



JBT BANCORP, INC.

2024

A N N U A L R E P O R T

STRENGTH

I N N U M B E R S

STRENGTH

I N N U M B E R S

Annual reports like this one contain lots of numbers which when taken all together help reflect the strength and stability of a company like JBT Bancorp, Inc. Beyond all the financial numbers, however, there are also numbers that help reflect the culture of JBT and the character of our employees. From the number of hours JBT employees volunteer in the communities we serve, the hours dedicated to employee education and training, and the number of new client relationships established during the past year, to our over 150-year history as a strong, independent community bank, you'll see there are numbers that provide additional insight into our company.

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JBT BANCORP, INC.



3,846

New Client Relationships

JBT continued to strengthen our mission of improving the financial lives of our clients. In 2024, we expanded our portfolio of services and products to small and mid-size businesses.

We also introduced a new approach to CDs, giving our clients more say and flexibility when it comes to establishing the rates and terms that work best for them. While strengthening relationships with current clients, these changes — as well as JBT's Free Checking accounts for individuals and businesses, Digital Banking capabilities, indirect auto loans, and our position as *Pennsylvania's Premier Cannabis Banking Partner* — resulted in the establishment of 3,846 new client relationships in 2024.

3,266

(That Equals 408 Working Days)

Volunteer Hours Invested



*JBT Volunteers
at the United Way
Day of Caring*



*United Way 2024
Employee Giving Award*



Big Brothers Big Sisters



Robesonia Holiday Parade

JBT employees volunteered 3,266 hours of their personal time being active, engaged members of the communities we serve — in food pantries, community health organizations, affordable housing initiatives, churches, local government, historical societies, youth sports, and so many more.

By volunteering in organizations like Big Brothers Big Sisters, Junior Achievement and the Salvation Army, JBT employees, executives and board members strengthened communities in Lebanon, Lancaster, and Berks Counties through their efforts. Financially, JBT made significant monetary donations to Lebanon Valley Family YMCA and the organization's Camp Rocky Creek, Lebanon Family Health Services, Power Packs, St. Daniel's Preschool, Annville Free Library, and many others.



Jaime Hansson
Assistant Vice President
Human Resources Manager

1,135

Dedicated Hours of Training

JBT focuses on strengthening our employees' knowledge and expertise so we can continue to be the valuable financial partner our clients need and trust.

In 2024, JBT employees collectively spent 1,135 hours in training; including training in new product knowledge, client service, fraud prevention and security, new technology, federal regulations and compliance, as well as many other training opportunities.

A hand is shown dropping a coin into a white piggy bank. The piggy bank is in the foreground, and the hand is in the background. The background is a solid green color.

\$950M

in Total Bank Assets

In surpassing the \$950 million asset mark in 2024, JBT continues to be a strong, stable, financial institution for clients and JBTC shareholders.

Deposits grew by more than \$69 million, outpacing the projection for the year. This is important because it reflects growth and contributes to JBT's commitment to remain a strong, independent community bank.

151

Years of Local Community Banking

In our 151-year history, JBT has been a strong, local, independent community bank with a focus on delivering high-quality banking solutions and resources to the businesses, families, and individuals in the communities we serve.

There are very few companies that can claim a run of relevance and independence for over 150 consecutive years. Our stability and strength come from maintaining our focus on the goal of improving the financial lives of our clients backed by JBT's signature *Bank on a Smile®* service that sets us apart.

Board of Directors



Glenn T. Wenger
Chairman
Director - 2008
CEO, Wengers of Myerstown;
Chairman, Ag Industrial, Inc.;
President, JK&B Inc.



Edwin C. Hostetter II CPA CGMA
Vice Chairman
Director - 2013
CPA and CGMA (Inactive) and
Management Consultant; Vice
President & Chief Financial Officer,
SSM Group, Inc. (Retired)



Edward L. Anspach
*Second Vice Chairman
and Secretary*
Director - 1987
President, Anspach Autos



Troy A. Peters
Director - 2016
President and Chief Executive
Officer, JBT Bancorp, Inc.,
Jonestown Bank & Trust Co.



Jeffrey L. Bohn
Director - 1987
Former Owner & President,
JP Donmoyer, Inc.; Executive
Director, Shining Light, Inc.



Gina S. Breslin
Director - 2024
Shareholder, Consultant,
North Group Consultants



Lloyd A. Deaven, Jr.
Director - 1998
President, Patriot Auto Parts
(Retired)



Jonathon E. Hollinger
Director - 2022
President & CEO,
Pleasant View Communities



Brian R. Miller
Director - 2015
Insurance Agency Principal,
Richard S. Miller, Inc.



Sallie A. Neuin
Director - 2009
Lebanon County Treasurer;
Lebanon County Tax
Claim Director



Eric A. Trainer
Director - 2011
Co-owner & Operator, Trainer's
Midway Diner, Quality Inn at Midway,
Microtel Inn & Suites—Hamburg,
Pappy T's Pub & Lounge—Hamburg

Executive Officers

Standing L-R:

Richard M. Rollman
Chief Lending Officer

Michael E. Grenier
Chief Risk Officer

Timothy D. Gingrich
Chief Information Officer

Seated L-R:

Robert B. Weidler Jr.
Chief Financial Officer

Troy A. Peters
President
Chief Executive Officer

Edward T. Martel, Jr.
Chief Operating Officer





Troy A. Peters
President & Chief Executive Officer

"Year after year, I witness the strength of our entire staff, experienced executives, and dedicated directors. It's rewarding to see it all come together to improve the financial lives of our clients and the communities we serve."



Dear Shareholder

It's my privilege to provide an annual update on the performance of JBT Bancorp, Inc. and our wholly owned subsidiary Jonestown Bank & Trust Co.

In 2024, the bank increased assets by 6.4% to \$952 million. Annual earnings decreased 3.1% to \$7.6 million, or \$3.10 per share. The resulting return on average equity and return on average assets were 9.70% and 0.81% respectively. Dividends declared for the year amounted to \$1.02 per share for a dividend yield of 4.12% based on the average share price.

Although corporate annual reports typically focus on the proceeding twelve months, it's appropriate to look at these last twelve months in context of the unique cycle we have been in since 2020. The global pandemic and reaction to it, touched off a very dynamic period for the banking industry. This included swings in liquidity, fifteen FOMC rate changes, and flat/inverted yield curves. Generally, not an ideal banking environment.

Preparing for Growth

With this in mind, our stance heading into 2024 was to position ourselves for the next growth cycle. This should not be confused with "sitting on the sidelines." In fact, we were very active implementing strategies and tactics to adjust our situation.

We worked to strengthen our liquidity position, ending the year with cash and cash equivalents of \$106.7 million, up from \$42.8 million a year before. We also increased our security holdings by 29.5% to \$45.0 million.

Focus on Increasing Deposits

We grew deposits by \$69.2 million, or 9.6%. Our focus here was threefold. First, we continued to relentlessly pursue building new client relationships through business and consumer household acquisition strategies. We exceeded our expectations by attracting nearly 1,800 new core clients. Secondly, we debuted a new time deposit strategy that transitions from advertising CD "specials" to offering customized terms to meet the depositor's goal for the investment. This has been a large success and we increased CD balances by 13.8%.

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Thirdly, we focused our calling efforts and product development to attract larger, more complex, commercial clients. We have continued to build our treasury management suite of products and services. In 2024, we rolled out account analysis, zero-balance accounts, and increased our online financial management capabilities. These joined other offerings including JBT Digital Fraud Protection Service (positive pay), Smart Pay, Digital Lockbox, Remote Deposit Capture, Insured Cash Sweep, Autobooks (online invoicing), merchant credit card processing, and business credit cards.

Expanding Cannabis Banking Business

We also focused on our niche cannabis banking businesses. We expanded our market, gained new relationships, and grew cannabis-related deposits by 67.6%. Our success has helped us become widely known as *Pennsylvania's Premier Cannabis Banking Partner*.

Adjusting Loan Production

As part of our efforts, we dialed back loan production, specifically in the indirect business. Overall loan balances fell 2.2%, with the indirect portfolio declining nearly \$26.0 million for the year. This strategic decision was due to a number of factors including balance sheet management, emerging credit issues, and pricing

considerations. We did grow the commercial portfolio, an area where we attract quality borrowers, get fair pricing, and can build a full banking relationship.

During this current economic cycle, credit quality has remained strong. Delinquency rates drifted down in the first half of the year before edging back up in the second half. Past due loans can almost entirely be attributed to auto lending which mirrors the national trend in this segment.

