



Financial Corp.

2025
Annual
Report

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“Elevating our communities through exceptional care and service.”

TO OUR SHAREHOLDERS



From the desk of Mark A. Kolanowski

It is my pleasure to present the HCB Financial Corp. 2025 Annual Report. Throughout the year, our organization delivered strong and consistent performance, reflecting disciplined execution across the balance sheet and income statement and continued progress toward our long-term strategic objectives.

For 2025, net income totaled \$6.15 million, or \$6.08 per average outstanding share, representing a 2% increase over 2024 earnings of \$6.01 million, or \$5.85 per share. Total assets at year-end were \$589.7 million, reflecting a planned reduction driven by the runoff of temporary, non-core deposits. Total deposits declined 8% to \$532.1 million, while net loans increased 8% to \$350.1 million, underscoring our focus on quality, relationship-based lending. Shareholders' equity increased 12% to \$47.5 million, resulting in a book value of \$47.51 per common share. As always, our equity position reflects mark-to-market unrealized gains or losses within the available-for-sale securities portfolio.

Importantly, 2025 marked our fourth consecutive year of record earnings, significantly exceeding internal expectations. Two key factors contributed to these results. First, continued high-quality loan growth—particularly driven by our expanded presence in Kent County—added higher-yielding commercial loans to our portfolio. Second, the effective utilization of short-term, temporary deposits created meaningful asset opportunities, even as the Federal Reserve lowered interest rates. Together, these factors drove a 6% increase in net interest income for the year.

While overall deposits declined, the reduction was less than anticipated, as strong growth in core deposits partially offset the expected decrease in temporary balances. Asset quality remains excellent, with delinquency and charge-off levels near historic lows, reflecting our conservative credit culture and disciplined underwriting standards.

Looking ahead to 2026 and beyond, we are well positioned to build on this momentum. We plan to further strengthen our presence in West Michigan with the opening of our Hudsonville branch in the first quarter. This new location will expand our foothold in the Greater Grand Rapids market, support new customer relationships, and advance our strategic priority of sustainable, long-term growth.

The coming year will also be especially meaningful as we celebrate 140 years of community banking. Few institutions can claim such a rich and enduring legacy, and we look forward to commemorating this milestone with our customers, communities, and shareholders. We will share additional details regarding anniversary events as plans develop.

In support of shareholder value, the Board of Directors has authorized the renewal of our Stock Repurchase Program, permitting the repurchase of up to 40,000 shares of HCB stock on the open market during 2026, subject to market conditions.

Our Annual Meeting of Shareholders will be held on Wednesday, April 15, 2026, at 1:00 p.m., at the Main Office of Highpoint Community Bank. Whether or not you are able to attend in person, we encourage you to complete and return the enclosed proxy in advance so that we may efficiently conduct the meeting.

On behalf of the Board of Directors, our officers, and our employees, I thank you for your continued trust and support. We remain committed to delivering long-term value while elevating the communities we serve.

Yours truly,



Mark A. Kolanowski
President and Chief Executive Officer

DIRECTORS



Back row (left to right): Brian N. Calley, Chad R. Paalman, Matthew R. Garber, W. Scott McKeown, Nathaniel E. Tagg.
Front row (left to right): Joan M. Heffelbower, Joseph J. Babiak, Jr., Mark A. Kolanowski, Barbara L. Hunt

Joseph J. Babiak, Jr.
Retired, President and C.E.O.
Hastings Insurance Company

Chad R. Paalman
C.E.O.
NuWave Technology Partners

Brian N. Calley
President and C.E.O.
Small Business Association
of Michigan

W. Scott McKeown
Retired, Partner
McKeown & Kraai, PLC

Matthew R. Garber
Family Physician
Corewell Spectrum Health

Nathaniel E. Tagg
Partner, Attorney at Law
Tripp, Tagg and Storrs

Joan M. Heffelbower
Retired, Chief Financial Officer
Highpoint Community Bank

Barbara L. Hunt
Accounting Manager
Bethany Christian Services

Mark A. Kolanowski
President and C.E.O.
Highpoint Community Bank

FINANCIAL HIGHLIGHTS

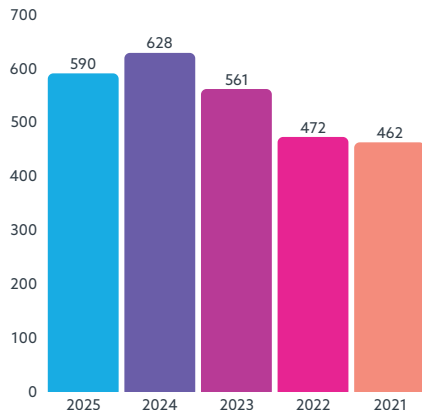
AT YEAR-END	2025	2024	% CHANGE
Assets	\$589,689	\$627,900	-6%
Deposits	\$532,097	\$575,454	-8%
Loans, net	\$350,078	\$324,021	8%
Investments	\$59,014	\$61,932	-5%
Stockholder's Equity	\$47,511	\$42,358	12%

FOR THE YEAR	2025	2024	% CHANGE
Net income	\$6,154	\$6,006	2%
Return on average assets	1.00%	1.02%	-2%
Return on average equity	13.65%	15.03%	-9%
Net charge-offs to average loans	0.00%	0.00%	0%

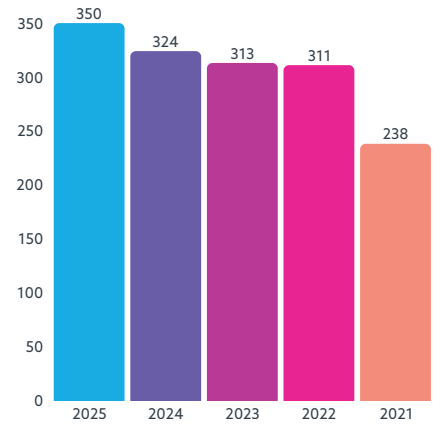
PER SHARE	2025	2024	% CHANGE
Dividends per share	\$1.40	\$1.37	2%
Net income per share	6.08	5.85	4%
Book value at year end	47.51	41.53	14%

Dollar amounts in thousands, except per-share data.

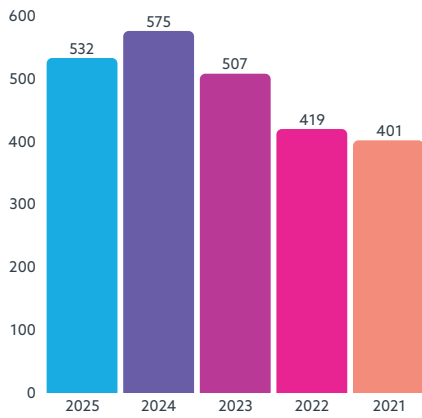
KEY GRAPHS



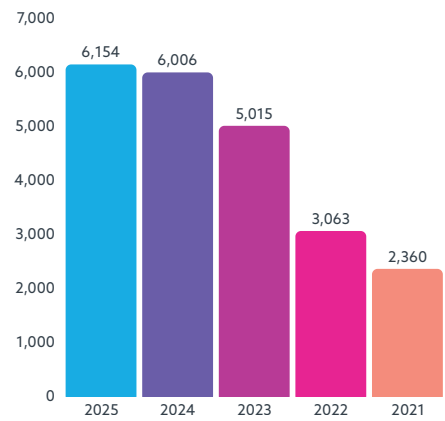
TOTAL ASSETS (MILLIONS)



