

GOING FURTHER

UNITED BANCORP, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT

DECEMBER 31, 2024



UNITED BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED FINANCIAL REPORT DECEMBER 31, 2024

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INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors
United Bancorp, Inc. and Subsidiary
Palos Heights, Illinois**

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

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with generally accepting auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the 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 United Bancorp, Inc. and Subsidiary'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 United Bancorp, Inc. and Subsidiary'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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
July 22, 2025

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS
December 31, 2024 and 2023

	2024	2023
ASSETS		
Cash and due from banks	\$ 3,550,408	\$ 2,891,314
Interest-bearing deposits at other financial institutions	<u>15,921,985</u>	<u>14,457,918</u>
Total cash and cash equivalents	19,472,393	17,349,232
Securities available for sale, at fair value with an amortized cost basis of \$27,554 and \$31,543, respectively	27,365	31,252
Federal Home Loan Bank stock, at cost	1,984,500	1,984,500
Loans held for sale	10,794,574	3,269,703
Loans, net of allowance for credit losses of \$900,446 and \$833,654, respectively	131,955,863	131,090,195
Premises and equipment, net	2,695,362	2,647,713
Accrued interest receivable	618,713	636,107
Other assets	<u>2,275,680</u>	<u>2,094,545</u>
Total assets	<u>\$169,824,450</u>	<u>\$ 159,103,247</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Noninterest-bearing demand deposits	\$ 18,018,401	\$ 22,797,056
Interest-bearing demand deposits	9,997,057	8,996,185
Savings	623,729	879,067
Time deposits	<u>88,423,390</u>	<u>71,107,540</u>
Total deposits	117,062,577	103,779,848
Advances from Federal Home Loan Bank	36,000,000	39,800,000
Note payable	2,775,651	2,926,943
Accrued interest payable	688,693	584,207
Other liabilities	<u>1,398,487</u>	<u>1,091,785</u>
Total liabilities	<u>157,925,408</u>	<u>148,182,783</u>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Series B convertible preferred stock, no par value; 200 shares authorized; 10 shares issued and outstanding, liquidation preference \$10,000 per share	100,000	100,000
Series C convertible preferred stock, no par value; 400 shares authorized; 70 shares issued and outstanding, liquidation preference \$10,000 per share	700,000	700,000
Class A common stock, no par value; 19,965,000 shares authorized; 8,691,386 and 8,655,686 issued and outstanding as of 2024 and 2023	16,177,120	16,177,120
Additional paid-in capital	7,766,347	7,730,647
Accumulated deficit	(12,844,236)	(13,787,012)
Accumulated other comprehensive loss	<u>(189)</u>	<u>(291)</u>
Total stockholders' equity	<u>11,899,042</u>	<u>10,920,464</u>
Total liabilities and stockholders' equity	<u>\$169,824,450</u>	<u>\$ 159,103,247</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME
Years Ended December 31, 2024 and 2023

	2024	2023
INTEREST INCOME		
Interest and fees on loans	\$ 8,409,371	\$ 7,433,626
Interest on investments	165,680	120,292
Interest on deposits at other financial institutions	605,752	715,578
Total interest income	9,180,803	8,269,496
INTEREST EXPENSE		
Interest on deposits	4,481,280	3,532,981
Interest on Federal Home Loan Bank advances	1,208,923	1,101,822
Interest on notes payable	149,166	153,671
Total interest expense	5,839,369	4,788,474
Net interest income	3,341,434	3,481,022
Provision for credit losses	67,944	157,091
Net interest income after provision for credit losses	3,273,490	3,323,931
NONINTEREST INCOME		
Service charges on deposit accounts	46,920	41,173
Mortgage banking income, net	1,966,744	1,990,171
Other fees and income	506,195	190,493
Total noninterest income	2,519,859	2,221,837
NONINTEREST EXPENSES		
Salaries and employee benefits	2,805,034	2,489,233
Occupancy	214,030	195,567
Depreciation	106,014	94,157
Data processing	280,179	258,997
Marketing and advertising	49,135	87,448
Professional fees	220,937	231,008
FDIC insurance and regulatory fees	139,842	191,950
Federal reserve and correspondent fees	8,651	10,888
Director's fees	44,950	26,300
Insurance	24,563	24,884
Other expenses	717,572	634,788
Total noninterest expenses	4,610,907	4,245,220
Income before income tax expense	1,182,442	1,300,548
Income tax expense	239,666	90,068
Net income	\$ 942,776	\$ 1,210,480

The Notes to Consolidated Financial Statements are an integral part of these statements.

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Net income	\$ 942,776	\$1,210,480
Other comprehensive income:		
Changes in net unrealized gains on securities available for sale	<u>102</u>	<u>161</u>
Total other comprehensive income	<u>102</u>	<u>161</u>
Comprehensive income	<u>\$ 942,878</u>	<u>\$1,210,641</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

UNITED BANCORP, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
Years Ended December 31, 2024 and 2023

	<u>Preferred Stock</u>	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total Stockholders' Equity</u>
BALANCE, December 31, 2022	\$ 800,000	\$ 16,177,120	\$ 7,730,647	\$ (14,997,492)	\$ (452)	\$ 9,709,823
Net income	-	-	-	1,210,480	-	1,210,480
Other comprehensive income	-	-	-	-	161	161
BALANCE, December 31, 2023	\$ 800,000	\$ 16,177,120	\$ 7,730,647	\$ (13,787,012)	\$ (291)	\$10,920,464
Net income	-	-	-	942,776	-	942,776
Issuance of common stock	-	-	35,700	-	-	35,700
Other comprehensive income	-	-	-	-	102	102
BALANCE, December 31, 2024	\$ 800,000	\$ 16,177,120	\$ 7,766,347	\$ (12,844,236)	\$ (189)	\$11,899,042

The Notes to Consolidated Financial Statements are an integral part of these statements.

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years Ended December 31, 2024 and 2023

	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 942,776	\$ 1,210,480
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	106,014	94,157
Provision for credit losses	67,944	157,091
Net amortization on securities	2	2
Loans held for sale	(7,524,871)	5,219,500
Change in operating assets and liabilities:		
Accrued interest receivable	17,394	(288,072)
Other assets	(181,135)	(703,795)
Accrued interest payable	104,486	399,426
Other liabilities	306,702	(515,538)
	<u>(6,160,688)</u>	<u>5,573,251</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Federal Home Loan Bank stock	-	(810,000)
Proceeds from sales, maturities and calls of securities	3,987	6,501
Net increase in loans	(933,612)	(33,216,462)
Purchases of premises and equipment	(153,663)	(7,258)
	<u>(1,083,288)</u>	<u>(34,027,219)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Paydown of note payable	(151,292)	(73,057)
Proceeds from Federal Home Loan Bank advances	-	15,700,000
Repayment of Federal Home Loan Bank advances	(3,800,000)	-
Issuance of common stock	35,700	-
Net increase in deposits	13,282,729	10,530,180
	<u>9,367,137</u>	<u>26,157,123</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,123,161	(2,296,845)
CASH AND CASH EQUIVALENTS, beginning of year	<u>17,349,232</u>	<u>19,646,077</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 19,472,393</u>	<u>\$ 17,349,232</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Cash paid during the year for interest	<u>\$ 5,734,883</u>	<u>\$ 4,389,048</u>

The Notes to Consolidated Financial Statements are an integral part of these statements.