Thank You

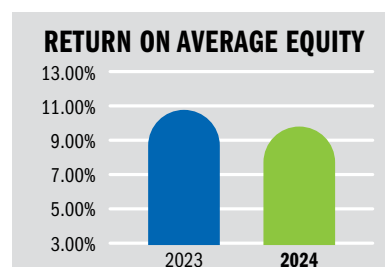
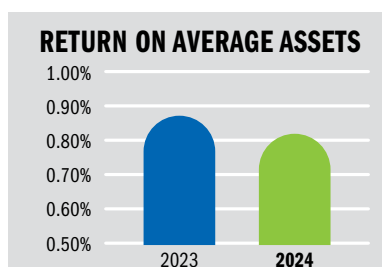
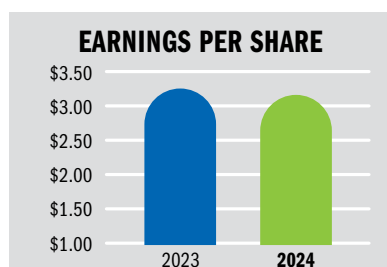
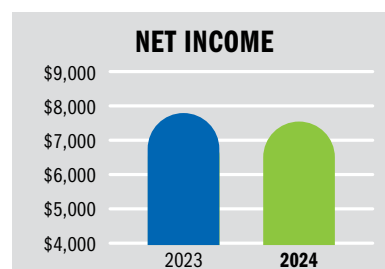
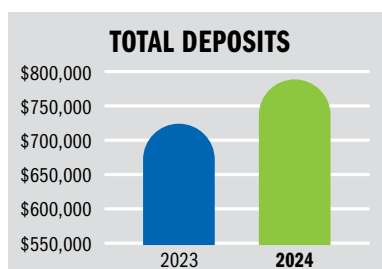
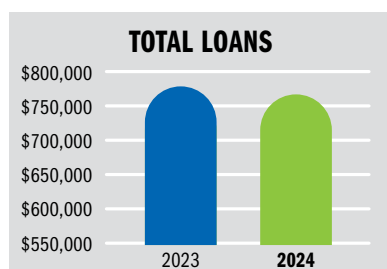
Given our strong fundamentals, managed risk profile, dedicated employees, and market potential, we are well positioned heading into the coming year. Your trust in us, as demonstrated by being a client and shareholder, is a responsibility we take very seriously. Thank you for your continued confidence and investment. It matters a great deal to us, our clients, and the communities that we serve.



Troy A. Peters
President & Chief Executive Officer

Financial Highlights

(Dollars in thousands, except per share amounts)	2024	2023	Change
Results of Operations			
Net interest income	\$ 32,273	\$ 31,199	3.4%
Credit loss provisions	1,729	1,194	44.8%
Net income	7,555	7,793	-3.1%
Per Share Data			
Book value	\$ 33.44	\$ 31.05	7.7%
Basic earnings	3.10	3.20	-3.1%
Dividends declared	\$ 1.020	\$ 0.985	3.6%
Financial Condition at Year-end			
Assets	\$ 952,125	\$ 894,577	6.4%
Deposits	788,232	719,000	9.6%
Loans receivable, net	759,153	776,088	-2.2%
Allowance for credit loss	9,015	9,101	-0.9%
Shareholders' equity	81,371	75,563	7.7%
Financial ratios			
Return on average assets	0.81%	0.87%	-6.9%
Return on average equity	9.70%	10.81%	-10.3%





INDEPENDENT AUDITOR'S REPORT

Shareholders and the Board of Directors
JBT Bancorp, Inc.
Jonestown, Pennsylvania

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of JBT Bancorp, Inc. 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 JBT Bancorp, Inc. 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2023, the entity adopted new accounting guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326) using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated financial statements.

In performing an audit in accordance with GAAS, we:

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

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 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.

Crowe LLP

Crowe LLP

Washington, D.C.
March 4, 2025

J B T Bancorp, Inc.
(Dollar amounts in thousands)

CONSOLIDATED BALANCE SHEETS

	December 31,	
	2024	2023
ASSETS		
Cash and due from banks	\$ 14,244	\$ 12,552
Interest bearing deposits in other banks	92,418	30,212
Cash and cash equivalents	106,662	42,764
Securities available for sale, at fair value	45,050	34,799
Loan held for sale	402	-
Loans	768,168	785,189
Less allowance for credit losses	9,015	9,101
Net loans	759,153	776,088
Restricted investment in bank stock	3,169	4,001
Other real estate owned	-	-
Premises and equipment	8,546	8,885
Bank-owned life insurance	20,724	19,836
Accrued interest receivable	2,886	3,092
Other assets	5,533	5,112
Total assets	<u>\$ 952,125</u>	<u>\$ 894,577</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Non-interest-bearing	\$ 153,688	\$ 133,964
Interest-bearing	634,544	585,036
Total deposits	788,232	719,000
Federal Home Loan Bank advances	64,125	83,125
Subordinated debt	9,926	9,915
Accrued interest payable and other liabilities	8,471	6,974
Total liabilities	<u>\$ 870,754</u>	<u>\$ 819,014</u>
Shareholders' equity		
Preferred stock, no par value; \$1,000 per share liquidation preference; 3,996,000 shares authorized; no shares issued and outstanding	-	-
Common stock, par value \$2.00; 6,000,000 shares authorized; issued and outstanding 2,433,696 on December 31, 2024 and December 31, 2023	4,867	4,867
Surplus	7,394	7,394
Retained earnings	70,512	65,391
Accumulated other comprehensive income (loss)	(1,402)	(2,089)
Total shareholders' equity	<u>\$ 81,371</u>	<u>\$ 75,563</u>
Total liabilities and shareholders' equity	<u>\$ 952,125</u>	<u>\$ 894,577</u>

J B T Bancorp, Inc.
(Dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	<u>2024</u>	<u>2023</u>
Interest and dividend income		
Loans, including fees	\$ 42,763	\$ 41,042
Taxable securities	1,855	1,183
Tax-exempt securities	143	131
Dividend income on securities	308	311
Other	3,906	1,507
Total interest and dividend income	<u>48,975</u>	<u>44,174</u>
Interest expense		
Deposits	12,804	8,624
Federal Home Loan Bank advances	3,512	3,965
Subordinated debentures	386	386
Total interest expense	<u>16,702</u>	<u>12,975</u>
Net interest income	32,273	31,199
Credit loss provision - loans	1,527	1,394
Credit loss provision - off-balance sheet credit exposures	202	(200)
Credit loss provision	1,729	1,194
Net interest income after credit loss provision	<u>30,544</u>	<u>30,005</u>
Non-interest income		
Service charges on deposit accounts	1,800	1,796
Debit and credit card fees	1,729	1,624
Earnings on investments in life insurance	570	411
Net gains on sales of loans	54	4
Other	641	480
Total non-interest income	<u>4,794</u>	<u>4,315</u>
Non-interest expense		
Salaries and employee benefits	13,835	12,321
Data processing	2,371	2,166
Occupancy	1,508	1,430
Advertising	872	989
Equipment expense	630	675
Pennsylvania bank shares tax	769	723
Federal deposit insurance	594	610
Other	5,417	5,752
Total non-interest expense	<u>25,996</u>	<u>24,666</u>
Income before income taxes	9,342	9,654
Income tax expense	1,787	1,861
Net income	<u>\$ 7,555</u>	<u>\$ 7,793</u>
Earnings per share, basic and diluted	<u>\$ 3.10</u>	<u>\$ 3.20</u>
Weighted-average shares outstanding	<u>2,433,696</u>	<u>2,433,696</u>

J B T Bancorp, Inc.
(Dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2024	2023
Net Income	\$ 7,555	\$ 7,793
Unrealized gains (losses) on debt securities available-for-sale:		
Unrealized holding gain (loss) arising during the year	564	(462)
Tax effect	(119)	97
Net of tax	445	(365)
Defined benefit pension plan:		
Net gain (loss) arising during the year	306	263
Tax effect	(64)	(55)
Net of tax	242	208
Total other comprehensive income (loss)	687	(157)
Comprehensive income	\$ 8,242	\$ 7,636

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

	Common Stock	Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2023	\$ 4,867	\$ 7,394	\$ 60,273	\$ (1,932)	\$ 70,602
Reclassification related to adoption of ASU 2018-02	-	-	(290)	-	(290)
Net income	-	-	7,793	-	7,793
Other comprehensive income (loss), net of taxes	-	-	-	(157)	(157)
Dividends declared (\$0.98 per share)	-	-	(2,385)	-	(2,385)
Balance at December 31, 2023	\$ 4,867	\$ 7,394	\$ 65,391	\$ (2,089)	\$ 75,563
Net income	-	-	7,555	-	7,555
Other comprehensive income (loss), net of taxes	-	-	-	687	687
Dividends declared (\$1.00 per share)	-	-	(2,434)	-	(2,434)
Balance, December 31, 2024	\$ 4,867	\$ 7,394	\$ 70,512	\$ (1,402)	\$ 81,371

J B T Bancorp, Inc.

