




# **Friendship BanCorp**

## **Independent Auditor's Report and Consolidated Financial Statements**

December 31, 2025 and 2024



**Friendship BanCorp**  
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**December 31, 2025 and 2024**

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## Independent Auditor's Report

Board of Directors  
Friendship BanCorp  
Friendship, Indiana

### ***Opinion***

We have audited the consolidated financial statements of Friendship BanCorp and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2025 and 2024, and the related consolidated statements of income, comprehensive income, changes in shareholders' 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 Friendship BanCorp and subsidiaries 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 (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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

Management is responsible for the preparation and fair presentation of 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 these consolidated financial statements are available to be issued.

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

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

In performing an audit in accordance with GAAS, we:

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

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

***Forvis Mazars, LLP***

**Indianapolis, Indiana  
April 9, 2026**

**Friendship BanCorp**  
**Consolidated Balance Sheets**  
**December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
<b>ASSETS</b>		
Cash and due from banks	\$ 11,114,135	\$ 10,275,325
Federal funds sold	161,909	155,496
<b>Cash and Cash Equivalents</b>	<b>11,276,044</b>	<b>10,430,821</b>
Interest-bearing time deposits	1,035,614	991,601
Equity securities	1,368,000	793,800
Available-for-sale securities	185,178,424	186,489,024
Loans, net of allowance for credit losses of \$3,396,999 and \$3,412,602	323,057,584	308,274,279
Premises and equipment, net	13,213,079	12,476,404
Restricted equity investments	3,335,650	2,435,650
Cash surrender value of life insurance policies	8,438,550	7,791,061
Goodwill	1,567,953	1,567,953
Other assets	6,357,524	8,243,382
<b>Total Assets</b>	<b><u>\$ 554,828,422</u></b>	<b><u>\$ 539,493,975</u></b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Liabilities</b>		
<b>Deposits</b>		
Noninterest-bearing	\$ 67,887,737	\$ 68,764,923
Interest-bearing	406,792,918	401,449,609
<b>Total Deposits</b>	<b>474,680,655</b>	<b>470,214,532</b>
Federal funds purchased	6,119,000	3,066,000
Borrowings	30,000,000	30,000,000
Accrued interest payable and other liabilities	3,560,633	3,059,694
<b>Total Liabilities</b>	<b><u>514,360,288</u></b>	<b><u>506,340,226</u></b>
<b>Shareholders' Equity</b>		
Common stock, no par value 4,000,000 shares authorized; 3,418,759 shares issued and outstanding	2,897,949	2,897,949
Retained earnings	45,597,364	44,547,092
Accumulated other comprehensive loss	(8,027,179)	(14,291,292)
<b>Total Shareholders' Equity</b>	<b><u>40,468,134</u></b>	<b><u>33,153,749</u></b>
<b>Total Liabilities and Shareholders' Equity</b>	<b><u>\$ 554,828,422</u></b>	<b><u>\$ 539,493,975</u></b>

**Friendship BanCorp**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
<b>Interest Income</b>		
Loans	\$ 20,279,926	\$ 18,290,453
Securities		
Taxable	3,286,080	3,363,306
Nontaxable	536,694	421,718
Other	502,909	403,228
<b>Total Interest Income</b>	<u>24,605,609</u>	<u>22,478,705</u>
<b>Interest Expense</b>		
Deposits	7,003,710	7,171,701
Borrowings	1,846,350	1,357,883
<b>Total Interest Expense</b>	<u>8,850,060</u>	<u>8,529,584</u>
<b>Net Interest Income</b>	15,755,549	13,949,121
<b>Provision for Credit Losses</b>	<u>93,619</u>	<u>57,316</u>
<b>Net Interest Income After Provision for Credit Losses</b>	15,661,930	13,891,805
<b>Noninterest Income</b>		
Service charges and fees	1,588,606	1,360,618
Insurance revenues	2,657,424	2,719,996
Net gain on sale of loans	100,444	119,389
Gain on equity securities	27,000	229,676
Loss on sale of investment securities	-	(54,577)
Trust and investment product fees	82,983	86,785
Interchange income	1,446,030	1,420,940
Other	654,242	565,390
<b>Total Noninterest Income</b>	<u>6,556,729</u>	<u>6,448,217</u>
<b>Noninterest Expense</b>		
Salaries and employee benefits	10,649,179	10,024,128
Net occupancy and equipment expense	1,299,325	1,248,518
Data processing	2,978,704	2,626,465
Advertising	344,535	333,463
Professional services	431,843	353,785
Office operations	311,122	275,789
Loan services	577,876	450,353
FDIC insurance	320,000	269,000
Other	764,731	702,398
<b>Total Noninterest Expense</b>	<u>17,677,315</u>	<u>16,283,899</u>
<b>Income Before Income Tax</b>	4,541,344	4,056,123
Income tax expense	<u>756,065</u>	<u>724,404</u>
<b>Net Income</b>	<u>\$ 3,785,279</u>	<u>\$ 3,331,719</u>
<b>Earnings per Share</b>	\$ 1.11	\$ 0.97
<b>Average Shares Outstanding</b>	3,418,759	3,418,759

**Friendship BanCorp**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2025 and 2024**

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	<u>2025</u>	<u>2024</u>
<b>Net Income</b>	<u>\$ 3,785,279</u>	<u>\$ 3,331,719</u>
<b>Other Comprehensive Income (Loss)</b>		
Net unrealized gains (losses) on available-for-sale securities	8,272,985	(599,186)
Reclassification adjustment for realized loss on sale of securities	-	54,577
Tax effect	<u>(2,008,872)</u>	<u>8,526</u>
<b>Total Other Comprehensive Income (Loss)</b>	<u>6,264,113</u>	<u>(536,083)</u>
<b>Comprehensive Income</b>	<u><u>\$ 10,049,392</u></u>	<u><u>\$ 2,795,636</u></u>

