MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2024 and 2023

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

TABLE OF CONTENTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Midwest BankCentre, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Midwest BankCentre, Inc. and Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Midwest BankCentre, Inc. and Subsidiaries 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.

Report on Internal Control Over Financial Reporting

We also have audited in accordance with auditing standards generally accepted in the United States of America, Midwest BankCentre, Inc.'s internal control over financial reporting as of December 31, 2024, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated February 21, 2025 expressed an unmodified opinion.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these 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.

Responsibilities of Management for the Consolidated Financial Statements (Continued)

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 Midwest BankCentre, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an 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 generally accepted auditing standards 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, including omissions, 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 generally accepted auditing standards, 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.

- 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 Midwest BankCentre, Inc. and Subsidiaries' 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.

UHY LLP

St. Louis, Missouri
February 21, 2025

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

(dollars in thousands, except share data)

	December 31, 2024	December 31, 2023
ASSETS		
Cash and cash equivalents:		
Cash and due from banks	$ 20,701	$ 18,802
Banks-interest bearing balances	73,500	122,414
Total cash and cash equivalents	94,201	141,216
Investment securities	287,857	292,276
Loans:		
Loans (net of ACL of $31,190 and $28,374 at December 31, 2024 and 2023, respectively)	2,231,533	2,115,485
Loans held for sale	4,917	1,664
Total loans, net	2,236,450	2,117,149
Premises and equipment, net	12,834	14,643
Operating lease right-of-use assets	6,981	7,544
Bank owned life insurance	73,893	73,756
Goodwill	17,343	17,343
Core deposit intangibles, net	-	53
Other assets	82,655	87,203
Total assets	$ 2,812,214	$ 2,751,183
LIABILITIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Noninterest-bearing demand	$ 394,166	$ 417,684
Interest-bearing demand	407,606	395,108
Money market	472,311	489,274
Savings	249,900	249,732
Time - over $250	224,556	216,035
Time - $250 and under	586,717	526,918
Total deposits	2,335,256	2,294,751
FHLB advances and other borrowings	106,086	111,964
Subordinated debentures, net	67,936	67,704
Operating lease liabilities	7,030	7,581
Other liabilities	44,351	50,546
Total liabilities	2,560,659	2,532,546
Stockholders' equity:		
Common stock, $6.67 par value; 6,000,000 shares authorized; 1,942,655 shares issued at December 31, 2024 and 2023	12,951	12,951
Capital surplus	12,923	9,419
Retained earnings	246,503	226,527
Accumulated other comprehensive loss, net of tax	(7,392)	(10,546)
	264,985	238,351
Treasury stock, at cost, 127,555 and 190,702 shares, at December 31, 2024 and 2023, respectively	(13,430)	(19,714)
Total stockholders' equity	251,555	218,637
Total liabilities and stockholders' equity	$ 2,812,214	$ 2,751,183

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

(dollars in thousands)

	Years Ended December 31, 2024	Years Ended December 31, 2023
Interest income:		
Interest and fees on loans	$ 130,651	$ 117,232
Interest and dividends on investment securities:		
U.S. Treasury and agencies	2,797	2,411
Mortgage-backed securities	2,710	1,919
States and political subdivisions	1,064	1,151
Other securities	4,813	4,636
Interest on banks-interest bearing balances	4,687	4,248
Total interest income	146,722	131,597
Interest expense:		
Interest on deposits	57,815	42,675
Interest on other borrowed funds	5,223	4,929
Total interest expense	63,038	47,604
Net interest income	83,684	83,993
Provision for credit losses:		
Provision for credit losses on loans	3,000	7,462
Provision (recapture) of credit losses on unfunded commitments	157	(193)
Total provision for credit losses	3,157	7,269
Net interest income after provision for credit losses	80,527	76,724
Noninterest income:		
Service charges on deposit accounts	2,641	2,648
Mortgage banking revenue	2,945	1,848
SBA revenue	812	1,360
Bank owned life insurance	2,472	1,855
Debit card fees	2,215	2,268
Gains (losses) on investment securities	1,043	(4,008)
Other	2,749	4,556
Total noninterest income	14,877	10,527
Noninterest expense:		
Salaries and employee benefits	39,114	35,919
Occupancy and equipment	4,242	4,243
Outside fees	6,681	5,983
Insurance	1,968	2,136
Software	2,343	2,023
Marketing	1,573	1,338
Charitable contributions	2,396	432
Other	5,632	7,423
Total noninterest expense	63,949	59,497
Income before income taxes	31,455	27,754
Income taxes	5,495	4,054
Net income	$ 25,960	$ 23,700

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(dollars in thousands)

	Years Ended December 31,	
	2024	2023
Net income	$ 25,960	$ 23,700
Other comprehensive income:		
Investment securities available for sale:		
Net unrealized gains (losses) that occurred during the period	6,383	(961)
Reclassification adjustments for realized net (gains) losses included in net income	(1,043)	4,008
Income tax effect	(1,290)	(736)
Change in investment securities available for sale, net of tax	4,050	2,311
Cash flow hedges:		
Net unrealized derivative losses on cash flow hedges	(1,181)	(1,941)
Income tax effect	285	469
Change in cash flow hedges, net of tax	(896)	(1,472)
Other comprehensive income, net of tax	3,154	839
Total comprehensive income	$ 29,114	$ 24,539

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2024 and 2023

(dollars in thousands, except share and per share data)

	Common Stock				Accumulated Other		
	Shares	Par Value	Capital Surplus	Retained Earnings	Comprehensive Loss, net of tax	Treasury Stock	Total
Balance at December 31, 2022	1,942,655	$ 12,951	$ 9,479	$ 208,459	$ (11,385)	$ (18,503)	$ 201,001
Cumulative effect of change in accounting principles	-	-	-	(360)	-	-	(360)
Balance at January 1, 2023	1,942,655	$ 12,951	$ 9,479	$ 208,099	$ (11,385)	$ (18,503)	$ 200,641
Net income	-	-	-	23,700	-	-	23,700
Purchases of treasury stock (10,592 shares)	-	-	-	-	-	(1,430)	(1,430)
Issuance of treasury stock for director fees (1,950 shares)	-	-	56	-	-	194	250
Options exercised (5,900 shares)	-	-	(193)	-	-	25	(168)
Stock based compensation expense	-	-	44	-	-	-	44
Restricted stock unit awards expense	-	-	33	-	-	-	33
Cash dividends - $3.00 per share	-	-	-	(5,272)	-	-	(5,272)
Other comprehensive income (loss):							
Net unrealized gains on investment securities available for sale	-	-	-	-	2,311	-	2,311
Net unrealized losses on cash flow hedges	-	-	-	-	(1,472)	-	(1,472)
Balance at December 31, 2023	1,942,655	$ 12,951	$ 9,419	$ 226,527	$ (10,546)	$ (19,714)	$ 218,637
Net income	-	-	-	25,960	-	-	25,960
Purchases of treasury stock (6,825 shares)	-	-	-	-	-	(1,015)	(1,015)
Issuance of treasury stock (66,062 shares)	-	-	3,133	-	-	6,891	10,024
Issuance of treasury stock for director fees (2,110 shares)	-	-	71	-	-	214	285
Options exercised (3,800 shares)	-	-	(94)	-	-	194	100
Stock based compensation expense	-	-	86	-	-	-	86
Restricted stock unit awards expense	-	-	308	-	-	-	308
Cash dividends - $3.38 per share	-	-	-	(5,984)	-	-	(5,984)
Other comprehensive income (loss):							
Net unrealized gains on investment securities available for sale	-	-	-	-	4,050	-	4,050
Net unrealized losses on cash flow hedges	-	-	-	-	(896)	-	(896)
Balance at December 31, 2024	1,942,655	$ 12,951	$ 12,923	$ 246,503	$ (7,392)	$ (13,430)	$ 251,555

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

(dollars in thousands)

	Years Ended December 31, 2024	Years Ended December 31, 2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 25,960	$ 23,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,157	7,269
Depreciation, amortization and accretion	2,243	2,432
(Gains) losses on investment securities	(1,043)	4,008
Donation of premises	1,706	-
Gain on disposal of premises and equipment	-	(2)
Impairment on foreclosed assets	-	236
Originations of loans held for sale	(101,904)	(62,567)
Proceeds from sales of loans held for sale	101,477	63,115
Gain on sale of loans held for sale, net	(2,826)	(1,778)
Increase in cash surrender value of bank owned life insurance	(2,472)	(1,855)
Provision for deferred income taxes	(1,517)	(1,758)
Stock based compensation expense	86	44
Restricted stock unit awards expense	308	33
Stock issued for director fees	285	250
Other, net	(3,030)	(7,178)
Net cash provided by operating activities	22,430	25,949
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(34,500)	(49,503)
Proceeds from maturities, prepayments and calls of investment securities	34,833	25,118
Proceeds from sales of investment securities	10,519	16,462
Net (purchases) proceeds from Federal Home Loan Bank stock	(517)	284
Net increase in loans	(119,248)	(112,950)
Proceeds from sales of foreclosed assets	682	418
Proceeds from bank owned life insurance	2,336	-
Proceeds from sales of premises and equipment	-	10
Purchases of premises and equipment	(1,303)	(1,554)
Net cash used in investing activities	(107,198)	(121,715)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	40,506	176,884
Net increase (decrease) in securities sold under agreements to repurchase	4,122	(16,163)
Net repayments of FHLB borrowings	(10,000)	-
Cash dividends paid	(5,984)	(5,272)
Proceeds (payments) on exercise of stock options	100	(168)
Proceeds from issuance of treasury stock	10,024	-
Purchases of treasury stock	(1,015)	(1,430)
Net cash provided by financing activities	37,753	153,851
Net (decrease) increase in cash and cash equivalents	(47,015)	58,085
Cash and cash equivalents, beginning of year	141,216	83,131
Cash and cash equivalents, end of year	$ 94,201	$ 141,216
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest paid on deposits and borrowed funds	$ 63,283	$ 44,760
Income tax paid (net of refunds)	$ 7,175	$ 7,346
Non-cash investing activities:		
Transfer of loans to foreclosed assets	$ 200	$ 560

See notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midwest BankCentre, Inc. (the “Company,” “we,” “our,” or “us”) is a bank holding company headquartered in St. Louis, Missouri whose principal activity is the ownership and management of its wholly owned subsidiaries, Midwest BankCentre (the “Bank”), Midwest BankCentre Insurance Agency, LLC (“MBCIA”) and its newly formed subsidiary in October 2024, Rising Together CDE, LLC, a qualified community development entity formed as part of the federal new market tax credit program. Rising Analytics, LLC, a former wholly owned subsidiary of the Company, was dissolved in November 2024.

The Bank has branches located primarily in the St. Louis metropolitan area, and provides a full range of commercial, mortgage and consumer banking products and services. The Bank operates under a State Chartered Depository Trust Company and is a member of the Federal Reserve Bank. As a state bank member of the Federal Reserve, the Bank is subject to regulation by the State of Missouri Division of Finance, the Federal Reserve, and the Federal Deposit Insurance Corporation (“FDIC”).

