UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

☒ ANNUAL REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended **December 31, 2024**

or

☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from ________to________

Commission File Number: 000-21344

FIRST KEYSTONE CORPORATION

(Exact name of registrant as specified in its Charter)

Pennsylvania	**23-2249083**
(State or other jurisdiction of incorporation)	(I.R.S. Employer Identification Number)
111 West Front Street Berwick, Pennsylvania	**18603**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **(570) 752-3671**

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol	Name of each exchange on which registered
None	N/A	N/A

Securities registered pursuant to Section 12(g) of the Act: **Common Stock, par value $2.00 per share**

Indicate by check mark if the registrant is a well-known seasoned issuer as defined in Rule 405 of the Securities Act.
Yes ☐ No ☒

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.
Yes ☐ No ☒

Indicate by check mark whether the Registrant (1) filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "small reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐	Accelerated filer ☐
Non-accelerated filer ☒	Smaller reporting company ☒
Emerging growth company ☐	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report.
Yes ☐ No ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant′s executive officers during the relevant recovery period pursuant to § 240.10D-1(b). ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).
Yes ☐ No ☒

The aggregate market value of the registrant's outstanding voting common stock held by non-affiliates on June 30, 2024 determined by using a per share closing price on that date of $12.50 as quoted on the Over the Counter Market, was $68,560,542.

At March 24, 2025, there were 6,218,781 shares of Common Stock, $2.00 par value, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the Registrant's 2025 definitive Proxy Statement are incorporated by reference in Part III of this Report.

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PART I

Forward-Looking Statements

In addition to historical information, this Annual Report on Form 10-K contains forward-looking statements, which are included pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Examples of forward-looking statements include, but are not limited to (a) projections or statements regarding future earnings, expenses, net interest income, other income, earnings or loss per share, asset mix and quality, growth prospects, capital structure, and other financial terms, (b) statements of plans and objectives of management or the Board of Directors, and (c) statements of assumptions, such as economic conditions in First Keystone Corporation's (the "Corporation") market areas. Such forward-looking statements can be identified by the use of forward-looking terminology such as "believes", "expects", "may", "intends", "will", "should", "anticipates", or the negative of any of the foregoing or other variations thereon or comparable terminology, or by discussion of strategy.

Forward-looking statements are subject to certain risks and uncertainties such as local economic conditions, competitive factors, and regulatory limitations. Actual results may differ materially from those projected in the forward-looking statements. Such risks, uncertainties and other factors that could cause actual results and experience to differ from those projected include, but are not limited to, the following: short-term and long-term effects of inflation and rising costs to the Corporation; ineffectiveness of the business strategy due to changes in current or future market conditions; the risks of changes in interest rates on the level and composition of deposits, loan demand, and the values of loan collateral, securities and interest rate protection agreements, as well as interest rate risks; securities market and monetary volatilities and fluctuations; the effects of economic conditions on current and future customers, particularly with regard to the negative impact of any pandemic, epidemic or health-related crisis, and governmental responses thereto, and specifically the effect of the economy on loan customers' ability to repay loans; effects of short- and long-term federal budget and tax negotiations and their effects on economic and business conditions; possible impacts of the capital and liquidity requirements of Basel III standards and other regulatory pronouncements, regulations and rules; changes in accounting principles, policies or guidelines as may be adopted by the regulatory agencies as well as the Public Company Accounting Oversight Board and the Financial Accounting Standards Board, and other accounting standards setters; the effects of competition from other commercial banks, thrifts, mortgage banking firms, consumer finance companies, credit unions, securities brokerage firms, insurance companies, money market and other mutual funds and other financial institutions operating in our market area and elsewhere, including institutions operating locally, regionally, nationally and internationally, together with such competitors offering banking products and services by mail, telephone, computer and the internet; governmental monetary and fiscal policies, as well as legislative and regulatory changes; the effects of new laws and regulations (including laws and regulations concerning taxes, banking, securities and insurance) and their application with which the Corporation and its subsidiary must comply; information technology difficulties, including technological changes; challenges in establishing and maintaining operations in new markets; acquisitions and integration of acquired businesses; the failure of assumptions underlying the establishment of reserves for loan losses and estimations of values of collateral and various financial assets and liabilities; acts of war or terrorism; disruption of credit and equity markets; our ability to manage current levels of impaired assets; deposit flows; the loss of certain key officers; our ability to maintain the value and image of our brand and protect our intellectual property rights; continued relationships with major customers; the potential impact to the Corporation from continually evolving payment fraud risk, cybersecurity and other technological risks and attacks, including additional costs, reputational damage, regulatory penalties and financial losses; and the effect of general economic conditions and more specifically in the Corporation's market area.

We caution readers not to place undue reliance on these forward-looking statements. They only reflect management's analysis as of this date. The Corporation does not revise or update these forward-looking statements to reflect events or changed circumstances. Please carefully review the risk factors described in this document and in other documents the Corporation files from time to time with the Securities and Exchange Commission, including the Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, and any Current Reports on Form 8-K.

ITEM 1. BUSINESS

General

First Keystone Corporation (the "Corporation") is a Pennsylvania business corporation, and a bank holding company, registered with and supervised by the Board of Governors of the Federal Reserve System (the "Federal Reserve Board"). The Corporation was incorporated on July 6, 1983, and commenced operations on July 2, 1984, upon consummation of the acquisition of all of the outstanding stock of First National Bank of Berwick (the predecessor to First Keystone Community Bank). The Corporation has one wholly-owned subsidiary, First Keystone Community Bank (the "Bank"), which has a commercial banking operation and trust department as its major lines of business. Since commencing operations, the Corporation's business has consisted primarily of managing and supervising the Bank, and its principal source of income has been dividends paid by the Bank. Greater than 100% of the Corporation's revenue and profit came from the commercial bank subsidiary for the years ended December 31, 2024 and 2023, and community banking was the only reportable segment. At December 31, 2024, the Corporation had total consolidated assets, deposits and stockholders' equity of approximately $1.4 billion, $1.0 billion and $107 million, respectively. The Corporation is supported by the Board of Governors of the Federal Reserve System.

The Bank was originally organized in 1864 as a national banking association. On October 1, 2010, the Bank converted from a national banking association to a Pennsylvania chartered commercial bank and trust company under the supervision of the Pennsylvania Department of Banking and Securities and the Federal Deposit Insurance Corporation (the "FDIC").

The Bank's deposits are insured by the FDIC to the maximum extent of the law, and it is regulated by the FDIC and the Pennsylvania Department of Banking and Securities. The Bank is subject to regulation by the Federal Reserve Board governing reserves required to be maintained against certain deposits and other matters. The Bank is also a member of the Federal Home Loan Bank of Pittsburgh ("FHLB"), which is one of the twelve regional cooperative banks comprising the system of Federal Home Loan Banks that lending institutions use to finance housing and economic development in local communities.

The Bank's legal headquarters are located at 111 West Front Street, Berwick, Pennsylvania, from which it oversees the operations of its nineteen branch locations. These locations consist of five branches within Columbia County, eight branches within Luzerne County, one branch in Montour County, four branches within Monroe County, and one branch in Northampton County, Pennsylvania. For further information, please refer to Item 2 – Properties, and Note 11 – Commitments and Contingencies in the notes to the consolidated financial statements.

The Bank is a full service commercial bank providing a wide range of services to individuals and small to medium sized businesses in its Northeastern Pennsylvania market area. The Bank's commercial banking activities include accepting time, demand and savings deposits and making secured and unsecured commercial, real estate, agricultural and consumer loans. Additionally, the Bank provides personal and corporate trust and agency services to individuals, corporations and others, including trust investment accounts, investment advisory services, mutual funds, estate planning, and management of pension and profit sharing plans. The Bank's business is not seasonal in nature. The Bank has no foreign loans or highly leveraged transaction loans, as defined by the Federal Reserve Board. Substantially all of the loans in the Bank's portfolio have been originated by the Bank. Policies adopted by the Board of Directors are the basis by which the Bank conducts its lending activities.

At December 31, 2024, the Bank had 206 full-time employees and 12 part-time employees. In the opinion of management, the Bank enjoys a satisfactory relationship with its employees. The Bank is not a party to any collective bargaining agreement.

The Corporation's internet website is firstkeystonecorp.fkc.bank and the Bank's internet website is www.fkc.bank. None of the information or contents of our website is incorporated into this Annual Report on Form 10-K.

When we say “we”, “us”, “our” or the “Corporation”, we mean the Corporation on a consolidated basis with the Bank.

Primary Market Areas

The Bank’s primary market area reaches west from Montour County spanning east into Monroe and Northampton Counties, encompassing Columbia and Luzerne Counties. The bank’s market extends north through Luzerne County and south into Northampton County. Numerous other counties are also served; eleven contiguous counties, such as Pike and Lehigh; as well other surrounding counties, for instance Union and Snyder. The area served by the Bank includes a mix of rural communities, small to mid-sized towns and cities. The current population of the Bank’s primary five-county footprint has increased 1.0% since 2020 to 899,000 and is estimated to increase 1.5% to 913,000 by 2030. As of June 30, 2024, the FDIC Summary of Deposits report market share data ranked the Bank 12th in the deposit market share out of the top 20 banks in the principal five-county deposit market, with 2.8% of deposits.

The Bank’s headquarters, main office, and three of its branch offices are located in Berwick, Pennsylvania. Therefore, the Bank has a very strong presence in the Borough of Berwick, a community with a current population of approximately 10,400. The Bank ranks second in deposit market share in the Berwick market with 30.3% of deposits as of June 30, 2024, based on data compiled annually by the FDIC.

In the course of attracting and retaining deposits and originating loans, the Bank faces considerable competition with various types of financial institutions. The Bank competes with 29 commercial banks, 2 savings banks, 1 savings and loan association, and 32 credit unions for traditional banking products, such as deposits and loans in its primary five-county market area. Additionally, the Bank also competes with non-bank and online firms, such as consumer finance companies and financial technology companies, for loans, mutual funds and other investment alternatives for deposits. The Bank vies for deposits based on the ability to provide a range of competitively priced products, quality consultative service, competitive rates, enhanced online service and offerings and convenient locations and hours. The challenge among its peers for loan origination generally relates to interest rates offered, products available, ease of process, quality of service, and loan origination fees charged. The economic base of the Bank’s market region is developed around small business, health care, educational facilities (colleges and public schools), light manufacturing industries, travel and leisure, and agriculture.

The Bank continues to assess the market area to determine the best way to meet the financial needs of the communities it serves. Management continues to pursue new market opportunities based on a strategic plan to efficiently grow the Bank, improve earnings performance, and bring the Bank’s products and services to new customers. Management strategically addresses growth opportunities versus competitive issues by formulating the new products and services to be offered, evaluating expansion opportunities of its existing footprint with new locations, as well as investing in the expertise of skilled employees. Through relationship banking, the Bank continues to succeed in serving its customers by living up to its motto, “Yesterday’s Traditions. Tomorrow’s Vision.”

Competition - Bank

The Bank is generally competitive with national, regional and community banking financial institutions and credit unions in its service area, with respect to interest rates paid on time, savings and interest-bearing checking deposits, service charges assessed and interest rates charged on loans. The Bank’s major competitors in Columbia, Luzerne, Montour, Monroe, Northampton, and Lehigh Counties are:

- AgChoice Farm Credit, ACA
- Citizens Bank, N.A.
- Community Bank, N.A.
- The Dime Bank
- Embassy Bank for the Lehigh Valley
- ESSA Bank & Trust
- Fidelity Deposit and Discount Bank
- First National Bank of PA (FNB of PA)
- First Northern Bank & Trust Co.
- FNCB Bank
- Fulton Bank, N.A.
- The Honesdale National Bank
- Jersey Shore State Bank
- Journey Bank
- Luzerne Bank
- M & T Bank
- Members 1st Federal Credit Union
- NBT Bank, N.A.
- Peoples Security Bank & Trust Co.
- Service 1st Federal Credit Union
- Susquehanna Community Bank
- Wayne Bank

Concentration

The Corporation and the Bank are not dependent on deposits nor exposed by loan concentrations to a single customer or to a small group of customers, or sector or industry except as described below, such that the loss of any one or more would not have a materially adverse effect on the financial condition of the Corporation or the Bank. The Corporation had been successful in attracting municipal deposits, which make up 16.1% of total deposits at December 31, 2024. The largest deposit customer consisted of a municipality with deposit balances amounting to 4.9% of total deposits. The Corporation currently has the ability to utilize liquidity tools, such as wholesale borrowings or brokered deposits, to replace reductions in municipal deposits. The customers' ability to repay their loans is generally dependent on the real estate market and general economic conditions prevailing in Pennsylvania, among other factors.

Supervision and Regulation

The Corporation is subject to the jurisdiction of the Securities and Exchange Commission (the "SEC") and of state securities laws for matters relating to the offering and sale of its securities. The Corporation is currently subject to the SEC's rules and regulations relating to companies whose shares are registered under Section 12 of the Securities Exchange Act of 1934 (the "Exchange Act"), as amended.

The Corporation is also subject to the provisions of the Bank Holding Company Act of 1956, as amended, and to supervision by the Federal Reserve Board. The Bank Holding Company Act requires the Corporation to secure the prior approval of the Federal Reserve Board before it owns or controls, directly or indirectly, more than 5% of the voting shares of substantially all of the assets of any institution, including another bank.

The Bank Holding Company Act also prohibits acquisition of control of a bank holding company, such as the Corporation, without prior notice to the Federal Reserve Board. Control is defined for this purpose as the power, directly or indirectly, to direct the management or policies of a bank holding company or to vote 25% (or 10%, if no other person or persons acting on concert, holds a greater percentage of the common stock) or more of the Corporation's common stock.

The Corporation is required to file an annual report with the Federal Reserve Board and any additional information that the Federal Reserve Board may require pursuant to the Bank Holding Company Act. The Federal Reserve Board may also make examinations of the Corporation and any or all of its subsidiaries.

The Bank is subject to federal and state statutes applicable to banks chartered under the banking laws of Pennsylvania and to banks whose deposits are insured by the FDIC. The Bank is subject to supervision, regulation and examination by the Pennsylvania Department of Banking and Securities, the FDIC and the Consumer Financial Protection Bureau.

Federal and state banking laws and regulations govern, among other things, the scope of a bank's business, the investments a bank may make, the reserves against deposits a bank must maintain, loans a bank makes and collateral it takes, and the activities of a bank with respect to mergers and consolidations and the establishment of branches.

As a subsidiary of a bank holding company, the Bank is subject to certain restrictions imposed by the Federal Reserve Act on any extensions of credit to the bank holding company or its subsidiaries, on investments in the stock or other securities of the bank holding company or its subsidiaries and on taking such stock or securities as collateral for loans. The Federal Reserve Act and Federal Reserve Board regulations also place certain limitations and reporting requirements on extensions of credit by a bank to principal shareholders of its parent holding company, among others, and to related interests of such principal shareholders. In addition, such legislation and regulations may affect the terms upon which any person becoming a principal shareholder of a holding company may obtain credit from banks with which the subsidiary bank maintains a correspondent relationship.

Permitted Non-Banking Activities

The Federal Reserve Board permits bank holding companies to engage in non-banking activities so closely related to banking, managing or controlling banks as to be a proper incident thereto. The Corporation does not at this time engage in any of these non-banking activities, nor does the Corporation have any current plans to engage in any other permissible activities in the foreseeable future.

Legislation and Regulatory Changes

From time to time, various types of federal and state legislation have been proposed that could result in additional regulations of, and restrictions on, the business of the Bank. It cannot be predicted whether any such legislation will be adopted or how such legislation would affect the business of the Bank. As a consequence of the extensive regulation of commercial banking activities in the United States, the Bank's business is particularly susceptible to being affected by federal legislation and regulations that may increase the costs of doing business.

From time to time, legislation is enacted which has the effect of increasing the cost of doing business, limiting or expanding permissible activities or affecting the competitive balance between banks and other financial institutions. No prediction can be made as to the likelihood of any major changes or the impact such changes might have on the Corporation and the Bank. Certain changes of potential significance to the Corporation which have been enacted recently and others which are currently under consideration by Congress or various regulatory agencies are discussed below.

Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA")

The FDICIA established five different levels of capitalization of financial institutions, with "prompt corrective actions" and significant operational restrictions imposed on institutions that are capital deficient under the categories. The five categories are:

- well capitalized
- adequately capitalized
- undercapitalized
- significantly undercapitalized, and
- critically undercapitalized.

To be considered well capitalized, an institution must have a total risk-based capital ratio of at least 10%, a tier 1 risk-based capital ratio of at least 8%, a common equity tier 1 risk-based capital ratio of at least 6.5%, a leverage capital ratio of at least 5%, and must not be subject to any order or directive requiring the institution to improve its capital level. An institution falls within the adequately capitalized category if it has a total risk-based capital ratio of at least 8%, a tier 1 risk-based capital ratio of at least 6%, a common equity tier 1 risk-based capital ratio of at least 4.5%, and a leverage capital ratio of at least 4%. Institutions with lower capital levels are deemed to be undercapitalized, significantly undercapitalized or critically undercapitalized, depending on their actual capital levels. In addition, the appropriate federal regulatory agency may downgrade an institution to the next lower capital category upon a determination that the institution is in an unsafe or unsound condition, or is engaged in an unsafe or unsound practice. Institutions are required under the FDICIA to closely monitor their capital levels and to notify their appropriate regulatory agency of any basis for a change in capital category. On December 31, 2024, the Corporation and the Bank exceeded the minimum capital levels of the well capitalized category. See Note 14 — Regulatory Matters.

Regulatory oversight of an institution becomes more stringent with each lower capital category, with certain "prompt corrective actions" imposed depending on the level of capital deficiency.

Other Provisions of the FDICIA

Each depository institution must submit audited financial statements to its primary regulator and the FDIC, whose reports are made publicly available. In addition, the audit committee of each depository institution must consist of outside directors and the audit committee at "large institutions" (as defined by FDIC regulation) must include members with banking or financial management expertise. The audit committee at "large institutions" must also have access to independent outside counsel. In addition, an institution must notify the FDIC and the institution's primary regulator of any change in the institution's independent auditor, and annual management letters must be provided to the FDIC and the depository institution's primary regulator. The regulations define a "large institution" as one with over $500 million in assets, which does include the Bank. Also, under the rule, an institution's independent public accountant must examine the institution's internal controls over financial reporting and perform agreed-upon procedures to test compliance with laws and regulations concerning safety and soundness.

Under the FDICIA, each federal banking agency must prescribe certain safety and soundness standards for depository institutions and their holding companies. Three types of standards must be prescribed:

- asset quality, earnings, and stock valuation
- operational and managerial, and
- compensation.

Such standards would include a ratio of classified assets to capital, minimum earnings, and, to the extent feasible, a minimum ratio of market value to book value for publicly traded securities of such institutions and holding companies. Operational and managerial standards must relate to:

- internal controls, information systems and internal audit systems
- loan documentation
- credit underwriting
- interest rate exposure
- asset growth, and
- compensation, fees and benefits.

The FDICIA also sets forth Truth in Savings disclosure and advertising requirements applicable to all depository institutions.

Real Estate Lending Standards. Pursuant to the FDICIA, federal banking agencies adopted real estate lending guidelines which would set loan-to-value ("LTV") ratios for different types of real estate loans. The LTV ratio is generally defined as the total loan amount divided by the appraised value of the property at the time the loan is originated. If the institution does not hold a first lien position, the total loan amount would be combined with the amount of all superior liens when calculating the ratio. In addition to establishing the LTV ratios, the guidelines require all real estate loans to be based upon proper loan documentation and a recent appraisal or certificate of inspection of the property.

Regulatory Capital Requirements

In 2013, the federal banking agencies issued final rules to implement the Basel III regulatory capital reforms and changes required by the Dodd-Frank Act. The final rules call for the following capital requirements:

- A minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5%.

- A minimum ratio of tier 1 capital to risk-weighted assets of 6%.
- A minimum ratio of total capital to risk-weighted assets of 8%.
- A minimum leverage ratio of 4%.

In addition, the final rules establish a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets applicable to all banking organizations. If a banking organization fails to hold capital above the minimum capital ratios and the capital conservation buffer, it will be subject to certain restrictions on capital distributions and discretionary bonus payments. The capital level required to avoid restrictions on elective distributions applicable to the Bank were as follows:

- A common equity tier 1 capital ratio of 7%.
- A tier 1 risk-based capital ratio of 8.5%.
- A total risk-based capital ratio of 10.5%.

As of December 31, 2024, the Bank maintained capital ratios above the required capital conservation buffer.

Federal Reserve Bank Small Bank Holding Company Policy

Effective in August 2018, the Federal Reserve Board issued an interim final rule that expanded applicability of the Board's small bank holding company policy statement. The interim final rule raised the policy statement's asset threshold from $1 billion to $3 billion in total consolidated assets for a bank holding company or savings and loan holding company that: (1) is not engaged in significant nonbanking activities; (2) does not conduct significant off-balance sheet activities; and (3) does not have a material amount of debt or equity securities, other than trust-preferred securities, outstanding. The interim final rule provides that, if warranted for supervisory purposes, the Federal Reserve may exclude a company from the threshold increase. Management believes the Corporation meets the conditions of the Federal Reserve's small bank holding company policy statement and is therefore excluded from consolidated capital requirements at December 31, 2024; however, the Bank remains subject to regulatory capital requirements administered by the federal banking agencies.

Effect of Government Monetary Policies

The earnings of the Corporation are and will be affected by domestic economic conditions and the monetary and fiscal policies of the United States government and its agencies.

The Federal Reserve Board has had, and will likely continue to have, an important impact on the operating results of commercial banks through its power to implement national monetary policy in order to, among other things, curb inflation or combat a recession. The Federal Reserve Board has a major effect upon the levels of bank loans, investments and deposits through its open market operations in United States government securities and through its regulations of, among other things, the discount rate on borrowings of member banks and the reserve requirements against member bank deposits. It is not possible to predict the nature and impact of future changes in monetary and fiscal policies

Effects of Inflation

Inflation has some impact on the Bank's operating costs. Unlike industrial companies, however, substantially all of the Bank's assets and liabilities are monetary in nature. As a result, interest rates have a more significant impact on the Bank's performance than the general levels of inflation. Over short periods of time, interest rates may not necessarily move in the same direction or in the same magnitude as prices of goods and services.

Environmental Regulation

There are several federal and state statutes that regulate the obligations and liabilities of financial institutions pertaining to environmental issues. In addition to the potential for attachment of liability resulting from its own actions, a bank may be held liable, under certain circumstances, for the actions of its borrowers, or third parties, when such actions result in environmental problems on properties that collateralize loans held by the bank. Further, the liability has the potential to far exceed the original amount of the loan issued by the Bank. Currently, neither the Corporation nor the Bank is a party to any pending legal proceeding pursuant to any environmental statute, nor are the Corporation and the Bank aware of any circumstances that may give rise to liability under any such statute.

Interest Rate Risk

Federal banking agency regulations specify that the Bank's capital adequacy include an assessment of the Bank's interest rate risk exposure. The standards for measuring the adequacy and effectiveness of a banking organization's Interest Rate Risk ("IRR") management includes a measurement of Board of Directors and senior management oversight, and a determination of whether a banking organization's procedures for comprehensive risk management are appropriate to the circumstances of the specific banking organization. The Bank has internal IRR models that are used to measure and monitor IRR. Additionally, the regulatory agencies have been assessing IRR on an informal basis for several years. For these reasons, the Corporation does not expect the addition of IRR evaluation to the agencies' capital guidelines to result in significant changes in capital requirements for the Bank.

The Gramm-Leach-Bliley Act of 1999

In 1999, the Gramm-Leach-Bliley Act became law, which is also known as the Financial Services Modernization Act. The act repealed some Depression-era banking laws and permits banks, insurance companies and securities firms to engage in each others' businesses after complying with certain conditions and regulations. The act grants to community banks the power to enter new financial markets as a matter of right that larger institutions have managed to do on an ad hoc basis. At this time, the Corporation has no plans to pursue these additional possibilities.

The Sarbanes-Oxley Act

In 2002, the Sarbanes-Oxley Act became law. The Act was in response to public concerns regarding corporate accountability in connection with recent high visibility accounting scandals. The stated goals of the Sarbanes-Oxley Act are:

- To increase corporate responsibility;
- To provide for enhanced penalties for accounting and auditing improprieties at publicly traded companies; and
- To protect investors by improving the accuracy and reliability of corporate disclosures pursuant to the securities laws.

The Sarbanes-Oxley Act generally applies to all companies, both U.S. and non-U.S., that file periodic reports with the SEC under the Exchange Act. The legislation includes provisions, among other things:

- Governing the services that can be provided by a public company's independent auditors and the procedures for approving such services;
- Requiring the chief executive officer and chief financial officer to certify certain matters relating to the company's periodic filings under the Exchange Act;
- Requiring expedited filings of reports by insiders of their securities transactions and containing other provisions relating to insider conflicts of interest;
- Increasing disclosure requirements relating to critical financial accounting policies and their application;
- Increasing penalties for securities law violations; and
- Creating a public accounting oversight board, a regulatory body subject to SEC jurisdiction with broad powers to set auditing, quality control and ethics standards for accounting firms.

Dodd-Frank Wall Street Reform and Consumer Protection Act

The Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank") became law in July 2010. Dodd-Frank is intended to affect a fundamental restructuring of federal banking regulation. Among other things, Dodd-Frank created a new Financial Stability Oversight Council to identify systemic risks in the financial system and gave federal regulators new authority to take control of and liquidate financial firms. Dodd-Frank additionally created a new independent federal regulator to administer federal consumer protection laws. Dodd-Frank continues to have a significant impact on our business operations as its provisions are amended and requirements are clarified. Community banks have seen an increase in operating and compliance costs and interest expense. Among the provisions that have affected us are the following:

Holding Company Capital Requirements. Dodd-Frank requires the Federal Reserve to apply consolidated capital requirements to bank holding companies that are no less stringent than those currently applied to depository institutions. Under these standards, trust preferred securities will be excluded from Tier 1 capital unless such securities were issued prior to May 19, 2010 by a bank holding company with less than $15 billion in assets. Dodd-Frank additionally requires that bank regulators issue countercyclical capital requirements so that the required amount of capital increases in times of economic expansion and decreases in times of economic contraction, consistent with safety and soundness.

Deposit Insurance. Dodd-Frank permanently increased the maximum deposit insurance amount for banks, savings institutions and credit unions to $250,000 per depositor. Dodd-Frank also broadens the base for FDIC insurance assessments. Assessments will now be based on the average consolidated total assets less tangible equity capital of a financial institution. Dodd-Frank required the FDIC to increase the reserve ratio of the Deposit Insurance Fund from 1.15% to 1.35% of insured deposits by 2020 and eliminates the requirement that the FDIC pay dividends to insured depository institutions when the reserve ratio exceeds certain thresholds. Effective one year from the date of enactment, Dodd-Frank eliminated the federal statutory prohibition against the payment of interest on business checking accounts.

Corporate Governance. Dodd-Frank requires publicly traded companies to give stockholders a non-binding vote on executive compensation at least every three years, a non-binding vote regarding the frequency of the vote on executive compensation at least every six years, and a non-binding vote on "golden parachute" payments in connection with approvals of mergers and acquisitions unless previously voted on by shareholders. The SEC has finalized the rules implementing these requirements which took effect on January 21, 2011. Additionally, Dodd-Frank directs the federal banking regulators to promulgate rules prohibiting excessive compensation paid to executives of depository institutions and their holding companies with assets in excess of $1 billion, regardless of whether the company is publicly traded. Dodd-Frank also gives the SEC authority to prohibit broker discretionary voting on elections of directors and executive compensation matters.

Prohibition Against Charter Conversions of Troubled Institutions. Effective one year after enactment, Dodd-Frank prohibits a depository institution from converting from a state to federal charter or vice versa while it is the subject of a cease and desist order or other formal enforcement action or a memorandum of understanding with respect to a significant supervisory matter unless the appropriate federal banking agency gives notice of the conversion to the federal or state authority that issued the enforcement action and that agency does not object within 30 days. The notice must include a plan to address the significant supervisory matter. The converting institution must also file a copy of the conversion application with its current federal regulator which must notify the resulting federal regulator of any ongoing supervisory or investigative proceedings that are likely to result in an enforcement action and provide access to all supervisory and investigative information relating thereto.

Interstate Branching. Dodd-Frank authorizes national and state banks to establish branches in other states to the same extent as a bank chartered by that state would be permitted. Previously, banks could only establish branches in other states if the host state expressly permitted out-of-state banks to establish branches in that state. Accordingly, banks will be able to enter new markets more freely.

Limits on Interstate Acquisitions and Mergers. Dodd-Frank precludes a bank holding company from engaging in an interstate acquisition — the acquisition of a bank outside its home state — unless the bank holding company is both well capitalized and well managed. Furthermore, a bank may not engage in an interstate merger with another bank headquartered in another state unless the surviving institution will be well capitalized and well managed. The previous standard in both cases was adequately capitalized and adequately managed.

Limits on Interchange Fees. Dodd-Frank amends the Electronic Fund Transfer Act to, among other things, give the Federal Reserve the authority to establish rules regarding interchange fees charged for electronic debit transactions by payment card issuers having assets over $10 billion and to enforce a new statutory requirement that such fees be reasonable and proportional to the actual cost of a transaction to the issuer. On June 29, 2011, the Federal Reserve Board set the interchange rate cap at $0.21 per transaction. While the restrictions on interchange fees do not affect banks with assets less than $10 billion, the rule could affect the competitiveness of debit cards issued by smaller banks.

Consumer Financial Protection Bureau. Dodd-Frank created the independent federal agency called the Consumer Financial Protection Bureau ("CFPB"), which is granted broad rulemaking, supervisory and enforcement powers under various federal consumer financial protection laws, including the Equal Credit Opportunity Act, Truth in Lending Act, Real Estate Settlement Procedures Act, Fair Credit Reporting Act, Fair Debt Collection Act, the Consumer Financial Privacy provisions of the Gramm-Leach-Bliley Act and certain other statutes. The CFPB has examination and primary enforcement authority with respect to depository institutions with $10 billion or more in assets. Smaller institutions are subject to rules promulgated by the CFPB but continue to be examined and supervised by federal banking regulators for consumer compliance purposes. The CFPB has authority to prevent unfair, deceptive or abusive practices in connection with the offering of consumer financial products. Dodd-Frank authorizes the CFPB to establish certain minimum standards for the origination of residential mortgages including a determination of the borrower's ability to repay. In addition, Dodd-Frank will allow borrowers to raise certain defenses to foreclosure if they receive any loan other than a "qualified mortgage" as defined by the CFPB. Dodd-Frank permits states to adopt consumer protection laws and standards that are more stringent than those adopted at the federal level and, in certain circumstances, permits state attorneys general to enforce compliance with both the state and federal laws and regulations.

Department of Defense Military Lending Rule

In 2015, the U.S. Department of Defense issued a final rule which restricts pricing and terms of certain credit extended to active duty military personnel and their families. This rule, which was implemented effective October 3, 2016, caps the interest rate on certain credit extensions to an annual percentage rate of 36% and restricts other fees. The rule requires financial institutions to verify whether customers are military personnel subject to the rule. The impact of this final rule, and any subsequent amendments thereto, on the Corporation's lending activities and the Corporation's statements of income or condition has had little or no impact; however, management will continue to monitor the implementation of the rule for any potential side effects on the Corporation's business.

Available Information

The Corporation's common stock is registered under Section 12(g) of the Exchange Act. The Corporation is subject to the informational requirements of the Exchange Act, and, accordingly, files reports, proxy statements and other information with the SEC. The Corporation is an electronic filer with the SEC. The SEC maintains an internet site that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC. The SEC's internet site address is www.sec.gov.

A copy of the Corporation's Annual Report on Form 10-K may be obtained without charge at www.fkyscorp.com. This reference to the Corporation's Internet address shall not, under any circumstances, be deemed to incorporate the information available at such Internet address into this Form 10-K or other SEC filings.

ITEM 1A. RISK FACTORS

Investments in the Corporation's common stock involve risk. The market price of the Corporation's common stock may fluctuate significantly in response to a number of factors, including:

Business Risks

The Corporation is subject to interest rate risk.

