

FIRST STATE BANK
Built on Belief
EST. 1851



20

25

annual report

**FIRST STATE BANCORP, INC.
AND SUBSIDIARY**

Consolidated Financial Statements
December 31st, 2025 and 2024 with
Independent Auditors' Report



Our Promise

Built on belief, we're committed to our promise of making a lifelong difference in people's lives.



Our Mission

Built on belief, we're committed to our mission of doing right by rural communities and making a lifelong difference in people's lives.



Our Vision

Built on belief, we're committed to our vision of maximizing the potential of rural communities and making a lifelong difference in people's lives.

Community Involvement

First State Bank is here to "make a lifelong difference in people's lives" and the bank continually strives to achieve this not only by offering products and services that allow community members to reach their full potential, but also through charitable giving, sponsorships and volunteerism in the communities they serve.

Give Back 2025:

9

Counties Served

21

Organizations

173

Volunteers



First State Bank

Dear Shareholder:



I am pleased to report that our consolidated net income for 2025 was \$11,132,614, an increase of 16.56% over 2024. Net interest income, up 16.10%, was a primary contributor to our success. Our allowance for credit losses at December 31, 2025, was \$7,836,924, or 1.39% of total loans. Net charge-offs for 2025 totaled \$330,972 (0.07% of average loans), down from \$463,289 in 2024.

Additional 2025 highlights include:

- Net loans of \$556,516,928 at year-end, up 8.18%
- Investment securities of \$475,624,516, up 17.20%
- Deposits of \$1,036,904,397, up 8.95%

Our two newest Banking Centers, opened in 2024, continue to perform well. Portsmouth Banking Center reached \$21 million in loans outstanding and \$4.3 million in deposits in its first full year of operation. Maysville Banking Center grew to \$38 million in loans outstanding and \$6 million in deposits and was voted Best New Business of 2025 by the Maysville Area Chamber of Commerce.

Our commercial lending team delivered exceptional results, growing commercial loans outstanding by \$43 million. Several of our new commercial relationships came from our Kentucky markets.

In April, we redeemed \$15 million of subordinated debt originally issued in 2020 that was scheduled to reprice into the 9% range. Our ability to redeem this debt early, prior to the repricing period, was made possible by the bank's strong earnings performance over the past five years. In November, we issued \$25 million of new subordinated debt at 6.375%. This balance sheet management tool will provide us with strength and flexibility to continue to grow.

The First State Bank dividend increased twice in 2025 and again in the first quarter of 2026. The current dividend is \$0.60 per share quarterly, or \$2.40 annually. Our most recent valuation at December 31, 2025, increased to \$120.00 per share, up 11.11% from the prior year.

We've been "Built on Belief" since 1884. Many things have changed since then, but our beliefs remain the same. We believe in rural communities. We believe in the value of hard work. We believe in looking you in the eye and telling the truth. We believe in doing what is right. We believe your value has nothing to do with money. We believe how you treat people matters. And we believe that when we build up our customers, our communities, and each other, we can make a lifelong difference.

First State Bank — **"Built on Belief"**

Thank you for your continued support.

Sincerely,

Michael P. Pell
President / CEO



First State Bank

DAVID E. RICHEY EVP/CHIEF FINANCIAL OFFICER



As CFO, I am pleased to share an update on our financial performance. First State Bank remains committed to creating value for you, our shareholders, while navigating the evolving interest rate and market landscape. We experienced excellent asset growth in 2025 driven primarily by organic sources, as our core business of loan and deposit growth performed very well. We also expanded non-interest income while improving our expense ratios through disciplined management. Our earnings growth was the result of strong asset pricing and continued focus on funding costs, not one-time items. As a result, our balance sheet remains well positioned for multiple rate scenarios, supported by strong liquidity and balanced sensitivity to both rising and falling rate environments.

2025 was the 21st consecutive year of improved net income for the company.

In 2025, your investment in First State Bancorp, Inc. returned a dividend of \$2.16, up from \$2.00 per share one year ago. Basic earnings per share improved to \$12.04 in 2025 up from \$10.57 one year ago.

Thank you for your role in making First State Bank a success.

Financial Highlights and Selected Financial Data

The following table sets forth certain information covering the consolidated financial position and results of the company at the dates indicated.

	As of December 31,		
	2025	2024	2023
Balance Sheet: (in thousands)			
Assets	\$1,151,708	\$1,036,945	\$977,970
Loans receivable, net	556,517	514,414	461,336
Investments	475,625	405,836	370,140
Deposits	1,036,904	951,761	872,281
Stockholders' equity	80,665	64,705	52,390
	For the Year Ended December 31,		
	2025	2024	2023
Results of operations:			
Net income	11,132,614	9,551,017	8,503,129
Per share data (common stock):			
Basic earnings per share	12.04	10.57	9.45
Year end book value	87.26	71.62	58.21
Dividends declared (common)	1,994,931	1,799,935	1,800,000
Performance ratios:			
Return on average assets	1.01%	0.92%	0.93%
Return on average equity	15.88%	16.42%	19.29%
Net interest margin*	3.11%	2.97%	2.98%
Efficiency ratio*	59.95%	62.13%	65.02%
Equity to assets	7.00%	6.24%	5.36%
Allowance to total loans	1.39%	1.23%	1.18%

*Source: FFIEC, subsidiary only

Your 2025 First State Bank Board of Directors and Leadership Team



2025 Board Members include:
 Standing (L to R): Chris H. Baxla, Michael P. Pell, David Richey, Roy (Spud) Gustin, Mathew Greene, Eric Toole and Alan W. Foster.
 Seated (L to R): Daniel R. Naylor and Tony Applegate

2025 Leadership Team Includes:



Michael Pell
 President
 Chief Executive Officer



David Richey
 EVP | Chief Financial
 Officer



Chad Wilson
 EVP | Chief Lending
 Officer



Timothy Grooms
 VP | Chief Operations &
 Risk Officer



Bradley Jones
 VP | Credit Manager



Ellie Walker
 VP | Chief Deposit Officer



Judd Johnson
 VP | Retail Lending
 Manager



Shalana Shreffler
 VP | Chief Banking
 Officer



Tom Kizer
 VP | Mortgage
 Operations

FSB THROUGH THE YEARS

Late 1800's

The Bank of Manchester
(Presently First
State Bank, Manchester)



1989

First State Bank opens
location in West Union at the
Old Shell Property



2008

Acquisition of Oak Hill
Financial (Georgetown,
Mt. Orab & Ripley)



141 YEARS OF GROWTH



1884

Founded as
Winchester Bank
Company (Presently First
State Bank, Winchester)



1969

Merger between Bank
of Manchester and Winchester
Bank Company (offices in
Manchester, Seaman, Winchester)



1996

Peebles Banking Center
location opened on the
corner of Main and
Church Street

**20
25
BY THE
NUMBERS**

**195 FSB
EMPLOYEES**

**\$1.1 BILLION
IN ASSETS**

**STOCK
PRICE \$120
PER SHARE**

2014

Acquisition of Washington Court House Banking Center



2018

First State Bank opens location in Fayetteville



2021

First State Bank acquires Inez Deposit Bank in Kentucky (Inez, Louisa, Warfield)



2013

First State Bank opens ninth location in Hillsboro



2016

First State Bank acquires First Safety Bank (Georgetown)



2019

FSB builds new banking center in Wilmington



2024

First State Bank opens banking center locations in Portsmouth, OH and Maysville, KY



**\$584
MILLION IN
LOANS**

**\$1 BILLION
IN DEPOSITS**

**\$11.1
MILLION
IN NET
INCOME**

We believe when we build up our customers, our communities,



and each other, we can make a ➔ *lifelong difference.*



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INDEPENDENT AUDITORS' REPORT

Board of Directors
First State Bancorp, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of First State Bancorp, Inc. and Subsidiary (the Corporation) which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of First State Bancorp, Inc. and Subsidiary as of December 31, 2025 and 2024, 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 Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of First State Bancorp, Inc. and Subsidiary and to meet our other 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.

Responsibilities of Management for the Consolidated Financial Statements

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

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 First State 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.

Auditors' 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 auditors' 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 judgement made by a reasonable user based on the consolidated financial statements.

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

- Exercise professional judgement 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 First State 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 judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about First State 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 control related matters that we identified during the audit.

Other Information Included in the Corporation's Annual Report

Management is responsible for the other information included in the Corporation's Annual Report. The other information comprises the letter to shareholders, five-year summary of selected financial data, personnel and director information, investor and annual meeting information, and bank location information, but it does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance on it.

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

Clark, Schaefer, Hackett & Co.