UNITED BANCORP, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

United Bancorp, Inc. (the “Company”) is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, United Trust Bank (the Bank). The Bank is a community bank which provides a variety of financial services to individuals and corporate customers at its location in Palos Heights, Illinois. The Bank competes with other banking and financial institutions in its primary market communities for savings and time deposits and for commercial, mortgage, and home equity loans.

Basis of Presentation and Accounting Estimates

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary. Significant intercompany transactions and balances have been eliminated in consolidation.

In preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP), management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet, and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses, and the fair value of financial instruments.

The determination of the adequacy of the allowance for credit losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Company's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Company has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Company to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

The Company has evaluated all transactions, events, and circumstances for consideration or disclosure through July 22, 2025, the date these financial statements were available to be issued, and has reflected or disclosed those items within the consolidated financial statements and related footnotes as deemed appropriate.

Cash, Cash Equivalents, and Cash Flows

For purposes of reporting cash flows, cash, and cash equivalents includes cash on hand, cash items in process of collection, amounts due from banks, and interest-bearing deposits at other financial institutions. Cash flows from loans and deposits are reported net.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method. The Company has made a policy election to exclude accrued interest from the amortized cost basis of debt securities and report accrued interest in accrued interest receivable in the consolidated balance sheets. Accrued interest receivable on debt securities totaled \$41 and \$57 as of December 31, 2024 and 2023, respectively. A debt security is placed on nonaccrual status at the time any principal or interest payments become more than 90 days delinquent or if full collection of interest or principal becomes uncertain. Accrued interest for a security placed on nonaccrual is reversed against interest income. There was no accrued interest related to debt securities reversed against interest income for the years ended December 31, 2024 and 2023.

The Company evaluates available-for-sale securities in an unrealized loss position to determine if credit-related losses exist. The Company first evaluates whether it intends to sell or more likely than not will be required to sell a security with unrealized losses before recovering its amortized cost basis. If this condition exists, the entire amount of unrealized loss is recognized in earnings with a corresponding adjustment to the security's amortized cost basis. If this condition does not exist, the Bank evaluates whether the decline in fair value is attributable to credit or resulted from other factors. If credit-related losses exist, the Company recognizes an allowance for credit losses (ACL), limited to the amount by which the amortized cost basis exceeds the fair value. Any losses not recognized through an ACL is recognized in other comprehensive income, net of tax, as a noncredit-related loss.

Federal Home Loan Bank Stock

The Company, as a member of the Federal Home Loan Bank (FHLB) system, is required to maintain an investment in capital stock of FHLB. Based on redemption provisions of the FHLB, the stock has no quoted market value and is carried at cost. At its discretion, the FHLB may declare dividends on the stock. Management reviews for impairment based on the ultimate recoverability of the cost basis in the FHLB stock.

Loans Held for Sale and Mortgage Banking Activities

Management determines the appropriate classification of mortgage loans at the time of origination. If management has the intent and the Bank has the ability to hold the loans for the foreseeable future, they are classified as residential real estate loans and carried at the amount of unpaid principal net of deferred loan origination fees and costs. Mortgage loans not intended to be held for the foreseeable future are classified as loans held for sale.

In conformance with Accounting Standards Codification (ASC) 825, the Bank has elected, on a loan-by-loan basis, the fair value option on a prospective basis for certain mortgage loans originated for sale purposes. Such loans are carried at fair value with the changes in the fair value of these loans recognized in mortgage banking income, net on the consolidated statements of income. Certain other mortgage loans held for sale are carried at the lower of aggregate cost or fair value. In order to limit the interest rate risk associated with loans held for sale, as well as interest rate lock agreements related to loan commitments or applications, the Bank may enter into various agreements to sell loans in the secondary mortgage market. Mortgage loans held for sale include mortgage loans that management intends to use as part of its asset/liability management strategy and that may be sold in response to changes in market conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost, net of the allowance for credit losses. Amortized cost is the outstanding principal balances less unearned income, net of deferred fees, origination costs and unaccrued or unamortized non-credit purchase discounts or premiums, respectively. Interest income is accrued on the outstanding principal balance.

Loan origination fees and direct loan origination costs are deferred and recognized in income over the life of the loans using a method which approximates a level yield.

For all classes of loans, the accrual of interest on loans is discontinued when, in management's opinion, the borrower may be unable to make payments as they become due, unless the loan is well secured and in the process of collection. Interest income on mortgage and commercial loans is discontinued and placed on nonaccrual status at the time the loan is 90 days delinquent unless the loan is well secured and in process of collection. Mortgage loans and commercial loans are charged off to the extent principal or interest is deemed uncollectible. Consumer loans continue to accrue interest until they are charged off, generally between 90 and 120 days past due, unless the loan is in the process of collection. All interest accrued, but not collected for loans that are placed on nonaccrual or charged off, is reversed against interest income. Interest received on nonaccrual loans is applied against principal until the loans are returned to accrual status. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses - Loans

Under the current expected credit loss model, the ACL on loans is a valuation allowance estimated at each balance sheet date in accordance with GAAP that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans.

The Company estimates the ACL on loans based on the underlying loans' amortized cost basis, which is the amount at which the financing receivable is originated or acquired, adjusted for applicable accretion or amortization of premium, discount, and net deferred fees or costs, collection of cash, and charge-offs. In the event that collection of principal becomes uncertain, the Company has policies in place to reverse accrued interest in a timely manner. Therefore, the Company has made a policy election to exclude accrued interest from the measurement of ACL. Accrued interest receivable on loans is reported in accrued interest receivable on the consolidated balance sheets and totaled \$618,672 and \$636,050 at December 31, 2024 and 2023, respectively.

Expected credit losses are reflected in the allowance for credit losses through a charge to provision for credit losses. The Company measures expected credit losses of loans on a collective (pool) basis, when the loans share similar risk characteristics. Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

The Company's methodologies for estimating the ACL consider available relevant information about the collectability of cash flows, including information about past events, current conditions, and reasonable and supportable forecasts. The methodologies apply historical loss information, adjusted for asset-specific characteristics, economic conditions at the measurement date, and forecasts about future economic conditions over a period that has been determined to be reasonable and supportable, to the identified pools of loans with similar risk characteristics for which the historical loss experience was observed.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

Weighted Average Remaining Maturity Method

The Company's primary methodology for estimating expected credit losses for all loan types is the weighted average remaining maturity method. This methodology utilizes average charge-off rates and remaining life to estimate its ACL. This is done by estimating the amount and timing of principal payments expected to be received as payment for the balance outstanding of the reporting period and applying those principal payments against the balance outstanding as of the reporting period along with the average annual charge-off rate until the expected payments have been fully allocated.