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities, and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; residential mortgage loan originations, sales and servicing; and, from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment, data processing costs, professional fees and other noninterest expenses, provision for credit losses and income tax expense.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”) and conform to reporting practices within the banking industry. Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results may differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the results of operations for annual periods presented herein, have been included.

Certain reclassifications of 2023 amounts have been made to conform to the 2024 presentation but do not have an effect on net income or shareholders’ equity.

Principles of Consolidation

The consolidated financial statements include the accounts of Midwest BankCentre, Inc. and its wholly owned subsidiaries, Midwest BankCentre, Midwest BankCentre Insurance Agency, LLC, and Rising Together CDE, LLC, as well as Rising Analytics, LLC, a former wholly owned subsidiary of the Company that was dissolved in November 2024. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, amounts due from banks, which includes amounts on deposit with the Federal Reserve, interest-bearing deposits with banks or other financial institutions and federal funds sold. The Bank considers all short–term investments with an original maturity of three months or less to be cash equivalents. The Bank’s cash deposits in financial institutions are insured by FDIC insurance, which is subject to certain limitations and conditions.

Investment Securities

The Bank classifies its debt investment securities as available for sale or held to maturity at the time of purchase. Securities held to maturity are those debt instruments which the Bank has the positive intent and ability to hold until maturity. Securities held to maturity are recorded at costs, adjusted for the amortization of premiums or accretion of discounts. All other debt securities are classified as available for sale. As of December 31, 2024 and 2023, all investment securities were classified as available for sale. Securities available for sale are recorded at fair value with unrealized gains and losses, net of related tax effect, included in other comprehensive income. The related accumulated unrealized holding gains and losses are reported as a separate component of stockholders' equity until realized.

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

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

Purchase premiums are amortized over the estimated life or to the earliest call date and purchase discounts are accreted over the estimated life or to the earliest call date of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized in interest income upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available-for-sale securities are determined using the specific identification method and are included in noninterest income. Also, when applicable, realized gains and losses are reported as a reclassification adjustment, net of tax, in other comprehensive income.

Nonmarketable Equity Securities

Nonmarketable equity securities include the Bank's required investments in the stock of the Federal Home Loan Bank of Des Moines ("FHLB") and the Federal Reserve Bank ("FRB"). The Bank is a member of the FHLB system as well as its regional FRB. Members of the FHLB 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 and FRB stock are both carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash dividends and stock dividends are reported as income. These stocks are included in other assets on the consolidated balance sheets.

Loans

The Bank originates commercial and industrial, secured by real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans made throughout the greater St. Louis metropolitan area, as well as the Kansas City market with the recent expansion and launch of a business production office in 2023. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate economic sector and other current economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are classified as portfolio loans. Portfolio loans are carried at the principal balance outstanding, net of purchase premiums and discounts and deferred loan fees and costs. Interest income is accrued on the unpaid principal balance. Accrued interest receivable on loans totaled $8.6 million and $8.4 million at December 31, 2024 and 2023, respectively, and are included in other assets on the consolidated balance sheets.

Purchase premium and discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method. Loan and commitment fees on commercial and consumer loans, net of costs, are deferred and recognized in income over the term of the loan or commitment as an adjustment of yield.

Classifications of Loan Portfolio

Commercial and Industrial

Commercial and industrial loans include loans for commercial, industrial, and professional purposes including:

- Mining, oil– and gas–producing, and quarrying companies.
- Manufacturing companies, including those which process agricultural commodities.
- Construction companies.
- Transportation and communications companies and public utilities.
- Wholesale and retail trade enterprises and other dealers in commodities.
- Cooperative associations including farmers' cooperatives.
- Service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit.
- Insurance agents.
- Practitioners of law, medicine, and public accounting.
- Loans for the purpose of financing capital expenditures and current operations.
- Loans to business enterprises guaranteed by the Small Business Administration ("SBA").
- Loans made to finance construction that do not meet the definition of a "loan secured by real estate."
- Dealer flooring or floorplan loans.
- Overnight lending for commercial and industrial purposes.

Credits are typically collateralized by business equipment, inventory, accounts receivable and other business assets. Loan to value ratios are ordinarily between 60% – 80% at origination depending on collateral securing the debt.

Secured by Real Estate

Commercial real estate loans are loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, excluding owner–occupied real estate loans. Included in this category are:

- Nonfarm properties with five or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
- 5 or more-unit housekeeping dwellings with commercial units combined where use is primarily residential.
- Cooperative–type apartment buildings containing 5 or more dwelling units.

Loan to value ratios are generally within regulatory guidelines.

Owner–occupied real estate loans are loans secured by owner–occupied nonfarm nonresidential properties. Loans in this category are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. For loans secured by owner–occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans included in this category include credits secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor. Also included are loans secured by churches unless the property is owned by an investor who leases the property to the congregation. Loan to value ratios are generally within regulatory guidelines.

Real estate construction loans are loans made to finance (a) land development (i.e., the process of improving land – laying sewers, water pipes, etc.) preparatory to erecting new structures or (b) the on–site construction of industrial, commercial, residential, or farm buildings. For purposes of this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Also included in this category are the following:

- Loans secured by vacant land, except land known to be used or usable for agricultural purposes, such as crop and livestock production.
- Loans secured by real estate with the proceeds being used to acquire and improve developed and undeveloped property.
- Loans made under Title I or Title X of the National Housing Act that conform to the definition of construction stated above and that are secured by real estate.

Loan to value ratios are generally within regulatory guidelines.

Consumer

Individual consumer loans are credits extended to individuals for household, family, and other personal expenditures that do not meet the definition of a “loan secured by real estate” and include both secured and unsecured loans to individuals. Collateral would normally be marketable securities, bank deposits or other personal vehicles or assets. When collateralized, loan to value ratios are generally within industry norms.

Mortgage one to four family loans are open–end and closed–end loans secured by real estate as evidenced by mortgages or other liens on:

- Nonfarm property containing 1–4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).

- Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.

- Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.

- Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1–4 family dwelling units are involved.

Home equity loans consist of revolving, open–end loans secured by 1–4 family residential properties and extended under lines of credit. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card. In addition, loans secured by junior liens are included in this category. These credits are closed–end loans secured by junior (i.e., other than first) liens on 1–4 family residential properties.

Loans Held for Sale

Loans held for sale include fixed rate residential mortgage loans. These loans are typically classified as held for sale upon origination based upon management's intent to sell the production of these loans. They are carried at the lower of aggregate cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices, which represent the estimated exit price. Declines in fair value below cost are recognized as a reduction to mortgage banking revenue. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Gains or losses on sales are recognized upon sale.

Nonaccrual Loans

The accrual of interest on impaired loans is discontinued (i.e., nonaccrual status) when, in the opinion of management, the collection of interest on a loan is unlikely or when either principal or interest is past due over 90 days, unless certain conditions exist. When interest accrual is discontinued, all unpaid interest accrued during the current year is reversed against current period earnings and interest accrued relating to the prior year(s) is charged against the valuation reserve. Interest is included in income only after all previous loan charge–offs have been recovered and is recorded only as received. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due pursuant to the contractual terms of the loan agreement. Included in impaired loans are all nonaccrual loans, as well as loans whose terms have been modified in a loan restructuring. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case–by–case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan–by–loan basis for commercial and industrial, secured by real estate loans and consumer loans, by, among other factors, the fair value of the collateral if the loan is collateral dependent.

Allowance for Credit Losses ("ACL") on Loans

The Company adopted the current expected credit loss ("CECL") model under Accounting Standards Update ("ASU") 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" ("ASU 2016-13") on January 1, 2023 using the modified retrospective approach. The transition adjustment included an increase in the ACL on loans of $100,000 and an increase in the allowance on unfunded commitments of $374,000.

The ACL on loans is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. The amount of the ACL represents management's best estimate of current expected credit losses on loans considering available information, from internal and external sources, relevant to assessing collectability over the loans' contractual terms, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a modification will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

Management estimates the allowance balance using relevant information, from internal and external sources, relating to historical credit loss experience, current conditions, and reasonable and supportable forecasts. While historical credit loss experience provides the basis for the estimation of expected credit losses, adjustments to historical loss information may be made for differences in current loan-specific risk characteristics, environmental conditions, or other relevant factors. ACL on loans is measured on a collective basis and reflects impairment in groups of loans aggregated on the basis of similar risk characteristics. Loans that do not share risk characteristics are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Expected credit losses for collateral dependent loans, including loans where the borrower is experiencing financial difficulty, but foreclosure is not probable, are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Provision for credit loss expense related to loans reflects the totality of actions taken on all loans for a particular period including any necessary increases or decreases in the allowance related to changes in credit loss expectations associated with specific loans or pools of loans. Portions of the allowance may be allocated for specific credits; however, the entire allowance is available for any credit that, in management's judgment, should be charged-off. While management utilizes its best judgment and information available, the ultimate appropriateness of the allowance is dependent upon a variety of factors beyond our control, including the performance of our loan portfolio, the economy, changes in interest rates and the view of the regulatory authorities toward loan classifications.

In calculating the ACL, most loans are segmented into pools based upon similar characteristics and risk profiles. Common characteristics and risk profiles may include internal credit ratings, risk ratings or classification, financial asset type, collateral type, size, industry of the borrower, historical or expected credit loss patterns, and reasonable and supportable forecast periods. For modeling purposes, our loan pools include (i) commercial and industrial, (ii) secured by real estate, and (iii) consumer. We periodically reassess each pool to ensure the loans within the pool continue to share similar characteristics and risk profiles and to determine whether further segmentation is necessary.

The table below identifies the Company's loan portfolio segments and classes.

Segment	**Class**
Commercial and Industrial	Commercial and Industrial
Secured by Real Estate	Owner-Occupied Real Estate Commercial Real Estate Construction Real Estate
Consumer	Mortgage 1-4 Family Home Equity Individual

For each loan pool, expected credit losses are measured over the life of each loan utilizing a combination of models which measure (i) discounted cash flow, historical loss rates using regression analysis of a correlated economic factor (unemployment, gross domestic product or home price index) to determine the loss rate for the loan pool, including usage of prepayment speed, recovery rate and curtailment rates in the cash flow stream of each loan over the life of the loan, (ii) probability of default ("PD"), which is the likelihood that loan will stop performing or default, (iii) loss given default ("LGD"), which is the expected loss rate for loans in default, (iv) exposure at default ("EAD"), which is the estimated outstanding principal balance of the loans upon default, including the expected funding of unfunded commitments outstanding as of the measure date, and (v) the weighted average remaining life method for the individual loan class, which calculates the remaining life of the loan pool and Bank loss data.

This methodology builds on default probabilities already incorporated into the risk grading process by utilizing pool-specific historical loss rates to calculate expected credit losses. These pool-specific historical loss rates may be adjusted for current macroeconomic assumptions, as further discussed below, and other factors such as differences in underwriting standards, portfolio mix, or when historical asset terms do not reflect the contractual terms of the financial assets being evaluated as of the measurement date. Each time expected credit losses is measured, the relevancy of historical loss information is assessed and any necessary adjustments are considered to address any differences in asset-specific characteristics.