The Corporation's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest income earned on interest-earning assets such as loans and securities and interest expense paid on interest-bearing liabilities such as deposits and borrowed funds. Interest rates are highly sensitive to many factors that are beyond the Corporation's control, including general economic conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Corporation receives on loans and securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect (i) the Corporation's ability to originate loans and obtain deposits, (ii) the fair value of the Corporation's financial assets and liabilities, and (iii) the average duration of the Corporation's mortgage-backed and asset-backed securities portfolios. If the interest rates paid on deposits and other borrowings increase at a faster rate than the interest rates received on loans and other investments, the Corporation's net interest income, and therefore earnings, could be adversely affected. Earnings could also be adversely affected if the interest rates received on loans and other investments fall more quickly than the interest rates paid on deposits and other borrowings.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes and volatility in interest rates on the Corporation's results of operations, any substantial, unexpected, or prolonged change in market interest rates could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation is subject to lending risk.

As of December 31, 2024, approximately 89.8% of the Corporation's loan portfolio was secured by real estate (including construction loans). Real estate loans secured by commercial properties are generally viewed as having more risk of default than consumer loans and loans secured by residential real estate. Loans secured by commercial properties are also typically larger than consumer loans and loans secured by residential real estate. Because the Corporation's loan portfolio contains a significant number of loans secured by commercial properties with relatively large balances, the deterioration of one or a few of these loans could cause a significant increase in non-performing loans. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for credit losses and an increase in loan charge-offs, all of which could have a material adverse effect on the Corporation's financial condition and results of operations.

If the Corporation's Allowance for Credit Losses is not sufficient to cover actual credit losses, earnings could decrease.

The Corporation's loan customers may not repay their loans according to the terms of their loans, and the collateral securing the payment of their loans may be insufficient to assure repayment. The Corporation may experience significant credit losses, which could have a material adverse effect on its operating results. In determining the amount of the allowance for credit losses, the Corporation reviews its loans and loss and delinquency experience and evaluates economic conditions. If the Corporation's assumptions prove to be incorrect, the allowance for credit losses may not cover inherent losses in its loan portfolio at the date of the financial statements. Material additions to the Corporation's allowance would materially decrease net income. At December 31, 2024, the allowance for credit losses totaled $7.7 million, representing 0.83% of average total loans.

Although the Corporation believes its underwriting standards are sufficient to manage normal lending risks, it is difficult to assess the future performance of the loan portfolio due to ongoing new originations. The Corporation cannot assure that non-performing loans will not increase or that non-performing or delinquent loans will not adversely affect future performance.

In addition, federal regulators periodically review the Corporation's allowance for credit losses and may require it to increase the allowance for credit losses or recognize further loan charge-offs. Any increase in the allowance for credit losses or loan charge-offs as required by these regulatory agencies could have a material adverse effect on the results of operations and financial condition.

The Corporation's communication, information and technology systems may experience an interruption or breach in security.

The Corporation relies heavily on communications, information and technology systems to conduct its business. Any failure, interruption or breach in security of these systems could result in failures or disruptions in the Corporation's customer relationship management, general ledger, deposit, loan and other systems. The Corporation has policies, systems and procedures designed to prevent or limit the effect of the failure, interruption or security breach of its information systems; however, there can be no assurance that any such failures, interruptions or security breaches will not occur. While the Corporation maintains insurance coverage that may, subject to policy terms and conditions including significant self-insured deductibles, cover certain aspects of cyber risks, such insurance coverage may be insufficient to cover all losses. The occurrence of any failures, interruptions or security breaches of the Corporation's information technology and communication systems could damage the Corporation's reputation, adversely affecting customer or investor confidence, result in a loss of customer business, subject the Corporation to additional regulatory scrutiny and possible regulatory penalties, or expose the Corporation to civil litigation and possible financial liability, any of which could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation may use artificial intelligence (AI) in its business, and challenges with properly managing its use could result in disruption of its internal operations, reputational harm, competitive harm, legal liability and adversely affect the Corporation's results of operations and stock price.

The Corporation may incorporate AI solutions into platforms that deliver products and services to its customers, including solutions developed by third parties whose AI is integrated into its products and services. The Corporation's business could be harmed and it may be exposed to legal liability and reputational risk if the AI it uses is or is alleged to be deficient, inaccurate, or biased because the AI algorithms are flawed, insufficient, of poor quality, or reflect unwanted forms of bias, particularly if third party AI integrated with its platforms produces false or "hallucinatory" inferences.

Data practices by the Corporation or others that result in controversy could impair the acceptance of AI, which could undermine the decisions, predictions, or analysis that AI applications produce. The Corporation's customers and potential customers may express adverse opinions concerning its use of AI and machine learning that could result in brand or reputational harm, competitive harm, or legal liability. If the Corporation develops Generative AI, its content creation may require additional investment as testing for bias, accuracy and unintended, harmful impact is often complex and may be costly. As a result, the Corporation may need to increase the cost of its products and services which may make it less competitive, particularly if its competitors incorporate AI more quickly or successfully.

Governmental bodies have implemented laws and are considering further regulation of AI (including machine learning), which could negatively impact the Corporation's ability to use and develop AI. The Corporation is unable to predict how application of existing laws, including federal and state privacy and data protection laws, and adoption of new laws and regulations applicable to AI will affect it but it is likely that compliance with such laws and regulations will increase its compliance costs and such increase may be substantial and adversely affect its results of operations. Furthermore, its use of Generative AI and other forms of AI may expose us to risks relating to intellectual property ownership and licensing rights, including copyright of Generative AI and other AI output as these issues have not been fully interpreted by federal courts or been fully addressed by federal or state legislation or regulations.

Severe weather, natural disasters, disease pandemics and epidemics, acts of war or terrorism and other external events could significantly impact the Corporation's business.

Severe weather, natural disasters, disease pandemics and epidemics, acts of war or terrorism and other adverse external events could have a significant impact on the Corporation's ability to conduct business. Such events could affect the stability of the Corporation's deposit base, impair the ability of borrowers to repay outstanding loans, impair the value of collateral securing loans, cause significant property damage, result in loss of revenue and/or cause the Corporation to incur additional expenses. Severe weather, natural disasters, disease pandemics and epidemics, acts of war or terrorism or other adverse external events may occur in the future. Although management has established disaster recovery policies and procedures, the occurrence of any such event could have a material adverse effect on the Corporation's business, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations. Geopolitical instability or conflicts may result in trade disruptions, sanctions, and other market volatility which could lead to global inflationary pressures, etc. that could adversely affect the Corporation or its customers.

The Corporation operates in a highly competitive industry.

The Corporation faces substantial competition in all areas of its operations from a variety of different competitors, many of which are larger and may have more financial resources and greater technology. Such competitors primarily include national, regional and community banks within the various markets in which the Corporation operates. The Corporation also faces competition from many other types of financial institutions, including, without limitation, credit unions, finance companies, brokerage firms, insurance companies, factoring companies and other financial intermediaries. Also, technology has lowered barriers to entry and made it possible for non-banks to offer products and services traditionally provided by banks, such as online account opening, automatic transfer and automatic payment systems. Many of the Corporation's competitors have fewer regulatory constraints and may have lower cost structures.

The Corporation's ability to compete successfully depends on a number of factors, including, among other things:

- The ability to develop, maintain and build upon long-term customer relationships based on top quality service, high ethical standards and safe, sound assets;
- The ability to expand the Corporation's market position;
- The scope, relevance and pricing of products and services offered to meet customer needs and demands;
- The rate at which the Corporation introduces new products and services relative to its competitors;
- Customer satisfaction with the Corporation's level of service; and
- Industry and general economic trends.

Failure to perform in any of these areas could significantly weaken the Corporation's competitive position, which could adversely affect the Corporation's growth and profitability, which, in turn, could have a material adverse effect on the Corporation's financial condition and results of operations.

New lines of business or new products and services may subject the Corporation to additional risks.

From time-to-time, the Corporation may implement new lines of business or offer new products and services within existing lines of business. There are substantial risks and uncertainties associated with these efforts, particularly in instances where the markets are not fully developed. In developing and marketing new lines of business and/or new products and services, the Corporation may invest significant time and resources. Initial timetables for the introduction and development of new lines of business and/or new products or services may not be achieved and price and profitability targets may not prove feasible. External factors, such as compliance with regulations, competitive alternatives and shifting market preferences, may also impact the successful implementation of a new line of business or a new product or service. Furthermore, any new line of business and/or new product or service could have a significant impact on the effectiveness of the Corporation's system of internal controls. Failure to successfully manage these risks in the development and implementation of new lines of business or new products or services could have a material adverse effect on the Corporation's business, results of operations and financial condition.

The Basel III capital requirements may require the Corporation to maintain higher levels of capital, which could reduce its profitability.

Basel III targets higher levels of base capital, certain capital buffers and a migration toward common equity as the key source of regulatory capital. Basel III signals a growing effort by domestic and international bank regulatory agencies to require financial institutions, including depository institutions, to maintain higher levels of capital. Although Basel III is implemented, regulatory viewpoints could change or require additional capital to support the Corporation's business risk profile. If the Corporation and the Bank are required to maintain higher levels of capital, the Corporation and the Bank may have fewer opportunities to invest capital into interest-earning assets, which could limit the profitable business operations available to the Corporation and the Bank and adversely impact its financial condition and results of operations.

If the Corporation concludes that any debt securities are carrying a potential loss, the Corporation will be required to establish an allowance for expected credit losses.

Management reviews its debt securities portfolio at each quarter-end reporting period, or more frequently when economic or market concerns warrant such evaluation, to determine if there is impairment resulting from any decline in fair value below the amortized cost basis of a debt security and to determine whether there is a credit loss associated with the decline in fair value. Credit losses are calculated individually, using a discounted cash flow method, comparing the present value of expected cash flows with the amortized cost basis of the debt security. Any required credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses related to securities.

If the Corporation concludes that any equity securities are impaired, the Corporation will be required to record a loss equivalent to the difference between the cost and fair value of the respective equity securities.

Management evaluates its equity securities for impairment at each quarter-end reporting period and more frequently when economic or market conditions warrant such an evaluation. If an impairment loss related to an equity security is determined to exist, a loss in the amount of the difference between the cost and fair value of the security is recognized. Due to the complexity of the calculations and assumptions used in determining whether an asset is impaired, the impairment disclosed may not accurately reflect the actual impairment in the future.

Past and future bank failures may adversely affect the national, regional, and local business environment, results of operation, and capital.

Past and future bank failures may have a profound impact on the national, regional, and local business environment in which the Bank operates. These impacts can range from business disruptions to adversely affecting their customers and customers withdrawing their deposits from the Bank. Management expects that one result of bank failures is that FDIC assessments will more likely than not increase as a cost of doing business to the Bank. These possible impacts may adversely affect the Bank's future operating results, including net income, and negatively impact capital.

Economic and Strategic Risks

The changes in control of the United States government and issues relating to debt and the deficit may adversely affect the Corporation.

Changes in elected officials in the federal government could result in significant changes (or uncertainty) in governmental policies, regulatory environments, spending sentiment and many other factors and conditions, some of which could adversely impact the Corporation's business, financial condition and results of operations.

In addition, as a result of past difficulties of the federal government to reach agreement over federal debt and the ongoing issues connected with the debt ceiling, certain rating agencies placed the United States government's long-term sovereign debt rating on their equivalent of negative watch and announced the possibility of a rating downgrade. The rating agencies, due to constraints related to the rating of the United States, also placed government-sponsored enterprises in which the Corporation invests and receives lines of credit on negative watch and a downgrade of the United States' credit rating would trigger a similar downgrade in the credit rating of these government sponsored enterprises. Furthermore, the credit rating of other entities, such as state and local governments, may also be downgraded should the United States credit rating be downgraded. The impact that a credit rating downgrade may have on the national and local economy could have an adverse effect on the Corporation's financial condition and results of operations.

The Corporation's profitability depends significantly on economic conditions in the Commonwealth of Pennsylvania.

The Corporation's success depends primarily on the general economic conditions of the Commonwealth of Pennsylvania and the specific local markets in which the Corporation operates. Unlike larger national or other regional banks that are more geographically diversified, the Corporation provides banking and financial services to customers primarily in Columbia, Luzerne, Montour, Monroe, Northampton and Lehigh counties. The local economic conditions in these areas have a significant impact on the demand for the Corporation's products and services as well as the ability of the Corporation's customers to repay loans, the value of the collateral securing loans and the stability of the Corporation's deposit funding sources. Also, a significant decline in general economic conditions caused by inflation, recession, acts of terrorism, outbreaks and hostilities or other international or domestic occurrences, unemployment, changes in the securities markets, or other factors, could impact the local economic conditions and, in turn, have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation's future acquisitions could dilute stockholders' ownership and may cause the Corporation to become more susceptible to adverse economic events.

The Corporation may use its common stock to acquire other companies or make investments in banks and other complementary businesses in the future. The Corporation may issue additional shares of common stock to pay for future acquisitions, which would dilute stockholders' ownership interest in the Corporation. Future business acquisitions could be material to the Corporation, and the degree of success achieved in acquiring and integrating these businesses into the Corporation could have a material effect on the value of the Corporation's common stock. In addition, any acquisition could require the Corporation to use substantial cash or other liquid assets or to incur debt. In those events, the Corporation could become more susceptible to economic downturns and competitive pressures.

The Corporation may not be able to attract and retain skilled people.

The Corporation's success depends, in large part, on its ability to attract and retain key people. Competition for the best people in most activities engaged in by the Corporation can be intense and the Corporation may not be able to hire people or to retain them. The unexpected loss of services of one or more of the Corporation's key personnel could have a material adverse impact on the Corporation's business because of their skills, knowledge of the Corporation's market, years of industry experience and the difficulty of promptly finding qualified replacement personnel.

The Corporation is subject to extensive government regulation and supervision.

The Corporation, primarily through the Bank, is subject to extensive federal and state regulation and supervision. Banking regulations are primarily intended to protect depositors' funds, federal deposit insurance funds and the banking system as a whole, not shareholders. These regulations affect the Corporation's lending practices, capital structure, investment practices, dividend policy and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations and policies for possible changes. Changes to statutes, regulations or regulatory policies could affect the Corporation in substantial and unpredictable ways. Such changes could subject the Corporation to additional costs, limit the types of financial services and products the Corporation may offer and/or increase the ability of non-banks to offer competing financial services and products, among other things. Failure to comply with laws, regulations or policies could result in enforcement, enhanced supervision and sanctions by regulatory agencies, civil money penalties and/or reputation damage, which could have a material adverse effect on the Corporation's business, financial condition and results of operations.

The Corporation is subject to claims and litigation pertaining to fiduciary responsibility.

From time to time, customers make claims and take legal action pertaining to the Corporation's performance of its fiduciary responsibilities. Whether customer claims and legal action related to the Corporation's performance of its fiduciary responsibilities are founded or unfounded, and if such claims and legal actions are not resolved in a manner favorable to the Corporation, they may result in significant financial liability and/or adversely affect the market perception of the Corporation and its products and services as well as impact customer demand for those products and services. Any financial liability or reputation damage could have a material adverse effect on the Corporation's financial condition and results of operations.

The trading volume in the Corporation's common stock is less than that of other larger financial services companies.

The Corporation's common stock is not currently listed on a national stock exchange, but traded on the Over the Counter Market. As a result, trading volume is less than that of other larger financial services companies. A public trading market having the desired characteristics of depth, liquidity and orderliness depends on the presence in the marketplace of willing buyers and sellers of the Corporation's common stock at any given time. This presence depends on the individual decisions of investors and general economic and market conditions over which the Corporation has no control. Given the lower trading volume of the Corporation's common stock, unusually high sales volume of the Corporation's common stock, or the expectation of these sales, could cause the Corporation's stock price to fall.

The Corporation's controls and procedures may fail or be circumvented.

Management regularly reviews and updates the Corporation's internal controls, disclosure controls and procedures, and corporate governance policies and procedures. Any system of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Corporation's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Corporation's business, results of operations and financial condition.

We identified a material weakness in our internal control over financial reporting at December 31, 2023 and cannot assure you that additional material weaknesses will not be identified in the future. If we fail to implement and maintain effective internal control over financial reporting, it could result in material misstatements in our financial statements in the future, which could require us to restate financial statements, cause investors to lose confidence in our reported financial information and have a negative effect on our stock price.