Individually Evaluated Loans

Loans that do not share risk characteristics are evaluated on an individual basis. For collateral dependent loans where the Company has determined that foreclosure of the collateral is probable, or where the borrower is experiencing financial difficulty and the Company expects repayment of the loan to be provided substantially through the operation or sale of the collateral, the ACL is measured based on the difference between the fair value of the collateral and the amortized cost basis of the loan as of the measurement date. When repayment is expected to be from the operation of the collateral, expected credit losses are calculated as the amount by which the amortized cost basis of the loan exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the expected credit loss as the amount by which the amortized cost basis of the loan exceeds the estimated fair value of the collateral. When repayment is expected to be from the sale of the collateral, expected credit losses are calculated as the amount by which the amortized costs basis of the loan exceeds the fair value of the underlying collateral less estimated cost to sell. The ACL may be zero if the fair value of the collateral at the measurement date exceeds the amortized cost basis of the loan.

Charge-Offs and Recoveries

Loan losses are charged against the allowance when management believes the collection of a loan's principal is unlikely. Subsequent recoveries are credited to the allowance. If the loan is collateral dependent, the loss is more easily identified and is charged-off when it is identified, usually based upon receipt of an appraisal. However, when a loan has guarantor support, and the guarantor demonstrates willingness and capacity to support the debt, the Company may carry the estimated loss as a reserve against the loan while collection efforts with the guarantor are pursued. If, after collection efforts with the guarantor are complete, the deficiency is still considered uncollectible, the loss is charged-off and any further collections are treated as recoveries.

Loan Commitments and Financial Instruments

Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit issued to meet customer financing needs. The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for off-balance sheet loan commitments is represented by the contractual amount of those instruments. Such financial instruments are recorded when they are funded.

The Company records an allowance for credit losses on off-balance sheet credit exposures, unless the commitments to extend credit are unconditionally cancelable, through a charge to provision for credit losses in the Company's consolidated statements of income. The ACL on off-balance sheet credit exposures is estimated by loan segment at each balance sheet date under the current expected credit loss model using the same methodologies as portfolio loans, taking into consideration the likelihood that funding will occur as well as any third-party guarantees and is included in other liabilities on the Company's consolidated balance sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans in mortgage banking income, net. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into noninterest income in mortgage banking income, net proportionately to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into grouping based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported within the consolidated statements of income. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing income, which is reported on the consolidated statements of income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled \$134,329 and \$142,316 for the years ended December 31, 2024 and 2023, respectively. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment

Land is carried at cost. Premises and equipment are carried at cost less accumulated depreciation computed on the straight-line or the declining balance method over the estimated useful lives of the assets. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations.

	<u>Years</u>
Buildings and improvements	5-40
Furniture, fixtures, and equipment	3-10

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when: (1) the assets have been isolated from the Company - put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Advertising Costs

Advertising costs are expensed as incurred. Advertising expense was \$9,892 in 2024, and \$12,672 in 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreclosed Real Estate

Foreclosed real estate assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less estimated selling costs. Any write-down to fair value at the time of transfer to foreclosed real estate is charged to the allowance for credit losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less estimated costs to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed real estate and subsequent write-downs to the value are expensed. The Company had no foreclosed real estate as of December 31, 2024 and 2023.

Derivatives Financial Instruments

The Company uses derivative financial instruments as a part of its price risk management of its mortgage banking activities. All such derivative financial instruments are designated as free-standing derivative instruments and are recognized on the consolidated balance sheet at fair value. Changes in the fair value of these derivatives are reflected on the Company's statement of income as mortgage banking income, net.

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (interest rate lock commitments or IRLC). Interest rate lock commitments on mortgage loans that are intended to be sold are considered to be derivatives. Accordingly, such commitments, along with any related fees received from potential borrowers, are recognized at fair value as derivative assets or derivative liabilities, with changes in fair value recorded in mortgage banking income, net. To manage interest rate risks related to the interest rate lock commitments, the Company has entered into forward sales positions on mortgage-backed securities and mandatory delivery positions. Direct credit exposure on these positions is limited to the net difference between the calculated amounts to be received and paid, if any. Such differences, which represent the fair value of the derivative instruments, are reflected on the Company's balance sheet as derivative assets or derivative liabilities. Derivative assets are recorded in other assets and derivative liabilities are recorded in other liabilities on the Company's consolidated balance sheets.

Income Taxes

Income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur. The Company's deferred taxes relate primarily to differences between the tax and book basis of the allowance for credit losses and accumulated depreciation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment. Deferred tax assets may be reduced by deferred tax liabilities and a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Stock-Based Compensation

Compensation cost is recognized for stock options and restricted stock awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options, while the market price of the Company's common stock at the date of grant is used for restricted stock awards.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award. The Company's accounting policy is to recognize forfeitures as they occur.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Although certain changes in assets and liabilities, such as unrealized gains and losses on available for sale securities, are reported as a separate component of the equity section of the consolidated balance sheet, such items, along with net income, are components of comprehensive income.

Fair Value of Assets and Liabilities

Fair values of assets and liabilities are estimates using relevant market information and other assumptions, as more fully disclosed in Note 14. Fair value estimates involve uncertainties and matters of significant judgment. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue from Contracts with Customers

All of the Company's revenue from contracts with customers in the scope of Accounting Standards Codification (ASC) 606 is recognized within noninterest income. Following is a discussion of key revenues within the scope of ASC 606:

Service Charges on Deposit Accounts: Revenue from service charges on deposit accounts is earned through cash management, overdraft, non-sufficient funds, and other deposit-related services. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transaction-related services and fees. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from Contracts with Customers (Continued)

Other Fees and Income: Other operating income primarily consist of revenues generated from wire transfer fees, ATM fees, safe deposit box rentals, and consumer credit and debit card fees. Wire transfer and ATM fees are recognized concurrently with the delivery of service on a daily basis as transactions occur. Safe deposit box rental income is recognized on a monthly basis as the Company's performance obligation for these services is satisfied. This category also includes interchange fees from consumer credit and debit cards processed by card association networks, as well as merchant discounts and other card-related services. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. Interchange fees and merchant discounts are recognized concurrently with the delivery of service on a daily basis as transactions occur. Payment is typically received immediately or in the following month.

NOTE 2. SECURITIES

The amortized cost and fair value of securities with gross unrealized gains and losses at December 31, 2024 and 2023, are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Securities available for sale at December 31, 2024:				
Mortgage-backed securities- government-sponsored entities	<u>\$27,554</u>	<u>\$ -</u>	<u>\$(189)</u>	<u>\$27,365</u>
	<u>\$27,554</u>	<u>\$ -</u>	<u>\$(189)</u>	<u>\$27,365</u>
Securities available for sale at December 31, 2023:				
Mortgage-backed securities- government-sponsored entities	<u>\$31,543</u>	<u>\$ -</u>	<u>\$(291)</u>	<u>\$31,252</u>
	<u>\$31,543</u>	<u>\$ -</u>	<u>\$(291)</u>	<u>\$31,252</u>

The amortized cost and fair value of debt securities as of December 31, 2024 by contractual maturity are shown below. Actual maturities may differ from contractual maturities of mortgage-backed securities because the mortgages underlying the securities may be called or repaid without penalty.

	Securities Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ -	\$ -
Due from one to five years	<u>27,554</u>	<u>27,365</u>
	<u>\$27,554</u>	<u>\$27,365</u>

There were no sales of securities for the years ended December 31, 2024 and 2023.