Cincinnati, Ohio
February 13, 2026

First State Bancorp, Inc. and Subsidiary
Consolidated Balance Sheets
December 31, 2025 and 2024

	2025	2024
Assets		
Cash and due from banks:		
Cash and cash items	\$ 7,325,480	5,962,414
Due from banks	60,089,960	58,886,277
Federal funds sold	4,379,000	2,656,000
	71,794,440	67,504,691
Interest bearing deposits	498,000	249,000
Investment securities, available-for-sale	471,914,022	402,885,382
Investment securities, held-to-maturity	3,710,494	2,950,501
Other equity securities	95,445	104,250
Loans held-for-sale	2,042,600	350,500
Loans receivable, net of allowance for credit losses of \$7,836,924 and \$6,428,764 as of December 31, 2025 and 2024, respectively	554,474,328	514,063,115
Accrued interest receivable	5,476,158	4,989,998
Other real estate owned	-	13,190
Premises and equipment, net	15,083,069	15,296,777
Federal Home Loan Bank, at cost	1,543,600	1,585,800
Bank owned life insurance	14,473,639	14,034,771
Goodwill, net	374,412	616,974
Intangible assets, net	51,667	115,000
Deferred tax asset, net	7,862,626	9,347,488
Prepaid expenses and other assets	2,313,477	2,837,133
	\$ 1,151,707,977	1,036,944,570
Liabilities and Shareholders' Equity		
Deposits:		
Demand	\$ 138,483,263	136,692,666
Savings and interest checking	579,402,156	558,005,360
Time deposits	319,018,978	257,062,614
Total	1,036,904,397	951,760,640
Advances from Federal Home Loan Bank	1,069,658	128,444
Subordinated debt, net	24,451,738	14,978,888
Accrued interest payable	862,254	559,547
Accrued expenses and other liabilities	7,754,644	4,812,229
Total liabilities	1,071,042,691	972,239,748
Shareholders' equity:		
Common stock, no par value, 4,000,000 shares authorized at both, December 31, 2025 and 2024, 924,400 issued and outstanding at both, December 31, 2025 and 2024	17,340,829	17,340,829
Additional paid-in capital	1,800,000	1,800,000
Retained earnings	85,362,565	76,224,882
Accumulated other comprehensive loss	(23,838,108)	(30,660,889)
Total shareholders' equity	80,665,286	64,704,822
Total liabilities and shareholders' equity	\$ 1,151,707,977	1,036,944,570

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Income
Years Ended December 31, 2025 and 2024

	2025	2024
Interest income:		
Interest and fees on loans	\$ 34,146,393	29,330,721
Interest on investment securities:		
Taxable	16,787,986	17,487,543
Tax-exempt	2,214,152	1,947,049
Interest on federal funds sold and deposits in banks	3,012,703	4,458,689
	56,161,234	53,224,002
Interest expense:		
Savings and checking	9,446,719	10,152,530
Other time deposits	11,328,551	11,818,280
Federal funds purchased and FHLB advances	68,988	359,913
Subordinated debt, net	436,967	850,836
	21,281,225	23,181,559
Net interest income	34,880,009	30,042,443
Credit loss expense - loans	1,679,132	1,301,812
Credit loss expense - off balance sheet credit exposures	5,000	-
Net interest income after credit loss expense	33,195,877	28,740,631
Other income (loss):		
Loss on sale of investments	(715,209)	(223,152)
Gain on sale of loans	340,493	274,203
Gain on sale of other real estate owned	17,440	10,404
Gain (loss) on sale of fixed assets	8,820	(4,349)
Earnings on bank owned life insurance	438,868	955,711
Service charges on deposit accounts	1,889,812	1,927,129
Debit card interchange and other fees	2,355,284	1,964,968
	4,335,508	4,904,914
Other expenses:		
Salaries, directors' fees and employee benefits	14,260,951	13,260,631
Software and equipment	2,544,393	2,267,048
Supplies and postage	504,844	519,259
Taxes other than federal and state income taxes	781,349	666,717
Occupancy	1,345,305	1,146,948
FDIC insurance premiums and assessments	516,000	487,500
Professional fees	655,412	587,285
Telephone and data	267,830	280,319
Marketing and advertising	907,478	867,053
Amortization of intangibles and goodwill	305,895	353,384
Other operating	2,109,773	1,914,830
	24,199,230	22,350,974
Income before federal and state income taxes	13,332,155	11,294,571
Federal and state income taxes	2,199,541	1,743,554
Net income	11,132,614	9,551,017
Net income per share of common stock	\$ 12.04	10.57

See accompanying Notes to the Consolidated Financial Statements.

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2025 and 2024

	<u>2025</u>	<u>2024</u>
Net income	\$ <u>11,132,614</u>	<u>9,551,017</u>
Other comprehensive income (loss):		
Unrealized holding gain during the period on securities available-for-sale, net of deferred tax expense of \$2,330,475 and \$173,517	9,332,041	829,044
Unrealized gain (loss) during the period on fair value hedge, net of deferred tax expense (benefit) of \$(516,825) and \$383,786	(1,944,245)	1,443,766
Reclassification adjustment for net loss included in net income on securities available-for-sale, net of deferred tax benefit of (\$150,194) and (\$46,862)	<u>(565,015)</u>	<u>(176,290)</u>
Other comprehensive income	<u>6,822,781</u>	<u>2,096,520</u>
Comprehensive income	\$ <u>17,955,395</u>	<u>11,647,537</u>

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2025 and 2024

	Shares	Common Stock	Additional Paid In Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance, January 1, 2024	900,000	\$ 14,873,382	1,800,000	-	68,473,800	(32,757,409)	52,389,773
Net income	-	-	-	-	9,551,017	-	9,551,017
Other comprehensive income, net of tax	-	-	-	-	-	2,096,520	2,096,520
Purchase of 5,962 shares of treasury stock	-	-	-	(589,643)	-	-	(589,643)
Proceeds from sale of 5,962 shares of treasury stock	-	-	-	589,643	-	-	589,643
Issuance of shares of common stock	24,400	2,467,447	-	-	-	-	2,467,447
Cash dividends declared (\$2.00 per share)	-	-	-	-	(1,799,935)	-	(1,799,935)
Balance, December 31, 2024	924,400	17,340,829	1,800,000	-	76,224,882	(30,660,889)	64,704,822
Net income	-	-	-	-	11,132,614	-	11,132,614
Other comprehensive income, net of tax	-	-	-	-	-	6,822,781	6,822,781
Purchase of 24,058 shares of treasury stock	-	-	-	(2,597,973)	-	-	(2,597,973)
Proceeds from sale of 24,058 shares of treasury stock	-	-	-	2,597,973	-	-	2,597,973
Cash dividends declared (\$2.16 per share)	-	-	-	-	(1,994,931)	-	(1,994,931)
Balance, December 31, 2025	924,400	17,340,829	1,800,000	-	85,362,565	(23,838,108)	80,665,286

See accompanying Notes to the Consolidated Financial Statements.

First State Bancorp, Inc. and Subsidiary
Consolidated Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Operating activities:		
Net income	\$ 11,132,614	9,551,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of discounts and premiums on securities, net	194,166	1,131,007
Loss on sale of investments	715,209	223,152
Gain on sale of loans	(340,493)	(274,203)
Proceeds from sale of mortgage loans	10,921,218	13,166,599
Loans disbursed for sale in the secondary market	(12,272,825)	(12,768,646)
Credit loss expense	1,684,132	1,301,812
Gain on sale of other real estate owned	(17,440)	(10,404)
Depreciation	988,967	924,454
(Gain) loss on sale of fixed assets	(8,820)	4,349
Earnings on bank owned life insurance	(438,868)	(955,711)
Amortization of debt issuance costs	30,405	63,337
Amortization of intangible assets and goodwill	305,895	353,384
Payments to reduce lease liabilities	127,817	121,992
Deferred federal income tax benefit	(328,788)	(246,027)
Changes in assets and liabilities:		
Accrued interest receivable	(486,160)	(411,874)
Prepaid expenses and other assets	523,656	(299,661)
Accrued interest payable	302,707	(753,171)
Accrued expenses and other liabilities	253,688	(613,011)
Net cash provided by operating activities	13,287,080	10,508,395
Investing activities:		
Repayments of mortgage-backed securities	52,692,033	51,337,600
Proceeds from sales, calls and maturities of securities available-for-sale	27,574,552	68,011,101
Purchases of securities available-for-sale	(138,867,092)	(154,572,442)
(Purchases) maturities of interest bearing deposits	(249,000)	250,000
Purchases of securities held-to-maturity	(920,012)	(637,816)
Net increase in loans	(42,238,375)	(54,636,948)
Capital expenditures	(806,372)	(2,000,409)
Change in value of equity securities	8,805	1,655
Proceeds from sale of other real estate owned	178,660	131,304
Proceeds from sale of fixed assets	54,785	1,174
Purchases of bank owned life insurance	-	(2,425,000)
Proceeds from bank owned life insurance	-	870,106
Redemptions (purchases) of Federal Home Loan Bank stock, net	42,200	(407,800)
Net cash used in investing activities	(102,529,816)	(94,077,475)
Financing activities:		
Net increase in deposits	85,143,757	79,479,773
Borrowings from FHLB advances	950,000	-
Repayments of FHLB advances	(8,786)	(30,008,647)
Proceeds from subordinated debt	25,000,000	-
Repayments of subordinated debt	(15,000,000)	-
Financing fees paid	(557,555)	-
Cash dividends paid to shareholders	(1,994,931)	(1,799,935)
Net proceeds from the issuance of common stock	-	2,467,447
Purchase of treasury stock	(2,597,973)	(589,643)
Proceeds from the sale of treasury stock	2,597,973	589,643
Net cash provided by financing activities	93,532,485	50,138,638
Change in cash and due from banks	4,289,749	(33,430,442)
Cash and due from banks, beginning of year	67,504,691	100,935,133
Cash and due from banks, end of year	\$ 71,794,440	67,504,691
Supplemental noncash disclosure:		
Change in unrealized gain on securities	\$ 11,097,501	826,271
Other real estate owned acquired through foreclosure	\$ 148,030	134,090
Supplemental cash flow information:		
Federal and state income taxes	\$ 2,373,000	1,665,000
Interest	\$ 20,948,113	23,871,394

1. SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES:

The following accounting policies are set forth to facilitate the understanding of data presented in the consolidated financial statements:

Nature of operations

First State Bancorp, Inc. (the Company) and First State Bank (the Bank) revenues, operating income and assets are primarily from the banking industry. The Bank operates seventeen branches in Adams, Brown, Highland, Fayette, Clinton, and Scioto Counties in Ohio and in Martin, Lawrence, and Mason Counties in Kentucky. The Bank generates commercial, mortgage and consumer loans and receives deposits from customers located primarily in South Central Ohio, Eastern Kentucky, and Northern Kentucky. Substantially all loans are secured by specific items of collateral including business assets, consumer assets, and commercial and residential real estate. Commercial loans are expected to be repaid from cash flow from operations or businesses. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic environment in the area.