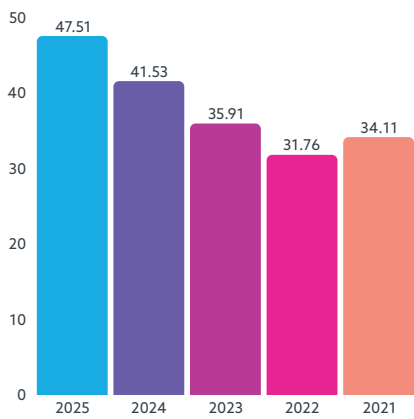
NET LOANS (MILLIONS)



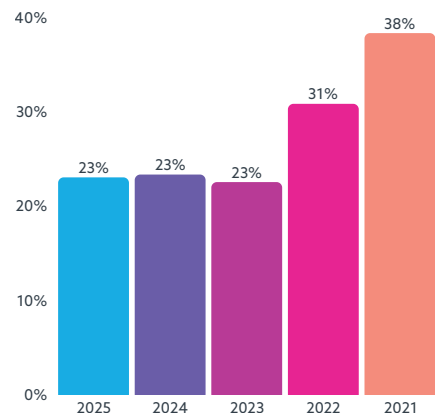
TOTAL DEPOSITS (MILLIONS)



EARNINGS (THOUSANDS)



BOOK VALUE (PER SHARE, IN DOLLARS)



DIVIDEND PAYOUT RATIO

Independent Auditor's Report

To the Board of Directors
HCB Financial Corp.

Opinion

We have audited the consolidated financial statements of HCB Financial Corp. and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2025 and 2024 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2025 and 2024 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

To the Board of Directors
HCB Financial Corp.

In performing audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 audits in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the letter to shareholders, financial highlights, and key graphs but does not include the consolidated financial statements and our auditor's 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 thereon.

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 whether 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.

Plante & Moran, PLLC

February 9, 2026

Consolidated Balance Sheet

	December 31,	
	<u>2025</u>	<u>2024</u>
Assets		
Cash and cash equivalents	\$ 159,246,660	\$ 223,096,246
Interest-bearing time deposits in other financial institutions	744,000	744,000
Securities available for sale	56,758,130	59,675,457
Restricted investment in Federal Home Loan Bank stock	1,512,100	1,512,100
Loans - Net of allowance for credit losses of \$3,941,116 and \$3,156,169 as of December 31, 2025 and 2024, respectively	350,077,864	324,021,054
Premises and equipment - Net	8,716,743	6,211,214
Bank-owned life insurance	9,293,349	9,012,232
Accrued interest receivable and other assets	3,340,322	3,627,919
Total assets	<u><u>\$ 589,689,168</u></u>	<u><u>\$ 627,900,222</u></u>
Liabilities and Stockholders' Equity		
Liabilities		
Deposits:		
Non-interest bearing	\$ 108,498,296	\$ 108,122,227
Interest bearing	<u>423,598,130</u>	<u>467,331,276</u>
Total deposits	532,096,426	575,453,503
Federal Home Loan Bank advances	7,000,000	7,000,000
Accrued interest payable and other liabilities	<u>3,081,453</u>	<u>3,088,803</u>
Total liabilities	542,177,879	585,542,306
Stockholders' Equity		
Common stock, no par value - 1,500,000 shares authorized; Issued and outstanding of 1,000,000 at December 31, 2025 and 1,020,000 at December 31, 2024	1,523,480	1,553,880
Capital surplus	2,440,601	2,489,401
Retained earnings	44,642,987	40,544,221
Accumulated other comprehensive loss	<u>(1,095,779)</u>	<u>(2,229,586)</u>
Total stockholders' equity	<u>47,511,289</u>	<u>42,357,916</u>
Total liabilities and stockholders' equity	<u><u>\$ 589,689,168</u></u>	<u><u>\$ 627,900,222</u></u>

See notes to consolidated financial statements.

Consolidated Statement of Income

	Years Ended December 31,	
	<u>2025</u>	<u>2024</u>
Interest Income		
Loans, including fees	\$ 18,180,834	\$ 15,565,992
Investment securities:		
Taxable	652,221	677,051
Tax exempt	884,288	937,110
Federal funds sold and other	<u>8,341,559</u>	<u>9,256,642</u>
Total interest income	28,058,902	26,436,795
Interest Expense		
Deposits	7,988,363	7,925,913
Federal Home Loan Bank advances	<u>76,756</u>	<u>128,007</u>
Total interest expense	<u>8,065,119</u>	<u>8,053,920</u>
Net Interest Income	19,993,783	18,382,875
Provision for Credit Losses	<u>805,969</u>	<u>264,154</u>
Net Interest Income after Provision for Credit Losses	19,187,814	18,118,721
Other Income		
Service charges and fees	1,865,144	1,820,089
Gain on sale of wealth management practice	474,314	-
Wealth management income	392,936	720,116
Net gain on sale of securities	-	24,285
Net gain on sale of loans	23,118	1,171
Earnings from bank-owned life insurance	281,117	262,989
Other income	<u>253,780</u>	<u>445,991</u>
Total other income	3,290,409	3,274,641
Other Expense		
Salaries and employee benefits	8,563,129	8,298,358
Occupancy and equipment	1,517,830	1,399,706
Data processing	2,669,080	2,537,128
Professional fees	746,033	630,051
FDIC insurance	308,000	300,000
Other operating expenses	<u>1,487,585</u>	<u>1,310,090</u>
Total other expense	<u>15,291,657</u>	<u>14,475,333</u>
Income before Federal Income Taxes	7,186,566	6,918,029
Federal Income Taxes	<u>1,033,000</u>	<u>912,000</u>
Consolidated Net Income	<u><u>\$ 6,153,566</u></u>	<u><u>\$ 6,006,029</u></u>
Earnings per Share - Basic and diluted	\$ 6.08	\$ 5.85

See notes to consolidated financial statements.

Consolidated Statement of Comprehensive Income

	Years Ended December 31,	
	<u>2025</u>	<u>2024</u>
Net Income	\$ 6,153,566	\$ 6,006,029
Other Comprehensive Income - Net of tax		
Unrealized gain (loss) on securities:		
Arising during the year	1,435,199	1,369,414
Reclassification adjustment	-	(24,285)
Tax effect	<u>(301,392)</u>	<u>(282,477)</u>
Total other comprehensive income	<u>1,133,807</u>	<u>1,062,652</u>
Comprehensive Income	<u><u>\$ 7,287,373</u></u>	<u><u>\$ 7,068,681</u></u>

See notes to consolidated financial statements.