(Dollar amounts in thousands)

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2024	2023
Cash flows from operating activities		
Net income	\$ 7,555	\$ 7,793
Adjustments to reconcile net income to net cash from operating activities:		
Credit loss expense	1,527	1,394
Depreciation and amortization of premises and equipment	668	659
Net amortization (accretion) of securities	(108)	47
Net amortization of deferred loan fees	2,906	2,368
Deferred income tax expense (benefit)	(735)	(609)
Loss on disposal of property and equipment	10	7
Origination of loans held for sale	(4,041)	(184)
Proceeds from loans held for sale	3,693	188
Net (gain) on sale of loans	(54)	(4)
Earnings on bank-owned life insurance	(570)	(411)
Net change in:		
Accrued interest receivable and other assets	643	610
Accrued interest payable and other liabilities	1,508	1,147
Net cash from operating activities	13,002	13,005
Cash flows from investing activities		
Proceeds from maturities and principal repayments		
Securities held to maturity	-	400
Securities available for sale	14,930	2,089
Purchase of securities available for sale	(24,509)	(6,914)
Net (increase) decrease in loans	12,502	(4,162)
Purchases of Federal Home Loan Bank stock	(120)	(3,511)
Redemptions of Federal Home Loan Bank stock	952	1,849
Purchase of premises and equipment	(339)	(305)
Purchase of bank-owned life insurance	(318)	(3,483)
Net cash from investing activities	3,098	(14,037)
Cash flows from financing activities		
Net increase (decrease) in deposits	69,232	(20,394)
Proceeds from Federal Home Loan Bank advances	70,000	51,000
Repayments of Federal Home Loan Bank advances	(89,000)	(9,522)
Dividends on common stock	(2,434)	(2,385)
Net cash from financing activities	47,798	18,699
Net change in cash and cash equivalents	63,898	17,667
Beginning cash and cash equivalents	42,764	25,097
Ending cash and cash equivalents	\$ 106,662	\$ 42,764
Supplemental cash flow information:		
Interest paid	\$ 16,764	\$ 12,197
Income taxes paid	2,410	2,454
Supplemental noncash disclosures:		
Lease liabilities arising from acquiring right-of-use assets	\$ -	\$ 432

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Summary of Significant Accounting Policies

Nature of Operations and Principles of Consolidation

The consolidated financial statements include JBT Bancorp, Inc., and its wholly owned subsidiary, Jonestown Bank & Trust Co., together referred to as “the Company.” Intercompany transactions and balances are eliminated in consolidation.

The Company provides financial services through its 11 full service officer and two limited service offices located in Lebanon County, northern Lancaster County, and eastern Berks County, Pennsylvania. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events

Management has reviewed events occurring through March 4, 2025, the date the consolidated financial statements were available to be issued and no subsequent events occurred requiring disclosure.

Use of Estimates

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

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions with maturities fewer than 90 days, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions, interest bearing deposits in other financial institutions, and federal funds purchased and repurchase agreements.

Interest-Bearing Deposits in Other Financial Institutions

Interest-bearing deposits in other financial institutions mature within one year and are carried at cost.

Debt Securities

Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available-for-sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Premiums on callable debt securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A debt security is placed on nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. The amount of accrued interest reversed against interest income totaled \$0 and \$0 for the years ended December 31, 2024 and 2023, respectively.

1. Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses – Available-For-Sale Securities

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled \$250 and \$300 at December 31, 2024 and 2023, and is excluded from the estimate of credit losses.

Equity Securities

Equity securities are carried at fair value with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Restrictions on the sale of equity securities held are not considered in the fair value measurement unless the restriction is a characteristic of the actual securities.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net realized losses, if any, are recorded as a valuation allowance and charged to earnings.

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

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled \$2,568 at December 31, 2024 and was reported in Accrued interest receivable on the consolidated balance sheets 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 in interest income using the level-yield method without anticipating prepayments.

Commercial loans include advances to local businesses for various commercial purposes including working capital, inventory, equipment, machinery, commercial vehicles, and municipal improvements. These loans may be structured as a line of credit or term loan. A significant portion of these loans are either secured by business real estate or the business owner's personal real estate. Loans secured solely by a business' accounts receivable, inventory, and equipment represent a small portion of this loan segment. Commercial loans are typically a riskier loan segment as they are more vulnerable to economic conditions. The Company attempts to mitigate this risk through strong underwriting standards, acquiring collateral and personal guarantees of the business owners when warranted, and by performing annual relationship reviews. This segment also includes a

1. Summary of Significant Accounting Policies (continued)

small number of municipal loans that are provided to support local municipal projects and school districts. These loans present a lower risk to the Company, as they are secured by the entity's taxing authority or revenue streams.

Commercial Real Estate loans include advances to local businesses for the purchase, refinance, or improvement of a business property. These loans are structured as term loans, with variable rate loan features, and are secured by a senior or junior lien on the property. A specialty within this segment includes hotel/motel financing. Commercial Real Estate loans are typically a riskier loan segment as they are more vulnerable to economic conditions. The Company attempts to mitigate these risks by having strong underwriting standards, acquiring the personal guarantees of the business owners when warranted, and by performing annual relationship reviews.

Commercial Real Estate Construction loans include loans to fund various commercial construction projects, including new projects or renovations to existing projects. These loans are typically secured by the property being improved. Loans remain in this segment until the completion of the project. Risk during construction is managed by a third-party inspection company to ensure that the work is completed per original specifications. After completion of the project, the loan is transferred to another loan segment based upon its specific type.

Residential Real Estate loans include Mortgages, Home Equity and Investment loans.

Mortgages are advanced for consumer purposes and are secured by a first lien on the consumer's personal residence. Customers have the choice of either fixed rate or adjustable rate. The Company manages the risks associated with this loan segment by having strong underwriting criteria, including requiring private mortgage insurance for loans that exceed a loan to value of 80%.

Home Equity Loans, which include both term loans and lines of credit options, are offered for various consumer purposes. These loans are secured by either a senior or junior lien on a customer's personal residence. The Company manages the risks associated with this loan segment by having strong underwriting criteria, including a maximum loan to value of 80%.

Investment Property Loans represent loans advanced for the purchase or refinance of 1-4 family residential properties that will be held for investment where the owner intends to rent the property, which typically is the primary repayment source of the loan. These loans are processed as commercial term loans and are underwritten including the projected income and expenses of the subject property. This segment proposes additional risk to the Company, as economic conditions can impact property owner's cash flow due to occupancy issues. The Company manages the risks of this segment by having strong underwriting criteria, including occupancy discounts and having a maximum loan to value of 80%.

Indirect loans are loans advanced for the purpose of purchasing consumer automobiles, motorcycles, or recreation merchandise. These loans are processed through a network of local dealers that the Company has agreed to do business with. Dealers are vetted to mitigate risk. This segment is a significant business operation for the Company. The Company has many risk management initiatives in place to manage the risk associated with this type of business.

Consumer loans, including both term loans and lines of credit, are offered for a variety of consumer purposes. These loans may be either secured or unsecured. Loans are typically collateralized by automobile titles, recreational merchandise, or deposit accounts. The risks associated with this loan type are mitigated by strong underwriting criteria. These loans present a greater risk of loss to the Company than consumer loans secured by real estate, as many have no collateral or have collateral that depreciates rapidly.

Interest income on residential and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage loans are charged off at 180 days past due, and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer and credit card loans continue to accrue interest until they are charged off no later than 120 days past due unless the loan is in the process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

1. Summary of Significant Accounting Policies (continued)

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans

The allowance for credit losses – loans (“ACL”) represents an amount that in management's judgment, is reflective of expected credit losses inherent in the loan portfolio as of the balance sheet date. Balances deemed to be uncollectible are charged against the ACL on loans when identified and subsequent recoveries if any, are credited to the ACL when received. Additions and reductions to the ACL are recognized through the provision for credit losses on loans in the Company's consolidated statement of income.

The ACL estimation process is performed in accordance with ASU Topic 326. When calculating the ACL estimate, management considers the effects of past events, current economic conditions, and reasonable, supportable forecasts regarding the expected collectability of financial assets as of the reporting date. The bank also considers the need to qualitatively adjust credit loss estimates for information not already included in the quantitative loss calculation. Methods used to estimate the ACL are consistently applied over time to reflect current expectations of future lifetime credit losses.

The ACL is estimated on a collective, or pooled basis where loans with similar risk characteristics are grouped together and evaluated collectively for potential future losses. For ACL purposes, management typically groups collectively evaluated loans by federal call code. Peer bank data pertaining to historic loss rates is considered in this analysis when internal historic loss data is insufficient or not meaningful. Discounted cash flow or weighted average remaining life methods are typically used to quantitatively estimate the ACL for pooled loans.

Qualitative loss factors are applied to pooled loan balances when appropriate. These factors adjust expected credit losses to account for pertinent information not already included in the ACL calculation. The following qualitative factors are considered when analyzing the pooled loan portfolio:

- Changes in lending policies, procedures, and strategies
- Changes in the nature and volume of the loan portfolio
- Experience level of staff and management
- Delinquency and non-accrual trends
- Concentrations of credit risk
- Changes in value of loan collateral
- Competitive, legal and regulatory factors
- Quality of the loan review function
- Changes in economic conditions

Data from Federal Open Market Committee (FOMC) sources are utilized to provide reasonable and supportable economic forecasts to inform and project future expected credit losses.

The Company individually evaluates loans for expected credit losses when the financial asset does not share similar risk characteristics with loans that are being evaluated on a pooled basis. Individually analyzed loans are not included in the collective assessment of expected credit losses for pooled loans. Loans with unique risk characteristics are individually analyzed for potential credit loss and a specific loss reserve is calculated as needed.

