**FIRST BANCORP OF INDIANA, INC.**
**AND SUBSIDIARIES**
**EVANSVILLE, INDIANA**

**CONSOLIDATED**
**FINANCIAL STATEMENTS**

**YEARS ENDED**
**JUNE 30, 2024 AND 2023**

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**

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## Independent Auditor's Report

To the Board of Directors
First Bancorp of Indiana, Inc. and Subsidiaries

### *Opinion*

We have audited the consolidated financial statements of First Bancorp of Indiana, Inc. and Subsidiaries (the "Company"), which comprise the consolidated balance sheet as of June 30, 2024 and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2024 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Basis for Opinion*

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

### *Emphasis of Matter*

As described in Note 1 to the consolidated financial statements, the Company changed the manner in which it accounts for the allowance for credit losses effective July 1, 2023 due to the adoption of Accounting Standards Codification 326, *Financial Instruments - Credit Losses*. Our opinion is not modified with respect to this matter.

### *Report on Prior Year Consolidated Financial Statements*

The consolidated financial statements of First Bancorp of Indiana, Inc. and Subsidiaries as of June 30, 2023 were audited by other auditors, who expressed an unmodified opinion on those statements on September 20, 2023.

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

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

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

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To the Board of Directors
First Bancorp of Indiana, Inc. and Subsidiaries

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

In performing an audit in accordance with GAAS, we:

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

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

Plante & Moran, PLLC

September 24, 2024

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**
**CONSOLIDATED BALANCE SHEETS**
**JUNE 30, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **ASSETS** | | |
| Cash and due from banks | $ 2,336,682 | $ 1,939,224 |
| Interest-bearing demand deposits with banks | 5,728,737 | 10,918,676 |
| Federal funds sold | 7,547,000 | 6,378,000 |
| Money market fund | 504,671 | 266,210 |
| Total cash and cash equivalents | 16,117,090 | 19,502,110 |
| | | |
| Interest-bearing time deposits | - | 245,000 |
| Securities available for sale, at fair value | 95,221,404 | 111,595,917 |
| Loans held for sale | 1,078,918 | 2,637,398 |
| Loans, net | 474,243,929 | 450,764,768 |
| Federal Home Loan Bank stock, at cost | 5,592,100 | 5,490,400 |
| Premises and equipment | 13,342,847 | 13,512,630 |
| Accrued interest receivable | 2,986,261 | 3,018,102 |
| Cash surrender value of life insurance | 11,480,743 | 11,167,073 |
| Goodwill | 6,229,152 | 6,229,152 |
| Other assets | 9,025,307 | 7,178,615 |
| | | |
| **Total Assets** | $ 635,317,751 | $ 631,341,165 |
| | | |
| **LIABILITIES** | | |
| Deposits: | | |
| Noninterest-bearing | $ 35,324,554 | $ 44,249,918 |
| Interest-bearing | 430,281,775 | 417,953,159 |
| Total deposits | 465,606,329 | 462,203,077 |
| | | |
| Borrowings from Federal Home Loan Bank | 113,000,000 | 113,000,000 |
| Other borrowings | 16,893,531 | 16,831,571 |
| Accrued interest payable | 1,721,280 | 935,064 |
| Advance payments by borrowers for taxes and insurance | 1,960,182 | 1,931,226 |
| Accrued expenses and other liabilities | 4,599,636 | 4,428,180 |
| Total Liabilities | 603,780,958 | 599,329,118 |
| | | |
| **STOCKHOLDERS' EQUITY** | | |
| Preferred stock of $0.01 par value per share | | |
| Authorized 1,000,000 shares; none issued | - | - |
| Common stock of $0.01 par value per share; Authorized 9,000,000 shares; issued 2,526,505 shares, outstanding 1,680,624 shares (1,672,429 shares in 2023) | 25,265 | 25,265 |
| Additional paid-in capital | 27,797,348 | 27,806,613 |
| Retained earnings | 27,185,158 | 28,160,063 |
| Accumulated other comprehensive loss | (10,105,741) | (10,485,173) |
| Less treasury stock, at cost - 845,881 shares (854,076 in 2023) | (13,365,237) | (13,494,721) |
| Total Stockholders' Equity | 31,536,793 | 32,012,047 |
| | | |
| **Total Liabilities and Stockholders' Equity** | $ 635,317,751 | $ 631,341,165 |

See notes to consolidated financial statements.

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF INCOME**
**YEARS ENDED JUNE 30, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **INTEREST INCOME** | | |
| Loans, including fees | $ 26,971,579 | $ 19,949,846 |
| Investment securities: | | |
| Taxable | 1,681,114 | 1,715,568 |
| Tax-exempt | 1,679,254 | 1,725,800 |
| Federal Home Loan Bank dividends | 477,198 | 275,195 |
| Interest-bearing deposits with banks | 330,072 | 327,858 |
| Federal funds sold | 49,764 | 161,519 |
| Other | 38,613 | 28,106 |
| Total interest income | 31,227,594 | 24,183,892 |
| **INTEREST EXPENSE** | | |
| Deposits | 12,369,493 | 5,100,984 |
| Borrowings from Federal Home Loan Bank | 2,937,029 | 1,823,484 |
| Other borrowings | 890,138 | 795,877 |
| Total interest expense | 16,196,660 | 7,720,345 |
| Net interest income | 15,030,934 | 16,463,547 |
| Provision for credit losses | (236,415) | 195,000 |
| Net interest income after provision for credit losses | 15,267,349 | 16,268,547 |
| **NONINTEREST INCOME** | | |
| Service charges on deposit accounts | 889,776 | 914,694 |
| Net loss on sales of available for sale securities | (103,364) | - |
| Change in other-than-temporary impairment on securities | - | (9,868) |
| Net gain on sales of loans | 692,697 | 426,772 |
| Increase in cash surrender value of life insurance | 313,670 | 311,034 |
| ATM transaction and point-of-sale interchange fees | 1,071,023 | 1,087,093 |
| Other income | 581,182 | 539,845 |
| Total noninterest income | 3,444,984 | 3,269,570 |
| **NONINTEREST EXPENSE** | | |
| Compensation and benefits | 9,469,579 | 9,114,436 |
| Occupancy and equipment | 2,868,431 | 2,739,636 |
| Data processing | 735,131 | 726,174 |
| Professional fees | 783,910 | 759,677 |
| Deposit insurance expense | 686,500 | 378,000 |
| Advertising expense | 287,130 | 376,091 |
| Net loss/(income) on foreclosed real estate | (3,053) | - |
| Other expenses | 2,782,101 | 2,531,165 |
| Total noninterest expense | 17,609,729 | 16,625,179 |
| Income before income taxes | 1,102,604 | 2,912,938 |
| Income tax (benefit)/expense | (432,183) | 61,564 |
| **Net Income** | $ 1,534,787 | $ 2,851,374 |

See notes to consolidated financial statements.

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**
**YEARS ENDED JUNE 30, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **Net Income** | $ 1,534,787 | $ 2,851,374 |
| **OTHER COMPREHENSIVE LOSS, NET OF TAX** | | |
| Change in unrealized gains and losses on securities available for sale: | | |
| Unrealized holding gains (losses) arising during the period | 380,800 | (2,543,973) |
| Income tax (expense) benefit | (78,891) | 555,605 |
| Net of tax amount | 301,909 | (1,988,368) |
| Less: reclassification adjustment for realized losses included in net income during the period | 103,364 | - |
| Income tax benefit | (25,841) | - |
| Net of tax amount | 77,523 | - |
| Less: reclassification adjustment for other-than-temporary impairment changes included in net income during the period | - | 9,868 |
| Income tax benefit | - | (2,467) |
| Net of tax amount | - | 7,401 |
| Other Comprehensive Income (Loss) | 379,432 | (1,980,967) |
| Total Comprehensive Income | $ 1,914,219 | $ 870,407 |

See notes to consolidated financial statements.

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**
**YEARS ENDED JUNE 30, 2024 AND 2023**

| | Common Stock | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| Balances at July 1, 2022 | $ 25,265 | $ 27,794,634 | $ 26,384,311 | $ (8,504,206) | $ (13,112,287) | $ 32,587,717 |
| Net income | - | - | 2,851,374 | - | - | 2,851,374 |
| Other comprehensive loss | - | - | - | (1,980,967) | - | (1,980,967) |
| Dividends on common stock, ($0.64 per share) | - | - | (1,075,622) | - | - | (1,075,622) |
| Issuance of shares to directors in lieu of cash retainer | - | 3,793 | - | - | 63,277 | 67,070 |
| Stock compensation expense | - | 8,186 | - | - | 32,224 | 40,410 |
| Purchase of 27,987 treasury shares | - | - | - | - | (477,935) | (477,935) |
| Balances at June 30, 2023 | 25,265 | 27,806,613 | 28,160,063 | (10,485,173) | (13,494,721) | 32,012,047 |
| Cumulative change in accounting principle to adopt CECL | | | (1,436,156) | | | (1,436,156) |
| Balance at July 1, 2023 (as adjusted for accounting principle adoption) | 25,265 | 27,806,613 | 26,723,907 | (10,485,173) | (13,494,721) | 30,575,891 |
| Net income | - | - | 1,534,787 | - | - | 1,534,787 |
| Other comprehensive income | - | - | - | 379,432 | - | 379,432 |
| Dividends on common stock, ($0.64 per share) | - | - | (1,073,536) | - | - | (1,073,536) |
| Issuance of shares to directors in lieu of cash retainer | - | (14,340) | - | - | 74,278 | 59,938 |
| Stock compensation expense | - | 5,075 | - | - | 55,206 | 60,281 |
| Balances at June 30, 2024 | $ 25,265 | $ 27,797,348 | $ 27,185,158 | $ (10,105,741) | $ (13,365,237) | $ 31,536,793 |

See notes to consolidated financial statements.

**FIRST BANCORP OF INDIANA, INC. AND SUBSIDIARIES**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
**YEARS ENDED JUNE 30, 2024 AND 2023**

| | 2024 | 2023 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income | $ 1,534,787 | $ 2,851,374 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Amortization of premium and accretion of discount on securities, net | 201,074 | 208,635 |
| Net loss on sales of available for sale securities | 103,364 | - |
| Change in other-than-temporary impairment on securities | - | 9,868 |
| Loans originated for sale | (20,132,832) | (14,404,713) |
| Proceeds from sales of loans | 22,374,915 | 12,486,326 |
| Net gain on sales of loans | (692,697) | (426,772) |
| Provision for credit losses | (236,415) | 195,000 |
| Depreciation and amortization | 1,136,453 | 1,032,856 |
| Deferred income tax (benefit) expense | (518,000) | 48,967 |
| (Increase) decrease in accrued interest receivable | 31,841 | (1,343,839) |
| Increase in accrued interest payable | 786,216 | 828,076 |
| Increase in cash surrender value of life insurance | (313,670) | (311,034) |
| Gain on life insurance | - | - |
| Gain on sale of premises and equipment | (9,164) | (17,961) |
| Net realized and unrealized loss on foreclosed real estate | (3,053) | 1,224 |
| Stock compensation expense | 60,281 | 40,410 |
| Net change in other assets and liabilities | (2,747,823) | 457,182 |
| **Net Cash and Cash Equivalents Provided By Operating Activities** | 1,575,277 | 1,655,599 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Decrease in interest-bearing time deposits | 245,000 | 1,475,000 |
| Purchase of securities available for sale | (180,000) | (6,359,094) |
| Maturities and principal repayments on securities available for sale | 6,501,834 | 4,064,931 |
| Proceeds from sales of securities available for sale | 10,346,136 | - |
| Net increase in loans | (23,389,750) | (103,852,568) |
| Purchase of Federal Home Loan Bank stock | (101,700) | (656,100) |
| Purchase of premises and equipment | (905,546) | (1,590,745) |
| Proceeds from sale of premises and equipment | 15,000 | 17,961 |
| Proceeds from sale of foreclosed real estate | 150,057 | 38,776 |
| **Net Cash and Cash Equivalents Used In Investing Activities** | (7,318,969) | (106,861,839) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net increase in deposits | 3,403,252 | 72,528,479 |
| Net decrease in federal funds purchased | - | (4,000,000) |
| Increase in Federal Home Loan Bank line of credit | - | 3,000,000 |
| Advances from Federal Home Loan Bank | 259,000,000 | 230,000,000 |
| Repayment of advances from Federal Home Loan Bank | (259,000,000) | (190,000,000) |
| Net increase in advance payments by borrowers for taxes and insurance | 28,956 | 43,079 |
| Dividends paid | (1,073,536) | (1,075,622) |
| Purchase of treasury shares | - | (477,935) |
| **Net Cash and Cash Equivalents Provided By Financing Activities** | 2,358,672 | 110,018,001 |
| **Net Increase (Decrease) in Cash and Cash Equivalents** | (3,385,020) | 4,811,761 |
| Cash and cash equivalents at beginning of year | 19,502,110 | 14,690,349 |
| **Cash and Cash Equivalents at End of Year** | $ 16,117,090 | $ 19,502,110 |

See notes to consolidated financial statements.