There were no securities pledged at December 31, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2. SECURITIES (CONTINUED)

The following table presents gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, at December 31, 2024 and 2023.

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Securities available for sale at December 31, 2024:						
Mortgage-backed securities - government-sponsored entities	\$ -	\$ -	\$27,365	\$(189)	\$27,365	\$(189)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$27,365</u>	<u>\$(189)</u>	<u>\$27,365</u>	<u>\$(189)</u>

	<u>Less than 12 months</u>		<u>12 months or more</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>	<u>Fair Value</u>	<u>Unrealized Losses</u>
Securities available for sale at December 31, 2023:						
Mortgage-backed securities - government-sponsored entities	\$ -	\$ -	\$31,252	\$(291)	\$31,252	\$(291)
Total	<u>\$ -</u>	<u>\$ -</u>	<u>\$31,252</u>	<u>\$(291)</u>	<u>\$31,252</u>	<u>\$(291)</u>

As of December 31, 2024 and 2023, no ACL has been recognized on available for sale securities in an unrealized loss position as management does not believe any of the securities have losses due to reasons of credit quality. This is based upon an analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to available for sale securities and in consideration of historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, the Company does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that they will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES

Portfolio Segmentation

At December 31, 2024 and 2023, the Company's loans consist of the following:

	<u>2024</u>	<u>2023</u>
Commercial	\$ 3,040,433	\$ 2,971,798
Commercial real estate	15,707,728	11,302,585
Residential real estate	104,531,058	107,474,065
Home equity	5,248,766	4,436,771
Consumer and other	<u>3,990,783</u>	<u>5,143,064</u>
Total loans	132,518,768	131,328,283
Less - Allowance for credit losses	(900,446)	(833,654)
Deferred costs	<u>337,541</u>	<u>595,566</u>
Net loans	<u>\$131,955,863</u>	<u>\$131,090,195</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Portfolio Segmentation (Continued)

For purposes of the disclosures required pursuant to ASC Topic 310, the loan portfolio was disaggregated into segments and then further disaggregated into classes for certain disclosures. A portfolio segment is defined as the level at which an entity develops and documents a systematic method for determining its allowance for credit losses. There are three loan portfolio segments that include commercial, real estate, and consumer and other. A class is generally determined based on the initial measurement attribute, risk characteristic of the loan, and an entity's method for monitoring and assessing credit risk. Classes within the real estate portfolio segment include commercial real estate, residential real estate, and home equity loans. Commercial loans are a class in itself. Consumer and other loans are a class in itself.

The following describe risk characteristics relevant to each of the portfolio segments:

Commercial: The commercial loan portfolio segment includes commercial, industrial, and agricultural loans. These loans include those loans to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or expansion projects. Loans are repaid by business cash flows. Collection risk in this portfolio is driven by the creditworthiness of the underlying borrower, particularly cash flows from the customers' business operations.

Real Estate: As discussed below, the Company offers various types of real estate loan products. All loans within this portfolio segment are particularly sensitive to the valuation of real estate:

- Commercial real estate loans include owner-occupied commercial real estate loans and loans secured by income producing properties. Owner-occupied commercial real estate loans to operating businesses are long-term financing of land and buildings. These loans are repaid by cash flow generated from the business operation. Real estate loans for income-producing properties such as apartment buildings, office and industrial buildings, and retail shopping centers are repaid from rent income derived from the properties.
- Residential real estate loans include real estate loans secured by one to four family first mortgage loans and second liens. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.
- Home equity loans include open end real estate loans. These are repaid by various means such as a borrower's income, sale of the property, or rental income derived from the property.

Consumer and Other: The consumer and other loan portfolio segment includes direct consumer installment loans, overdrafts, other revolving credit loans, and educational loans. Loans in this portfolio are sensitive to unemployment and other key consumer economic measures.

Nonaccrual and Past Due Loans

A loan is placed on nonaccrual status when, in management's judgment, the collection of the interest income appears doubtful. Interest receivable that has been accrued and is subsequently determined to have doubtful collectability is charged to interest income. Interest on loans that are classified as nonaccrual is subsequently applied to principal until the loans are returned to accrual status. The Company's loan policy states that a nonaccrual loan may be returned to accrual status when: (i) none of its principal and interest is due and unpaid, and the Company expects repayment of the remaining contractual principal and interest, or (ii) it otherwise becomes well secured and in the process of collection. Restoration to accrual status on any given loan must be supported by a well-documented credit evaluation of the borrower's financial condition and the prospects for full repayment. Past due loans are accruing loans whose principal or interest is past due 30 days or more.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual and Past Due Loans (Continued)

The following tables provide a summary of current, accruing past due, and nonaccrual loans by portfolio class as of December 31, 2024 and 2023.

	December 31, 2024						
	30-89 Days Past Due and Accruing	Past Due 90 Days or More and Accruing	Nonaccrual with an ACL	Nonaccrual without a ACL	Total Past Due	Current Loans	Total Loans
Commercial	\$ -	\$ -	\$ -	\$178,935	\$ 178,935	\$ 2,861,498	\$ 3,040,433
Commercial real estate	-	-	-	109,843	109,843	15,597,885	15,707,728
Residential real estate	1,182,264	-	-	-	1,182,264	103,348,794	104,531,058
Home equity	-	-	-	-	-	5,248,766	5,248,766
Consumer and other	31,627	-	-	-	31,627	3,959,156	3,990,783
Total	<u>\$1,213,891</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$288,778</u>	<u>\$1,502,669</u>	<u>\$131,016,099</u>	<u>\$132,518,768</u>

	December 31, 2023						
	30-89 Days Past Due and Accruing	Past Due 90 Day or More and Accruing	Nonaccrual with an ACL	Nonaccrual without a ACL	Total Past Due	Current Loans	Total Loans
Commercial	\$ -	\$ -	\$ -	\$ 419,971	\$ 419,971	\$ 2,551,827	\$ 2,971,798
Commercial real estate	-	-	-	142,079	142,079	11,160,506	11,302,585
Residential real estate	633,320	-	-	-	633,320	106,840,745	107,474,065
Home equity	-	-	-	-	-	4,436,771	4,436,771
Consumer and other	-	-	-	-	-	5,143,064	5,143,064
Total	<u>\$633,320</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 562,050</u>	<u>\$1,195,370</u>	<u>\$130,132,913</u>	<u>\$131,328,283</u>

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

Collateral Dependent Loans

Collateral dependent loans are loans where repayment is expected to be provided substantially through the operation or sale of the collateral when the borrower is experiencing financial difficulty. If the Company determines that foreclosure is probable, these loans are written down to the lower of cost or collateral value less estimated costs to sell. When repayment is expected to be from the operation of the collateral, the allowance for credit losses is calculated as the amount by which the amortized cost basis of the financial asset exceeds the present value of expected cash flows from the operation of the collateral. The Company may, in the alternative, measure the allowance for credit loss as the amount by which the amortized cost basis of the financial asset exceeded the estimated fair value of the collateral. There were no loans considered to be collateral dependent as of December 31, 2024 and 2023.