Consolidated Statement of Stockholders' Equity

Years Ended December 31, 2025 and 2024

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Loss	Total
Balance - January 1, 2024	\$ 1,579,112	\$ 2,529,905	\$ 36,410,150	\$ (3,292,238)	\$ 37,226,929
Consolidated net income	-	-	6,006,029	-	6,006,029
Stock repurchase	(25,232)	(40,504)	(471,293)	-	(537,029)
Other comprehensive income	-	-	-	1,062,652	1,062,652
Dividends declared - \$1.37 per share	-	-	(1,400,665)	-	(1,400,665)
Balance - December 31, 2024	1,553,880	2,489,401	40,544,221	(2,229,586)	42,357,916
Consolidated net income	-	-	6,153,566	-	6,153,566
Stock repurchase	(30,400)	(48,800)	(640,800)	-	(720,000)
Other comprehensive income	-	-	-	1,133,807	1,133,807
Dividends declared - \$1.40 per share	-	-	(1,414,000)	-	(1,414,000)
Balance - December 31, 2025	\$ 1,523,480	\$ 2,440,601	\$ 44,642,987	\$ (1,095,779)	\$ 47,511,289

Consolidated Statement of Cash Flows

	Years Ended December 31,	
	2025	2024
Cash Flows from Operating Activities		
Net income	\$ 6,153,566	\$ 6,006,029
Adjustments to reconcile net income to net cash and cash equivalents from operating activities:		
Provision for credit losses	796,289	240,094
Provision for unfunded commitments	9,680	24,060
Depreciation	571,664	574,798
Net amortization of securities	148,856	151,683
Earnings on bank-owned life insurance - Net	(281,117)	(471,514)
Loans originated for sale	(1,323,660)	(72,500)
Proceeds from sale of loans	1,341,615	73,671
Net gain on sale of loans	(23,118)	(1,171)
Net gain on sale of securities	-	(24,285)
Loss on disposal of fixed assets	11,147	-
Net change in:		
Accrued interest receivable and other assets	(13,795)	(83,107)
Accrued interest payable and other liabilities	193,970	(57,925)
	7,585,097	6,359,833
Cash Flows (for) from Investing Activities		
Net change in interest-bearing time deposits in other financial institutions	-	3,225,000
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	15,832,223	16,283,143
Purchases	(11,628,553)	(800,000)
Loan originations and payments - Net	(26,847,936)	(11,286,973)
Purchases of premises and equipment - Net	(3,088,340)	(406,980)
Purchase of bank-owned life insurance	-	(2,000,000)
Proceeds from bank-owned life insurance	-	577,736
	(25,732,606)	5,591,926
Cash Flows (for) from Financing Activities		
Net change in deposits	(43,357,077)	68,287,090
Repayments of Federal Home Loan Bank advances	-	(7,000,000)
Common stock repurchased	(720,000)	(537,029)
Cash dividends paid	(1,625,000)	(1,316,500)
	(45,702,077)	59,433,561
Net (Decrease) Increase in Cash and Cash Equivalents	(63,849,586)	71,385,320
Cash and Cash Equivalents - Beginning of year	223,096,246	151,710,926
Cash and Cash Equivalents - End of year	\$ 159,246,660	\$ 223,096,246
Supplemental Disclosures of Cash Flow Information - Cash paid for		
Interest	\$ 7,895,831	\$ 8,422,899
Income taxes	1,280,000	1,040,000
Significant Noncash Disclosures - Dividends declared and not paid	\$ 350,000	\$ 561,000

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies

Nature of Business

HCB Financial Corp. (the "Company") is a bank holding company headquartered in Hastings, Michigan. The Company's wholly owned subsidiary, Highpoint Community Bank (the "Bank"), operates six full-service banking offices and one loan production office in and around Barry County. The Bank offers a variety of deposit and lending services.

Principles of Consolidation

The consolidated financial statements include the accounts and operations of HCB Financial Corp. and its wholly owned subsidiaries, Highpoint Community Bank; Highpoint Insurance Services; HCB Real Estate Holdings, LLC; and Court Street Financial, Inc. All significant intercompany balances and transactions have been eliminated in consolidation.

Subsequent Events

The consolidated financial statements and related disclosures include evaluation of events up through and including February 9, 2026, which is the date the consolidated financial statements were available to be issued.

Use of Estimates

The preparation of 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 financial statements and the reported amounts of revenue and expenses during the reporting period. These estimates and assumptions affect the amounts reported in the financial statements, and the disclosures provided and future results could differ. Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses.

Cash Flows

Cash and cash equivalents include cash, deposits with other financial institutions, and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and for interest-bearing time deposits with other financial institutions.

Cash and Cash Equivalents

The Company maintains deposit accounts with other financial institutions, which generally exceed federally insured limits or are uninsured.

Interest-Bearing Time Deposits in other Financial Institutions

Interest-bearing time deposits in other financial institutions consist of fully insured certificates of deposit, with \$744,000 maturing within one year and \$0 maturing within two to five years.

Restricted Investments

The Bank is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted periodically by the FHLB. The capital stock is carried at cost and evaluated for impairment on an annual basis.

Securities

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

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies (Continued)

Interest income includes amortization of purchase premium or discount. Purchase premiums and discounts on noncallable debt securities are recognized into income over the term of the securities. Premiums on callable debt securities are amortized against income over the period until the earlier of the first call date or maturity. Gains and losses on sales are based on the amortized cost of the security sold. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, or if it is more likely than not it will be required to sell, the security before recovery of its amortized cost basis. If either criteria is met, the security's amortized cost basis is written down to fair value through income.

For debt securities available for sale that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors.

If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security is compared to the amortized cost basis of the security. If the present value of the cash flow expected to be collected is less than the amortized cost basis, an allowance for credit losses is recorded, limited to the amount that the fair value is less than the amortized cost basis. Any impairment not recorded through an allowance for credit losses is recognized in other comprehensive income. Accrued interest receivable on available-for-sale debt securities totaled \$331,000 and \$280,000 at December 31, 2025 and 2024, respectively; was reported in accrued interest receivable and other assets on the consolidated balance sheet; and is excluded from the estimate of credit losses. As of December 31, 2025 and 2024, there was no allowance for credit losses on available-for-sale securities.

Loans

Loans that 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 unearned interest, deferred loan fees, costs, and an allowance for credit losses. The Bank's loans are generally secured by specific items of collateral, including real property, consumer assets, and business assets.

Interest income is reported on the interest method. Interest income on loans is generally discontinued at the time the loan is 90 days delinquent, unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

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

Loans held for sale are reported at the lower of cost or market, on an aggregate basis. 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.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies (Continued)

Allowance for Credit Losses

The allowance for credit losses is established for amounts expected to be uncollectible over the contractual life of the loans. The Company evaluates loans and available-for-sale (AFS) securities to determine the allowance for credit losses. The Company estimates the allowance for loans by utilizing a model that uses collateral and loan characteristics as common risk factors. Accrued interest receivable on loans totaled \$1,463,000 and \$1,396,000 at December 31, 2025 and 2024, respectively; was reported in accrued interest receivable and other assets on the consolidated balance sheet; and is excluded from the estimate of credit losses.

Loans that do not share similar risk characteristics with other loans are evaluated individually. When repayment of collateral is expected to be dependent on the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral as of the reporting date.

The Company calculates the allowance for credit losses using an expected loss model that considers the Company's actual historical loss rates adjusted for current economic conditions and reasonable and supportable forecasts. The Company considered the impact of a variety of qualitative factors when making adjustments for reasonable and supportable forecasts. For example, trends in loan charge-offs and trends in delinquencies are just two of the qualitative factors that the Company utilizes for potential adjustments to its forecasts. The Company also utilizes an internal ratings factor when determining potential adjustments to its forecasts. Uncollectible amounts are written off against the allowance in the period they are determined to be uncollectible. Recoveries of amounts previously written off are recognized when received. Loans are considered delinquent if the repayment terms are not met.