## (1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Operations

First Bancorp of Indiana, Inc. (the "Company") is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, First Federal Savings Bank (the "Bank"). The Bank operates as an Indiana commercial bank following its conversion from a federal savings bank charter in October 2011. As a result of the bank conversion, the Company also converted from a savings and loan holding company to a bank holding company.

The Bank provides a variety of banking services to individuals and business customers through nine full-service locations in Southwestern Indiana and one full-service location in Henderson, Kentucky. The Bank operates some of its branches under Home Building Savings Bank, a division of the Bank. As a state chartered commercial bank, the Bank is subject to regulation by the Indiana Department of Financial Institutions and the Federal Deposit Insurance Corporation ("FDIC"). At June 30, 2024, the Bank has one wholly owned service corporation subsidiary, White River Service Corporation ("WRSC"). FBEI Investments, Inc. ("FBEII"), a wholly owned subsidiary of the Bank, manages an investment securities portfolio. In August 2007, the Company completed the placement of fixed/floating rate subordinated debentures through First Bancorp of Indiana Statutory Trust I ("Trust"), a trust formed by the Company. The consolidated financial statements reflect the subordinated debt issued by the Company to the Trust because the trust is not included in the consolidation.

### Basis of Consolidation and Reclassifications

The consolidated financial statements include the accounts of the Company and its subsidiaries and have been prepared in accordance with generally accepted accounting principles and conform to general practices within the banking industry. All material intercompany balances and transactions have been eliminated in consolidation. Certain prior year amounts have been reclassified to conform to current year presentation. The reclassifications had no effect on net income or stockholders' equity.

### Statements of Cash Flows

For purposes of the statements of cash flows, the Company has defined cash and cash equivalents as cash on hand, amounts due from banks (including cash items in process of clearing), interest-bearing deposits with other banks having an original maturity of 90 days or less, federal funds sold and money market funds.

### Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the assessment of goodwill impairment and the determination of the allowance for credit losses. In connection with the determination of the allowance for credit losses and foreclosed real estate, management obtains independent appraisals for significant properties.

(1 - continued)

**Investment Securities**

*Securities Available for Sale:* Mortgage-backed and other debt securities are carried at fair value. The Bank and FBEII hold mortgage-backed securities issued by the Government National Mortgage Association ("GNMA"), a U.S. government agency, and the Federal National Mortgage Association ("FNMA") and the Federal Home Loan Mortgage Corporation ("FHLMC"), government-sponsored enterprises (collectively referred to as agency mortgage-backed securities), as well as privately-issued collateralized mortgage obligations ("CMOs") and other asset-backed securities. CMOs are complex mortgage-backed securities that restructure the cash flows and risks of the underlying mortgage collateral. The Bank and FBEII also hold debt securities issued by FNMA, FHLMC, Federal Farm Credit Bank ("FFCB") and Federal Home Loan Bank ("FHLB") (referred to as agency securities), pooled corporate trust preferred obligations and privately placed structured debt (referred to as corporate obligations), U.S. Treasury notes, and municipal bonds.

Amortization of premiums and accretion of discounts are recognized in interest income using methods approximating the interest method over the remaining period to maturity, adjusted for anticipated prepayments. The premium on callable debt securities is amortized to the earliest call date. Unrealized gains and losses, net of tax, on securities available for sale are included in other comprehensive income and the accumulated unrealized holding gains and losses are reported as a separate component of equity until realized. Realized gains and losses on the sale of securities available for sale are determined using the specific identification method and are included in other noninterest income and, when applicable, are reported as a reclassification adjustment, net of tax, in other comprehensive income.

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

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

Accrued interest receivable for available-for-sale debt securities is excluded from the estimate of credit losses.

(1 - continued)

*Other-Than-Temporary Impairment:* Prior to the adoption of the CECL methodology on July 1, 2023, security loss reserves were established using the incurred loss methodology. For the year ended June 30, 2023, declines in the fair value of individual available for sale securities below their amortized cost that are other than temporary result in write-downs of the individual securities to their fair value. The related write-downs are included in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment for a period of time sufficient to allow for any anticipated recovery in fair value.

*Federal Home Loan Bank Stock*: The Bank is a member of the Federal Home Loan Bank of Indianapolis ("FHLB"). Members are required to own a certain amount of stock based on the level of borrowings and other factors, and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported in the consolidated statements of income.

**Loans Held for Sale**

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

Mortgage loans held for sale are generally sold with servicing rights retained. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

**Loans and Allowance for Credit Losses**

*Loans Held for Investment*

Loans Held for Investment are those which the Bank has the intent and ability to hold for the foreseeable future or until maturity or payoff. Such loans are stated at unpaid principal balances, less net deferred loan fees and the allowance for credit losses. The Bank grants real estate mortgage, commercial business and consumer loans. Loan origination and commitment fees, as well as certain direct costs of underwriting and closing loans, are deferred and amortized as a yield adjustment to interest income over the lives of the related loans using the interest method. Amortization of net deferred loan fees is discontinued when a loan is placed on nonaccrual status.

*Allowance for Credit Losses on Loans*

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

(1 - continued)

**Loans and Allowance for Credit Losses – continued**

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and for off-balance-sheet credit exposures. Results for reporting periods beginning after July 1, 2023, are presented under ASC 326 while prior amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a $1.4 million net charge to retained earnings as of the July 1, 2023, adoption date for the cumulative effect of adopting ASC 326.

The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount to be collected on the loans. Loan losses are charged off against the allowance when management believes the uncollectbility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

Management estimates the allowance balance using relevant and valuable 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. Adjustments to the historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term, as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The Company utilizes the Weighted Average Remaining Maturity ("WARM") methodology. This method estimates expected credit losses over the remaining life of the loans. The assets are pooled into like groups. The Bank's historical charge-off data is used to calculate an average loss rate. This rate is multiplied by the expected remaining life of the loans to estimate future losses. The estimated losses are then adjusted by qualitative factors including, but not limited to, delinquency trends, charge off data, loan origination volume, economic trends and conditions, credit concentrations, and changes in lending policies, procedures, and staff.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. If a loan is determined to be collateral dependent or meets the criteria to apply the collateral dependent practical expedient, expected credit losses are determined based on the fair value of the collateral at the reporting date, less costs to sell as appropriate.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL given the well-defined non-accrual policies in place for all loan portfolios which results in timely reversal of outstanding interest through interest income.

The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods: commercial one-to-four family mortgage, commercial and multi-family mortgage, secured commercial business, unsecured commercial business, residential one-to-four family mortgage, residential second mortgage and home equity lines of credit, and consumer. These pools are further segmented to apply additional scrutiny for classified loans.

Commercial one-to-four family mortgage loans primarily consist of loans secured by residential development construction loans or by non-owner-occupied investment properties. Repayment of these loans is generally dependent on the borrower's ability to sell the completed residences or to attract tenants at lease rates that provide adequate cash flow to service the debt. These loans are also impacted by the market value of the property taken as collateral and the general economic conditions of the local housing market.

(1 - continued)

**Loans and Allowance for Credit Losses - continued**

Commercial and multi-family mortgage loans are comprised of loans secured by various types of collateral including office buildings, warehouses, retail space, mixed use buildings, apartment buildings and other multi-family properties located in the Bank's primary lending area. Risks related to commercial and multi-family real estate lending are related to the market value of the property taken as collateral, the underlying cash flows and general economic condition of the local real estate market. Repayment of these loans is generally dependent on the ability of the borrower to attract tenants at lease rates or general business operating cash flows that provide for adequate debt service and can be impacted by local economic conditions which impact vacancy rates and the general level of business activity. The Bank generally obtains loan guarantees from financially capable parties for commercial and multi-family mortgage loans.

Commercial business loans include lines of credit to businesses, term loans and letters of credit secured by business assets such as equipment, accounts receivable, inventory, or other assets excluding real estate and are generally made to finance capital expenditures or fund operations. Commercial loans contain risks related to the value of the collateral securing the loan and the repayment is primarily dependent upon the financial success and viability of the borrower. As with commercial real estate loans, the Bank generally obtains loan guarantees from financially capable parties for commercial business loans.

Unsecured commercial business loans include term loans and lines of credit to business that are underwritten based upon the creditworthiness of the borrower and are not fully secured by collateral. These loans may require a personal guarantee of the principal borrower. Risks related to unsecured commercial business lending are related to the lack of collateral in the event of default. Repayment of these loans can be impacted by local economic conditions and the general level of business activity which affect business cash flows.

Residential mortgage loans primarily consist of loans to individuals for the purchase or refinance of their primary residence. The Bank also grants second mortgage and home equity line of credit ("HELOC") loans to qualifying borrowers that are generally secured by junior liens on the borrower's personal residence. The risks associated with residential real estate loans are closely correlated to the local housing market and general economic conditions.

Consumer loans consist primarily of automobile and truck loans, boat loans, loans secured by savings deposits, and other personal loans. The risks associated with these loans are related to local economic conditions including the unemployment level.

*Liability for Credit Losses on Off-Balance-Sheet Credit Exposures*

The Company estimates its 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 liability for credit losses on off-balance sheet credit exposures is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

(1 - continued)

**Loans and Allowance for Credit Losses - continued**

*Allowance for Loan Losses*

Prior to the adoption of the CECL methodology on July 1, 2023, loan loss reserves were established using the incurred loss methodology. For the year ended June 30, 2023, the allowance for loan losses was established as losses were estimated to have occurred through a provision for loan losses charged to earnings. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance.

The Bank used a disciplined process and methodology to evaluate the allowance for loan losses on at least a quarterly basis that is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that are susceptible to significant revision as more information becomes available.

The allowance consisted of specific and general components. The specific component relates to loans that are individually evaluated for impairment or loans otherwise classified as doubtful or substandard. For such loans that were classified as impaired, an allowance was established when the discounted cash flows or collateral value of the impaired loan was lower than the carrying value of that loan.

The general component covered loans not considered to be impaired. Such loans were pooled by segment and losses were modeled using annualized historical loss experience adjusted for qualitative factors. The historical loss experience was determined by portfolio segment and was based on the actual loss history experienced by the Bank over the most recent three or five year period, whichever was greater. The Bank's actual loss experience was then adjusted for qualitative factors reviewed on a quarterly basis. Management considered changes and trends in the following qualitative loss factors: levels and trends in delinquencies and impaired loans, levels and trends in charge-offs and recoveries, trends in volume and terms of loans, economic trends and conditions, effects of changes in credit concentrations, changes in lending policies and procedures, and changes in lending and other relevant staff. These factors were inherently subjective and were driven by the repayment risk associated with each portfolio segment.

The following portfolio segments were considered in the allowance for loan loss analysis: commercial one-to-four family mortgage, commercial and multi-family mortgage, secured commercial business, unsecured commercial business, residential one-to-four family mortgage, residential second mortgage and home equity lines of credit, and consumer. The segments are the same as those utilized for the CECL methodology as defined in the Allowance for Credit Losses on Loans section above.

*Nonaccrual Loans*

Interest income on mortgage, consumer, and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Past-due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual status or charged off at an earlier date if collection of principal or interest is considered doubtful.

(1 - continued)

**Loans and Allowance for Credit Losses – continued**

All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest collected on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual status. Generally, the Bank applies the cost recovery method and applies all payments as a reduction of the unpaid principal balance until the loan qualifies for return to accrual status. The cash receipts method is used when the likelihood of further loss on the loan is remote. By applying the cash receipts method, interest income is subsequently recognized only as received until the loan is returned to accrual status.

