
HARLEYSVILLE FINANCIAL CORPORATION

2024
Annual Report

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2024 ANNUAL REPORT

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CORPORATE PROFILE

Harleysville Financial Corporation, (the “Company”) is a Pennsylvania corporation headquartered in Harleysville, Pennsylvania. The Company became the bank holding company for Harleysville Bank, in connection with the holding company reorganization of the Bank in February 2000 (the “Reorganization”). In August 1987, the Bank’s predecessor, Harleysville Savings Association, converted to the stock form of organization. The Bank, whose predecessor was originally, incorporated in 1915, converted from a Pennsylvania chartered, permanent reserve fund savings association to a Pennsylvania chartered stock savings bank in June 1991. The Bank operates from six full-service offices located in Montgomery County and one office located in Bucks County, Pennsylvania. The Bank’s primary market area includes Montgomery County, which has the third largest population and the second highest per capita income in the Commonwealth of Pennsylvania, and, to a lesser extent, Bucks County. As of September 30, 2024, the Company had \$863.0 million of total assets, \$665.4 million of deposits and \$86.7 million of stockholders’ equity. The Company’s stockholders’ equity constituted 10.0% of total assets as of September 30, 2024.

The Bank’s primary business consists of attracting deposits from the general public and business customers through a variety of deposit programs and investing such deposits principally in first mortgage loans secured by residential properties in the Bank’s primary market area. The Bank also originates a variety of consumer loans, predominately home equity loans and lines of credit also secured by residential properties in the Bank’s primary lending area. The Bank is also engaged in the general commercial banking business and provides a full range of commercial loans and commercial real estate loans to customers in the Bank’s primary market area. The Bank serves its customers through its full-service branch network, the internet, telephone, and mobile banking.

Deposits with the Bank are insured to the maximum extent provided by law through the Deposit Insurance Fund administered by the Federal Deposit Insurance Corporation (“FDIC”). The Bank is subject to examination and comprehensive regulation by the FDIC and the Pennsylvania Department of Banking (“Department”). It is also a member of the Federal Home Loan Bank of Pittsburgh (“FHLB of Pittsburgh” or “FHLB”), which is one of the 11 regional banks comprising the Federal Home Loan Bank System (“FHLB System”). The Bank is also subject to regulations of the Board of Governors of the Federal Reserve System (“Federal Reserve Board”) governing reserves required to be maintained against deposits and certain other matters.

The Company’s principal executive offices are located at 271 Main Street, Harleysville, Pennsylvania 19438, and its telephone number is (215) 256-8828.

Competition

The Company’s most direct competition for deposits has historically come from commercial banks and savings institutions located in its market area. The Company faces additional significant competition for investors’ funds from other financial intermediaries. The Company competes for deposits principally by offering depositors a variety of deposit programs, convenient branch locations, hours, and other services. The Company does not rely upon any individual group or entity for a material portion of its deposits.

The Company’s competition for real estate loans comes principally from mortgage banking companies, other savings institutions, and commercial banks. The Bank competes for loan originations primarily through the interest rates and loan fees it charges, the efficiency and quality of services it provides borrowers, referrals from real estate brokers and builders, and the variety of its products. Factors which affect competition include the general and local economic conditions, current interest rate levels and volatility in the mortgage markets.

STOCK MARKET INFORMATION

Harleysville Financial Corporation's common stock trades on the OTC Bulletin Board under the symbol "HARL". Prices shown below reflect the prices reported on the OTC Bulletin Board during the indicated periods. The closing price of the common stock on September 30, 2024, was \$23.88 per share. There were 3,630,740 shares of common stock outstanding as of September 30, 2024, held by approximately 1,000 stockholders of record, not including the number of persons or entities whose stock is held in nominee or "street" name through various brokerage firms and banks.

For The Quarter Ended	High	Low	Close	Cash Dividends Declared
September 30, 2024	\$22.50	\$22.00	\$23.88	\$0.31
June 30, 2024	21.84	21.13	21.13	0.31
March 31, 2024	22.25	21.08	21.08	0.31
December 31, 2023	25.00	22.09	22.09	1.50
September 30, 2023	\$23.85	\$22.38	\$22.60	\$0.30
June 30, 2023	25.00	22.25	22.25	0.30
March 31, 2023	26.00	24.55	24.55	0.30
December 31, 2022	33.68	25.12	25.12	1.45

On November 15, 2023 the Company declared a special cash dividend of \$1.20 per share on the Company's common stock. The special cash dividend was payable on December 13, 2023 to shareholders of record on November 29, 2023.

Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion is intended to assist in understanding the financial condition, and the results of operations for Harleysville Financial Corporation, and its subsidiary Harleysville Bank, for the fiscal years ended September 30, 2024 and 2023. The information in this section should be read in conjunction with the Company's financial statements and the accompanying notes included elsewhere herein.

Overview

Harleysville Financial Corporation, a bank holding company, of which Harleysville Bank (the "Bank"), is a wholly owned subsidiary, was formed in February 2000. For purposes of this discussion, the Company, including its wholly owned subsidiary, will be referred to as the "Company." The Company's earnings are primarily dependent upon its net interest income, which is determined by (i) the difference between yields earned on interest-earning assets and rates paid on interest-bearing liabilities ("interest rate spread") and (ii) the relative amounts of interest-earning assets and interest-bearing liabilities outstanding. The Company's interest rate spread is affected by regulatory, economic, and competitive factors that influence interest rates, loan demand and deposit flows. The Company, like other institutions, is vulnerable to an increase in interest rates to the extent that interest-bearing liabilities mature or reprice more rapidly than interest-earning assets. To reduce the effect of adverse changes in interest rates on its operations, the Company has adopted certain asset and liability management strategies, described below. The Company's earnings are also affected by, among other factors, other non-interest income, other expenses, and income taxes.

The Company's total assets at September 30, 2024 amounted to \$863.0 million compared to \$842.3 million as of September 30, 2023. The increase in assets was primarily due to an increase in loans receivable of \$45.4 million. The increase was partially offset by a decrease in cash and investments of \$26.0 million. Total liabilities at September 30, 2024 were \$776.3 million compared to \$755.0 million at September 30, 2023. The increase in liabilities was due to an increase in total deposits of \$18.0 million, as well as an increase in borrowings of \$4.2 million. Stockholders' equity totaled \$86.6 million at September 30, 2024 compared to \$87.2 million at September 30, 2023.

During fiscal 2024, net interest income decreased \$5.0 million or 16.6% from the prior fiscal year. This decrease was primarily due to a decrease in the interest rate spread to 2.61% in fiscal year 2024 from 3.49% in fiscal year 2023. There was a 0.03% decrease in the average interest-earning assets balances and a 1.2% increase in average interest-bearing liabilities balances. Net income for fiscal 2024 was \$8.9 million compared to \$12.2 million for the fiscal year 2023. The Company's return on average assets (net income divided by average total assets) was 1.0% during fiscal 2024 compared to 1.4% during fiscal 2023. Return on average equity (net income divided by average equity) was 10.2% during fiscal 2024 compared to 14.2% during fiscal 2023.

Results of Operations

The following table sets forth as of the periods indicated, information regarding: (i) the total dollar amounts of interest income from interest-earning assets and the resulting average yields; (ii) the total dollar amount of interest expense on interest-bearing liabilities and the resulting average costs; (iii) net interest income; (iv) interest rate spread; (v) net interest-earning assets; (vi) the net yield earned on interest-earning assets; and (vii) the ratio of total interest-earning assets to total interest-bearing liabilities. Average balances are calculated on a monthly basis. Yields on tax-exempt assets have not been calculated on a fully tax-exempt basis.

	For The Year Ended September 30,					
	2024			2023		
	Average Balance	Interest	Yield/Rate	Average Balance	Interest	Yield/Rate
Interest-earning assets:						
Mortgage loans (2)(3)	\$285,217	\$ 13,646	4.78%	\$248,106	\$ 11,038	4.45%
Mortgage-backed securities	137,762	3,703	2.69%	158,264	4,213	2.66%
Commercial loans (3)	331,364	16,435	4.96%	306,674	13,837	4.51%
Consumer and other loans (3)	57,767	2,805	4.86%	59,886	2,674	4.47%
Cash and investments	<u>23,725</u>	<u>1,207</u>	<u>5.09%</u>	<u>63,166</u>	<u>2,470</u>	<u>3.91%</u>
Total interest-earning assets	<u>835,835</u>	<u>37,796</u>	<u>4.52%</u>	<u>836,096</u>	<u>34,232</u>	<u>4.09%</u>
Interest-bearing liabilities:						
Savings and money market	232,869	3,263	1.40%	292,779	1,181	0.40%
Checking	153,175	3	0.00%	175,133	4	0.00%
Certificates of deposit	<u>159,556</u>	<u>3,860</u>	<u>2.42%</u>	<u>119,961</u>	<u>1,173</u>	<u>0.98%</u>
Total deposits	545,600	7,126	1.31%	587,873	2,358	0.40%
Borrowings	<u>106,516</u>	<u>5,352</u>	<u>5.02%</u>	<u>56,312</u>	<u>1,518</u>	<u>2.70%</u>
Total interest-bearing liabilities	<u>652,116</u>	<u>12,478</u>	<u>1.91%</u>	<u>644,185</u>	<u>3,876</u>	<u>0.60%</u>
Net interest income/interest rate spread		\$ <u>25,318</u>	<u>2.61%</u>		\$ <u>30,356</u>	<u>3.49%</u>
Net interest-earning assets/net yield on interest-earning assets (1)	\$ <u>183,719</u>		<u>3.03%</u>	\$ <u>191,911</u>		<u>3.63%</u>
Ratio of average interest-earning assets to average interest-bearing liabilities			<u>128.2%</u>			<u>129.8%</u>

(1) Net interest income divided by average interest-earning assets.

(2) Loan fee income is immaterial to this analysis.

(3) There were 27 non-accruing loans totaling \$2.2 million at September 30, 2024 and 33 non-accruing loans totaling \$3.0 million at September 30, 2023.

Net Interest Income

Net interest income decreased by \$5.0 million or 16.6% in fiscal 2024, over the prior year. The decrease in the net interest income in fiscal 2024 was due to a decrease in the interest rate spread between interest earning assets and interest-bearing liabilities. The driving factors are further explained below under “- Interest Income” and “- Interest Expense.”

Interest Income

Interest income on mortgage loans increased by \$2.6 million or 23.6% in fiscal 2024 from the prior year. During fiscal 2024, the average balance of mortgage loans increased \$37.1 million or 15.0% and the yield increased by 33 basis points. The majority of loans during the year were a combination of adjustable and fixed rate mortgages. The increase in interest on mortgage-backed securities reflects an increase in the yield of 3 basis points and a decrease in the average balance of \$20.5 million in fiscal 2024. During fiscal 2024, the consumer and other loan average balance decreased \$2.1 million or 3.5% while the yield increased by 39 basis points.

Interest income on commercial loans increased \$2.6 million or 18.8% in fiscal 2024 from the prior year. The increase in interest on commercial loans during fiscal 2024 reflected an increase in the average balance of \$24.7 million and an increase in yield of 45 basis points.

Interest and dividends on cash and investments decreased by \$1.2 million or 51.1% in fiscal 2024 from fiscal 2023. During fiscal 2024, the decrease in income resulted from the decrease in the average balance of \$39.4 million or 62.4%.