The measurement of expected credit losses is impacted by loan and borrower attributes and certain macroeconomic variables. Significant loan and borrower attributes utilized in the modeling processes include, among other things, (i) origination date, (ii) maturity date, (iii) payment type, (iv) collateral type and amount, (v) current risk grade, (vi) current unpaid balance and commitment utilization rate, (vii) payment status and delinquency history and (viii) expected recoveries of previously charged-off amounts. Significant macroeconomic variables utilized in our modeling processes include, among other things, (i) Gross Domestic Product, (ii) forecasted unemployment rates, and (iii) Case Shiller U.S. National Home Price Index.

Management qualitatively adjusts model results for risk factors that are not considered within the modeling processes but are nonetheless relevant in assessing the expected credit losses within our loan pools. These qualitative factor (“Q-Factor”) adjustments may increase or decrease management's estimate of expected credit losses by a calculated percentage or amount based upon the estimated level of risk. The various risks that may be considered in making Q-Factor adjustments include, among other things, the impact of (i) changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices, (ii) actual and expected changes in economic and business conditions and developments that affect the collectability of the loan pools, including the condition of various market segments, (iii) changes in the nature and volume of the loan pools and in the terms of the underlying loans, (iv) changes in the experience, ability, and depth of our lending management and other relevant staff, (v) changes in volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans, (vi) changes in the quality of our loan review system, (vii) changes in the value of the underlying collateral for loans for collateral-dependent loans, (viii) the existence and effect of any concentrations of credit, and changes in the level of such occurrences and (ix) other external factors such as competition and legal and regulatory environments on the level of estimated credit losses in the institution’s existing portfolio; and events such as natural disasters or health pandemics.

In some cases, management may determine that an individual loan exhibits unique risk characteristics which differentiate the loan from other loans within our loan pools. In such cases, the loans are evaluated for expected credit losses on an individual basis and excluded from the collective evaluation. Specific allocations of the ACL are determined by analyzing the borrower’s ability to repay amounts owed, collateral deficiencies, the relative risk grade of the loan and economic conditions affecting the borrower’s industry, among other things. A loan is considered collateral dependent when, based upon management's assessment, the borrower is experiencing financial difficulty and repayment is expected to be provided substantially through the operation or sale of the collateral. In such cases, expected credit losses are based on the fair value of the collateral at the measurement date, adjusted for estimated selling costs if satisfaction of the loan depends on the sale of the collateral.

Specific reserves reflect expected credit losses on loans identified for evaluation or individually considered nonperforming. These loans no longer have similar risk characteristics to collectively evaluated loans due to changes in credit risk, borrower circumstances, recognition of write-offs, or cash collections that have been fully applied to principal on the basis of nonaccrual policies. At a minimum, the population of loans subject to individual evaluation include individual loans where it is probable we will be unable to collect all amounts due, according to the original contractual terms. These include, watchlist loans with a balance greater than $1.0 million for loans secured by real estate and greater than $500,000 for commercial and industrial loans, accruing loans 90 days past due or greater, specialty lending relationships and other loans as determined by management. ACL for consumer loans are, primarily, determined by meaningful pools of similar loans and are evaluated on a quarterly basis.

The provision for credit losses on loans individually evaluated is recognized on the basis of the present value of expected future cash flows discounted at the effective interest rate, the fair value of collateral adjusted for estimated costs to sell, or the observable market price as of the relevant date. ACL on loans adjustments for estimated costs to sell are not appropriate when the repayment of the collateral-dependent loan is expected from the operation of the collateral.

Premises and Equipment

Premises, furniture, and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed principally on an accelerated or straight–line method and are based on estimated useful lives of the assets. Estimated useful lives of premises and equipment range from 15 to 39 years and 3 to 15 years, respectively. Maintenance and repairs are charged to operating expenses as incurred, while improvements and major renewals that extend the useful life of assets are capitalized and depreciated over the estimated remaining useful life. Land is carried at cost.

Operating Lease Right-of-Use Assets and Liabilities

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the U.S. Treasury risk-free rate unless the lease defines an implicit rate within the contract.

The operating lease right-of-use assets represent the Company’s right to use an underlying asset for the lease term, and the operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease right of use assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company’s operating lease liabilities largely represent future rental expenses associated with operating leases and the U.S. Treasury risk-free rate.

Goodwill and Intangible Assets

Goodwill resulting from a business combination is generally determined as excess of the fair value of consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a business combination and determined to have an indefinite useful life is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performed its most recent annual goodwill impairment test as of November 30, 2024, and concluded that no impairment existed as of that date. No events or circumstances since the November 30, 2024 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

Intangible assets included a core deposit premium relating to the Bank’s assumption of certain deposit liabilities in the Bremen Bancorp, Inc. acquisition in 2016. The core deposit intangible of $640,000 was being amortized on a straight–line basis over 8 years. The amortization of the core deposit premium was $53,000 and $80,000 for the years ended December 31, 2024 and 2023, and was fully amortized in 2024. At December 31, 2024 and 2023, the gross carrying amount was zero and $53,000, respectively.

Noninterest Income

Noninterest income is comprised of revenue from contracts with customers. Generally, income is recognized when the transaction is complete, and the customer receives the goods or service. For that revenue (excluding certain revenue associated with financial instruments, transferring and servicing of financial assets and other specific revenue transactions), the Company applies the following five-step approach when recognizing revenue: (i) identify the contract with the customer, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) the performance obligation is satisfied. The Company's contracts with customers are generally short-term in nature, with a duration of one year or less, and most contracts are cancellable by either the Company or its customer without penalty.

Foreclosed Assets

Foreclosed assets consist of property that has been repossessed. Collateral obtained through foreclosure is comprised of commercial and residential real estate and other non–real estate property, including automobiles. The assets are initially recorded at the lower of the related loan balance or fair value of the collateral less estimated selling costs, with any valuation adjustments charged to the allowance for loan losses. Fair values are estimated primarily on appraisals when available or quoted market prices of liquid assets. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. These appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated costs to sell. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell. Foreclosed assets of $105,000 and $560,000 are included in other assets on the consolidated balance sheets at December 31, 2024 and 2023, respectively. At December 31, 2024, such foreclosed assets included a truck and a recreational vehicle. Further valuation adjustments on these assets, gains and losses realized on sales, and net operating expenses are recorded in other noninterest expenses.

Derivatives

Derivative contracts are offered to customers to assist in hedging their risks of adverse changes in interest rates and foreign exchange rates. The Bank serves as an intermediary between its customers and the markets. Each contract between the Bank and its customers is offset by a contract between the Bank and a counterparty. These contracts do not qualify for hedge accounting. They are carried at fair value, with unrealized gains and losses recorded in other non–interest income.

The Bank has entered into interest rate swap contracts (swap agreements) as an interest rate risk management strategy in accordance with the guidance provided within ASU 2017-12 Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities. Derivatives designated as cash flow hedges are accounted for at fair value. The change in fair value is recorded as a component of other comprehensive income in stockholders' equity. Amounts recorded in other comprehensive income are subsequently reclassified into interest expense when the underlying transaction affects earnings. The swap agreements are accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability.

Asset Impairment Assessments

The Company reviews long–lived assets, such as fixed assets, intangibles and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. The recoverability of assets to be held and used is measured by a comparison of the carry amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within thirty days from the transaction date, with the exception of some agreements which mature in one year or less. Securities sold under agreements to repurchase are included in other borrowed funds on the consolidated balance sheet.

Subordinated Debentures

Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheet as a direct deduction from the carrying amount of the debt liability.

Off–Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off–balance sheet financial instruments consisting of commitments to extend credit, and commitments under commercial and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Allowance for Credit Losses on Unfunded Commitments

Commitments to extend credit are agreements to lend to a customer as long as no condition established in the contract has been violated. These commitments are generally at variable interest rates and generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. These commitments may be secured based on management's credit evaluation of the borrower.

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 cancellable by the Company. The ACL on unfunded commitments is adjusted as a provision for credit loss expense on the consolidated income statement. 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. Expected utilization rates are compared to the current funded portion of the total commitment amount as a practical expedient for funded exposure at default. The ACL on unfunded commitments totaled $942,000 and $785,000 at December 31, 2024 and 2023, respectively, and is included in other liabilities on the consolidated balance sheets.

Stock–Based Compensation

Compensation cost for stock options granted on or after January 1, 2006 is calculated using the Black–Scholes option–pricing model.

Treasury Stock

Purchases of the Company's common stock are recorded at cost as treasury stock. Upon re–issuance for acquisitions, exercises of stock–based awards or other corporate purposes, treasury stock is reduced based upon the average cost basis of shares held. Fair value of the re–issued shares in excess of the average cost of treasury stock is recorded as capital surplus.

Income Taxes

Income taxes are provided based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income taxes are provided for temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities, net operating losses, and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income when such assets and liabilities are anticipated to be settled or realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as tax expense or benefit in the period that includes the enactment date of the change. In determining the amount of deferred tax assets to recognize in the consolidated financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. A valuation allowance is provided if it is more likely than not that all or some portion of the deferred tax asset will not be realized. The Company recognizes interest and penalties related to income taxes within income tax expense in the consolidated statements of income.

The Company and its subsidiaries file a consolidated federal income tax return.

Concentration of Credit

The Bank's loans, commitments, and commercial and standby letters of credit have been granted primarily to customers in the St. Louis metropolitan area, and St. Charles and Jefferson counties in Missouri. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to service their loans is dependent upon the real estate economic sector. Most of these customers are depositors of the Bank. Investments in state and municipal securities also involve governmental entities within the Bank's market area. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Accounting Guidance Adopted in 2024

FASB ASU No. 2023-02, Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method – In March 2023, the FASB issued ASU 2023-02 permitting an election to use the proportional amortization method to account for equity investments made primarily for the purpose of receiving income tax credits and other income tax benefits, regardless of the tax credit program from which the income tax credits are received, provided that certain conditions are met. The proportional amortization method results in the cost of the investment being amortized in proportion to the income tax credits and other income tax benefits received, with the amortization of the investment and the income tax credits being presented net in the consolidated statements of income as a component of income tax expense. The Company adopted this guidance on January 1, 2024 on a prospective basis. The adoption of this accounting pronouncement did not have a material impact on the consolidated financial statements.

Accounting Guidance Issued But Not Yet Adopted

FASB ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures - In December 2023, the FASB issued ASU No. 2023-09, which requires entities other than public business entities ("PBEs") to make qualitative disclosures regarding the nature and effect of reconciling items, as well as individual jurisdictions, that result in a significant difference between the statutory and effective tax rates. Entities other than PBEs are permitted, but not required, to disclose in a tabular, quantitative reconciliation. The pronouncement also requires entities to disclose income taxes paid, net of refunds, disaggregated by federal, state and foreign taxes for annual periods and to disaggregate the information by jurisdiction based on a quantitative threshold, among other things. The ASU is effective for entities other than PBEs for fiscal years beginning after December 15, 2025, with early adoption permitted. The Company will update the related disclosures upon adoption.