A loan is restored to accrual status when all principal and interest payments are brought current and the borrower has demonstrated the ability to make future payments of principal and interest as scheduled, which generally requires that the borrower demonstrate a period of performance of at least six consecutive months.

*Restructured Loans*

Loans that are modified are reviewed to determine if a Troubled Loan Modification (“TLM”) has occurred, which is when restructuring was a result of the borrower experiencing financial difficulties. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status. The modification of the terms of such loans includes one or a combination of the following: a reduction in the stated interest rate of the loan, an extension of the maturity date, a permanent reduction of the recorded investment of the loan, or an other-than-insignificant payment delay. The adoption of Accounting Standards Update (“ASU”) 2022-02 on July 1, 2023 eliminated the recognition and measurement of troubled debt restructurings (“TDR's”) and enhanced disclosures for modifications to loans related to borrowers experiencing financial difficulties.

*Troubled Debt Restructurings*

For the year ended June 30, 2023, modification of a loan was considered to be a troubled debt restructuring (“TDR”) if the debtor was experiencing financial difficulties and the Bank granted a concession to the debtor that it would not otherwise consider. By granting the concession, the Bank expected to obtain more cash or other value from the debtor, or to increase the probability of receipt, than would be expected by not granting the concession. The concession may include, but was not limited to, reduction of the stated interest rate of the loan, reduction of accrued interest, extension of the maturity date or reduction of the face amount of the debt. A concession could be granted when, as a result of the restructuring, the Bank did not expect to collect all amounts due, including interest at the original stated rate. A concession may also be granted if the debtor was not able to access funds elsewhere at a market rate for debt with similar risk characteristics as the restructured debt. The Bank’s determination of whether a loan modification was a TDR considered the individual facts and circumstances surrounding each modification.

A TDR could involve loans remaining on nonaccrual, moving to nonaccrual, or continuing on accrual status, depending on the individual facts and circumstances of the borrower. A TDR on nonaccrual status was restored to accrual status when the borrower demonstrated the ability to make future payments in accordance with the restructured terms, which generally requireed that the borrower demonstrate a period of performance of at least six consecutive months in accordance with the restructured terms including consistent and timely payments.

(1 - continued)

**Loans and Allowance for Credit Losses – continued**

*Impaired Loans*

For the year ended June 30, 2023, a loan was considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determineed 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 was measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan was collateral dependent.

**Collateral dependent loans**

Values for collateral dependent loans are generally based on appraisals obtained from independent licensed real estate appraisers, with adjustments applied for estimated costs to sell the property, costs to complete unfinished or repair damaged property and other known defects. New appraisals are generally obtained for all significant properties when a collateral dependent loan is identified as impaired, and a property is considered significant if the value of the property is estimated to exceed $250,000. Subsequent appraisals are obtained or an internal evaluation is prepared if management believes there has been a significant change in the market value of a collateral property securing a collateral dependent impaired loan. In instances where it is not deemed necessary to obtain a new appraisal, management bases its impairment evaluation on the original appraisal with adjustments for current conditions based on management's assessment of market factors and inspection of the property.

**Foreclosed Real Estate**

Foreclosed real estate includes formally foreclosed property and property obtained via a deed in lieu of foreclosure that is currently held for sale. At the time of acquisition, foreclosed real estate is recorded at fair value less estimated costs to sell, which becomes the property's new basis. Any write-downs based on the property's fair value at the date of acquisition are charged to the allowance for credit losses. After acquisition, valuations are periodically performed by management and property held for sale is carried at the lower of the new cost basis or fair value less costs to sell. Costs incurred in maintaining foreclosed real estate and subsequent impairment adjustments to the carrying amount of a property, if any, are included in other noninterest expense.

**Premises and Equipment**

Premises and equipment are stated at cost less accumulated depreciation. Land is stated at cost. The Company uses the straight-line method of computing depreciation at rates adequate to amortize the cost of the applicable assets over their estimated useful lives. Maintenance and repairs are expensed as incurred. The cost and related accumulated depreciation of assets sold, or otherwise disposed of, are removed from the related accounts and any gain or loss is included in earnings.

(1 - continued)

**Goodwill**

Goodwill recognized in a business combination represents the excess of the cost of the acquired entity over the net of the amounts assigned to assets acquired and liabilities assumed. Goodwill is carried at its implied fair value and is evaluated for possible impairment at least annually or more frequently upon the occurrence of an event or change in circumstances that would more likely than not reduce the fair value of the reporting unit below its carrying amount. Such circumstances could include, but are not limited to: (1) a significant adverse change in legal factors or in business climate, (2) unanticipated competition, or (3) an adverse action or assessment by a regulator. If the carrying amount of the goodwill exceeds its implied fair value, an impairment loss is recognized in earnings equal to that excess amount. The loss recognized cannot exceed the carrying amount of goodwill. After a goodwill impairment loss is recognized, the adjusted carrying amount of goodwill is its new accounting basis.

**Mortgage Banking Activities**

Mortgage servicing rights ("MSRs") on originated loans that have been sold are initially recorded at fair value. Capitalized servicing rights are amortized in proportion to and over the period of estimated servicing revenues. Impairment of MSRs is assessed based on the fair value estimated using discounted cash flows based on a current market interest rate. For purposes of measuring impairment, the rights are stratified based on the origination year and original term of the underlying loans which represent the predominate risk characteristics. The amount of impairment recognized is the amount by which the capitalized servicing rights for a stratum exceed the fair value.

**Transfers of Financial Assets**

The Bank accounts for transfers and servicing of financial assets in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 860, *Transfers and Servicing*. Transfers of financial assets are accounted for as sales only when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Bank, (2) the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Transfers of a portion of a loan must meet the criteria of a participating interest. If it does not meet the criteria of a participating interest, the transfer must be accounted for as a secured borrowing. In order to meet the criteria for a participating interest, all cash flows from the loan must be divided proportionately, the rights of each loan holder must have the same priority, and the loan holders must have no recourse to the transferor other than standard representations and warranties and no loan holder has the right to pledge or exchange the entire loan.

The Bank sells financial assets in the normal course of business, the majority of which are related to residential mortgage loan sales through established programs and commercial loan sales through participation agreements. In accordance with accounting guidance for asset transfers, the Bank considers any ongoing involvement with transferred assets in determining whether the assets can be derecognized from the balance sheet. With the exception of servicing and certain performance-based guarantees, the Bank's continuing involvement with financial assets sold is minimal and generally limited to market customary representation and warranty clauses.

(1 - continued)

When the Bank sells financial assets, it may retain servicing rights and/or other interests in the financial assets. The gain or loss on sale depends on the previous carrying amount of the transferred financial assets, the servicing right recognized, and the consideration received and any liabilities incurred in exchange for the transferred assets. Upon transfer, any servicing assets held by the Bank are carried at the lower of cost or fair value.

**Stock-Based Compensation**

The Company may grant restricted stock units to directors, officers, and employees. The Company recognizes compensation expense related to restricted stock units over the period services are performed.

**Advertising Costs**

Advertising costs are charged to expense when incurred.

**Cash Surrender Value of Life Insurance**

The Bank has purchased life insurance policies on certain directors, officers and key employees. The Bank is the owner and is a joint or sole beneficiary of the policies. Bank-owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement. Income from the increase in cash value of the policies and income from the realization of death benefits is reported in noninterest income.

**Income Taxes**

When income tax returns are filed, it is highly certain that some positions taken would be sustained upon examination by the taxing authorities, while other positions are subject to some degree of uncertainty regarding the merits of the position taken or the amount of the position that would be sustained. The Company recognizes the benefits of a tax position in the consolidated financial statements of the period during which, based on all available evidence, management believes it is more-likely-than-not (more than 50 percent probable) that the tax position would be sustained upon examination. Income tax positions that meet the more-likely-than-not threshold are measured as the largest amount of income tax benefit that is more than 50 percent likely of being realized upon settlement with the applicable taxing authority. The portion of the benefits associated with the income tax positions claimed on income tax returns that exceeds the amount measured as described above is reflected as a liability for unrecognized income tax benefits in the consolidated balance sheet, along with any associated interest and penalties that would be payable to the taxing authorities, if there were an examination. Interest and penalties associated with unrecognized income tax benefits are classified as additional income taxes in the consolidated statements of income.

(1 - continued)

**Income Taxes – continued**

Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred income taxes. Income tax reporting and financial statement reporting rules differ in many respects. As a result, there will often be a difference between the carrying amount of an asset or liability as presented in the accompanying consolidated balance sheets and the amount that would be recognized as the tax basis of the same asset or liability computed based on the effects of tax positions recognized, as described in the preceding paragraph. These differences are referred to as temporary differences because they are expected to reverse in future years. Deferred income tax assets are recognized for temporary differences where their future reversal will result in future tax benefits. Deferred income tax assets are also recognized for the future tax benefits expected to be realized from net operating loss or tax credit carry forwards. Deferred income tax liabilities are recognized for temporary differences where their future reversal will result in the payment of future income taxes. Deferred income tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred income tax assets will not be realized. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

**Comprehensive Income**

Comprehensive income consists of reported net income and other comprehensive income. Other comprehensive income refers to revenue, expenses, gains and losses that are recorded as an element of equity but are excluded from reported net income. Other comprehensive income includes changes in the unrealized gains and losses on securities available for sale.

Amounts reclassified out of unrealized gains and losses on securities available for sale included in accumulated other comprehensive income or loss are included in the net realized gain on sales of available for sale securities line item on the consolidated statements of income.

**Loss Contingencies**

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated.

(1 - continued)

**Recent Accounting Pronouncements**

The following are summaries of recently issued accounting pronouncements that impact the accounting and reporting practices of the Company:

***FASB ASC 740*** – In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. Among other things, these amendments require that public business entities on an annual basis disclose additional information in specified categories with respect to the reconciliation of the effective tax rate to the statutory rate for federal, state, and foreign income taxes. It also requires greater detail about individual reconciling items in the rate reconciliation to the extent the impact of those items exceeds a quantitative threshold (if the effect of those reconciling items is equal to or greater than 5 percent of the amount computed by multiplying pretax income (loss) by the applicable statutory income tax rate). In addition, the ASU requires information pertaining to taxes paid (net of refunds received) to be disaggregated for federal, state, and foreign taxes and further disaggregated for specific jurisdictions to the extent the related amounts are equal to or greater than 5 percent of total income taxes paid (net of refunds received). The amendments in this ASU are effective for annual periods beginning after December 15, 2024. The Company is currently evaluating the impact of adopting the new guidance on the consolidated financial statements.

These pronouncements are issued but not yet adopted by the Company. The Company has determined that all other recently issued accounting pronouncements will not have a material impact on the consolidated financial statements or do not apply to its operations.

## (2) RESTRICTION ON CASH AND DUE FROM BANKS

The Bank maintains a reserve balance of $196,000 with Fiserv, its data processor, to secure its ACH origination activities. This reserve does not earn interest.