Residential real estate loans are evaluated for credit losses using various economic indicators. Environmental factors that may impact collateral value on residential real estate loans include data on average local home sales, national and local economic conditions, and local employment rates. These factors are used to calculate an adjustment for current economic conditions. Other residential real estate loans with additional risk factors are loans where the payment is more than 30 days past due.

Commercial loans are evaluated for credit losses using the following risk classification codes assigned to commercial credits internally:

- Risk Ratings 1-5 are considered to be within an acceptable risk tolerance to the bank.
- Risk Rating 6 is considered special mention. Loans in this category are included on the watch list and have identifiable weaknesses. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- Risk Rating 7 is considered substandard. Loans in this category are considered very high risk, are included on the watch list, have well-defined weaknesses, normal repayment is in jeopardy, and are reviewed quarterly for impairment.
- Risk Rating 8 is considered impaired nonaccrual. Loans in this category have all substandard characteristics plus the loans are in nonaccrual status. These loans have significant weaknesses making full collection of interest unlikely.
- Risk Rating 9 is considered doubtful. Loans in this category possess all substandard and nonaccrual characteristics and have significant weaknesses making full collection through payment or liquidation questionable and improbable.
- Risk Rating 10 is considered loss. Loans are charged off in a timely manner, as collection is highly unlikely.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies (Continued)

These risk codes are reviewed and adjusted as appropriate in several circumstances. A formal loan review process is conducted on loans above various dollar thresholds based on the type of collateral securing the credit. The loan reviewer will either affirm that the risk rating is appropriate or recommend a change. Risk codes are also adjusted upon loan renewals, additional requests, and upon receipt of knowledge that an event has caused a change in apparent risk of an individual credit.

Bank-owned Life Insurance

The Company 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 contracts at the consolidated balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of the right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Servicing Rights

Mortgage servicing rights are held at amortized cost. Servicing rights represent the fair value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenue. Impairment is evaluated based on the fair value of the assets using groupings of the underlying loans as to interest rates and then, secondarily, as to prepayment characteristics. Fair value is determined by using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance to the extent that fair value is less than the capitalized amount.

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees total \$53,000 and \$47,000 for the years ended December 31, 2025 and 2024, respectively. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment

Land is stated at cost. Premises and equipment are stated at cost less accumulated depreciation. The provision for depreciation is computed principally using the straight-line method over the estimated lives of the related assets. Expenditures for normal repair and maintenance are charged to expenses as incurred.

Other Real Estate Owned

Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs based on the asset's fair value at the date of acquisition are charged to the allowance for credit losses. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Long-term Assets

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies (Continued)

Postretirement Benefit

The Bank sponsors a postretirement benefit plan that provides medical and life insurance benefits for life to eligible retirees who retired prior to 2004. At December 31, 2025, the plan provided benefits to five participants. At December 31, 2025 and 2024, the accrued benefit obligation recognized in the consolidated balance sheet was \$15,000 and \$51,000, respectively. Additional disclosures related to the postretirement health care plan are not material to the financial statements.

Income Taxes

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

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

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

The Company only has domestic operations and is only subject to federal income tax. As such, all income tax disclosures relate to federal income tax.

Earnings per Share

Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period, which were 1,012,000 and 1,026,203 for years ended 2025 and 2024, respectively. There were no potentially dilutive common stock equivalents for 2025 or 2024.

Off-balance sheet Instruments

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

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale, which are also recognized as a separate component of equity.

Loss Contingencies

Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements at December 31, 2025 and 2024.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 1 - Significant Accounting Policies (Continued)

Fair Value of Financial Instruments

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

Dividend Restriction

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

Revenue and Cost Recognition

ASC 606, *Revenue from Contracts with Customers*, provides the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of nonfinancial assets, unless those contracts are within the scope of other guidance. The Company's principal revenue streams that are within the scope of ASC 606 include service charges and fees and trust income. This revenue is generally recognized immediately upon the completion of the service or over time as services are performed. Any services performed over time generally require that the Company renders services each period, for example monthly; therefore, the Company measures progress in completing these services based upon the passage of time.

Litigation

From time to time, the Bank may be involved in various legal proceedings that are incidental to its business. In the opinion of management, the Bank is not a party to any legal proceedings that are material to its financial condition, either individually or in the aggregate.

Sale of Wealth Management Practice

During the year ended December 31, 2025, the Company sold the majority of its wealth management practice. The terms of the transaction included payments received during the year ended December 31, 2025, as well as variable consideration that would be paid in future years if earned. Payments received have been recorded as gain on sale in the accompanying consolidated statement of income. No gain has been recognized related to the variable consideration.

Adoption of New Accounting Pronouncement

During 2025, the Company adopted ASU No. 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures*. This ASU modifies the rules on income tax disclosures to require entities to disclose (1) specific categories in the rate reconciliation, (2) the income or loss from continuing operations before income tax expense or benefit (separated between domestic and foreign) and (3) income tax expense or benefit from continuing operations (separated by federal, state, and foreign). This ASU also requires entities to disclose their income tax payments to international, federal, state, and local jurisdictions, among other changes.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 2 - Securities

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive loss were as follows:

	2025			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency	\$ 8,169,219	\$ 13,094	\$ (101,906)	\$ 8,080,407
State and municipal	34,320,484	259,271	(752,246)	33,827,509
Mortgage backed - Residential	8,362,487	8,352	(256,986)	8,113,853
Corporate	6,050,000	-	(556,252)	5,493,748
Certificates of deposit	1,243,000	8,539	(8,926)	1,242,613
Total	\$ 58,145,190	\$ 289,256	\$ (1,676,316)	\$ 56,758,130

	2024			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. government and federal agency	\$ 11,536,630	\$ -	\$ (437,559)	\$ 11,099,071
State and municipal	35,226,598	244,434	(1,255,473)	34,215,559
Mortgage backed - Residential	7,208,489	1,409	(499,277)	6,710,621
Corporate	6,050,000	-	(838,257)	5,211,743
Certificates of deposit	2,476,000	5,289	(42,826)	2,438,463
Total	\$ 62,497,717	\$ 251,132	\$ (3,073,392)	\$ 59,675,457

The amortized cost and fair value of investment securities by contractual maturity at December 31, 2025 are as follows. Securities not due at a single maturity date, primarily consisting of mortgage-backed securities, are shown separately.