Interest Expense

Interest expense on deposits increased \$4.8 million or 202.2% in fiscal 2024 as compared to the prior year. In fiscal 2024, the average balance of deposits decreased by \$42.2 million. The average rate paid on deposits increased to 1.3% for the year ended September 30, 2024, compared to 0.4% for year ended September 30, 2023.

Interest expense on borrowings increased by \$3.8 million or 252.6% in fiscal 2024 compared to the prior year. The increase in fiscal 2024 was primarily the result of an increase in the average balance of borrowings of \$50.2 million or 89.2%.

Provision for Credit Losses

Management establishes reserves for losses on loans when it determines that losses are probable. The adequacy of allowance for credit losses is based upon a regular monthly review of loan delinquencies and “classified assets”, as well as local and national economic trends. The allowance for credit losses totaled \$4.7 million at September 30, 2024, compared to \$4.9 million for fiscal year ended September 30, 2023 or 0.7% and 0.8% of total loans at September 30, 2024 and 2023, respectively. The Company recorded a provision for credit losses of \$71,000 in fiscal 2024 compared to \$0 in fiscal 2023. The provision for credit loss reflects the Company’s analysis and review of its loan portfolio and assessment of the underlying risks associated with delinquent loans as well as loans classified for regulatory purposes. For additional analysis of the allowance refer to Note 4 – Loans Receivable in the Consolidated Financial Statements.

Other Income

The Company’s total other income decreased to \$2.6 million in fiscal 2024 compared to \$2.7 million in fiscal 2023. The decrease in fiscal 2024 was primarily due to decreases in interchange fees of \$12,000 and miscellaneous other income of \$110,000.

Customer service fees and debit card income was \$1.5 million in fiscal year ended 2024 and 2023, respectively.

Other, which consists primarily of loan servicing fees, the sale of non-deposit products, and insurance commissions, decreased by \$110,000 or 14.4% during fiscal 2024. The fees, which comprise other income, are set by the Company at a level that is intended to cover the cost of providing the related services and expenses to customers.

Other Expenses

Salaries and employee benefits increased by \$318,000 or 3.5% in fiscal 2024 as compared to fiscal 2023. The increased expenses of salaries and employee benefits during the periods are attributable to an increase to both salary increases, and increases to incentive based compensation.

Occupancy and equipment expense increased \$49,000 or 3.5% in fiscal year 2024 as compared to fiscal 2023.

Other expenses, which consist primarily of advertising expenses, directors' fees, ATM network fees, professional fees, checking account costs, rewards expenses, REO expenses, stockholders expense and other operating expenses decreased by \$656,000 or 15.9% in fiscal 2024 compared to fiscal 2023.

Income Taxes

The Company recorded income tax provisions of \$2.5 million in fiscal year 2024 and \$4.1 million in 2023. The effective tax rate was 22.1% in fiscal 2024 compared to 25.3% in fiscal 2023. See Note 8 of the Consolidated Financial Statements which provides an analysis of the provision for income taxes.

INDEPENDENT AUDITOR'S REPORT

Audit Committee
Harleysville Financial Corporation
Harleysville, Pennsylvania

Opinion

We have audited the accompanying consolidated financial statements of Harleysville Financial Corporation and subsidiaries (the "Company"), which comprise the consolidated statements of financial condition as of September 30, 2024 and 2023; 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of September 30, 2024 and 2023, 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 Audit of the 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.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, the Company changed its method of accounting for credit losses effective October 1, 2023, due to the adoption of Accounting Standards Codification (ASC) Topic 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (Continued)

In preparing the 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 financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 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 financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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 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.

Other Information Included in Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon. Our opinion on the 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 financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the 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.

S.R. Snodgrass P.C.

Conshohocken, Pennsylvania
December 3, 2024

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S.R. Snodgrass, P.C. d/b/a S.R. Snodgrass, A.C. in West Virginia

Consolidated Statements of Financial Condition

(In thousands, except share data)	September 30,	
	2024	2023
Assets		
Cash and amounts due from depository institutions	\$ 2,499	\$ 2,727
Interest-bearing demand deposits	<u>7,471</u>	<u>7,919</u>
Total cash and cash equivalents	9,970	10,646
Investments and mortgage-backed securities:		
Available for sale net of allowance for credit losses of \$0	433	437
Held to maturity, net of allowance for credit losses of \$0	133,645	158,906
Loans receivable (net of allowance for credit losses - 2024, \$4,714; 2023, \$4,919)	679,250	633,814
Accrued interest receivable	2,426	2,170
Federal Home Loan Bank stock - at cost	5,501	5,144
Office properties and equipment, net	8,624	8,784
Bank-owned life insurance	18,842	18,438
Prepaid expenses and other assets	<u>4,297</u>	<u>3,935</u>
TOTAL ASSETS	\$ <u>862,988</u>	\$ <u>842,274</u>
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits	\$ 665,387	\$ 647,768
Short-term borrowings	45,331	52,192
Long-term debt	56,942	45,853
Accrued interest payable	485	377
Advances from borrowers for taxes and insurance	1,639	1,570
Other liabilities	<u>6,518</u>	<u>7,301</u>
Total liabilities	<u>776,302</u>	<u>755,061</u>
Commitments and contingencies (Notes 13 & 14)	-	-
Stockholders' Equity:		
Preferred Stock: \$.01 par value; 7,500,000 shares authorized; none issued	-	-
Common stock: \$.01 par value; 15,000,000 shares authorized; 3,921,191 shares issued: shares outstanding 2024, 3,630,740; 2023, 3,670,488	39	39
Additional paid-in capital	7,386	7,378
Treasury stock, at cost (2024, 290,451 shares; 2023, 250,703 shares)	(6,658)	(5,849)
Retained earnings - partially restricted	85,914	85,647
Accumulated other comprehensive income (loss)	<u>5</u>	<u>(2)</u>
Total stockholders' equity	<u>86,686</u>	<u>87,213</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>862,988</u>	\$ <u>842,274</u>

See notes to consolidated financial statements.

Consolidated Statements of Income

(In thousands, except share and per share data)	Year Ended September 30,	
	2024	2023
Interest and Dividend Income:		
Interest and fees on mortgage loans	\$ 13,646	\$ 11,038
Interest on commercial loans	16,435	13,837
Interest on consumer and other loans	2,805	2,674
Interest on mortgage-backed securities	3,703	4,213
Interest on taxable investments	1,130	2,314
Interest on tax-exempt investments	70	110
Dividends on investment securities	<u>7</u>	<u>46</u>
Total interest and dividend income	<u>37,796</u>	<u>34,232</u>
Interest Expense:		
Interest on deposits	7,126	2,358
Interest on short-term borrowings	2,645	309
Interest on long-term debt	<u>2,707</u>	<u>1,209</u>
Total interest expense	<u>12,478</u>	<u>3,876</u>
Net Interest Income	25,318	30,356
Credit Loss Expense		
Provision of credit loss expense – loans	71	-
Provision for credit loss expense – held to maturity securities	-	-
Provision for credit loss expense – off-balance sheet commitments	<u>-</u>	<u>-</u>
Net Interest Income, after Provision for Loan Losses	<u>25,247</u>	<u>30,356</u>
Other Income:		
Customer service fees and debit card income	1,533	1,544
Income on bank-owned life insurance	403	396
Other income	<u>655</u>	<u>765</u>
Total other income	<u>2,591</u>	<u>2,705</u>
Other Expenses:		
Salaries and employee benefits	9,503	9,185
Occupancy and equipment	1,457	1,408
Deposit insurance premiums	381	311
Data processing	1,669	1,670
Other	<u>3,459</u>	<u>4,115</u>
Total other expenses	<u>16,469</u>	<u>16,689</u>
Income before Income Tax Expense	11,369	16,372
Income tax expense	<u>2,509</u>	<u>4,149</u>
Net Income	<u>\$ 8,860</u>	<u>\$ 12,223</u>
Earnings Per Share:		
Basic	<u>\$ 2.43</u>	<u>\$ 3.31</u>
Diluted	<u>\$ 2.43</u>	<u>\$ 3.29</u>
Weighted Average Shares Outstanding:		
Basic	<u>3,639,171</u>	<u>3,695,353</u>
Diluted	<u>3,647,636</u>	<u>3,715,653</u>

See notes to consolidated financial statements.

Consolidated Statements of Comprehensive Income

(In thousands)	Year Ended September 30,	
	2024	2023
Net Income	\$ 8,860	\$ 12,223
Other Comprehensive Income (Loss):		
Unrealized losses on available for sale securities	9	(5)
Income tax effect	<u>(2)</u>	<u>2</u>
Other comprehensive income (loss), net of tax	<u>7</u>	<u>(3)</u>
Comprehensive income	<u>\$ 8,867</u>	<u>\$ 12,220</u>

See notes to consolidated financial statements.

Consolidated Statements of Stockholders' Equity

(In thousands, except share and per share data)

	Common Stock Shares Outstanding	Common Stock	Additional Paid-in Capital	Retained Earnings- Partially Restricted	Accumulated Other Comprehensive (Loss) Income	Treasury Stock	Total Stockholders' Equity
Balance at September 30, 2022	3,719,141	\$ 39	\$ 7,127	\$ 82,141	\$ 1	\$ (4,469)	\$ 84,839
Net income				12,223			12,223
Dividends - \$2.35 per share				(8,717)			(8,717)
Restricted stock awards	3,554						
Stock based compensation			221				221
Treasury stock delivered under 401k							
Treasury stock purchase	(94,033)					(2,271)	(2,271)
Treasury stock delivered under dividend reinvestment plan	28,838		109			608	717
Employee options exercised	12,988		(79)			283	204
Other comprehensive loss					(3)		(3)
Balance at September 30, 2023	3,670,488	39	7,378	85,647	(2)	(5,849)	87,213
Net income				8,860			8,860
Dividends - \$2.43 per share				(8,869)			(8,869)
Cumulative effect of adoption of ASU 2016-13				276			276
Restricted stock awards	3,782		(161)			161	-
Stock based compensation			226				226
Treasury stock delivered or received under 401k	(2,722)					(59)	(59)
Treasury stock purchase	(82,945)					(1,785)	(1,785)
Treasury stock delivered under dividend reinvestment plan	38,058		(7)			784	777
Employee options exercised	4,079		(50)			90	40
Other comprehensive income					7		7
Balance at September 30, 2024	<u>3,630,740</u>	<u>\$ 39</u>	<u>\$ 7,386</u>	<u>\$ 85,914</u>	<u>\$ 5</u>	<u>\$ (6,658)</u>	<u>\$ 86,686</u>