## (3) INVESTMENT SECURITIES

Investment securities have been classified in the consolidated balance sheets according to management's intent. Investment securities at June 30, 2024 and 2023 are summarized as follows:

| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **June 30, 2024:** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ 16,406 | $ 1 | $ 1,426 | $ 14,981 |
| Asset-backed securities | $ 2,961 | $ - | $ 289 | $ 2,672 |
| Agency securities | 11,725 | - | 1,426 | 10,299 |
| Corporate obligations | 6,552 | - | 1,363 | 5,189 |
| Municipal bonds | 70,415 | 36 | 8,371 | 62,080 |
| Total securities available for sale | $ 108,059 | $ 37 | $ 12,875 | $ 95,221 |
| **June 30, 2023:** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ 18,147 | $ 2 | $ 1,508 | 16,641 |
| Asset-backed securities | $ 2,973 | $ - | $ 322 | 2,651 |
| Agency securities | 11,725 | - | 1,600 | 10,125 |
| U.S. Treasury notes | 8,930 | - | 237 | 8,693 |
| Corporate obligations | 6,555 | - | 1,501 | 5,054 |
| Municipal bonds | 76,587 | 50 | 8,205 | 68,432 |
| Total securities available for sale | $ 124,917 | $ 52 | $ 13,373 | $ 111,596 |

The amortized cost and fair value of investment securities as of June 30, 2024, by contractual maturity, are shown below. Expected maturities of mortgage and other asset-backed securities may differ from contractual maturities because the loans underlying the obligations may be prepaid without penalty and thus the contractual maturities are not presented below.

| | Securities Available for Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due in one year or less | $ 503 | $ 498 |
| Due after one year through five years | 11,950 | 11,103 |
| Due after five years through ten years | 12,710 | 11,071 |
| Due after ten years | 63,529 | 54,896 |
| | 88,692 | 77,568 |
| Mortgage-backed securities | 16,406 | 14,981 |
| Asset-backed securities | 2,961 | 2,672 |
| | $ 108,059 | $ 95,221 |

(3 - continued)

Certain available for sale securities were pledged to secure Federal Home Loan Bank borrowings at June 30, 2024 and 2023. (See Note 10)

The Company sold a total of $10.4 million of available for sale securities during the year ended June 30, 2024. A loss of $103,000 was recorded with this transaction. No securities were sold in the year ended June 30, 2023.

The following tables provide detail on investment securities with unrealized losses aggregated by investment category and the length of time the individual securities have been in a continuous loss position.

| | Number of Investment Positions | Fair Value | Gross Unrealized Losses |
|---|---|---|---|
| **June 30, 2024:** | | | |
| Continuous loss position less than 12 months: | | | |
| Mortgage-backed securities | 3 | $ 1,019 | $ 16 |
| Municipal bonds | 10 | 3,823 | 104 |
| Total less than twelve months | 13 | 4,842 | 120 |
| Continuous loss position more than 12 months: | | | |
| Mortgage-backed securities | 67 | 13,876 | 1,410 |
| Asset-backed securities | 1 | 2,672 | 289 |
| Agency securities | 11 | 10,299 | 1,426 |
| Corporate obligations | 11 | 5,189 | 1,363 |
| Municipal bonds | 113 | 55,365 | 8,267 |
| Total more than twelve months | 203 | 87,401 | 12,755 |
| Total available for sale | 216 | $ 92,243 | $ 12,875 |
| **June 30, 2023:** | | | |
| Continuous loss position less than 12 months: | | | |
| Mortgage-backed securities | 25 | $ 6,234 | $ 260 |
| U.S. Treasury notes | 2 | 3,872 | 96 |
| Corporate obligations | 3 | 1,440 | 560 |
| Municipal bonds | 29 | 13,821 | 321 |
| Total less than twelve months | 59 | 25,367 | 1,237 |
| Continuous loss position more than 12 months: | | | |
| Mortgage-backed securities | 50 | 12,929 | 1,570 |
| Agency securities | 11 | 10,125 | 1,600 |
| U.S. Treasury notes | 2 | 4,821 | 141 |
| Corporate obligations | 8 | 3,614 | 941 |
| Municipal bonds | 101 | 49,331 | 7,884 |
| Total more than twelve months | 172 | 80,820 | 12,136 |
| Total available for sale | 231 | $ 106,187 | $ 13,373 |

(3 - continued)

The unrealized losses on investment securities that have not been recognized into income are due to the issuers' bonds are of high credit quality, the Company has the intent and ability to hold the securities for the foreseeable future, and the declines in fair value are primarily due to changes in market interest rates and market volatility. The fair values are expected to recover as the bonds approach their maturity dates.

The table below presents a rollforward by major security type for the year ended June 30, 2024, of the credit losses on debt securities available-for-sale held at period end:

| | Mortgage-backed securities | Municipal bonds |
|---|---|---|
| Beginning balance | $ - | $ - |
| Impact of adopting ASC 326 | 17 | 2 |
| Additional increase / decrease on securities that previously had an allowance | 96 | - |
| Write offs charged against the allowance | (1) | - |
| Ending balance | $ 112 | $ 2 |

**Other-Than-Temporary Impairment**

The unrealized loss positions in mortgage-backed securities as of June 30, 2023 included losses related to privately-issued CMO securities. During the year ended June 30, 2023, the Company recognized aggregate other-than-temporary impairment write-down charges to earnings of $10,000 on privately issued CMO securities.

## (4) LOANS

Loans at June 30, 2024 and 2023 consisted of the following:

| | 2024 | 2023 |
|---|---|---|
| Commercial: | | |
| One-to-four family mortgage | $ 13,350 | $ 8,156 |
| Commercial and multi-family mortgage | 145,590 | 146,241 |
| Commercial business (secured) | 80,897 | 95,100 |
| Commercial business (unsecured) | 9,105 | 10,284 |
| Residential: | | |
| One-to-four family mortgage | 201,948 | 167,155 |
| Second mortgage and HELOCs | 24,198 | 22,718 |
| Consumer loans | 4,347 | 4,796 |
| Gross loans | 479,435 | 454,450 |
| Allowance for credit losses - loans | (5,191) | (3,685) |
| Loans, net | $ 474,244 | $ 450,765 |

Loans and leases are reported at principal amount outstanding including unamortized purchase premiums and discounts, unearned income, and net direct fees and costs associated with originating and acquiring loans. The aggregate amount of these loan adjustments was a net discount of $926,000 and $701,000 at June 30, 2024 and 2023, respectively.

The total amount of accrued interest recorded for these loans at June 30, 2024 and 2023, was $2.0 million and $1.9 million, respectively. Accrued interest is presented in Accrued Interest Receivable on the Consolidated Balance Sheets.

(4 - continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended June 30, 2024:

| | Commercial | | | | Residential | | | |
|---|---|---|---|---|---|---|---|---|
| **Allowance for Credit Losses:** | **One-to-Four Family Mortgage** | **Commercial and Multi-Family Mortgage** | **Commercial Business (Secured)** | **Commercial Business (Unsecured)** | **One-to-Four Family Mortgage** | **Second Mortgage and HELOCs** | **Consumer** | **Total** |
| Beginning balance | $ 36 | $ 1,325 | $ 1,601 | $ 132 | $ 481 | $ 79 | $ 31 | $ 3,685 |
| Cumulative effect of change in accounting principle | 303 | 749 | 60 | (41) | 271 | 157 | 32 | 1,531 |
| Provisions | 253 | (77) | (531) | (40) | 197 | (38) | - | (236) |
| Charge-offs | - | - | (3) | - | - | - | - | (3) |
| Recoveries | - | - | 214 | - | - | - | - | 214 |
| Ending balance | $ 592 | $ 1,997 | $ 1,341 | $ 51 | $ 949 | $ 198 | $ 63 | $ 5,191 |

(4 - continued)

An analysis of the allowance for loan losses and recorded investment in loans as of and for the year ended June 30, 2023 is as follows:

| | Commercial | | | | Residential | | | |
|---|---|---|---|---|---|---|---|---|
| | One-to-Four Family Mortgage | Commercial and Multi-Family Mortgage | Commercial Business (Secured) | Commercial Business (Unsecured) | One-to-Four Family Mortgage | Second Mortgage and HELOCs | Consumer | Total |
| **Allowance for Loan Losses:** | | | | | | | | |
| Beginning balance | $ 42 | $ 1,102 | $ 1,795 | $ 134 | $ 302 | $ 62 | $ 25 | $ 3,462 |
| Provisions | (6) | 223 | (227) | (2) | 179 | 17 | 11 | 195 |
| Charge-offs | - | - | - | - | - | - | (5) | (5) |
| Recoveries | - | - | 33 | - | - | - | - | 33 |
| Ending balance | $ 36 | $ 1,325 | $ 1,601 | $ 132 | $ 481 | $ 79 | $ 31 | $ 3,685 |
| **Ending allowance balance attributable to loans:** | | | | | | | | |
| Individually evaluated for impairment | $ - | $ - | $ 7 | $ - | $ - | $ - | $ - | $ 7 |
| Collectively evaluated for impairment | 36 | 1,325 | 1,594 | 132 | 481 | 79 | 31 | 3,678 |
| Ending balance | $ 36 | $ 1,325 | $ 1,601 | $ 132 | $ 481 | $ 79 | $ 31 | $ 3,685 |
| **Recorded Investment in Loans:** | | | | | | | | |
| Individually evaluated for impairment | $ 206 | $ 382 | $ 27 | $ - | $ 292 | $ 75 | $ - | $ 982 |
| Collectively evaluated for impairment | 8,011 | 146,643 | 95,502 | 10,338 | 167,336 | 22,761 | 4,808 | 455,399 |
| Ending balance | $ 8,217 | $ 147,025 | $ 95,529 | $ 10,338 | $ 167,628 | $ 22,836 | $ 4,808 | $ 456,381 |

(4 - continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended June 30, 2023:

| | Recorded Investment | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized | Interest Recognized-Cash Method |
|---|---|---|---|---|---|---|
| **Loans with no related allowance recorded:** | | | | | | |
| Commercial: | | | | | | |
| One-to-four family mortgage | $ 206 | $ 216 | $ - | $ 219 | $ 15 | $ 2 |
| Commercial and multi-family mortgage | 382 | 363 | - | 29 | - | - |
| Commercial business (secured) | - | - | - | - | - | - |
| Residential: | | | | | | |
| One-to-four family mortgage | 292 | 310 | - | 428 | 10 | 9 |
| Second mortgage and HELOCs | 75 | 75 | - | 106 | 5 | - |
| Consumer | - | - | - | 4 | - | - |
| | 955 | 964 | - | 786 | 30 | 11 |
| **Loans with an allowance recorded:** | | | | | | |
| Commercial: | | | | | | |
| One-to-four family mortgage | - | - | - | 26 | - | - |
| Commercial business (secured) | 27 | 29 | 7 | 27 | - | - |
| | 27 | 29 | 7 | 53 | - | - |
| | $ 982 | $ 993 | $ 7 | $ 839 | $ 30 | $ 11 |

(4 - continued)

**Credit Quality Indicators:**

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, public information, historical payment experience, credit documentation, and current economic trends, among other factors. The Company classifies loans based on credit risk at least quarterly. The Bank uses the following regulatory definitions for risk ratings:

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

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

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

*Loss:* Loans classified as loss are considered uncollectible and of such little value that their continuance on the institution's books as an asset is not warranted.

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

(4 - continued)

The following table presents the amortized cost basis of loans by credit quality indicator, class of financing receivable, and year of origination for term loans:

| | As of June 30, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Term loans amortized cost basis by origination year | | | | | |
| | 2024 | 2023 | 2022 | Prior | Revolving Loans amortized cost basis | **Total** |
| **Commercial** | | | | | | |
| **One-to-Four Family Mortgage** | | | | | | |
| Pass | $ 7,752 | $ 1,969 | $ 868 | $ 2,427 | $ - | $ 13,016 |
| Special mention | - | 44 | - | - | - | 44 |
| Substandard | 290 | - | - | - | - | 290 |
| **Total Commercial One-to-Four Family Mortgage** | 8,042 | 2,013 | 868 | 2,427 | - | 13,350 |
| **Commercial and Multi-Family Mortgage** | | | | | | |
| Pass | 11,695 | 23,147 | 23,040 | 62,627 | 8,432 | 128,941 |
| Special mention | - | - | - | 827 | 3,409 | 4,236 |
| Substandard | - | 1,111 | 1,274 | 6,872 | 3,156 | 12,413 |
| **Total Commercial Commercial and Multi-Family Mortgage** | 11,695 | 24,258 | 24,314 | 70,326 | 14,997 | 145,590 |
| **Commercial Business (Secured)** | | | | | | |
| Pass | 20,221 | 26,329 | 6,397 | 5,566 | 17,825 | 76,338 |
| Special mention | 424 | 779 | 458 | 375 | - | 2,036 |
| Substandard | 107 | 2,043 | 373 | - | - | 2,523 |
| **Total Commercial Commercial Business (Secured)** | 20,752 | 29,151 | 7,228 | 5,941 | 17,825 | 80,897 |
| **Commercial Business (Unsecured)** | | | | | | |
| Pass | - | 3,725 | 2,198 | 2,893 | 16 | 8,832 |
| Special mention | - | - | - | - | 273 | 273 |
| Substandard | - | - | - | - | - | - |
| **Total Commercial Commercial Business (Unsecured)** | - | 3,725 | 2,198 | 2,893 | 289 | 9,105 |
| **Residential** | | | | | | |
| **One-to-Four Family (1st Lien)** | | | | | | |
| Pass | 43,160 | 61,314 | 37,615 | 58,754 | - | 200,843 |
| Special mention | - | - | - | - | - | - |
| Substandard | - | 457 | 195 | 453 | - | 1,105 |
| **Total Residential One-to-Four Family (1st Lien)** | 43,160 | 61,771 | 37,810 | 59,207 | - | 201,948 |
| **Second Mortgage and HELOC** | | | | | | |
| Pass | 1,443 | 1,771 | 1,605 | 1,795 | 17,565 | 24,179 |
| Special mention | - | - | - | - | - | - |
| Substandard | - | - | - | 16 | 3 | 19 |
| **Total Residential Second Mortgage and HELOC** | 1,443 | 1,771 | 1,605 | 1,811 | 17,568 | 24,198 |
| **Consumer** | | | | | | |
| Pass | 1,558 | 1,897 | 356 | 321 | 49 | 4,181 |
| Special mention | - | 49 | 17 | 3 | - | 69 |
| Substandard | 97 | - | - | - | - | 97 |
| **Total Consumer** | 1,655 | 1,946 | 373 | 324 | 49 | 4,347 |