**Friendship BanCorp**  
**Consolidated Statements of Changes in Shareholders' Equity**  
**Years Ended December 31, 2025 and 2024**

	<u>Common Stock</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Income (Loss)</u>	<u>Total</u>
<b>Balances, January 1, 2024</b>	\$ 2,897,949	\$ 43,950,380	\$ (13,755,209)	\$ 33,093,120
Net income		3,331,719		3,331,719
Other comprehensive loss			(536,083)	(536,083)
Cash dividend (\$0.80 per share)		(2,735,007)		(2,735,007)
<b>Balances, December 31, 2024</b>	2,897,949	44,547,092	(14,291,292)	33,153,749
Net income		3,785,279		3,785,279
Other comprehensive income			6,264,113	6,264,113
Cash dividend (\$0.80 per share)		(2,735,007)		(2,735,007)
<b>Balances, December 31, 2025</b>	<u>\$ 2,897,949</u>	<u>\$ 45,597,364</u>	<u>\$ (8,027,179)</u>	<u>\$ 40,468,134</u>

**Friendship BanCorp**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2025 and 2024**

	<u>2025</u>	<u>2024</u>
<b>Operating Activities</b>		
Net income	\$ 3,785,279	\$ 3,331,719
Items not requiring (providing) cash:		
Provision for credit losses	93,619	57,316
Depreciation and amortization	643,640	572,298
Net amortization and accretion of securities	93,357	132,165
Net loss on sale of available-for-sale securities	-	54,577
Deferred income taxes	(262,135)	184,191
Earnings on life insurance policies	(247,489)	(225,838)
Gain from equity securities	(27,000)	(229,676)
Changes in:		
Accrued interest and other assets	140,321	184,450
Accrued expenses and other liabilities	480,977	(197,851)
<b>Net Cash Provided by Operating Activities</b>	<u>4,700,569</u>	<u>3,863,351</u>
<b>Investing Activities</b>		
Available-for-sale securities:		
Maturities, prepayments and calls	24,540,216	14,266,234
Proceeds from sales	-	21,683,818
Purchases	(15,049,988)	(14,335,889)
Held-to-maturity securities:		
Maturities, prepayments and calls	-	431,999
Proceeds from sale of equity securities	-	1,677,548
Purchases of equity securities	(547,200)	-
Loan originations and payments, net	(14,858,162)	(18,113,589)
Purchases of premises and equipment	(1,380,315)	(2,738,674)
Net change in interest-bearing deposits	(44,013)	1,909,549
Purchase of life bank owned life insurance	(400,000)	-
Purchase of stock in Federal Home Loan Bank	(900,000)	-
<b>Net Cash Provided by (Used in) Investing Activities</b>	<u>(8,639,462)</u>	<u>4,780,996</u>
<b>Financing Activities</b>		
Net change in deposits	4,466,123	2,118,571
Net change in federal funds purchased	3,053,000	(6,066,000)
Proceeds from borrowings	45,000,000	40,000,000
Repayment of borrowings	(45,000,000)	(40,539,948)
Cash dividends paid	(2,735,007)	(2,735,007)
<b>Net Cash Provided by (Used in) Financing Activities</b>	<u>4,784,116</u>	<u>(7,222,384)</u>
<b>Increase in Cash and Cash Equivalents</b>	845,223	1,421,963
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>10,430,821</u>	<u>9,008,858</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 11,276,044</u>	<u>\$ 10,430,821</u>
<b>Supplemental Disclosure of Cash Flow Information</b>		
Cash paid during the year for:		
Interest paid on deposits and borrowings	\$ 8,742,468	\$ 8,607,027
Income taxes	850,000	505,000
<b>Supplemental Disclosure of Noncash Investing Activities</b>		
Transfers of securities from held-to-maturity to available-for-sale	\$ -	\$ 39,638,114

## **Note 1. Nature of Operations and Summary of Significant Accounting Policies**

### ***Principles of Consolidation***

The consolidated financial statements include Friendship BanCorp (Company) and its wholly owned subsidiary, The Friendship State Bank, with its wholly owned subsidiaries, Friendship Financial Services, LLC and Friendship Portfolio Management, Inc. and its wholly owned subsidiary, Friendship Real Estate Holdings, Inc., together referred to as “the Bank”. Intercompany transactions and balances are eliminated upon consolidation.

### ***Nature of Operations***

The Bank is primarily engaged in providing a variety of deposit and lending services to individual customers in southeastern Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. 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 conditions in the area. Friendship Financial Services, LLC is a full service insurance agency and sells those products, as agent, to its customers.

### ***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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses.

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

### ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on hand and in other institutions, money market accounts, federal funds sold and interest-bearing demand deposits.

### ***Interest-bearing Time Deposits in Banks***

Interest-bearing time deposits mature within five years and are carried at cost.

**Friendship BanCorp**  
**Notes to Consolidated Financial Statements**  
**December 31, 2025 and 2024**

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***Investment Securities***

Debt securities held by the Bank generally are classified and recorded in the financial statements as follows:

<u>Classified as</u>	<u>Description</u>	<u>Recorded at</u>
Held to maturity (HTM)	Certain debt securities that management has the positive intent and ability to hold to maturity	Amortized cost, net of allowance for credit losses
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in earnings
Available for sale	Securities not classified as HTM or trading	Fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, identified as the call date as to premiums and maturity date as to discounts. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

When the fair value of securities is below the amortized cost and the Company will not be required to sell the security before recovery of its amortized cost basis, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. If the present value of cash flows expected to be collected from the security are less than the amortized cost basis of the security, an allowance for credit losses is recorded for the credit loss, limited to the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

***Equity Investments***

The Company measures equity securities (excluding restricted equity investments) at fair value with changes in fair value recognized in net income. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

The Company measures equity securities without a readily determinable fair value at cost, minus impairment, if any, plus or minus changes resulting from observable price changes for the identical or a similar investment.