	Available for Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 16,752,120	\$ 16,561,923
Due in one through five years	19,228,469	18,913,140
Due after five years through ten years	11,558,114	10,997,136
Due after ten years	2,244,000	2,172,078
Mortgage backed - Residential	8,362,487	8,113,853
Total	\$ 58,145,190	\$ 56,758,130

Securities pledged at December 31, 2025 and 2024 had a carrying amount of \$12,118,000 and \$16,879,000, respectively, and were pledged to secure public deposits and other purposes as required or permitted by law.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 2 - Securities (Continued)

Securities with unrealized losses at December 31, 2025 and 2024, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	2025					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. government and federal agency	\$ -	\$ -	\$ 101,906	\$ 6,384,480	\$ 101,906	\$ 6,384,480
State and municipal	6,636	2,190,047	745,610	19,966,166	752,246	22,156,213
Mortgage backed - Residential	-	-	256,986	4,937,988	256,986	4,937,988
Corporate	-	-	556,252	5,493,748	556,252	5,493,748
Certificates of deposit	-	-	8,926	487,074	8,926	487,074
Total	\$ 6,636	\$ 2,190,047	\$ 1,669,680	\$ 37,269,456	\$ 1,676,316	\$ 39,459,503

	2024					
	Less Than 12 Months		12 Months or Greater		Total	
	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value
U.S. government and federal agency	\$ -	\$ -	\$ 437,559	\$ 11,099,071	\$ 437,559	\$ 11,099,071
State and municipal	4,197	1,494,103	1,251,276	25,647,029	1,255,473	27,141,132
Mortgage backed - Residential	-	-	499,277	6,387,761	499,277	6,387,761
Corporate	-	-	838,257	5,211,743	838,257	5,211,743
Certificates of deposit	-	-	42,826	1,686,174	42,826	1,686,174
Total	\$ 4,197	\$ 1,494,103	\$ 3,069,195	\$ 50,031,778	\$ 3,073,392	\$ 51,525,881

Unrealized losses have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is not likely that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.

Sales of available-for-sale securities, as well as calls, produced a gain of \$24,285 in 2024 on proceeds of \$1,000,000. There were no sales or calls of available-for-sale securities in 2025.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 3 - Loans

A summary of the balances of loans is as follows:

	2025	2024
Construction real estate	\$ 4,000,216	\$ 2,257,955
Commercial real estate	173,374,836	156,254,126
Residential real estate	108,077,853	98,327,798
Commercial	13,541,692	11,183,276
Consumer	8,559,328	7,450,391
SBA guaranteed	3,119,404	3,335,515
Municipal loans	43,345,651	48,368,162
Total loans	354,018,980	327,177,223
Less allowance for credit losses	3,941,116	3,156,169
Net loans	\$ 350,077,864	\$ 324,021,054

Mortgage loans serviced for others are not reported as assets. Such loans aggregated to \$34,609,000 and \$37,827,000 at December 31, 2025 and 2024, respectively. There were no mortgage loans originated for sale but not yet delivered as of December 31, 2025 and 2024. Capitalized mortgage servicing rights were \$164,000 and \$210,000 at December 31, 2025 and 2024, respectively, and are included in accrued interest receivable and other assets.

Certain directors and executive officers of the Company, including their associates, were loan customers of the Bank during 2025 and 2024. The outstanding loan balances for these persons at December 31, 2025 and 2024 amounted to \$5,769,000 and \$5,214,000, respectively. During 2025, new loans to these persons amounted to \$1,375,000 and payments amounted to \$1,103,000, compared to new loans of \$2,054,000 and payments of \$606,000 during 2024. Existing loans to new directors and executive officers in 2025 amounted to \$287,000.

Activity in the allowance for credit losses for 2025 and 2024, by portfolio segment, was as follows:

	Year Ended December 31, 2025				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for credit losses:					
Construction real estate	\$ 33,441	\$ -	\$ -	\$ 29,556	\$ 62,997
Commercial real estate	1,959,925	-	-	396,475	2,356,400
Residential real estate	806,830	-	-	255,702	1,062,532
Commercial	163,654	-	-	46,682	210,336
Consumer	187,482	(16,970)	5,628	68,695	244,835
Municipal loans	4,837	-	-	(821)	4,016
Total	\$ 3,156,169	\$ (16,970)	\$ 5,628	\$ 796,289	\$ 3,941,116

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 3 - Loans (Continued)

	Year Ended December 31, 2024				
	Beginning Balance	Charge-offs	Recoveries	Provision	Ending Balance
Allowance for credit losses:					
Construction real estate	\$ 39,694	\$ -	\$ -	\$ (6,253)	\$ 33,441
Commercial real estate	1,678,463	-	-	281,462	1,959,925
Residential real estate	777,403	-	-	29,427	806,830
Commercial	203,463	-	-	(39,809)	163,654
Consumer	218,056	(10,032)	3,504	(24,046)	187,482
Municipal loans	5,524	-	-	(687)	4,837
Total	\$ 2,922,603	\$ (10,032)	\$ 3,504	\$ 240,094	\$ 3,156,169

Credit Quality Disclosures

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes credit relationships with an outstanding balance greater than \$150,000 and nonhomogeneous loans, such as commercial and commercial real estate loans. This analysis is performed annually, at renewals, and when new information on a credit is learned. The Company uses the following definitions for risk ratings:

Special Mention

Loans classified as special mention are included on the watch list and have identifiable weaknesses. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Not rated loans that are past due 30-89 days are also included in this category. Term loans amortized cost basis by origination year.

Substandard

Loans classified as substandard are considered very high risk, included on watch list, have well-defined weaknesses, normal repayment is in jeopardy, and are reviewed quarterly for impairment. Not rated loans that are more than 89 days past due are included in this category.

Impaired Nonaccrual

Loans classified as impaired nonaccrual are very high risk and are in nonaccrual status. These loans have significant weaknesses, making full collection of interest unlikely.

Doubtful

Loans classified as doubtful have all the weaknesses inherent in those classified as impaired nonaccrual, plus significant weaknesses making full collection through payment or liquidation questionable and improbable. The Bank had no doubtful loans in 2025 and 2024.

Loans not meeting the criteria above that are analyzed individually as part of the above described process, are considered to be pass rated loans. Municipal loans are primarily short to moderate term loans to municipalities related to maintenance or improvement projects that are funded by approved special tax assessments. The Company reviews updated financial information on long-term issues periodically. Groups of homogeneous loans and municipal loans are not rated and are listed as pass.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 3 - Loans (Continued)

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

		December 31, 2025							
		Term Loans Amortized Cost Basis by Origination Year						Revolving Loans Amortized Cost Basis	Total
		2025	2024	2023	2022	2021	Prior		
Construction real estate:									
Pass		\$ 2,561,559	\$ 33,520	\$ 167,006	\$ 185,897	\$ 583,376	\$ 161,608	\$ 307,250	\$ 4,000,216
Commercial real estate:									
Pass		29,197,983	22,081,592	21,454,287	64,671,434	6,648,592	13,995,952	15,324,996	173,374,836
Residential real estate:									
Pass		19,946,709	13,083,798	9,705,692	9,593,495	14,271,322	31,670,553	9,237,975	107,509,544
Special Mention		-	-	-	-	-	287,309	-	287,309
Substandard		-	-	-	-	-	110,253	-	110,253
Impaired Non-Accrual		-	-	-	-	-	170,747	-	170,747
Total residential real estate		19,946,709	13,083,798	9,705,692	9,593,495	14,271,322	32,238,862	9,237,975	108,077,853
Commercial:									
Pass		6,352,711	1,965,771	1,609,599	1,174,266	214,462	96,898	2,127,985	13,541,692
Consumer:									
Pass		4,608,439	1,411,866	812,494	1,191,615	242,206	147,554	136,163	8,550,337
Special Mention		-	-	8,461	-	-	530	-	8,991
Total consumer		4,608,439	1,411,866	820,955	1,191,615	242,206	148,084	136,163	8,559,328
Current year-to-date gross write-offs		-	-	3,125	13,688	157	-	-	16,970
SBA Guaranteed:									
Pass		220,313	1,485,916	115,219	697,240	410,437	190,279	-	3,119,404
Municipal loans:									
Pass		5,228,016	2,200,000	3,010,225	11,402,683	9,573,772	11,930,955	-	43,345,651
Total loans		\$ 68,115,730	\$ 42,262,463	\$ 36,882,983	\$ 88,916,630	\$ 31,944,167	\$ 58,762,638	\$ 27,134,369	\$ 354,018,980