(4 - continued)

The following tables present the gross charge-offs of loans and leases by vintage.

| | As of June 30, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Term loans amortized cost basis by origination year | | | | | |
| | 2024 | 2023 | 2022 | Prior | Revolving Loans amortized cost basis | **Total** |
| Commercial: | | | | | | |
| Commercial business (secured) | - | - | - | 3 | - | 3 |
| | - | - | - | 3 | - | 3 |

The following table presents the recorded investment in loans by risk category as of June 30, 2023:

| | **Commercial** | | | | **Residential** | | | |
|---|---|---|---|---|---|---|---|---|
| | **One-to-Four Family Mortgage** | **Commercial and Multi-Family Mortgage** | **Commercial Business (Secured)** | **Commercial Business (Unsecured)** | **One-to-Four Family Mortgage** | **Second Mortgage and HELOCs** | **Consumer** | **Total** |
| Pass | $ 8,217 | $ 137,269 | $ 90,271 | $ 10,338 | $ 167,413 | $ 22,742 | $ 4,747 | $ 440,997 |
| Special mention | - | - | 788 | - | - | - | 61 | 849 |
| Substandard | - | 9,756 | 4,470 | - | 215 | 94 | - | 14,535 |
| Doubtful | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - |
| Total | $ 8,217 | $ 147,025 | $ 95,529 | $ 10,338 | $ 167,628 | $ 22,836 | $ 4,808 | $ 456,381 |

(4 - continued)

The following table presents the amortized cost basis of nonaccrual loans by class of financing receivable as of June 30, 2024:

| | Nonaccrual loans with no ACL | Total nonaccrual loans | Interest income recognized during the period for nonaccrual loans |
|---|---|---|---|
| Commercial: | | | |
| One-to-four family mortgage | - | 24 | - |
| Commercial and multi-family mortgage | - | 665 | 5 |
| Commercial business (secured) | - | - | - |
| Commercial business (unsecured) | - | - | - |
| Residential: | | | |
| One-to-four family mortgage | - | 1,013 | 18 |
| Second mortgage and HELOCs | - | 16 | - |
| Consumer | 10 | 107 | 3 |
| Total | 10 | 1,825 | 26 |

The following table presents the amortized cost basis of nonaccrual loans by class of financing receivable as of June 30, 2023:

| | Nonaccrual Loans |
|---|---|
| Commercial: | |
| Commercial and multi-family mortgage | $ 362 |
| Commercial business (secured) | 29 |
| Residential: | |
| One-to-four family mortgage | 72 |
| Second mortgage and HELOCs | 31 |
| Consumer | - |
| Total | $ 494 |

(4 - continued)

The following table presents an aging analysis of past due loans by class of financing receivable at June 30, 2024:

| | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 Days Past Due | Total Past Due | Current | Total Loans | 90 Days or More and accruing |
|---|---|---|---|---|---|---|---|
| Commercial: | | | | | | | |
| One-to-four family mortgage | $ 194 | $ 318 | $ - | $ 512 | $ 12,838 | $ 13,350 | $ - |
| Commercial and multi-family mortgage | 4,201 | 1,990 | 665 | 6,856 | 138,734 | 145,590 | - |
| Commercial business (secured) | 1,773 | 185 | - | 1,958 | 78,939 | 80,897 | - |
| Commercial business (unsecured) | - | - | - | - | 9,105 | 9,105 | - |
| Residential: | | | | | | | |
| One-to-four family mortgage | 607 | 233 | 1,008 | 1,848 | 200,100 | 201,948 | - |
| Second mortgage and HELOCs | 742 | 221 | 16 | 979 | 23,219 | 24,198 | - |
| Consumer | 30 | 37 | 97 | 164 | 4,183 | 4,347 | - |
| Total | $ 7,547 | $ 2,984 | $ 1,786 | $ 12,317 | $ 467,118 | $ 479,435 | $ - |

The following table presents an aging analysis of past due loans by class of financing receivable at June 30, 2023:

| | 30-59 Days Past Due | 60-89 Days Past Due | Over 90 Days Past Due | Total Past Due | Current | Total Loans | 90 Days or More and accruing |
|---|---|---|---|---|---|---|---|
| Commercial: | | | | | | | |
| One-to-four family mortgage | $ - | $ - | $ - | $ - | $ 8,217 | $ 8,217 | $ - |
| Commercial and multi-family mortgage | 2,110 | 4,271 | 1,686 | 8,067 | 138,958 | 147,025 | 1,323 |
| Commercial business (secured) | - | 1,089 | 646 | 1,735 | 93,794 | 95,529 | 617 |
| Commercial business (unsecured) | - | - | - | - | 10,338 | 10,338 | - |
| Residential: | | | | | | | |
| One-to-four family mortgage | 196 | 142 | 72 | 410 | 167,218 | 167,628 | - |
| Second mortgage and HELOCs | 138 | 117 | 31 | 286 | 22,550 | 22,836 | - |
| Consumer | 60 | 1 | - | 61 | 4,747 | 4,808 | - |
| Total | $ 2,504 | $ 5,620 | $ 2,435 | $ 10,559 | $ 445,822 | $ 456,381 | $ 1,940 |

(4 - continued)

**Loans to Borrowers Experiencing Financial Difficulty**

Occasionally, the Company modifies loans to borrowers in financial distress by providing other-than-insignificant payment delays, term extensions, interest rate reductions, or principal forgiveness. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses.

The following table presents the amortized cost basis as of June 30 of the loans modified to borrowers experiencing financial difficulty during the reporting period disaggregated by class of financing receivable.

| At June 30, 2024 | Term Extension / Interest Only Period | |
|---|---|---|
| | Amortized Cost basis | % of total class of financing receivable |
| | *(Dollars in thousands)* | |
| Commercial: | | |
| One-to-four family mortgage | 24 | 0.18% |
| Commercial and multi-family mortgage | 84 | 0.06% |
| Commercial business (secured) | 960 | 1.19% |
| Total | 1,068 | 0.22% |

The following table presents the financial effects of concessions granted during the reporting period to borrowers experiencing financial difficulty.

| At June 30, 2024 | Term Extension | Interest-Only |
|---|---|---|
| | Weighted-average years added to the life of the loan | Weighted-average years of interest-only payments |
| Commercial: | | |
| One-to-four family mortgage | 3.91 | - |
| Commercial and multi-family mortgage | - | 0.50 |
| Commercial business (secured) | - | 0.50 |

(4 - continued)

The following table presents the period-end amortized cost basis of loans that have been modified in the past 12 months to borrowers experiencing financial difficulty by payment status and class of financing receivable.

| | At June 30, 2024 | | | |
|---|---|---|---|---|
| | Current | 30-89 Days | Greater than 90 days | Total |
| Commercial: | | | | |
| One-to-four family mortgage | $ - | $ 24 | $ - | $ 24 |
| Commercial and multi-family mortgage | 84 | - | - | 84 |
| Commercial business (secured) | 960 | - | - | 960 |
| Total | $ 1,044 | $ 24 | $ - | $ 1,068 |

**Troubled Debt Restructurings (TDRs)**

There were no TDRs that were restructured during the years ended June 30, 2023.

No charge-offs were recorded as a result of TDRs during the years ended June 30, 2023. No provisions were recorded as a result of TDRs during the year ended June 30, 2023.

There were no commitments to lend additional funds to borrowers with outstanding loans classified as TDRs at June 30, 2023.

In the event that a TDR subsequently defaults, the Company evaluates the restructuring for possible impairment. As a result, the related allowance for loan losses may be increased or charge-offs may be taken to reduce the carrying amount of the loan. There were no TDRs modified within the previous 12 months for which there was a subsequent default during the year ended June 30, 2023. The Bank did not recognize any provisions or net charge-offs as a result of defaulted TDRs during the years ended June 30, 2023.

The following table presents the amortized cost basis of collateral-dependent loans by collateral type and class of financing receivable.

| **At June 30, 2024** | **Residential real estate** |
|---|---|
| **Commercial:** | |
| One-to-four family mortgage | $ 24 |
| **Total** | $ 24 |

(4 - continued)

**Loans to Related Parties**

The Bank has entered into loan transactions with certain directors, officers and their affiliates (related parties). In the opinion of management, such indebtedness was incurred in the ordinary course of business on substantially the same terms as those prevailing at the time for comparable transactions with other persons and does not involve more than normal risk of collectability or present other unfavorable features. Off-balance-sheet commitments (including commitments to make loans, unused lines of credit and letters of credit) to related parties at June 30, 2024 were $1.4 million.

The following table represents the aggregate activity for related party loans during the year ended June 30, 2024. The beginning balance has been adjusted to reflect new directors and officers, as well as directors and officers that are no longer with the Company, if applicable.

| | | |
|---|---|---|
| Beginning balance, as adjusted | $ | 8,506 |
| New loans and advances | | 320 |
| Payments | | (1,412) |
| Ending balance | $ | 7,414 |

## (5) PREMISES AND EQUIPMENT

Premises and equipment as of June 30, 2024 and 2023 are summarized as follows:

| | | 2024 | | 2023 |
|---|---|---|---|---|
| Land | $ | 3,692 | $ | 3,692 |
| Buildings | | 16,092 | | 15,628 |
| Furniture and equipment | | 4,869 | | 4,962 |
| | | 24,653 | | 24,282 |
| Less accumulated depreciation | | 11,311 | | 10,769 |
| Totals | $ | 13,342 | $ | 13,513 |

At June 30, 2024 and 2023, all assets were placed in service.

Depreciation expense was $1.1 million and $971,000 for the years ended June 30, 2024 and 2023, respectively.

## (6) FORECLOSED REAL ESTATE

Foreclosed real estate activity was as follows for the years ended June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Balance as of July 1: | $ - | $ 40 |
| Transfers from loans to other real estate owned | 147 | - |
| Direct write-downs | - | - |
| Capitalized expenses | - | - |
| Sales | (147) | (40) |
| Balance as of June 30: | $ - | $ - |

For the year ended June 30, 2024, the sale of foreclosed real estate resulted in a gain on sale of $3,000. For the year ended June 30, 2023, the sale of foreclosed real estate produced a $1,000 net realized loss.

At June 30, 2024 and 2023, there were no foreclosed residential real estate properties for which the Bank had taken physical possession. At June 30, 2024 and 2023, the recorded investment in consumer mortgage loans collateralized by residential real estate property in the process of foreclosure was $184,000 and $147,000, respectively.

## (7) GOODWILL

The changes in the carrying amount of goodwill for the years ended June 30, 2024 and 2023 are summarized as follows:

| | 2024 | 2023 |
|---|---|---|
| Balance, beginning of year | $ 6,229 | $ 6,229 |
| Changes in goodwill | - | - |
| Balance, end of year | $ 6,229 | $ 6,229 |

## (8) LOAN SERVICING

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balance of mortgage loans serviced for others was $197,697,000 and $194,208,000 at June 30, 2024 and 2023, respectively. Contractually specified servicing fees, late fees and "ancillary fees" of approximately $490,000 and $500,000 are included in other noninterest income in the consolidated statements of income at June 30, 2024 and 2023, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing and included in demand deposits, were approximately $1,322,000 and $1,327,000 at June 30, 2024 and 2023, respectively.