For equity securities measured under the practicability exception, the Company performs a qualitative assessment for equity investments without readily determinable fair values considering impairment indicators to evaluate whether an impairment exists. If an impairment exists, the Company will recognize a loss based on the difference between carrying value and fair value.

***Loans Held for Sale***

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

**Friendship BanCorp**  
**Notes to Consolidated Financial Statements**  
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***Loans***

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses and any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as an adjustment over the respective term of the loan.

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

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these 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. Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

***Concentration of Credit Risk***

Most of the Company's business activity is with customers located within Ripley, Dearborn, Ohio, Switzerland and Jefferson counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the area. The Company considers loans with credit scores below 660 to be subprime. Subprime loans make up approximately 12% and 14% of the loan portfolio at December 31, 2025 and 2024, respectively.

***Allowance for Credit Losses***

***Loans***

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. Management's determination of the adequacy of the ACL is based on the assessment of the expected credit losses on loans over the expected life of the loan. The ACL is increased by provision expense and decreased by charge-offs, net of recoveries of amounts previously charged off and expected to be charged off. The Company made the policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

Management estimates the ACL balance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience of a defined peer group, by affiliate, paired with economic forecasts provide the basis for the quantitatively modeled estimates of expected credit losses. The Company adjusts its quantitative model, as necessary, to reflect conditions not already considered by the quantitative model. These adjustments are commonly known as the qualitative factors.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company uses the average historical loss method to measure the quantitative portion of the ACL over the forecast and reversion periods.

**Friendship BanCorp**  
**Notes to Consolidated Financial Statements**  
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Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

A loan for which the terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties is considered within the determination of the ACL using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method.

When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan.

***Unfunded Commitments***

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on unfunded commitments is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life consistent with the related ACL methodology.

***Premises and Equipment***

Land is carried at cost. Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The Bank evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2025 and 2024.

***Restricted Equity Investments***

Restricted equity investments include Federal Home Loan Bank (FHLB) of Indianapolis stock, Federal Reserve Bank (FRB) stock and Independent Community Bancorp stock. Independent Community Bancorp stock is carried at cost. Restricted stock is periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

***Cash Surrender Value of Life Insurance Policies***

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

### ***Goodwill and Other Intangible Assets***

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired business, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible assets with definite useful lives were amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets. Intangible assets were amortized on an accelerated method over their estimated useful lives, which ranged from 1 to 6 years.

### ***Income Taxes***

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, Income Taxes). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

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

The Company would recognize interest and penalties on income taxes as a component of income tax expense, if applicable.

### ***Off-Balance Sheet Financial 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 (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale which is recognized as a separate component of equity.

**Friendship BanCorp**  
**Notes to Consolidated Financial Statements**  
**December 31, 2025 and 2024**

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***Dividend Restriction***

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

***Revenue Recognition***

A description of the Company's significant revenue streams accounted for under Topic 606 are as follows:

*Service charges and fees.* The Company generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers, and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time. Deposit services revenue is recorded in service charges on deposit accounts income statement line item.

*Interchange income.* The Company's debit and credit card revenue primarily consists of debit and credit card interchange income. Interchange income represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized. Revenue is collected and recognized daily through the payment network settlement process.

*Insurance revenues.* The Company earns its revenues for brokerage services through commissions and fees. Commission rates and fees vary in amount and depend on a number of factors, such as the type of insurance or reinsurance coverages provided, the particular insurer or reinsurer selected, the capacity in which the broker acts and negotiates with clients. For the majority of insurance and brokerage arrangements, advice and services provided, which culminate in the placement of an effective policy, are considered a single performance obligation. Revenues for the brokerage activities, such as installments on agency bill, direct bill and contingent revenue, are generally recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the client.

**Note 2. Restriction on Cash and Due from Banks**

Cash and cash equivalents consist of cash on hand and in other institutions and federal funds sold.

At December 31, 2025, the Company's cash accounts exceeded federally insured limits by approximately \$2,950,000. Additionally, the Company has \$469,000 on deposit with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis as of December 31, 2025, which is not federally insured.

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**Note 3. Investment Securities**

Equity securities are carried at fair value, with the changes in fair value recognized in noninterest income in the consolidated statements of income.

Information on equity securities was as follows at December 31, 2025 and 2024:

	<b>2025</b>	<b>2024</b>
Equity securities	<u>\$ 1,368,000</u>	<u>\$ 793,800</u>
	<b>2025</b>	<b>2024</b>
Unrealized gains recognized on equity securities still held at year end	<u>\$ 326,640</u>	<u>\$ 299,640</u>

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2025 and 2024 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss were as follows:

	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Available-for-sale Securities:</b>				
<b>December 31, 2025</b>				
U.S. Treasury and government agency	\$ 116,740,574	\$ 1,111	\$ (4,380,670)	\$ 112,361,015
Mortgage-backed securities - residential - Government Sponsored Entities (GSE)	39,507,460	66,501	(4,473,642)	35,100,319
State and political subdivisions	36,957,569	323,182	(1,925,977)	35,354,774
Corporate debt	2,499,219	-	(136,903)	2,362,316
	<u>\$ 195,704,822</u>	<u>\$ 390,794</u>	<u>\$ (10,917,192)</u>	<u>\$ 185,178,424</u>
	<u>Amortized Cost</u>	<u>Gross Unrealized Gains</u>	<u>Gross Unrealized Losses</u>	<u>Fair Value</u>
<b>Available-for-sale Securities:</b>				
<b>December 31, 2024</b>				
U.S. Treasury and government agency	\$ 134,107,126	\$ -	\$ (9,532,118)	\$ 124,575,008
Mortgage-backed securities - residential - Government Sponsored Entities (GSE)	37,701,713	36,065	(5,960,742)	31,777,036
State and political subdivisions	30,982,290	6,672	(3,097,746)	27,891,216
Corporate debt	2,497,278	-	(251,514)	2,245,764
	<u>\$ 205,288,407</u>	<u>\$ 42,737</u>	<u>\$ (18,842,120)</u>	<u>\$ 186,489,024</u>

During 2024, the Company transferred all held-to-maturity securities to the available-for-sale classification, in order to make funds available for loan growth opportunities. The securities transferred had a cost carrying value of \$39,638,000, a fair value of \$36,842,000 and an unrealized loss of \$2,796,000 on the date of transfer. The transfer did not meet one of the exceptions described in ASC 320, and therefore the Company has tainted their ability to hold HTM debt securities for a period of time until the Company has had adequate time to reestablish its

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policies and procedures to ensure that it has both the intent and ability to hold securities to maturity, approximately two years.

Once the tainting period has passed, securities that the Company (1) has the positive intent and ability to hold to maturity, and (2) that were acquired and classified as available for sale during the tainting period or were acquired prior to the tainting period and transferred to available for sale, can be transferred to the held-to-maturity category.

The Company had no sales of securities during the year ended December 31, 2025. Proceeds from sales of available for sale securities totaled \$21,684,000 during the year ended December 31, 2024, and resulted in gross realized gains of \$158,000 and gross realized losses of \$213,000.

Certain investments in debt securities at December 31, 2025 and 2024, were reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these available-for-sale investments at December 31, 2025 and 2024, was \$162,633,000 and \$180,984,000, which is approximately 88% and 97%, respectively, of the fair value of the Company's total available for sale investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for the Company's securities are not credit related.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2025 and 2024:

Description of Securities	December 31, 2025					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	\$ -	\$ -	\$ 112,208,862	\$ (4,380,670)	\$ 112,208,862	\$ (4,380,670)
Mortgage-backed securities - residential -						
Government Sponsored Entities (GSE)	2,981,061	(24,874)	24,070,152	(4,448,768)	27,051,213	(4,473,642)
State and political subdivisions	498,175	(1,825)	20,512,050	(1,924,152)	21,010,225	(1,925,977)
Corporate debt	-	-	2,362,316	(136,903)	2,362,316	(136,903)
Total	\$ 3,479,236	\$ (26,699)	\$ 159,153,380	\$ (10,890,493)	\$ 162,632,616	\$ (10,917,192)

Description of Securities	December 31, 2024					
	Less than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	\$ 898,370	\$ (1,600)	\$ 123,676,638	\$ (9,530,518)	\$ 124,575,008	\$ (9,532,118)
Mortgage-backed securities - residential -						
Government Sponsored Entities (GSE)	1,820,784	(3,889)	25,832,484	(5,956,853)	27,653,268	(5,960,742)
State and political subdivisions	5,499,650	(109,641)	21,010,236	(2,988,105)	26,509,886	(3,097,746)
Corporate debt	-	-	2,245,763	(251,514)	2,245,763	(251,514)
Total temporarily impaired securities	\$ 8,218,804	\$ (115,130)	\$ 172,765,121	\$ (18,726,990)	\$ 180,983,925	\$ (18,842,120)

**U.S. Treasury, Government Agencies and Mortgage-Backed Securities**

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to

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sell the investments before recovery of their amortized cost basis, which may be maturity, the Company determined that no credit loss provision was required at December 31, 2025 and 2024.

***State and Political Subdivisions***

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes and illiquidity. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company determined that no credit loss provision was required at December 31, 2025 and 2024.

***Corporate Debt Securities***

The unrealized losses on the Company's investments in corporate debt securities were caused by interest rate changes and illiquidity. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company determined that no credit loss provision was required at December 31, 2025 and 2024.

The amortized cost and fair value of the investment securities portfolio at December 31, 2025, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties: Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	<b>Available-for-sale</b>	
	<b>Amortized Cost</b>	<b>Fair Value</b>
Within one year	\$ 35,281,069	\$ 34,829,148
One to five years	84,756,228	81,127,588
Five to ten years	25,247,942	23,618,083
More than ten years	10,912,123	10,503,286
	156,197,362	150,078,105
Mortgage-backed securities - residential - Government Sponsored Entities (GSE)	39,507,460	35,100,319
Totals	<u>\$ 195,704,822</u>	<u>\$ 185,178,424</u>

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**Note 4. Loans and Allowance for Credit Losses**

Categories of loans at December 31, 2025 and 2024 include:

	<u>2025</u>	<u>2024</u>
Commercial	\$ 5,213,555	\$ 5,641,009
Agricultural	31,572,116	27,658,745
Real estate	276,629,272	265,586,436
Consumer	13,039,640	12,800,691
	<u>                    </u>	<u>                    </u>
Total loans	<u>\$ 326,454,583</u>	<u>\$ 311,686,881</u>

Certain directors and executive officers of the Company, including their families and companies in which they are the principal owners, were customers of and had other transactions with the Company. Total loans to these persons were \$1,329,000 and \$1,254,000 at December 31, 2025 and 2024, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at December 31, 2025 and 2024 were \$78,236,000 and \$82,325,000, respectively. At December 31, 2025 and 2024, the mortgage-servicing rights recorded are immaterial to the consolidated financial statements.