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 3 - Loans (Continued)

December 31, 2024							
Term Loans Amortized Cost Basis by Origination Year							
	2024	2023	2022	2021	Prior	Revolving Loans Amortized Cost Basis	Total
Construction real estate:							
Pass	\$ 94,946	\$ 268,711	\$ 324,093	\$ 663,237	\$ 175,435	\$ 731,533	\$ 2,257,955
Commercial real estate:							
Pass	24,462,684	25,252,269	66,709,947	7,401,667	20,385,987	12,041,572	156,254,126
Residential real estate:							
Pass	15,226,504	12,377,639	10,453,330	17,753,896	37,163,730	5,131,188	98,106,287
Special Mention	-	-	-	-	10,960	-	10,960
Substandard	-	-	-	-	18,456	-	18,456
Impaired Non-Accrual	-	-	-	-	192,095	-	192,095
Total residential real estate	15,226,504	12,377,639	10,453,330	17,753,896	37,385,241	5,131,188	98,327,798
Commercial:							
Pass	2,962,570	2,685,050	2,441,530	151,242	257,255	2,685,629	11,183,276
Consumer:							
Pass	2,285,212	1,657,762	1,798,341	762,965	669,226	260,631	7,434,137
Special Mention	-	16,254	-	-	-	-	16,254
Total consumer	2,285,212	1,674,016	1,798,341	762,965	669,226	260,631	7,450,391
Current year-to-date gross write-offs	-	-	9,022	-	1,010	-	10,032
SBA Guaranteed:							
Pass	1,656,067	125,640	803,198	399,377	351,233	-	3,335,515
Municipal loans:							
Pass	5,611,500	3,333,771	13,553,672	10,608,569	15,260,650	-	48,368,162
Total loans	<u>\$ 52,299,483</u>	<u>\$ 45,717,096</u>	<u>\$ 96,084,111</u>	<u>\$ 37,740,953</u>	<u>\$ 74,485,027</u>	<u>\$ 20,850,553</u>	<u>\$ 327,177,223</u>

Age Analysis of Past-due Loans

The following tables present the aging of the recorded investment in past-due loans by class of loans as of December 31, 2025 and 2024:

December 31, 2025							
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days	Total	Current	Total Loans	90 or More Days Past Due and Accruing
Construction real estate	\$ -	\$ -	\$ -	\$ -	\$ 4,000,216	\$ 4,000,216	\$ -
Commercial real estate	-	-	-	-	173,374,836	173,374,836	-
Residential real estate	125,858	170,747	110,253	406,858	107,670,995	108,077,853	110,253
Commercial	-	-	-	-	13,541,692	13,541,692	-
Consumer	8,991	-	-	8,991	8,550,337	8,559,328	-
SBA guaranteed	-	-	-	-	3,119,404	3,119,404	-
Municipal loans	-	-	-	-	43,345,651	43,345,651	-
Total	<u>\$ 134,849</u>	<u>\$ 170,747</u>	<u>\$ 110,253</u>	<u>\$ 415,849</u>	<u>\$ 353,603,131</u>	<u>\$ 354,018,980</u>	<u>\$ 110,253</u>

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 3 - Loans (Continued)

	December 31, 2024						
	30-59 Days Past Due	60-89 Days Past Due	90 or More Days	Total	Current	Total Loans	90 or More Days Past Due and Accruing
Construction real estate	\$ -	\$ -	\$ -	\$ -	\$ 2,257,955	\$ 2,257,955	\$ -
Commercial real estate	-	-	-	-	156,254,126	156,254,126	-
Residential real estate	10,960	-	210,552	221,512	98,106,286	98,327,798	18,456
Commercial	-	-	-	-	11,183,276	11,183,276	-
Consumer	3,587	12,667	-	16,254	7,434,137	7,450,391	-
SBA guaranteed	-	-	-	-	3,335,515	3,335,515	-
Municipal loans	-	-	-	-	48,368,162	48,368,162	-
Total	\$ 14,547	\$ 12,667	\$ 210,552	\$ 237,766	\$ 326,939,457	\$ 327,177,223	\$ 18,456

Troubled Loan Modifications

There were no loans modified to borrowers experiencing financial difficulty during 2025 and 2024 and no loans that had a payment default during the years ended December 31, 2025 and 2024 that were modified in the twelve months before default to borrowers experiencing financial difficulty.

Nonaccrual Loans

The Company's loans on nonaccrual status at December 31, 2025 and 2024, by loan segment and class, are summarized below:

	2025			2024		
	Nonaccrual Loans with No ACL	Total Nonaccrual Loans	Interest Income Recognized During the Period on Nonaccrual Loans	Nonaccrual Loans with No ACL	Total Nonaccrual Loans	Interest Income Recognized During the Period on Nonaccrual Loans
Construction real estate	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial real estate	-	-	-	-	-	-
Residential real estate	-	170,747	4,319	192,095	192,095	15,023
Commercial	-	-	-	-	-	-
Consumer	-	-	-	-	-	-
SBA guaranteed	-	-	-	-	-	-
Municipal loans	-	-	-	-	-	-
Total	\$ -	\$ 170,747	\$ 4,319	\$ 192,095	\$ 192,095	\$ 15,023

Total nonaccrual loans as of January 1, 2024 was \$212,157

As of December 31, 2025 and 2024 there were no collateral dependent loans.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 4 - Premises and Equipment

Premises and equipment are summarized as follows:

	<u>2025</u>	<u>2024</u>
Land	\$ 1,543,551	\$ 1,208,168
Buildings	11,735,860	9,522,887
Furniture and equipment	<u>5,117,678</u>	<u>4,762,096</u>
Total cost	18,397,089	15,493,151
Accumulated depreciation	<u>(9,680,346)</u>	<u>(9,281,937)</u>
Net premises and equipment	<u>\$ 8,716,743</u>	<u>\$ 6,211,214</u>

Note 5 - Deposits

Time deposits of \$250,000 or more were \$20,797,000 and \$16,514,000 at December 31, 2025 and 2024, respectively. Scheduled maturities of all time deposits for the next five years and thereafter are as follows:

<u>Years Ending</u>	<u>Amount</u>
2026	\$ 70,223,936
2027	6,292,562
2028	235,316
2029	138,148
2030	80,632
Thereafter	-

The Company held deposits of approximately \$1,770,000 and \$1,966,000 for related parties at December 31, 2025 and 2024, respectively.

Note 6 - Federal Home Loan Bank Advances Payable

Advances from the Federal Home Loan Bank were \$7,000,000 at December 31, 2025 and 2024. The weighted-average fixed interest rate of outstanding advances was 1.08 percent at December 31, 2025 and 2024.

Advances are payable at maturity dates or prior with penalty for prepayment. The advances were collateralized by \$66,966,000 and \$63,619,000 of first mortgage loans under a blanket lien arrangement at December 31, 2025 and 2024, respectively.

