$ 1,370

NOTE 6: LOANS RECEIVABLE AND ALLOWANCE FOR CREDIT LOSSES (CONTINUED)

Individually Evaluated Loans (Continued)

The following table presents the amortized cost basis of individually evaluated loans of December 31, 2023. Declines in the fair value of the collateral for individually evaluated loans are reported as a provision for credit losses in the period of change if impairment is identified.

December 31, 2023	Type of Collateral: Business	Type of Collateral: Real Estate
	(In Thousands)	
Commercial Real Estate	$ -	$ 552
Residential Real Estate	-	598
Total	$ -	$ 1,150

NOTE 7: LEASE COMMITMENT

The Bank analyzes all property and financing lease contracts. Several assumptions are made when evaluating leases, including the allocation of consideration in the contracts between lease and non-lease components, the lease term, and the discount rate to calculate the present value of the lease payments. As of December 31, 2024, the Bank is not contracted under any financing leases. The Bank currently has six office locations operating under leases.

The Bank elects to account for non-lease components such as: common area maintenance charges, utilities, real estate taxes, and insurance, separate from the lease component. These variable non-lease components are reported under occupancy expense on the Consolidated Statements of Income as incurred. These variable non-lease components are not included in the present value calculation of the remaining lease payments and are not reflected in the right-of-use assets and lease liabilities reported on the Consolidated Balance Sheet. Total lease expense recorded was $160,000 and $143,000 during 2024 and 2023, respectively.

The Bank's leases contain an option to renew the lease after the initial term. The renewal option is evaluated by the Bank for reasonability given historical elections and the Bank's overall strategic plan to determine its inclusion in the present value calculation. The discount rate utilized in calculating the present value of the lease payments for each lease with the Federal Home Loan Bank of Pittsburgh advance rate corresponding to the remaining maturity of the lease at the time the lease commitment was recognized as an asset.

The following table reflects the weighted average remaining lease term and discount rate for the leases outstanding:

	December 31, 2024
Weighted Average Remaining Term (Years)	13
Weighted Average Discount Rate	3.86%

The following table presents the undiscounted cash flows due related to operating leases as of December 31, 2024, along with a reconciliation to the discounted amount recorded on the Consolidated Balance Sheet.

	December 31, 2024
	(In Thousands)
Undiscounted Cash Flows Due	
2025	$ 151
2026	131
2027	106
2028	89
2029	91
2030 and Thereafter	820
Total	1,388
Impact of Present Value Discount	(310)
Total	$ 1,078

NOTE 8: PREMISES AND EQUIPMENT

The components of premises and equipment are as follows:

	December 31, 2024		December 31, 2023
	(In Thousands)		
Premises and Equipment			
Land	$	2,249	$	2,249
Buildings and Building Improvements		9,609		9,559
Furniture and Equipment		2,894		2,890
Total		14,752		14,698
Accumulated Depreciation		(7,924)		(7,755)
Total	$	6,828	$	6,943

Depreciation expense was $421,000 and $441,000 for the years ended December 31, 2024 and 2023, respectively.

NOTE 9: DEPOSITS

The components of deposits are as follows:

		December 31, 2024		December 31, 2023
		(In Thousands)		
Total Deposits				
Demand, Non-Interest-Bearing	$	273,680	$	257,351
Demand, Interest-Bearing		163,384		172,414
Savings		118,252		127,972
Time, $250,000 and Over		91,350		71,199
Time, Other		244,749		193,611
Total	$	891,415	$	822,547

At December 31, 2024 the scheduled maturities of time deposits are as follows (in thousands):

2025	$	328,590
2026		5,196
2027		1,195
2028		593
2029		513
Thereafter		12
Total	$	336,099

NOTE 10: BORROWINGS

The Bank had a maximum borrowing capacity with the Federal Home Loan Bank of Pittsburgh (FHLB) of $306,930,000 at December 31, 2024. FHLB borrowings and the letters of credit are collateralized by FHLB stock and qualifying pledged loans. There were no outstanding letters of credit with FHLB used for pledging to secure public fund deposits at December 31, 2024 or December 31, 2023. The Bank had no long-term debt outstanding as of December 31, 2024 or December 31, 2023.