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended September 30,	
	2024	2023
Operating Activities:		
Net Income	\$ 8,860	\$ 12,223
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation	518	478
Provision for credit losses	-	-
Deferred income taxes	38	31
Amortization of deferred fees	142	109
Increase in cash surrender value of bank owned life insurance	(403)	(396)
Stock based compensation	226	221
Changes in assets and liabilities which provided (used) cash:		
Decrease in other liabilities	(783)	(748)
(Decrease) increase in prepaid expenses and other assets	(435)	28
Decrease in accrued interest receivable	(256)	(319)
Increase in accrued interest payable	108	257
Net cash provided by operating activities	<u>8,015</u>	<u>11,884</u>
Investing Activities:		
Purchase of mortgage-backed securities held to maturity	-	(11,835)
Purchase of investment securities available for sale	(30,852)	(31,931)
Purchase of FHLB stock	(4,557)	(3,767)
Redemption of FHLB stock	4,200	1,672
Principal collected on securities available for sale	38	53
Proceeds from the redemption of investment securities available for sale	30,827	35,899
Proceeds from maturities of investment securities held to maturity	5,000	5,000
Principal collected on mortgage-backed securities held to maturity	20,261	21,956
Increase in loans, net	(45,270)	(71,813)
Purchase of premises and equipment	(358)	(421)
Net cash used for investing activities	<u>(20,711)</u>	<u>(55,187)</u>
Financing Activities:		
Net decrease in demand deposits, NOW accounts and savings accounts	(66,118)	(103,570)
Net increase (decrease) in certificates of deposit	83,737	(4,548)
Cash dividends	(8,869)	(8,717)
Increase (decrease) in short term borrowings	(6,861)	37,334
Proceeds from long-term debt	27,000	35,000
Repayment of long-term debt	(15,911)	(36,147)
Acquisition of treasury stock	(1,844)	(2,271)
Sale of treasury stock delivered under employee stock plans	817	921
Net increase in advances from borrowers for taxes and insurance	69	196
Net cash provided by (used in) financing activities	<u>12,020</u>	<u>(81,802)</u>
DECREASE IN CASH AND CASH EQUIVALENTS	(676)	(125,105)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>10,646</u>	<u>135,751</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 9,970</u>	<u>\$ 10,646</u>
Supplemental Disclosure of Cash Flow Information		
Cash paid during the period for:		
Interest	\$ 12,370	\$ 3,619
Income taxes	3,150	4,600

See notes to consolidated financial statements

Notes to Consolidated Financial Statements

1. Nature of Operations and Organizational Structure

Harleysville Financial Corporation, (the “Company”) is a bank holding company that is regulated by the Federal Reserve Bank of Philadelphia. Harleysville Bank, (the “Bank”) is a wholly owned subsidiary and is regulated by the FDIC and the Pennsylvania Department of Banking. The Bank is principally in the business of attracting deposits through its branch offices and investing those deposits, together with funds from borrowings and operations, primarily in single family residential, commercial, consumer loans and investments. The Bank’s customers are primarily in southeastern Pennsylvania.

2. Summary of Significant Accounting Policies

Principles of Consolidation - The accompanying consolidated financial statements include the accounts of the Company, the Bank, and the Bank’s wholly owned subsidiary, HSB Inc., a Delaware subsidiary which was formed in order to accommodate the transfer of certain assets, Freedom Financial Solutions LLC that allows the Company to offer non-deposit products and HARL, LLC that allows the Bank to invest in equity investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates in Preparation of the Consolidated Financial Statements - The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Consolidated Statement of Financial Condition and the reported amounts of income and expenses during the reporting period. The most significant of these estimates and assumptions in the Company’s consolidated financial statements is the allowance for credit losses. Actual results could differ from those estimates.

Significant Group Concentrations of Credit Risk - Most of the Company’s activities are with customers located within the southeastern region of Pennsylvania. Note 3 discusses the types of securities that the Company invests in. Note 4 discusses the types of lending that the Company engages in. The Company does not have any significant concentrations to any one industry or customer.

Cash and Cash Equivalents - For purposes of the Consolidated Statements of Cash Flows, cash and cash equivalents include cash and amounts due from depository institutions, including interest-bearing demand deposits in banks with original maturities of less than 90 days.

Investment and Mortgage-Backed Securities - The Company classifies and accounts for debt securities as follows.

Held to Maturity - Debt securities that management has the positive intent and ability to hold until maturity are classified as held to maturity and are carried at their remaining unpaid principal balance, net of unamortized premiums or unaccreted discounts. Premiums are amortized and discounts are accreted using the interest method over the estimated remaining term of the underlying security.

Available for Sale - Debt securities that will be held for indefinite periods of time, including securities that may be sold in response to changes in market interest or prepayment rates, needs for liquidity and changes in the availability of and the yield of alternative investments are classified as available for sale. These assets are carried at fair value. Unrealized gains and losses are excluded from earnings and are reported net of tax in other comprehensive income. Realized gains and losses on the sale of investment securities are recorded as of the trade date, reported in the Consolidated Statements of Income and determined using the amortized cost of the specific security sold.

Allowance for Credit Losses – Held-to-Maturity Securities – After adopting ASU 2016-13 -The Company measures expected credit losses on held-to-maturity debt securities, which are comprised of residential mortgage-backed securities, collateralized mortgage obligations, municipal bonds and U.S. government agencies. The Company's residential mortgage-backed security holdings are issued by U.S. government entities and agencies and are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major rating agencies and have a long history of no credit losses.

Accrued interest receivable on held-to-maturity debt securities is included within accrued interest receivable on the Consolidated Statements of Financial Condition. This amount is excluded from the estimate of expected credit losses. Held-to-maturity debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed. The Company had no held-to-maturity securities classified as nonaccrual as of September 30, 2024 and September 30, 2023.

Allowance for Credit Losses – Available for Sale Securities – After adopting ASU 2016-13 - The Company measures expected credit losses on available-for-sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities 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, the Company 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 evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, equal 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.

The allowance for credit losses on available-for-sale debt securities is included within Investment securities available-for-sale on the Consolidated Statement of Financial Condition. Changes in the allowance for credit losses are recorded within Provision for credit losses on the Consolidated Statements of Income. Losses are charged against the allowance when the Company believes the collectability of an available-for-sale security is in jeopardy or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available-for-sale debt securities is included within accrued interest receivable on the Consolidated Statement of Financial Condition. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed. The Company had no available-for-sale securities classified as nonaccrual as of September 30, 2024 and September 30, 2023.

Credit Losses on Investment Securities – Prior to adopting ASU 2016-13 - The Company adopted ASU No. 2016-13 effective October 1, 2023. Financial statement amounts related to Investment Securities recorded as of September 30, 2023 and for the period ending September 30, 2023 are presented in accordance with the accounting policies described in the following section. The following section was carried forward from the Annual Report for the year ended September 30, 2023.

For all securities that are in an unrealized loss position for an extended period of time and for all securities whose fair value is significantly below amortized cost, the Company performs an evaluation of the specific vents attributable to the market decline of the security. The Company considers the length of time and extent

to which the security's fair value has been below cost as well as the general market conditions, industry characteristics, and the fundamental operating results of the issuer to determine if the decline is other-than-temporary. The Company also considers as part of the evaluation its intent and ability to hold the security and whether it is more likely than not that it will be required to sell the security before its fair value has recovered to a level at least equal to the amortized cost.

For debt securities, accounting guidance specifies that (a) if a company does not have the intent to sell a debt security prior to recovery and (b) it is more likely than not that it will not have to sell the debt security prior to recovery, the security would not be considered other-than-temporarily impaired unless there is a credit loss. When an entity does not intend to sell the security, and it is more likely than not, the entity will not have to sell the security before recovery of its cost basis, it will recognize the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held to maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment should be amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When the Company determines that a security's unrealized loss is other-than-temporary, an impairment loss is recognized in the period in which the decline in value is determined to be other-than-temporary.

Loans - The Company grants commercial, mortgage and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout southeastern Pennsylvania. The ability of the Company's debtors to honor their contracts is dependent upon the general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or pay-off are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for credit losses, and any deferred fees or costs on originated loans.

Loans Held for Sale - Loans originated and intended for sale in the secondary market are carried at the lower of cost or market. Gains and losses on loan sales (sales proceeds minus carrying value) 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.

Interest Income on Loans - Interest income is accrued on the unpaid principal balance. Interest on loans is recognized as income when earned. The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in 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.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are 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.

Deferred Loan Fees - Loan origination fees, net of certain direct origination costs, are deferred and the balance is amortized to income as an adjustment over the life of the loan using the interest method.

Allowance for Credit Losses – Loans – After adopting ASU 2016-13 - The Company adopted ASU No. 2016-13 Financial Instruments – Credit Losses (Topic 326) on October 1, 2023. The following policy related to the ACL in 2023.

The allowance for credit losses is a valuation reserve established and maintained by charges against income and is deducted from the amortized cost basis of loans to present the net amount expected to be collected on the loans. Loans, or portions thereof, are charged off against the ACL when they are deemed uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is an estimate of expected credit losses, measured over the contractual life of a loan, that considers our historical loss experience, peer bank loss experience, current conditions and forecasts of future economic conditions. Determination of an appropriate ACL is inherently subjective and may have significant changes from period to period.

The methodology for determining the ACL has two main components: evaluation of expected credit losses for certain groups of homogeneous loans that share similar risk characteristics and evaluation of loans that do not share risk characteristics with other loans.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The loans receivable portfolio is segmented into consumer and commercial loans. Consumer loans consist of the following classes: residential mortgage loans, construction loans, home equity loans and non-real estate consumer loans. Commercial loans consist of the following classes: commercial mortgages and commercial business loans.

Historical credit loss experience is the basis for the estimation of expected credit losses. We apply historical loss rates to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on National economic forecasts and management judgement. For periods beyond our reasonable and supportable forecast, we revert to historical loss rates. The qualitative adjustments for current conditions are based upon the following risk factors:

1. Lending policies and procedures, including underwriting standards and collection, charge-off, and recovery practices.
2. National, regional, and local economic and business conditions as well as the condition of various market segments, including the value of underlying collateral for collateral dependent loans.
3. Nature and volume of the portfolio and terms of loans.
4. Experience, ability, and depth of lending management and staff.
5. Volume and severity of past due, classified and nonaccrual loans and other loan modifications.
6. Quality of the Company's loan review system, and the degree of oversight by the Company's Board of Directors.
7. Existence and effect of any concentrations of credit and changes in the level of such concentrations.
8. Effect of external factors, such as competition and legal and regulatory requirements.

These modified historical loss rates are multiplied by the outstanding principal balance of each loan over the life of each loan to calculate a required reserve.

The Company has elected to exclude accrued interest receivable from the measurement of its ACL. When a loan is placed on non-accrual status, any outstanding accrued interest is reversed against interest income.

The ACL for individual loans begins with the use of normal credit review procedures to identify whether a loan no longer shares similar risk characteristics with other pooled loans and therefore, should be individually assessed. Factors considered by management in determining when a loan should be individually evaluated

include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. Our individual loan evaluations consist primarily of the fair value of collateral method because most of our loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Loan Losses – Prior to adopting ASU 2016-13 - Prior to the adoption of ASU 2016-13 Financial Instruments - Credit Losses (Topic 326) on October 1, 2023: Measurement of Credit Losses on Financial Instruments, the Company calculated our ALL using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. An allowance for loan losses is maintained at a level that management considers adequate to provide for losses based upon evaluation of known and inherent risks in the loan portfolio. The loan loss reserves are established as an allowance for estimated losses based on the probable losses of the loan portfolio. In assessing risk, management considers historical experience, volume and composition of lending conducted by the Company, industry standards, and status of nonperforming loans, general economic conditions as they relate to the Company's market area, and other factors related to the collectibility of the Company's loan portfolio.