The Bank is a state-chartered bank subject to regulation by the Ohio Department of Commerce, Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bank is also a member of the Federal Home Loan Bank (FHLB) system, and as a member, maintains a required investment in the capital stock of the FHLB of Cincinnati.

Deposit accounts are insured within certain limitations by the Deposit Insurance Fund (DIF), which is administered by the FDIC. An annual premium is required by the DIF for insurance of such deposits.

Basis of presentation

The accounting and reporting policies of the Company conform with accounting principles generally accepted in United States of America (GAAP) as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB) and general practices within the financial services industry. Amounts denoted in thousands will be noted.

Principles of consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary the Bank. All significant intercompany transactions have been eliminated in consolidation.

Use of estimates

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

Cash flows

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

The Company and Bank may at times maintain deposit accounts with other financial institutions in excess of FDIC limits. The Company and Bank have not experienced any losses in such accounts and do not believe they are exposed to any significant credit risk on cash.

Investment securities

Investment securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Investment securities are classified as available-for-sale when they might be sold before maturity for any reason, including liquidity needs, changes in market interest rates, or asset/liability management strategies. Investment securities available-for-sale are carried at fair value with unrealized holding gains and losses reported separately in shareholders' equity, net of applicable taxes. Available-for-sale equity securities are reported at fair value, with unrealized holding gains and losses recognized in the consolidated income statement.

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

A debt security may be placed on nonaccrual status if principal or interest payments become delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income. There were no amounts of accrued interest reversed against interest income for the years ended December 31, 2025 or 2024.

Allowance for Credit Losses - Available-for-sale debt securities

For available-for-sale debt securities in an unrealized loss position, the Company first evaluates whether it intends to sell, or if it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either criterion is met, the security's amortized cost basis is reduced to fair value and recognized as a reduction to Noninterest income in the consolidated statements of income. For debt securities available-for-sale in which the Company does not intend to sell, or it is not likely the security would be required to be sold before recovery, it evaluates whether a decline in fair value has resulted from credit losses or other adverse factors, such as a change in the security's credit rating. In assessing whether a credit loss exists, the Company compares the present value of cash flows expected to be collected from the security with 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, equal to the excess of amortized cost basis over fair value. Any impairment not recorded through an allowance for credit loss is included in other comprehensive income (loss), net of the tax effect.

The allowance for credit losses on available-for-sale debt securities is included within the investment securities available-for-sale in the consolidated balance sheets. Changes in the allowance are recorded in credit loss expense in the consolidated statements of income. Losses are charged against the allowance when the Company believes the collectability of an available-for-sale debt security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities totaled \$2.6 million and \$2.1 million at December 31, 2025 and 2024, respectively, and is excluded from the estimate of credit losses.

The Company recorded no allowance for credit losses on available-for-sale debt securities as of December 31, 2025 or 2024.

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. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans receivable

Loans which management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for credit losses. Interest income is accrued on the unpaid principal balance and is excluded from the estimate for credit losses. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

Loans are placed on non-accrual status at 90 days delinquent or when management believes the borrower's financial condition, after considering economic and business conditions and collection efforts, is such that collection of interest is doubtful. Interest income is not reported when full loan repayment is in doubt, typically when payments are past due over 90 days and evaluated as such by management. Loans are charged against the allowance for credit losses when management believes that the collectability of the principal is unlikely.

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

Allowance for credit losses – Loans receivable

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

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers historical credit loss experience, current conditions and forecasts of future economic conditions. The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans. The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company uses call report classifications to determine its loan segments and measures the ACL using the weighted average remaining maturity (WARM) method for all loan segments.

Historical loss rates are applied to the loan segments with qualitative adjustments for changes in such items as economic conditions, loan composition and volume, experience of lending staff, past due loans, quality of the loan review system, values of collateral for collateral dependent loans, concentrations of credit and other external factors.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and, therefore, should be individually assessed. Specific reserves are established based on the fair value of the collateral when the loan is collateral dependent. The Company utilizes updated independent appraisals to determine fair value for collateral-dependent loans, adjusted for estimated selling costs, in determining the specific reserve.

Accrued interest receivable on loans receivable totaled \$2.5 million and \$2.0 million at December 31, 2025 and 2024, respectively, and is excluded from the estimate of credit losses. When a loan is placed on nonaccrual status, any outstanding accrued interest is reversed against interest income.

Off-balance sheet financial instruments

In the ordinary course of business, the Company has entered into off-balance sheet financial instruments consisting of commitments to extend credit. Such financial instruments are recorded in the consolidated financial statements when they are funded.

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 allowance for credit losses on off-balance sheet credit exposures is adjusted through credit loss expense. This 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 unused commitments totaled approximately \$35,000 and \$30,000 at December 31, 2025 and 2024, respectively.

Derivatives

At the inception of a derivative contract, the Company designates the derivative as one of two types based on the Company's intentions and belief as to likely effectiveness as a hedge. These two types are (1) a hedge of the fair value of a recognized asset ("fair value hedge"), or (2) an instrument with no hedging designation ("stand-alone derivative"). For a fair value hedge, the gain or loss on the derivative, as well as the offsetting loss or gain on the hedged item attributable to the hedged risk, are recognized in current earnings as fair values change. Changes in the fair value of derivatives that do not qualify for hedge accounting are reported currently in earnings, as other non-interest income.

Net cash settlements on derivatives that qualify for hedge accounting are recorded in interest income, based on the item being hedged. Net cash settlements on derivatives that do not qualify for hedge accounting are reported in non-interest income. Cash flows on hedges are classified in the cash flow statement the same as the cash flows of the items being hedged.

The Company formally documents the relationship between derivatives and hedged items, as well as the risk-management objective and the strategy for undertaking hedge transactions at the inception of the hedging relationship. The Company also formally assesses, both at the hedge's inception and on an ongoing basis, whether the derivative instruments that are used are highly effective in offsetting changes in fair values of the hedged items. The Company discontinues hedge accounting when it determines that the derivative is no longer effective in offsetting changes in the fair value of the hedged item, the derivative is settled or terminates, or treatment of the derivative as a hedge is no longer appropriate or intended. When hedge accounting is discontinued, subsequent changes in fair value of the derivative are recorded as noninterest income. When a fair value hedge is discontinued, the hedged asset or liability is no longer adjusted for changes in fair value, and the existing basis adjustment is amortized or accreted over the remaining life of the asset or liability.

The Company is exposed to losses if a counterparty fails to make its payments under a contract in which the Company is in the net receiving position. The Company anticipates that the counterparties will be able to fully satisfy their obligations under the agreements. All of the contracts to which the Company is a party settle monthly or quarterly. In addition, the Company obtains collateral above certain thresholds of the fair value of its derivatives for each dealer counterparty based upon their credit standing and the Company has netting agreements with the dealers with which it does business.

Servicing rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the consolidated income statement effect recorded in gains on sale of loans. Fair value is based on market prices for comparable mortgage servicing contracts when available, or alternatively, 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 non-interest income in proportion 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 their carrying amount. Impairment, if any, is recognized through a valuation allowance to the extent that fair value is less than the carrying amount. If the Bank later determines that all or a portion of the impairment no longer exists, a reduction of the allowance may be recorded as an increase to 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 fee income is recorded in other service charges and fees within the consolidated income statement. 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.

Lender risk account

The Bank provides credit enhancements to the FHLB of Cincinnati by sharing losses with other members of the program in an aggregated pool. A Fixed Lender Risk Account (LRA) has been established and is maintained by the FHLB on behalf of the Bank and other members selling mortgages to the FHLB of Cincinnati. The LRA amount is established as a percentage applied to the sum of the initial unpaid principal balance of each mortgage in the aggregated pool at the time of the purchase of the mortgage as determined by the FHLB and is funded by the deduction from the proceeds of sale of each mortgage in the aggregated pool to the FHLB. These accounts are held by the FHLB, and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. Any portion of the LRA not used to pay losses will be released over a thirty-year period and will not start until the end of five years after the initial fill-up period. The fair value of the LRA is recorded in other assets and increased noninterest income within the consolidated financial statements.

Other real estate owned (OREO)

Other real estate owned is initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of real estate property collateralizing a mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed as incurred.

Premises and equipment

Land is carried at cost. Premises and equipment are stated at cost, less accumulated depreciation computed on straight-line methods over the estimated useful lives of the related assets. Buildings and improvements are depreciated over useful lives ranging from 3 to 39 years. Furniture, fixtures and equipment are depreciated over useful lives ranging from 3 to 20 years. Gains and losses on dispositions are included in current operations. Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized.