The following tables present the activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2025 and 2024:

	<u>December 31, 2025</u>				
	<u>Balance January 1, 2025</u>	<u>Provision (Credit) for Credit Losses</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Balance December 31, 2025</u>
Commercial	\$ 58,833	\$ (12,423)	\$ -	\$ 2,475	\$ 48,885
Agricultural	464,382	(19,084)	-	-	445,298
Real estate	2,513,064	(30,305)	-	-	2,482,759
Consumer	376,323	135,470	(143,102)	51,366	420,057
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Allowance for credit losses on loans	3,412,602	73,658	(143,102)	53,841	3,396,999
Off-balance sheet commitments	182,429	19,961	-	-	202,390
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total allowance for credit losses	<u>\$ 3,595,031</u>	<u>\$ 93,619</u>	<u>\$ (143,102)</u>	<u>\$ 53,841</u>	<u>\$ 3,599,389</u>

	<u>December 31, 2024</u>				
	<u>Balance January 1, 2024</u>	<u>Provision (Credit) for Credit Losses</u>	<u>Charge-offs</u>	<u>Recoveries</u>	<u>Balance December 31, 2024</u>
Commercial	\$ 62,919	\$ (4,611)	\$ -	\$ 525	\$ 58,833
Agricultural	492,917	(29,285)	-	750	464,382
Real estate	2,540,264	(6,466)	(45,513)	24,779	2,513,064
Consumer	372,876	65,407	(122,563)	60,603	376,323
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Allowance for credit losses on loans	3,468,976	25,045	(168,076)	86,657	3,412,602
Off-balance sheet commitments	150,158	32,271	-	-	182,429
	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total allowance for credit losses	<u>\$ 3,619,134</u>	<u>\$ 57,316</u>	<u>\$ (168,076)</u>	<u>\$ 86,657</u>	<u>\$ 3,595,031</u>

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The following table presents the amortized cost basis of collateral dependent loans by class as of December 31, 2025 and 2024:

	<u>Real Estate</u>	<u>Equipment</u>	<u>Total</u>
<b>December 31, 2025</b>			
Commercial	\$ 331,514	\$ 18,756	\$ 350,270
Agricultural	961,020	-	961,020
Construction	234,024	-	234,024
Residential	3,824,496	-	3,824,496
	<u>\$ 5,351,054</u>	<u>\$ 18,756</u>	<u>\$ 5,369,810</u>
<b>December 31, 2024</b>			
Commercial	\$ 265,114	\$ 11,871	\$ 276,985
Agricultural	532,746	-	532,746
Construction	238,119	-	238,119
Residential	3,266,504	-	3,266,504
	<u>\$ 4,302,483</u>	<u>\$ 11,871</u>	<u>\$ 4,314,354</u>

Risk characteristics of each loan portfolio segment are described as follows:

***Commercial***

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Borrowers may be subject to adverse economic conditions that can lead to decreases in product demand; increasing material or other production costs; interest rate increases that could have an adverse impact on profitability; nonpayment of credit that has been extended under normal vendor terms for goods sold or services extended; interruption related to the importing or exporting of production materials or sold products.

***Agricultural***

Agricultural loans are typically secured by crops or other farm equipment. These loans are subject to risks which could cause poor operating performance of the borrower, such as adverse weather conditions; fluctuation of price of agricultural commodities; and the general economy.

***Real Estate***

Real estate loans are generally secured by 1 to 4 family residences, multifamily residences, or farm real estate, and are generally owner occupied. Home equity loans are typically secured by a subordinate interest in 1 to 4 family residences. Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners.

These loans are subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers' ability to maintain payments in the event of incremental rate increases on adjustable-rate mortgages.

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**Consumer**

Consumer loans generally consist of loans secured by personal property or other unsecured installment loans. Repayment of these loans is primarily dependent on the personal income of the borrowers, who are subject to adverse employment conditions in the local economy, which may lead to higher unemployment.

**Internal Risk Categories**

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and conform to the Bank's policy.

**Pass (1-4)** Loans of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

**Special Mention (5)** A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in 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. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

**Substandard (6)** Loans in this category are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. Such loans have a distinct potential for loss; however, an individual loan's potential for loss does not have to be distinct for the loan to be rated substandard.

The following are examples of situations that might cause a loan to be graded a "6":

- Cash flow deficiencies (losses) jeopardize future loan payments.
- Sale of noncollateral assets has become a primary source of loan repayment.
- The relationship has deteriorated to the point that sale of collateral is now the Company's primary source of repayment, unless this was the original source of loan repayment.
- The borrower is bankrupt or for any other reason future repayment is dependent on court action.

**Doubtful (7)** A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.

A doubtful loan has a high probability of total or substantial loss. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual accounting treatment will be required for doubtful loans.