The allowance for loan losses consists of three elements: (1) specific allowances for impaired loans; (2) a general valuation allowance on all classified loans which are not impaired; and (3) a general valuation allowance on the remainder of the loan portfolio. This is consistent with the regulatory method of classifying reserves. Although the amount of each element of the allowance is determined separately, the entire allowance for loan losses is available for the entire portfolio. An allowance for impaired loans is established in the amounts by which the discounted cash flows (or collateral value or observable market price) are lower than the carrying value of the loan. A general allowance is established for classified loans that are not impaired. These loans are segregated by loan category, and allowance percentages are assigned to each category based on inherent losses associated with each type of lending and consideration that these loans, in the aggregate, represent an above-average credit risk and that more of these loans will prove to be uncollectible compared to loans in the general portfolio.

Allowance for Credit Losses on Off-Balance Sheet Credit Exposures - The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance sheet credit exposures is adjusted through 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.

Foreclosed Real Estate - Real estate acquired through, or in lieu of, loan foreclosures are carried at the lesser of cost or fair value of the property, based on an appraisal less cost to sell. Costs relating to the development and improvement of the property are capitalized, and those relating to holding the property are charged to expense. The Company had no foreclosed real estate as of September 30, 2024 and 2023, respectively.

Office Properties and Equipment - Land is carried at cost. Office properties and equipment are recorded at cost, less accumulated depreciation. Depreciation is computed using the straight-line method over the expected useful lives of the assets that range from four to forty years. The costs of maintenance and repairs are expensed as they are incurred, and renewals and betterments are capitalized.

Federal Home Loan Bank Stock - Federal law requires a member institution of the Federal Home Loan Bank (FHLB) to hold stock of its district FHLB according to a predetermined formula. The restricted stock is carried at cost.

Management's determination of whether these investments are impaired is based on their assessment of the ultimate recoverability of their cost rather than by recognizing temporary declines in value. The determination of whether a decline affects the ultimate recoverability of their cost is influenced by criteria such as (1) the significance of the decline in net assets of the FHLB as compared to the capital stock amount for the FHLB and the length of time this situation has persisted, (2) commitments by the FHLB to make payments required by law or regulation and the level of such payments in relation to the operating performance of the FHLB, and (3) the impact of legislative and regulatory changes on institutions and, accordingly, on the customer base of the FHLB.

Cash Surrender Value of Bank-Owned Life Insurance (BOLI) - The Bank funded the purchase of insurance policies on the lives of officers and employees of the Bank. The Company has recognized any increase in cash surrender value of life insurance, net of insurance costs, in the Consolidated Statements of Income as income on BOLI. The cash surrender value of the insurance policies is recorded as an asset in other assets in the Consolidated Statements of Financial Condition and amounted to \$18.8 million and \$18.4 million at September 30, 2024 and 2023, respectively.

Income Taxes - Deferred income taxes are recognized for the tax consequences of "temporary differences" by applying enacted statutory tax rates applicable to future years to differences between the financial statement carrying amounts and the tax bases of existing assets and liabilities. The effect on deferred taxes of a change in tax rates is recognized in income in the period that includes the enactment date. The Company and its subsidiary file a consolidated federal income tax return.

The Company analyzes each tax position taken in its tax returns and determines the likelihood that the position will be realized. Only tax positions that are "more likely than not" to be realized can be recognized in the Company's financial statements. For tax positions that do not meet this recognition threshold, the Company will record an unrecognized tax benefit for the difference between the position taken on the tax return and the amount recognized in the financial statements. The Company does not have any material unrecognized tax benefits or accrued interest or penalties at September 30, 2024 and 2023, or during the years then ended. No unrecognized tax benefits are expected to arise within the next twelve months. The Company's policy is to account for interest as a component of interest expense and penalties as a component of other expenses. The Company and its subsidiaries are subject to U.S. Federal income tax as well as income tax of the Commonwealth of Pennsylvania. The Company is no longer subject to examination by taxing authorities for the years before October 1, 2019.

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 that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Treasury Stock - The Company records treasury stock purchases at cost. Gains and losses on subsequent reissuance of shares are credited or charged to additional paid-in capital using the average-cost method.

Stock Based Compensation - The Company currently has several stock-based compensations plans in place for employees and directors of the Company. The Company recognizes the cost of employee services

received in exchange for an award of equity investment based on grant-date fair value of the award. That cost will be recognized over the period during which an employee is required to provide service in exchange for the award. Stock-based compensation expense for the years ended September 30, 2024 and 2023 was \$226,000 and \$221,000, respectively. The tax benefit recognized related to the compensation expense for the years ended September 30, 2024 and 2023 was \$21,000 and \$20,000, respectively.

Earnings Per Share - Basic earnings per common share is computed based on the weighted average number of shares outstanding. Diluted earnings per share is computed based on the weighted average number of shares outstanding, increased by additional common shares that would have been outstanding if dilutive potential common shares had been issued. Potential common shares that may be issued by the Company relate to outstanding stock options and unvested stock awards, and are determined using the treasury stock method. The number of anti-dilutive options that are excluded from the earnings per share calculation for the years ended September 30, 2024 and 2023 were 197,566 and 170,186, respectively. For the years ended September 30, 2024 and 2023, the exercise price for the options representing anti-dilutive shares ranged from \$21.50 to \$25.96. The weighted average shares outstanding used to calculate earnings per share were as follows:

	Year Ended September 30,	
	2024	2023
Weighted average shares outstanding – basic	3,639,171	3,695,353
Increase in shares due to dilutive potential common shares	8,465	20,300
Weighted average shares outstanding – diluted	3,647,636	3,715,653

Other Comprehensive Income (Loss) - The Company presents, as a component of comprehensive income (loss), amounts from transactions and other events, which are currently excluded from the Consolidated Statements of Income and are recorded directly to stockholders' equity. The Company's other comprehensive income (loss) consists of net unrealized holding gains or losses on securities available for sale, net of income taxes.

Reclassifications - Certain amounts in the prior period's financial statements have been reclassified to conform with the current year classifications. The reclassifications had no effect on net income.

Accounting Pronouncements Adopted in 2024 - In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments"* and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on October 1, 2023 for the Company. The results reported for periods beginning after October 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans and held-to-maturity debt securities, available-for-sale debt securities and unfunded commitments. On October 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of \$276,000, net of tax, of which a \$315,000 decrease related to loans, and a \$39,000 increase related to unfunded commitments.

The Company adopted the provisions of ASC 326 related to presenting other-than-temporary impairment on

available-for-sale debt securities prior to October 1, 2023 using the prospective transition approach, though no such charges had been recorded on the securities held by the Company as of the date of adoption.

During the year ended September 30, 2024, the Company adopted ASU 2022-02 on a modified retrospective basis. ASU 2022-02 eliminates the TDR accounting model, and requires that the Company evaluate, based on the accounting for loan modifications, whether the borrower is experiencing financial difficulty and the modification results in a more-than-insignificant direct change in the contractual cash flows and represents a new loan or a continuation of an existing loan. This change required all loan modifications to be accounted for under the general loan modification guidance in ASC 310-20, Receivables – Nonrefundable Fees and Other Costs, and subject entities to new disclosure requirements on loan modifications to borrowers experiencing financial difficulty. Upon adoption of CECL, the TDRs were evaluated and included in the loan segment pools if the loans shared similar risk characteristics to other loans in the pool or remained with individually evaluated loans for which the ACL was measured using the collateral-dependent or discounted cash flow method.

3. INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost and fair value of the Company's securities with gross unrealized gains and losses, as of September 30, 2024 and 2023 are as follows:

Available for sale securities:

	September 30, 2024				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance For Credit Losses	Fair Value
Collateralized mortgage obligations	\$ 354	\$ 8	\$ -	\$ -	\$ 362
U.S. Government money market funds	<u>71</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>71</u>
Total Available for Sale Securities	<u>\$ 425</u>	<u>\$ 8</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 433</u>

	September 30, 2023			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Collateralized mortgage obligations	\$ 392	\$ -	\$ (1)	\$ 391
U.S. Government money market funds	<u>46</u>	<u>-</u>	<u>-</u>	<u>46</u>
Total Available for Sale Securities	<u>\$ 438</u>	<u>\$ -</u>	<u>\$ (1)</u>	<u>\$ 437</u>

Held to maturity securities:

	September 30, 2024				
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance For Credit Losses
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	\$ 126,777	\$ 93	\$ (8,277)	\$ 118,593	\$ -
Collateralized mortgage obligations	384	8	-	392	-
Municipal bonds	1,512	1	-	1,513	-
U.S. Government Agencies	<u>4,972</u>	<u>-</u>	<u>(232)</u>	<u>4,740</u>	<u>-</u>
Total Held to Maturity Securities	<u>\$ 133,645</u>	<u>\$ 102</u>	<u>\$ (8,509)</u>	<u>\$ 125,238</u>	<u>\$ -</u>

	September 30, 2023			
(In thousands)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities- U.S. Government Sponsored Enterprises (GSE'S)	\$ 146,989	\$ 1	\$ (18,037)	\$ 128,953
Collateralized mortgage obligations	441	6	-	447
Municipal bonds	1,512	-	(1)	1,511
U.S. Government Agencies	<u>9,964</u>	<u>-</u>	<u>(483)</u>	<u>9,481</u>
Total Held to Maturity Securities	<u>\$ 158,906</u>	<u>\$ 7</u>	<u>\$ (18,521)</u>	<u>\$ 140,392</u>

All the Company's mortgage-backed securities and collateralized mortgage obligations are residential. All of the Company's Collateralized Mortgage Obligations (CMOs) were issued by Government Sponsored Enterprises and none were privately issued.

There were no sales of securities during the year ended September 30, 2024 and September 30, 2023, respectively.

A summary of securities with unrealized losses for which an allowance for credit loss has not been recorded aggregated by category, as of September 30, 2024 is as follows:

(In thousands)	September 30, 2024					
	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Mortgage-backed securities- U.S.						
Government Sponsored Enterprises (GSE'S)	\$ -	\$ -	\$ 111,332	\$ (8,277)	\$ 111,332	\$ (8,277)
Municipal bonds	-	-	-	-	-	-
Collateralized mortgage obligations	-	-	-	-	-	-
U.S. Government Agencies	-	-	4,740	(232)	4,740	(232)
Total temporarily impaired securities	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 116,072</u>	<u>\$ (8,509)</u>	<u>\$ 116,072</u>	<u>\$ (8,509)</u>

(In thousands)	September 30, 2023					
	Less than 12 Months		12 Months or Longer		Total Fair Value	Total Unrealized Losses
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses		
Mortgage-backed securities- U.S.						
Government Sponsored Enterprises (GSE'S)	\$ 8,263	\$ (305)	\$ 120,673	\$ (17,732)	\$ 128,936	\$ (18,037)
Municipal bonds	1,255	(1)	-	-	1,255	(1)
U.S. Government Agencies	6,941	(58)	2,539	(425)	9,480	(483)
Total temporarily impaired securities	<u>\$ 16,459</u>	<u>\$ (364)</u>	<u>\$ 123,212</u>	<u>\$ (18,157)</u>	<u>\$ 139,671</u>	<u>\$ (18,521)</u>

At September 30, 2024, the fair value of debt securities in an unrealized loss position for which an allowance for credit losses had not been recorded was \$116.0 million, including unrealized losses of \$8.5 million. The holdings were comprised of two U.S. government agency securities and 120 mortgage-backed securities.

There was no ACL established because the issuers bonds are either explicitly or implicitly guaranteed by the U.S. government, management does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

There was no allowance for credit losses on debt securities at September 30, 2024 and no impairment recorded during the year ended September 30, 2023.