Loss reserves for individually analyzed loans may be determined based upon the present value of expected future cash flows discounted at the loan's effective interest rate, or (as a practical expedient) at the loan's observable market price, or at the fair value of the collateral if the loan is collateral dependent.

1. Summary of Significant Accounting Policies (continued)

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancelled by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. 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.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within the state of Pennsylvania as it relates to indirect dealer financing, and within the Lebanon-Lancaster-Berks county area as it relates to all other loans. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the state of Pennsylvania and the counties of Lebanon, Lancaster, and Berks. The Company has a significant concentration of loans to lessors of 1-4 family residential properties, lessors of non-residential properties, and the hospitality industry.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when the assets have been legally isolated from the Company, 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 the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method with useful lives ranging from 5 to 40 years. Furniture, fixtures and equipment are depreciated using the straight-line (or accelerated) method with useful lives ranging from 3 to 7 years.

Leases

The Company follows Accounting Standard Update (ASU) 2016-02, *Leases* (Topic 842) in accounting for right-of-use ("ROU") assets and lease liabilities.

Lease agreements are entered into to obtain the right to use assets for business operations. Lease liabilities and ROU assets are recognized when entering into operating leases and represent obligations and rights to use these assets over the period of the leases and may be re-measured for certain modifications, resolution of certain contingencies involving variable consideration, or exercise of options (renewal, extension, or termination) under the lease.

Operating lease liabilities include fixed and in-substance fixed payments for the contractual duration of the lease. The lease payments are discounted using a rate determined when the lease is recognized. As the discount rate implicit in the lease is typically not known, an estimated discount rate that approximates a collateralized borrowing rate for the estimated duration of the lease is used. The discount rate is updated when re-measurement events occur. The related operating lease ROU assets may differ from operating lease liabilities due to initial direct costs, deferred or prepaid lease payments and lease incentives.

Operating lease liabilities are presented in accrued interest payable and other liabilities and the related operating lease ROU assets in premises and equipment. The amortization of operating lease ROU assets and the accretion of operating lease liabilities are reported together as fixed lease expense and are included in occupancy expense within noninterest expense. The fixed lease expense is recognized on a straight-line basis over the life of the lease.

1. Summary of Significant Accounting Policies (continued)

Some of the operating leases include variable lease payments which are periodic adjustments of our payments for the use of the asset based on changes in factors such as consumer price indices, fair market value, tax rates imposed by taxing authorities, or lessor cost of insurance. To the extent not included in operating lease liabilities and operating lease ROU assets, these variable lease payments are recognized as incurred in occupancy expense within noninterest expense.

For substantially all of our leased assets, the consideration paid under the contract for maintenance or other services is accounted for as lease payments. In addition, for certain asset classes, the Company has elected to exclude leases with original terms of less than one year from the operating lease ROU assets and lease liabilities. The related short-term lease expense is included in occupancy expense.

Federal Home Loan Bank (FHLB) Stock

The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery or par value. Both cash and stock dividends are reported as income.

Company Owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charged or other amounts due that are probable at settlement.

Loan Commitments and Related Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitment to make loans and commercial letters credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax bases of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Retirement Plans

Pension expense is the net of service and interest cost, return on plan assets and amortization of gains and losses not immediately recognized. Employee 401(k) expense is the amount of matching contributions. Supplemental retirement plan expense allocates the benefits over years of service.

Earnings per Share

Basic earnings per share represent net income available to common shareholders divided by the weighted-average number of shares outstanding during the period. Dividends on preferred stock are deducted from net income in calculating earnings per common share. The Company currently maintains a simple capital structure and there are no dilutive effects on earnings per share.

1. Summary of Significant Accounting Policies (continued)

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale and changes in the funded status of the pension plan which are also recognized as separate components of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Restrictions on Cash

Cash on hand or on deposit with the Federal Reserve Bank was required to meet regulatory reserve and clearing requirements.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Fair Value of Financial Instruments

Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgement regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect these estimates.

Reclassifications

Some items in the prior year financial statements were reclassified to conform to the current presentation. Reclassifications had no effect on prior year net income or shareholders' equity.

Adoption of New Accounting Standards

On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses* (Topic 326): *Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after December 31, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a net decrease to retained earnings of \$290 thousand as of January 1, 2023 for the cumulative effect of adopting ASC 326.

1. Summary of Significant Accounting Policies (continued)

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	Reserves under Incurred Loss Model	Reserves under CECL Model	Impact of CECL Adoption
Financial assets:			
Commercial loans	\$ 369	\$ 645	\$ 276
Commercial real estate	2,405	2,829	424
Commercial real estate construction	42	96	54
Residential real estate	2,185	1,743	(442)
Consumer indirect auto	3,672	3,381	(291)
Consumer other	535	406	(129)
Allowance for credit losses on loans	<u>\$ 9,208</u>	<u>\$ 9,100</u>	<u>\$ (108)</u>
Liabilities:			
Off-balance sheet allowance	\$ 375	\$ 850	\$ 475

2. Debt Securities

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

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
<u>December 31, 2024</u>					
Available-for-sale securities					
US government sponsored entities and agencies	\$ 2,545	\$ 13	\$ 5	\$ -	\$ 2,553
State and political subdivisions	6,179	1	277	-	5,903
Mortgage-backed securities - residential	27,086	10	884	-	26,212
Other	11,241	-	859	-	10,382
Total	<u>\$ 47,051</u>	<u>\$ 24</u>	<u>\$ 2,025</u>	<u>\$ -</u>	<u>\$ 45,050</u>
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance for Credit Losses	Fair Value
<u>December 31, 2023</u>					
Available-for-sale securities					
US government sponsored entities and agencies	\$ 4,066	\$ 20	\$ 9	\$ -	\$ 4,077
State and political subdivisions	6,266	6	273	-	5,999
Mortgage-backed securities - residential	15,788	2	818	-	14,972
Other	11,244	-	1,493	-	9,751
Total	<u>\$ 37,364</u>	<u>\$ 28</u>	<u>\$ 2,593</u>	<u>\$ -</u>	<u>\$ 34,799</u>

No debt securities were sold in 2024 or 2023.

2. Debt Securities (continued)

The amortized cost and fair value of debt securities are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayments penalties. Securities not due at a single maturity date are shown separately.

	Amortized Cost	Fair Value
<u>December 31, 2024</u>		
Available-for-sale		
Within one year	\$ -	\$ -
One to five years	3,906	3,906
Five to ten years	14,250	13,363
Beyond ten years	1,809	1,569
Mortgage-backed securities - residential	27,086	26,212
Total	<u>\$ 47,051</u>	<u>\$ 45,050</u>

Securities pledged at year-end 2024 and 2023 had a carrying amount of \$31,899 and \$11,729, respectively, and were pledged to secure public deposits.

At year-end 2024 and 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

The following tables summarize debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2024 and 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2024</u>						
Available-for-sale securities						
US government sponsored entities and agencies	\$ 1,767	\$ 5	\$ -	\$ -	\$ 1,767	\$ 5
State and political subdivisions	798	6	3,947	271	4,745	277
Mortgage-backed securities - residential	10,872	136	12,239	748	23,111	884
Other securities	-	-	10,382	859	10,382	859
Total	<u>\$13,437</u>	<u>\$ 147</u>	<u>\$26,568</u>	<u>\$ 1,878</u>	<u>\$40,005</u>	<u>\$ 2,025</u>
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>December 31, 2023</u>						
Available-for-sale securities						
US government sponsored entities and agencies	\$ 2,998	\$ 9	\$ -	\$ -	\$ 2,998	\$ 9
State and political subdivisions	2,643	13	2,544	260	5,187	273
Other securities	-	-	9,751	1,493	9,751	1,493
Total	<u>\$ 8,742</u>	<u>\$ 83</u>	<u>\$24,018</u>	<u>\$ 2,510</u>	<u>\$32,760</u>	<u>\$ 2,593</u>

All mortgage-backed securities held by the Company were issued by U.S. government-sponsored entities and agencies. These securities maintain high credit quality ratings and principal and interest collection continues to be timely. Unrealized losses are determined to be associated with changes in market interest rates and are expected to recover as maturities are approached and/or market rates change.

Unrealized losses on state and political subdivisions bonds and other securities have not been recognized into income because the issuers bonds are of high credit quality (rated AA or higher), management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

3. Loans and Allowance for Credit Losses

Loans at year-end were as follows:

	2024	2023
Commercial	\$ 37,447	\$ 37,524
Commercial real estate	242,061	232,956
Commercial real estate construction	6,889	6,928
Secured by residential real estate	224,662	220,844
Indirect automobile financing	247,761	276,475
Consumer - other	9,348	10,462
Gross loans	768,168	785,189
Less allowance for loan losses	9,015	9,101
Net loans	\$ 759,153	\$ 776,088

Net deferred costs included in the preceding table total \$8,216 and \$11,429 as of December 31, 2024 and 2023, respectively.