Scheduled maturities and required payments over the next five years and thereafter:

<u>Years Ending</u>	<u>Amount</u>
2026	\$ 7,000,000
2027	-
2028	-
2029	-
2030	-
Total	<u>\$ 7,000,000</u>

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 7 - Retirement Plan

The Bank sponsors a 401(k) savings plan that allows eligible employees to contribute a percentage of their annual compensation. The Bank matches a portion of the participant's contribution, up to plan specified maximums. The Bank contributed \$208,000 and \$97,000 to the plan during 2025 and 2024, respectively. The Bank may also elect to make a profit-sharing contribution to the Plan.

Additionally, retirement benefits are provided to substantially all employees under a discretionary profit-sharing and employee stock ownership plan (ESOP). The Bank recognized expense of \$270,000 and \$350,000 during 2025 and 2024, respectively, related to the profit-sharing plan, which includes contributions to the ESOP of \$200,000 and \$175,000 in 2025 and 2024, respectively. Compensation cost is recognized for contributions to the plan equal to the amount of cash contributed or the fair value of shares contributed. All contributions during 2025 and 2024 were made in cash. Dividends declared on shares held by the ESOP are charged to retained earnings. All shares held by the ESOP are treated as outstanding in computing earnings per share. Total allocated shares in the ESOP were 75,111 and 72,993 as of December 31, 2025 and 2024, respectively. No shares were committed to be released or held in suspense.

Note 8 - Federal Income Taxes

The components of the income tax provision included in the consolidated statement of income are all attributable to continuing operations and are detailed as follows:

	<u>2025</u>	<u>2024</u>
Current income tax expense	\$ 991,000	\$ 1,044,000
Deferred income tax expense (recovery)	42,000	(132,000)
Total income tax expense	<u>\$ 1,033,000</u>	<u>\$ 912,000</u>

A reconciliation of the provision for income taxes to income taxes computed by applying the statutory United States federal rate to income before taxes is as follows:

	<u>2025</u>		<u>2024</u>	
	Amount	Percent	Amount	Percent
U.S. federal statutory tax rate	\$ 1,509,000	21 %	\$ 1,453,000	21 %
Effect of tax-exempt interest	(463,000)	(6)	(497,000)	(7)
Effect of BOLI income	(59,000)	(1)	(99,000)	(1)
Other	46,000	-	55,000	-
Effective tax rate	<u>\$ 1,033,000</u>	<u>14 %</u>	<u>\$ 912,000</u>	<u>13 %</u>

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 8 - Federal Income Taxes (Continued)

The details of the net deferred tax asset are as follows:

	2025	2024
Deferred tax assets:		
Allowance for credit losses in excess of deductible amounts	\$ 767,000	\$ 602,000
Postretirement benefits	3,000	11,000
Accrued liabilities	385,000	344,000
Deferred loan fees	1,000	2,000
Unrealized losses on securities	304,000	593,000
Other	2,000	2,000
Gross deferred tax assets	1,462,000	1,554,000
Deferred tax liabilities:		
Prepaid expenses	(58,000)	(57,000)
Book tax basis differences on property and equipment	(516,000)	(268,000)
Mortgage servicing rights	(34,000)	(44,000)
Other	(23,000)	(23,000)
Gross deferred tax liabilities	(631,000)	(392,000)
Net deferred tax asset	\$ 831,000	\$ 1,162,000

Note 9 - Loan Commitments and Standby Letters of Credit

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment. At December 31, 2025 and 2024, the Bank had commitments to fund loans to customers and available unused lines of credit of \$27,749,000 and \$22,746,000, respectively. Commitments under outstanding standby letters of credit amounted to \$900,000 and \$950,000 at December 31, 2025 and 2024, respectively.

Note 10 - Regulatory Matters

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. The table below presents capital adequacy information, including the 2.50 percent capital conservation buffer. Management believes, as of December 31, 2025 and 2024, that the Bank meets all capital adequacy requirements to which it is subject.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 10 - Regulatory Matters (Continued)

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

Actual and required capital amounts (000s omitted) and ratios at year end are presented below:

	Actual		Required for Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2025						
Total capital to risk-weighted assets	\$ 52,515	16.42%	\$ 33,591	10.50%	\$ 31,991	10.00%
Tier 1 (core) capital to risk-weighted assets	48,609	15.19%	27,192	8.50%	25,593	8.00%
Common Tier 1 to risk-weighted assets (CET1)	48,609	15.19%	22,394	7.00%	20,794	6.50%
Tier 1 (core) capital to average assets	48,609	8.19%	23,755	4.00%	29,693	5.00%
2024						
Total capital to risk-weighted assets	\$ 47,332	16.21%	\$ 30,662	10.50%	\$ 29,202	10.00%
Tier 1 (core) capital to risk-weighted assets	44,313	15.17%	24,822	8.50%	23,361	8.00%
Common Tier 1 to risk-weighted assets (CET1)	44,313	15.17%	20,441	7.00%	18,981	6.50%
Tier 1 (core) capital to average assets	44,313	6.85%	25,873	4.00%	32,341	5.00%

Note 11 - Fair Value of Financial Instruments

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 - Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date

Level 2 - Significant other observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data

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

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 11 - Fair Value of Financial Instruments (Continued)

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

Securities: The fair value for securities is determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and treasury curves that are updated to incorporate loss severities, volatility, credit spread, and optionality. During times when trading is more liquid, broker quotes are used, if available, to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations. Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables within this schedule may include changes in fair value that were attributable to both observable and unobservable inputs.

Collateral-dependent loans held for investment: The fair values of collateral-dependent loans held for investment are generally based on recent real estate valuations. These valuations may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Periodically, in cases where the carrying value exceeds the fair value of the collateral less cost to sell, a charge is recognized in the form of a charge-off.

Other real estate owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate valuations, which are updated no less frequently than annually. These valuations may utilize a single valuation approach or a combination of approaches, including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Valuations for both collateral-dependent loans and real estate owned are performed by certified general appraisers (for commercial properties), certified residential appraisers, or state licensed appraisers whose qualifications and licenses have been reviewed and verified by the Company. Once received, an administrator-level employee or higher reviews the assumptions and approaches utilized in the valuation, as well as the resulting fair value in comparison with independent data sources, such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent valuation to determine what additional adjustment should be made to the valuation to arrive at fair value. The most recent analysis performed indicated that a discount of 20 percent should be applied.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 11 - Fair Value of Financial Instruments (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

	2025			
	Fair Value	Level 1	Level 2	Level 3
U.S. govt. and federal agency	\$ 8,080,407	\$ -	\$ 8,080,407	\$ -
State and municipal	33,827,509	-	10,004,824	23,822,685
Mortgage backed - Residential	8,113,853	-	8,113,853	-
Corporate	5,493,748	-	5,493,748	-
Certificate of deposit	1,242,613	-	1,242,613	-
Available-for-sale securities	<u>\$ 56,758,130</u>	<u>\$ -</u>	<u>\$ 32,935,445</u>	<u>\$ 23,822,685</u>

	2024			
	Fair Value	Level 1	Level 2	Level 3
U.S. govt. and federal agency	\$ 11,099,071	\$ 1,977,031	\$ 9,122,040	\$ -
State and municipal	34,215,559	-	8,326,617	25,888,942
Mortgage backed - Residential	6,710,621	-	6,710,621	-
Corporate	5,211,743	-	5,211,743	-
Certificate of deposit	2,438,463	-	2,438,463	-
Available-for-sale securities	<u>\$ 59,675,457</u>	<u>\$ 1,977,031</u>	<u>\$ 31,809,484</u>	<u>\$ 25,888,942</u>

There were no realized gains or losses on the sale of Level 3 assets for the years ended December 31, 2025 or 2024, which would be reported in the net gain on sale of available-for-sale securities.