For purposes of measuring impairment, risk characteristics including product type, investor type and interest rates were used to stratify the originated MSRs. The fair value of MSRs is estimated using a discounted cash flow valuation model that calculates the present value of estimated expected net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rate, servicing costs, and other economic factors, which are determined based on current market conditions.

The key assumptions used in determining the fair value of MSRs at June 30, 2024 and 2023 were as follows:

| | 2024 | 2023 |
|---|---|---|
| Weighted average remaining maturity (in months) | 268 | 269 |
| Weighted average constant prepayment rate | 7.62% | 5.55% |
| Weighted average discount rate | 7.25% | 6.94% |

An analysis of MSRs for the years ended June 30, 2024 and 2023 is as follows:

| | 2024 | 2023 |
|---|---|---|
| Mortgage servicing rights (included in other assets): | | |
| Balance, beginning of year | $ 1,801 | $ 1,866 |
| Servicing rights capitalized | 199 | 121 |
| Amortization of servicing rights | (182) | (186) |
| Balance, end of year | $ 1,818 | $ 1,801 |
| Fair Value | $ 2,553 | $ 2,737 |

The Bank also originates loans to customers under the SBA 7(a) and other programs that generally provide for SBA guarantees of 50% to 90% of the loan balance. Periodically, the Bank sells the guaranteed portion of the SBA loans on the secondary market with servicing retained. The unpaid principal balance of SBA loans serviced for others was $6,486,000 and $5,339,000 at June 30, 2024 and 2023, respectively. Loan servicing rights on originated SBA loans that have been sold are initially recorded at fair value and are then amortized in proportion to and over the period of estimated net servicing income. Impairment of SBA servicing rights is assessed using the present value of estimated future cash flows. The aggregate fair value of SBA loan servicing rights approximated its carrying value and totaled $52,000 and $43,000 at June 30, 2024 and 2023, respectively.

## (9) DEPOSITS

The aggregate amount of time deposit accounts in denominations that met or exceeded the FDIC insurance limit of $250,000 amounted to approximately $34,833,000 and $42,385,000 at June 30, 2024 and 2023, respectively.

At June 30, 2024, scheduled maturities of time deposits were as follows:

| Year ending June 30: | |
|---|---|
| 2025 | $ 161,163 |
| 2026 | 21,592 |
| 2027 | 40,666 |
| 2028 | 643 |
| 2029 | 173 |
| 2030 and thereafter | 106 |
| Total | $ 224,343 |

The Bank held deposits of approximately $7.9 million and $9.0 million for related parties including directors, officers, employees and their affiliates at June 30, 2024 and 2023, respectively.

## (10) BORROWINGS FROM FEDERAL HOME LOAN BANK

At June 30, 2024 and 2023, borrowings from the FHLB were as follows:

| | 2024 | | 2023 | |
|---|---|---|---|---|
| | Weighted Average Rate | Amount | Weighted Average Rate | Amount |
| Fixed rate putable advances | 3.18% | $ 85,000 | 2.63% | $ 75,000 |
| Fixed rate bullet advances | 3.96% | 25,000 | 4.24% | 35,000 |
| Line of credit balance | 5.71% | 3,000 | 5.51% | 3,000 |
| | 3.42% | $ 113,000 | 3.21% | $ 113,000 |

The following is a schedule of maturities for advances outstanding as of June 30, 2024:

| Due in the year ending June 30: | |
|---|---|
| 2025 | $ 20,000 |
| 2026 | 10,000 |
| 2027 | - |
| 2028 | - |
| 2029 | - |
| 2030 and thereafter | 80,000 |
| Total | $ 110,000 |

(10 - continued)

The advances are secured under a blanket collateral agreement. At June 30, 2024, the carrying value of qualifying residential mortgage and commercial real estate loans and investment securities pledged as security for the advances was $219,607,000 and $25,483,000, respectively. At June 30, 2023, the carrying value of qualifying residential mortgage and commercial real estate loans and investment securities pledged as security for the advances was $184,912,000 and $32,065,000, respectively.

The Bank has a $5,000,000 Overdraft Line of Credit agreement with the FHLB. This agreement has a term of two years and matures on May 4, 2025. Borrowings outstanding under this line of credit totaled $3,000,000 at June 30, 2024 and June 30, 2023.

## (11) FEDERAL FUNDS PURCHASED AND OTHER BORROWINGS

At June 30, 2024 and 2023, the Bank had a federal funds line of credit agreement with another financial institution with an aggregate credit limit of $17 million. The line of credit has indefinite terms and may be cancelled by either party with proper notice. There were no outstanding borrowings under the federal funds line of credit at June 30, 2024 or June 30, 2023.

Other borrowings outstanding consisted of the following at June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Junior subordinated debentures issued August 1, 2007 | $ 5,155 | $ 5,155 |
| 3.5% fixed-to-floating subordinated notes issued January 25, 2022 | 6,000 | 6,000 |
| 4.0% fixed-to-floating subordinated notes issued January 25, 2022 | 6,000 | 6,000 |
| Less debt issuance costs | (261) | (323) |
| | $ 16,894 | $ 16,832 |

Junior subordinated debentures were issued to the Trust on August 1, 2007. The Trust is wholly owned by the Company. The debentures mature in September 2037 and bear a fixed interest rate of 6.905% for the first five years and 141 basis points over the three-month London Interbank Offered Rate (“LIBOR”) for the remaining term. Due to the cessation of the publication of three-month LIBOR as of June 30, 2023, beginning September 15, 2023, the junior subordinated debentures accrue interest at a floating rate equal to the three-month term secured overnight funding rate (“SOFR”) plus 1.67%. Interest is payable on a quarterly basis. The interest rate on the junior subordinated debentures was 7.01% and 6.96% at June 30, 2024 and 2023, respectively.

The Company issued $12,000,000 in subordinated notes on January 25, 2022, consisting of $6,000,000 in 3.5% fixed-to-floating rate notes with a maturity date of January 25, 2032 (“3.5% Notes”) and $6,000,000 in 4.0% fixed-to-floating rate notes with a maturity date of January 25, 2037 (“4.0% Notes”). The 3.5% Notes bear a fixed interest rate of 3.5% for the first five years and 212 basis points over the three-month term SOFR for the remaining term. The 4.0% Notes bear a fixed interest rate of 4.0% for the first ten years and 244 basis points over the three-month term SOFR for the remaining term. Interest is payable on a quarterly basis for each of the subordinated notes. Debt issuance costs for these notes are expensed on a straight-line basis over their fixed rate terms, five years and ten years respectively.

At June 30, 2024 and 2023, the Company had pledged investment securities with a carrying value of $12,587,000 and $4,399,000 to secure potential borrowings from the Federal Reserve Bank discount window. There were no outstanding borrowings under the program at June 30, 2024 and 2023.

## (12) INCOME TAXES

The components of income tax benefit, were as follows for the years ended June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Current | $ 86 | $ 13 |
| Deferred | (518) | 49 |
| Totals | $ (432) | $ 62 |

The reconciliation of income tax (benefit) expense for the years ended June 30, 2024 and 2023 with the amount that would have been provided at the federal statutory rate of 21% follows:

| | 2024 | 2023 |
|---|---|---|
| Provision at federal statutory rate | $ 232 | $ 612 |
| State income tax-net of federal tax benefit | (45) | (26) |
| Tax exempt life insurance income | (66) | (65) |
| Tax exempt interest | (523) | (445) |
| Other | (30) | (14) |
| Total income tax (benefit) expense | $ (432) | $ 62 |

Significant components of the Company's deferred tax assets and liabilities as of June 30, 2024 and 2023, which is included in Other assets on the balance sheet, were as follows:

| | 2024 | 2023 |
|---|---|---|
| Deferred tax assets (liabilities): | | |
| Allowance for credit losses | $ 1,412 | $ 897 |
| Deferred compensation and directors' fees | 33 | 32 |
| Unrealized loss on available for sale securities | 2,733 | 2,838 |
| Accrued vacation | 106 | 97 |
| Accrued bonuses | 48 | 86 |
| Other-than-temporary impairment loss on securities available for sale | 120 | 123 |
| Federal net operating loss carryover | 350 | - |
| State net operating loss carryover | 80 | 6 |
| State tax credit carryover | 8 | 8 |
| Other | - | 2 |
| Subtotal - deferred tax assets | 4,890 | 4,089 |
| Depreciation | (293) | (383) |
| Federal Home Loan Bank stock dividends | (42) | (42) |
| Mortgage servicing rights | (455) | (444) |
| Goodwill | (447) | (440) |
| Prepaid assets | (101) | (117) |
| Subtotal - deferred tax liabilities | (1,338) | (1,426) |
| Net deferred tax asset | $ 3,552 | $ 2,663 |

(12 - continued)

At June 30, 2024, the Company has an Indiana net operating loss carryover of approximately $80,000 available to reduce Indiana taxable income in subsequent years. The net operating loss carryover expires for the year ending June 30, 2038. The Company also has Indiana enterprise zone tax credits of approximately $8,000 available to reduce Indiana franchise taxes in subsequent years. The credit carryover expires for the year ending June 30, 2028.

At June 30, 2024 and 2023, the Company had no liability for unrecognized income tax benefits and does not anticipate any increase in the liability for unrecognized tax benefits during the next twelve months. The Company believes that its income tax positions would be sustained upon examination and does not anticipate any adjustments that would result in a material change to its financial position or results of operations. The Company files consolidated U.S. federal income tax returns and Indiana state income tax returns with its subsidiaries. Returns filed in these jurisdictions for tax years ended on or after June 30, 2024 are subject to examination by the relevant taxing authorities.

Prior to 1996 the Bank was permitted by the Internal Revenue Code to deduct from taxable income an annual addition to a statutory bad debt reserve subject to certain limitations. Retained earnings at June 30, 2024 and 2023 include approximately $4,102,000 of cumulative deductions for which no deferred federal income tax liability has been recorded. Reduction of these reserves for purposes other than tax bad debt losses or adjustments arising from carry back of net operating losses would create income for tax purposes subject to the then current federal corporate income tax rate. The unrecorded deferred tax liability on these amounts was approximately $861,000 at June 30, 2024 and 2023.

## (13) EMPLOYEE BENEFIT PLANS

### Defined Contribution Plan

The Bank has a qualified defined contribution plan available to all eligible employees. The plan allows participating employees to make tax-deferred or after-tax Roth contributions under Internal Revenue Code Section 401(k). The Bank made matching contributions of $109,000 and $89,000 for the years ended June 30, 2024 and 2023.

### Deferred Compensation Plans

The Bank also has supplemental retirement plan arrangements for the benefit of certain officers. These arrangements are funded by life insurance contracts which have been purchased by the Bank. The Bank’s expense for the plans were $43,000 and $236,000 for the years ended June 30, 2024 and 2023. One deferred compensation plan was fully funded in the year ended June 30, 2023. The liability established for an officer retention plan totaled $96,000 and $53,000 at June 30, 2024 and 2023.

The Bank also has established deferred compensation arrangements with certain directors whereby, in lieu of currently receiving fees, the directors or their beneficiaries will be paid benefits for an established period following the director’s retirement or death. These arrangements are also funded by life insurance contracts which have been purchased by the Bank. The Bank did not recognize any expense related to the plan for the years ended June 30, 2024 and 2023.

(13 - continued)

**Employee Stock Ownership Plan**

In 1999, the Bank established an employee stock ownership plan ("ESOP") for the benefit of substantially all of its employees. At June 30, 1999, the ESOP trust borrowed $874,000 from the Company and used those funds to acquire 87,400 shares of the Company's common stock at $10 per share. During 2000, the ESOP trust borrowed an additional $980,000 from the Company and used those funds to acquire 94,392 shares of the Company's common stock at an average price of $10.39 per share.