The following tables present the activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2024 and 2023, respectively:

	Commercial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Consumer Indirect Autos	Consumer Other	Total
<u>December 31, 2024</u>							
Allowance for credit losses:							
Beginning balance	\$ 516	\$ 1,927	\$ 162	\$ 1,752	\$ 4,273	\$ 471	\$ 9,101
Credit loss expense	88	276	(8)	84	949	138	1,527
Charge-offs	-	-	-	(1)	(2,760)	(181)	(2,942)
Recoveries	-	-	-	5	1,251	73	1,329
Ending Balance	\$ 604	\$ 2,203	\$ 154	\$ 1,840	\$ 3,713	\$ 501	\$ 9,015

	Commercial	Commercial Real Estate	Commercial Real Estate Construction	Residential Real Estate	Consumer Indirect Autos	Consumer Other	Total
<u>December 31, 2023</u>							
Allowance for credit losses:							
Beginning balance, prior to adoption of ASC 326	\$ 369	\$ 2,405	\$ 42	\$ 2,185	\$ 3,672	\$ 535	\$ 9,208
Impact of adopting ASC 326	276	424	54	(442)	(291)	(129)	(108)
Credit loss expense	(133)	(902)	66	13	2,033	317	1,394
Charge-offs	-	-	-	(14)	(1,809)	(324)	(2,147)
Recoveries	4	-	-	10	668	72	754
Ending Balance	\$ 516	\$ 1,927	\$ 162	\$ 1,752	\$ 4,273	\$ 471	\$ 9,101

3. Loans and Allowance for Credit Losses (continued)

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 89 days still accruing as of December 31, 2024 and 2023:

	Nonaccrual With No Allowance for Credit Loss	Nonaccrual Loans	Loans Past Due Over 89 Days Still Accruing
<u>December 31, 2024</u>			
Commercial real estate	\$ -	\$ 36	\$ 22
Residential real estate	306	55	378
Indirect auto financing	-	-	275
Consumer - other	-	-	41
Total	<u>\$ 306</u>	<u>\$ 91</u>	<u>\$ 716</u>
	Nonaccrual With No Allowance for Credit Loss	Nonaccrual Loans	Loans Past Due Over 89 Days Still Accruing
<u>December 31, 2023</u>			
Commercial	\$ -	\$ 42	\$ -
Commercial real estate	-	-	82
Residential real estate	368	88	1
Indirect auto financing	-	-	121
Consumer - other	-	-	16
Total	<u>\$ 368</u>	<u>\$ 130</u>	<u>\$ 220</u>

The Company recognized \$30 and \$305 of interest income on nonaccrual loans during the years ended December 31, 2024 and 2023.

The following tables present the amortized cost basis of collateral-dependent loans by segment as of December 31, 2024 and 2023:

			Collateral:
			Residential RE
<u>December 31, 2024</u>			
Residential real estate			\$ 619
Total			<u>\$ 619</u>
		Collateral:	Collateral:
		Commercial RE	Residential RE
<u>December 31, 2023</u>			
Commercial real estate		\$ 5,726	\$ -
Residential real estate		-	1,370
Total		<u>\$ 5,726</u>	<u>\$ 1,370</u>

3. Loans and Allowance for Credit Losses (continued)

The following tables present the aging of the amortized cost basis in past-due loans as of December 31, 2024 and 2023 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
<u>December 31, 2024</u>						
Commercial	\$ 8	\$ -	\$ -	\$ 8	\$ 37,439	\$ 37,447
Commercial real estate	-	-	22	22	242,039	242,061
Commercial real estate construction	-	-	-	-	6,889	6,889
Residential real estate	883	268	608	1,759	222,903	224,662
Indirect auto financing	2,912	692	275	3,879	243,882	247,761
Consumer - other	141	28	41	210	9,138	9,348
Total	<u>\$ 3,944</u>	<u>\$ 988</u>	<u>\$ 946</u>	<u>\$ 5,878</u>	<u>\$ 762,290</u>	<u>\$ 768,168</u>
	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater Than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
<u>December 31, 2023</u>						
Commercial	\$ -	\$ -	\$ -	\$ -	\$ 37,524	\$ 37,524
Commercial real estate	43	22	82	147	232,809	232,956
Commercial real estate construction	-	-	-	-	6,928	6,928
Indirect auto financing	3,997	490	121	4,608	271,867	276,475
Consumer - other	128	76	16	220	10,242	10,462
Total	<u>\$ 5,278</u>	<u>\$ 677</u>	<u>\$ 511</u>	<u>\$ 6,466</u>	<u>\$ 778,723</u>	<u>\$ 785,189</u>

Occasionally, the company may modify loans to borrowers in financial distress by providing principal forgiveness, term extension, and other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off, against the allowance for credit losses.

The following tables present the amortized cost basis of loans at December 31, 2024 and 2023 that were both experiencing financial difficulty and modified during the year ended December 31, 2024 and 2023, by class and by type of modification. The percentage of the amortized cost basis of loans that were modified to borrowers in financial distress as compared to the amortized cost basis of each class of financing receivable is also presented below:

	Term Extension	Total Class of Financing Receivable
<u>December 31, 2024</u>		
Commercial real estate	\$ 442	0.18%
Residential real estate	\$ 281	0.13%
Total	<u>\$ 723</u>	<u>0.15%</u>
	Term Extension	Total Class of Financing Receivable
<u>December 31, 2023</u>		
Residential real estate	\$ 114	0.05%
Total	<u>\$ 114</u>	<u>0.05%</u>

3. Loans and Allowance for Credit Losses (continued)

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. No loans are past due that have been modified in the last 12 months.

The following tables present the financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the year ended December 31, 2024 and 2023:

	Term Extension
<u>December 31, 2024</u>	
Commercial real estate	5.3 years
Residential real estate	13.5 years
	Term Extension
<u>December 31, 2023</u>	
Residential real estate	9.5 years

The Company 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. Loans are analyzed individually to classify the loans as to credit risk. This analysis is conducted according to the Company's annual review guidelines on the commercial and commercial real estate portfolio and 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 have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution 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, condition, and values, highly questionable and improbable.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

J B T Bancorp, Inc.
(Dollar amounts in thousands)

3. Loans and Allowance for Credit Losses (continued)

	Term Loan Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	Prior			
<u>December 31, 2024</u>							
Commercial loans:							
Pass	\$ 4,103	\$ 2,894	\$ 5,401	\$ 24,929	\$ -	\$ -	\$ 37,327
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	120	-	-	120
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 4,103</u>	<u>\$ 2,894</u>	<u>\$ 5,401</u>	<u>\$ 25,049</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,447</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:							
Pass	\$ 22,704	\$ 37,401	\$ 29,853	\$ 144,857	\$ -	\$ -	\$ 234,815
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	7,246	-	-	7,246
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 22,704</u>	<u>\$ 37,401</u>	<u>\$ 29,853</u>	<u>\$ 152,103</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 242,061</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate construction:							
Pass	\$ 3,023	\$ 18	\$ 1,790	\$ 2,058	\$ -	\$ -	\$ 6,889
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 3,023</u>	<u>\$ 18</u>	<u>\$ 1,790</u>	<u>\$ 2,058</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,889</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

J B T Bancorp, Inc.
(Dollar amounts in thousands)

3. Loans and Allowance for Credit Losses (continued)

	Term Loan Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
<u>December 31, 2023</u>							
Commercial loans:							
Pass	\$ 6,171	\$ 5,654	\$ 3,308	\$ 21,897	\$ -	\$ -	\$ 37,030
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	494	-	-	494
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 6,171</u>	<u>\$ 5,654</u>	<u>\$ 3,308</u>	<u>\$ 22,391</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 37,524</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate:							
Pass	\$ 29,129	\$ 30,895	\$ 44,593	\$ 119,590	\$ -	\$ -	\$ 224,207
Special mention	-	-	-	-	-	-	-
Substandard	221	252	1,974	6,302	-	-	8,749
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 29,350</u>	<u>\$ 31,147</u>	<u>\$ 46,567</u>	<u>\$ 125,892</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 232,956</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate construction:							
Pass	\$ 1,129	\$ 4,583	\$ 234	\$ 757	\$ -	\$ -	\$ 6,703
Special mention	-	-	-	-	-	-	-
Substandard	-	-	-	225	-	-	225
Doubtful	-	-	-	-	-	-	-
Total	<u>\$ 1,129</u>	<u>\$ 4,583</u>	<u>\$ 234</u>	<u>\$ 982</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,928</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

3. Loans and Allowance for Credit Losses (continued)

The Company considers the performance of the loan portfolio and its impact on the allowance for credit losses. For residential and consumer loan classes, the Company also evaluates credit quality based on the aging status of the loan, which was previously presented, and by payment activity. The following tables present the amortized cost in residential and consumer loans based on payment activity:

	Term Loan Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2024	2023	2022	Prior			
<u>December 31, 2024</u>							
Residential real estate:							
Payment performance							
Performing	\$ 27,776	\$ 26,248	\$ 42,407	\$ 97,807	\$ 29,685	\$ -	\$ 223,923
Nonperforming	-	-	141	368	230	-	739
Total	<u>\$ 27,776</u>	<u>\$ 26,248</u>	<u>\$ 42,548</u>	<u>\$ 98,175</u>	<u>\$ 29,915</u>	<u>\$ -</u>	<u>\$ 224,662</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 1	\$ -	\$ -	\$ 1
Indirect auto financing:							
Payment performance							
Performing	\$ 64,319	\$ 58,650	\$ 70,064	\$ 54,453	\$ -	\$ -	\$ 247,486
Nonperforming	29	32	107	107	-	-	275
Total	<u>\$ 64,348</u>	<u>\$ 58,682</u>	<u>\$ 70,171</u>	<u>\$ 54,560</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 247,761</u>
Current period gross write-offs	\$ 97	\$ 764	\$ 1,147	\$ 752	\$ -	\$ -	\$ 2,760
Consumer - other:							
Payment performance							
Performing	\$ 2,061	\$ 1,782	\$ 1,079	\$ 4,385	\$ -	\$ -	\$ 9,307
Nonperforming	-	-	24	17	-	-	41
Total	<u>\$ 2,061</u>	<u>\$ 1,782</u>	<u>\$ 1,103</u>	<u>\$ 4,402</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,348</u>
Current period gross write-offs	\$ 97	\$ 13	\$ 24	\$ 47	\$ -	\$ -	\$ 181

3. Loans and Allowance for Credit Losses (continued)

	Term Loan Amortized Cost Basis by Origination Year				Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	Total
	2023	2022	2021	Prior			
<u>December 31, 2023</u>							
Residential real estate:							
Payment performance							
Performing	\$ 30,303	\$ 48,729	\$ 28,320	\$ 87,781	\$ 25,254	\$ -	\$ 220,387
Nonperforming	-	-	80	297	80	-	457
Total	<u>\$ 30,303</u>	<u>\$ 48,729</u>	<u>\$ 28,400</u>	<u>\$ 88,078</u>	<u>\$ 25,334</u>	<u>\$ -</u>	<u>\$ 220,844</u>
Current period gross write-offs	\$ -	\$ -	\$ -	\$ 14	\$ -	\$ -	\$ 14
Indirect auto financing:							
Payment performance							
Performing	\$ 81,832	\$ 100,491	\$ 55,627	\$ 38,404	\$ -	\$ -	\$ 276,354
Nonperforming	-	62	39	20	-	-	121
Total	<u>\$ 81,832</u>	<u>\$ 100,553</u>	<u>\$ 55,666</u>	<u>\$ 38,424</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 276,475</u>
Current period gross write-offs	\$ 48	\$ 1,058	\$ 484	\$ 219	\$ -	\$ -	\$ 1,809
Consumer - other:							
Payment performance							
Performing	\$ 2,677	\$ 1,849	\$ 1,234	\$ 4,686	\$ -	\$ -	\$ 10,446
Nonperforming	-	-	-	16	-	-	16
Total	<u>\$ 2,677</u>	<u>\$ 1,849</u>	<u>\$ 1,234</u>	<u>\$ 4,702</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10,462</u>
Current period gross write-offs	\$ 5	\$ 29	\$ 15	\$ 275	\$ -	\$ -	\$ 324

4. Other Real Estate Owned

There was no other real estate owned balance or activity in either 2024 or 2023. At December 31, 2024 and 2023, the recorded investment of consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings are in process is \$137 and \$63, respectively.

5. Fair Value

The framework for measuring fair value provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1) and the lowest priority to unobservable inputs (level 3). Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

5. Fair Value (continued)

The three levels of the fair value hierarchy are described as follows:

Level I: Inputs to the valuation methodology are quoted prices (unadjusted) in active markets for identical assets or liabilities that the organization can access at the measurement date.

Level II: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly, such as:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level III: Inputs that are unobservable inputs for the asset or liability.

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

All securities available for sale are priced using pricing models, quoted prices of securities with similar characteristics or using discounted cash flows and therefore are classified in the level 2 hierarchy.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2024 and 2023 are as follows:

As of December 31, 2024				
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Available-for-sale securities:				
US Government sponsored entities and agencies	\$ -	\$ 2,553	\$ -	\$ 2,553
States and political subdivisions	-	5,903	-	5,903
Mortgage-backed securities - residential	-	26,212	-	26,212
Other debt securities	-	10,382	-	10,382
Total	<u>\$ -</u>	<u>\$ 45,050</u>	<u>\$ -</u>	<u>\$ 45,050</u>
As of December 31, 2023				
	Level I	Level II	Level III	Total
Assets measured on a recurring basis:				
Available-for-sale securities:				
US Government sponsored entities and agencies	\$ -	\$ 4,077	\$ -	\$ 4,077
States and political subdivisions	-	5,999	-	5,999
Mortgage-backed securities - residential	-	14,972	-	14,972
Other debt securities	-	9,751	-	9,751
Total	<u>\$ -</u>	<u>\$ 34,799</u>	<u>\$ -</u>	<u>\$ 34,799</u>

Certain financial assets are measured at fair value on a nonrecurring basis in accordance with accounting principles generally accepted in the United States of America. Adjustments to the fair value of these assets usually result from the application of lower-of-cost-or-market accounting or write-downs of individual assets.

5. Fair Value (continued)

The following describes the valuation techniques used by the Company to measure certain financial assets recorded at fair value on a nonrecurring basis in the consolidated financial statements.

Other Real Estate Owned: Certain assets such as other real estate owned (OREO) acquired through foreclosure are initially recorded at fair value of the property at the transfer date less estimated selling costs. At or near the time of foreclosure, real estate appraisals are obtained on the properties acquired through foreclosure in order to establish fair value. Appraised values are typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data or on a recent sale offer (Level 2). However, if the appraisal for the acquired property is over two years old, then the fair value is considered Level 3. The estimate of costs to sell the property is based on historical transactions of similar holdings. There were no OREO properties with write-downs during the years ended December 31, 2024 or 2023.

Impaired Loans: Loans of a commercial nature are designated as impaired when, in the judgment of management based on current information and events, it is probable that all amounts due will not be collected according to the contractual terms of the loan agreement. The measurement of loss associated with impaired loans can be based on either the observable market price of the loan, the fair value of the collateral (if collateral dependent), or the present value of expected future cash flows. Fair value is measured based on the value of the collateral securing the loan less estimated costs to sell or the expected present value of future cash flows. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. The value of the collateral is typically determined utilizing an income or market valuation approach based on an appraisal conducted by an independent, licensed appraiser outside of the Company using observable market data (Level 2). However, if the collateral is a house or building in the process of construction or if an appraisal of the real estate property is stale, then the fair value is considered Level 3. The value of business equipment is based upon an outside appraisal if deemed significant, or the net book value on the applicable business' financial statements if not considered significant. Likewise, values for inventory and accounts receivable collateral are based on financial statement balances or aging reports (Level 3). Impaired loans with an allocation to the allowance for loan losses are measured at fair value on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as provision for loan losses on the Consolidated Statements of Income.

The fair value of impaired loans reported below is based on the total impaired loans with a specific allowance for loan loss allocation less the total allocations for such loans, while the fair value measurement level is based on the age of the underlying appraisal of the collateral securing the loans. Specific allocations to the allowance for loan losses for impaired loans were \$115 and \$47 at December 31, 2024 and 2023, respectively.

Loans held for sale were \$402 and \$0 at December 31, 2024 and 2023, respectively.

For financial assets measured at fair value on a nonrecurring basis, the fair value measurements by level within the fair value hierarchy used at December 31, 2024 and 2023 are as follows:

As of December 31, 2024					
	Level I	Level II	Level III	Total	Gain\Losses
Impaired loans	\$ -	\$ -	\$ 2,669	\$ 2,669	\$ -
Total	\$ -	\$ -	\$ 2,669	\$ 2,669	\$ -
As of December 31, 2023					
	Level I	Level II	Level III	Total	Gain\Losses
Impaired loans	\$ -	\$ -	\$ 2,546	\$ 2,546	\$ -
Total	\$ -	\$ -	\$ 2,546	\$ 2,546	\$ -

5. Fair Value (continued)

The following tables provide a listing of the significant unobservable inputs used in the fair value measurement process for items valued utilizing Level III techniques:

As of December 31, 2024				
Impaired Loans	Fair Value	Valuation Techniques	Unobservable Input	Range
	\$ 2,669	Appraised collateral values	Discount for time since appraisal	0-22%
		and discounted cash flows	Selling costs	0-8%
As of December 31, 2023				
Impaired Loans	Fair Value	Valuation Techniques	Unobservable Input	Range
	\$ 2,546	Appraised collateral values	Discount for time since appraisal	0-22%
		and discounted cash flows	Selling costs	0-8%

The following information should not be interpreted as an estimate of the fair value of the entire Company, since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful.