The following table sets forth the stated maturities of the investment and mortgage-backed securities at September 30, 2024. Money market funds are not included in the table based on lack of maturity.

(In thousands)	September 30, 2024	
	Amortized Cost	Fair Value
Available for sale:		
Due after five years through ten years	\$ <u>354</u>	\$ <u>362</u>
Total	<u>\$ 354</u>	<u>\$ 362</u>
Held to maturity:		
Due in one year or less	\$ 300	\$ 300
Due after one year through five years	9,821	9,488
Due after five years through ten years	17,371	16,886
Due after ten years	<u>106,153</u>	<u>98,564</u>
Total	<u>\$ 133,645</u>	<u>\$ 125,238</u>

Certain of the Company's investment securities, totaling \$32.2 million and \$27.0 million at September 30, 2024 and 2023, respectively, were pledged or restricted for deposit sweep accounts, public deposits, or other purposes as required or permitted by law.

4. LOANS RECEIVABLE

Loans receivable consists of the following:

(In thousands)	September 30, 2024	2023
Residential Mortgages	\$ 298,801	\$ 274,255
Construction	8,460	8,225
Home Equity	38,049	39,120
Commercial Mortgages	327,486	308,091
Commercial Business Loans	15,626	12,059
Consumer Non-Real Estate	<u>482</u>	<u>375</u>
Total	688,904	642,125
Undisbursed portion of loans in process	(5,185)	(3,668)
Deferred loan fees and costs	245	276
Allowance for credit losses	<u>(4,714)</u>	<u>(4,919)</u>
Loans Receivable - net	<u>\$ 679,250</u>	<u>\$ 633,814</u>

At September 30, 2024 and 2023, the Company was servicing residential mortgage loans for others amounting to approximately \$16.2 million and \$17.4 million, respectively. Servicing loans for others generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and foreclosure processing. Loan servicing income is recognized over the life of the loan. The Company receives a servicing fee of 0.25% on sold loans, which totaled \$52,000 as of September 30, 2024. These servicing fees are included in prepaid expenses and other assets on the Consolidated Statements of Financial Condition. In connection with the loans serviced for others, the Company held borrowers' escrow balances of approximately \$59,000 and \$68,000 for September 30, 2024 and 2023, respectively. There were no residential mortgage loans sold as of September 30, 2024 and 2023, respectively. The Bank did not participate in the sales of loans through the Federal Home Loan Bank's MPF Program during fiscal 2024.

The Bank has had, and may be expected to have in the future, loan transactions in the ordinary course of business with directors, officers, principal stockholders, their immediate families and affiliated companies (commonly referred to as related parties), on the same terms including interest rates and collateral, as those prevailing at the time for comparable transactions with others. Loans to related parties at September 30, 2024 and 2023, were approximately \$1.7 million and \$1.8 million, respectively. There were \$40,000 in additional loans and \$29,000 in repayments for the year ended September 30, 2024 compared to \$40,000 in additional loans and \$1.7 million in repayments for the year ended September 30, 2023.

The loans receivable portfolio is segmented into consumer and commercial loans. Consumer loans consist of the following classes: residential mortgage loans, construction loans, home equity loans and non-real estate consumer loans. Commercial loans consist of the following classes: commercial mortgages and commercial business loans. For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans including impaired loans generally are either applied against principal or reported as interest income, according to management's judgment as to the collectability of principal. Generally, loans are

restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months) and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually to classify the loans as to credit risk. This analysis is done for all loans at the time of initial approval and annually for loans with an outstanding balance greater than \$750,000. The Company uses the following definitions for risk ratings.

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

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

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

Based on the most recent analysis performed, the following table presents the classes of the loan portfolio by internal risk rating system as of September 30, 2024 under ASC 326:

September 30, 2024

Term Loans Amortized Costs Basis by Origination									
(In thousands)	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Prior</u>	Revolving Loans Amortized Cost Basis	Revolving Loans Amortized Converted to Basis	<u>Total</u>
Residential Mortgages									
Risk Rating									
Pass	\$ 29,860	\$ 60,496	\$ 44,488	26,044	19,667	116,632	-	-	297,187
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,614	-	-	1,614
Doubtful	-	-	-	-	-	-	-	-	-
Total	29,860	60,496	44,488	26,044	19,667	118,246	-	-	298,801
Residential Mortgages									
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Construction									
Risk Rating									
Pass	8,080	380	-	-	-	-	-	-	8,460
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	8,080	380	-	-	-	-	-	-	8,460
Construction									
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Home Equity									
Risk Rating									
Pass	1,542	3,456	3,695	710	628	3,605	23,826	-	37,462
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	60	-	527	-	-	587
Doubtful	-	-	-	-	-	-	-	-	-
Total	1,542	3,456	3,695	770	628	4,132	23,826	-	38,049
Home Equity									
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Commercial Mortgages									
Risk Rating									
Pass	22,468	47,240	64,607	41,160	52,251	96,043	3,717	-	327,486
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	22,468	47,240	64,607	41,160	52,251	96,043	3,717	-	327,486
Commercial Mortgages									
Current period gross charge-offs	-	-	-	-	-	-	-	-	-

September 30, 2024

	Term Loans Amortized Costs Basis by Origination								
(In thousands)	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>Prior</u>	<u>Revolving Loans Amortized Cost Basis</u>	<u>Revolving Loans Amortized Converted to Basis</u>	<u>Total</u>
Commercial Business Loans									
Risk Rating									
Pass	4,448	1,809	4,976	2,635	607	1,151	-	-	15,626
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	4,448	1,809	4,976	2,635	607	1,151	-	-	15,626
Commercial Business Loans									
Current period gross charge-offs	-	-	-	-	-	-	-	-	-
Consumer Non-Real Estate									
Risk Rating									
Pass	172	121	105	24	3	52	4	-	481
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	1	-	-	1
Total	172	121	105	24	3	53	4	-	482
Consumer Non-Real Estate									
Current period gross charge-offs	22	-	-	-	-	-	-	-	22

The following table presents the classes of the loan by internal risk rating system as of September 30, 2023 under ASC 310:

September 30, 2023

(In thousands)	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Total</u>
Residential Mortgages	\$ 272,021	\$ -	\$ 1,969	\$ 265	\$ 274,255
Construction	8,225	-	-	-	8,225
Home Equity	38,329	-	713	78	39,120
Commercial Mortgages	304,589	3,502	-	-	308,091
Commercial Business Loans	11,972	87	-	-	12,059
Consumer Non-Real Estate	375	-	-	-	375
Total	<u>\$ 635,511</u>	<u>\$ 3,589</u>	<u>\$ 2,682</u>	<u>\$ 343</u>	<u>\$ 642,125</u>

The following table presents the amortized cost basis of collateral-dependent non-accrual loans by class of loans under ASC 326:

	September 30, 2024		
	Type of Collateral		
(In thousands)	Real Estate	Investment/Cash	Total
Residential Mortgages	\$ 1,614	\$ -	\$ 1,614
Construction	-	-	-
Home Equity	587	-	587
Commercial Mortgages	-	-	-
Commercial Business Loans	-	-	-
Consumer Non-Real Estate	-	1	1
Total	\$ 2,201	\$ 1	\$ 2,202

The following table summarizes information in regards to impaired loans by loan portfolio class as of September 30, 2023 and for the year then ended under ASC 310:

(In thousands)	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With no related allowance recorded:					
Residential Mortgages	\$ 2,234	\$ 2,266	\$ -	\$ 2,312	\$ 82
Construction	-	-	-	-	-
Home Equity	735	841	-	844	16
Commercial Mortgages	-	-	-	-	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	<u>2,969</u>	<u>3,107</u>	<u>-</u>	<u>3,156</u>	<u>98</u>
With an allowance recorded:					
Residential Mortgages	-	-	-	-	-
Construction	-	-	-	-	-
Home Equity	85	85	21	88	5
Commercial Mortgages	-	-	-	-	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Subtotal:	<u>85</u>	<u>85</u>	<u>21</u>	<u>88</u>	<u>5</u>
Total:					
Residential Mortgages	2,234	2,266	-	2,312	82
Construction	-	-	-	-	-
Home Equity	820	926	21	932	21
Commercial Mortgages	-	-	-	-	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	-	-	-	-	-
Totals:	<u>\$ 3,054</u>	<u>\$ 3,192</u>	<u>\$ 21</u>	<u>\$ 3,244</u>	<u>\$ 103</u>

The performance and credit quality of the loan portfolio is also monitored by the analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following tables present the classes of the loan portfolio summarized by the past due status as of September 30, 2024 and 2023:

September 30, 2024

(In thousands)	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
Residential Mortgages	\$ 297,717	\$ 26	\$ -	\$ 1,058	\$ 1,084	\$ 298,801
Construction	8,460	-	-	-	-	8,460
Home Equity	37,634	19	-	396	415	38,049
Commercial Mortgages	327,486	-	-	-	-	327,486
Commercial Business Loans	15,626	-	-	-	-	15,626
Consumer Non-Real Estate	482	-	-	-	-	482
Total	<u>\$ 687,405</u>	<u>\$ 45</u>	<u>\$ -</u>	<u>\$ 1,454</u>	<u>\$ 1,499</u>	<u>\$ 688,904</u>

September 30, 2023

(In thousands)	30-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans Receivable	Loans Receivable > 90 Days and Accruing
Residential Mortgages	\$ 1,211	\$ 1,575	\$ 2,786	\$271,469	\$ 274,255	\$ -
Construction	-	-	-	8,225	8,225	-
Home Equity	654	419	1,073	38,047	39,120	-
Commercial Mortgages	-	-	-	308,091	308,091	-
Commercial Business Loans	-	-	-	12,059	12,059	-
Consumer Non-Real Estate	2	37	39	336	375	37
Total	<u>\$ 1,867</u>	<u>\$ 2,031</u>	<u>\$ 3,898</u>	<u>\$638,227</u>	<u>\$ 642,125</u>	<u>\$ 37</u>

The following tables present the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing interest as of September 30, 2024 under ASC 326:

September 30, 2024

(In thousands)	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due Over 90 Days Still Accruing	Total Nonperforming
Residential Mortgages	\$ 1,614	\$ -	\$ 1,614	\$ -	\$ 1,614
Construction	-	-	-	-	-
Home Equity	561	26	587	-	587
Commercial Mortgages	-	-	-	-	-
Commercial Business Loans	-	-	-	-	-
Consumer Non-Real Estate	<u>1</u>	<u>-</u>	<u>1</u>	<u>-</u>	<u>1</u>
Total	<u>\$ 2,176</u>	<u>\$ 26</u>	<u>\$ 2,202</u>	<u>\$ -</u>	<u>\$ 2,202</u>

The following table presents nonaccrual loans by classes of the loan portfolio for the year ended September 30, 2023 under ASC 310:

September 30, 2023

(In thousands)	
Residential Mortgages	\$ 2,234
Construction	-
Home Equity	791
Commercial Mortgages	-
Commercial Business Loans	-
Consumer Non-Real Estate	<u>-</u>
Total	<u>\$ 3,025</u>

The following table provides the activity in the allowance for credit losses by loan class for the years ended September 30, 2024 and 2023 and the balance in the allowance for credit losses at September 30, 2024 and 2023.