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, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis includes loans with an outstanding balance greater than \$150,000 and non-homogeneous loans, such as commercial real estate loans. This analysis is performed on an annual basis.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators (Continued)

The Company uses the following definitions for risk ratings:

Pass: Loans in this risk category involve borrowers of acceptable-to-strong credit quality and risk who have the apparent ability to satisfy their loan obligations. Loans in this risk grade would possess sufficient mitigating factors, such as adequate collateral or strong guarantors possessing the capacity to repay the debt if required, for any weakness that may exist.

Special Mention: Loans in this risk grade are the equivalent of the regulatory definition of “Other Assets Especially Mentioned” classification. Loans in this category possess some credit deficiency or potential weakness, which requires a high level of management attention. Potential weaknesses include declining trends in operating earnings and cash flows and /or reliance on the secondary source of repayment. If left uncorrected, these potential weaknesses may result in noticeable deterioration of the repayment prospects for the asset or in the Company’s credit position.

Substandard: Loans in this risk grade are inadequately protected by the borrower’s current financial condition and payment capability or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the orderly repayment of debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans in this risk grade have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or orderly repayment in full, on the basis of current existing facts, conditions and values, highly questionable and improbable. Possibility of loss is extremely high, but because of certain important and reasonably specific factors that may work to the advantage and strengthening of the exposure, its classification as an estimated loss is deferred until its more exact status may be determined.

The following tables summarize the risk category of the Company loan portfolio based upon on the most recent analysis performed as of December 31, 2024 and 2023. The Company had no doubtful risk rated loans as of December 31, 2024 and 2023.

December 31, 2024:	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Home Equity</u>	<u>Consumer and Other</u>	<u>Total</u>
Pass	\$2,392,477	\$15,255,149	\$104,317,853	\$5,248,766	\$3,990,783	\$131,205,028
Special mention	647,956	417,192	-	-	-	1,065,148
Substandard	-	35,387	213,205	-	-	248,592
Total	<u>\$3,040,433</u>	<u>\$15,707,728</u>	<u>\$104,531,058</u>	<u>\$5,248,766</u>	<u>\$3,990,783</u>	<u>\$132,518,768</u>
December 31, 2023:	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Home Equity</u>	<u>Consumer and Other</u>	<u>Total</u>
Pass	\$2,730,762	\$10,873,153	\$107,474,065	\$4,436,771	\$5,143,064	\$130,657,815
Special mention	-	287,353	-	-	-	287,353
Substandard	241,036	142,079	-	-	-	383,115
Total	<u>\$2,971,798</u>	<u>\$11,302,585</u>	<u>\$107,474,065</u>	<u>\$4,436,771</u>	<u>\$5,143,064</u>	<u>\$131,328,283</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Allowance for Credit Losses on Loans

The allowance for credit losses represents an allowance for expected losses over the remaining contractual life of the assets. The contractual term does not consider extensions, renewals, or modifications. The Company segregates the loan portfolio by type of loan and utilizes this segregation in evaluating exposure to risks within the portfolio.

Allocation of a portion of the allowance to one category of loans does not preclude its availability to absorb losses in other categories.

Allowance for credit losses December 31, 2024:	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Home Equity</u>	<u>Consumer and Other</u>	<u>Total</u>
Balance, beginning of year	\$65,078	\$156,362	\$549,189	\$27,096	\$35,929	\$833,654
Adoption of ASC 326	-	-	-	-	-	-
Provision (recovery) charged to operating expense	34,244	64,017	(40,035)	3,063	6,655	67,944
Recoveries of loans charged off	-	-	-	-	-	-
Loans charged off	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(1,152)</u>	<u>(1,152)</u>
Balance, end of year	<u>\$99,322</u>	<u>\$220,379</u>	<u>\$509,154</u>	<u>\$30,159</u>	<u>\$41,432</u>	<u>\$900,446</u>

Allowance for credit losses December 31, 2023:	<u>Commercial</u>	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>	<u>Home Equity</u>	<u>Consumer and Other</u>	<u>Total</u>
Balance, beginning of year	\$16,535	\$112,378	\$507,969	\$48,084	\$ 8,053	\$693,019
Provision (recovery) charged to operating expense	48,543	43,984	41,220	(20,988)	44,332	157,091
Recoveries of loans charged off	-	-	-	-	-	-
Loans charged off	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(16,456)</u>	<u>(16,456)</u>
Balance, end of year	<u>\$65,078</u>	<u>\$156,362</u>	<u>\$549,189</u>	<u>\$27,096</u>	<u>\$35,929</u>	<u>\$833,654</u>

Modifications to Borrowers Experiencing Financial Difficulty

The Company periodically provides modifications to borrowers experiencing financial difficulty. These modifications include either payment deferrals, term extensions, interest rate reductions, principal forgiveness, or combinations of modification types. The determination of whether the borrower is experiencing financial difficulty is made on the date of the modification. When principal forgiveness is provided, the amount of principal forgiveness is charged off against the allowance for credit losses with a corresponding reduction in the amortized cost basis of the loan. A modified loan is tracked for at least 12 months following the modifications granted.

There were no loans modified to borrowers experiencing financial difficulty during the years ended December 31, 2024 and 2023. The Company has no unfunded commitments to borrowers experiencing financial difficulty for which the Company has modified their loans at December 31, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 3. LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Related-Party Loans

In the normal course of business, the Company has granted loans to certain related parties, including to directors, executive officers, and principal shareholders of the Company, on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with other borrowers. There were no related-party loans outstanding at December 31, 2024 and 2023.

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES

The Company utilizes forward loan sales contracts as well as forward security sales contracts to manage the risk associated with the change in value of the interest rate lock commitments due to interest rate changes. The Company is exposed to credit-related losses in the event of nonperformance by the counterparties to those agreements. The Company controls the credit risk of its financial contracts through credit approvals, limits, and monitoring procedures, and does not expect any counterparties to fail their obligations.

Forward Loan Sales Contracts

Standalone derivative financial instruments include both forward loan sale contracts and forward security sales contracts, which derive their value from underlying interest rates. These instruments involve both credit and market risk. The notional amounts are amounts on which calculations, payments, and the value of the derivative are based. Notional amounts do not represent direct credit exposures. Direct credit exposure is limited to the net difference between the calculated amounts to be received and paid, if any. Such difference, which represents the fair value of the derivative instruments, would be reflected on the Company's balance sheet as derivative assets or derivative liabilities.

Interest Rate Lock Commitments

The Company enters into rate lock commitments to extend credit to borrowers for generally a 60-day period for origination and/or purchase of loans. Unfunded loans for which commitments have been entered into are called "pipeline loans." Some of these rate lock commitments will ultimately expire without being completed. To the extent that a loan is ultimately granted and the borrower ultimately accepts the terms of the loan, these rate lock commitments expose the Company to variability in their fair value due to changes in interest rates.

Loan commitments related to the origination or acquisition of mortgage loans that will be held for sale must be accounted for as derivative instruments. Accordingly, such commitments, together with any related fees received from potential borrowers, are recorded at fair value as derivative assets or liabilities, with changes in fair value recorded in mortgage banking income, net in the Company's consolidated statements of income. Fair value is based on active market pricing for substantially similar underlying mortgage loans.