NOTE 2 — CASH AND DUE FROM BANKS

The Bank is required to maintain cash reserves based on the level of certain of its deposits. This reserve may be met by funds on deposit with the Federal Reserve Bank ("FRB") and cash on hand. In March 2020, the FRB lowered the reserve requirement ratios to 0%. Therefore, the Bank had no required reserve balance at December 31, 2024 and 2023.

NOTE 3 — INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2024 and 2023 were as follows:

(dollars in thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2024				
U.S. Treasuries and agencies	$ 131,658	$ 82	$ (6,619)	$ 125,121
Mortgage-backed securities - agency	31,797	4	(1,149)	30,652
Collateralized mortgage obligations	41,444	20	(887)	40,577
State and political subdivisions	31,279	69	(1,361)	29,987
Corporate debt	65,877	140	(5,246)	60,771
Time deposits	749	-	-	749
Total available for sale securities	$ 302,804	$ 315	$ (15,262)	$ 287,857
December 31, 2023				
U.S. Treasuries and agencies	$ 135,428	$ 235	$ (8,635)	$ 127,028
Mortgage-backed securities - agency	24,509	17	(909)	23,617
Collateralized mortgage obligations	38,860	34	(1,043)	37,851
State and political subdivisions	32,361	157	(1,366)	31,152
Corporate debt	80,412	-	(8,777)	71,635
Time deposits	993	-	-	993
Total available for sale securities	$ 312,563	$ 443	$ (20,730)	$ 292,276

Investment securities with a carrying amount of $166.1 million and $147.4 million were pledged for public deposits, repurchase agreements and other borrowings at December 31, 2024 and 2023, respectively.

The following is a summary of the amortized cost and fair value of investment securities available for sale, by maturity, at December 31, 2024. Securities with hard call dates and prefunded dates are shown accordingly. Securities that paydown each month, mortgage-backed and collateralized mortgage obligations, are presented by their estimated maturity date.

(dollars in thousands)	Amortized Cost	Fair Value
Within one year	$ 34,059	$ 33,516
After one but within five years	164,281	157,187
After five but within ten years	83,469	76,773
After ten years	20,995	20,381
Total available for sale securities	$ 302,804	$ 287,857

Proceeds and gross realized gains and losses on sales of investment securities available for sale for the years ended December 31, 2024 and 2023 are summarized as follows:

(dollars in thousands)	2024	2023
Proceeds from sales of investment securities	$ 10,519	$ 16,462
Gross realized gains on sales	1,483	287
Gross realized losses on sales	(440)	(295)

As a result of events in the banking industry during the first quarter of 2023 related to the closure of certain financial institutions, management evaluated its investment portfolio and determined the Bank had one investment in a corporate debt security associated with the closure of one of the financial institutions with a book value of $4.0 million. Management evaluated the value of the corporate debt security and determined the corporate debt security was permanently impaired considering (1) the severity and duration of the impairment, (2) the financial condition and near–term prospects of the issuer, and (3) the intent and ability of the Bank to hold the security for a period of time sufficient for a recovery in value, resulting in the recognition of a loss of $4.0 million on the corporate debt security. In 2024, the corporate debt security was sold resulting in the recognition of a gain of $1.1 million.

Unrealized losses and fair values for investment securities available for sale at December 31, 2024 and 2023, for which an allowance for credit losses has not been recorded, aggregated by investment category and length of time that individual securities have been in an continuous unrealized loss position, are summarized below.

	Less Than 12 Months		12 Months or Greater		Total	
(dollars in thousands)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2024						
U.S. Treasuries and agencies	$ 15,377	$ (541)	$ 101,236	$ (6,078)	$ 116,613	$ (6,619)
Mortgage-backed securities - agency	15,178	(269)	12,812	(880)	27,990	(1,149)
Collateralized mortgage obligations	19,503	(370)	17,630	(517)	37,133	(887)
State and political subdivisions	10,183	(307)	15,775	(1,054)	25,958	(1,361)
Corporate debt	1,909	(92)	49,930	(5,154)	51,839	(5,246)
Total available for sale securities	$ 62,150	$ (1,579)	$ 197,383	$ (13,683)	$ 259,533	$ (15,262)
December 31, 2023						
U.S. Treasuries and agencies	$ 5,479	$ (102)	$ 113,627	$ (8,533)	$ 119,106	$ (8,635)
Mortgage-backed securities - agency	12,043	(82)	9,619	(827)	21,662	(909)
Collateralized mortgage obligations	6,023	(125)	26,948	(918)	32,971	(1,043)
State and political subdivisions	2,264	(8)	22,555	(1,358)	24,819	(1,366)
Corporate debt	2,431	(209)	67,204	(8,568)	69,635	(8,777)
Total available for sale securities	$ 28,240	$ (526)	$ 239,953	$ (20,204)	$ 268,193	$ (20,730)

At December 31, 2024, 189 investment securities available for sale had unrealized losses with aggregate depreciation of 5.6% from the their amortized cost basis. For all of the above investment securities, the unrealized losses were generally due to changes in interest rates, and unrealized losses were considered to be temporary as the fair value is expected to recover as the securities approach their respective maturity dates. The issuers are of high quality and all principal amounts are expected to be paid when securities mature. The Bank does not intend to sell and it is likely that the Company will not be required to sell the securities prior to their anticipated recovery.

NOTE 4 — LOANS

The following table presents total loans outstanding, by portfolio class, at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Commercial and industrial	$ 573,360	$ 570,214
Secured by real estate:		
Owner-occupied real estate	283,161	291,268
Commercial real estate	920,302	824,962
Real estate construction	165,530	140,311
Total secured by real estate loans	1,368,993	1,256,541
Consumer:		
Mortgage 1-4 family	213,908	213,168
Home equity	37,835	34,295
Individual	73,544	71,305
Total consumer loans	325,287	318,768
Total loans, gross	2,267,640	2,145,523
Less: Allowance for credit losses	(31,190)	(28,374)
Total loans, net	$ 2,236,450	$ 2,117,149

Loans held for sale, included in mortgage 1-4 family, totaled $4.9 million and $1.7 million as of December 31, 2024 and 2023, respectively.

Loans pledged at the FHLB as collateral for borrowings and letters of credit obtained to secure public deposits totaled $888.5 million and $881.2 million at December 31, 2024 and 2023, respectively. Loans pledged to the FRB totaled $559.7 million and $613.3 million at December 31, 2024 and 2023, respectively.

Allowance for Credit Losses

Management estimates the ACL balance using relevant available information from internal and external sources relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. The cumulative loss rate used as the basis for the estimate of credit losses is comprised of comparable bank historical loss experience beginning in 2004. When historical credit loss experience is not sufficient for a specific portfolio, the Company may supplement its own portfolio data with external models or data. Due to the continued economic uncertainty in the markets in which the Company operates, the Company will continue to utilize a forecast period of 12 months with an immediate reversion to historical loss rates beyond this forecast period in its ACL estimate.

The following table presents, by loan portfolio segment, a summary of changes in the allowance for credit losses for the years ended December 31, 2024 and 2023:

(dollars in thousands)	Commercial & Industrial	Secured by Real Estate	Consumer	Total
December 31, 2024				
Balance, beginning of period	$ 8,201	$ 14,222	$ 5,951	$ 28,374
Provision for credit losses on loans	3,552	(929)	377	3,000
Recoveries	63	842	449	1,354
Charge-offs	(488)	(142)	(908)	(1,538)
Balance, end of year	$ 11,328	$ 13,993	$ 5,869	$ 31,190
December 31, 2023				
Balance, beginning of period	$ 5,857	$ 13,126	$ 7,110	$ 26,093
Impact of adopting ASC 326	(422)	651	(129)	100
Provision for credit losses on loans	3,710	3,590	162	7,462
Recoveries	75	-	171	246
Charge-offs	(1,019)	(3,145)	(1,363)	(5,527)
Balance, end of year	$ 8,201	$ 14,222	$ 5,951	$ 28,374

The following table presents the balance in the allowance for credit losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2024 and 2023. Loans individually evaluated for impairment include loans on watchlist status or worse with a balance greater than $1.0 million for loans secured by real estate and greater than $500,000 for commercial and industrial loans, and other impaired loans deemed to have similar risk characteristics are collectively evaluated.

(dollars in thousands)	Commercial & Industrial	Secured by Real Estate	Consumer	Total
December 31, 2024				
Allowance for credit losses:				
Individually evaluated for impairment	$ 6,594	$ 3,017	$ 912	$ 10,523
Collectively evaluated for impairment	4,734	10,976	4,957	20,667
Balance, end of year	$ 11,328	$ 13,993	$ 5,869	$ 31,190
Loans outstanding, net of allowance:				
Individually evaluated for impairment	$ 37,535	$ 26,116	$ 7,669	$ 71,320
Collectively evaluated for impairment	524,497	1,328,884	311,749	2,165,130
Balance, end of year	$ 562,032	$ 1,355,000	$ 319,418	$ 2,236,450
December 31, 2023				
Allowance for credit losses:				
Individually evaluated for impairment	$ 2,838	$ 2,575	$ 876	$ 6,289
Collectively evaluated for impairment	5,363	11,647	5,075	22,085
Balance, end of year	$ 8,201	$ 14,222	$ 5,951	$ 28,374
Loans outstanding, net of allowance:				
Individually evaluated for impairment	$ 29,956	$ 38,918	$ 5,735	$ 74,609
Collectively evaluated for impairment	532,057	1,203,401	307,082	2,042,540
Balance, end of year	$ 562,013	$ 1,242,319	$ 312,817	$ 2,117,149

In calculating expected credit losses, the Company individually evaluates loans on watchlist status or worse with a balance greater than $1.0 million for loans secured by real estate and greater than $500,000 for commercial and industrial loans, loans past due 90 days or more and still accruing interest, and loans that do not share risk characteristics with other loans in the pools. The following table presents amortized cost basis of individually evaluated loans on nonaccrual status as of December 31, 2024 and 2023.

	December 31, 2024			December 31, 2023		
(dollars in thousands)	Nonaccrual with Allowance	Nonaccrual with no Allowance	Total Nonaccrual	Nonaccrual with Allowance	Nonaccrual with no Allowance	Total Nonaccrual
Commercial and industrial	$ 1,155	$ -	$ 1,155	$ 1,275	$ -	$ 1,275
Secured by real estate:						
Owner- occupied real estate	1,987	-	1,987	2,640	-	2,640
Commercial real estate	531	-	531	5,059	-	5,059
Real estate construction	71	-	71	21	-	21
Consumer:						
Mortgage 1-4 family	1,587	-	1,587	1,609	-	1,609
Home equity	283	-	283	118	-	118
Individual	209	-	209	14	-	14
Total loans	$ 5,823	$ -	$ 5,823	$ 10,736	$ -	$ 10,736

There was no interest income recognized on nonaccrual loans during the years ended December 31, 2024 and 2023 while the loans were in nonaccrual status.