**Loss (8)** Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

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The following tables present the credit risk profile of the Company's loan portfolio, excluding consumer loans, based on rating category and payment activity as of December 31, 2025 and 2024:

	<b>December 31, 2025</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
Commercial	\$ 5,194,799	\$ -	\$ 18,756	\$ -	\$ 5,213,555
Agricultural	30,611,096	-	961,020	-	31,572,116
Real estate					
Construction	28,385,467	-	234,024	-	28,619,491
Commercial	51,495,130	65,000	331,514	-	51,891,644
Residential	192,293,641	-	3,824,496	-	196,118,137
<b>Total</b>	<b>\$ 307,980,133</b>	<b>\$ 65,000</b>	<b>\$ 5,369,810</b>	<b>\$ -</b>	<b>\$ 313,414,943</b>

	<b>December 31, 2024</b>				
	<b>Pass</b>	<b>Special Mention</b>	<b>Substandard</b>	<b>Doubtful</b>	<b>Total</b>
Commercial	\$ 5,629,138	\$ -	\$ 11,871	\$ -	\$ 5,641,009
Agricultural	27,125,999	-	532,746	-	27,658,745
Real estate					
Construction	29,605,084	-	238,119	-	29,843,203
Commercial	45,576,904	65,000	265,114	-	45,907,018
Residential	186,569,711	-	3,266,504	-	189,836,215
<b>Total</b>	<b>\$ 294,506,836</b>	<b>\$ 65,000</b>	<b>\$ 4,314,354</b>	<b>\$ -</b>	<b>\$ 298,886,190</b>

Consumer loans are evaluated based on delinquency status. Loans past due ninety days or more are considered nonperforming.

	<b>December 31, 2025</b>		
	<b>Performing</b>	<b>Non- Performing</b>	<b>Total</b>
Consumer	\$ 13,039,640	\$ -	\$ 13,039,640

	<b>December 31, 2024</b>		
	<b>Performing</b>	<b>Non- Performing</b>	<b>Total</b>
Consumer	\$ 12,799,426	\$ 1,265	\$ 12,800,691

The Company evaluates the loan risk grading system definitions and allowance for credit losses methodology on an ongoing basis. No significant changes were made to either during the past year.

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The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2025 and 2024:

	December 31, 2025					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	\$ 47,070	\$ 52,238	\$ 9,199	\$ 108,507	\$ 5,105,048	\$ 5,213,555
Agricultural	-	-	-	-	31,572,116	31,572,116
Real estate						
Construction	649,505	-	-	649,505	27,969,986	28,619,491
Commercial	35,067	74,972	-	110,039	51,781,605	51,891,644
Residential	2,683,015	2,537,037	1,516,040	6,736,092	189,382,045	196,118,137
Consumer	148,146	33,420	-	181,566	12,858,074	13,039,640
<b>Total</b>	<b>\$ 3,562,803</b>	<b>\$ 2,697,667</b>	<b>\$ 1,525,239</b>	<b>\$ 7,785,709</b>	<b>\$ 318,668,874</b>	<b>\$ 326,454,583</b>

	December 31, 2024					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	\$ -	\$ 11,871	\$ -	\$ 11,871	\$ 5,629,138	\$ 5,641,009
Agricultural	130,770	278,784	-	409,554	27,249,191	27,658,745
Real estate						
Construction	-	-	238,119	238,119	29,605,084	29,843,203
Commercial	-	37,383	-	37,383	45,869,635	45,907,018
Residential	3,783,232	1,443,641	60,549	5,287,422	184,548,793	189,836,215
Consumer	78,892	31,586	1,265	111,743	12,688,948	12,800,691
<b>Total</b>	<b>\$ 3,992,894</b>	<b>\$ 1,803,265</b>	<b>\$ 299,933</b>	<b>\$ 6,096,092</b>	<b>\$ 305,590,789</b>	<b>\$ 311,686,881</b>

The following table presents the Company's nonaccrual loans at December 31, 2025 and 2024:

	Nonaccrual Loans		
	Nonaccruals with No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
<b>December 31, 2025</b>			
Real estate - Residential	\$ -	\$ 1,312,608	\$ 203,432
Consumer	-	9,199	-
	<b>\$ -</b>	<b>\$ 1,321,807</b>	<b>\$ 203,432</b>

	Nonaccrual Loans		
	Nonaccruals with No Allowance for Credit Losses	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing
<b>December 31, 2024</b>			
Real estate			
Construction	\$ -	\$ 238,119	\$ -
Residential	-	60,549	-
Consumer	-	1,265	-
	<b>\$ -</b>	<b>\$ 299,933</b>	<b>\$ -</b>

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The Bank had no material loans whose terms were modified due to the financial difficulties of the borrower during the years ended December 31, 2025 and 2024.

The Company did not have any loans modified for borrowers experiencing financial difficulties that subsequently defaulted during the year ended December 31, 2025.

**Note 5. Premises and Equipment**

Major classifications of premises and equipment, stated at cost, are as follows:

	<u>2025</u>	<u>2024</u>
Land	\$ 2,699,735	\$ 2,699,735
Buildings and improvements	13,377,909	10,824,712
Furniture and equipment	4,846,268	4,240,973
Construction in process	452,945	2,421,318
	<u>21,376,857</u>	<u>20,186,738</u>
Less accumulated depreciation	<u>(8,163,778)</u>	<u>(7,710,334)</u>
Net premises and equipment	<u>\$ 13,213,079</u>	<u>\$ 12,476,404</u>

**Note 6. Goodwill and Other Intangible Assets**

The carrying amount of goodwill was approximately \$1,568,000 at both December 31, 2025 and 2024.

Goodwill is evaluated on an annual basis for impairment. No goodwill impairment loss was recorded during the years ended December 31, 2025 and 2024.

The Company had no remaining intangible assets other than goodwill at December 31, 2025 and 2024.