September 30, 2024								
(In thousands)	<u>Residential Mortgages</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Commercial Mortgages</u>	<u>Commercial Business Loans</u>	<u>Consumer Non-Real Estate</u>	<u>Unallocated</u>	<u>Totals</u>
Allowance for credit loss:								
Beginning Balance, September 30, 2023	\$ 1,122	\$ -	\$ 230	\$ 3,333	\$ 201	\$ 26	\$ 7	\$ 4,919
Impact of adopting ASC 326	106	27	49	(542)	(7)	59	(7)	(315)
Charge-offs	-	-	-	-	-	(22)	-	(22)
Recoveries	7	-	-	-	-	54	-	61
Provisions	<u>111</u>	<u>34</u>	<u>47</u>	<u>(149)</u>	<u>63</u>	<u>(35)</u>	<u>-</u>	<u>71</u>
Ending balance, September 30, 2024	<u>\$ 1,346</u>	<u>\$ 61</u>	<u>\$ 326</u>	<u>\$ 2,642</u>	<u>\$ 257</u>	<u>\$ 82</u>	<u>\$ -</u>	<u>\$ 4,714</u>
September 30, 2023								
(In thousands)	<u>Residential Mortgages</u>	<u>Construction</u>	<u>Home Equity</u>	<u>Commercial Mortgages</u>	<u>Commercial Business Loans</u>	<u>Consumer Non-Real Estate</u>	<u>Unallocated</u>	<u>Totals</u>
Allowance for loan loss:								
Beginning Balance, September 30, 2022	\$ 783	\$ -	\$ 211	\$ 2,853	\$ 178	\$ 34	\$ 962	\$ 5,021
Charge-offs	-	-	-	-	-	(106)	-	(106)
Recoveries	-	-	-	-	-	4	-	4
Provisions	<u>339</u>	<u>-</u>	<u>19</u>	<u>480</u>	<u>23</u>	<u>94</u>	<u>(955)</u>	<u>-</u>
Ending balance, September 30, 2023	<u>\$ 1,122</u>	<u>\$ -</u>	<u>\$ 230</u>	<u>\$ 3,333</u>	<u>\$ 201</u>	<u>\$ 26</u>	<u>\$ 7</u>	<u>\$ 4,919</u>
Ending balance:								
Individually evaluated for impairment	\$ -	\$ -	\$ 21	\$ -	\$ -	\$ -	\$ -	\$ 21
Ending balance:								
Collectively evaluated for impairment	\$ 1,122	\$ -	\$ 209	\$ 3,333	\$ 201	\$ 26	\$ 7	\$ 4,898
Loans:								
Ending balance:	\$ 274,255	\$ 8,225	\$ 39,120	\$ 308,091	\$ 12,059	\$ 375		\$642,125
Ending balance:								
Individually evaluated for impairment	\$ 2,234	\$ -	\$ 820	\$ -	\$ -	\$ -		\$ 3,054
Ending balance:								
Collectively evaluated for impairment	\$ 272,021	\$ 8,225	\$ 38,300	\$ 308,091	\$ 12,059	\$ 375		\$639,071

Foreclosed assets acquired in settlement of loans are carried at fair value, less estimated costs to sell. As of September 30, 2024, the Company had no foreclosed assets and has initiated formal foreclosure proceeds on \$763,000 of consumer residential mortgages loans, which have not yet been transferred into foreclosed assets.

Modifications to Borrowers Experiencing Financial Difficulty

The Company may grant a modification to borrowers in financial distress by providing a temporary reduction in interest rate, or an extension of a loan's stated maturity date. Loan modifications are intended to minimize the economic loss and to avoid foreclosure or repossession of the collateral.

The Company identifies loans for potential restructure primarily through direct communication with the borrower and evaluation of the borrower's financial statements, revenue projections, tax returns, and credit reports. Even if the borrower is not presently in default, management will consider the likelihood that cash flow shortages, adverse economic conditions, and negative trends may result in a payment default in the near future.

There were no modifications of loans to borrowers experiencing financial difficulty during the year ended September 30, 2024.

There were no payment defaults for loan granted modifications due to a borrower experiencing financial difficulty within twelve months of the modification date, during the year ended September 30, 2024.

As described in Note 1, the Company adopted ASU 2022-02 on October 1, 2023, which eliminated the recognition and measurement of troubled debt restructurings (TDRs). There were no TDRs as of or during the year ended September 30, 2023.

5. OFFICE PROPERTIES AND EQUIPMENT

Office properties and equipment are summarized by major classifications as follows:

	September 30,	
(In thousands)	2024	2023
Land	\$ 3,277	\$ 3,277
Buildings	10,788	10,768
Furniture, fixtures and equipment	6,124	6 104
Data processing	3,149	2,868
Automobiles	129	129
Fixed assets suspense	<u>37</u>	<u>-</u>
Total	23,504	23,146
Less accumulated depreciation	<u>(14,880)</u>	<u>(14,362)</u>
Net	\$ <u>8,624</u>	\$ <u>8,784</u>

Depreciation expense for the years ended September 30, 2024 and 2023 amounted to approximately \$518,000 and \$478,000, respectively.

6. DEPOSITS

Deposits are summarized as follows:

(In thousands)	September 30, 2024		2023	
	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Non-interest-bearing checking accounts	\$ 92,609	0.00%	\$ 97,350	0.00%
NOW accounts	48,693	0.06	53,137	0.05
Interest-bearing checking accounts	114,170	0.83	122,348	0.69
Money market deposit accounts	206,970	0.47	255,127	0.29
Passbook and club accounts	1,521	0.20	2,119	0.18
Certificate of deposit accounts	<u>201,424</u>	<u>3.99</u>	<u>117,687</u>	<u>1.98</u>
Total Deposits	<u>\$665,387</u>	<u>1.50%</u>	<u>\$647,768</u>	<u>0.60%</u>

At September 30, 2024, the amounts of scheduled maturities of certificate of deposit accounts were as follows (in thousands):

For the year ended September 30,	2025	\$ 186,955
	2026	9,301
	2027	3,107
	2028	1,527
	2029	<u>534</u>
Total		<u>\$ 201,424</u>

The aggregate amount of certificate accounts in denominations of \$250,000 or more at September 30, 2024 and 2023 amounted to approximately \$25.4 million and \$8.2 million, respectively.

7. SHORT-TERM BORROWINGS AND LONG-TERM DEBT

The Bank's short-term borrowings activities consists of FHLB advances and sweep accounts are summarized as follows:

	2024	2023
	(Dollar in thousands)	
Balance at year-end	\$ 45,331	\$ 52,192
Maximum amount of outstanding at any month-end	66,627	52,192
Average balance outstanding during the year	53,773	23,806
Weighted-average interest rate:		
As of year-end	4.52%	4.78%
Paid during the year	4.92%	1.30%

Average amounts outstanding during the year represent daily average balances, while weighted-average interest rates represent interest expense divided by the related average balance for the period indicated. The Bank maintains the Repo Plus Advance credit arrangement, which is renewable annually, with the FHLB. The line maintains a variable rate of interest that may be reset daily at the FHLB's discretion. The Bank's

maximum borrowing capacity under the credit arrangement with the FHLB as of September 30, 2024, is approximately \$445.2 million. FHLB advances are secured by a blanket security agreement that includes the Company's FHLB stock as well as certain residential mortgage loans and investments. The Bank also maintains borrowing capacity with Federal Reserve Bank discount window.

Long-term debt consists of the following (in thousands):

Description	Maturity Range		Weighted Average Interest Rate	Stated Interest Rate Range		2024	2023
	From	To		From	To		
Fixed rate	01/23/2025	07/12/2027	5.05%	4.46%	5.41%	<u>\$ 56,942</u>	<u>\$ 45,853</u>
						<u>\$ 56,942</u>	<u>\$ 45,853</u>

Maturities of long-term advances as of September 30, 2024 are summarized as follows:

		Amount	Weighted Average Rate
		(In thousands)	
FHLB long-term debt:			
	2025	\$ 32,959	5.07%
	2026	18,010	4.95%
	2027	<u>5,973</u>	<u>5.23%</u>
	Total FHLB long-term debt	<u>56,942</u>	<u>5.05%</u>

8. INCOME TAXES

The expense for income taxes differs from that computed at the statutory federal corporate tax rate as follows:

(In thousands)	Year Ended September 30,			
	2024		2023	
	Amount	Percentage of Pretax Income	Amount	Percentage of Pretax Income
At statutory rate	\$ 2,387	21.0%	\$ 3,438	21.0%
Adjustments resulting from:				
Tax-exempt income	(97)	(0.9)	(96)	(0.6)
State tax-net of federal tax benefit	341	3.0	739	4.5
Other	<u>(122)</u>	<u>(1.1)</u>	<u>68</u>	<u>0.4</u>
Expense per consolidated statements of income	<u>\$ 2,509</u>	<u>22.1%</u>	<u>\$ 4,149</u>	<u>25.3%</u>

Income tax expense is summarized as follows:

(In thousands)	Year Ended September 30,	
	2024	2023
Current	\$ 2,471	\$ 4,118
Deferred	<u>38</u>	<u>31</u>
Total Income Tax Expense	\$ <u>2,509</u>	\$ <u>4,149</u>

Items that gave rise to significant portions of the deferred tax accounts are as follows:

(In thousands)	September 30,	
	2024	2023
Deferred Tax Assets:		
Deferred Loan Fees	\$ 12	\$ 12
Allowance for Credit Losses	990	1,033
Lease Liability	565	585
Other	<u>118</u>	<u>117</u>
Sub-Total	<u>1,685</u>	<u>1,747</u>
Deferred Tax Liabilities:		
Unrealized gain on investment securities	(2)	-
Properties and equipment	(566)	(562)
Right-of-Use Assets	<u>(523)</u>	<u>(549)</u>
Sub-Total	<u>(1,091)</u>	<u>(1,111)</u>
Total	\$ <u>594</u>	\$ <u>636</u>

9. REGULATORY CAPITAL REQUIREMENTS

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, regulatory 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.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table) of total and Tier 1 capital to risk-weighted assets, common equity Tier 1 capital to total risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of September 30, 2024, that the Bank meets all capital adequacy requirements to which it is subject.

As of September 30, 2024, and September 30, 2023, the most recent notification from the Federal Deposit Insurance Corporation 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 1 risk-based capital, common equity Tier 1 risk-based capital, and Tier 1 leverage ratios as set

forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios are also presented in the table.

(In thousands)	Actual		For Capital Adequacy Purposes		To Be Considered Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
At September 30, 2024						
Tier 1 Capital (to assets)	\$86,759	10.05%	\$34,540	4.00%	\$51,810	6.00%
Common Equity Tier 1 Capital (to risk weighted assets)	86,759	14.25%	36,542	6.00%	48,722	8.00%
Tier 1 Capital (to risk weighted assets)	86,759	14.25%	36,542	6.00%	48,722	8.00%
Total Capital (to risk weighted assets)	91,521	15.03%	48,722	8.00%	60,903	10.00%
At September 30, 2023						
Tier 1 Capital (to assets)	\$87,069	10.42%	\$33,419	4.00%	\$50,129	6.00%
Common Equity Tier 1 Capital (to risk weighted assets)	87,069	16.45%	31,758	6.00%	42,344	8.00%
Tier 1 Capital (to risk weighted assets)	87,069	16.45%	31,758	6.00%	42,344	8.00%
Total Capital (to risk weighted assets)	92,073	17.40%	42,344	8.00%	52,931	10.00%

The Company's capital ratios are not significantly different than the Bank's disclosed above.