The following table shows the change in fair value of Level 3 investments for the years ended December 31, 2025 and 2024:

Change in Fair Value of Level 3 Investments:	2025	2024
Balance - January 1	\$ 25,888,942	\$ 30,372,423
Total unrealized gains included in other comprehensive income	193,390	154,569
Net purchases, sales, calls, and maturities	<u>(2,259,647)</u>	<u>(4,638,050)</u>
Balance - December 31	<u>\$ 23,822,685</u>	<u>\$ 25,888,942</u>

As of December 31, 2025 and 2024, there were no collateral-dependent loans measured at fair value on a non-recurring basis.

As applicable, the fair values of collateral-dependent loans carried at fair value are determined by third-party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal. The fair value of the collateral is adjusted for estimated costs to sell if the Bank intends to sell rather than operate the collateral. Quantitative information about Level 3 fair value measurements is presented if there are large or complex classes of financial instruments measured at fair value on a nonrecurring basis. No such information is deemed significant for 2025 or 2024.

Notes to Consolidated Financial Statements

December 31, 2025 and 2024

Note 11 - Fair Value of Financial Instruments (Continued)

The methods and assumptions, not previously presented, that are used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, short-term borrowings, and accrued interest receivable and payable. The methods for determining the fair values for securities were described previously. For fixed and variable rate loans, fair value is based upon the exit price notion where projected cash flows are discounted using interest rates and credit adjustments from a market participant's perspective. For interest-bearing deposits and for deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. Fair value of debt is based on current rates for similar financing. The fair value of off-balance-sheet items is not considered material.

The carrying amounts, estimated fair values of financial instruments, and fair value level are summarized as follows:

	2025		2024	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and cash equivalents - (1)	\$ 159,246,660	\$ 159,247,000	\$ 223,096,246	\$ 223,096,000
Interest-bearing deposits - (2)	744,000	744,000	744,000	729,212
Securities - Available-for-sale - (1)	-	-	1,977,031	1,977,000
Securities - Available-for-sale - (2)	32,935,445	32,935,000	31,809,484	31,809,000
Securities - Available-for-sale - (3)	23,822,685	23,823,000	25,888,942	25,889,000
Federal Home Loan Bank stock - (3)	1,512,100	1,512,000	1,512,100	1,512,000
Loans - Net - (3)	350,077,864	346,504,000	324,021,054	305,109,000
Accrued interest receivable - (2)	1,793,000	1,793,000	1,675,207	1,675,000
Liabilities				
Time deposits - (2)	76,970,000	77,106,000	70,309,240	70,290,000
Federal Home Loan Bank advances - (2)	7,000,000	6,931,000	7,000,000	6,710,000
Accrued interest payable - (2)	531,000	531,000	361,885	362,000

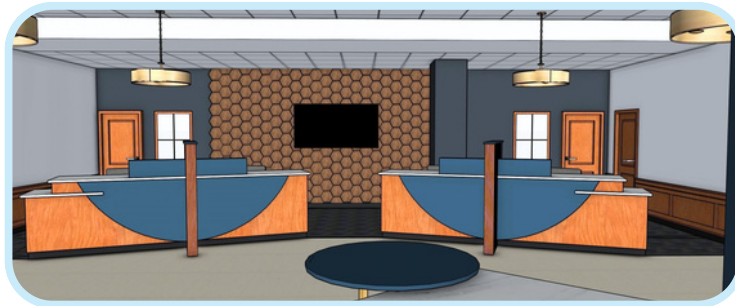
Note 12 - Segment Disclosure

The Company operates one business segment. The president and CEO, who is the chief operating decision maker for the Company, looks at net income and net interest income as the main reporting measure to assess the segment performance.

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CONTINUED GROWTH

In the spring of 2025, we completed a lobby renovation at our Hastings location, thoughtfully reimagining our space to better serve our customers and community. While our main office building has proudly served Hastings for more than 20 years, the way people bank has continued to evolve. This renovation reflects our ongoing commitment to adapting with those changes—ensuring the in-branch experience remains welcoming, efficient, and designed to meet today’s needs while exceeding expectations.



COMMITMENT TO COMMUNITY

At HCB, we focus on building strong relationships, delivering personalized financial solutions, and being active members of the communities we call home. From supporting local businesses and advancing financial literacy to encouraging our employees to give back, we strive to make a meaningful and lasting impact every day.



OFFICERS

HCB FINANCIAL CORP. OFFICERS

Mark A. Kolanowski
President and C.E.O.

Robert G. Ranes, Jr.
Vice President and Secretary

Amanda M. Bechler-Currier
Vice President and Treasurer


BANK OFFICERS

Mark A. Kolanowski
President and C.E.O.

Chelsey A. Foster
Executive Vice President
Chief Operating Officer

Timothy S. Tierney
Executive Vice President
Retail Banking


Khaja (Jay) Ahmed
Senior Vice President
Market President - Kent County

 **Amanda M. Bechler-Currier**
Senior Vice President
Chief Financial Officer

Linda G. Engle
Senior Vice President
Market President - Marshall

Kimberly G. Finkbeiner
Senior Vice President
Chief Information Officer


Robert G. Ranes, Jr.
Senior Vice President
Chief Lending Officer

 **Ashley E. Van Alstine**
Senior Vice President
Retail Banking and Marketing

Barbara L. Denny
Vice President
Consumer Lending &
Mortgage Compliance Officer

Stacey R. English
Vice President
Human Resources Director

Scott J. McAllister
Vice President
Credit Manager

 **Rebecca L. Mead**
Vice President
Cash Management Officer


Stephen R. Ritsema
Vice President
Mortgage Sales Manager


Karen S. Scoby
Vice President
Business Development Officer

Dawn N. Braden
Assistant Vice President
Cannabis Banking & Operations
Process Manager/BSA Officer

Amanda L. Eavey
Assistant Vice President
Operations Manager

Kristen D. Fisher
Assistant Vice President
Compliance Officer



 **Kara K. Hayes**
Assistant Vice President
Regional Branch Manager

 **Ann E. Ulberg**
Assistant Vice President
Cash Management

 **Kristen L. Campbell**
Branch Manager - Hastings

Denise M. Price
Contact Center Manager

Valorie K. Vaughan
Senior Branch Manager
Marshall

 2025 Officer Promotion
 2026 Officer Promotion



Highpoint Community Bank, a subsidiary of HCB Financial Corp., operates six full-service banking offices and two ITM locations.

HASTINGS

150 West Court Street

CALEDONIA

9265 Cherry Valley SE

MIDDLEVILLE

435 Arlington Street

WAYLAND

156 West Superior Street

NASHVILLE

310 North Main Street

MARSHALL

1124 West Michigan Avenue

STATE STREET ITM

1330 West State Street

DELTON ITM

10199 South M-43 Highway



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