Our management identified a material weakness in our internal control over financial reporting at December 31, 2023. See Item 9A, "Controls and Procedures." While the material weakness had no impact upon our reported financial condition or results of operation at and for the fiscal year ended December 31, 2023, any prior periods or subsequent periods, we cannot assure you that additional significant deficiencies or material weaknesses in our internal control over financial reporting will not be identified in the future. Any failure to maintain or implement required new or improved controls, or any difficulties we encounter in their implementation, could result in additional material weaknesses, cause us to fail to meet our periodic reporting obligations or result in material misstatements in our financial statements in future periods. Any such failure could also adversely affect the results of periodic management evaluations and annual auditor attestation reports regarding the effectiveness of our internal control over financial reporting required under Section 404 of the Sarbanes-Oxley Act of 2002 and the rules promulgated by the SEC under Section 404. The existence of a material weakness could result in errors in our financial statements in future periods that could result in a restatement of financial statements, cause us to fail to meet our reporting obligations, and cause investors or customers to lose confidence in our reported financial information, leading to a decline in our stock price or a loss of business.

The Corporation continually encounters technological change.

The financial services industry is continually undergoing rapid technological change with frequent introductions of new technology-driven products and services. The effective use of technology increases efficiency and enables financial institutions to better serve customers and to reduce costs. The Corporation's future success depends, in part, upon its ability to address the needs of its customers by using technology to provide products and services that will satisfy customer demands, as well as to create additional efficiencies in the Corporation's operations. Some of the Corporation's larger competitors may have substantially greater resources to invest in technological improvements. The Corporation may not be able to effectively implement every new technology-driven products and services or be successful in marketing these products and services to its customers. Failure to successfully keep pace with technological change affecting the financial services industry could have a material adverse impact on the Corporation's business and, in turn, the Corporation's financial condition and results of operations.

The Corporation may need or be compelled to raise additional capital in the future, but that capital may not be available when it is needed and on terms favorable to current shareholders.

Federal banking regulators require the Corporation and Bank to maintain adequate levels of capital to support their operations. These capital levels are determined and dictated by law, regulation and banking regulatory agencies. In addition, capital levels are also determined by the Corporation's management and board of directors, based on capital levels that they believe are necessary to support the Corporation's business operations. The Corporation periodically evaluates its present and future capital requirements and needs, its comprehensive capital plan and analyzes capital raising alternatives, methods and options. Even if the Corporation succeeds in meeting the current regulatory capital requirements, the Corporation may need to raise additional capital in the near future to support possible loan losses during future periods or to meet future regulatory capital requirements.

Further, the Corporation's regulators may require it to increase its capital levels. If the Corporation raises capital through the issuance of additional shares of its common stock or other securities, it would likely dilute the ownership interests of current investors and would likely dilute the per-share book value and earnings per share of its common stock. Furthermore, it may have an adverse impact on the Corporation's stock price. New investors may also have rights, preferences and privileges senior to the Corporation's current shareholders, which may adversely impact its current shareholders. The Corporation's ability to raise additional capital will depend on conditions in the capital markets at that time, which are outside its control, and on its financial performance. Accordingly, the Corporation cannot assure the shareholders of its ability to raise additional capital on terms and time frames acceptable to it or to raise additional capital at all. If the Corporation cannot raise additional capital in sufficient amounts when needed, its ability to comply with regulatory capital requirements could be materially impaired. Additionally, the inability to raise capital in sufficient amounts may adversely affect the Corporation's operations, financial condition and results of operations.

The Corporation is subject to environmental liability risk associated with lending activities.

A significant portion of the Corporation's loan portfolio is secured by real property. During the ordinary course of business, the Corporation may foreclose on and take title to properties securing certain loans. In doing so, there is a risk that hazardous or toxic substances could be found on these properties. If hazardous or toxic substances are found, the Corporation may be liable for remediation costs, as well as for personal injury and property damage. Environmental laws may require the Corporation to incur substantial expenses and may materially reduce the affected property's value or limit the Corporation's ability to use or sell the affected property. In addition, future laws, or more stringent interpretations or enforcement policies with respect to existing laws, may increase the Corporation's exposure to environmental liability. Although the Corporation has policies and procedures to perform an environmental review before initiating any foreclosure action on real property, these reviews may not be sufficient to detect all potential environmental hazards. The remediation costs and any other financial liabilities associated with an environmental hazard could have a material adverse effect on the Corporation's financial condition and results of operations.

The Corporation's ability to pay dividends is subject to limitations.

The Corporation is a bank holding company and its operations are conducted by the Bank, which is a separate and distinct legal entity. Substantially all of the Corporation's assets are held by the Bank.

The Corporation's ability to pay dividends depends on its receipt of dividends from the Bank, its primary source of dividends. Dividend payments from the Bank are subject to legal and regulatory limitations, generally based on net profits and retained earnings, imposed by the various banking regulatory agencies. The ability of banking subsidiaries to pay dividends is also subject to their profitability, financial condition, capital expenditures and other cash flow requirements. There is no assurance that the Bank will be able to pay dividends in the future or that the Corporation will generate adequate cash flow to pay dividends in the future. The Corporation's failure to pay dividends on its common stock could have a material adverse effect on the market price of its common stock.

Pennsylvania Business Corporation Law and various anti-takeover provisions under its Articles of Incorporation and Bylaws could impede the takeover of the Corporation.

Various Pennsylvania laws affecting business corporations may have the effect of discouraging offers to acquire the Corporation, even if the acquisition would be advantageous to shareholders. In addition, the Corporation has various anti-takeover measures in place under its Articles of Incorporation and Bylaws, including a staggered board of directors and the absence of cumulative voting. Any one or more of these measures may impede the takeover of the Corporation without the approval of its Board of Directors and may prevent its shareholders from taking part in a transaction in which they could realize a premium over the current market price of its common stock.

The Corporation's banking subsidiary may be required to pay higher FDIC insurance premiums or special assessments which may adversely affect its earnings.

Poor economic conditions and the resulting bank failures increased the costs of the FDIC and depleted its deposit insurance fund. Any additional bank failures may prompt the FDIC to increase its premiums or to issue special assessments. The Corporation is generally unable to control the amount of premiums or special assessments that its subsidiary is required to pay for FDIC insurance. Any future changes in the calculation or assessment of FDIC insurance premiums may have a material adverse effect on the Corporation's results of operations, financial condition, and its ability to continue to pay dividends on its common stock at the current rate or at all.

The increasing use of social media platforms presents new risks and challenges and our inability or failure to recognize, respond to and effectively manage the accelerated impact of social media could materially adversely impact our business.

There has been a marked increase in the use of social media platforms, including weblogs (blogs), social media websites, and other forms of Internet-based communications which allow individuals access to a broad audience of consumers and other interested persons. Social media practices in the banking industry are evolving, which creates uncertainty and risk of noncompliance with regulations applicable to our business. Consumers value readily available information concerning businesses and their goods and services and often act on such information without further investigation and without regard to its accuracy. Many social media platforms immediately publish the content their subscribers and participants post, often without filters or checks on accuracy of the content posted. Information posted on such platforms at any time may be adverse to our interests and/or may be inaccurate. The dissemination of information online could harm our business, prospects, financial condition, and results of operations, regardless of the information's accuracy. The harm may be immediate without affording us an opportunity for redress or correction.

Other risks associated with the use of social media include improper disclosure of proprietary information, negative comments about our business, exposure of personally identifiable information, fraud, out-of-date information, and improper use by employees and customers. The inappropriate use of social media by our customers or employees could result in negative consequences including remediation costs including training for employees, additional regulatory scrutiny and possible regulatory penalties, litigation or negative publicity that could damage our reputation adversely affecting customer or investor confidence.

ITEM 1B. UNRESOLVED STAFF COMMENTS

None.

ITEM 1C. CYBERSECURITY

The risks associated with the cybersecurity landscape are vast and ever-changing. Additionally, as a financial institution, the Corporation is subject to extensive federal and state regulatory and compliance requirements, many of which are associated with the protection and privacy of customer information. In response, the Corporation has created a layered and adaptable Information Security Program to protect the confidentiality, integrity, and availability of proprietary information and customer data. Continuous assessment and improvement of Information Security procedures and controls remains an integral part of the Corporation's overall risk management strategy and on-going business operations.

Risk Management Oversight and Governance

The Corporation's Information Security Officer (ISO), with assistance from the Information Technology team, has the primary responsibility in maintaining, assessing, and updating the Information Security Program and for reporting cyber and information security matters to the Corporation's executive management and Board of Directors. The ISO maintains a presence on a variety of committees that work together to monitor and manage the Corporation's risk profile and approve any changes or enhancements to the risk management strategies, including the Board of Directors IT Committee and Audit Committee, and the Corporation's IT Steering Committee, Enterprise Risk Management Committee, and Vendor Management Committee. At least annually, the ISO also presents to the Board of Directors on the state of the Information Security Program. This includes an overview of the Program's strategy and processes for identifying and mitigating risks, employee security awareness and training efforts, and any enhancements or changes to the program since the previous report.

Cybersecurity Risk Management Program

The Information Security Program is designed with a defense-in-depth mentality, using a variety of techniques, tools, policies, and procedures to create a layered security posture against the various methods of cybersecurity attack and compromise. The day-to-day management and monitoring of the program's technical aspects are handled by the ISO and the Information Technology team. They are responsible for user access and permissions control, system and network monitoring, vulnerability detection and mitigation, employee security awareness and training, and creating and maintaining technology and information security policies. The Corporation does engage with third parties, including a managed security service provider, to assist with or enhance aspects of the day-to-day Information Security Program. The ISO and IT team are currently in the process of strengthening the overall program by aligning controls and procedures with the Cybersecurity Frameworks established by the Center for Internet Security (CIS) and Cyber Risk Institute (CRI).

Business Continuity and Incident Response Plans are maintained to ensure that critical business functions maintain uptime or can be restored as quickly as possible in the event that a natural or technological event occurs that impacts the Corporation or any of its service providers. The Information Security Officer and Information Technology Manager work together to maintain these plans and perform testing exercises that ensure the Corporation's back up technologies and procedures are working as intended and are available if the need should arise.

To help mitigate risks associated with third party vendors and service providers, the Corporation has implemented an extensive Vendor Management process, overseen by the Vendor Management Committee. All new vendors undergo due diligence analysis by the Corporation's Vendor Management team, including review of their cybersecurity, data and privacy protection, and business continuity practices of those vendors with access to Corporation or customer data. Annual due diligence follow-up reviews are performed for all existing vendors on an ongoing basis and the results are reported to the Vendor Management Committee.

Notwithstanding the Corporation's defensive measures and processes, the threat posed by cyber-attacks is extremely serious. The Corporation may not be successful in preventing or mitigating all cybersecurity incidents that could have a material adverse effect on it. While the Company has not, to date, detected a significant compromise, significant data loss or any material financial losses related to cybersecurity attacks, its systems and those of its customers and third-party service providers are under constant threat. It is possible that the Corporation could experience a significant cybersecurity event. The Corporation expects risks and exposures related to cybersecurity attacks to remain high for the foreseeable future.

Refer to Item 1A. "Risk Factors" for additional information related to cyber security risks.

ITEM 2. PROPERTIES

The Corporation and its subsidiary occupy nineteen branch locations in Columbia, Luzerne, Montour, Monroe and Northampton Counties in Pennsylvania, which are used principally as banking offices. As of December 31, 2024, the Corporation and its subsidiary owned 19 properties and leased 3 properties.

ITEM 3. LEGAL PROCEEDINGS

The Corporation and/or the Bank are defendants in various legal proceedings arising in the ordinary course of their business. However, in the opinion of management of the Corporation and the Bank, there are no proceedings pending to which the Corporation and the Bank is a party or to which their property is subject, which, if determined adversely to the Corporation and the Bank, would be material in relation to the Corporation's and Bank's individual profits or financial condition, nor are there any proceedings pending other than ordinary routine litigation incident to the business of the Corporation and the Bank. In addition, no material proceedings are pending or are known to be threatened or contemplated against the Corporation and the Bank by government authorities or others.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED SHAREHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

The Corporation's common stock is traded in the over-the-counter market on the OTC Market under the symbol "FKYS". The following table sets forth:

- The quarterly high and low prices for a share of the Corporation's common stock during the periods indicated as reported to the management of the Corporation;
- Quarterly dividends on a share of the common stock paid with respect to each quarter since January 1, 2023; and
- The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not represent actual transactions.

	MARKET VALUE OF COMMON STOCK		
2024	High	Low	Per Share Dividend Paid
First quarter	**$ 17.00**	**$ 13.00**	**$ 0.28**
Second quarter	**$ 14.34**	**$ 11.75**	**$ 0.28**
Third quarter	**$ 13.00**	**$ 11.35**	**$ 0.28**
Fourth quarter	**$ 17.00**	**$ 11.55**	**$ 0.28**

2023	High	Low	Dividend Paid
First quarter	$ 22.20	$ 18.72	$ 0.28
Second quarter	$ 20.15	$ 17.25	$ 0.28
Third quarter	$ 20.45	$ 16.52	$ 0.28
Fourth quarter	$ 17.19	$ 13.00	$ 0.28

As of December 31, 2024, the Corporation had approximately 897 shareholders of record.

The Corporation has paid dividends since commencement of business in 1984. It is the present intention of the Corporation's Board of Directors to continue the dividend payment policy. Stock value, cost and availability of external capital, and the Corporation's present and anticipated capital needs are weighed in the process of making a responsible decision. Further dividends must necessarily depend upon earnings, financial condition, appropriate legal restrictions and other factors relevant at the time the Board of Directors of the Corporation considers its dividend policy. Cash available for dividend distributions to shareholders of the Corporation must initially come from dividends paid by the Bank to the Corporation. Therefore, the restrictions on the Bank's dividend payments are directly applicable to the Corporation.

Transfer Agent:

Equiniti Trust Company, LLC (EQ) 48 Wall Street, Floor 23 New York, NY 10005	(800) 937-5449

The following brokerage firms make a market in First Keystone Corporation common stock:

RBC Wealth Management	(800) 223-4207
Janney Montgomery Scott LLC	(800) 526-6397
Stifel Nicolaus & Co. Inc.	(800) 679-5446
Boenning & Scattergood, Inc.	(800) 883-1212

Dividend Restrictions on the Bank

Generally, as a Pennsylvania state chartered bank, under Pennsylvania banking law, the Bank may only pay dividends out of accumulated net earnings.

Dividend Restrictions on the Corporation

Under the Pennsylvania Business Corporation Law of 1988, as amended, the Corporation may not pay a dividend if, after giving effect thereto, either:

- The Corporation would be unable to pay its debts as they become due in the usual course of business; or
- The Corporation's total assets would be less than its total liabilities.

The determination of total assets and liabilities may be based upon:

- Financial statements prepared on the basis of generally accepted accounting principles;
- Financial statements that are prepared on the basis of other accounting practices and principles that are reasonable under the circumstances; or
- A fair valuation or other method that is reasonable under the circumstances.

ITEM 6. [RESERVED]

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The purpose of Management's Discussion and Analysis of First Keystone Corporation, a bank holding company (the "Corporation"), and its wholly owned subsidiary, First Keystone Community Bank (the "Bank"), is to assist the reader in reviewing the financial information presented and should be read in conjunction with the consolidated financial statements and other financial data contained herein. Refer to Forward-Looking Statements on page 1 for detailed information.

RESULTS OF OPERATIONS

Year Ended December 31, 2024 Versus Year Ended December 31, 2023

Net income decreased to a net loss of $13,203,000 for the year ended December 31, 2024, as compared to net income of $5,560,000 for the prior year, a decrease of $18,763,000 which was primarily due to the Corporation recognizing a full goodwill impairment charge of $19,133,000 during the first quarter of 2024. Earnings per share, both basic and diluted, for 2024 was $(2.14) as compared to $0.91 in 2023. Dividends per share for 2024 and 2023 were $1.12. The Corporation's return on average assets was (0.93)% in 2024 and 0.42% in 2023. Return on average equity decreased to (12.04)% in 2024 from 4.55% in 2023. Total interest income in 2024 amounted to $71,422,000, an increase of $14,434,000 or 25.3% from 2023. The increase in interest income is due to increased interest rates, growth in real estate loans secured by commercial properties, and increased interest income earned on securities. Total interest expense of $39,143,000 increased $11,271,000 or 40.4% from 2023. The majority of this increase is related to increases in interest paid to depositors to retain and grow deposit relationships and increases in interest paid on long-term borrowings through the Federal Home Loan Bank due to increases in both average volume and rate of borrowings in 2024 over 2023.