10. RETIREMENT SAVINGS PLANS

The Company has a qualified 401 (k) retirement savings plan covering all full-time employees meeting certain eligibility requirements. Contributions for the plan are at the discretion of the Company's Board of Directors. Compensation expense related to the plan was \$578,000 and \$550,000 for the years ended September 30, 2024 and 2023, respectively.

11. STOCK BASED COMPENSATION AND EMPLOYEE STOCK PURCHASE PLAN

In January 2016, the stockholders approved the 2015 Stock Incentive Plan which provides 300,000 shares for the granting of incentive stock options, compensatory stock options, stock appreciation rights and share awards of restrictive stock. The number of shares available to be issued as share awards will not exceed 75,000 shares. There are 43,760 shares remaining for grant under this plan.

The life of the options under the above plan is ten years. The vesting period for the options is five years.

A summary of stock option transactions under these plans follows:

	2024		2023	
	Options	Weighted Average Price	Options	Weighted Average Price
Outstanding, beginning of year	242,652	\$ 22.77	255,001	\$ 22.44
Exercised	(10,989)	17.61	(20,458)	18.76
Forfeited	(5,500)	22.82	(22,150)	22.01
Expired	-	-	-	-
Granted	31,987	21.50	30,259	22.34
Outstanding, end of year	258,150	\$ 22.83	242,652	\$ 22.77
Options exercisable, end of year	108,042	\$ 22.22	95,327	\$ 21.24

A summary of the exercise price ranges at September 30, 2024 and 2023 is as follows:

2024			
Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
-	\$ 14.84-16.95	-	\$ -
18,734	16.96-18.79	1.98	18.66
<u>239,416</u>	<u>18.80-25.96</u>	<u>6.23</u>	<u>23.16</u>
<u>258,150</u>	<u>\$ 14.84-25.96</u>	<u>5.92</u>	<u>\$ 22.83</u>

2023			
Number of Option Shares	Exercise Price Range	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price per Share
6,889	\$ 14.84-16.95	1.12	\$ 16.95
22,334	16.96-18.79	2.81	18.63
<u>213,429</u>	<u>18.80-25.96</u>	<u>6.66</u>	<u>23.40</u>
<u>242,652</u>	<u>\$ 14.84-25.96</u>	<u>6.15</u>	<u>\$ 22.77</u>

At September 30, 2024 and 2023, the aggregate intrinsic value of options outstanding was \$110,000 and \$211,000, respectively. At September 30, 2024 and 2023, the aggregate intrinsic value of options exercisable was \$94,000 and \$185,000, respectively. For the years ended September 30, 2024 and 2023, the aggregate intrinsic value of options exercised was \$39,000 and \$99,000, respectively.

The aggregate intrinsic value of a stock option represents the total pre-tax intrinsic value (the amount by which the current market value of the underlying stock exceeds the exercise price of the option) that would have been received by the option holder had all option holders exercised their options on September 30, 2023. This amount changes based on changes in the market value of the Company's common stock.

The weighted average fair value of stock options granted in the years ended September 30, 2024 and 2023 was \$3.56 and \$3.75, respectively, and was estimated at the date of grant using a Binomial Option Pricing Model with the following weighted-average assumptions while the market price of the Company's common stock at the date of grant is used for restricted stock awards:

	Year Ended September 30,	
	2024	2023
Risk free interest rate of return	4.34%	4.30%
Expected option life	84 months	84 months
Expected volatility	23.00%	22.00%
Expected dividends	5.77%	5.37%

The expected volatility is based on historic volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Company's history and expectation of dividend payouts.

Stock based compensation expense related to stock options for the years ended September 30, 2024 and 2023 was \$131,000 or \$95,000 net of tax, and \$131,000 or \$97,000 net of tax, respectively. As of September 30, 2024, there was approximately \$246,000 of total unrecognized compensation cost related to non-vested stock options under the plans.

Restricted stock shares outstanding at September 30, 2024 vest over periods ranging from September 30, 2024 vests 33% annually. The product of the number of shares granted and the grant date market price of the Company's common stock determines the fair value of restricted shares under the Company's restricted stock plan. The Company expenses the fair value of all shares based compensation grants over the requisite service period.

During the years ended September 30, 2024 and 2023, the Company recorded \$95,000 and \$90,000 of share-based compensation expense consisting of restricted stock expense. Expected future compensation expense relating to the restricted shares outstanding, at September 30, 2024 is approximately \$125,000 over the remaining vesting period of 3 years.

Restricted stock award activity for the year ended September 30, 2024 was as follows:

	<u>Number of shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested restricted stock, beginning of year	7,941	\$ 20.00
Granted	4,813	21.50
Forfeited	-	-
Vested	<u>(3,782)</u>	<u>16.64</u>
Unvested restricted stock, end of year	<u>8,972</u>	<u>\$ 22.22</u>

Restricted stock award activity for the year ended September 30, 2023 was as follows:

	<u>Number of shares</u>	<u>Weighted Average Grant Date Fair Value</u>
Unvested restricted stock, beginning of year	7,084	\$ 24.31
Granted	4,411	22.34
Forfeited	-	-
Vested	<u>(3,554)</u>	<u>24.18</u>
Unvested restricted stock, end of year	<u>7,941</u>	<u>\$ 20.00</u>

The Company also has established an Employee Stock Purchase Plan (the "Purchase Plan") whereby employees may elect to make contributions to the Purchase Plan in an aggregate amount not less than 2% or more than 10% of such employee's total compensation. These contributions would then be used to purchase stock during an offering period determined by the Company's Salary and Benefits Committee. The purchase price of the stock would be the lesser of 85% of the market price on the first day or the last day of the offering period. At September 30, 2024 and 2023, there were 151,467 shares available for future purchase. The Company suspended participation in the Purchase Plan in March 2005 and the plan is not currently active.

12. COMMITMENTS

At September 30, 2024, the Company had approximately \$5.6 million in outstanding commitments to originate mortgage loans, of which \$4.8 million were fixed rates ranging from 5.50% to 7.50% and \$748,000 were adjustable rates ranging from 6.25% to 7.00%. The unfunded home equity line of credit commitments at September 30, 2024 were \$66.6 million. The Company had \$2.4 million and \$2.7 million of committed commercial and consumer loans, respectively, at September 30, 2024. In addition, the Company had \$37.6 million of unused commercial lines of credit at September 30, 2024. The amounts of undisbursed portions of loans in process at September 30, 2024 were \$5.6 million. The Company had a total of \$823,000 in standby letters of credit. Also, at September 30, 2024, the Company had no outstanding futures or options positions.

At September 30, 2023, the Company had approximately \$15.3 million in outstanding commitments to originate mortgage loans, of which \$6.2 million were fixed rates ranging from 5.38% to 8.00% and \$9.1 million were adjustable rates ranging from 5.25% to 7.25%. The unfunded home equity line of credit commitments at September 30, 2023 were \$63.3 million. The Company had \$9.4 million and \$3.5 million of committed commercial and consumer loans, respectively, at September 30, 2023. In addition, the Company had \$30.7 million of unused commercial lines of credit at September 30, 2023. The amounts of undisbursed portions of loans in process at September 30, 2023 were \$3.9 million. The Company had a total of \$167,000 in standby letters of credit. Also, at September 30, 2023, the Company had no outstanding futures or options positions.

Outstanding letters of credit written are conditional commitments issued by the Company to guarantee the performance of a customer to a third party. The majority of these standby letters of credit expire within the next twelve months. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending other loan commitments. The Company requires collateral supporting these letters of credit as deemed necessary. Management believes that the proceeds obtained through a liquidation of such collateral would be sufficient to cover the maximum potential amount of future payments required under the corresponding guarantees. The current amount of the liability as of September 30, 2024 for guarantees under standby letters of credit issued is not material.

As announced on March 15, 2020, the Federal Reserve Board reduced reserve requirement ratios to zero percent effective March 26, 2020. This action eliminated reserve requirements for all depository institutions.

13. LEGAL CONTINGENCIES

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

14. RESTRICTED RETAINED EARNINGS

At the time of conversion to a stock savings bank, in 1987, the Bank established a liquidation account in an amount equal to the Bank's net worth as reflected in the latest Consolidated Statements of Financial Condition of the Bank contained in the offering circular utilized in the conversion. The function of the liquidation account is to establish a priority on liquidation and, except with respect to the payment of cash dividends on, or the re-purchase of, any of the common stock by the Bank, the existence of the liquidation account will not operate to restrict the use or application of any of the net worth accounts of the Bank. In the event of a complete liquidation of the Bank (and only in such event), each eligible account holder will be entitled to receive a pro rata distribution from the liquidation account, based on such holder's proportionate amount of the total current adjusted balances from deposit accounts then held by all eligible account holders, before any liquidation distribution may be made with respect to stockholders. The liquidation account was approximately \$2,300,000 at September 30, 2024. Furthermore, the Company may not repurchase any of its

stock if the effect thereof would cause the Company's net worth to be reduced below (i) the amount required for the liquidation account or (ii) the regulatory capital requirements.

15. FAIR VALUE MEASUREMENTS AND DISCLOSURES

The Company uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with accounting guidance, the fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is best determined based upon quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumption used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument.

The fair value guidance provides a consistent definition of fair value, which focuses on exit price in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. If there has been a significant decrease in the volume and level of activity for the asset or liability, a change in valuation technique or the use of multiple valuation techniques may be appropriate. In such instances, determining the price at which willing market participants would transact at the measurement date under current market conditions depends on the facts and circumstances and requires the use of significant judgment. The fair value is determined at a reasonable point within the range that is most representative of fair value under current market conditions.

The guidance establishes a fair value hierarchy that prioritizes the inputs to valuation methods used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under are as follows:

Level 1: Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2: Quoted prices in markets that are not active, or inputs that are observable either directly or indirectly, for substantially the full term of the asset or liability.

Level 3: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported with little or no market activity).

An asset's or liability's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

For financial assets measured at fair value on a recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2024 and 2023 are as follows (in thousands):

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2024				
Available for sale securities:				
Collateralized mortgage obligations	\$ 362	\$ -	\$ 362	\$ -
U.S. Government money market funds	<u>71</u>	<u>71</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 433</u>	<u>\$ 71</u>	<u>\$ 362</u>	<u>\$ -</u>

Description	Total	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
September 30, 2023				
Available for sale securities:				
Collateralized mortgage obligations	\$ 391	\$ -	\$ 391	\$ -
U.S. Government money market funds	<u>46</u>	<u>46</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 437</u>	<u>\$ 46</u>	<u>\$ 391</u>	<u>\$ -</u>

There were no transfers in and out of Level 1 and Level 2 fair value measurements for the year ended September 30, 2024.

For assets measured at fair value on a non recurring basis, the fair value measurements by level within the fair value hierarchy used at September 30, 2024 and 2023 are as follows (in thousands):

Description	September 30, 2024	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Individually evaluated loans	\$ <u>2,202</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>2,202</u>
Totals	<u>\$ 2,202</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,202</u>

Description	September 30, 2023	(Level 1) Quoted Prices in Active Markets for Identical Assets	(Level 2) Significant Other Observable Inputs	(Level 3) Significant Unobservable Inputs
Impaired Loans	\$ <u>3,033</u>	\$ <u>-</u>	\$ <u>-</u>	\$ <u>3,033</u>
Totals	<u>\$ 3,033</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3,033</u>

Quantitative Information about Level 3 Fair Value Measurements

September 30, 2024

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
Individually evaluated loans	\$ 2,202	Fair Value of Collateral (1)	Appraised Value (2)	17% - 19.9% (20.2%)

Quantitative Information about Level 3 Fair Value Measurements

September 30, 2023

Description	Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average) (3)
Impaired loans	\$ 3,033	Fair Value of Collateral (1)	Appraised Value (2)	17% - 22% (17%)

- (1) Fair value is generally determined through independent appraisals of the underlying collateral, which include Level 3 inputs that are not identifiable.
- (2) Appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated liquidation expenses.
- (3) The range and weighted average of qualitative factors such as economic conditions and estimated liquidation expenses are presented as a percent of the appraised value.