Federal Home Loan Bank stock

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

Bank owned life insurance

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

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill consists of bank branches acquired in 2016 and 2021. The Company made the accounting policy election to test goodwill for impairment at the entity level and to amortize the goodwill on straight line basis over ten years upon acquisition.

Goodwill consists of the following:

	<u>2025</u>	<u>2024</u>
Goodwill, net – January 1	\$ 616,974	872,859
Amortization expense	<u>(242,562)</u>	<u>(255,885)</u>
Goodwill, net - December 31	<u>\$ 374,412</u>	<u>616,974</u>

As of December 31, 2025, gross goodwill totaled \$2,425,621 and accumulated amortization was \$2,051,209. As of December 31, 2024, gross goodwill totaled \$2,425,621 and accumulated amortization was \$1,808,647.

Future net amortization expense is as follows:

2026	\$ 162,669
2027	50,818
2028	50,818
2029	50,818
2030	50,818
Thereafter	<u>8,471</u>
	<u>\$ 374,412</u>

Intangible assets

Intangible assets consist of premiums paid for core deposits identified through fair value accounting of bank branches acquired in 2021. Intangible assets are stated at cost, less accumulated amortization computed on straight line and net present value methods over the estimated life of the related premium, and consist of the following:

	<u>2025</u>	<u>2024</u>
Intangible assets, net - January 1	\$ 115,000	212,500
Amortization expense	<u>(63,333)</u>	<u>(97,500)</u>
Intangible assets, net - December 31	<u>\$ 51,667</u>	<u>115,000</u>

As of December 31, 2025, gross intangible assets totaled \$854,000 and accumulated amortization was \$802,333. As of December 31, 2024, gross intangible assets totaled \$854,000 and accumulated amortization was \$739,000.

Future amortization expense is as follows:

2026	\$ 36,200
2027	13,320
2028	<u>2,147</u>
	<u>\$ 51,667</u>

Income taxes

Income tax expense is the total of the current year income tax due, the change in deferred federal income taxes and benefit of available tax credits. Deferred federal income taxes represent the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for federal income tax purposes. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

Net income per share of common stock

Net income per share of common stock is computed by dividing net income by the weighted average number of shares of common stock outstanding during the year. Earnings and dividends per share are restated for all stock splits and stock dividends through the date of issuance of the consolidated financial statements.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale and fair value hedges which are also recognized as separate components of equity.

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2025:

<u>Accumulated Other Comprehensive Loss Components</u>	<u>Reclassification Amount</u>	<u>Affected Line Item in the Consolidated Statements of Income</u>
Unrealized losses on securities available- for-sale	\$ (715,209) <u>150,194</u>	Net realized loss on sale of securities Federal income tax benefit
Total reclassifications for the period	\$ <u>(565,015)</u>	Reclassification adjustment, net of tax

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the consolidated statement of income items affected as of December 31, 2024:

<u>Accumulated Other Comprehensive Loss Components</u>	<u>Reclassification Amount</u>	<u>Affected Line Item in the Consolidated Statements of Income</u>
Unrealized losses on securities available- for-sale	\$ (223,152) <u>46,862</u>	Net realized loss on sale of securities Federal income tax benefit
Total reclassifications for the period	\$ <u>(176,290)</u>	Reclassification adjustment, net of tax

Dividend Restrictions

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to its shareholders.

Advertising

Advertising and marketing costs are expensed as incurred. Advertising and marketing expense was \$907,478 and \$867,053 for the years ended December 31, 2025 and 2024, respectively.

Reclassifications

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

Subsequent events

The Company has evaluated subsequent events for recognition and disclosure through February 13, 2026, which is the date the consolidated financial statements were available to be issued.

2. INVESTMENT SECURITIES:

The following tables provide information related to investment securities by category at December 31 (in thousands):

	2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
US Treasuries	\$ 6,919	14	279	6,654
Mortgage-backed securities	254,026	910	5,419	249,517
Asset-backed securities	16,073	31	47	16,057
State and political subdivisions	211,142	740	23,428	188,454
Corporate bonds	<u>12,250</u>	<u>4</u>	<u>1,022</u>	<u>11,232</u>
Total	<u>\$ 500,410</u>	<u>1,699</u>	<u>30,195</u>	<u>471,914</u>
Held-to-maturity:				
Qualified affordable housing	<u>\$ 3,710</u>	<u>-</u>	<u>-</u>	<u>3,710</u>
Available-for-sale:				
Marketable equity securities	<u>\$ 41</u>	<u>54</u>	<u>-</u>	<u>95</u>
	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale:				
US Treasuries	\$ 19,797	53	944	18,906
Mortgage-backed securities	220,681	278	8,998	211,961
Asset-backed securities	13,659	93	36	13,716
State and political subdivisions	175,342	-	28,487	146,855
Corporate bonds	<u>13,000</u>	<u>3</u>	<u>1,556</u>	<u>11,447</u>
Total	<u>\$ 442,479</u>	<u>427</u>	<u>40,021</u>	<u>402,885</u>
Held-to-maturity:				
Qualified affordable housing	<u>\$ 2,951</u>	<u>-</u>	<u>-</u>	<u>2,951</u>
Available-for-sale:				
Marketable equity securities	<u>\$ 41</u>	<u>63</u>	<u>-</u>	<u>104</u>

The amortized cost and fair value of investment securities, by contractual maturity, are shown below (in thousands). Actual maturities may differ from contractual maturities when a right to call or prepay an obligation exists:

	2025		2024	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Available-for-sale:				
US Treasuries:				
Less than one year	\$ 3,995	4,009	7,942	7,963
One to five years	-	-	8,945	8,468
Five to ten years	2,924	2,645	2,910	2,475
Over ten years	-	-	-	-
Mortgage-backed securities:				
Less than one year	18,747	18,699	15,782	15,708
One to five years	92,551	91,369	98,562	96,880
Five to ten years	120,867	118,526	91,604	86,397
Over ten years	21,861	20,923	14,733	12,976
Asset-backed securities:				
Less than one year	2,649	2,649	1,423	1,420
One to five years	11,594	11,585	7,293	7,295
Five to ten years	1,830	1,823	4,943	5,001
Over ten years	-	-	-	-
State and political subdivisions:				
Less than one year	-	-	-	-
One to five years	13,852	12,891	5,176	4,803
Five to ten years	75,448	68,012	72,719	61,989
Over ten years	121,842	107,551	97,447	80,063
Corporate bonds:				
Less than one year	-	-	-	-
One to five years	1,250	1,253	-	-
Five to ten years	10,000	9,295	12,000	10,789
Over ten years	<u>1,000</u>	<u>684</u>	<u>1,000</u>	<u>658</u>
Total	\$ <u>500,410</u>	<u>471,914</u>	<u>442,479</u>	<u>402,885</u>
Held-to-maturity:				
Qualified affordable housing:	\$ <u>3,710</u>	<u>3,710</u>	<u>2,951</u>	<u>2,951</u>
Total	\$ <u>3,710</u>	<u>3,710</u>	<u>2,951</u>	<u>2,951</u>

At December 31, 2025 and 2024 investment securities with an amortized cost of \$272,366,269 and \$303,345,237 respectively, were pledged to secure public deposits and for other purposes as required or permitted by law. These securities had fair values of \$245,860,919 and \$268,410,394 at December 31, 2025 and 2024, respectively.

The tables below indicate the length of time individual investment securities have been in a continuous loss position at December 31 (in thousands):

	2025					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</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>
Available-for-sale:						
US Treasuries	\$ -	-	2,645	279	2,645	279
Mortgage-backed Securities	61,016	381	102,319	5,038	163,335	5,419
Asset-backed securities	8,669	27	1,554	20	10,223	47
States and political subdivisions	24,518	643	142,322	22,785	166,840	23,428
Corporate bonds	<u>494</u>	<u>6</u>	<u>8,485</u>	<u>1,016</u>	<u>8,979</u>	<u>1,022</u>
Total	\$ <u>94,697</u>	<u>1,057</u>	<u>257,325</u>	<u>29,138</u>	<u>352,022</u>	<u>30,195</u>
Number of investments		56		241		297
	2024					
	<u>Less than 12 Months</u>		<u>12 Months or Longer</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>
Available-for-sale:						
US Treasuries	\$ -	-	6,933	944	6,933	944
Mortgage-backed securities	79,657	2,021	89,298	6,977	168,955	8,998
Asset-backed securities	3,180	2	2,503	34	5,683	36
States and political subdivisions	-	-	146,855	28,487	146,855	28,487
Corporate bonds	<u>-</u>	<u>-</u>	<u>9,694</u>	<u>1,556</u>	<u>9,694</u>	<u>1,556</u>
Total	\$ <u>82,837</u>	<u>2,023</u>	<u>255,283</u>	<u>37,998</u>	<u>338,120</u>	<u>40,021</u>
Number of investments		48		250		298

Management does not intend to sell these securities, and it is more likely than not the Bank will retain, and not be required to sell, the securities in an unrealized loss position prior to the recovery of value. The decline in market value is due to fluctuations in market interest rates and not credit quality. The fair values are expected to recover as securities approach their maturity dates.