The notional amounts of the Company's derivative instruments are as follows at December 31:

	<u>2024</u>	<u>2023</u>
Interest rate lock commitments to borrowers	\$11,271,479	\$ -
Mortgage backed securities sold short	14,500,000	-

The fair value of derivative assets related to pipeline interest rate lock commitments totaled \$83,387 at December 31, 2024. The fair value of derivative assets related to the pipeline interest rate lock commitments was not material at December 31, 2023 and, therefore, was not included in the Company's consolidated balance sheet as of December 31, 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4. DERIVATIVE FINANCIAL INSTRUMENTS AND HEDGING ACTIVITIES (Continued)

Interest Rate Lock Commitments (Continued)

The fair value of the derivative assets related to mortgage-backed securities sold short and mandatory delivery positions totaled \$54,941 at December 31, 2024. There were no derivatives related to mortgage-backed securities sold short and mandatory delivery positions as of December 31, 2023.

Credit risk represents the amount of unrealized gain included in other assets which is subject to counterparty credit risk. The credit risk for the interest rate lock commitments is equivalent to their fair market value. Unrealized losses in forward loan sales contracts, if any, are classified as derivative liabilities. There were no derivative liabilities as of December 31, 2024 or 2023.

NOTE 5. PREMISES AND EQUIPMENT

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

	<u>2024</u>	<u>2023</u>
Land	\$ 800,000	\$ 800,000
Buildings and improvements	2,559,176	2,559,176
Furniture, fixtures, and equipment	<u>1,752,005</u>	<u>1,598,342</u>
	5,111,181	4,957,518
Accumulated depreciation	<u>(2,415,819)</u>	<u>(2,309,805)</u>
	<u>\$ 2,695,362</u>	<u>\$ 2,647,713</u>

Depreciation expense was \$106,014 and \$94,157 for the years ended December 31, 2024 and 2023, respectively.

NOTE 6. DEPOSITS

The aggregate amount of time deposits in denominations of \$250,000 or more at December 31, 2024 and 2023, was approximately \$16,774,000 and \$13,782,000, respectively. Brokered deposits were \$10,321,000 and \$10,197,000 at December 31, 2024 and 2023, respectively.

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

2025	\$59,324,006
2026	20,379,786
2027	7,973,598
2028	<u>746,000</u>
	<u>\$88,423,390</u>

The Company held related-party deposits of approximately \$687,000 at December 31, 2024 and approximately \$880,000 at December 31, 2023. The Company held deposits for one depositor totaling \$6,250,000 and \$9,250,000 at December 31, 2024 and 2023.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. INCOME TAXES

Income taxes consist of the following:

	Years Ended December 31,	
	2024	2023
Current	\$ 102,059	\$ 367,317
Deferred	171,215	9,049
Change in valuation allowance	(33,608)	(286,298)
Income tax expense	\$ 239,666	\$ 90,068

Income tax differs from the amounts computed by applying the federal statutory income tax rate to income before income taxes. A reconciliation of the differences is as follows:

	Years Ended December 31,	
	2024	2023
Income tax expense at federal statutory tax rate	\$ 248,313	\$ 273,115
Other	24,961	103,242
Change in valuation allowance	(33,608)	(286,289)
Income tax expense (benefit)	\$ 239,666	\$ 90,068

Components of deferred tax assets and liabilities included in the consolidated balance sheets are as follows:

	December 31,	
	2024	2023
Deferred tax assets:		
Allowance for credit losses	\$ 131,703	\$ 113,570
Mortgage reserve	183,169	181,699
Other accrued expenses	24,255	14,432
Mortgage servicing rights	36,930	41,546
Net Operating losses	855,747	1,001,756
	1,231,804	1,353,003
Deferred tax liabilities:		
Depreciation	120,087	104,579
Deferred loan costs	81,899	157,131
Accrual to cash adjustments	55,733	83,600
	257,719	345,310
Net deferred tax assets before valuation allowance	974,085	1,007,693
Valuation allowance	(454,790)	(488,398)
Net deferred taxes	\$ 519,295	\$ 519,295

The Company had a net operating loss carryforward for federal income taxes of \$1,292,388 and \$2,556,777 as of December 31, 2024 and 2023, respectively. The federal net operating loss carryforward began to expire in 2024.

The federal and state income tax returns of the Company for 2021, 2022, and 2023 are subject to examination, generally for three years after they were filed.

At December 31, 2024, the Company has federal net operating loss (NOL) carryforwards of \$1,047,158 out of \$1,292,388 limited by Internal Revenue Code (IRC) Section 382 due to a prior ownership shift of 50% or more. IRC Section 382 subjects NOLs created prior to the ownership shift to an annual limitation.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7. INCOME TAXES (CONTINUED)

The annual limitation for the Company is scheduled in the following table:

2025	\$ 74,797
2026	74,797
2027	74,797
2028	74,797
2029	74,797
Beyond	<u>673,173</u>
	<u>\$1,047,158</u>

NOTE 8. STOCK-BASED COMPENSATION

The Company did not record any compensation cost against income for the plan during the years ended December 31, 2024 and 2023. The options granted by the Company only vest upon a change in control of the Company which is not estimated to occur as of December 31, 2024 and 2023. Therefore, the Company has not estimated the fair value of each option award.

Option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant and have 10-year contractual terms.

A summary of the activity in the stock option plan for the years ended December 31, 2024 and 2023 is as follows:

	2024		2023	
	Number of Shares	Weighted Average Exercise Price	Number of Shares	Weighted Average Exercise Price
Outstanding at beginning of year	446,000	\$0.91	579,000	\$0.91
Options granted	129,250	\$1.27	-	-
Options exercised	-	-	-	-
Options forfeited	<u>(10,000)</u>	\$1.27	<u>(133,000)</u>	\$0.91
Outstanding at end of year	<u>565,250</u>	\$0.99	<u>446,000</u>	\$0.91
Fully vested and expected to vest	-	\$0.00	-	\$0.00
Exercisable at end of year	-	\$0.00	-	\$0.00

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 9. ADVANCES FROM FEDERAL HOME LOAN BANK

Federal Home Loan Bank advances consist of the following:

	<u>2024</u>	<u>2023</u>
Federal Home Loan Bank advances with principal and interest payable monthly at fixed rates from 2.99% to 4.44%, through 2034 for 2024; and from 0.61% to 5.44%, through 2033 for 2023;	\$36,000,000	\$39,800,000

Advances from the Federal Home Loan Bank are secured by Federal Home Loan Bank stock of \$1,984,500 and certain qualifying loans of approximately \$77,000,000 as of December 31, 2024.

Contractual maturities of Federal Home Loan Bank advances as of December 31, 2024 are as follows:

2025	\$ 5,000,000
2026	5,000,000
2027	3,000,000
2028	-
2029	-
Thereafter	<u>23,000,000</u>
	<u>\$36,000,000</u>

NOTE 10. NOTE PAYABLE

During 2021, the Company entered into a note payable agreement with a correspondent bank. The balance of this note was \$2,775,651 and \$2,926,943 at December 31, 2024 and 2023, respectively. Quarterly interest payments are due beginning August 2023, with quarterly principal and interest payments in the initial amount of \$67,010 beginning August 2024, until final payment of interest and principal is due upon maturity in May 2029. The note is secured by 7,000 shares of the capital stock of the Company. The note bears interest at a fixed rate of 4.00%.