Collateral Dependent Loans

A collateral dependent financial loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with a loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases, and the loan may become collateral dependent. The Company had $56.9 million and $31.3 million of collateral dependent loans secured by real estate or business assets as of December 31, 2024 and 2023, respectively.

Aging Status

The aging status of the recorded investment in loans by portfolio as of December 31, 2024 and 2023 was as follows:

(dollars in thousands)	Current or Less Than 30 Days Past Due	30-89 Days Past Due	90 Days Past Due and Still Accruing Interest	Nonaccrual	Total
December 31, 2024					
Commercial and industrial	$ 568,190	$ 4,015	$ -	$ 1,155	$ 573,360
Secured by real estate:					
Owner-occupied real estate	281,087	87	-	1,987	283,161
Commercial real estate	919,360	411	-	531	920,302
Real estate construction	165,459	-	-	71	165,530
Consumer:					
Mortgage 1-4 family	209,659	2,504	158	1,587	213,908
Home equity	37,328	156	68	283	37,835
Individual	72,494	722	119	209	73,544
Total loans	$ 2,253,577	$ 7,895	$ 345	$ 5,823	$ 2,267,640
December 31, 2023					
Commercial and industrial	$ 566,986	$ 1,442	$ 511	$ 1,275	$ 570,214
Secured by real estate:					
Owner- occupied real estate	288,597	31	-	2,640	291,268
Commercial real estate	805,607	14,211	85	5,059	824,962
Real estate construction	140,290	-	-	21	140,311
Consumer:					
Mortgage 1-4 family	207,759	3,800	-	1,609	213,168
Home equity	33,718	376	83	118	34,295
Individual	70,839	363	89	14	71,305
Total loans	$ 2,113,796	$ 20,223	$ 768	$ 10,736	$ 2,145,523

Loan Restructurings

The Company evaluates all loan restructurings according to the accounting guidance for loan modifications to determine if the restructuring results in a new loan or a continuation of the existing loan. Loan modifications to borrowers experiencing financial difficulties that result in a direct change in the timing or amount of contractual cash flows include situations where there is principal forgiveness, interest rate reductions, other-than-insignificant payment delays, term extensions, and combinations of the listed modifications. Therefore, the disclosures related to loan restructurings are for modifications which have a direct impact on cash flows.

The Company may offer various types of concessions when modifying a loan. Loans modified in a loan restructuring often involve temporary interest-only payments, term extensions, and converting revolving credit lines to term loans. Additional collateral, a co-borrower, or a guarantor is often requested.

Loans modified in a loan restructuring may have the financial effect of increasing the specific allowance associated with the loan. An allowance for loans that have been modified in a loan restructuring is measured based on the discounted cash flow model, the loan's observable market price, or the estimated fair value of the collateral, less any selling costs, if the loan is collateral dependent. Management exercises significant judgment in developing these estimates.

Commercial and consumer loans modified in a loan restructuring are closely monitored for delinquency as an early indicator of possible future default. If loans modified in a loan restructuring subsequently default, the Company evaluates the loan for possible further loss. The allowance may be increased, adjustments may be made in the allocation of the allowance, or partial charge-offs may be taken to further write-down the carrying value of the loan.

In some cases, the Company will modify a loan by providing multiple types of concessions. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession such as an interest rate reduction or principal forgiveness, may be granted.

During the year ended December 31, 2024, the Company had no loan restructurings.

During the year ended December 31, 2023, the Company restructured two owner-occupied real estate loans and one revolving line of credit related to one borrower experiencing financial difficulties with principal balances at the time of restructuring totaling $5.9 million. All three of the credit restructurings were provided with a six-month payment deferral and were transferred to nonaccrual status with a partial charge-off totaling $2.8 million, resulting in a principal balance totaling $3.1 million at December 31, 2023. In the first quarter of 2024, the collateral was sold by the borrower, and the remaining principal balance was paid off and the Company recognized a recovery of $767,000.

Credit Quality Indicators

The Company uses an internal rating system to monitor ongoing credit quality of its loan portfolio. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. Credit risk grades are reviewed continuously by management based on a variety of sources, including, but not limited to, financial information, collateral valuation updates, and market information. As this information becomes available management analyzes the resulting ratings, as well as other external statistics and factors, to track loan performance. The "average or lower risk" category represents a range of loan grades that are comprised of loans with minimal risk at the lower end of the grading system to higher, though still acceptable, risk at the upper range end. Movement of risk through the various grade levels in the "average or lower risk" category is monitored for early identification of credit deterioration. The "watch" rating is attached to loans where the borrower exhibits material negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The watch list rating is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well–defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. The "doubtful" rating is applied to loans when collection is highly questionable and improbable, but its classification as an estimated loss is deferred until a more exact status can be determined. A "loss" rating is a loan considered uncollectible and of such little value that its continuance as an active bank asset is not warranted.

The following tables present the recorded investment of the commercial and consumer loan portfolios segregated by risk category as of December 31, 2024 and 2023.

	December 31, 2024						
	Term Loans Amortized Cost Basis by Origination Year						
(dollars in thousands)	2024	2023	2022	2021	Prior	Revolving Loans	Total
Commercial and industrial:							
Average or lower risk	$ 39,456	$ 25,797	$ 14,395	$ 6,346	$ 18,638	$ 275,137	$ 379,769
Higher than average risk	17,908	16,694	26,539	8,806	18,008	61,507	149,462
Watch	792	5,666	4,008	560	379	3,378	14,783
Substandard	27	10,591	9,652	505	20	8,551	29,346
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	58,183	58,748	54,594	16,217	37,045	348,573	573,360
Current period charge-offs	-	-	465	23	-	-	488
Owner-occupied real estate:							
Average or lower risk	10,864	14,596	11,115	25,769	73,563	25,259	161,166
Higher than average risk	16,333	8,205	12,382	17,361	50,790	9,369	114,440
Watch	135	398	903	1,851	982	1,200	5,469
Substandard	-	269	-	852	872	93	2,086
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	27,332	23,468	24,400	45,833	126,207	35,921	283,161
Current period charge-offs	-	-	-	-	-	-	-
Commercial real estate:							
Average or lower risk	88,064	94,150	81,259	76,798	210,559	94,613	645,443
Higher than average risk	30,095	9,588	53,068	34,362	91,110	36,831	255,054
Watch	-	766	178	-	2,054	100	3,098
Substandard	-	-	9,488	410	6,521	288	16,707
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	118,159	104,504	143,993	111,570	310,244	131,832	920,302
Current period charge-offs	-	-	-	13	129	-	142
Real estate construction:							
Average or lower risk	1,670	34,597	10,398	2,311	-	29,876	78,852
Higher than average risk	563	9,387	1,186	22,388	-	51,381	84,905
Watch	-	-	-	-	-	-	-
Substandard	-	-	-	-	1,688	85	1,773
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	2,233	43,984	11,584	24,699	1,688	81,342	165,530
Current period charge-offs	-	-	-	-	-	-	-
Total:							
Average or lower risk	140,054	169,140	117,167	111,224	302,760	424,885	1,265,230
Higher than average risk	64,899	43,874	93,175	82,917	159,908	159,088	603,861
Watch	927	6,830	5,089	2,411	3,415	4,678	23,350
Substandard	27	10,860	19,140	1,767	9,101	9,017	49,912
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total commercial loans	$ 205,907	$ 230,704	$ 234,571	$ 198,319	$ 475,184	$ 597,668	$1,942,353
Total current period charge-offs	$ -	$ -	$ 465	$ 36	$ 129	$ -	$ 630

	December 31, 2024						
	Term Loans Amortized Cost Basis by Origination Year						
(dollars in thousands)	2024	2023	2022	2021	Prior	Revolving Loans	Total
Mortgage 1-4 family:							
Average or lower risk	$ 21,733	$ 19,662	$ 52,162	$ 27,455	$ 80,040	$ 4,542	$ 205,594
Higher than average risk	-	-	-	-	1,291	-	1,291
Watch	-	-	-	328	987	-	1,315
Substandard	-	120	1,208	1,203	2,514	663	5,708
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	21,733	19,782	53,370	28,986	84,832	5,205	213,908
Current period charge-offs	-	-	-	-	-	-	-
Home equity:							
Average or lower risk	9,499	4,975	6,180	3,345	1,623	11,082	36,704
Higher than average risk	-	-	-	-	-	186	186
Watch	-	-	-	-	-	123	123
Substandard	-	102	14	-	40	666	822
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	9,499	5,077	6,194	3,345	1,663	12,057	37,835
Current period charge-offs	-	-	-	-	-	-	-
Individual:							
Average or lower risk	14,768	4,745	3,955	2,717	7,869	15,416	49,470
Higher than average risk	4,513	1,519	9,155	2,158	2,054	4,062	23,461
Watch	-	-	-	-	-	-	-
Substandard	-	95	108	19	295	96	613
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Subtotal	19,281	6,359	13,218	4,894	10,218	19,574	73,544
Current period charge-offs	19	92	474	20	10	293	908
Total:							
Average or lower risk	46,000	29,382	62,297	33,517	89,532	31,040	291,768
Higher than average risk	4,513	1,519	9,155	2,158	3,345	4,248	24,938
Watch	-	-	-	328	987	123	1,438
Substandard	-	317	1,330	1,222	2,849	1,425	7,143
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total consumer loans	$ 50,513	$ 31,218	$ 72,782	$ 37,225	$ 96,713	$ 36,836	$ 325,287
Current period charge-offs	$ 19	$ 92	$ 474	$ 20	$ 10	$ 293	$ 908

	December 31, 2023					
	Term Loans Amortized Cost Basis by Origination Year					
(dollars in thousands)	2023	2022	2021	Prior	Revolving Loans	Total
Commercial and industrial:						
Average or lower risk	$ 42,884	$ 24,265	$ 8,191	$ 26,135	$ 280,494	$ 381,969
Higher than average risk	21,055	34,603	11,724	24,623	63,446	155,451
Watch	965	8,648	-	1,070	13,025	23,708
Substandard	977	1,181	504	1,753	4,671	9,086
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	65,881	68,697	20,419	53,581	361,636	570,214
Current period charge-offs	278	687	-	54	-	1,019
Owner-occupied real estate:						
Average or lower risk	14,619	13,921	32,473	83,088	23,477	167,578
Higher than average risk	7,844	14,699	23,474	56,488	8,402	110,907
Watch	577	173	2,412	4,128	1,186	8,476
Substandard	293	-	926	2,931	157	4,307
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	23,333	28,793	59,285	146,635	33,222	291,268
Current period charge-offs	-	2,827	-	-	-	2,827
Commercial real estate:						
Average or lower risk	85,305	104,224	81,609	236,953	71,132	579,223
Higher than average risk	11,203	34,188	40,540	98,564	40,709	225,204
Watch	286	9,600	-	1,592	3,762	15,240
Substandard	-	3,094	372	1,472	357	5,295
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	96,794	151,106	122,521	338,581	115,960	824,962
Current period charge-offs	-	-	-	99	-	99
Real estate construction:						
Average or lower risk	6,085	17,809	2,801	-	57,127	83,822
Higher than average risk	4,010	2,510	-	21	41,773	48,314
Watch	-	-	-	-	-	-
Substandard	-	-	-	8,069	106	8,175
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	10,095	20,319	2,801	8,090	99,006	140,311
Current period charge-offs	-	-	-	219	-	219
Total:						
Average or lower risk	148,893	160,219	125,074	346,176	432,230	1,212,592
Higher than average risk	44,112	86,000	75,738	179,696	154,330	539,876
Watch	1,828	18,421	2,412	6,790	17,973	47,424
Substandard	1,270	4,275	1,802	14,225	5,291	26,863
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total commercial loans	$ 196,103	$ 268,915	$ 205,026	$ 546,887	$ 609,824	$ 1,826,755
Total current period charge-offs	$ 278	$ 3,514	$ -	$ 372	$ -	$ 4,164