**Note 7. Deposits**

Categories of deposits at December 31, 2025 and 2024 include:

	<u>2025</u>	<u>2024</u>
Demand deposits	\$ 201,977,772	\$ 209,110,736
Savings and money market accounts	102,066,457	104,830,117
Certificates and other time deposits of \$250,000 or more	76,123,092	61,439,144
Other certificates and time deposits	94,513,334	94,834,535
	<u>\$ 474,680,655</u>	<u>\$ 470,214,532</u>

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At December 31, 2025, the scheduled maturities of time deposits were as follows:

Maturing year ending December 31,	
2026	\$ 158,009,853
2027	8,562,800
2028	670,796
2029	844,677
2030	<u>2,548,300</u>
	<u>\$ 170,636,426</u>

Deposits from related parties totaled approximately \$7,507,000 and \$8,403,000 at December 31, 2025 and 2024, respectively.

**Note 8. Borrowings**

The Bank had Federal Home Loan Bank (FHLB) advances outstanding totaling \$30,000,000 at both December 31, 2025 and 2024. The Bank's advances at December 31, 2025, have a weighted-average interest rate of 4.18% and are scheduled to mature in 2026. Subsequent to December 31, 2025, all outstanding advances were repaid in full during February and March 2026. The Bank's advances are subject to restrictions or penalties in the event of prepayment.

The Bank also has a line of credit agreement with the FHLB which allows the Bank to borrow up to \$6,000,000. This line of credit was renewed in February 2026 and now matures in February 2027. As of December 31, 2025 and 2024, the Bank had no outstanding borrowings on its line of credit with the FHLB.

The advances with the FHLB are secured by a pledge of certain U.S. Government agency securities with a fair value totaling \$105,860,000 and \$101,203,000 at December 31, 2025 and 2024, respectively.

The Bank had no borrowings outstanding from the Federal Reserve Bank at December 31, 2025 and 2024. The Bank maintained a pledge of investment securities with a fair value of \$25,900,000 and \$17,353,000 to the Federal Reserve Bank at December 31, 2025 and 2024, respectively.

The Bank had unsecured federal funds purchased from the Bankers Bank of Wisconsin totaling \$6,119,000 and \$3,066,000 with an interest rate of 4.00% and 4.75% at December 31, 2025 and 2024, respectively.

**Note 9. Income Taxes**

The provision for income taxes for the years ended December 31, 2025 and 2024, includes these components:

	<u>2025</u>	<u>2024</u>
Taxes currently payable	\$ 1,018,200	\$ 540,213
Deferred income taxes	<u>(262,135)</u>	<u>184,191</u>
Income tax expense	<u>\$ 756,065</u>	<u>\$ 724,404</u>

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A reconciliation of the federal income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	<u>2025</u>	<u>2024</u>
Computed at statutory rate (21%)	\$ 953,682	\$ 851,786
Increase (decrease) resulting from:		
Tax exempt interest	(113,104)	(88,561)
Bank-owned life insurance	(51,972)	(47,426)
Other	<u>(32,541)</u>	<u>8,605</u>
Actual income tax expense	<u>\$ 756,065</u>	<u>\$ 724,404</u>

The tax effects of temporary differences related to deferred taxes were as follows:

	<u>2025</u>	<u>2024</u>
Deferred tax assets		
Allowance for credit losses	\$ 805,511	\$ 804,887
Deferred compensation	435,864	393,730
Unrealized losses on available-for-sale securities	2,499,219	4,508,092
Other	<u>238,205</u>	<u>56,495</u>
Deferred tax assets	3,978,799	5,763,204
Deferred tax liabilities		
Depreciation	(255,212)	(255,063)
Goodwill	(382,457)	(382,317)
Mortgage servicing rights	(30,717)	(44,385)
Prepaid expenses	(24,373)	(58,362)
Cash basis adjustments	(128,797)	(68,342)
Federal Home Loan Bank stock dividends	(19,783)	(19,872)
Other	<u>(61,323)</u>	<u>(111,988)</u>
Deferred tax liabilities	<u>(902,662)</u>	<u>(940,329)</u>
Net deferred tax asset	<u>\$ 3,076,137</u>	<u>\$ 4,822,875</u>

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2025 and 2024.

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**Note 10. Commitments and Contingencies**

The Bank is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend loans and unused credit lines to customers. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Bank uses the same credit policy to make such commitments as it uses for on-balance sheet items.

Off-balance sheet commitments are as follows at December 31, 2025 and 2024:

	<u>2025</u>	<u>2024</u>
Commitments to extend credit	\$ 6,191,000	\$ 6,508,000
Unused lines of credit	38,779,000	35,845,000
Standby letters of credit	<u>401,000</u>	<u>470,000</u>
Total	<u>\$ 45,371,000</u>	<u>\$ 42,823,000</u>

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

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

The Company and Bank are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

**Note 11. Benefit Plans**

The Company sponsors a defined-contribution 401(k) plan, which covers substantially all employees. Eligible employees can elect to defer up to 15% of their salary, not to exceed IRS limitations. The Company matches one half of employee contributions up to 6% of their salaries. Employer's contributions are 100% vested after five years of service. The Company's total 401(k) contributions charged to expense in 2025 and 2024 were \$136,000 and \$128,000, respectively.

Participants receive distributions from the plan of their vested shares of Company common stock subsequent to the end of their employment. The Company is required to redeem the shares of Company common stock that have been distributed from the plan at current market value, upon request of the participants receiving such distributions.

In addition, the Company has entered into deferred compensation, salary continuation agreements that provide benefits to certain directors and officers or their beneficiaries. The benefits expected to be paid are being accrued

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to date of full eligibility. Benefit payments under the agreements may be accelerated upon death, disability, or termination by the Company prior to full eligibility. The salary continuation plan was frozen in 2007. During 2021 the Company implemented a SERP plan for certain employees. The expense incurred for the deferred compensation plan in 2025 and 2024 was \$262,000 and \$236,000, respectively, resulting in a deferred compensation liability of \$1,465,000 and \$1,316,000 as of year-end 2025 and 2024, respectively.