NOTE 10: BORROWINGS (CONTINUED)

Short-Term Borrowings

The Bank has a $134,700,000 cash management advance line of credit with the Federal Home Loan Bank of Pittsburgh (FHLB). The outstanding balance and related information for this short-term borrowing is summarized as follows:

		December 31, 2024		December 31, 2023
		(In Thousands)		
Balance	$	-	$	-
Average Balance Outstanding During Period		-		1,447
Maximum Amount Outstanding at Any Month		-		11,738
Weighted Average Interest Rate at Period End		-		5.02%
Average Interest Rate During Period		-		4.98%

The Company also had a short-term outstanding line of credit with the ACBB of $500,000 as of December 31, 2023. The Company did not renew this line of credit during 2024. The Company had no outstanding balances on the line of credit as of December 31, 2023.

NOTE 11: EMPLOYEE BENEFITS

The Bank has an Employee Stock Ownership Plan with 401(k) provisions (Plan). The Plan is for the benefit of all employees who meet the eligibility requirements set forth in the Plan. The amount of employer contributions to the Plan, including 401(k) matching contributions, is at the discretion of the Board of Directors. Bank contributions charged to expense for the years ended December 31, 2024 and 2023, were $1,285,000 and $1,275,000, respectively.

At December 31, 2024 and 2023, 147,145 and 144,462 shares, respectively, of the Bank's common stock were held in the Plan. In the event a terminated Plan participant desires to sell shares of the Bank's stock, or for certain employees who elect to diversify their account balances, the Bank may be required to purchase the shares from the participant at their fair market value.

The Bank has adopted various deferred compensation plans for certain directors and officers of the Bank. Under the deferred compensation plan's provisions, benefits will be payable upon retirement, death, or permanent disability of the participant. As of December 31, 2024 and 2023, $5,169,000 and $5,166,000, respectively, of deferred compensation expense has been accrued. The deferred compensation plan is funded by life insurance carried on the lives of the participants. The Bank recognized deferred compensation expense of $423,000 and $369,000 as of December 31, 2024 and 2023, respectively. Benefits of $410,000 and $395,000 were disbursed in 2024 and 2023, respectively.

NOTE 12: INCOME TAXES

The components of income tax expense are as follows:

		December 31, 2024		December 31, 2023
		(In Thousands)		
Income Tax Expense				
Current	$	2,978	$	2,664
Deferred		(169)		47
Total	$	2,809	$	2,711

NOTE 12: INCOME TAXES (CONTINUED)

A reconciliation of the statutory income tax expense to the income tax expense included on the Consolidated Statements of Income computed at a tax rate of 21% is as follows:

	December 31, 2024 (In Thousands) Amount	% of Pretax	December 31, 2023 (In Thousands) Amount	% of Pretax
Federal Income Tax at Statutory Rate	**$ 3,320**	**21%**	$ 3,271	21%
Tax-Exempt Income	**(454)**	**(3)**	(432)	(3)
Interest Disallowance	**158**	**1**	92	1
Bank-Owned Life Insurance Income	**(95)**	**-**	(88)	(1)
Low-Income Housing Credit	**(174)**	**(1)**	(153)	(1)
Other, Net	**54**	**-**	21	-
Total	**$ 2,809**	**18%**	$ 2,711	17%

The components of income tax expense are as follows:

	December 31, 2024 (In Thousands)	2023
Deferred Tax Assets		
Allowance for Credit Losses	**$ 2,576**	$ 2,401
Deferred Compensation	**1,087**	1,085
Investment in Low-Income Housing Partnerships	**589**	574
Nonaccrual Interest	**11**	20
Accrued Expense	**-**	126
Unrealized Loss on Available for Sale Securities	**2,779**	2,743
Operating Lease Liability	**226**	230
Impairment Allowance	**137**	137
	7,405	7,316
Valuation Allowance	**(80)**	(80)
Total Deferred Tax Assets	**7,325**	7,236
Deferred Tax Liabilities		
Bank Premises and Equipment	**(214)**	(141)
Mortgage Servicing Rights	**(213)**	(243)
Accrued Expense	**(51)**	-
Operating Lease	**(223)**	(228)
Prepaid Expenses and Loan Origination Costs	**(393)**	(597)
Total Deferred Tax Liabilities	**(1,094)**	(1,209)
Net Deferred Tax Assets	**$ 6,231**	$ 6,027