Selected financial data and performance ratios of the Corporation for the past five years are presented below in Table 1.

Table 1 — Selected Financial Data

(Dollars in thousands, except per share data)	For the Year Ended December 31,				
	2024	2023	2022	2021	2020
SELECTED FINANCIAL DATA AT YEAR END:					
Total assets	**$ 1,428,583**	$ 1,415,870	$ 1,329,194	$ 1,320,350	$ 1,179,047
Total securities	**391,875**	394,450	375,143	439,878	368,357
Net loans	**940,779**	904,153	850,195	744,161	712,677
Total deposits	**1,045,880**	980,439	993,499	1,077,969	937,488
Total long-term borrowings	**106,000**	122,000	25,000	35,000	45,000
Total stockholders' equity	**106,782**	121,615	120,386	148,555	144,242
SELECTED OPERATING DATA:					
Interest income	**$ 71,422**	$ 56,988	$ 46,413	$ 42,048	$ 39,567
Interest expense	**39,143**	27,872	8,913	5,148	6,360
Net interest income	**32,279**	29,116	37,500	36,900	33,207
(Credit) provision for credit losses	**1,640**	(217)	(264)	860	1,200
Net interest income after (credit) provision for credit losses	**30,639**	29,333	37,764	36,040	32,007
Non-interest income	**6,697**	6,156	5,331	7,323	6,012
Non-interest expense	**50,584**	29,245	26,777	26,354	24,605
Income before income tax expense	**(13,248)**	6,244	16,318	17,009	13,414
Income tax expense	**(45)**	684	2,294	2,321	1,577
Net (loss) income	**$ (13,203)**	$ 5,560	$ 14,024	$ 14,688	$ 11,837
PER SHARE DATA:					
Net (loss) income	**$ (2.14)**	$ 0.91	$ 2.35	$ 2.49	$ 2.03
Dividends	**1.12**	1.12	1.12	1.12	1.08
PERFORMANCE RATIOS:					
Return on average assets	**(0.93)%**	0.42 %	1.07 %	1.15 %	1.09 %
Return on average equity	**(12.04)%**	4.55 %	10.75 %	9.93 %	8.61 %
Dividend payout	**(52.34)%**	121.90 %	47.70 %	45.05 %	53.29 %
Average equity to average assets	**7.69 %**	9.22 %	9.92 %	11.57 %	12.72 %

Net interest income, as indicated below in Table 2, increased by $3,163,000 or 10.9% to $32,279,000 for the year ended December 31, 2024. The Corporation's net interest income on a fully tax equivalent basis increased by $2,907,000, or 9.9% to $32,297,000 in 2024 as compared to $29,390,000 in 2023.

Table 2 — Reconciliation of Taxable Equivalent Net Interest Income

(Dollars in thousands)

		2024/2023 Increase/(Decrease)		
	2024	Amount	%	2023
Interest Income	**$ 71,422**	**$ 14,434**	**25.3**	$ 56,988
Interest Expense	**39,143**	**11,271**	**40.4**	27,872
Net Interest Income	**32,279**	**3,163**	**10.9**	29,116
Tax Equivalent Adjustment	**18**	**(256)**	**(93.4)**	274
Net Interest Income (fully tax equivalent)	**$ 32,297**	**$ 2,907**	**9.9**	$ 29,390

Table 3 — Average Balances, Rates and Interest Income and Expense

(Dollars in thousands)

	2024			2023		
	Average Balance	**Interest**	**Yield/ Rate**	Average Balance	Interest	Yield/ Rate
Interest Earning Assets:						
Loans:						
Commercial, net[1,2,4]	**$ 89,153**	**$ 4,808**	**5.39 %**	$ 88,806	$ 4,338	4.88 %
Real Estate[1,2]	**826,665**	**44,611**	**5.40 %**	779,177	37,239	4.78 %
Consumer, net[4]	**6,028**	**539**	**8.94 %**	5,694	481	8.45 %
Fees on Loans and fair value adjustment	**2**	**1,235**	**— %**	—	768	— %
Total Loans[5]	**921,848**	**51,193**	**5.55 %**	873,677	42,826	4.90 %
Securities:						
Taxable	**365,552**	**17,939**	**4.91 %**	304,627	12,416	4.08 %
Tax-Exempt[1,3]	**40,952**	**948**	**2.31 %**	45,297	1,312	2.90 %
Total Securities	**406,504**	**18,887**	**4.65 %**	349,924	13,728	3.92 %
Restricted Investment in Bank Stocks	**10,576**	**928**	**8.77 %**	8,319	669	8.04 %
Interest-Bearing Deposits in Other Banks	**9,610**	**432**	**4.50 %**	1,659	39	2.31 %
Total Other Interest Earning Assets	**20,186**	**1,360**	**6.74 %**	9,978	708	7.09 %
Total Interest Earning Assets	**1,348,538**	**71,440**	**5.30 %**	1,233,579	57,262	4.64 %
Non-Interest Earning Assets:						
Cash and Due From Banks	**10,024**			10,320		
Allowance for Credit Losses	**(7,400)**			(7,071)		
Premises and Equipment	**21,378**			21,193		
Other Assets	**53,149**			67,249		
Total Non-Interest Earning Assets	**77,151**			91,691		
Total Assets	**$ 1,425,689**			$ 1,325,270		
Interest Bearing Liabilities:						
Savings, NOW, Money Markets and Interest Checking	**$ 470,816**	**$ 11,349**	**2.41 %**	$ 524,616	$ 11,003	2.10 %
Time Deposits	**329,660**	**13,927**	**4.22 %**	222,131	6,105	2.75 %
Securities Sold U/A to Repurchase	**29,627**	**1,289**	**4.35 %**	19,131	627	3.28 %
Short-Term Borrowings	**129,601**	**6,430**	**4.96 %**	154,625	8,147	5.27 %
Long-Term Borrowings	**115,792**	**5,053**	**4.36 %**	32,235	896	2.78 %
Subordinated Debentures	**25,000**	**1,094**	**4.37 %**	25,000	1,094	4.38 %
Total Interest Bearing Liabilities	**1,100,496**	**39,142**	**3.56 %**	977,738	27,872	2.85 %
Non-Interest Bearing Liabilities:						
Demand Deposits	**202,450**			216,004		
Other Liabilities	**13,087**			9,393		
Stockholders' Equity	**109,656**			122,135		
Total Liabilities/Stockholders' Equity	**$ 1,425,689**			$ 1,325,270		
Net Interest Income Tax Equivalent		**$ 32,298**			$ 29,390	
Net Interest Spread			**1.74 %**			1.79 %
Net Interest Margin			**2.40 %**			2.38 %

[1]Tax-exempt income has been adjusted to a tax equivalent basis using an incremental rate of 21% and statutory interest expense disallowance.
[2]Includes tax equivalent adjustments on tax-free municipal loans of $5,000 and $79,000 for years 2024 and 2023, respectively.
[3]Includes tax equivalent adjustments on tax-free municipal securities of $13,000 and $195,000 for years 2024 and 2023, respectively.
[4]Installment loans are stated net of unearned interest.
[5]Average loan balances include non-accrual loans. Interest income on non-accrual loans is not included.

NET INTEREST INCOME

The major source of operating income for the Corporation is net interest income. Net interest income is the difference between interest income on earning assets, such as loans and securities, and the interest expense on liabilities used to fund those assets, including deposits and other borrowings. The amount of interest income is dependent upon both the volume of earning assets and the level of interest rates. In addition, the volume of non-performing loans affects interest income. The amount of interest expense varies with the amount of funds needed to support earning assets, interest rates paid on deposits and borrowed funds, and finally, the level of non-interest bearing deposits.

Table 3 on the preceding page provides a summary of average outstanding balances of earning assets and interest bearing liabilities with the associated interest income and interest expense as well as average tax equivalent rates earned and paid as of year-end 2024 and 2023.

The yield on earning assets was 5.30% in 2024 and 4.64% in 2023. The rate paid on interest bearing liabilities was 3.56% in 2024 and 2.85% in 2023. This resulted in a decrease in our net interest spread to 1.74% in 2024, as compared to 1.79% in 2023.

As Table 3 illustrates, net interest margin, which is interest income less interest expense divided by average earning assets, was 2.40% in 2024 as compared to 2.38% in 2023. Net interest margins are presented on a tax-equivalent basis. In 2024. the yield on earning assets increased by 0.66% and the rate paid on interest bearing liabilities increased by 0.71%. Yields increased for a majority of interest earning assets and interest bearing liabilities during 2024, mainly as a result of the current high interest rate environment. The yield on loans increased from 4.90% in 2023 to 5.55% in 2024 mainly due to loans originating and repricing at higher interest rates during the latter part of 2023 and 2024. The securities portfolio yield increased to 4.65% in 2024 as compared to 3.92% in 2023. The increase was mainly the result of the elevated rate environment impacting variable rate securities and purchases of higher yielding securities in 2024. The average rate paid on short-term borrowings decreased 0.31% from 5.27% in 2023 to 4.96% in 2024. The rate paid on savings, NOW, money market, and interest checking accounts increased 0.31% from 2.10% to 2.41% and the average rate paid on time deposits increased 1.47% from 2.75% to 4.22%. Interest income exempt from federal tax was $1,352,000 in 2024 and $1,570,000 in 2023. Interest income exempt from federal tax decreased due to the maturity of tax-exempt municipal securities in 2024. Tax-exempt income has been adjusted to a tax-equivalent basis using an incremental rate of 21%.

The increase in net interest margin at December 31, 2024 compared to December 31, 2023 was primarily due to increased yields on loans and securities in 2024, as compared to 2023. Fully tax equivalent net interest income increased by $2,907,000 or 9.9% to $32,297,000 at December 31, 2024 compared to $29,390,000 at December 31, 2023. During 2024, the Federal Reserve decreased the federal-funds rate by 1.00%, resulting in a target range of 4.25% - 4.50%. The Corporation could experience a decrease in net interest income if market rates remain static or increase, as the Corporation's net interest income continues to be liability sensitive. To negate the potential impact of a decreasing net interest margin, the Corporation will continue to focus on attracting organic loan growth and core deposits such as checking, savings, and money market accounts, thereby further reducing its dependence on higher priced certificates of deposit and short-term borrowings. The Corporation is actively monitoring and restructuring its portfolios to become more asset sensitive, which will allow for better performance in a static or rates-up environment. The Corporation also entered into four rate swap contracts effective September 20, 2023. Of the four swaps, two were fair value interest rate swaps with a combined notional amount of $50,000,000, hedging fixed-rate debt securities available-for-sale, and two were cash flow interest rate swaps with a combined notional amount of $100,000,000, hedging specific short-term wholesale funding positions. The Corporation entered into one additional swap contract effective September 4, 2024 with a notional amount of $75,000,000, hedging a specified pool of the Bank's fixed-rate loans. See Note 12 – Derivative Instruments and Hedging Activities on page 92 for further analysis. The Corporation will continue to evaluate the potential impact of short-term rate fluctuations in 2025, as well as the slope and position of the yield curve.

Table 4 sets forth changes in interest income and interest expense for the periods indicated for each category of interest earning assets and interest bearing liabilities. Information is provided on changes attributable to (i) changes in volume (changes in average volume multiplied by prior rate); (ii) changes in rate (changes in average rate multiplied by prior average volume); and, (iii) changes in rate and volume (changes in average volume multiplied by changes in average rate).

In 2024, the increase in net interest income on a fully tax equivalent basis of $2,907,000 resulted from an increase in volume of $1,911,000 and an increase of $996,000 due to changes in rate.

Table 4 — Rate/Volume Analysis

(Dollars in thousands)

	2024 COMPARED TO 2023		
	VOLUME	RATE	NET
Interest Income:			
Loans, Net	$ 2,361	$ 6,006	$ 8,367
Taxable Securities	2,483	3,040	5,523
Tax-Exempt Securities	(126)	(238)	(364)
Restricted Investment in Bank Stocks	182	77	259
Other	187	206	393
Total Interest Income	$ 5,087	$ 9,091	$ 14,178
Interest Expense			
Savings, NOW and Money Markets	$ (1,128)	$ 1,474	$ 346
Time Deposits	2,955	4,867	7,822
Securities Sold U/A to Repurchase	344	318	662
Short-Term Borrowings	(1,318)	(399)	(1,717)
Long-Term Borrowings	2,323	1,835	4,158
Subordinated Debentures	—	—	—
Total Interest Expense	3,176	8,095	11,271
Net Interest Income	$ 1,911	$ 996	$ 2,907

The change in interest due to both volume and rate has been allocated to change due to volume and change due to rate in proportion to the absolute value of the change in each. Balances on non-accrual loans are included for computational purposes. Interest income on non-accrual loans is not included.

PROVISION FOR CREDIT LOSSES

For the year ended December 31, 2024, the provision for credit losses resulted in a balance of $1,640,000, compared to a credit balance of $217,000 for the year ended December 31, 2023. The increase in the provision for credit losses in 2024 as compared to 2023 resulted from the Corporation's analysis of the current loan portfolio, including historic losses, past-due trends, current economic conditions, loan portfolio growth, and other relevant factors. The provision for credit losses for the year ended December 31, 2024 is also reflective of management's assessment of the continued risk associated with the uncertainty surrounding geopolitical and economic concerns. Charge-off and recovery activity in the allowance for credit losses resulted in net charge-offs of $893,000 and $13,000 for the years ended December 31, 2024 and 2023, respectively. See Analysis of Allowance for Credit Losses table on page 37 for further discussion.

The allowance for credit losses as a percentage of average loans outstanding was 0.83% as of December 31, 2024 and 0.79% as of December 31, 2023.

On a quarterly basis, management performs, and the Corporation's Audit Committee and the Board of Directors review a detailed analysis of the adequacy of the allowance for credit losses. This analysis includes an evaluation of credit risk concentration, delinquency trends, past loss experience, current economic conditions, composition of the loan portfolio, classified loans and other relevant factors.

The Corporation will continue to monitor its allowance for credit losses and make future adjustments to the allowance through the provision for credit losses as conditions warrant. Although the Corporation believes that the allowance for credit losses is adequate to provide for losses inherent in the loan portfolio, there can be no assurance that future losses will not exceed the estimated amounts or that additional provisions will not be required in the future.

The Corporation is subject to periodic regulatory examination by the Pennsylvania Department of Banking and Securities and the FDIC. As part of the examination, the regulators will assess the adequacy of the Corporation's allowance for credit losses and may include factors not considered by the Corporation. In the event that a regulatory examination results in a conclusion that the Corporation's allowance for credit losses is not adequate, the Corporation may be required to increase its provision for credit losses.

NON-INTEREST INCOME

Non-interest income is derived primarily from service charges and fees, ATM fees and debit card income, trust department revenue, increases in the cash surrender value of bank owned life insurance, gains on sales of mortgage loans and other miscellaneous income. In addition, net securities gains and losses also impact total non-interest income. Table 5 provides the yearly non-interest income by category, along with the amount, dollar changes, and percentage of change comparing the last two years.

Non-interest income through December 31, 2024 was $6,697,000, an increase of 8.8%, or $541,000, from 2023. The increase was due to net securities gains realized in 2024 compared to net securities losses realized in 2023 and increased trust department income in 2024.

During 2024, net securities gains (losses) increased $223,000 to a net gain of $105,000. The increase was due to the Corporation recognizing $105,000 in net gains on held equity securities in 2024 vs recognizing $217,000 in net losses on held equity securities offset by $99,000 in net gains on sold debt securities in 2023.

Gains on sales of mortgage loans amounted to a net gain of $80,000 in 2024 as compared to a net gain of $65,000 in 2023. The increase in net gains on sales of mortgage loans in 2024 was due to more individual loans sold in 2024. The Corporation continues to service the majority of mortgages which are sold, through maturity of the loans. This servicing income provides an additional source of non-interest income on an ongoing basis.