NOTE 11. COMMITMENTS AND CONTINGENCIES

Loan Commitments

The Company is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Such commitments involve, to varying degrees, elements of credit risk and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The majority of all commitments to extend credit and standby letters of credit are variable rate instruments.

The Company's exposure to credit loss is represented by the contractual amount of those instruments. The Company uses the same credit policies in making commitments as it does for on-balance sheet instruments. A summary of the Company's commitments is as follows:

	<u>2024</u>	<u>2023</u>
Commitments to extend credit	<u>\$10,642,000</u>	<u>\$8,283,000</u>
	<u>\$10,642,000</u>	<u>\$8,283,000</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. COMMITMENTS AND CONTINGENCIES (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 amount of collateral obtained, if deemed necessary by the Company upon extension of credit, is based on management's credit evaluation of the customer. Collateral held varies, but may include accounts receivable, inventory, property and equipment, residential real estate, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers. Collateral held varies and is required in instances which the Company deems necessary.

The Company maintains an allowance for unfunded commitments such as unfunded balances for existing lines of credit, commitments to extend future credit, and standby letters of credit when there is a contractual obligation to extend credit and when this extension of credit is not unconditionally cancellable. The allowance for unfunded commitments is adjusted as a provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur, which is based on a historical funding study derived from internal information, and an estimate of expected credit losses on commitments expected to be funded over its estimated life, which are the same loss rates that are used in computing the allowance for credit losses on loans. There was no balance in the allowance for credit losses for unfunded commitments for the years ended December 31, 2024 and 2023 due to immateriality.

Contingencies

In the normal course of business, the Company is involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material effect on the Company's consolidated financial statements.

Data Processing

During 2015, the Company entered into an agreement with an off-site company to provide data processing and report services.

Total data and item processing expense for the years ended December 31, 2024 and 2023 amounted to approximately \$280,000 and \$259,000, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. CONCENTRATIONS OF CREDIT RISK

The Company originates primarily commercial, residential, and consumer loans to customers in Palos Heights, Illinois and surrounding areas. The ability of the majority of the Company's customers to honor their contractual loan obligations is dependent on the economy in this area.

Twelve percent of the Company's loan portfolio is concentrated in commercial real estate loans. Additionally, seventy-nine percent of the Company's loan portfolio is concentrated in residential real estate loans. These loans are secured by real estate in the Company's primary market area. The ultimate collectability of the loan portfolio and recovery of the carrying amount of foreclosed real estate is susceptible to changes in real estate conditions in the Company's primary market area. The other concentrations of credit by type of loan are set forth in Note 3.

NOTE 13. STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL 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 its assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. Capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. The net unrealized gain or loss on securities available for sale is not included in computing regulatory capital.

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

As of December 31, 2024 and 2023, the most recent notifications from the Bank's primary regulator categorized the Bank as well-capitalized under the regulatory framework for prompt corrective action. There are no conditions or events that management believes have changed the Bank's category.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13. STOCKHOLDERS' EQUITY AND REGULATORY CAPITAL MATTERS (Continued)

The Bank's actual capital amounts and ratios as of December 31, 2024 and 2023, are presented in the following table (dollars in thousands):

	<u>Actual</u>		<u>For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Provisions</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
As of December 31, 2024:						
Total capital (to risk-weighted assets)	\$15,357	15.94%	\$7,758	8.0%	\$9,698	10.0%
Tier I capital (to risk-weighted assets)	14,456	15.01%	5,819	6.0%	7,758	8.0%
Common equity Tier I capital (to risk-weighted assets)	14,456	15.01%	4,364	4.5%	6,304	6.5%
Tier I capital (to average assets)	14,456	8.86%	6,524	4.0%	8,155	5.0%
As of December 31, 2023:						
Total capital (to risk-weighted assets)	\$14,366	16.01%	\$7,178	8.0%	\$8,973	10.0%
Tier I capital (to risk-weighted assets)	13,532	15.08%	5,384	6.0%	7,178	8.0%
Common equity Tier I capital (to risk-weighted assets)	13,532	15.08%	4,038	4.5%	5,832	6.5%
Tier I capital (to average assets)	13,532	8.69%	6,228	4.0%	7,786	5.0%

Dividend Restrictions – The Company's principal source of funds for dividend payments is dividends received from the Bank. Banking regulations limit the amount of dividends that may be paid without prior approval of regulatory agencies. As of December 31, 2024, no amount of dividends can be paid without prior regulatory approval.

Authorized Shares of Common and Preferred Stock – The Company's articles of incorporation authorize 20,000 shares of Series B Common Stock, 12,750 shares of Series A Preferred Stock, and 11,650 shares of an undesignated series of Preferred Stock. There were no shares outstanding for any of these classes of stock at December 31, 2024 and 2023.

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES

Determination of Fair Value

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC Topic 820, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Determination of Fair Value (Continued)

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is a reasonable point within the range that is most representative of fair value under current market conditions.

Fair Value Hierarchy

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

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the reporting entity has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

The following methods and assumptions were used by the Company in estimating fair value disclosures for financial instruments:

Securities Available for Sale: The fair values for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on matrix pricing which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities' relationship to other benchmark quoted securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using estimates of current market rates for each type of security.

Loans Held for Sale: Loans held for sale consist of mortgage loans originated for sale. These assets were valued using stated investor pricing for substantially equivalent loans (Level 2).

Derivatives: Derivatives resulting from short sales of mortgage-backed securities are valued based on quoted prices in an active market and are therefore classified as (Level 1). Derivatives resulting from interest rate lock commitments of mortgages to be originated or purchased for sale are valued based on active market pricing for substantially similar underlying mortgage loans and are therefore classified as (Level 2).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. FAIR VALUE OF ASSETS AND LIABILITIES (Continued)

Assets and Liabilities Measured at Fair Value on a Recurring Basis

The tables below present the recorded amount of assets measured at fair value on a recurring basis.

	Balance as of December 31, 2024	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Securities available for sale:				
Mortgage-backed securities	\$ 27,365	\$ -	\$ 27,365	\$ -
Loans held for sale	10,794,574	-	10,794,574	-
Derivatives from interest rate lock commitments	83,387	-	83,387	-
Derivatives from forward sales contracts	<u>54,941</u>	<u>54,941</u>	<u>-</u>	<u>-</u>
	<u>\$10,960,267</u>	<u>\$ 54,941</u>	<u>\$10,905,326</u>	<u>\$ -</u>
	Balance as of December 31, 2023	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Other Unobservable Inputs (Level 3)
Securities available for sale:				
Mortgage-backed securities	\$ 31,252	\$ -	\$ 31,252	\$ -
Loans held for sale	<u>3,269,703</u>	<u>-</u>	<u>3,269,703</u>	<u>-</u>
	<u>\$3,300,955</u>	<u>\$ -</u>	<u>\$3,300,955</u>	<u>\$ -</u>

The Company has no assets or liabilities whose fair values are measured on a recurring basis using Level 3 inputs.

Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis, which means the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances. There were no assets or liabilities measured at fair value on a nonrecurring basis at December 31, 2024 or 2023.