The estimated fair values of the Company's financial instruments were as follows at December 31, 2024 and 2023:

As of December 31, 2024					
	Carrying Amount	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and due from banks	\$ 14,244	\$ 14,244	\$ 14,244	\$ -	\$ -
Interest bearing balances with other banks	92,418	92,418	92,418	-	-
Available-for-sale securities	45,050	45,050	-	45,050	-
Net loans	759,153	755,815	-	-	755,815
Accrued interest receivable	2,886	2,886	2,886	-	-
Restricted investment in bank stock	3,169	N/A	N/A	-	-
Financial liabilities:					
Deposits	\$ 788,232	\$ 695,930	\$ -	\$ 695,930	\$ -
Federal Home Loan Bank advances	64,125	64,120	-	64,120	-
Subordinated debt	9,926	10,798	-	10,798	-
Accrued interest payable	1,041	1,041	1,041	-	-
As of December 31, 2023					
	Carrying Amount	Fair Value	Level I	Level II	Level III
Financial assets:					
Cash and due from banks	\$ 12,552	\$ 12,552	\$ 12,552	\$ -	\$ -
Interest bearing balances with other banks	30,212	30,212	30,212	-	-
Available-for-sale securities	34,799	34,799	-	34,799	-
Net loans	776,088	755,012	-	-	755,012
Accrued interest receivable	3,092	3,092	3,092	-	-
Restricted investment in bank stock	4,001	N/A	N/A	-	-
Financial liabilities:					
Deposits	\$ 719,000	\$ 720,638	\$ -	\$ 720,638	\$ -
Federal Home Loan Bank advances	\$ 83,125	82,957	-	82,957	-
Subordinated debt	9,915	10,361	-	10,361	-
Accrued interest payable	1,041	1,041	1,041	-	-

6. Premises and Equipment

Year-end premise and equipment owned and utilized in the operations of the Company were as follows:

	December 31,	
	2024	2023
Land and improvements	\$ 2,253	\$ 2,253
Buildings	10,595	10,607
Furniture and equipment	4,030	3,903
Total premises and equipment	16,878	16,763
Less: Accumulated depreciation	8,332	7,878
Net premises and equipment	\$ 8,546	\$ 8,885

Depreciation expense was \$668 and \$659 for 2024, and 2023.

7. Leases

The Company leases land and office space under operating leases. Rental expense for these leases was \$400 and \$383 for years ended December 31, 2024 and 2023, respectively. Future lease payments under operating leases are presented below:

2025	\$ 408
2026	400
2027	357
2028	268
2029	198
Thereafter	186
Total undiscounted lease payments	1,817
Less: imputed interest	158
Total operating lease liabilities	\$ 1,659

All leases are operating leases. Below is a table of the operating lease right of use (ROU) assets included in premises and equipment and lease liabilities included in accrued interest payable and other liabilities along with remaining average lease term and discount rate:

	December 31,	
	2024	2023
Right of use assets	\$ 1,634	\$ 1,961
Lease liability	\$ 1,659	\$ 1,982
Weighted average remaining lease term in years	5.18	6.06
Weighted average discount rate	3.92%	3.93%

Our operating leases predominantly expire within the next three to nine years with the longest expiring in nine years.

The Company does not include renewal or termination options in the establishment of the lease term when it is not reasonably certain that they will be exercised.

8. Deposits

The composition of deposits is as follows:

	December 31,	
	2024	2023
Demand, non-interest-bearing	\$ 153,688	\$ 133,964
Checking with interest and money market	318,660	301,004
Savings	71,320	69,159
Time deposits greater than \$250,000	41,617	47,147
Other time deposits	202,947	167,726
Total	<u>\$ 788,232</u>	<u>\$ 719,000</u>

Scheduled maturities of time deposits for the next five years were as follows:

2025	\$ 221,210
2026	17,989
2027	2,967
2028	1,558
2029 and greater	840
Total	<u>\$ 244,564</u>

9. Federal Home Loan Advances

At year-end, advances from the Federal Home Loan Bank were as follows:

December 31, 2024

Maturities February 2025 through June 2027, fixed rate at rates from 1.11% to 5.27%, averaging 4.45%	\$ 59,125
Overnight floating rate borrowing at 4.71%	5,000
	<u>\$ 64,125</u>

December 31, 2023

Maturities January 2024 through February 2026, fixed rate at rates from 1.11% to 5.61%, averaging 5.21%	\$ 83,125
	<u>\$ 83,125</u>

Each advance is payable at its maturity date, with a prepayment penalty for fixed rate advances. The advances were collateralized by \$387,640 and \$424,307 of loans under a blanket lien arrangement at year-end 2024 and 2023. Based on this collateral and the Company's holdings of FHLB stock, the Company is eligible to borrow up to a total of \$204,024 at year-end 2024.

Payments over the next five years are as follows:

2025	\$ 36,125
2026	23,000
2027	5,000
2028	-
2029	-
Thereafter	-
Total	<u>\$ 64,125</u>

10. Subordinated Debt

The Company entered into an unsecured subordinated debt of \$10 million with Atlantic Community Bankers Bank on December 22, 2021, with a maturity date of December 2031. The note carries a fixed rate of 3.75% for five years and then a variable rate based on 30-day Secured Overnight Financing Rate (SOFR) plus 3.50% for the last five years. Interest is payable quarterly in arrears at each quarter-end date beginning March 31, 2022. The debt can be redeemed in whole or in part with required notice beginning December 2026.

11. Pension

The Company has a noncontributory defined benefit pension plan (the “Plan”) covering substantially all employees hired prior to February 1, 2006. The Plan’s benefit formulas generally base payments to retired employees upon their length of service and the employees’ average monthly compensation. This plan was frozen as of December 31, 2012 and no employees are accruing any more benefits.

The following tables set forth the Plan’s funded status and the amounts recognized in the Company’s consolidated financial statements. The measurement date for purposes of these valuations was December 31, 2024 and 2023.

	<u>2024</u>	<u>2023</u>
Change in benefit obligation		
Benefit obligation at beginning of year	\$ 2,506	\$ 2,715
Interest cost	118	133
Actuarial (gain) loss	(222)	10
Benefits paid	(112)	(112)
Settlements	(34)	(240)
Benefit obligation at end of year	<u>2,256</u>	<u>2,506</u>
Change in plan assets		
Fair value of plan assets at beginning of year	3,334	3,264
Actual return on plan assets	249	422
Employer contribution	-	-
Benefits paid	(112)	(112)
Settlements	(34)	(240)
Fair value of plan assets at end of year	<u>3,437</u>	<u>3,334</u>
Funded status included in other assets	<u>\$ 1,181</u>	<u>\$ 828</u>
Amounts recognized in the Balance Sheets consist of:		
	<u>2024</u>	<u>2023</u>
Accrued benefit cost in other assets	\$ 1,181	\$ 828
Accumulated other comprehensive loss	(226)	82
Net amount recognized	<u>\$ 955</u>	<u>\$ 910</u>

Amounts recognized in accumulated other comprehensive income (loss) consist of:

	<u>2024</u>	<u>2023</u>
Net actuarial gain (loss)	\$ 226	\$ (82)
Deferred tax benefit	(47)	17
Total	<u>\$ 179</u>	<u>\$ (65)</u>

11. Pension (continued)

Net periodic pension expense included the following components:

	Years Ended December 31,	
	2024	2023
Interest cost	\$ 118	\$ 133
Expected return on plan assets	(163)	(160)
Settlement Charge	-	8
Net amortization and deferral	-	2
Net periodic pension expense (benefit)	<u>\$ (45)</u>	<u>\$ (17)</u>

The components of net periodic benefit cost are included in salaries and employee benefits in the Consolidated Statements of Income.

The accumulated benefit obligation was \$2,256 and \$2,506 at December 31, 2024 and 2023, respectively.

The following is a summary of actuarial assumptions used for the Company's pension plan:

	December 31,	
	2024	2023
Discount rate	4.83%	5.02%
Expected long-term return on plan assets	5.00%	5.00%
Rate of compensation increase	N/A	N/A

The estimated net actuarial gain to be amortized into net periodic pension cost in 2025 is \$47.

The selected long-term rate of return on Plan assets (5.00 percent) was primarily based on the asset allocation of the Plan's assets. Analysis of the historic returns on these asset classes and projections of expected future returns were considered in setting the long-term rate of return.

The Company's pension plan target asset allocations, by asset category, are as follows:

	December 31,	
	2024	2023
Equities	40%	65%
Fixed income	60%	35%
Other	0%	0%
Total	<u>100%</u>	<u>100%</u>

11. Pension (continued)

The following table sets forth by level, within the fair value hierarchy, the Plan's assets at fair value:
The Company does not expect to contribute to its pension plan in 2025.