Qualified Affordable Housing Project Investment

The Bank holds investments in qualified affordable housing projects totaling \$3,710,494 and \$2,950,501 at December 31, 2025 and 2024, respectively. The unfunded commitments at December 31, 2025 related to investments in qualified affordable housing projects are \$1,957,082. The Bank's anticipates fulfilling these commitments as follows:

2026	\$	857,523
2027		331,510
2028		459,359
2029		53,056
2030		50,338
Thereafter		<u>205,296</u>
	\$	<u>1,957,082</u>

During 2025 and 2024, the Bank recognized tax credits in connection with its investment in qualified affordable housing projects of \$266,000 and \$224,000, respectively.

3. LOANS RECEIVABLE:

Loans receivable consists of the following, net of deferred loan fees (in thousands):

	<u>2025</u>	<u>2024</u>
Residential real estate:		
Construction	\$ 3,256	2,600
Owner occupied	166,428	165,646
Non-owner occupied	77,298	76,607
Commercial real estate:		
Construction	13,946	13,962
Farmland	36,748	34,163
Nonfarm	214,637	173,020
Commercial and industrial	22,481	23,818
Consumer	27,082	30,169
Other	<u>435</u>	<u>507</u>
	562,311	520,492
Less allowance for credit losses	<u>(7,837)</u>	<u>(6,429)</u>
	<u>\$ 554,474</u>	<u>514,063</u>

The amounts above include net deferred loan costs of \$166,699 and \$242,446 as of December 31, 2025 and 2024, respectively.

The risk characteristics applicable to each segment of the loan portfolio are described as follows:

Residential real estate loans are secured by 1 - 4 family residences and are generally owner-occupied. The Bank generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels. Repayment can also be impacted by changes in property values of residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Commercial real estate loans, including farmland and nonfarm loans, are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves larger loan principal amounts, and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Bank's commercial real estate portfolio are diverse, but by geographic location are almost entirely in the Bank's market area. Management monitors and evaluates commercial real estate loans based on cash flow, collateral, geography and risk grade criteria.

Construction loans related to both residential and commercial loans are underwritten utilizing feasibility studies, independent reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of financing.

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrowers to collect amounts due from its customers.

Consumer loans consist substantially of automobile loans. Automobile loans are generally secured by the automobile being financed or other personal assets. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels, and secondarily on the collateral securing the loan. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the activity in the ACL by portfolio segment for the years ended December 31, 2025 and 2024 (in thousands):

	<u>Residential Real Estate</u>				<u>Commercial Real Estate</u>				<u>Commercial and Industrial</u>	<u>Consumer</u>	<u>Other</u>	<u>Total</u>
	<u>Construction</u>	<u>Owner Occupied</u>	<u>Non-owner Occupied</u>	<u>Construction</u>	<u>Farmland</u>	<u>Nonfarm</u>	<u>Consumer</u>	<u>Other</u>				
Year ended December 31, 2025:												
Beginning balance	\$ 21	2,483	576	114	279	1,726	399	822	9	6,429		
Credit loss expense	13	310	124	35	63	654	53	341	86	1,679		
Charge-offs	-	(52)	-	-	-	-	(3)	(259)	(189)	(443)		
Recoveries	-	76	12	-	-	-	6	39	99	172		
Ending balance	\$ 34	2,817	712	149	342	2,380	455	943	5	7,837		
Year ended December 31, 2024:												
Beginning balance	\$ 22	2,531	385	107	254	1,211	256	725	7	5,498		
Credit loss expense	(1)	(17)	191	7	25	515	245	315	22	1,302		
Charge-offs	-	(31)	-	-	-	-	(103)	(241)	(24)	(399)		
Recoveries	-	-	-	-	-	-	1	23	4	28		
Ending balance	\$ 21	2,483	576	114	279	1,726	399	822	9	6,429		

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due 90 days and greater and still accruing interest at December 31, 2025 and 2024 (in thousands):

	Nonaccrual with no <u>ACL</u>	Nonaccrual with <u>ACL</u>	Total <u>Nonaccrual</u>	Loans past due > 90 days <u>still accruing</u>	Total non- <u>performing</u>
<u>December 31, 2025</u>					
Residential real estate:					
Construction	\$ -	-	-	-	-
Owner occupied	1,455	-	1,455	-	1,455
Non-owner occupied	135	-	135	-	135
Commercial real estate:					
Construction	19	-	19	-	19
Farmland	-	-	-	-	-
Nonfarm	497	-	497	-	497
Commercial and industrial	142	-	142	-	142
Consumer	205	-	205	-	205
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,453</u>	<u>-</u>	<u>2,453</u>	<u>-</u>	<u>2,453</u>

	Nonaccrual with no <u>ACL</u>	Nonaccrual with <u>ACL</u>	Total <u>Nonaccrual</u>	Loans past due > 90 days <u>still accruing</u>	Total non- <u>performing</u>
<u>December 31, 2024</u>					
Residential real estate:					
Construction	\$ -	-	-	-	-
Owner occupied	1,085	-	1,085	-	1,085
Non-owner occupied	1	-	1	-	1
Commercial real estate:					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Nonfarm	388	-	388	-	388
Commercial and industrial	-	-	-	-	-
Consumer	166	-	166	-	166
Other	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 1,640</u>	<u>-</u>	<u>1,640</u>	<u>-</u>	<u>1,640</u>

Interest income recognized for loans on nonaccrual is immaterial to the consolidated financial statements for the years ended, December 31, 2025 and 2024.

The following table presents the amortized cost basis of collateral-dependent loans by class of loans at December 31 (in thousands):

	<u>Real Estate</u>	<u>Vehicles and Other</u>	<u>Total</u>	<u>ACL on collateral- dependent loans</u>
<u>December 31, 2025</u>				
Residential real estate:				
Construction	\$ -	-	-	-
Owner occupied	-	-	-	-
Non-owner occupied	-	-	-	-
Commercial real estate:				
Construction	-	-	-	-
Farmland	3,158	-	3,158	-
Nonfarm	4,768	-	4,768	-
Commercial and industrial	-	-	-	-
Consumer	-	70	70	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 7,926</u>	<u>70</u>	<u>7,996</u>	<u>-</u>

	<u>Real Estate</u>	<u>Vehicles and Other</u>	<u>Total</u>	<u>ACL on collateral- dependent loans</u>
<u>December 31, 2024</u>				
Residential real estate:				
Construction	\$ -	-	-	-
Owner occupied	217	-	217	-
Non-owner occupied	-	-	-	-
Commercial real estate:				
Construction	-	-	-	-
Farmland	-	-	-	-
Nonfarm	152	-	152	-
Commercial and industrial	-	-	-	-
Consumer	-	104	104	-
Other	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 369</u>	<u>104</u>	<u>473</u>	<u>-</u>

The following tables present the aging of the amortized cost basis on past due loans by class of loan as of December 31, 2025 and 2024 (in thousands):

	December 31, 2025				
	30-59 days past due	60-89 days past due	90 days and greater past due	Total past due	Total
Residential real estate:					
Construction	\$ 203	-	-	203	3,256
Owner occupied	2,014	736	285	3,035	166,428
Non-owner occupied	135	-	-	135	77,298
Commercial real estate:					
Construction	106	-	-	106	13,946
Farmland	41	-	-	41	36,748
Nonfarm	192	23	285	500	214,637
Commercial and industrial	118	-	-	118	22,481
Consumer	231	58	41	330	27,082
Other	-	-	-	-	435
Total	\$ 3,040	817	611	4,468	562,311

	<u>30-59 days past due</u>	<u>60-89 days past due</u>	<u>90 days and greater past due</u>	<u>Total past due</u>	<u>Current</u>	<u>Total</u>
<u>December 31, 2024</u>						
Residential real estate:						
Construction	\$ 52	-	-	52	2,548	2,600
Owner occupied	1,344	158	255	1,757	163,889	165,646
Non-owner occupied	68	-	-	68	76,539	76,607
Commercial real estate:						
Construction	-	-	-	-	13,962	13,962
Farmland	29	-	-	29	34,134	34,163
Nonfarm	-	307	183	490	172,530	173,020
Commercial and industrial	16	3	-	19	23,799	23,818
Consumer	212	162	33	407	29,762	30,169
Other	-	-	-	-	507	507
Total	<u>\$ 1,721</u>	<u>630</u>	<u>471</u>	<u>2,822</u>	<u>517,670</u>	<u>520,492</u>

Credit risk profile categories

The Bank assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. The following are the bank's internally assigned grades:

Pass – loans in this category are considered satisfactory or fair. Satisfactory loans represent the Bank's standard or average loans that require a normal amount of supervision. These credits should have orderly updated credit files with borrowers/guarantors that have an acceptable net worth and sufficient income to retire debt.

Special Mention – special mention loans that do not currently expose the Bank to a sufficient degree of risk to warrant a substandard classification. However, it does possess credit deficiencies or potential weaknesses deserving management's close attention. If not corrected, such weaknesses or deficiencies may expose the Bank to an increased risk of loss in the future.

Substandard – an asset classified as substandard is inadequately protected by the current net worth and paying capacity of the borrower or the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful – an asset classified as doubtful has all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, based on currently existing facts, conditions, and values, highly questionable and improbable.

Loss – the portion of a loan classified as loss is considered uncollectible and of such little value that its continuance as an asset, without establishment of a specific valuation allowance or charge-off, is not warranted. This classification does not necessarily mean that an asset has absolutely no recovery or salvage value; but rather, it is not practical or desirable to defer reserving for a basically worthless asset even though a partial recovery may occur in the future.