## **Note 12. Regulatory Matters**

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under U.S. GAAP reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2025 and 2024, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2025, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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The Bank's actual and required capital amounts and ratios are as follows (table amounts in thousands):

	<b>Actual</b>		<b>For Capital Adequacy Purposes</b>		<b>To Be Well Capitalized Under Prompt Corrective Action Provisions</b>	
	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>	<b>Amount</b>	<b>Ratio</b>
(Dollars in thousands)						
<b>As of December 31, 2025</b>						
Total Capital (to Risk-Weighted Assets)	\$ 50,438	16.3%	\$ 24,815	8.0%	\$ 31,018	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 46,839	15.1%	\$ 18,611	6.0%	\$ 24,815	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	\$ 46,839	15.1%	\$ 13,958	4.5%	\$ 20,162	6.5%
Tier I Leverage Capital (to Average Total Assets)	\$ 46,839	8.5%	\$ 22,117	4.0%	\$ 27,646	5.0%
(Dollars in thousands)						
<b>As of December 31, 2024</b>						
Total Capital (to Risk-Weighted Assets)	\$ 49,384	16.4%	\$ 24,133	8.0%	\$ 30,166	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	\$ 45,789	15.2%	\$ 18,100	6.0%	\$ 24,133	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	\$ 45,789	15.2%	\$ 13,575	4.5%	\$ 19,608	6.5%
Tier I Leverage Capital (to Average Total Assets)	\$ 45,789	8.6%	\$ 21,308	4.0%	\$ 26,635	5.0%

Without prior approval, current regulations allow the Bank to pay dividends not exceeding net profits (as defined) for the current year, plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 2.50% at December 31, 2025.

The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

### **Note 13. Disclosures about Fair Value of Assets and Liabilities**

Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities.
- Level 2** 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 for substantially the full term of the assets or liabilities.
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

#### ***Available-for-sale and Equity Securities***

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities relationship to other benchmark quoted investment securities.

Level 2 securities include U.S. Government-sponsored agencies, mortgage-backed securities and corporate debt. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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**Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2025 and 2024:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
<b>December 31, 2025</b>				
Equity securities	\$ 1,368,000	\$ 1,368,000	\$ -	\$ -
Available-for-sale securities:				
U.S. Treasury and government agency	\$ 112,361,015	\$ -	\$ 112,361,015	\$ -
Mortgage-backed - residential	35,100,319	-	35,100,319	-
State and political subdivisions	35,354,774	-	31,510,935	3,843,839
Corporate debt	2,362,316	-	2,362,316	-
Total investment securities available-for-sale	<u>\$ 185,178,424</u>	<u>\$ -</u>	<u>\$ 181,334,585</u>	<u>\$ 3,843,839</u>
	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobserv- able Inputs (Level 3)
<b>December 31, 2024</b>				
Equity securities	\$ 793,800	\$ 793,800	\$ -	\$ -
Available-for-sale securities:				
U.S. Treasury and government agency	\$ 124,575,008	\$ -	\$ 124,575,008	\$ -
Mortgage-backed - residential	31,777,036	-	31,777,036	-
State and political subdivisions	27,891,216	-	23,396,722	4,494,494
Corporate debt	2,245,764	-	2,245,764	-
Total investment securities available-for-sale	<u>\$ 186,489,024</u>	<u>\$ -</u>	<u>\$ 181,994,530</u>	<u>\$ 4,494,494</u>

As previously described in Note 3, during the year ended December 31, 2024, the Company transferred all securities of state and political subdivisions from held-to-maturity to the available for sale classification. Certain of these transferred securities were determined as Level 3 due to a lack of observable market data. The Company's valuations of these Level 3 securities were supported by an analysis prepared by an independent third party and approved by management.

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The approach to determining fair value was based primarily on grid pricing based on a compilation of Bloomberg Fair Value Municipal Yield Curves and actual recent municipal issues that have come to market. The grid pricing incorporates generic security type, rating, interest rate, and maturity where available.

***Unobservable (Level 3) Inputs***

The following table presents quantitative information about unobservable inputs used in recurring Level 3 fair value measurements at December 31, 2025 and 2024.

	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Unobservable Inputs</u>	<u>Range (Weighted-Average)</u>
<b>December 31, 2025</b>				
State and political subdivisions	\$ 3,843,839	Discounted cash flow	Marketability yield adjustment	2% - 5% (4%)
<b>December 31, 2024</b>				
State and political subdivisions	\$ 4,494,494	Discounted cash flow	Marketability yield adjustment	2% - 5% (4%)

***Nonrecurring Measurements***

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

***Collateral Dependent Loans***

The estimated fair value of collateral-dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

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The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2025 and 2024:

	Fair Value Measurements Using			
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>December 31, 2025</b>				
Collateral dependent loans	\$ 283,128	\$ -	\$ -	\$ 283,128
<b>December 31, 2024</b>				
Collateral dependent loans	\$ 571,959	\$ -	\$ -	\$ 571,959

***Unobservable (Level 3) Inputs***

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Average)
<b>December 31, 2025</b>				
Collateral dependent loans	\$ 283,128	Sales comparison approach	Marketability discount	2% - 10% (9%)
<b>December 31, 2024</b>				
Collateral dependent loans	\$ 571,959	Sales comparison approach	Marketability discount	20% (20%)

**Note 14. Subsequent Events**

Subsequent events have been evaluated through April 9, 2026, which is the date the consolidated financial statements were available to be issued.