ATM fees and debit card income increased by $33,000 or 1.5% in 2024 as compared to 2023 due to increased debit card interchange fees as the result of an increase in debit card transaction volume in 2024. Income related to an increase in cash surrender value of life insurance increased by $48,000 or 7.7% mainly as a result of increased interest rates on the related policies.

Other income, consisting primarily of income from the sale of retail non-deposit investment products, safe deposit box rentals, and miscellaneous fees, increased $60,000, or 23.3% in 2024 as compared to 2023 as the Corporation recognized more income from retail investment annuities in 2024.

Table 5 — Non-Interest Income

(Dollars in thousands)		2024/2023 Increase/(Decrease)		
	2024	Amount	%	2023
Trust department	$ 1,051	$ 120	12.9	$ 931
Service charges and fees	2,247	42	1.9	2,205
Increase in cash surrender value of life insurance	669	48	7.7	621
ATM fees and debit card income	2,228	33	1.5	2,195
Net gains (losses) on sales of mortgage loans	80	15	23.1	65
Other	317	60	23.3	257
Subtotal	6,592	318	5.1	6,274
Net securities losses	105	223	189.0	(118)
Total	$ 6,697	$ 541	8.8	$ 6,156

NON-INTEREST EXPENSE

Total non-interest expense amounted to $50,584,000, an increase of $21,339,000, or 73.0% in 2024.

The Company recognized goodwill impairment in the amount of $19,133,000 during the first quarter of 2024. This was the result of goodwill impairment testing performed due to the decrease of the Company's stock price during the first quarter of 2024 as a triggering event. The goodwill impairment has no impact on regulatory capital ratios, liquidity or the Company's cash balances.

Aside from the one-time goodwill impairment charge recognized in 2024, expenses associated with employees (salaries and employee benefits) continue to be the largest non-interest expenditure. Salaries and employee benefits amounted to $17,228,000 or 34.1% of total non-interest expense in 2024 and $16,055,000 or 54.9% in 2023. Salaries and employee benefits increased $1,173,000, or 7.3% in 2024. The increase in 2024 was mainly due to a $592,000 increase in salaries in an effort to offer more competitive wages in our various markets, increase retention and support the Corporation's growth, plus increased costs associated with employee health insurance which were $357,000 greater in 2024. The number of full-time equivalent employees was 209 as of December 31, 2024 and 215 as of December 31, 2023.

Net occupancy, furniture and equipment and computer expense increased $18,000, or 0.4% in 2024 compared to 2023. Professional services increased $177,000, or 12.3% in 2024 as compared to 2023. The higher expense was the result of increases in annual audit fees and audit expenses relating to the adoption of CECL as well as goodwill impairment.

Pennsylvania shares tax expense increased $209,000, or 24.3% in 2024 as compared to 2023. This increase was mainly due to the Corporation recording a true-up for Pennsylvania shares tax expense for the 2023 shares tax return in the third quarter of 2024 which resulted in $70,000 net expense, as compared to receiving a shares tax refund of $52,000 in 2023 for the 2022 tax return, along with a $163,000 expense true up for the 2024 tax year. FDIC insurance expense increased $394,000, or 56.0% in 2024 as compared to 2023. FDIC insurance expense varies with changes in net asset size, risk ratings, and FDIC derived assessment rates.

ATM and debit card fees expense decreased $143,000, or 12.5% in 2024 as compared to 2023. The decrease was the result of lower electronic funds transfer expenses, decreased ATM fraud and the application of vendor credits in 2024. Data processing fees decreased $282,000, or 21.6% in 2024 as compared to 2023. This decrease was the result of lower internet banking expenses as the result of a new vendor relationship for online banking and the application of vendor relationship credits in 2024 resulting from contract negotiations, along with implementation fees recognized in 2023.

Advertising expense increased $32,000, or 6.1% in 2024 as compared to 2023 as the result of the Corporation marketing the new full-service Bethlehem branch, along with utilizing more television, billboard, digital and social media advertising in 2024.

Other non-interest expense increased $628,000, or 21.8% in 2024 as compared to 2023. Other non-interest expense was higher in 2024 mainly as the result of monthly amortization of a new low income housing partnership that began in the fourth quarter of 2023.

Table 6 — Non-Interest Expense

(Dollars in thousands)		2024/2023 Increase/(Decrease)		
	2024	Amount	%	2023
Salaries and employee benefits	$ 17,228	$ 1,173	7.3	$ 16,055
Occupancy, net	2,191	72	3.4	2,119
Furniture and equipment	676	39	6.1	637
Computer expense	1,478	(93)	(5.9)	1,571
Professional services	1,617	177	12.3	1,440
Pennsylvania shares tax	1,070	209	24.3	861
FDIC Insurance	1,097	394	56.0	703
ATM and debit card fees	1,003	(143)	(12.5)	1,146
Data processing fees	1,022	(282)	(21.6)	1,304
Advertising	560	32	6.1	528
Goodwill impairment	19,133	19,133	100.0	—
Other	3,509	628	21.8	2,881
Total	$ 50,584	$ 21,339	73.0	$ 29,245

Management of the Corporation believes that investors' understanding of the Corporation's performance is enhanced by disclosing non-GAAP financial measures without the effects of the impairment as a reasonable basis for comparison of the Corporation's ongoing results of operations. These non-GAAP measures should not be considered a substitute for GAAP-basis measures and results. Our non-GAAP measures may not be comparable to non-GAAP measures of other companies. The following Non-GAAP Reconciliation Schedule provides a reconciliation of these non-GAAP financial measures to the most closely analogous measure determined in accordance with GAAP.

NON-GAAP RECONCILIATION SCHEDULE
FIRST KEYSTONE AND SUBSIDIARY

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Net interest income after provision for credit losses	**$ 30,639**	$ 29,333
Total non-interest income	**6,697**	6,156
Total non-interest expense	**(50,584)**	(29,245)
Income tax benefit (expense)	**45**	(684)
Net (loss) income	**(13,203)**	5,560
Adjustments		
Other expense:		
Goodwill impairment	**19,133**	—
Income tax expense	**(258)**	—
After tax adjustment to GAAP	**18,875**	—
Adjusted net income	**$ 5,672**	$ 5,560
Adjusted return on average assets	**0.39%**	0.42%
Adjusted return on average equity	**4.57%**	4.55%

INCOME TAX EXPENSE

Income tax resulted in a benefit for the year ended December 31, 2024 of $45,000 as compared to income tax expense of $684,000 for the year ended December 31, 2023. The effective income tax rate was (0.3)% in 2024 and 11.0% in 2023. The decrease in the effective tax rate for 2024 was mainly due to a federal income tax benefit at the statutory 21% rate generated due to the net loss that resulted from the full goodwill impairment charge recorded effective March 31, 2024, along with more low-income housing tax credits, offset by an increase in the effective tax rate to add back the impact of the portion of the full goodwill impairment charge that is non-deductible for tax purposes. The Corporation recognized $840,000 and $484,000 of tax credits from low-income housing partnerships for the years ended December 31, 2024 and 2023, respectively included in tax expense. The Corporation expects to carry forward $328,000 and $0 of low-income housing tax credits as of December 31, 2024 and December 31, 2023, respectively, which will begin to expire in the year 2044.

FINANCIAL CONDITION

GENERAL

Total assets increased to $1,428,583,000 at year-end 2024, an increase of 0.9% from year-end 2023.

Total debt securities available-for-sale decreased $2,680,000 or 0.7% to $390,288,000 as of December 31, 2024. The decrease was mainly due to $65,459,000 in securities purchased during 2024 as part of the execution of a balance sheet leverage strategy, offset by principal paydowns, maturities, and calls of $69,878,000 completed during the same period.

Net loans increased in 2024 from $904,153,000 to $940,779,000, a 4.1% increase. Loan demand grew in 2024 as the Bank has realized an increase in loan originations, primarily commercial real estate loans.

The cash surrender value of bank owned life insurance totaled $26,679,000 at December 31, 2024, an increase of $669,000 or 2.6% from 2023. This increase represents tax-free income included in non-interest income on the consolidated statements of income.

Investments in low-income housing partnerships were $5,152,000 at year-end 2024, a decrease of 13.6% from year-end 2023. The decrease is mainly the result of $819,000 in amortization recognized during the year ended December 31, 2024 on two low-income housing partnerships in which the Corporation is a limited partner, offset by a final capital contribution payment of $10,000 that was made in 2024 in relation to a new real estate venture in which the Corporation became a limited partner in 2021. Investing in low-income housing real estate ventures enables the Corporation to recognize tax credits and satisfy Community Reinvestment Act initiatives.

As of December 31, 2024, total deposits amounted to $1,045,880,000, an increase of 6.7% from 2023. The increase is mainly due to a $40,100,000 increase in CDs as the Corporation has experienced a shift from transactional deposits to term deposits and a $33,899,000 increase in Brokered CDs.

The Corporation continues to maintain and manage its asset growth. The Corporation’s strong equity capital position provides an opportunity to further leverage its asset growth. Short and long-term borrowings decreased $35,042,000 from $275,468,000 in 2023 to $240,426,000 in 2024 mainly due to the maturity of a $20,000,000 long-term note in the third quarter of 2024, along with increased deposits in 2024.

Total stockholders’ equity decreased to $106,782,000 at December 31, 2024, a decrease of $14,833,000, primarily due to a decrease in retained earnings due to the full goodwill impairment charge.

SEGMENT REPORTING

Currently, management measures the performance and allocates the resources of the Corporation as a single segment.

EARNING ASSETS

Earning assets are defined as those assets that produce interest income. By maintaining a healthy asset utilization rate, i.e., the volume of earning assets as a percentage of total assets, the Corporation maximizes income. The earning asset ratio (average interest earning assets divided by average total assets) equaled 94.6% for 2024 compared to 93.1% for 2023. This indicates that the management of earning assets is a priority and non-earning assets, primarily cash and due from banks, fixed assets and other assets, are maintained at minimal levels. The primary earning assets are loans and securities.

SECURITIES

The Corporation uses securities to not only generate interest and dividend revenue, but also to help manage interest rate risk and to provide liquidity to meet operating cash needs.

The securities portfolio consists of debt securities available-for-sale. No securities were established in a trading account. Debt securities available-for-sale decreased $2,680,000 or 0.7% to $390,288,000 in 2024. At December 31, 2024, the net unrealized loss, net of the tax effect, on these securities was $24,454,000 and was included in stockholders' equity as accumulated other comprehensive loss. Table 7 provides data on the fair value of the Corporation's securities portfolio on the dates indicated. The vast majority of security purchases are allocated as available-for-sale. This provides the Corporation with increased flexibility should there be a need or desire to liquidate a security.

The securities portfolio includes, U.S. treasuries, U.S. government corporations and agencies, corporate debt obligations, mortgage-backed securities, asset-backed securities, and obligations of state and political subdivisions, both tax-exempt and taxable.

Debt securities available-for-sale may be sold as part of the overall asset and liability management process. Realized gains and losses are reflected in the results of operations on the Corporation's Consolidated Statements of Income.

Table 7 — Securities

(Dollars in thousands)	Available-For-Sale	
	December 31, 2024	**December 31, 2023**
U.S. Treasury securities	**$ 7,151**	$ 7,041
U. S. Government corporations and agencies	**141,830**	145,624
Other mortgage-backed debt securities	**46,273**	34,050
Obligations of state and political subdivisions	**83,485**	87,703
Asset-backed securities	**73,867**	82,162
Corporate debt securities	**37,682**	36,388
Total	**$ 390,288**	$ 392,968

The amortized cost and fair value of securities, by contractual maturity, are shown below at December 31, 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

Table 8 — Securities Maturity Table

(Dollars in thousands)	December 31, 2024					
	Debt Securities Available-For-Sale					
	U.S. Treasury Securities	U.S. Government Corporations & Agencies Obligations[1]	Other Mortgage Backed Debt Securities[1]	Obligations of State & Political Subdivisions	Asset Backed Securities	Corporate Debt Securities
Within 1 Year:						
Amortized cost	$ —	$ —	$ 1,022	$ 9,946	$ —	$ —
Fair value	—	—	1,016	9,895	—	—
1 - 5 Years:						
Amortized cost	7,911	6,392	4,937	8,469	—	2,246
Fair value	7,151	6,358	4,913	8,187	—	2,186
5 - 10 Years:						
Amortized cost	—	3,856	1,156	29,149	3,047	33,669
Fair value	—	3,915	1,171	25,267	3,058	31,265
After 10 Years:						
Amortized cost	—	145,831	41,221	46,245	70,959	5,224
Fair value	—	131,557	39,173	40,136	70,809	4,231
Total:						
Amortized cost	$ 7,911	$ 156,079	$ 48,336	$ 93,809	$ 74,006	$ 41,139
Fair value	7,151	141,830	46,273	83,485	73,867	37,682

[1]Mortgage-backed and asset-backed securities are allocated for maturity reporting at their original maturity date.

Marketable equity securities consist of common stock investments in other commercial banks and bank holding companies. At December 31, 2024 and 2023, the Corporation had $1,587,000 and $1,482,000, respectively, in equity securities recorded at fair value, an increase of $105,000 or 7.1%.

LOANS

Total loans increased to $948,451,000 as of December 31, 2024, compared to a balance of $911,078,000 as of December 31, 2023. Table 9 provides data relating to the composition of the Corporation's loan portfolio on the dates indicated. Total loans increased $37,373,000, or 4.1% in 2024 compared to an increase of $52,609,000, or 6.1% in 2023.

The Real Estate portfolio increased $40,308,000 or 5.0% from $811,493,000 at December 31, 2023 to $851,801,000 at December 31, 2024. The increase in the Real Estate portfolio for the year ended December 31, 2024 was mainly the result of $103,734,000 in new loan originations and an increase of $5,264,000 in utilization of existing real estate lines of credit, which were offset by loan payoffs of $41,336,000, along with regular principal payments and other typical fluctuations in the Real Estate portfolio. The Agricultural portfolio increased $268,000 or 39.9% from $671,000 at December 31, 2023 to $939,000 at December 31, 2024. The increase in the Agricultural portfolio for the year ended December 31, 2024 was mainly the result of four loans totaling $275,000 that were reclassed from the Commercial and Industrial portfolio to the Agricultural portfolio during the year ended December 31, 2024 and an increase of $15,000 in utilization of existing agricultural lines of credit, offset with regular principal payments and other typical fluctuations in the Agricultural portfolio. During the year ended December 31, 2024, there was two new agricultural loans originated with an aggregate balance of $59,000 and one agricultural loan paid off with a balance of $46,000. The Commercial and Industrial portfolio increased $196,000 or 0.3% from $66,909,000 at December 31, 2023 to $67,105,000 at December 31, 2024. The increase was attributable to $8,363,000 in new loan originations, which were offset by a decrease of $5,484,000 in utilization of existing commercial and industrial lines of credit and loan payoffs of $3,292,000, as well as regular principal payments and other typical amortization in the Commercial and Industrial portfolio. The Consumer portfolio increased $635,000 or 10.9% from $5,824,000 at December 31, 2023 to $6,459,000 at

December 31, 2024. The increase is mainly attributable to new loan originations of $3,071,000 and an increase of $10,000 in utilization of existing consumer lines of credit, offset by loan payoffs of $1,078,000 and regular principal payments. The State and Political Subdivisions portfolio decreased $4,034,000 or 15.4% from $26,181,000 at December 31, 2023 to $22,147,000 at December 31, 2024. The decrease is mainly the result of regular principal payments on state and political subdivisions loans and a $1,825,000 payoff on one state and political loan, which were offset by an increase in the balance of an existing state and political subdivision line of credit resulting from draws of $950,000 completed during the year ended December 31, 2024.

The Corporation continues to originate and sell certain long-term fixed rate residential mortgage loans, which conform to secondary market requirements, when the market pricing is favorable. The Corporation derives ongoing income from the servicing of mortgages sold in the secondary market. The Corporation continues its efforts to lend to creditworthy borrowers. Management believes the loan portfolio is well diversified.

All loan relationships in excess of $1,500,000 are reviewed internally and/or externally through a loan review process on an annual basis. Such review is based upon analysis of current financial statements of the borrower, co-borrowers/guarantors, payment history, and economic conditions.