	December 31, 2023					
	Term Loans Amortized Cost Basis by Origination Year					
(dollars in thousands)	2023	2022	2021	Prior	Revolving Loans	Total
Mortgage 1-4 family:						
Average or lower risk	$ 21,317	$ 55,886	$ 31,028	$ 92,456	$ 5,770	$ 206,457
Higher than average risk	-	-	-	1,414	82	1,496
Watch	-	-	-	1,252	-	1,252
Substandard	-	572	450	2,405	536	3,963
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	21,317	56,458	31,478	97,527	6,388	213,168
Current period charge-offs	-	-	-	6	-	6
Home equity:						
Average or lower risk	7,172	7,833	3,362	2,128	12,495	32,990
Higher than average risk	-	-	-	-	494	494
Watch	-	-	-	-	162	162
Substandard	-	34	-	40	575	649
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	7,172	7,867	3,362	2,168	13,726	34,295
Current period charge-offs	-	-	-	69	-	69
Individual:						
Average or lower risk	5,471	7,809	1,796	9,367	21,407	45,850
Higher than average risk	2,328	11,418	3,023	2,869	5,232	24,870
Watch	-	-	-	-	-	-
Substandard	-	290	20	182	93	585
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Subtotal	7,799	19,517	4,839	12,418	26,732	71,305
Current period charge-offs	-	744	139	103	302	1,288
Total:						
Average or lower risk	33,960	71,528	36,186	103,951	39,672	285,297
Higher than average risk	2,328	11,418	3,023	4,283	5,808	26,860
Watch	-	-	-	1,252	162	1,414
Substandard	-	896	470	2,627	1,204	5,197
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total consumer loans	$ 36,288	$ 83,842	$ 39,679	$ 112,113	$ 46,846	$ 318,768
Current period charge-offs	$ -	$ 744	$ 139	$ 178	$ 302	$ 1,363

Loans Held for Sale

In addition to the portfolio of loans which are intended to be held to maturity, the Bank historically originates loans which it intends to sell in secondary markets. Loans classified as held for sale primarily consist of fixed rate residential mortgages. These loans are sold in the secondary market, generally within three months of origination. The following table presents information about loans held for sale at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Residual mortgage loans, at cost	$ 4,917	$ 1,664
Valuation allowance	-	-
Total loans held for sale, at lower of cost or fair value	$ 4,917	$ 1,664
Net gains on sales of loans held for sale during the year	$ 2,826	$ 1,778

Residential Mortgage Loan Servicing

The Bank serviced residential mortgage loans for others (primarily for Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank of Des Moines) with unpaid principal balances of $55.2 million and $33.6 million at December 31, 2024 and 2023, respectively. The carrying value of the mortgage servicing rights is not material to the financial statements and are not included in the consolidated balance sheets.

United States Small Business Administration ("SBA") Loan Servicing

The Company serviced SBA loans with unpaid principal balances of $27.0 million and $25.6 million at December 31, 2024 and 2023, respectively. SBA loan servicing rights of $493,000 and $468,000 at December 31, 2024 and 2023, respectively, are reflected in other assets in the consolidated balance sheets.

NOTE 5 — PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at December 31, 2024 and 2023 is as follows:

(dollars in thousands)	2024	2023
Land	$ 4,282	$ 4,704
Land improvements	1,545	1,577
Building and improvements	26,343	28,802
Vaults	365	365
Furniture and equipment	15,366	14,693
Software	4,850	4,556
Fixed assets in process	88	151
	52,839	54,848
Less: Accumulated depreciation	(40,005)	(40,205)
	$ 12,834	$ 14,643

Depreciation expense for the years ended December 31, 2024 and 2023 was $1.4 million and $1.3 million, respectively.

NOTE 6 — LEASES

The Company has entered into operating leases, primarily for banking offices and operating facilities, which have remaining lease terms of 7 months to 22 years, some of which may include options to extend the lease terms for up to an additional 10 years. The options to extend are included if they are reasonably certain to be exercised. The following table summarizes supplemental balance sheet and cash flow information related to leases:

	Years Ended December 31,			
(dollars in thousands)	2024		2023	
Lease balances:				
Operating lease right-of-use assets	$	6,981	$	7,544
Operating lease liabilities	$	7,030	$	7,581
Supplemental information:				
Weighted average remaining lease term		14.65 years		15.43 years
Weighted average discount rate		1.96%		1.85%
Cash flow information:				
Operating cash flows from operating leases	$	677	$	649
Right-of-use assets obtained in exchange for lease obligations	$	39	$	406

The components of lease expense (included in occupancy expense in the consolidated statements of income) for the years ended December 31, 2024 and 2023 was as follows:

(dollars in thousands)	2024		2023	
Operating lease cost	$	741	$	716
Income from subleases		(121)		(109)
Net lease cost	$	620	$	607

The projected future minimum rental payments under the terms of the operating leases as of December 31, 2024 are as follows:

(dollars in thousands)	Amount	
2025	$	668
2026		634
2027		629
2028		629
2029		629
Thereafter		4,909
Total future minimum lease payments		8,098
Less imputed interest		(1,068)
Total operating lease liabilities	$	7,030

As a lessor, the Company leases office space and parking lot space to outside parties. Revenues recorded in connection with these leases and reported in occupancy expense in our consolidated statements of income were $297,000 and $265,000 during the years ended December 31, 2024 and 2023, respectively.

NOTE 7 — DERIVATIVE INSTRUMENTS

Interest Rate Swap Contracts

The Bank entered into interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by contracts simultaneously purchased by the Company from other financial dealer institutions with mirror-image terms. Because of the mirror-image terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in the fair value subsequent to initial recognition have a minimal to no effect on earnings. These derivative contracts do not qualify for hedge accounting.

The notional amounts of these customer derivative instruments and offsetting counterparty derivative instruments was $39.5 million and $44.2 million at December 31, 2024 and 2023, respectively, with a weighted-average remaining term of 4.82 years and 5.44 years, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $4.7 million and $4.8 million at December 31, 2024 and 2023, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets. Changes in the fair value of the customer derivative instruments and offsetting counterparty derivative instruments was $5.0 million and $7.6 million for the years ended December 31, 2024 and 2023, respectively, and are recorded in other noninterest expense in the consolidated statements of income. For the derivative asset, interest is accrued using fixed rates as defined in the agreements, and for the derivative liability, interest is charged using a variable rate based on one-month SOFR plus 304 basis points.

Cash Flow Hedges

In March 2020, the Company entered into two interest rate swap agreements with a total notional amount of $40.0 million for a period of seven years. The swap agreements, of which $20.0 million matures on March 23, 2027 and $20.0 million matures on April 28, 2027, have a fixed rate of interest of 0.81% and the Bank receives interest at a variable rate equal to the 3-month SOFR.

In May 2020, the Company entered into an interest rate swap agreement with a notional amount of $20.0 million for a period of seven years. The swap agreement matures on July 1, 2027 and has a fixed rate of interest of 0.615% and the Bank receives interest at a variable rate equal to the 3-month SOFR rate.

Cash flow hedges are accounted for at fair value. The fair value of the cash flow hedges was $5.2 million and $6.4 million at December 31, 2024 and 2023, respectively, and is included in other assets on the consolidated balance sheets. As of December 31, 2024 and 2023, gain included in accumulated other comprehensive loss, net of tax, for cash flow hedges was $3.9 million and $4.8 million, respectively. Related to the swaps identified above, during the next twelve months the Company estimates that an additional $2.0 million will be reclassified as a reduction to interest expense.

NOTE 8 — TIME DEPOSITS

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

(dollars in thousands) Year ending December 31,	Amount
2025	$ 747,542
2026	57,303
2027	3,462
2028	1,388
2029	1,578
	$ 811,273

NOTE 9 — FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Securities sold under agreements to repurchase	$ 21,086	$ 16,964
FHLB advances	85,000	95,000
Total FHLB advance and other borrowings	$ 106,086	$ 111,964

Securities sold under agreements to repurchase generally mature within one year. The repurchase agreements are secured by U.S. government agency securities and state and municipal securities. Securities sold under agreements to repurchase were collateralized by pledged securities of $25.4 million and $20.5 million at December 31, 2024 and 2023, respectively. Summarized below is information on securities sold under repurchase agreements at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Average Balance During the Year	$ 21,718	$ 20,566
Average Interest Rate During the Year	2.97%	2.34%
Maximum Month-End Balance During the Year	$ 25,903	$ 27,535

FHLB advances are under a master borrowing agreement which assigns all investments in FHLB stock as well as qualifying first mortgage loans and qualifying commercial real estate loans as collateral to secure the amounts borrowed. FHLB advances are under different terms and bear a weighted–average interest rate of 3.73% and 4.07% at December 31, 2024 and 2023, respectively. The Bank had the additional capacity to borrow funds from the FHLB of up to $327.0 million at December 31, 2024.

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

(dollars in thousands) Year Ending December 31,	Amount
Overnight	$ -
2025	75,000
2026	10,000
	$ 85,000

The Bank had the capacity to borrow funds from the Federal Reserve Bank of up to $483.2 million at December 31, 2024. The Holding Company had the capacity to borrow funds from Midwest Independent Bank of up to $10.0 million at December 31, 2024 on a line of credit at a floating rate with the prime rate minus 0.50% quoted in the Wall Street Journal and a floor of 3.25%. The line is currently set to mature on June 1, 2025. The loan is secured with Midwest BankCentre stock and includes loan covenants relating to the bank maintaining a "well capitalized" regulatory status and meeting certain credit and performance ratios.