Prior to January 1, 2011, the Bank made annual contributions to the ESOP trust equal to the debt service less dividends received by the ESOP trust. All dividends received by the ESOP trust were used for debt service. The shares held by the ESOP trust were pledged as collateral for its debt. As the debt was repaid, shares were released from collateral and allocated to participants, based on the proportion of debt service paid in the year to total expected debt service. The Bank accounts for the ESOP in accordance with FASB ASC 718-40, *Employee Stock Ownership Plans*. Accordingly, the shares pledged as collateral are reported as unearned ESOP shares in the consolidated balance sheets. As shares are committed to be released from collateral, compensation expense is recognized equal to the current fair value of the shares. Dividends on allocated ESOP shares are recorded as a reduction of retained earnings; dividends on unallocated ESOP shares are recorded as a reduction of debt and accrued interest.

At December 31, 2010, the ESOP loan from the Company was repaid in full. Following the repayment of the Company loan and allocation to plan participants of all of the original common shares acquired by the ESOP trust as of December 31, 2010, the board of directors approved additional contributions to the ESOP trust of $15,000 per month resulting in additional ESOP compensation expense of $180,000 for the years ended June 30, 2024 and 2023. The additional ESOP contributions are used to acquire Company shares from terminated participants or in the open market and are allocated to plan participants on December 31 each year. The ESOP had acquired 4,203 and 10,055 common shares from terminated participants or in the open market as of June 30, 2024 and 2023, respectively, which will be allocated to ESOP participants on December 31, 2024 and 2023, respectively.

Shares held by the ESOP at June 30, 2024 and 2023 were as follows:

| | 2024 | 2023 |
|---|---|---|
| Allocated shares | 137,553 | 131,701 |
| Unallocated shares | 4,203 | 10,055 |
| Total ESOP Shares | 141,756 | 141,756 |
| Fair value of unallocated shares at June 30 | $ 55 | $ 169 |

**Stock Option Plans**

In September 2019, the Company adopted an equity incentive plan ("2019 Plan") under which 33,000 shares are available for issuance of nonqualified stock options, restricted stock or restricted stock units ("RSUs") by the Company to directors and employees of the Company and the Bank. The 2019 Plan has a term of 10 years ending in 2029, after which no awards can be made. As of June 30, 2024, no nonqualified stock options or restricted stock had been granted under the 2019 Plan. The Company generally issues shares under the 2019 Plan from treasury shares.

(13 - continued)

On September 15, 2021, the Company granted 6,143 RSUs under the 2019 Plan to officers and key employees at a grant-date price of $21.11 per share for a total of $130,000. The RSUs vest ratably over a three-year period from the grant date with one-third of the shares vesting each year on September 15 beginning September 15, 2022. On September 15, 2022, the Company granted 4,350 RSUs under the 2019 Plan to officers and key employees at a grant-date price of $19.14 per share for a total of $83,000. The RSUs vest ratably over a three-year period from the grant date with one-third of the shares vesting each year on September 15 beginning September 15, 2023. On September 15, 2023, the Company granted 7,418 RSUs under the 2019 Plan to officers and key employees at a grant-date price of $16.25 per share for a total of $121,000. The RSUs vest ratably over a three-year period from the grant date with one-third of the shares vesting each year on September 15 beginning September 15, 2024. Compensation expense is measured based on the fair market value of the restricted stock at the grant date and is recognized ratably over the period during which the shares are earned (the vesting period). The Company accounts for any forfeitures when they occur, and any previously recognized compensation cost for an award is reversed in the period the award is forfeited. Compensation expense related to RSUs recognized for the years ended June 30, 2024 and 2023 was $60,000 and $40,000. The income tax benefit related to stock-based compensation was approximately $29,000 and $16,000 for the years ended June 30, 2024 and 2023. A summary of the Company's nonvested RSU activity as of June 30, 2024 and changes during the year then ended is as follows:

| | Year Ended June 30, 2024 | | Year Ended June 30, 2023 | |
|---|---|---|---|---|
| | Number of Shares | Weighted Average Grant-Date Fair Value | Number of Shares | Weighted Average Grant-Date Fair Value |
| Nonvested at beginning of year | 8,448 | $ 20.10 | 6,143 | $ 21.11 |
| Granted | 7,418 | 16.25 | 4,350 | 19.14 |
| Vested | (3,494) | 20.29 | (2,045) | 21.11 |
| Forfeited | - | - | - | - |
| Nonvested at end of year | 12,372 | $ 17.73 | 8,448 | $ 20.10 |

For the years ended June 30, 2024 and 2023, 3,494 and 2,045 RSU's vested. At June 30, 2024 and 2023, unrecognized compensation expense related to nonvested RSUs was $108,000 and $114,000. The compensation expense is expected to be recognized over a weighted average period of 0.9 years.

## (14) COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of business, there are outstanding various commitments and contingent liabilities, such as commitments to extend credit and outstanding standby letters of credit which are not reflected in the consolidated financial statements.

Commitments under outstanding standby letters of credit totaled $2,545,000 and $2,941,000 at June 30, 2024 and 2023, respectively.

The following is a summary of commitments to extend credit at June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Loan commitments: | | |
| Fixed rate | $ 1,164 | $ 5,214 |
| Adjustable rate | 2,508 | 1,216 |
| Residential and commercial loans in process | 5,601 | 7,294 |
| Undisbursed commercial and personal lines of credit | 77,125 | 67,992 |
| Total commitments to extend credit | $ 86,398 | $ 81,716 |

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 liability for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. The liability for credit losses on the Bank's unfunded commitments totaled $342,000 as of June 30, 2024.

In March 2023 the Bank received notice from the SBA that they were recommending the denial of their guaranty obligation on one loan for failure of the Bank to comply with certain SBA loan servicing requirements. The amount of the SBA guarantee is approximately $710,000. A $515,200 reserve for this potential loss is included with the Bank's allowance for credit losses at June 30, 2024.

## (15) FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the balance sheet.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instruments for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments (see Note 14). The Bank uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

(15 - continued)

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount and type of collateral obtained, if deemed necessary by the Bank upon extension of credit, varies and is based on management's credit evaluation of the counterparty.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Standby letters of credit generally have fixed expiration dates or other termination clauses and may require payment of a fee. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank's policy for obtaining collateral, and the nature of such collateral, is essentially the same as that involved in making commitments to extend credit.

The Bank was not required to perform on any financial guarantees and incurred no losses on its commitments during the years ended June 30, 2024 and 2023.

## (16) DIVIDEND RESTRICTIONS

As an Indiana corporation, the Company is subject to Indiana law with respect to the payment of dividends. Under Indiana law, the Company may pay dividends so long as it is able to pay its debts as they become due in the usual course of business and its assets exceed the sum of its total liabilities, plus the amount that would be needed, if the Company were to be dissolved at the time of the dividend, to satisfy any rights that are preferential to the rights of the persons receiving the dividend. The ability of the Company to pay dividends depends primarily on the ability of the Bank to pay dividends to the Company.

The payment of dividends by the Bank is subject to federal and state banking regulations. The Bank may not declare or pay a cash dividend or repurchase any of its capital stock if the effect thereof would cause the regulatory capital of the Bank to be reduced below regulatory capital requirements imposed by federal and state banking regulations, or below the amount of the liquidation account established upon completion of the conversion of the Bank from mutual to stock form.

## (17) REGULATORY MATTERS

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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

(17 - continued)

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits if undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At June 30, 2024 and 2023, the most recent regulatory notifications categorized the bank as well capitalized under the regulatory framework for prompt corrective action there are no conditions or events since that notification that management believes have changed the institution's category.

Beginning in 2020, qualifying community banks with assets of less than $10 billion are eligible to opt in to the Community Bank Leverage Ratio (“CBLR”) framework. The CBLR is the ratio of a bank’s tangible equity capital to average total consolidated assets. A qualifying community bank that exceeds this ratio will be deemed to be in compliance with all other capital and leverage requirements, including the capital requirements to be considered “well capitalized” under the prompt corrective action statutes. The federal banking agencies must set the minimum capital for the new CBLR at not less than 8% and not more than 10%, and had originally set the minimum ratio at 9%. However, pursuant to the CARES Act and related interim final rules, the minimum CBLR is 8% for calendar year 2020, 8.5% for calendar year 2021, and 9% thereafter. A financial institution that falls below the minimum CBLR generally has a two-quarter grace period to get back into compliance as long as the ratio falls no more than one percentage point below the applicable CBLR requirement. A financial institution can elect to be subject to or opt out of the CBLR framework at any time. As a qualified community bank, the Bank opted into the CBLR framework as of June 30, 2023. The Bank did not qualify for the CBLR framework as of June 30, 2024, so it fell under the prompt corrective action regulations. Management believes that the Bank met all capital adequacy requirements to which it was subject as of June 30, 2024 and 2023.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total, common, and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). To be categorized as well capitalized, an institution must maintain minimum total risk-based, common equity Tier 1 risk-based, Tier 1 risk-based, and Tier 1 leverage ratios, as set forth in the following table. There are no conditions or events since the notification that management believes have changed the Bank's category. The Bank's actual capital amounts and ratios as of June 30, 2024 and 2023 are also presented in the table. This table includes the 2.5 percent capital conservation buffer requirement. A bank with a capital conservation buffer greater than 2.5 percent of risk-weighted assets would not be restricted by payout limitations. However, if the 2.5 percent threshold is not met, the bank would be subject to increasing limitations on capital distributions and discretionary bonus payments to executive officers as the capital conservation buffer approaches zero.

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The Bank's actual capital amounts and ratios at June 30, 2024 and 2023 are presented in the table below.

| | Actual | | Minimum for Capital Adequacy Purposes with Capital Conservation Buffer | | Minimum to be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|---|---|
| **June 30, 2024** | **Amount** | **Ratio** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| Total capital (to risk weighted assets) | $ 57,407 | 12.63% | $ 47,708 | 10.50% | $ 45,436 | 10.00% |
| Tier 1 capital (to risk weighted assets) | $ 51,874 | 11.42% | $ 38,621 | 8.50% | $ 36,349 | 8.00% |
| Common equity Tier 1 capital (to risk weighted assets) | $ 51,874 | 11.42% | $ 31,805 | 7.00% | $ 29,533 | 6.50% |
| Tier 1 capital (to average adjusted total assets) | $ 51,874 | 8.22% | $ 25,240 | 4.00% | $ 31,550 | 5.00% |
| **June 30, 2023** | | | | | | |
| Community Bank Leverage Ratio (CBLR) | $ 52,674 | 8.72% | N/A | N/A | $ 54,358 | 9.00% |

## (18) SUPPLEMENTAL DISCLOSURES FOR STATEMENTS OF CASH FLOWS

| | 2024 | 2023 |
|---|---|---|
| **Cash payments for:** | | |
| Interest | $ 15,410 | $ 6,892 |
| Income taxes (net of refunds received) | 2 | (127) |
| **Noncash investing activities:** | | |
| Transfer of loans to foreclosed real estate | 147 | - |
| **Noncash financing activities:** | | |
| Issuance of treasury shares to directors in lieu of cash retainer | 60 | 67 |
| Issuance of treasury shares to employees for benefit plan | 60 | 40 |

## (19) DISCLOSURES ABOUT FAIR VALUE OF FINANCIAL INSTRUMENTS

The following tables summarize the carrying value and estimated fair value of financial instruments and the level within the fair value hierarchy (see Note 20) in which the fair value measurements fall at June 30, 2024 and 2023:

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 |
| **June 30, 2024:** | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 16,117 | $ 16,117 | $ - | $ - |
| Securities available for sale | 95,221 | - | 92,637 | 2,584 |
| Loans held for sale | 1,079 | - | 1,096 | - |
| Loans, net | 474,244 | - | - | 460,243 |
| FHLB stock | 5,592 | N/A | N/A | N/A |
| Accrued interest receivable | 2,986 | - | 2,986 | - |
| MSRs (included in other assets) | 1,818 | - | - | 2,553 |
| SBA loan servicing rights (included in other assets) | 51 | - | - | 51 |
| Financial liabilities: | | | | |
| Deposits | 465,606 | - | - | 422,952 |
| Borrowed funds | 129,894 | - | 127,802 | - |
| Accrued interest payable | 1,721 | - | 1,721 | - |
| Advance payments by borrowers for taxes and insurance | 1,960 | - | 1,960 | - |

| | | Fair Value Measurements Using: | | |
|---|---|---|---|---|
| | Carrying Amount | Level 1 | Level 2 | Level 3 |
| **June 30, 2023:** | | | | |
| Financial assets: | | | | |
| Cash and cash equivalents | $ 19,502 | $ 19,502 | $ - | $ - |
| Interest bearing time deposits | 245 | - | 245 | - |
| Securities available for sale | 111,596 | - | 110,965 | 631 |
| Loans held for sale | 2,637 | - | 2,693 | - |
| Loans, net | 450,765 | - | - | 425,032 |
| FHLB stock | 5,490 | N/A | N/A | N/A |
| Accrued interest receivable | 3,018 | - | 3,018 | - |
| MSRs (included in other assets) | 1,801 | - | - | 2,737 |
| SBA loan servicing rights (included in other assets) | 43 | - | - | 43 |
| Financial liabilities: | | | | |
| Deposits | 462,203 | - | - | 460,507 |
| Borrowed funds | 129,832 | - | 126,993 | - |
| Accrued interest payable | 935 | - | 935 | - |
| Advance payments by borrowers for taxes and insurance | 1,931 | - | 1,931 | - |

(19 - continued)

The carrying amounts in the preceding table are included in the consolidated balance sheets under the applicable captions. The contractual or notional amounts of financial instruments with off-balance sheet risk are disclosed in Note 14, and the fair value of these instruments is considered immaterial.