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2025

	<u>Residential Real Estate</u>			<u>Commercial Real Estate</u>			Total
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	
Grade:							
Pass	\$ 3,256	163,377	76,374	13,928	32,557	205,886	21,768
Special mention	-	1,223	789	-	1,006	3,776	452
Substandard	-	1,828	135	18	3,185	4,975	261
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	<u>\$ 3,256</u>	<u>166,428</u>	<u>77,298</u>	<u>13,946</u>	<u>36,748</u>	<u>214,637</u>	<u>22,481</u>
							<u>27,082</u>
							<u>435</u>
							<u>543,995</u>
							<u>7,312</u>
							<u>11,004</u>
							<u>-</u>
							<u>-</u>
							<u>562,311</u>

Credit Risk Profile by Internally Assigned Grade (in thousands)
December 31, 2024

	<u>Residential Real Estate</u>			<u>Commercial Real Estate</u>			Total
	Construction	Owner Occupied	Non-owner Occupied	Construction	Farmland	Nonfarm	
Grade:							
Pass	\$ 2,596	162,614	76,361	13,635	30,969	163,244	23,794
Special mention	4	1,119	246	327	3,165	6,413	24
Substandard	-	1,913	-	-	29	3,363	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	<u>\$ 2,600</u>	<u>165,646</u>	<u>76,607</u>	<u>13,962</u>	<u>34,163</u>	<u>173,020</u>	<u>23,818</u>
							<u>30,169</u>
							<u>507</u>
							<u>503,283</u>
							<u>11,428</u>
							<u>5,781</u>
							<u>-</u>
							<u>-</u>
							<u>520,492</u>

Loan Modifications

Occasionally, the Bank modifies loans to borrowers in financial distress by providing concessions such as a reduction in the interest rate on the loan, payment extensions, forgiveness of principal, forbearance or other actions intended to maximize collection. When principal forgiveness is provided, the amount of forgiveness is charged off against the ACL. In some cases, the Bank may provide multiple types of concessions on one loan.

The Bank had no modifications during the year ended December 31, 2025 in response to financial difficulty of any borrowers. The Bank had one modification during the year ended December 31, 2024 in response to financial difficulty of a borrower. This modification extended the term of a commercial loan that had an amortized cost of \$130,482 at December 31, 2024. There were no modified loans that experienced a payment default within twelve months of the restructuring date during the years ended December 31, 2025 and 2024.

At December 31, 2025 and 2024, overdrafts on deposit accounts of \$319,301 and \$278,776, respectively, have been reclassified and included in the loan receivable balance, other.

Loan Servicing

Mortgage loans the Bank services for others are not included in the accompanying consolidated financial statements. The Bank sells loans in the secondary market under terms of a Mortgage Purchase Program (“MPP”) with the Federal Home Loan Bank (“FHLB”) – Cincinnati and the Federal Home Loan Mortgage Corporation and Freddie Home Loan Mortgage Corporation (“Freddie Mac”). The unpaid principal balance of loans serviced for others, including loan participations, as of December 31, 2025 and 2024 was \$124,706,459 and \$120,106,499, respectively. Custodial escrow balances maintained in connection with serviced loans (both sold and retained) were \$1,362,223 and \$1,215,798, respectively, and recorded in accrued expenses and other liabilities on the balance sheet.

Mortgage servicing rights

The following is an analysis of the activity of mortgage servicing rights, which are included in other assets on the consolidated balance sheets, for the years ended, December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Balance, beginning of the year	\$ 797,128	779,945
Additions, net	80,126	94,713
Amortization	<u>(8,412)</u>	<u>(77,530)</u>
Balance, end of the year	\$ <u>868,842</u>	<u>797,128</u>

No impairment has been identified on the mortgage servicing assets and correspondingly, no valuation allowance has been recognized as of December 31, 2025 and 2024. The Bank recorded gains from sales of mortgage loans including associated servicing rights of \$340,493 and \$274,203 during 2025 and 2024, respectively. These gains are recorded in gain on sale of loans on the consolidated financial statements.

Under terms of the Mortgage Purchase Program, a fixed Lender Risk Account (LRA) is established and is maintained by FHLB on behalf of the Bank and other members selling mortgages in an aggregated pool to the FHLB - Cincinnati. The Bank had on deposit in LRA with the FHLB - Cincinnati \$571,744 and \$465,258 at December 31, 2025 and 2024, respectively. These accounts are held by the FHLB, and the Bank bears the risk of receiving less than 100% of its LRA contribution in the event of losses, either by the Bank or other members selling mortgages in the aggregated pool. If losses incurred in the pool are greater than the Bank's LRA contribution, such losses will be deducted from the LRA contribution of other members. Any portion of the LRA not used to pay losses will be released over a thirty-year period starting five years after the initial pool period. The Bank included income of \$27,844 and \$24,975 in other income on the statements of operations during the years ended December 31, 2025 and 2024, respectively. The estimated LRA balance included in other assets on the consolidated balance sheets is immaterial to the consolidated financial statements at both December 31, 2025 and 2024. These amounts represent present values of the estimated future cash flows to be received. Unless the Bank is required to repurchase a loan because it did not meet the criteria under the representations and warranties to be covered as part of the aggregated pool, the credit risk on these loans is limited to the amount provided in the LRA.

4. PREMISES AND EQUIPMENT:

Premises and equipment at December 31 consist of the following (in thousands):

	<u>2025</u>	<u>2024</u>
Land	\$ 4,054	4,054
Buildings	12,903	12,810
Equipment	<u>7,200</u>	<u>6,586</u>
Total	24,157	23,450
Accumulated depreciation	<u>(10,114)</u>	<u>(9,178)</u>
	14,043	14,272
Right-of-use assets	<u>1,040</u>	<u>1,025</u>
	\$ <u>15,083</u>	<u>15,297</u>

Leases

Leases are classified as operating or finance leases at the lease commencement date. The Bank enters into leases in the normal course of business primarily for bank branch locations and office space with maturity dates ranging from 2027 through 2043. The Bank is reasonably certain to exercise renewal options on one of its three operating leases. Right-of-use (ROU) assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term. The Bank has elected to use a risk-free rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known.

	<u>2025</u>	<u>2024</u>
Lease Expense:		
Operating lease expense	\$ 142,669	135,283
Other Information:		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	127,817	121,992
ROU assets obtained in exchange for new operating lease liabilities	110,736	88,848
Weighted-average remaining lease term for operating leases (in years)	15.83	17.51
Weighted-average discount rate for operating leases	4.37%	4.56%

At December 31, 2025, the scheduled maturity of lease liabilities is as follows:

2026	\$ 139,078
2027	122,728
2028	79,209
2029	66,000
2030	66,000
Thereafter	<u>1,069,100</u>
	1,542,115
Less imputed interest	<u>(474,968)</u>
Total lease liabilities	<u>\$ 1,067,147</u>

The Bank's ROU asset is recorded in premises and equipment, and lease liabilities are recorded in accrued expenses and other liabilities on the balance sheet.

5. DEPOSITS:

At December 31, 2025, the scheduled maturity of time deposits is as follows (in thousands):

Under one year	\$ 192,584
One to three years	88,003
Three to five years	38,426
More than five years	<u>6</u>
	 \$ <u>319,019</u>

Total non-interest bearing deposits were \$143,926,241 and \$140,258,522 at December 31, 2025 and 2024, respectively.

Time deposits of \$250,000 or more were \$36,730,000 and \$29,977,000 at December 31, 2025 and 2024, respectively.

6. BROKERED DEPOSITS:

The Bank is a network participant in the Certificate of Deposit Account Registry Service (CDARS) network. As part of this network and participation in the CDARS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers up to \$500 million. This program allows the Bank to accept deposits on the customers' behalf, place them in the CDARS program, and receive matching reciprocal funds from the CDARS network. At December 31, 2025 and 2024, the Bank had approximately \$29,164,000 and \$26,293,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the CDARS program.

The Bank is a network participant in the Insured Cash Sweep (ICS) network. As part of this network and participation in the ICS reciprocal program, the Bank can accept FDIC insured deposits as a broker for customers with multi-million-dollar savings accounts. This program allows the Bank to accept deposits on the customers' behalf, place them in the ICS program, and receive matching reciprocal funds from the ICS network. At December 31, 2025 and 2024, the Bank had approximately \$118,249,000 and \$111,801,000, respectively, in deposits on behalf of customers and received matching reciprocal funds in the same amount under the ICS program.

7. FEDERAL HOME LOAN BANK ADVANCES AND OTHER SHORT TERM BORROWINGS:

The Bank has short-term advances with the Federal Home Loan Bank (“FHLB”) of \$950,000 at December 31, 2025 with no such advances outstanding as of December 31, 2024. The short-term advances mature in April 2026 and bear interest at 3.81%. The Bank has fixed-rate advances with the FHLB of \$119,658 and \$128,444 at December 31, 2025 and 2024, respectively. The FHLB fixed-rate advances mature at various dates through 2038 and bear interest at 1.60%.

The Bank has a “Cash Management Advance” (CMA) credit line with the FHLB to a maximum of \$15,000,000. Interest due on advances from the FHLB will be at either a variable rate set daily for 90 days, or a fixed rate for up to 30 days at the Bank’s option. There were no amounts outstanding under this agreement at December 31, 2025 and 2024, respectively.