The significant unobservable inputs for individually evaluated loans are the appraised value or an agreed upon sales price. These values are adjusted for estimated costs to sell which are incremental direct costs to transact a sale such as broker commission, legal fees, closing costs and title transfer fees. The costs must be considered essential to the sale and would not have been incurred if the decision to sell had not been made. The costs to sell are based on costs associated with the Company's actual sales of other real estate owned which are assessed annually.

The following information should not be interpreted as an estimate of the fair value of the entire Company since a fair value calculation is only provided for a limited portion of the Company's assets and liabilities. Due to a wide range of valuation techniques and the degree of subjectivity used in making the estimates, comparisons between the Company's disclosures and those of other companies may not be meaningful. The following methods and assumptions were used to estimate the fair values of the Company's financial instruments at September 30, 2024 and 2023.

Securities

The fair value of securities available for sale (carried at fair value) and held to maturity (carried at amortized cost) are determined by obtaining quoted market prices on nationally recognized securities exchanges (Level 1), or matrix pricing (Level 2), which is a mathematical technique used widely in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted prices. The Company currently holds U.S. Government

money market funds which are classified as Level 1, because quoted prices are available for these securities in an active market.

The Bank's investment portfolio is maintained by a third-party which utilizes Interactive Data Corporation (IDC) as its primary source for security valuations. IDC is not affiliated with or owned by a securities broker, dealer or underwriter, nor is it actively involved in the business of investment management or securities trading. Some of the major asset classes that IDC provides pricing and market inputs are as follows: U.S. Agency/Government Sponsored Enterprise (GSE) issues, U.S. high grade municipal issues, and U.S. Structured Securities Agency/GSE Collateralized Mortgage Obligation issues. The methodology used to price the above asset classes include: broker quotes, proprietary models, vast descriptive terms and conditions databases, as well as extensive quality control programs. Market inputs used to help determine the fair value hierarchy include but not limited to: security characteristics, ratings updates, prepayment schedules; cash flows and yield to maturity. Based on these methodologies employed by IDC; the Company considers these evaluations Level 2 in reference to ASC 820 with the exception of inactive markets. There are no securities in an inactive environment.

		Fair Value Measurements at September 30, 2024			
			Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Amount	Estimated Fair Value			
Assets:					
Securities held to maturity	\$ 133,645	\$ 125,238	\$ -	\$ 125,238	\$ -
Loans receivable - net	679,250	634,106	-	-	634,106
Liabilities:					
Certificate of deposit accounts	201,424	200,260	-	-	200,260
Long-term borrowings	56,942	56,931	-	-	56,931

		Fair Value Measurements at September 30, 2023			
			Quoted Prices in Active Markets For Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)	Carrying Amount	Estimated Fair Value			
Assets:					
Securities held to maturity	\$ 158,906	\$ 140,392	\$ -	\$ 140,392	\$ -
Loans receivable - net	633,814	577,263	-	-	577,263
Liabilities:					
Certificate of deposit accounts	117,687	113,138	-	-	113,138
Long-term borrowings	45,853	45,692	-	-	45,692

16. PARENT COMPANY ONLY CONDENSED FINANCIAL INFORMATION

Condensed financial statements of Harleysville Financial Corporation are as follows:

(In thousands)

Condensed Statements of Financial Condition

September 30,

	2024	2023
Assets		
Cash	\$ -	\$ 252
Investment in subsidiary	<u>86,766</u>	<u>87,068</u>
Total Assets	<u>\$ 86,766</u>	<u>\$ 87,320</u>
Liabilities and Stockholders' Equity		
Other liabilities	\$ 80	\$ 107
Stockholders' equity	<u>86,686</u>	<u>87,213</u>
Total Liabilities and Stockholders' Equity	<u>\$ 86,766</u>	<u>\$ 87,320</u>

For the Year Ended September 30,

Condensed Undistributed Statements of Income:

	2024	2023
Equity in income of subsidiary	\$ (585)	\$ 2,172
Distributed earnings of subsidiary	<u>10,144</u>	<u>10,817</u>
Other expense	<u>699</u>	<u>766</u>
Net income	<u>\$ 8,860</u>	<u>\$ 12,223</u>

For the Year Ended September 30,

Condensed Statements of Cash Flows

	2024	2023
Net income	\$ 8,860	\$ 12,223
(Decrease) increase in other liabilities	(27)	18
Stock based compensation	<u>226</u>	<u>221</u>
Equity in undistributed earnings of subsidiary	<u>585</u>	<u>(2,172)</u>
Net cash provided by operating activities	<u>9,644</u>	<u>10,290</u>
Financing activities:		
Acquisition of treasury stock	(1,844)	(2,270)
Sale of treasury stock delivered under employee stock plans	<u>817</u>	<u>921</u>
Dividends paid	<u>(8,869)</u>	<u>(8,717)</u>
Net cash used in financing activities	<u>(9,896)</u>	<u>(10,066)</u>
(Decrease) increase in cash and cash equivalents	(252)	224
Cash and cash equivalents at the beginning of the period	<u>252</u>	<u>28</u>
Cash and cash equivalents at the end of the period	<u>\$ -</u>	<u>\$ 252</u>

17. REVENUE RECOGNITION

Topic 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as income from bank owned life insurance, sales of investment securities, and certain items within other income are also not in scope of the guidance. Topic 606 is applicable to noninterest revenue streams such as deposit related fees and interchange fees. However, the recognition of these revenue streams did not change significantly upon adoption of Topic 606.

The following table presents noninterest income for the year ended September 30, 2024 and 2023:

(Dollars in thousands)	Year Ended September 30,	
	2024	2023
Non-Interest Income		
In-scope of Topic 606:		
Fee income	\$ 197	\$ 181
Insufficient fund fees and other fees	530	543
Interchange fee income	806	820
Other income	329	349
Total Non-Interest Income (in-scope of Topic 606)	<u>1,862</u>	<u>1,893</u>
Out-of-scope of Topic 606:		
Increase in cash surrender value of bank-owned life insurance	403	396
Other	326	416
Total Non-Interest Income (out-scope of Topic 606)	730	812
Total Non-Interest Income (in-scope of Topic 606)	<u>1,862</u>	<u>1,893</u>
Total Non-Interest Income	<u>\$ 2,591</u>	<u>\$ 2,705</u>

The following is a discussion of key revenues of fees for customer services that are within the scope of Topic 606:

- *Fee income* – Fees include service charges on deposits and consist of transaction-based fees, debit card replacement fees, Automated Clearing House (ACH) fees and account maintenance fees for various retail and business checking customers. These fees are charged as earned on the day of the transaction or within the month of the service.
- *Insufficient funds fees and other income*– Revenue from service charges on deposit accounts is earned through cash management, wire transfer, ATM fees and other deposit-related services, as well as overdraft, non-sufficient funds and account management fees. Revenue is recognized for these services either over time, corresponding with deposit accounts' monthly cycle, or at a point in time for transactional related services and fees. These revenues are included in insufficient funds fees and other income in the table above.
- *Interchange fee income* – Fees generated when Company cardholders conduct transactions on their debit cards with merchants for goods or services. The Company then collects a portion of the fees generated from those transactions. Revenue is recognized for these transactions within the month they transpire.

18. LEASES

A lease is defined as a contract, or part of a contract, that conveys the right to control the use of identified property, plant or equipment for a period of time in exchange for consideration. The Company accounts for all of its leases in accordance with Topic 842. For the Company.

Substantially all of the leases in which the Company is the lessee are comprised of real estate property for branches and office space with terms extending through 2043. All of our leases are classified as operating leases. In accordance with Topic 842, operating lease agreements are required to be recognized on the Consolidated Statement of Financial Condition as a right-of-use (“ROU”) asset and a corresponding lease liability.

The following table presents the Consolidated Statement of Financial Condition classification of the Company’s ROU assets and lease liabilities. The Company elected not to include short-term leases (i.e., leases with initial terms of twelve months or less), or equipment leases (deemed immaterial) on the Consolidated Statement of Financial Condition as of September 30, 2024 and 2023.

(in thousands)		<u>September 30, 2024</u>	<u>September 30, 2023</u>
Lease Right-of-Use Assets	Classification		
Operating lease right-of-use assets	Other assets	\$2,491	\$2,613
Total Lease Right-Of-Use Assets		<u>\$2,491</u>	<u>\$2,613</u>

(in thousands)		<u>September 30, 2024</u>	<u>September 30, 2023</u>
Lease Liabilities	Classification		
Operating lease liabilities	Other liabilities	\$2,694	\$2,787
Total Lease Liabilities		<u>\$2,694</u>	<u>\$2,787</u>

The calculated amount of the ROU assets and lease liabilities in the table above are impacted by the length of the lease term and the discount rate used to present value the minimum lease payments. The Company’s lease agreements often include one or more options to renew at the Company’s discretion. If at lease inception, the Company considers the exercising of a renewal option to be reasonably certain, the Company will include the extended term in the calculation of the ROU asset and lease liability. Regarding the discount rate, Topic 842 requires the use of the rate implicit in the lease whenever this rate is readily determinable. As this rate is rarely determinable, the Company utilizes its incremental borrowing rate at lease inception, on a collateralized basis, over a similar term.

A summary of weighted average remaining lease term, as of September 30, 2024 and 2023.

	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Weighted average remaining lease term		
Operating leases	13.5 years	14.5 years
Weighted average discount rate		
Operating leases	2.68%	2.68%

The following table represents lease costs and other lease information. As the Company elected, for all classes of underlying assets, not to separate lease and non-lease components and instead to account for them as a single lease component, the variable lease cost primarily represents variable payments such as common area maintenance and utilities, as of September 30, 2024 and 2023.

<u>Lease Costs (in thousands)</u>	<u>Twelve Months Ended</u>	
	<u>September 30, 2024</u>	<u>September 30, 2023</u>
Operating lease cost	\$167	\$167
Variable lease cost	<u>42</u>	<u>53</u>
Net lease cost	\$209	\$220

Future minimum payments for operating leases with initial or remaining terms of one year or more as of September 30, 2024 as follows:

(in thousands)	<u>Operating leases</u>
	<u>September 30, 2024</u>
Twelve months Ended:	
Within one year	\$ 168
After one but within two years	173
After two but within three years	173
After three but within four years	181
After four but within five years	191
<u>After five years</u>	<u>2,539</u>
Total future minimum lease payments	\$ 3,424
<u>Amounts representing interest</u>	<u>(731)</u>
Present Value of Net Future Minimum Lease Payments	<u>\$ 2,694</u>

19. SUBSEQUENT EVENTS

Management has reviewed events occurring through December 3, 2024, the date the financial statements were issued, and no subsequent events occurred requiring accrual or disclosures.

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