NOTE 15. REVENUE FROM CONTRACTS WITH CUSTOMERS

The following table presents the Company's sources of noninterest income for the twelve months ended December 31, 2024 and 2023. Items outside the scope of ASC 606 are noted as such.

	2024	2023
Noninterest Income		
Service charges on deposit accounts	\$ 46,920	\$ 41,173
Mortgage banking income, net (A)	1,966,744	1,990,171
Other fees and income	<u>506,195</u>	<u>190,493</u>
	<u>\$2,519,859</u>	<u>\$2,221,837</u>

(A) Item outside the scope of ASC 606

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 16. PARENT ONLY FINANCIAL STATEMENTS

Condensed Balance Sheets December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Assets		
Cash	\$ 235,559	\$ 328,579
Investment in subsidiary	14,455,839	13,531,944
Other assets	<u>3,295</u>	<u>6,884</u>
	<u>\$14,694,693</u>	<u>\$13,867,407</u>
Liabilities and stockholders' equity		
Note payable	\$ 2,775,651	\$ 2,926,943
Other liabilities	20,000	20,000
Stockholders' equity	<u>11,899,042</u>	<u>10,920,464</u>
	<u>\$14,694,693</u>	<u>\$13,867,407</u>

Condensed Statements of Income Years Ended December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Interest income	\$ 70	\$ 4,197
Expenses	<u>156,086</u>	<u>158,850</u>
Loss before income taxes and equity in undistributed income of subsidiary	(156,016)	(154,653)
Income tax expense	<u>-</u>	<u>-</u>
Loss before undistributed income of subsidiary	(156,016)	(154,653)
Equity in undistributed income of subsidiary	<u>1,098,792</u>	<u>1,365,133</u>
Net income	<u>\$ 942,776</u>	<u>\$ 1,210,480</u>

NOTE 17. LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. The principal balances of the loans at year end are as follows:

	<u>2024</u>	<u>2023</u>
Mortgage loan portfolios serviced	<u>\$41,707,814</u>	<u>\$42,405,295</u>

There were no custodial escrow balances maintained in connection with serviced loans at December 31, 2024 and 2023.



INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY INFORMATION

**To the Board of Directors
United Bancorp, Inc. and Subsidiary
Palos Heights, Illinois**

We have audited the consolidated financial statements of United Bancorp, Inc. and Subsidiary as of and for the year ended December 31, 2024, and our report thereon dated July 22, 2025, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 1 and 2.

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Mauldin & Jenkins, LLC

Atlanta, Georgia
July 22, 2025

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATING BALANCE SHEET
December 31, 2024

	United Bancorp, Inc.	United Trust Bank	Eliminations	Consolidated
ASSETS				
Cash and due from banks	\$ 235,559	\$ 3,550,408	\$ 235,559	\$ 3,550,408
Interest-bearing deposits at other financial institutions	-	15,921,985	-	15,921,985
Total cash and cash equivalents	235,559	19,472,393	235,559	19,472,393
Securities available for sale	-	27,365	-	27,365
Federal Home Loan Bank stock, at cost	-	1,984,500	-	1,984,500
Loans held for sale	-	10,794,574	-	10,794,574
Loans, net of allowance for credit losses	-	131,955,863	-	131,955,863
Premises and equipment, net	-	2,695,362	-	2,695,362
Investment in subsidiary	14,455,839	-	14,455,839	-
Accrued interest receivable	-	618,713	-	618,713
Other assets	3,295	2,272,385	-	2,275,680
Total assets	\$ 14,694,693	\$ 169,821,155	\$ 14,691,398	\$ 169,824,450
LIABILITIES AND STOCKHOLDERS' EQUITY				
Deposits:				
Noninterest-bearing demand deposits	\$ -	\$ 18,253,960	\$ 235,559	\$ 18,018,401
Interest-bearing demand deposits	-	9,997,057	-	9,997,057
Savings	-	623,729	-	623,729
Time deposits	-	88,423,390	-	88,423,390
Total deposits	-	117,298,136	235,559	117,062,577
Advances from Federal Home Loan Bank	-	36,000,000	-	36,000,000
Note payable	2,775,651	-	-	2,775,651
Accrued interest payable	-	688,693	-	688,693
Other liabilities	20,000	1,378,487	-	1,398,487
Total liabilities	2,795,651	155,365,316	235,559	157,925,408
Stockholders' equity:				
Preferred stock	800,000	-	-	800,000
Common stock	16,177,120	23,167,393	23,167,393	16,177,120
Additional paid-in capital	7,766,347	-	-	7,766,347
Accumulated deficit	(12,844,236)	(8,711,365)	(8,711,365)	(12,844,236)
Accumulated other comprehensive loss	(189)	(189)	(189)	(189)
Total stockholders' equity	11,899,042	14,455,839	14,455,839	11,899,042
Total liabilities and stockholders' equity	\$ 14,694,693	\$ 169,821,155	\$ 14,691,398	\$ 169,824,450

UNITED BANCORP, INC. AND SUBSIDIARY
CONSOLIDATING STATEMENT OF INCOME
Year Ended December 31, 2024

	United Bancorp, Inc.	United Trust Bank	Eliminations	Consolidated
INTEREST INCOME				
Interest and fees on loans	\$ 70	\$ 8,409,301	\$ -	\$ 8,409,371
Interest on investments	-	165,680	-	165,680
Interest on deposits at other financial institutions	-	605,752	-	605,752
Total interest income	70	9,180,733	-	9,180,803
INTEREST EXPENSE				
Interest on deposits	-	4,481,280	-	4,481,280
Interest on Federal Home Loan Bank Advances	-	1,208,923	-	1,208,923
Interest on notes payable	116,746	32,420	-	149,166
Total interest expense	116,746	5,722,623	-	5,839,369
Net interest income (loss)	(116,676)	3,458,110	-	3,341,434
Provision for credit losses	-	67,944	-	67,944
Net interest income (loss) after provision for credit losses	(116,676)	3,390,166	-	3,273,490
NONINTEREST INCOME				
Service charges on deposit accounts	-	46,920	-	46,920
Income from subsidiary	1,098,792	-	1,098,792	-
Mortgage banking income, net	-	1,966,744	-	1,966,744
Other fees and income	-	514,595	8,400	506,195
Total noninterest income	1,098,792	2,528,259	1,107,192	2,519,859
NONINTEREST EXPENSES				
Salaries and employee benefits	-	2,805,034	-	2,805,034
Occupancy	-	214,030	-	214,030
Depreciation	-	106,014	-	106,014
Data processing	-	280,179	-	280,179
Marketing and advertising	-	49,135	-	49,135
Professional fees	-	220,937	-	220,937
FDIC insurance and regulatory fees	-	139,842	-	139,842
Federal reserve and correspondent fees	-	8,651	-	8,651
Director's fees	-	44,950	-	44,950
Insurance	-	24,563	-	24,563
Other expenses	39,340	686,632	8,400	717,572
Total noninterest expenses	39,340	4,579,967	8,400	4,610,907
Income before for income tax expense	942,776	1,338,458	1,098,792	1,182,442
Income tax expense	-	239,666	-	239,666
Net income	\$ 942,776	\$ 1,098,792	\$ 1,098,792	\$ 942,776