As collateral for the FHLB advances and potential advances from the FHLB above, the Bank has pledged residential one-to-four family mortgages equal to 100% of the outstanding balance and its investment in FHLB stock.

The contractual maturities of the FHLB advances by year are as follows (in thousands):

2026	\$ 961
2027	11
2028	11
2029	11
2030	11
Thereafter	<u>65</u>
	<u>\$1,070</u>

The Company and Bank also have lines of credit with a correspondent bank for aggregate availability of \$15,000,000. There were no borrowings under these lines at December 31, 2025 and 2024.

8. SUBORDINATED DEBT:

During 2025, the Company entered into unsecured subordinated debt agreements. The notes are for a combined \$25,000,000 principal balance, with an initial fixed interest rate of 6.375% through November 2030 at which time the interest rate becomes variable at the 3-month Term SOFR, plus 3.0%. Interest paid in arrears through quarterly interest-only payments with all principal and any outstanding interest due upon maturity on November 30, 2035. These notes and related interest are subordinate in right of payment to all senior indebtedness including obligations to general and secured creditors, and unsecured creditors. Balances are presented net of debt issuance costs.

During 2020, the Company entered into unsecured subordinated debt agreements. The notes were for a combined \$15,000,000 principal balance, with a fixed interest rate of 5.25% paid in arrears through semiannual interest-only payments, all interest and principal were originally due upon maturity on April 24, 2030. These notes were redeemed by the Company during 2025.

9. DERIVATIVES AND HEDGING ACTIVITIES:

As part of its asset liability management strategy, the Company entered into interest rate swap arrangements as fair value hedges to mitigate the effect of changing interest rates on the fair values of certain designated available-for-sale investment securities. This involves the receipt of variable amounts from a counterparty in exchange for fixed payments over the life of the arrangements without the exchange of the underlying notional amount.

The following table presents the amounts recorded on the balance sheet related to cumulative basis adjustments for fair value hedges as of December 31 (in thousands):

Line item in the balance sheet in which the hedged item is included	Carrying Amount of the hedged asset		Cumulative amount of fair value hedging adjustment included in the carrying amount of the hedged asset	
	2025	2024	2025	2024
Investment securities, available-for-sale	\$ 233,035	\$ 175,706	\$ 1,677	\$ (784)

The Company presents derivative position gross on the balance sheet. The following table reflects the derivatives recorded on the balance sheet as of December 31 (in thousands):

	2025		2024	
	Notional amount	Fair value	Notional amount	Fair value
Included in other assets (other liabilities):	\$ 165,057	\$ (1,507)	\$ 120,000	\$ 847

A collateral deposit of \$1.0 million was included in other liabilities at December 31, 2024 to secure the accrued interest and gain position with no such collateral deposit at December 31, 2025.

10. FEDERAL AND STATE INCOME TAXES:

Federal and state income tax expense (benefit) consists of the following (in thousands):

	<u>2025</u>	<u>2024</u>
Current – federal	\$ 2,477	1,949
Current – state	<u>52</u>	<u>41</u>
	2,529	1,990
Deferred – federal	<u>(329)</u>	<u>(246)</u>
Total	\$ <u>2,200</u>	<u>1,744</u>

The effective tax rate varies from the federal statutory tax rate primarily due to the following (in thousands):

	<u>2025</u>	<u>2024</u>
Federal income taxes computed at statutory rates	\$ 2,800	2,372
Increase (decrease) in taxes resulting from:		
Tax exempt interest	(515)	(461)
Bank owned life insurance earnings	(92)	(200)
Nondeductible merger expenses	11	11
State income taxes, net of federal benefit	11	9
Other	<u>(15)</u>	<u>13</u>
Total	\$ <u>2,200</u>	<u>1,744</u>

During 2025, the Bank paid federal income taxes of \$2,320,000 and Kentucky state income taxes of \$53,000.

The net deferred tax asset is recorded on the consolidated balance sheet at December 31, 2025 and 2024 and consists of the following (in thousands):

	<u>2025</u>	<u>2024</u>
Deferred tax assets:		
Net unrealized holding losses on securities	\$ 5,984	8,315
Net unrealized loss on derivatives	353	-
Allowance for credit losses	1,646	1,350
Nonaccrual interest	12	10
Intangibles	310	323
Accrued retirement and director fees	<u>357</u>	<u>300</u>
Deferred tax assets	<u>8,662</u>	<u>10,298</u>
Deferred tax liabilities:		
Property and equipment	(541)	(509)
Net unrealized gain on derivatives	-	(165)
FHLB stock dividends	(8)	(8)
Mortgage servicing rights	(182)	(167)
Deferred loan fees	(5)	(22)
Other	<u>(63)</u>	<u>(80)</u>
Deferred tax liabilities	<u>(799)</u>	<u>(951)</u>
Net deferred tax asset	\$ <u>7,863</u>	<u>9,347</u>

11. RETIREMENT PLAN:

The Bank sponsors a 401(k) plan that covers all employees who have completed one year of service and reached a minimum age of 21 years old. The Bank may make discretionary contributions and contributed \$400,884 and \$371,924 to the plan during each of the years ended December 31, 2025 and 2024, respectively.

12. COMMITMENTS AND CONTINGENT LIABILITIES:

In the normal course of business, the Bank has outstanding various commitments to extend credit. At December 31, 2025 and 2024, the Bank had approximately \$61,022,000 and \$70,224,000, respectively, of such commitments, all of which were at fixed or variable rates of interest. Commitments to extend credit are agreements to lend. No material losses or liquidity demands are anticipated as a result of these commitments. The Bank had standby letters of credit outstanding of \$22,200,000 and \$21,450,000 at December 31, 2025 and 2024, respectively.

The Bank evaluates each customer's creditworthiness on a case-by-case basis in accordance with the Bank's credit policies. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based upon management's credit evaluation of the customer. Collateral held varies but may include business assets of commercial borrowers as well as personal property and real estate of individual borrowers or guarantors.

The Bank grants agri-business, commercial, residential and installment loans to customers in the surrounding areas of its offices. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their commitments is dependent upon the local economic sector. As of December 31, 2025 and 2024, the Bank had \$38,545,165 and \$36,524,023, respectively, of loans outstanding for agricultural purposes or secured by agricultural property. The Bank recorded an allowance for credit loss of approximately \$35,000 and \$30,000 for unfunded commitments at December 31, 2025 and 2024, respectively. This amount is recorded within accrued expenses and other liabilities on the balance sheet.

13. RELATED PARTY TRANSACTIONS:

Directors, officers and certain related parties had loans outstanding during the years ended December 31, 2025 and 2024. This amount includes unused lines of credit. The directors and officers mentioned above were customers in the ordinary course of business. Additional transactions may be expected in the ordinary course of business in the future. All outstanding loans were made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with others and did not involve more than a normal risk of collectability or present other unfavorable features.

The following is an analysis of the activity of such loans for the years indicated (in thousands):

	<u>2025</u>	<u>2024</u>
Balance, beginning of year	\$ 1,205	2,250
Loans originated	30	166
Repayments	<u>(31)</u>	<u>(1,211)</u>
Balance, end of year	\$ <u>1,204</u>	<u>1,205</u>

The Bank held deposits for directors, officers and certain related parties of \$2,599,177 and \$1,829,232 at December 31, 2025 and 2024, respectively.

14. FAIR VALUE:

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities the Bank has the ability to access.
- Level 2 inputs are significant other observable inputs other than Level 1 prices such as quote 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.
- Level 3 are unobservable inputs for the asset or liability and rely on management's own assumptions about the assumptions that market participants would use in pricing the asset or liability.

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

Investment securities

The fair values of available-for-sale securities are determined by various valuation methodologies. Where quoted market prices are available in an active market, securities are classified within Level 1. Level 1 securities include U.S. Treasuries and exchange-traded equity securities. For securities traded in secondary markets for which quoted market prices are not available, the fair values are estimated by using pricing models or quoted prices of securities with similar characteristics. Level 2 securities include obligations of U.S. government corporations and agencies, mortgage-backed securities, certificates of deposit, collateralized mortgage obligations and other securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Collateral-dependent loans

Impairment of collateral-dependent individually analyzed loans is generally based on the fair value of the loan's collateral. Fair value is generally determined based on an independent third-party appraisal of the property net of estimated expected costs to sell. If the fair value of the collateral-dependent loan is less than the carrying amount of the loan, a specific reserve for the loan is made in the allowance for credit losses and the loan is included in the table below as a Level 2 measurement in the period in which the adjustment is recorded. If the fair value of the collateral exceeds the carrying amount of the loan, the loan is not included in the table below as it is not currently being carried at its fair value.

Derivatives

The fair values of derivatives are based on valuation models using observable market data as of the measurement date (Level 2). The derivatives are traded in an over-the-counter market where quoted market prices are not always available. Therefore, the fair values of derivatives are determined using quantitative models that utilize multiple market inputs. The inputs will vary based on the type of derivative, but could include interest rates, prices and indices to generate continuous yield or pricing curves, prepayment rates, and volatility factors to value the position. The majority of market inputs are actively quoted and can be validated through external sources. Including brokers, market transactions and third-party pricing services.

Other real estate owned

Real estate acquired through foreclosure assets are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Bank records the foreclosed asset as nonrecurring Level 2.