Overall, the portfolio risk profile as measured by loan grade is considered low risk, as $919,729,000 or 97.1% of gross loans are graded Pass; $1,540,000 or 0.1% are graded Special Mention; $26,294,000 or 2.8% are graded Substandard; and $0 are graded Doubtful. The rating is intended to represent the best assessment of risk available at a given point in time, based upon a review of the borrower's financial statements, credit analysis, payment history with the Bank, credit history and lender knowledge of the borrower. See Note 3 — Loans and Allowance for Credit Losses for risk grading tables.

Overall, non-pass grades increased to $27,834,000 at December 31, 2024, as compared to $24,092,000 at December 31, 2023. Real Estate non-pass grades increased $3,987,000 or 17.1% to $27,371,000 as of December 31, 2024 compared to $23,384,000 as of December 31, 2023. Commercial and Industrial non-pass grades decreased $193,000 or 29.7% to $457,000 as of December 31, 2024 compared to $650,000 as of December 31, 2023. Consumer non-pass grades decreased $52,000 or 89.7% to $6,000 as of December 31, 2024 compared to $58,000 as of December 31, 2023. There were no Agricultural or State and Political Subdivision non-pass grades as of December 31, 2024 or December 31, 2023.

The increase in Real Estate non-pass grades from December 31, 2023 to December 31, 2024 is mainly the result of the downgrade of a loan to the owner of a commercial property which carried a balance of $4,529,000 at December 31, 2024. The loan was downgraded to substandard status during the fourth quarter of 2024 due to the loss of a large tenant.

The Corporation continues to internally underwrite each of its loans to comply with prescribed policies and approval levels established by its Board of Directors.

The classes of the Corporation's loan portfolio net of unearned discount and net deferred loan fees and costs are summarized in Table 9.

Table 9 — Loans

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Real Estate	**$ 851,801**	$ 811,493
Agricultural	**939**	671
Commercial and Industrial	**67,105**	66,909
Consumer	**6,459**	5,824
State and Political Subdivisions	**22,147**	26,181
Total Loans	**$ 948,451**	$ 911,078

The Corporation's maturity and interest rate sensitivity information related to the loan portfolio is summarized in Table 10.

Table 10 — Loan Maturity and Interest Sensitivity

Loans by Maturity

(Dollars in thousands)	December 31, 2024 One Year and Less	After One Year Through Five Years	After Five Years	Total
Real Estate	$ 46,432	$ 62,714	$ 742,655	$ 851,801
Agricultural	674	105	160	939
Commercial and Industrial	23,278	20,496	23,331	67,105
Consumer	1,750	4,396	313	6,459
State and Political Subdivisions	8	2,820	19,319	22,147
Total	$ 72,142	$ 90,531	$ 785,778	$ 948,451

The above data represents the amount of loans receivable at December 31, 2024 which, based on remaining scheduled repayments of principal, are due in the periods indicated.

Loans by Repricing

(Dollars in thousands)	December 31, 2024 One Year and Less	After One Year Through Five Years	After Five Years	Total
Real Estate	$ 165,120	$ 528,359	$ 158,322	$ 851,801
Agricultural	674	105	160	939
Commercial and Industrial	25,483	35,880	5,742	67,105
Consumer	1,750	4,406	303	6,459
State and Political Subdivisions	8	7,824	14,315	22,147
Total	$ 193,035	$ 576,574	$ 178,842	$ 948,451
Loans with a fixed interest rate	$ 19,266	$ 49,731	$ 165,442	$ 234,439
Loans with a variable interest rate	173,769	526,843	13,400	714,012
Total	$ 193,035	$ 576,574	$ 178,842	$ 948,451

The above data represents the amount of loans receivable at December 31, 2024 which are due or have the opportunity to reprice in the periods indicated, based on remaining scheduled repayments of principal for fixed rate loans or date of next repricing opportunity for variable rate loans. The fixed and variable portions of the amounts of loans receivable due or repricing in the periods indicated are also summarized above.

ALLOWANCE FOR CREDIT LOSSES

The allowance for credit losses constitutes the amount available to absorb losses within the loan portfolio. As of December 31, 2024, the allowance for credit losses was $7,672,000 as compared to $6,925,000 as of December 31, 2023. The allowance for credit losses is established through a provision for credit losses charged to expenses. Loans are charged against the allowance for possible credit losses when management believes that the collectability of the principal is unlikely. The risk characteristics of the loan portfolio are managed through various control processes, including credit evaluations of individual borrowers, periodic reviews, and diversification by industry. Risk is further mitigated through the application of lending procedures such as the holding of adequate collateral and the establishment of contractual guarantees.

Management performs a quarterly analysis to determine the adequacy of the allowance for credit losses. The methodology in determining adequacy incorporates quantitative and qualitative allocations together with a risk/loss analysis on various segments of the portfolio according to an internal loan review process. This assessment results in an allocated allowance. Management maintains its loan review and loan classification standards consistent with those of its regulatory supervisory authority.

Management considers, based upon its methodology, that the allowance for credit losses is adequate to cover foreseeable future losses. However, there can be no assurance that the allowance for credit losses will be adequate to cover significant losses, if any, that might be incurred in the future. On a quarterly basis, management evaluates the qualitative factors utilized in the calculation of the Corporation’s allowance for credit losses and various adjustments are made to these factors as deemed necessary at the time of evaluation. During the first quarter of 2024, qualitative factors related to delinquency trends were decreased by eight basis points related to loans (a) secured by first liens, (b) secured by owner-occupied, non-farm, non-residential properties, and (c) other revolving credit plans. Qualitative factors related to volume trends were increased by eight basis points related to loans secured by junior liens and decreased by eight basis points related to other revolving credit plans. Qualitative factors related to collateral values were also increased by four basis points related to commercial and industrial loans during the first quarter of 2024. During the second quarter of 2024, qualitative factors related to delinquency trends were increased by four basis points related to (a) loans secured by first liens and (b) loans secured by owner occupied, non-farm, non-residential properties, as well as increased by sixteen basis points related to (c) loans secured by other non-farm, non-residential properties. Qualitative factors related to volume trends were also decreased by four basis points related to (a) other revolving credit plans and (b) automobile loans during the second quarter of 2024. During the third quarter of 2024, qualitative factors related to delinquency trends were increased by four basis points related to (a) revolving open-end loans and (b) other revolving credit plans and increased by eight basis points related to (c) automobile loans. Qualitative factors related to delinquency trends were decreased by four basis points related to (a) loans secured by multifamily residential properties, (b) loans for agricultural production and other loans to farmers, (c) commercial and industrial loans, and (d) other consumer loans. Qualitative factors related to volume trends decreased by four basis points related to (a) loans secured by farmland, (b) loans secured by other non-farm, non-residential properties, (e) other revolving credit plans, and (f) automobile loans. During the fourth quarter of 2024, qualitative factors related to delinquency trends were decreased by eight basis points related to (a) construction land development and other land loans, (b) residential construction loans, (c) loans for agribusiness farmland, or secured by farmland, and (d) loans secured by other non-farm, non-residential properties. Qualitative factors related to delinquency trends were decreased by four basis points related to (a) revolving open-end loans, (b) loans for agricultural production and other loans to farmers, (c) commercial and industrial loans, (d) other revolving credit plans, (e) automobile loans, and (f) obligation of state and political subdivisions. Qualitative factors related to delinquency trends were increased by four basis points related to loan’s secured by multifamily residential properties. Qualitative factors related to loan volume trends increased by twelve basis points related to (a) loans for agribusiness, farmland, or secured by farmland, (b) loans secured by other non-farm, non-residential properties, and (c) automobile loans. Qualitative factors decreased by eight basis points related to loan volume trends related to (a) other revolving credit plans.

Table 11 contains an analysis of the allowance for credit losses indicating charge-offs and recoveries by year. In 2024 and 2023, net charge-offs as a percentage of average loans amounted to 0.097% and 0.001% respectively. Net charge-offs amounted to $893,000 in 2024 and $13,000 in 2023. Net charge-offs were higher in 2024 than in 2023, mainly due to $741,000 in aggregate charge-offs completed on four loans to a plastic processing company focusing on non-post-consumer recycling that were completed during the third quarter of 2024, as the business ceased operations as a result of financial difficulties. During the fourth quarter of 2024, a charge-off of $67,000 was also completed on an owner-occupied, non-farm, non-residential loan to a non-profit civic organization, as the non-profit no longer uses the property, along with a charge-off of $41,000 on a loan to an individual borrower secured by 1-4 family residential real estate.

For the year ended December 31, 2024, the provision for credit losses resulted in a balance of $1,640,000, as compared to a credit balance of $217,000 for the year ended December 31, 2023. The net effect of the provision and net charge-offs resulted in the year-end allowance for credit losses of $7,672,000 of which 94.04% was attributed to the Real Estate component, 0.03% was attributed to the Agricultural component, 4.08% was attributed to the Commercial and Industrial component, 1.28% was attributed to the Consumer component, and 0.57% was attributed to the State and Political Subdivisions component (refer to the activity in Note 3 — Loans and Allowance for Credit Losses on page 77.) The Corporation determined that the provision for credit losses made during 2024 was sufficient to maintain the allowance for credit losses at a level necessary for the probable losses inherent in the loan portfolio as of December 31, 2024.

Table 11

Analysis of Allowance for Credit Losses

(Dollars in thousands)

As of and for the year ended:	December 31, 2024	December 31, 2023
Balance at prior year-end	$ 6,925	$ 8,274
CECL adoption adjustment	—	(1,119)
Beginning balance	6,925	7,155
Charge-offs:		
Real Estate	345	—
Agricultural	—	—
Commercial and Industrial	524	—
Consumer	69	57
State and Political Subdivisions	—	—
	938	57
Recoveries:		
Real Estate	21	37
Agricultural	—	—
Commercial and Industrial	19	2
Consumer	5	5
State and Political Subdivisions	—	—
	45	44
Net charge-offs	893	13
Provision (credit) charged to operations	1,640	(217)
Balance at end of period	$ 7,672	$ 6,925
Ratio of net charge-offs during the period to average loans outstanding during the period	0.097 %	0.001 %
Allowance for credit losses to average loans outstanding during the period	0.832 %	0.793 %

It is the policy of management and the Corporation's Board of Directors to make a provision for both identified and unidentified losses inherent in its loan portfolio. A provision for credit losses is charged to operations based upon an evaluation of the potential losses in the loan portfolio. This evaluation takes into account such factors as portfolio concentrations, delinquency trends, trends of non-accrual and classified loans, economic conditions, and other relevant factors.

The loan review process, which is conducted quarterly, is an integral part of the Bank's evaluation of the loan portfolio. A detailed quarterly analysis to determine the adequacy of the Corporation's allowance for credit losses is reviewed by the Board of Directors.

With the Bank's manageable level of net charge-offs and recoveries along with additions to the reserve from the provision out of operations, the allowance for credit losses as a percentage of average loans amounted to 0.832% in 2024 and 0.793% in 2023.

Table 12 sets forth the allocation of the Corporation's allowance for credit losses by loan category and the percentage of loans in each category to the total allowance for credit losses at the dates indicated. The portion of the allowance for credit losses allocated to each loan category does not represent the total available for future losses that may occur within the loan category, since the total credit loss allowance is a valuation reserve applicable to the entire loan portfolio.

Table 12

Allocation of Allowance for Credit Losses

(Dollars in thousands)	December 31, 2024	%*	December 31, 2023	%*
Real Estate	$ 7,215	94.04	$ 6,539	94.42
Agricultural	2	0.03	1	0.01
Commercial and Industrial	313	4.08	265	3.83
Consumer	98	1.28	78	1.13
State and Political Subdivisions	44	0.57	42	0.61
	$ 7,672	100.0	$ 6,925	100.0

NON-PERFORMING ASSETS

Table 13 details the Corporation's non-performing assets and individually evaluated loans as of the dates indicated. Generally, a loan is classified as non-accrual and the accrual of interest on such a loan 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. 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 non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against current period income. Foreclosed assets held for resale represent property acquired through foreclosure, or considered to be an in-substance foreclosure.

Total non-performing assets amounted to $4,970,000 as of December 31, 2024, as compared to $5,681,000 as of December 31, 2023. The economic growth for the fourth quarter of 2024 was higher than expected. Consumer spending remains at high levels. The inflation rate rose in December to 2.9%, above the Federal Reserve Board's desired rate of 2.0%. Business sentiment saw a slight rise as rates were lowered during the fourth quarter. Many economists and influential thinkers still believe that the economy is moving forward in spite of certain forecasts and predictors. The concern of a recession, however, has lessened. Inflation was receding, although it has seen a slight but steady rise in the last few months. This has the Federal Reserve looking very cautiously at their next move. This will all depend on which direction the inflation rate trends and the unemployment landscape. The war between Ukraine and Russia continues to deeply pierce the landscape of the world. The heightened conflict with Israel and Palestine has caused much hostility throughout the world. The continuing dispute over whether to continue US support of Ukraine and Israel in ongoing efforts has been a strain on the economy. Values of new and used homes and automobiles have remained high. Although there would seem to be a dynamic shift in the automobile industry where inventories are increasing and sales are slowing, this may lead to a reduced profit margin. Higher interest rates have added to the curtailed borrowing. Consumer savings is dwindling, and credit balances are growing. Supply chains are back up and running efficiently in many areas. Labor continues to remain costly and unpredictable. These forces have had a direct effect on the Corporation's non-performing assets. The Corporation is closely monitoring all segments of its loan portfolio because of the current economic environment. Non-accrual loans totaled $4,214,000 as of December 31, 2024 as compared to $4,616,000 as of December 31, 2023. There were no foreclosed assets held for resale as of December 31, 2024 or December 31, 2023. There were six loans past-due 90 days or more and still accruing interest as of December 31, 2024 which carried an aggregate balance of $756,000, compared to December 31, 2023 when there were five loans past-due 90 days or more and still accruing interest totaling $1,065,000. The loans past-due 90 days or more and still accruing interest as of December 31, 2024 consisted of four loans secured by commercial real estate and two loans secured by residential real estate, all of which were well secured and in the process of collection.

Non-performing assets to total loans was 0.52% for December 31, 2024 and 0.62% for December 31, 2023. Non-performing assets to total assets was 0.35% for December 31, 2024 and 0.40% for December 31, 2023. The allowance for credit losses to total non-performing assets was 154.37% as of December 31, 2024 as compared to 121.90% as of December 31, 2023. Additional detail can be found in Table 13 – Non-Performing Assets and Individually Evaluated and the Non-Performing Assets table in Note 3 — Loans and Allowance for Credit Losses. Asset quality is a priority and the Corporation retains a full-time loan review officer to closely track and monitor overall loan quality, along with a full-time loan workout department to manage collection and liquidation efforts and engages an annual external loan review.

Performing substandard loans, which have not been designated for individual evaluation to determine expected credit losses, have characteristics that cause management to have doubts regarding the ability of the borrower to perform under present loan repayment terms and which may result in reporting these loans as non-performing loans in the future. Performing substandard loans not designated for individual evaluation amounted to $22,080,000 at December 31, 2024 and $19,418,000 at December 31, 2023.

Individually evaluated loans were $4,523,000 at December 31, 2024, compared to $4,925,000 at December 31, 2023. The largest individually evaluated loan relationship at December 31, 2024 consisted of a non-performing loan to a student housing holding company which is secured by commercial real estate. At December 31, 2024, the loan carried a balance of $1,603,000, net of $1,989,000 that had been charged off to date. The second largest individually evaluated loan relationship at December 31, 2024 consisted two non-performing loans granted to an individual for the purpose of renovating a multi-use property slated to be converted into apartments and a retail storefront. Both loans are secured by commercial real estate and carried an aggregate balance of $1,441,000 at December 31, 2024. The third largest individually evaluated loan relationship at December 31, 2024 consisted of a non-performing loan to the owner of a golf course and catering venue which is secured by commercial real estate. At December 31, 2024, the loan carried a balance of $582,000.

The Corporation determines the need for individual evaluation of loans based on its analysis of the cash flows or collateral estimated at fair value less cost to sell. For collateral dependent loans, the estimated appraisal or other qualitative adjustments and cost to sell percentages are determined based on the market area in which the real estate securing the loan is located, among other factors, and therefore, can differ from one loan to another. Of the $4,523,000 in individually evaluated loans at December 31, 2024, none were located outside the Corporation’s primary market area.