As of December 31, 2024				
	Level I	Level II	Level III	Total
Assets:				
Mutual funds:				
Equities				
Large-Cap Value	\$ 158	\$ -	\$ -	\$ 158
Large Cap Core	172	-	-	172
Mid-Cap Core	176	-	-	176
Small-Cap Core	183	-	-	183
International Growth	195	-	-	195
International Value	121	-	-	121
Large Cap Growth	328	-	-	328
Fixed income				
Fixed Income- Core Plus	1	-	-	1
Long Gov't/Credit	670	-	-	670
Long Duration Credit	723	-	-	723
Long U.S. Treasury - ETF	487	-	-	487
Common Collective Trusts-Equity	-	160	-	160
Cash Equivalent	63	-	-	63
Total assets at fair value	<u>\$ 3,277</u>	<u>\$ 160</u>	<u>\$ -</u>	<u>\$ 3,437</u>

As of December 31, 2023				
	Level I	Level II	Level III	Total
Assets:				
Mutual funds:				
Equities				
Large-Cap Value	\$ 221	\$ -	\$ -	\$ 221
Large-Cap Core	291	-	-	291
Mid-Cap Core	243	-	-	243
Small-Cap Core	257	-	-	257
International Growth	342	-	-	342
International Value	215	-	-	215
Large Cap Growth	394	-	-	394
Fixed Income				
Fixed Income- Core Plus	1,119	-	-	1,119
Common Collective Trusts-Equity	-	225	-	225
Cash Equivalent	27	-	-	27
Total assets at fair value	<u>\$ 3,109</u>	<u>\$ 225</u>	<u>\$ -</u>	<u>\$ 3,334</u>

The following benefit payments are expected to be paid:

	Years Ended December 31,
2025	\$ 121
2026	125
2027	129
2028	132
2029	138
2030 through 2034	746
	<u>\$ 1,391</u>

12. Other Retirement Plans**401(k) Plan**

A 401(k) benefit plan allows employee contributions up to 15% of their compensation. The Company matches 100% of elective contributions of employees not to exceed 4% of the employee's salary, plus 50% of the employee's elective contribution that exceed 4% of their salary but not to exceed 6% of their salary. Match expense for 2024, and 2023 was \$410, and \$406 respectively.

Supplemental Executive Retirement Plan

Supplemental executive retirement plan agreements ("SERP") cover selected executive officers. Each SERP provides for the monthly payment of a fixed cash benefit over a period of fifteen (15) years commencing on the first day of the month following the executive's separation from service occurring on or after reaching normal retirement age, reduced by fifty percent (50%) if a change in control occurs followed within twenty-four (24) months by separation from service prior to normal retirement age. Separate clauses provide for payment of the accrued benefit over a sixty (60) month period in the event of early termination or disability, or an immediate payout of the accrued benefit in the event of death. The accrued liability for the SERP plans was \$1,222 at December 31, 2024 and \$860 at December 31, 2023. The expense related to the plan was \$362 in 2024 and \$316 in 2023 and is included as a component of salaries and benefits expense in the Consolidated Statements of Income.

13. Income Taxes

The provision for federal income taxes consisted of the following:

	2024	2023
Federal tax expense		
Current	\$ 2,522	\$ 2,470
Deferred	(735)	(609)
Total	<u>\$ 1,787</u>	<u>\$ 1,861</u>

Reconciliation of the statutory income tax expense computed at 21% to the income tax expense included in the Statements of Income is as follows:

	2024		2023	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Provision at statutory rate	\$ 1,962	21.0 %	\$ 2,027	21.0 %
Life insurance	(120)	(1.3)	(86)	(0.9)
Tax exempt interest, net	(115)	(1.2)	(120)	(1.2)
Other, net	60	0.6	40	0.4
Actual tax expense and effective rate	<u>\$ 1,787</u>	<u>19.1 %</u>	<u>\$ 1,861</u>	<u>19.3 %</u>

13. Income Taxes (continued)

Net deferred tax assets (liabilities) consisted of the following components:

	2024	2023
Deferred tax assets		
Allowance for credit losses	\$ 1,893	\$ 1,911
Net unrealized loss on securities	420	539
Lease liability	348	416
Other pension adjustments	-	17
Other deferred tax assets	588	424
Total deferred tax assets	<u>3,249</u>	<u>3,307</u>
Deferred tax liabilities		
Net deferred loan costs	(1,729)	(2,341)
Right of use asset	(343)	(412)
Depreciation	(220)	(241)
Other pension adjustments	(47)	-
Other deferred tax liabilities	(432)	(387)
Total deferred tax liabilities	<u>(2,771)</u>	<u>(3,381)</u>
Net deferred tax assets (liabilities)	<u>\$ 478</u>	<u>\$ (74)</u>

The realizability of deferred tax assets is dependent upon various factors, including the generation of future taxable income, the existence of taxes paid and recoverable, the reversal of deferred tax liabilities, and tax planning strategies. In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the net operating loss carryforwards are available and the temporary differences representing net future deductibles reverse. Based upon these and other factors management has determined that it is more likely than not that the Company will realize the benefits of the deferred tax assets that exist as of December 31, 2024.

As of December 31, 2024, and 2023, the Company had no material unrecognized tax benefits or accrued interest and penalties. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expense.

As of December 31, 2024, the years 2021 – 2023 are open for federal examination and years 2021-2023 are open for state examinations.

14. Related-Party Transactions

Loans to principal officers, directors and their affiliates during 2024 were as follows:

Beginning balance	\$ 1,405
New loans	395
Effect of changes in composition of related parties	(696)
Repayments	(300)
Ending balance	<u>\$ 804</u>

Deposits from principal officers, directors and their affiliates at year-end 2024 and 2023 were \$3,972 and \$3,438.

15. Regulatory Capital Matters

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2024, the Company and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio greater than the required minimum will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purpose of section 38 of the Federal Deposit Insurance Act. The community bank leverage ratio minimum requirement is 9%. An eligible banking organization is provided a two-quarter grace period to correct a ratio that falls below this required amount, provided that the bank maintains a leverage ratio greater than 8%.

An eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2024, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework. The Federal Reserve has set the limit to qualify as a small bank holding company at \$3 billion which exempts it from risk-based capital and leverage rules.

The Bank's actual capital amounts and ratios as of December 31 are also presented below:

	<u>Actual</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>> Amount</u>	<u>> Ratio</u>
Community Bank Leverage Ratio				
2024	\$ 90,328	9.58 %	\$ 47,163	5.00 %
2023	\$ 84,882	9.39 %	\$ 45,194	5.00 %

The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of December 31, 2024, \$54,173 of retained earnings was available to pay dividends.

16. Loan Commitments

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2024	2023
Commitments to extend credit	\$ 923	\$ -
Unfunded commitments	139,396	134,896
Standby letters of credit	11,242	10,306
Total	<u>\$ 151,561</u>	<u>\$ 145,202</u>

17. Accumulated Other Comprehensive Income

The components of accumulated other comprehensive income (loss) and related tax effects are presented in the following table:

	Unrealized Gains\ (Losses) on Securities	Defined Benefit Pension Plan	Total
Balance, December 31, 2022	\$ (1,661)	\$ (271)	\$ (1,932)
Change in unrealized (losses) on securities available for sale	(462)	-	(462)
Change in benefit obligation and plan assets	-	263	263
Tax effect of current period changes	97	(55)	42
Balance, December 31, 2023	<u>\$ (2,026)</u>	<u>\$ (63)</u>	<u>\$ (2,089)</u>
Change in unrealized (losses) on securities available for sale	564	-	564
Change in benefit obligation and plan assets	-	306	306
Tax effect of current period changes	(119)	(64)	(183)
Balance, December 31, 2024	<u>\$ (1,581)</u>	<u>\$ 179</u>	<u>\$ (1,402)</u>

18. Segment Information

The Company's reportable segment is determined by the Chief Financial Officer, who is the designated chief operating decision maker, based upon information provided about the Company's products and services offered, primarily banking operations. The segment is also distinguished by the level of information provided to the chief operating decision maker, who uses such information to review performance of various components of the business which are then aggregated if operating performance, products/services, and customers are similar. The chief operating decision maker will evaluate the financial performance of the Company's business components such as by evaluating revenue streams, significant expenses, and budget to actual results in assessing the Company's segment and in the determination of allocating resources. The chief operating decision maker uses revenue streams to evaluate product pricing and significant expenses to assess performance and evaluate return on assets. The chief operating decision maker uses consolidated net income to benchmark the Company against its competitors. The benchmarking analysis coupled with monitoring of budget to actual results

18. Segment Information (continued)

are used in assessment performance and in establishing compensation. Loans, investments, and deposits provide the revenues in the banking operation. Interest expense, provisions for credit losses, and payroll provide the significant expenses in the banking operation. All operations are domestic.

	Community Banking Segment	
	<u>2024</u>	<u>2023</u>
Interest and dividend income	\$ 48,975	\$ 44,174
Other revenues	<u>4,794</u>	<u>4,315</u>
Total consolidated revenues	\$ 53,769	\$ 48,489
Less: interest expense	<u>16,702</u>	<u>12,975</u>
Segment net interest income and noninterest income	\$ 37,067	\$ 35,514
Less:		
Provision for credit losses	1,729	1,194
Salaries and employee benefits	13,835	12,321
All other segment items	12,161	12,345
Income tax expense	<u>1,787</u>	<u>1,861</u>
Segment net income	\$ 7,555	\$ 7,793

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