The ability to realize the benefits of deferred tax assets is dependent on a number of factors, including the generation of future taxable income, the ability to carryback to taxable income in previous years, the ability to offset capital losses with capital gains, the reversal of deferred tax liabilities, and certain tax planning strategies. A valuation allowance has been established to offset deferred tax assets that could result in future capital losses which management believed may not be realizable. The valuation allowance is $80,000 as of December 31, 2024 and 2023.

NOTE 12: INCOME TAXES (CONTINUED)

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

The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes on the Consolidated Statements of Income. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense. The Company's federal and Pennsylvania income tax returns for taxable years prior to 2021 have been closed for purposes of examination by the Internal Revenue Service and the Pennsylvania Department of Revenue. The Company's New Jersey income tax returns for taxable years prior to 2020 have been closed for purposes of examination.

NOTE 13: TRANSACTIONS WITH EXECUTIVE OFFICERS, DIRECTORS, AND PRINCIPAL STOCKHOLDERS

The Company has had, and may be expected to have in the future, transactions in the ordinary course of business with its executive officers, directors, principal stockholders, and their related interests on the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others. The Company added one executive officer during the period and two executive officers were removed from inclusion.

An analysis of the activity for loans to related parties is as follows:

	December 31, 2024 (In Thousands)	2023
Balance, Beginning	**$ 28,218**	$ 29,224
New Loans and Additions	**38,206**	37,265
Repayments and Removals	**(44,698)**	(38,271)
Balance, Ending	**$ 21,726**	$ 28,218

The Company 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 letters of credit. Those instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Company'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 it does for on-balance sheet instruments. The Company held $128,000 in reserves for off-balance sheet instruments as of December 31, 2024 and 2023.

A summary of the Company's financial instrument commitments is as follows:

	December 31, 2024 (In Thousands)	2023
Loan Commitments		
Commitments to Grant Loans	**$ 62,454**	$ 38,483
Unfunded Commitments Under Lines of Credit	**184,756**	159,389
Outstanding Letters of Credit	**5,486**	5,441

NOTE 14: FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include: personal or commercial real estate, accounts receivable, inventory, and equipment.

Outstanding letters of credit written are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These standby letters of credit expire within the next 12 months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Bank 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 $5,486,000 and $5,441,000, respectively.

NOTE 15: FAIR VALUE MEASUREMENTS AND DISCLOSURES

Fair Value Measurements

Management uses its best judgment in estimating the fair value of the Bank's financial instruments; however, there are inherent weaknesses in any estimation technique. Therefore, for substantially all financial instruments, the fair value estimates herein are not necessarily indicative of the amounts the Bank could have realized in a sales transaction on the dates indicated. The estimated fair value amounts have been measured as of their respective year-ends and have not been reevaluated or updated for purposes of these consolidated financial statements subsequent to those respective dates. As such, the estimated fair values of these financial instruments subsequent to the respective reporting dates may be different than the amounts reported at each year-end. The Bank uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The fair value of a financial instrument 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. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Bank's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The recent fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

In accordance with this guidance, the Bank groups its financial assets and financial liabilities generally measured at fair value in three levels, based on the markets in which the assets and liabilities are traded, and the reliability of the assumptions used to determine fair value.

Level I
Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level I assets and liabilities generally include debt and equity securities that are traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level II
Valuation is based on inputs other than quoted prices included within Level I that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted policies 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 for substantially the full term of the asset or liability.

Level III
Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level III assets and liabilities include financial instruments, the value of which is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

NOTE 15: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

The hierarchy requires the use of observable market data when available. The fair value of investment securities available for sale is equal to the available quoted market price. If no quoted market price is available, fair value is estimated using the quoted market price for similar securities.