NOTE 10 — SUBORDINATED DEBENTURES

The following table summarizes the Company's subordinated debt at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Subordinated debentures	$ 68,250	$ 68,250
Less: Unamortized debt issuance	(314)	(546)
Total subordinated debt	$ 67,936	$ 67,704

On July 7, 2020 and July 24, 2020, the Company issued, through a private placement, $33.25 million aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and qualified institutional buyers ("QIB"). Unless earlier redeemed, the notes mature on July 15, 2030 and bear interest at a fixed rate of 5.75% per year, from and including July 7, 2020, up to July 15, 2025. From and including July 15, 2025 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 567.5 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest. The value of the subordinated debentures was reduced by $600,000 of debt issuance costs, which are being amortized on a straight-line basis through the redemption option of the subordinated debentures, of which $121,000 was amortized as an adjustment to interest expense in both 2024 and 2023.

On June 7, 2021, the Company issued, through a private placement, $35.0 million aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and QIB. Unless earlier redeemed, $25.0 million of the notes mature on June 15, 2031 and bear interest at a fixed rate of 3.625% per year, from and including June 7, 2021, up to June 15, 2026. From and including June 15, 2026 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 295 basis points, payable quarterly in arrears. Unless earlier redeemed, $10.0 million of the notes mature on June 15, 2036 and bear interest at a fixed rate of 4.00% per year, from and including June 7, 2021, up to June 15, 2031. From and including June 15, 2031 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 267 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest. The value of the subordinated debentures was reduced by $654,000 of debt issuance costs, which are being amortized on a straight-line basis through the redemption option of the subordinated debentures, of which $111,000 was amortized as an adjustment to interest expense in both 2024 and 2023.

All of the subordinated debentures mentioned above may be included in Tier II capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 11 — ACCUMULATED OTHER COMPREHENSIVE LOSS, NET OF TAX

The following table summarizes the components of accumulated other comprehensive loss, net of tax, at December 31, 2024 and 2023:

(dollars in thousands)	2024	2023
Unrealized losses on investment securities available-for-sale	$ (14,947)	$ (20,287)
Unrealized gains on cash flow swaps	5,200	6,381
Income tax effect	2,355	3,360
Accumulated other comprehensive loss, net of tax	$ (7,392)	$ (10,546)

NOTE 12 — INCOME TAXES

The components of income taxes for the years ended December 31, 2024 and 2023 were as follows:

(dollars in thousands)	2024	2023
Current	$ 7,012	$ 5,812
Deferred	(1,517)	(1,758)
	$ 5,495	$ 4,054

Income tax expense differs from the federal statutory rates for the years ended December 31, 2024 and 2023 for the reasons shown in the following table:

(dollars in thousands)	2024	2023
Income taxes at effective statutory rate of 21%	$ 6,605	$ 5,828
State income tax tax, net of federal benefit	(96)	(198)
Tax-exempt interest income	(22)	(23)
Bank owned life insurance	(519)	(389)
Federal tax credits	(1,352)	(1,284)
Tax credit investment amortization	1,005	-
Other, net	(126)	120
	$ 5,495	$ 4,054

Deferred tax assets, net in the accompanying consolidated balance sheets at December 31, 2024 and 2023 include the following amounts of deferred tax assets and liabilities:

(dollars in thousands)	2024	2023
Deferred tax assets:		
Allowance for credit losses	$ 7,602	$ 6,914
Credit marks on loans	34	37
Net operating loss carryforward	672	737
Tax credits	68	29
Accrued incentive units	2,946	2,629
Securities available-for-sale-other	2,355	3,360
Investment in partnerships	1,346	1,524
Operating lease liabilities	1,713	1,847
Deferred loan fees, net	839	694
Other	1,657	1,437
Deferred tax assets	$ 19,232	$ 19,208
Deferred tax liabilities:		
Deferred loan costs, net	(822)	(842)
Depreciation and amortization	(25)	(344)
Core deposit intangibles	-	(13)
Operating lease right-of-use assets	(1,701)	(1,838)
Deferred tax liabilities	$ (2,548)	$ (3,037)
Net deferred tax assets	$ 16,684	$ 16,171

Net deferred tax assets are included in other assets in the consolidated balance sheets. Income taxes currently refundable at December 31, 2024 and 2023 are $1.6 million and $475,000, respectively, and are included in other liabilities on the consolidated balance sheets.

When the Company acquired Bremen Bancorp, Inc., it acquired federal and state net operating loss carryforwards that are subject to the provisions of Internal Revenue Code Section 382. Such loss carryforwards will expire between 2032 and 2036. The Company's income tax returns are available for examination for the statutory period.

NOTE 13 — EMPLOYEE BENEFIT PLAN

The Bank has a 401(k) plan which covers substantially all full–time employees of the Bank. The Bank's contribution is discretionary and determined annually. Total contributions were $878,000 and $936,000 for the years ended December 31, 2024 and 2023, respectively.

NOTE 14 — STOCK–BASED COMPENSATION

The Company awards select employees and directors’ certain forms of share-based incentives in the form of stock options and an equity participation plan. The awards are granted by the compensation committee, which is comprised of members of the board of directors.

Stock Options

Under the stock option plan, the Company may grant options for up to 243,000 shares of common stock. The exercise price of each option is equal to the market price of the Company's stock on the date of the grant as defined by the agreement. The maximum term of the option is ten years and the options vest over three years. Vested options may be exercised by the individual at any time before the expiration of the grant.

In determining compensation cost, the Black–Scholes option–pricing model is used to estimate the fair value of options on the date of grant. The Black–Scholes model is a closed–end model that uses the following model assumptions:

- Expected volatility is based on the historical volatility of the Company’s stock. The Company uses historical exercise behavior and other factors to estimate the expected term of the options, which represents the period that the options granted are expected to be outstanding. The risk–free rate for the expected term is based on the U.S. Treasury zero coupon spot rates in effect at the time of the grant.

Below are the fair values of stock options granted using the Black–Scholes option–pricing model, including the model assumptions for those grants for the years ended December 31, 2024 and 2023.

	2024	2023
Weighted average per share fair value at grant date	$ 28.10	$ 15.93
Assumptions:		
Dividend yield	2.03%	2.03%
Volatility	3.95%	3.71%
Risk-free interest rate	4.67%	3.54%
Expected term	10 years	10 years

A summary of the Company's nonvested shares at December 31, 2024 and 2023 and changes during the year are as follows:

	Number of Shares	Weighted-Average Grant Date Fair Value
Nonvested at January 1, 2023	9,400	$ 6.75
Granted	5,400	$ 15.93
Exercised	(600)	$ 6.44
Forfeited	(100)	$ 4.69
Vested	(4,200)	$ 5.42
Nonvested at December 31, 2023	9,900	$ 12.37
Granted	5,400	$ 28.10
Exercised	(300)	$ 10.03
Forfeited	-	$ -
Vested	(4,400)	$ 10.66
Nonvested at December 31, 2024	10,600	$ 21.15

A summary of the Company's stock options outstanding as of December 31, 2024 and 2023, and changes during each year are as follows:

(dollars in thousands, except per share data)	Number Shares	Weighted Average Exercise Price	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2023	28,850	$ 106.73		
Granted	5,400	$ 134.14		
Exercised	(5,900)	$ 98.88		
Forfeited	(100)	$ 121.91		
Outstanding at December 31, 2023	28,250	$ 113.56	6.88 years	$ 848
Exercisable at December 31, 2023	18,350	$ 104.36	5.51 years	$ 720
Outstanding at January 1, 2024	28,250	$ 113.56		
Granted	5,400	$ 147.86		
Exercised	(3,800)	$ 102.48		
Forfeited	-	$ -		
Outstanding at December 31, 2024	29,850	$ 121.17	6.88 years	$ 1,198
Exercisable at December 31, 2024	19,250	$ 110.68	5.52 years	$ 974

Additional information about stock options exercised for the years ended December 31, 2024 and 2023 is presented below:

(dollars in thousands)	2024	2023
Intrinsic value of options exercised	$ 172	$ 199
Cash received from options exercised	$ 194	$ 21
Tax benefit realized from options exercised	$ 42	$ 48

As of December 31, 2024, there was $157,000 of unrecognized compensation cost (net of estimated forfeitures) related to unvested options and stock awards, which is expected to be recognized over a weighted average period of 1.96 years.

For the years ended December 31, 2024 and 2023, the Bank recognized $86,000 and $44,000, respectively, as compensation cost and recorded related tax benefits of $21,000 and $11,000, respectively.

Equity Participation Plan

The Bank adopted an Equity Participation Plan (the “Plan”) in 2004. The Plan calls for awarding “performance units” to certain employees of the Bank. Under the Plan, the Bank may grant rights up to 10 percent of outstanding shares of common stock. The value of the unit is based on book value with a multiple based on a combination of years of service and age. The accrued liability associated with the Plan is $12.1 million and $11.0 million as of December 31, 2024 and 2023, respectively. Compensation costs associated with the Plan was $2.9 million for both years ended December 31, 2024 and 2023.

NOTE 15 — PER SHARE INFORMATION

The Company’s net book value per share was $138.59 and $124.80 at December 31, 2024 and 2023, respectively, based upon the shares outstanding at those dates (issued and outstanding less treasury shares). Tangible book value per share, which adjusts total stockholders’ equity by the balance of intangible assets, was $129.04 and $114.87 at December 31, 2024 and 2023, respectively.

Earnings per share (“EPS”) are calculated utilizing the two-class method. Basic EPS is calculated by dividing earnings available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is calculated by dividing earnings available to common stockholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards. Presented below are the calculations for basic and diluted EPS for the years ended December 31, 2024 and 2023:

(dollars in thousands, except per share data)	**2024**	**2023**
Net income available to shareholders	$ 25,960	$ 23,700
Weighted-average shares outstanding	1,767,202	1,756,960
Effect of dilutive shares:		
Stock option plan	4,199	3,580
Total weighted-average diluted shares	1,771,401	1,760,540
Basic EPS	$ 14.69	$ 13.49
Diluted EPS	$ 14.66	$ 13.46

NOTE 16 — CAPITAL REQUIREMENTS

The Company is not subject to any separate capital requirements from those of the Bank. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action provisions, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off–balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts, and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I Capital to risk–weighted assets, Tier I Capital to average assets, and Common Equity Tier I Capital to risk weighted assets. Management believes, as of December 31, 2024 and 2023, the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2024, the most recent notification from the Federal Reserve System categorized the Company 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.

The Company's actual capital amounts and ratios are also presented in the following table.