Lender risk account

The fair value is determined by discounting the expected cash flows by the 10-year and 30-year treasury rate depending on payment terms from the FHLB. The expected cash flows consider a default rate on loans and an estimated loss on defaulted loans. The default rate is based on delinquency data from the FDIC for all institutions in Ohio. The estimated loss is based on the charge-off percentage for loans for all financial institutions in Ohio.

Fair value measurements for certain assets and liabilities measured at fair value on a recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2025:				
US Treasuries	\$ 6,654	-	6,654	-
Mortgage-backed securities	249,517	-	249,517	-
Asset-backed securities	16,057	-	16,057	-
State and political subdivisions	188,454	-	188,454	-
Corporate bonds	11,232	-	11,232	-
Derivative liability	(1,507)	-	(1,507)	-
December 31, 2024:				
US Treasuries	\$ 18,906	-	18,906	-
Mortgage-backed securities	211,961	-	211,961	-
Asset-backed securities	13,716	-	13,716	-
State and political subdivisions	146,855	-	146,855	-
Corporate bonds	11,447	-	11,447	-
Derivative asset	847	-	847	-

Fair value measurements for certain assets and liabilities measured at fair value on a non-recurring basis (in thousands):

	Total	Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other observable inputs (Level 3)
December 31, 2025:				
Lender risk account	194	-	194	-
December 31, 2024:				
Other real estate owned	13	-	13	-
Lender risk account	194	-	194	-

In accordance with accounting standards for financial instruments where quoted market prices are not available, fair values are estimated using present value or other valuation methods.

15. REGULATORY MATTERS:

Banks and holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2025, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as in asset growth and expansion, and capital restoration plans are required. As of December 31, 2025 and 2024, 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.

The Company's and the Bank's actual capital amounts and ratios as of December 31, 2025 and 2024 are presented in the table below (dollars in thousands):

December 31, 2025:

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum 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>
Total capital to risk-weighted assets:						
Consolidated	\$ 136,915	19.2%	\$ 57,098	8.0%	N/A	
Bank	132,342	18.5%	57,098	8.0%	\$ 71,373	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	129,043	18.1%	42,824	6.0%	N/A	
Bank	124,470	17.4%	42,824	6.0%	57,098	8.0%
Tier I capital (to average assets)						
Consolidated	129,043	11.1%	46,553	4.0%	N/A	
Bank	124,470	10.7%	46,553	4.0%	58,191	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	129,043	18.1%	32,118	4.5%	N/A	
Bank	124,470	17.4%	32,118	4.5%	46,392	6.5%

December 31, 2024:

	<u>Actual</u>		<u>Minimum Capital Requirement</u>		<u>Minimum 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>
Total capital to risk-weighted assets:						
Consolidated	\$ 115,898	18.2%	\$ 51,056	8.0%	N/A	
Bank	112,118	17.6%	51,056	8.0%	\$ 63,820	10.0%
Tier I (Core) capital to risk-weighted assets:						
Consolidated	109,440	17.1%	38,292	6.0%	N/A	
Bank	105,660	16.6%	38,292	6.0%	51,056	8.0%
Tier I capital (to average assets)						
Consolidated	109,440	10.1%	43,511	4.0%	N/A	
Bank	105,660	9.7%	43,511	4.0%	54,388	5.0%
Tangible capital (to risk-weighted assets)						
Consolidated	109,440	17.1%	28,719	4.5%	N/A	
Bank	105,660	16.6%	28,719	4.5%	41,483	6.5%

Dividend restrictions

All State of Ohio Chartered Banks are subject to the dividend restrictions set forth by the State of Ohio. Under such restrictions, the Bank may not, without the prior approval of the Superintendent of Banks of the State of Ohio, declare dividends in excess of the sum of the current year's earnings (as defined) plus the retained earnings (as defined) from the prior two years. The dividends, as of December 31, 2025, that the Bank could declare, without the approval of the Superintendent of Banks of the State of Ohio, amounted to \$11,798,000.

16. REVENUE FROM CONTRACTS WITH CUSTOMERS:

The Bank's revenue from contracts with customers in the scope of ASC 606 is recognized within Other income (loss). The following table presents the Bank's sources of non-interest income for the years ended December 31, 2025 and 2024. Items outside the scope of ASC 606 are noted as such.

	<u>2025</u>	<u>2024</u>
Other income (loss):		
Gain on sale of other real estate owned	\$ 17,440	10,404
Service charges on deposit accounts	1,889,812	1,927,129
Debit card interchange and other fees	<u>2,355,284</u>	<u>1,964,968</u>
	<u>\$ 4,262,536</u>	<u>3,902,501</u>

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

Gain or loss on sale of other real estate owned - the Bank records a gain or loss from the sale of other real estate owned when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Bank finances the sale of other real estate owned to the buyer, the Bank assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the other real estate owned asset is derecognized and the gain or loss on the sale is recorded upon transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Bank adjusts the transaction price and related gain or loss on sale if a significant financing component is present.

Service charges on deposit accounts - the Bank earns revenue from its deposit customers for transaction-based activities, account maintenance, and overdraft fees. Transaction-based fees, which include services such as stop payment charges, statement rendering, and ACH fees are recognized at the time the transaction is executed as that is the point in time the Bank 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 Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Debit card interchange and other fees - The Bank earns fees from cardholder transactions conducted through debit cards and the ATM network. Fees from cardholder transactions are recognized concurrent with the transaction processing services provided to the cardholder. Income is presented on the Consolidated Statements of Income net of expenses. Other income (loss) includes other recurring revenue streams such as wire transaction fees, safe deposit rental income, insurance commissions, and merchant referral income. Transaction fees primarily include check printing sales commissions, collection fees and wire transfer fees which arise from in-branch transactions. Safe deposit rental income arises from fees charged to the customer on an annual basis and recognized upon receipt of payment. Insurance commissions are agent commissions earned by the Bank upon the effective date of the coverage. Revenue is recognized at the point in time when the transaction occurs.

17. CONDENSED FINANCIAL STATEMENTS OF FIRST STATE BANCORP (PARENT COMPANY ONLY):

The following condensed financial information comprises the financial position, results of operations and cash flows of First State Bancorp, Inc. as of and for the years ended, December 31, 2025 and 2024, respectively:

Condensed Balance Sheets

	<u>2025</u>	<u>2024</u>
Assets:		
Cash and cash equivalents	\$ 4,024,556	3,389,530
Investment in First State Bank	101,251,843	75,924,913
Other assets	<u>-</u>	<u>369,392</u>
Total assets	<u>105,276,399</u>	<u>79,683,835</u>
Liabilities:		
Subordinated debt, net of debt issuance costs	24,451,738	14,978,888
Accrued interest payable	159,375	-
Other liabilities	<u>-</u>	<u>125</u>
Total liabilities	<u>24,611,113</u>	<u>14,979,013</u>
Shareholders' Equity:		
Common stock	17,340,829	17,340,829
Additional paid-in capital	1,800,000	1,800,000
Retained earnings	85,362,565	76,224,882
Accumulated other comprehensive loss	<u>(23,838,108)</u>	<u>(30,660,889)</u>
Total shareholders' equity	<u>80,665,286</u>	<u>64,704,822</u>
Total liabilities and shareholders' equity	<u>\$ 105,276,399</u>	<u>79,683,835</u>

Condensed Statements of Income

	<u>2025</u>	<u>2024</u>
Dividend income from subsidiary	\$ 1,994,931	1,799,935
Interest expense	(436,967)	(850,836)
General and administrative expenses	(26,914)	(33,027)
Income tax benefit	<u>97,415</u>	<u>185,611</u>
	1,628,465	1,101,683
Equity in earnings of Bank	<u>9,504,149</u>	<u>8,449,334</u>
Net income	<u>\$ 11,132,614</u>	<u>9,551,017</u>

Condensed Statements of Cash Flows

	<u>2025</u>	<u>2024</u>
Operating activities:		
Net income	\$ 11,132,614	9,551,017
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed earnings of subsidiary	(9,504,149)	(8,449,334)
Change in assets and liabilities:		
Other assets	369,392	(185,609)
Accrued interest payable	159,375	-
Other liabilities	<u>(125)</u>	<u>125</u>
Net cash provided by operating activities	<u>2,157,107</u>	<u>916,199</u>
Investing activities:		
Investment in Bank	<u>(23,000,000)</u>	<u>-</u>
Net cash used in investing activities	<u>(23,000,000)</u>	<u>-</u>
Financing activities:		
Debt issuance costs	(527,150)	63,336
Proceeds from issuance of subordinated debt	25,000,000	-
Repayments of subordinated debt	(15,000,000)	-
Proceeds from issuance of common stock	-	2,467,447
Cash dividend received from Bank	14,000,000	-
Cash dividends paid to shareholders	<u>(1,994,931)</u>	<u>(1,799,935)</u>
Net cash provided by financing activities	<u>21,477,919</u>	<u>730,848</u>
Net change in cash	<u>635,026</u>	<u>1,647,047</u>
Cash – beginning of year	<u>3,389,530</u>	<u>1,742,483</u>
Cash – end of year	\$ <u>4,024,556</u>	<u>3,389,530</u>

Banking Center Locations



Ohio

Winchester (headquarters)

Fayetteville

Mt. Orab

Seaman

Georgetown

Peebles

Washington Court House

Hillsboro

Portsmouth

West Union

Manchester

Ripley

Wilmington



Kentucky

Inez

Louisa

Warfield

Maysville



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