December 31, 2024	Total	Level I	Level II	Level III
	(In Thousands)			
Investment Securities Available for Sale				
U.S. Treasury Securities	$ 22,218	$ -	$ 22,218	$ -
U.S. Government Agency Securities	19,172	-	19,172	-
States and Political Subdivisions	76,816	-	76,816	-
Other Debt Securities				
U.S. Government-Sponsored Mortgage-Backed Securities	53,634	-	53,634	-
U.S. Government-Sponsored Collateralized Mortgage Obligations	7,593	-	7,593	-

December 31, 2023	Total	Level I	Level II	Level III
	(In Thousands)			
Investment Securities Available for Sale				
U.S. Treasury Securities	$ 30,448	$ -	$ 30,448	$ -
U.S. Government Agency Securities	14,847	-	14,847	-
States and Political Subdivisions	72,938	-	72,938	-
Other Debt Securities				
U.S. Government-Sponsored Mortgage-Backed Securities	63,035	-	63,035	-
U.S. Government-Sponsored Collateralized Mortgage Obligations	8,602	-	8,602	-

Collateral Dependent Loans
The Bank has measured impairment on collateral dependent loans generally based on the fair value of the loan's collateral. Fair value is generally determined based upon independent third-party appraisals of the properties. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. Additionally, management makes estimates about expected costs to sell the property which are also included in the net realizable value. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for credit losses (ACL) or a charge-off is taken to reduce the loan to the fair value of the collateral (less estimated selling costs) and the loan is included in the following tables as a Level III measurement. If the fair value of the collateral exceeds the carrying amount of the loan, then the loan is not included in the following tables as it is not currently being carried at its fair value.

Other Real Estate Owned (OREO)
OREO is carried at the lower of cost or fair value, which is measured at the date of foreclosure. If the fair value of the collateral exceeds the carrying amount of the loan, no charge-off or adjustment is necessary, the loan is not considered to be carried at fair value and is therefore not included in the following tables. If the fair value of the collateral is less than the carrying amount of the loan, management will charge the loan down to its estimated realizable value.

The fair value of OREO is based on the appraised value of the property, which is generally unadjusted by management and is based on comparable sales for similar properties in the same geographic region as the subject property and is included in the following tables as a Level II measurement. In some cases, management may adjust the appraised value due to the age of the appraisal, changes in market conditions, or observable deterioration of the property since the appraisal was completed. In these cases, the loans are categorized in the following tables as a Level III measurement since these adjustments are considered to be unobservable inputs. Income and expenses from operations and further declines in the fair value of the collateral subsequent to foreclosure are included in net expenses from OREO.

Mortgage Servicing Rights
The fair value of mortgage servicing rights is based on a valuation model that calculates the present value of estimated net servicing income. The valuation incorporates assumptions that market participants would use in estimating future net servicing income. The Bank is able to compare the valuation model inputs and results with widely available published industry data for reasonableness.

NOTE 15: FAIR VALUE MEASUREMENTS AND DISCLOSURES (CONTINUED)

Fair Value Measurements (Continued)

There were no financial assets measured at fair value on a nonrecurring basis as of December 31, 2024 or 2023.

For certain financial instruments, the carrying amount is a reasonable estimate of the fair value. For short-term financial assets such as cash and cash equivalents, the relatively short duration between origination and the anticipated maturity indicates that the carrying amount is a reasonable estimate of fair value. Certificates of deposits purchased have maturity dates less than two years and the carrying amount is a reasonable estimate of fair value. For investments in restricted stock, stock can only be redeemed at par value and therefore, the carrying amount is a reasonable estimate of fair value. For deposits including demand deposits and savings deposits in which no maturity is stated, the Bank assumes the carrying value is a reasonable estimate of fair value.