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrrective Action	
(dollars in thousands)	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
December 31, 2024						
Total capital (to risk-weighted assets):						
Consolidated	$ 340,175	13.5%	$ 202,087	≥ 8.0 %	N/A	N/A
Bank	$ 338,213	13.4%	$ 202,211	≥ 8.0 %	$ 252,764	≥ 10.0 %
Tier I Capital (to risk-weighted assets):						
Consolidated	$ 240,656	9.5%	$ 151,565	≥ 6.0 %	N/A	N/A
Bank	$ 306,611	12.1%	$ 151,658	≥ 6.0 %	$ 202,211	≥ 8.0 %
Tier I capital (to average assets):						
Consolidated	$ 240,656	8.8%	$ 109,749	≥ 4.0 %	N/A	N/A
Bank	$ 306,611	11.2%	$ 109,841	≥ 4.0 %	$ 137,301	≥ 5.0 %
Common Equity Tier I Capital (to risk-weighted assets):						
Consolidated	$ 240,656	9.5%	$ 113,674	≥ 4.5 %	N/A	N/A
Bank	$ 306,611	12.1%	$ 113,744	≥ 4.5 %	$ 164,297	≥ 6.5 %
December 31, 2023						
Total capital (to risk-weighted assets):						
Consolidated	$ 307,790	12.6%	$ 195,842	≥ 8.0 %	N/A	N/A
Bank	$ 307,865	12.6%	$ 195,817	≥ 8.0 %	$ 244,772	≥ 10.0 %
Tier I Capital (to risk-weighted assets):						
Consolidated	$ 210,927	8.6%	$ 146,881	≥ 6.0 %	N/A	N/A
Bank	$ 278,706	11.4%	$ 146,863	≥ 6.0 %	$ 195,817	≥ 8.0 %
Tier I capital (to average assets):						
Consolidated	$ 210,927	7.7%	$ 109,829	≥ 4.0 %	N/A	N/A
Bank	$ 278,706	10.2%	$ 109,816	≥ 4.0 %	$ 137,270	≥ 5.0 %
Common Equity Tier I Capital (to risk-weighted assets):						
Consolidated	$ 210,927	8.6%	$ 110,161	≥ 4.5 %	N/A	N/A
Bank	$ 278,706	11.4%	$ 110,147	≥ 4.5 %	$ 159,102	≥ 6.5 %

NOTE 17 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of an asset or liability is the exchange price that would be received by selling that asset or paid in transferring that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. ASC Topic 820, Fair Value Measurement, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.

- Level 2 – Significant other observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.

- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Estimated fair values have been determined by management using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Cash and cash equivalents – The carrying amounts are a reasonable estimate of fair value.

Investment securities, available–for–sale – The fair value of Level 1 available–for–sale securities are based on unadjusted, quoted prices from exchanges in active markets. The fair value of Level 2 available–for–sale securities are based on an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. The inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Changes in fair value are recorded in other comprehensive income. The fair values of securities are priced by a third–party pricing service, which are based on observable market inputs. Valuation methods and inputs, by class of security:

- *U.S. government and federal agency obligations* - U.S. treasury bills, bonds and notes are valued using data from active market makers and inter–dealer brokers.

- *Government–sponsored enterprise obligations* - Government–sponsored enterprise obligations are valued using cash flow valuation models. Inputs used are live market data, cash settlements, Treasury market yields, and floating rate indices such as LIBOR, Constant Maturity Treasury rates, and Prime.

- *State and municipal obligations* – A yield curve is generated and applied to bond sectors, and individual bond valuations are extrapolated. Inputs used to generate the yield curve are bellwether issue levels, established trading spreads between similar issuers or credits, historical trading spreads over widely accepted market benchmarks, new issue scales, and verified bid information. Bid information is verified by corroborating the data against external sources such as broker–dealers, trustees/paying agents, issuers, or non–affiliated bondholders.

- *Mortgage and asset–backed securities* – Collateralized mortgage obligations and other asset–backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche–specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

Valuation of agency pass–through securities, typically issued under GNMA, FNMA, FHLMC, and SBA programs, are primarily derived from information from the To Be Announced ("TBA") market. This market consists of generic mortgage pools which have not been received for settlement. Snapshots of the TBA market, using live data feeds distributed by multiple electronic platforms, are used in conjunction with other indices to compute a price based on discounted cash flow models.

- *Other debt securities* – Other debt securities are valued using active markets and inter–dealer brokers as well as bullet spread scales and option adjusted spread. The spreads and models use yield curves, terms and conditions of the bonds, and any special features (e.g., call or put options and redemption features.)

Loans, net – The fair value of loans was estimated utilizing discounted cash flow calculations that applied interest rates currently being offered for similar loans to borrowers with similar risk profiles. The fair value of loans is also net of the allowance for credit losses and unearned income.

Impaired loans – Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of collateral securing these loans and is classified as Level 3 in the fair value hierarchy. These fair values are estimated primarily on appraisals which may utilize a single valuation approach or a combination of approaches including comparable sales and income approach.

Loans held for sale – The fair value of loans held for sale is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered for similar loans to borrowers with similar risk profiles.

Bank owned life insurance – Fair value is estimated using actuarial data based on mortality rates and effective annual interest rates.

Derivatives (Assets and Liabilities) – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments.

Deposits – The fair value for non–time deposits is by definition, equal to the amount payable on demand at the balance sheet date. The fair value for time deposits is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar time deposits.

FHLB advances and other borrowings – The carrying value of securities sold under repurchase agreements is a reasonable estimate of fair value. FHLB advances fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar borrowings.

Subordinated debentures, net – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments.

Assets and liabilities measured and recorded at fair value on a recurring and non-recurring basis at December 31, 2024 and 2023, are summarized below:

(dollars in thousands)	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2024				
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities:				
U.S. Treasuries and agencies	$ -	$ 125,121	$ -	$ 125,121
Mortgage-backed securities- agency	-	30,652	-	30,652
Collateralized mortgage obligations	-	40,577	-	40,577
State and political subdivisions	-	29,987	-	29,987
Corporate debt	-	60,771	-	60,771
Time deposits	-	749	-	749
Total investment securities	$ -	$ 287,857	$ -	$ 287,857
Interest rate swaps	$ -	$ 9,871	$ -	$ 9,871
Liabilities				
Interest rate swaps	$ -	$ 4,671	$ -	$ 4,671
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 6,168	$ 6,168
Foreclosed assets	$ -	$ -	$ 105	$ 105
December 31, 2023				
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities:				
U.S. Treasuries and agencies	$ -	$ 127,028	$ -	$ 127,028
Mortgage-backed securities- agency	-	23,617	-	23,617
Collateralized mortgage obligations	-	37,851	-	37,851
State and political subdivisions	-	31,152	-	31,152
Corporate debt	-	71,635	-	71,635
Time deposits	-	993	-	993
Total investment securities	$ -	$ 292,276	$ -	$ 292,276
Interest rate swaps	$ -	$ 11,150	$ -	$ 11,150
Liabilities				
Interest rate swaps	$ -	$ 4,769	$ -	$ 4,769
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ -	$ -	$ 11,504	$ 11,504
Foreclosed assets	$ -	$ -	$ 560	$ 560

The carrying values and estimated fair value of financial instruments not carried at fair value at December 31, 2024 and 2023 were as follows:

	2024		2023	
(dollars in thousands)	**Carrying Amount**	**Fair Value**	**Carrying Amount**	**Fair Value**
Assets:				
Cash and cash equivalents	$ 94,201	$ 94,201	$ 141,216	$ 141,216
Loans, net	2,231,533	2,160,470	2,115,485	2,024,891
Loans held for sale	4,917	4,917	1,664	1,664
Bank owned life insurance	73,893	73,893	73,756	73,756
Liabilities:				
Deposits	2,335,256	2,218,146	2,294,751	2,185,504
FHLB advances and other borrowings	106,086	105,646	111,964	110,533
Subordinated debentures, net	67,936	62,729	67,704	56,355

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2024 and 2023. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for the purposes of these consolidated financial statements since these dates.

NOTE 18 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include commitments to extend credit and standby letters of credit. Commitments to extend credit aggregated $835.9 million at December 31, 2024. Commitments under standby letters of credit aggregated $28.7 million at December 31, 2024. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities. The Bank generally requires collateral or other security to support financial instruments with credit risk.

The Company is subject to certain claims and litigation in the normal course of business. In the opinion of management, the outcome of such matters will not have a material effect on the financial position of the Company.

NOTE 19 — RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, principal shareholders, and companies in which they have beneficial ownership, for the years ended December 31, 2024 and 2023 were as follows:

(dollars in thousands)	**2024**	**2023**
Balance, beginning	$ 59,841	$ 45,273
New loans and other additions	5,960	18,388
Repayments and other reductions	(3,771)	(3,820)
Balance, ending	$ 62,030	$ 59,841

Management believes all loans to directors and executive officers were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The Bank held related party deposits of $31.3 million and $29.6 million at December 31, 2024 and 2023, respectively.

NOTE 20 — PARENT COMPANY ONLY FINANCIAL INFORMATION

The following tables present financial information for Midwest BankCentre, Inc. as of and for the years ended December 31, 2024 and 2023:

Condensed Balance Sheets

(dollars in thousands)	December 31, 2024	December 31, 2023
Assets:		
Cash and cash equivalents	$ 4,551	$ 2,011
Other assets	345	325
Investment in subsidiaries	317,512	286,589
Total assets	$ 322,408	$ 288,925
Liabilities:		
Subordinated debentures, net	$ 67,936	$ 67,704
Other liabilities	2,917	2,584
Total liabilities	70,853	70,288
Stockholders' equity	251,555	218,637
Total liabilities and stockholders equity	$ 322,408	$ 288,925

Condensed Statement of Income

(dollars in thousands)	Years Ended December 31, 2024	Years Ended December 31, 2023
Income:		
Dividends from subsidiaries	$ 11,000	$ 9,000
Interest	8	6
Total income	11,008	9,006
Expense:		
Interest expense on other borrowed funds	3,450	3,450
Other	335	295
Total expense	3,785	3,745
Income before income taxes and equity in undistributed income of subsidiaries	7,223	5,261
Income tax benefit	898	890
Income before equity in undistributed income of subsidiaries	8,121	6,151
Equity in undistributed income of subsidiaries	17,839	17,549
Net income	$ 25,960	$ 23,700

Condensed Statement of Cash Flows

(dollars in thousands)	Years Ended December 31, 2024	2023
Cash flows from operating activities:		
Net Income	$ 25,960	$ 23,700
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiaries	(17,839)	(17,549)
Amortization of subordinated debt issuance costs	232	232
Stock based compensation expense	86	44
Restricted stock unit awards expense	308	33
Stock issued for director fees	285	250
Changes in:		
Other assets	(19)	775
Other liabilities	278	(487)
Total adjustments	(16,669)	(16,702)
Net cash provided by operating activities	9,291	6,998
Cash flows from investing activities:		
Capital injection to Bank	(10,000)	-
Capital injection to MBCIA, Inc.	-	(20)
Net cash received in dissolution of Rising Analytics, LLC	124	-
Net cash used in investing activities	(9,876)	(20)
Cash flows from financing activities:		
Cash dividends paid	(5,984)	(5,272)
Proceeds from exercise of stock options	100	(168)
Proceeds from issuance of treasury stock	10,024	-
Purchases of treasury stock	(1,015)	(1,430)
Net cash provided by (used in) financing activities	3,125	(6,870)
Net increase in cash and cash equivalents	2,540	108
Cash and cash equivalents, beginning of year	2,011	1,903
Cash and cash equivalents, end of year	$ 4,551	$ 2,011

NOTE 21 — SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through February 21, 2025, which is the date the financial statements were available to be issued.