The methods and assumptions used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, accrued interest receivable and payable, SBA loan servicing rights, advance payments by borrowers for taxes and insurance, demand deposits and other transactions accounts. The fair value of securities and interest-bearing time deposits in other financial institutions is based on quoted market prices (where available) or values obtained from an independent pricing service. The fair value of loans, excluding loans held for sale, fixed-maturity certificates of deposit, and borrowed funds is based on discounted cash flows using current market rates applied to the estimated life and credit risk of the instrument. The fair value of loans held for sale is based on specific prices of underlying contracts for sales to investors. It is not practicable to determine the fair value of FHLB stock due to restrictions placed on its transferability. The methods utilized to measure the fair value of financial instruments at June 30, 2024 and 2023 represent an approximation of exit price, but an actual exit price may differ.

## (20) FAIR VALUE MEASUREMENTS

FASB ASC Topic 820, *Fair Value Measurements,* provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under FASB ASC Topic 820 are described as follows:

Level 1: Inputs to the valuation methodology are quoted prices, unadjusted, for identical assets or liabilities in active markets. A quoted market price in an active market provides the most reliable evidence of fair value and shall be used to measure fair value whenever available.

Level 2: Inputs to the valuation methodology include quoted market prices for similar assets or liabilities in active markets; quoted market prices for identical or similar assets or liabilities in markets that are not active; or inputs that are derived principally from or can be corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement. Level 3 assets and liabilities include financial instruments whose value is determined using discounted cash flow methodologies, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

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The table below presents the balances of assets measured at fair value on a recurring and nonrecurring basis as of June 30, 2024 and 2023. The Company had no liabilities measured at fair value as of June 30, 2024 and 2023:

| | Carrying Value | | | |
|---|---|---|---|---|
| | Level 1 | Level 2 | Level 3 | Total |
| **June 30, 2024:** | | | | |
| ***Assets Measured on a Recurring Basis*** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ - | $ 14,981 | $ - | $ 14,981 |
| Asset-backed securities | - | 2,672 | - | 2,672 |
| Agency securities | - | 10,299 | - | 10,299 |
| Corporate obligations | - | 2,605 | 2,584 | 5,189 |
| Municipal bonds | - | 62,080 | - | 62,080 |
| Total securities available for sale | $ - | $ 92,637 | $ 2,584 | $ 95,221 |
| ***Assets Measured on a Nonrecurring Basis*** | | | | |
| Collateral dependent loans: | | | | |
| One-to-four family residential | $ - | $ - | $ 24 | $ 24 |
| Total collateral dependent loans | $ - | $ - | $ 24 | $ 24 |
| **June 30, 2023:** | | | | |
| ***Assets Measured on a Recurring Basis*** | | | | |
| Securities available for sale: | | | | |
| Mortgage-backed securities | $ - | $ 16,641 | $ - | $ 16,641 |
| Asset-backed securities | - | 2,651 | - | 2,651 |
| Agency securities | - | 10,125 | - | 10,125 |
| U.S. Treasury notes | - | 8,693 | - | 8,693 |
| Corporate obligations | - | 4,423 | 631 | 5,054 |
| Municipal bonds | - | 68,432 | - | 68,432 |
| Total securities available for sale | $ - | $ 110,965 | $ 631 | $ 111,596 |
| ***Assets Measured on a Nonrecurring Basis*** | | | | |
| Impaired loans: | | | | |
| Commercial secured | - | - | $ 20 | $ 20 |
| Total impaired loans | $ - | $ - | $ 20 | $ 20 |

Fair value is based upon quoted market prices, where available. If quoted market prices are not available, fair value is based on internally developed models or obtained from independent third parties that primarily use, as inputs, observable market-based parameters or a matrix pricing model that employs the Bond Market Association's standard calculations for cash flow and price/yield analysis and observable market-based parameters. Valuation adjustments may be made to ensure that financial instruments are recorded at fair value, or the lower of cost or fair value. These adjustments may include unobservable parameters. Any such valuation adjustments have been applied consistently over time.

(20 – continued)

The Company's valuation methodologies may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. While management believes the Company's valuation methodologies are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

***Securities Available for Sale***. Securities classified as available for sale are reported at fair value on a recurring basis. These securities are classified as Level 1 of the valuation hierarchy where quoted market prices from reputable third-party brokers are available in an active market. If quoted market prices are not available, the Company obtains fair value measurements from an independent pricing service. These securities are reported using Level 2 inputs and the fair value measurements consider observable data that may include dealer quotes, market spreads, cash flows, U.S. government and agency yield curves, live trading levels, trade execution data, market consensus prepayment speeds, credit information, and the security's terms and conditions, among other factors. For securities where quoted market prices, market prices of similar securities or prices from an independent third party pricing service are not available, fair values are calculated using discounted cash flows or other market indicators and are classified within Level 3 of the fair value hierarchy. Changes in fair value of securities available for sale are recorded in other comprehensive income, net of income tax effect.

The following table presents a reconciliation of available for sale securities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the years ended June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Beginning balance | $ 631 | $ 1,000 |
| Total gains or (losses) (both realized and unrealized): | | |
| Recognized in other comprehensive income | 76 | (369) |
| Transfers into level 3 | 1,877 | - |
| Ending balance | $ 2,584 | $ 631 |

No gains or losses were recognized in earnings for the years ended June 30, 2024 and 2023 attributable to Level 3 assets still held at the balance sheet date.

Corporate Obligations with a fair value of $1.9 million as of June 30, 2024 were transferred out of Level 2 and into Level 3 because of a lack of observable market data for these investments due to a decrease in the market activity for these securities.

***Loans Held for Sale***. Loans held for sale are carried at the lower of cost or market value. The portfolio is comprised of residential real estate loans and fair value is based on specific prices of underlying contracts for sales to investors. These measurements are carried at Level 2. At June 30, 2024 and 2023, the Company did not have any loans held for sale measured at fair value on a nonrecurring basis.

***Collateral Dependent Loans***. The Bank periodically records nonrecurring adjustments of collateral-dependent loans. Such amounts are generally based on the fair value of the underlying collateral supporting the loan. Appraisals are generally obtained to support the fair value of the collateral and incorporate measures that include recent sales prices for comparable properties and cost of construction. Periodically, in cases where the carrying value exceeds the fair value of the collateral less cost to sell, an impairment charge is recognized in the form of a charge-off. The Company did not recognize any provisions for loan losses related to collateral-dependent impaired loans for the year ended June 30, 2024.

(20 – continued)

***Impaired Loans***. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. In accordance with accounting standards, only collateral-dependent impaired loans for which an allowance for loan loss has been established or a partial charge-off recorded require classification in the fair value hierarchy.

The fair value of impaired loans is generally based on the fair value of the underlying collateral less estimated costs to sell. Collateral may be real estate and/or business assets, including equipment, inventory and/or accounts receivable. The fair value of the collateral is generally determined based on real estate appraisals or other independent evaluations by qualified professionals, adjusted for estimated costs to sell the property, costs to complete or repair the property and other factors to reflect management's estimate of the fair value of the collateral given the current market conditions and the condition of the collateral. The fair value of impaired loans is classified as Level 3 in the fair value hierarchy.

At June 30, 2024 and 2023, the significant unobservable inputs used in the fair value measurement of collateral-dependent impaired loans included a discount from estimated value of 10% for changes in market conditions, the condition of the collateral, and estimated costs to sell the collateral.

The Company recognized provisions for loan losses related to collateral-dependent impaired loans of $7,000 for the year ended June 30, 2023.

***Foreclosed Real Estate Held for Sale***. Foreclosed real estate is reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly. The fair value of foreclosed real estate is classified as Level 3 in the fair value hierarchy.

Foreclosed real estate is reported at fair value less estimated costs to dispose of the property. The fair values are determined by real estate appraisals which are then discounted to reflect management's estimate of the fair value of the property given current market conditions and the condition of the property.

At June 30, 2024 and 2023, the Company held no foreclosed real estate.

The Company did not recognize any charges to write-down foreclosed real estate to fair value for the years ended June 30, 2024 and 2023.

***MSRs and SBA Loan Servicing Rights***. The fair value of MSRs is estimated using a discounted cash flow valuation model that calculates the present value of estimated expected net servicing cash flows, taking into consideration expected mortgage loan prepayment rates, discount rate, servicing costs, and other economic factors, which are determined based on current market conditions. The carrying amount of SBA loan servicing rights is a reasonable estimate of fair value. These valuations are classified as Level 3 in the fair value hierarchy. See Note 8 for additional discussion regarding the key assumptions used in the MSR valuation process. At June 30, 2024 and 2023, the Company did not have any MSRs or SBA loan servicing rights measured at fair value on a nonrecurring basis.

There have been no changes in the valuation techniques and related inputs used for assets measured at fair value on a recurring and nonrecurring basis during the years ended June 30, 2024 and 2023.

## (21) CONCENTRATIONS OF CREDIT RISK

At June 30, 2024, the Company had concentrations of credit risk with correspondent banks that included bank deposits and federal funds sold in the aggregate amount of $5,229,000 in excess of the federal deposit insurance limit.

## (22) REVENUE FROM CONTRACTS WITH CUSTOMERS

Substantially all of the Company's revenue from contracts with customers in the scope of FASB ASC 606 is recognized within noninterest income. The following table presents the Company's sources of noninterest income and other income within the scope of FASB ASC 606 for the years ended June 30, 2024 and 2023:

| | 2024 | 2023 |
|---|---|---|
| Service charges on deposit accounts | $ 890 | $ 915 |
| ATM transaction and point-of-sale interchange fees | 1,071 | 1,087 |
| Other income | 72 | 77 |
| Revenue from contracts with customers | 2,033 | 2,079 |
| Net gains on loans | 693 | 417 |
| Increase in cash surrender value of life insurance | 314 | 311 |
| Other income | 405 | 463 |
| Other noninterest income | 1,412 | 1,191 |
| Total noninterest income | $ 3,445 | $ 3,270 |

A description of the Company's revenue streams accounted for under FASB ASC 606 follows:

***Service Charges on Deposit Accounts***: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as stop payment charges and statement rendering, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs.

***ATM Transaction and Point-of-Sale Interchange Fees***: The Company earns ATM usage fees and interchange fees from debit cardholder transactions conducted through a payment network. ATM fees are recognized at the point in time the transaction occurs. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

***Other Income***: Other income from contracts with customers includes safe deposit box fees, check cashing and cashier's check fees, wire transfer fees and brokerage commissions. This revenue is recognized at the time the transaction is executed or over the period the Company satisfies the performance obligation.

## (23) SUBSEQUENT EVENTS

Management has evaluated whether any subsequent events that require recognition or disclosure in the accompanying financial statements and related notes thereto have taken place through September 24, 2024, the date these financial statements were available to be issued.