The following tables present the fair value of the Bank's financial instruments not carried at fair value:

December 31, 2024	Carrying Amount	Fair Value	Level I	Level II	Level III
			(In Thousands)		
Financial Assets					
Mortgage Loans Held for Sale	$ 712	$ 714	$ 714	$ -	$ -
Loans Receivable, Net	769,348	767,991	-	-	767,991
Mortgage Service Rights	1,014	1,755	-	-	1,755
Financial Liabilities					
Time Deposits	336,099	335,253	-	-	335,253

December 31, 2023	Carrying Amount	Fair Value	Level I	Level II	Level III
			(In Thousands)		
Financial Assets					
Mortgage Loans Held for Sale	$ 1,337	$ 1,362	$ 1,362	$ -	$ -
Loans Receivable, Net	683,884	668,699	-	-	668,699
Mortgage Service Rights	1,158	1,812	-	-	1,812
Financial Liabilities					
Time Deposits	264,810	262,587	-	-	262,587

NOTE 16: REGULATORY MATTERS

The Bank is required under certain circumstances to maintain cash reserve balances in vault cash or with the Federal Reserve Bank (FRB). The Bank is required to hold reserves to enable same day settlement with Visa®. The total of those reserve balances was approximately $40,000 at December 31, 2024 and $103,000 at December 31, 2023.

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

Federal bank regulatory agencies implemented a rule that simplifies capital requirements for community banks by allowing them to optionally adopt a simple leverage ratio to measure capital adequacy, which removes requirements for calculating and reporting risk-based capital ratios for a qualifying community bank that has less than $10 billion in total consolidation assets, limited amounts of off-balance sheet exposures and trading assets and liabilities, and a leverage ratio greater than nine percent. The Bank has elected to adopt the optional Community Bank Leverage Ratio (CBLR) framework.

NOTE 16: REGULATORY MATTERS (CONTINUED)

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios of total, Tier 1 capital (as defined in the regulations), common equity Tier 1 capital to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2024 and December 31, 2023, that the Bank meets all capital adequacy requirements to which it is subject.

A summary of the Bank's capital ratios is as follows:

As of December 31, 2024	Actual		For Capital Adequacy Purposes (In Thousands)		To Be Capitalized Under Prompt Corrective Action Provisions	
Capital Ratios	Actual	Ratio	Actual	Ratio	Actual	Ratio
Tier 1 Capital (to Average Assets)	**$142,899**	**13.51%**	**$42,321**	**4.00%**	**$52,902**	**5.00%**

As of December 31, 2023	Actual		For Capital Adequacy Purposes (In Thousands)		To Be Capitalized Under Prompt Corrective Action Provisions	
Capital Ratios	Actual	Ratio	Actual	Ratio	Actual	Ratio
Tier 1 Capital (to Average Assets)	$133,769	13.56%	$39,462	4.00%	$49,327	5.00%

Banking regulations place certain restrictions on dividends paid by the Bank to the Company. A national Bank is required to obtain the approval of the Office of the Comptroller of the Currency (OCC) if the total of all dividends declared in any calendar year exceeds the Bank's net profits (as defined) for that year combined with its retained net profits for the preceding two calendars years. Under this formula, the Bank can declare dividends in 2025 of approximately $16,042,000 plus an additional amount equal to the Bank's net profits for 2024, up to the date of such dividend declaration. In addition, dividends paid by the Bank to the Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

NOTE 17: ACCUMULATED OTHER COMPREHENSIVE LOSS

The activity in accumulated other comprehensive loss is as follows:

	Unrealized Losses on Securities Available for Sale [(1)] December 31, 2024	2023
	(In Thousands)	
Beginning Balance	**$ (10,318)**	$ (14,784)
Other Comprehensive (Loss) Income Before Reclassifications	**(135)**	4,466
Period Change	**(135)**	4,466
Ending Balance	**$ (10,453)**	$ (10,318)

[(1)] *All amounts are net of tax. Related income tax expense or benefit is calculated using an income tax rate approximating 21%*

There were no amounts reclassified from accumulated other comprehensive loss for the years ended December 31, 2024 and 2023.

NOTE 18: SUBSEQUENT EVENTS

Management has reviewed events occurring through February 28, 2025, the date the financial statements were issued, and no additional subsequent events occurred requiring accrual or disclosure.

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