The outstanding recorded investment of modified loans to borrowers experiencing financial difficulty as of December 31, 2024 amounted to $10,193,000, with $10,019,000 classified in the Real Estate portfolio and $174,000 classified in the Commercial and Industrial portfolio. There were no loan modifications completed with respect to borrowers experiencing financial difficulty during the year ended December 31, 2023. The loan modifications to borrowers experiencing financial difficulty during the year ended December 31, 2024 consisted of term modifications on two loans which allowed an extension of the maturity date for each respective loan, one payment modification which allowed a period of interest only payments on one loan, and one loan experienced the release of a piece of collateral securing the loan.

There were no unfunded commitments related to modified loans to borrowers experiencing financial difficulty and all modified loans to borrowers experiencing financial difficulty were in compliance with restructure terms as of December 31, 2024. Of the modifications of loans to borrowers experiencing financial difficulty that were completed during the twelve months preceding December 31, 2024, two loans experienced payment defaults during the year ended December 31, 2024. One loan carrying a post modification recorded investment of $9,455,000 experienced a payment default during the first quarter of 2024 and a loan carrying a post modification recorded investment of $120,000 experienced a payment default during the fourth quarter of 2024. Both loans were paid current as of December 31, 2024.

The Corporation’s non-accrual loan valuation procedure for any loans greater than $250,000 requires an appraisal to be obtained and reviewed annually at year end, unless the Board of Directors waives such requirement for a specific loan, in favor of obtaining a Certificate of Inspection instead, defined as an internal evaluation completed by the Corporation. A quarterly collateral evaluation is performed which may include a site visit, property pictures and discussions with realtors and other similar business professionals to ascertain current values.

For non-accrual loans less than $250,000 upon classification and typically at year end, the Corporation completes a Certificate of Inspection, which includes the results of an onsite inspection, and may consider value indicators such as insured values, tax assessed values, recent sales comparisons and a review of the previous evaluations.

Improving loan quality is a priority. The Corporation actively works with borrowers to resolve credit problems and will continue its close monitoring efforts in 2025. Excluding the assets disclosed in Table 13 – Non-Performing Assets and Individually Evaluated Loans and the Non-Performing Assets table in Note 3 — Loans and Allowance for Credit Losses, management is not aware of any information about borrowers' possible credit problems which cause serious doubt as to their ability to comply with present loan repayment terms.

In addition, regulatory authorities, as an integral part of their examinations, periodically review the allowance for possible loan losses. They may require additions to allowances based upon their judgments about information available to them at the time of examination.

The economic climate remains unstable. The war between Ukraine and Russia continues on into its third year and the Israeli conflict in the Gaza strip has intensified and incited worldwide hostilities. Inflationary pressures remain elevated and have seen an uptick in the last few months. This continues to create much debate and concern regarding the appropriate steps to be taken to overcome the effects of monetary policy adjustments that have been and will be made to affect the change. Intense political turmoil, commodity prices remaining high, gas prices fluctuating widely from week to week, small businesses closing, larger corporations cutting jobs, unprecedented weather conditions seen around the world, and the uncertainty of where the Federal Reserve may go from here in regard to rates have exacerbated the difficulties in the national and state economy. Experts at all levels continue to ascertain the intermediate or long-term effects of such issues. The Corporation may experience difficulties collecting payments on time from its borrowers, and certain types of loans may need to be modified, which could cause a rise in the level of individually evaluated loans, non-performing assets, charge-offs, and delinquencies. Should such metrics increase, additions to the balance of the Corporation's allowance for credit losses could be required. The extent of the impact of these stressors on the Corporation's operational and financial performance will depend on certain developments including reactions to inflationary controls enacted, the labor force, the longevity of the wars, the ongoing political landscape, and the looming worldwide discord, and any after-effects of these factors. These factors may not immediately impact the Corporation's operational and financial performance, as the effects of these factors may lag into the future. The Corporation is also susceptible to the impact of economic and fiscal policy factors that may evolve in the current economic environment.

A concentration of credit exists when the total amount of loans to borrowers, who are engaged in similar activities that are similarly impacted by economic or other conditions, exceed 10% of total loans. As of December 31, 2024 and 2023 management is of the opinion that there were no loan concentrations exceeding 10% of total loans.

Table 13

Non-Performing Assets and Individually Evaluated Loans

(Dollars in thousands)	December 31, 2024	December 31, 2023
Non-performing assets		
Non-accrual loans	$ 4,214	$ 4,616
Foreclosed assets held for resale	—	—
Loans past-due 90 days or more and still accruing interest	756	1,065
Total non-performing assets	$ 4,970	$ 5,681
Individually evaluated loans		
Non-accrual loans	$ 4,214	$ 4,616
Other Individually Evaluated loans	309	309
Total individually evaluated loans	4,523	4,925
Allocated allowance for credit losses	—	—
Net investment in individually evaluated loans	$ 4,523	$ 4,925
Individually evaluated loans with a valuation allowance	$ —	$ —
Individually evaluated loans without a valuation allowance	4,523	4,925
Total individually evaluated loans	$ 4,523	$ 4,925
Allocated valuation allowance as a percent of individually evaluated loans	— %	— %
Individually evaluated loans to total loans	0.48 %	0.54 %
Non-performing assets to total loans	0.52 %	0.62 %
Non-performing assets to total assets	0.35 %	0.40 %
Allowance for credit losses to individually evaluated loans	169.62 %	140.61 %
Allowance for credit losses to total non-performing assets	154.37 %	121.90 %

Real estate mortgages comprised 89.8% of the loan portfolio as of December 31, 2024 and 89.1% as of December 31 2023, respectively. Real estate mortgages consist of both loans secured by residential and commercial real estate. The Real Estate loan portfolio is well diversified in terms of borrowers, collateral, interest rates, and maturities. Also, the residential component of the Real Estate loan portfolio is largely comprised of fixed rate mortgages. The real estate loans are concentrated in the Corporation's market area and are subject to risks associated with the local economy. The loans secured by commercial real estate typically reprice approximately every three to five years and are also concentrated in the Corporation's market area. The Corporation's loss exposure on its individually evaluated loans continues to be mitigated by collateral positions on these loans. The allocated allowance for credit losses associated with individually evaluated loans is generally computed based upon the related collateral value of the loans. The collateral values are determined by recent appraisals or Certificates of Inspection, but are generally discounted by management based on historical dispositions, changes in market conditions since the last valuation, and management's expertise and knowledge of the borrower and the borrower's business.

DEPOSITS, OTHER BORROWED FUNDS AND SUBORDINATED DEBT

Consumer and commercial retail deposits are attracted primarily by the Corporation's nineteen full service office locations and through its internet banking presence. The Corporation offers a broad selection of deposit products and continually evaluates its interest rates and fees on deposit products. The Corporation regularly reviews competing financial institutions' interest rates, especially when establishing interest rates on certificates of deposit.

Deposits increased by $65,441,000, or 6.7% for the year ending December 31, 2024 as compared to December 31, 2023. The increase in deposits in 2024 can be attributed to increases in non-interest bearing demand accounts, interest bearing demand accounts and time deposits, while savings accounts decreased. The decrease in savings deposits in 2024 can be attributed to many customers moving money into higher rate CD offerings.

The following schedule reflects the remaining maturities of time deposits and other time open deposits of $100,000 or more at December 31, 2024.

(Dollars in thousands)	Time Deposits ≥$100,000	Other Time Open Deposits ≥$100,000
Less than or equal to 3 months	$ 38,526	$ 855
Over 3 months through 6 months	38,007	—
Over 6 months through 12 months	40,187	—
Over 12 months	8,973	—
	$ 125,693	$ 855

Total borrowings were $240,426,000 as of December 31, 2024, compared to $275,468,000 at December 31, 2023. During 2024, long-term borrowings decreased to $106,000,000 from $122,000,000. The decrease in long-term borrowings in 2024 was mainly the result of increased deposits in 2024.

Short-term debt decreased from $153,468,000 in 2023 to $134,426,000 as of December 31, 2024. The decrease was mainly the result of increased deposits in 2024. Short-term borrowings are comprised of federal funds purchased, securities sold under agreements to repurchase, Federal Discount Window and short-term borrowings from FHLB. Short-term borrowings from FHLB are commonly used to offset balance sheet fluctuations.

In connection with FHLB borrowings, Federal Discount Window, and securities sold under agreements to repurchase, the Corporation maintains certain eligible assets as collateral.

The following table shows information about the Corporation's short-term borrowings as of December 31, 2024 and 2023.

Table 14 — Short-Term Borrowings

(Dollars in thousands)	**2024**			
	Period End Balance	**Average Balance**	**Maximum Month End Balance**	**Average Rate**
Federal funds purchased	**$ —**	**$ 1**	**$ —**	**6.56 %**
Securities sold under agreements to repurchase	**32,932**	**29,626**	**32,932**	**4.34 %**
Federal Discount Window	**—**	**806**	**4,920**	**5.46 %**
Federal Home Loan Bank	**101,494**	**128,795**	**150,000**	**5.60 %**
	$ 134,426	**$ 159,228**	**$ 187,852**	**5.37 %**

(Dollars in thousands)	2023			
	Period End Balance	Average Balance	Maximum Month End Balance	Average Rate
Federal funds purchased	$ —	$ —	$ —	6.57 %
Securities sold under agreements to repurchase	19,708	19,131	22,013	3.28 %
Federal Discount Window	1	25	875	4.99 %
Federal Home Loan Bank	133,759	154,600	175,476	5.45 %
	$ 153,468	$ 173,756	$ 198,364	5.21 %

The rapid increase in interest rates throughout 2022 and 2023 created a significant earnings challenge for the industry. As liability costs outpaced asset yield growth, negative earnings was a plausible scenario shown in many models if no action was taken. Due to the stress this placed on the Corporation, an action plan strategy was put into effect in 2023 that included disciplined loan pricing, fair value and interest rate swaps/hedges and a leverage of the balance sheet consisting of securities and brokered CD purchases and long-term borrowings. This action plan strategy was the key part of the Corporation’s decision to utilize targeted long-term borrowings over high-rate short-term borrowings and the decision to take on more brokered CDs in 2023. As a continuation of this strategy, in 2024, the Corporation purchased additional brokered CDs and entered into an additional hedge agreement against a specified pool of the Bank’s loans.

On December 10, 2020, the Corporation issued $25,000,000 aggregate principal amount of Subordinated Notes due December 31, 2030 (the “2020 Notes”). The 2020 Notes are intended to be treated as Tier 2 capital for regulatory capital purposes. The 2020 Notes bear a fixed interest rate of 4.375% per year for the first five years and then float based on a benchmark rate (as defined).

CAPITAL STRENGTH

Normal increases in capital are generated by net income, less cash dividends paid out. Also, the net unrealized gains or losses on debt securities available-for-sale and derivatives, net of taxes, referred to as accumulated other comprehensive (loss) income, may increase or decrease total equity capital. The total net decrease in capital was $14,833,000 in 2024 after an increase of $1,229,000 in 2023. The decrease in equity capital in 2024 was due to the impairment of Goodwill amounting to $19,133,000 offset by issuance of new shares through the Corporation’s Dividend Reinvestment Program (“DRIP”) amounting to $1,264,000 and an improvement in accumulated other comprehensive (loss) income amounting to $4,015,000.

The Corporation had 231,611 shares of common stock as of December 31, 2024 and December 31, 2023, at a cost of $5,709,000, as treasury stock, authorized and issued but not outstanding.

Return on average equity (“ROE”) is computed by dividing net income by average stockholders’ equity. This ratio was (12.04)% for 2024 and 4.55% for 2023.

Adequate capitalization of banks and bank holding companies is required and monitored by regulatory authorities. Table 15 reflects risk-based capital ratios and the leverage ratio for the Bank. The Bank’s leverage ratio was 10.24% at December 31, 2024 and 10.38% December 31, 2023.

The Bank has consistently maintained regulatory capital ratios at or above the “well capitalized” standards. To be categorized as “well capitalized”, the Bank must maintain minimum tier 1 risk-based capital, common equity tier 1 risk based capital, total risk-based capital and tier 1 leverage ratios of 8.0%, 6.5%, 10.0% and 5.0%, respectively. For additional information on capital ratios, see Note 14 — Regulatory Matters. The risk-based capital calculation assigns various levels of risk to different categories of bank assets, requiring higher levels of capital for assets with more risk. Also measured in the risk-based capital ratio is credit risk exposure associated with off-balance sheet contracts and commitments.

Table 15 — Capital Ratios

At December 31, 2024, the Bank met the definition of a “well-capitalized” institution under the regulatory framework for prompt corrective action and the minimum capital requirements under Basel III. The following table presents the Bank’s capital ratios as of December 31, 2024 and December 31, 2023:

	December 31, 2024	December 31, 2023	Minimum Capital Adequacy with Capital Buffer
Tier 1 leverage ratio (to average assets)	**10.24 %**	10.38 %	4.00 %
Common Equity Tier 1 capital ratio (to risk-weighted assets)	**14.92 %**	14.94 %	7.00 %
Tier 1 risk-based capital ratio (to risk-weighted assets)	**14.92 %**	14.94 %	8.50 %
Total risk-based capital ratio	**15.69 %**	15.68 %	10.50 %

Under the final capital rules that became effective on January 1, 2015, there was a requirement for a common equity tier 1 capital conservation buffer of 2.5% of risk-weighted assets which is in addition to the other minimum risk-based capital standards in the rule. Institutions that do not maintain this required capital buffer will become subject to progressively more stringent limitations on the percentage of earnings that can be paid out in dividends or used for stock repurchases and on the payment of discretionary bonuses to senior executive management. The capital buffer requirement was phased in over three years beginning in 2016. The capital buffer requirement effectively raises the minimum required common equity tier 1 capital ratio to 7.0%, the tier 1 capital ratio to 8.5%, and the total capital ratio to 10.5% on a fully phased-in basis on January 1, 2019. As of December 31, 2024, the Bank meets all capital adequacy requirements under the Basel III Capital Rules on a fully phased-in basis.

The Corporation's capital ratios are not materially different than those of the Bank.

LIQUIDITY MANAGEMENT

The Corporation's objective is to maintain adequate liquidity to meet funding needs at a reasonable cost and provide contingency plans to meet unanticipated funding needs or a loss of funding sources, while minimizing interest rate risk. Adequate liquidity is needed to provide the funding requirements of depositors' withdrawals, loan growth, and other operational needs.

Sources of liquidity are as follows:

- Growth in the core deposit base;
- Proceeds from sales or maturities of securities;
- Payments received on loans and mortgage-backed and asset-backed securities;
- Correspondent bank borrowings on various overnight credit lines, notes, etc., with various levels of capacity;
- Securities sold under agreements to repurchase; and
- Brokered CDs.

At December 31, 2024, the Corporation had $521,112,000 in available borrowing capacity at FHLB (inclusive of the outstanding balances of FHLB long-term notes, FHLB short-term borrowings and irrevocable standby letters of credit issued by FHLB); the maximum borrowing capacity at ACBB was $15,000,000 and the maximum borrowing capacity of the Federal Discount Window was $16,733,000.

The Corporation enters into "Repurchase Agreements" in which it agrees to sell securities subject to an obligation to repurchase the same or similar securities. Because the agreement both entitles and obligates the Corporation to repurchase the assets, the Corporation may transfer legal control of the securities while still retaining effective control. As a result, the repurchase agreements are accounted for as collateralized financing agreements (secured borrowings) and act as an additional source of liquidity. Securities sold under agreements to repurchase were $32,932,000 at December 31, 2024.

Asset liquidity is provided by securities maturing in one year or less, other short-term investments, federal funds sold, and cash and due from banks. The liquidity is augmented by repayment of loans and cash flows from mortgage-backed and asset-backed securities. Liability liquidity is accomplished primarily by maintaining a core deposit base, acquired by attracting new deposits and retaining maturing and core deposits. Also, short-term borrowings provide funds to meet liquidity needs.

Net cash flows provided by operating activities were $8,168,000 and $5,905,000 as of December 31, 2024 and December 31, 2023, respectively. Net loss amounted to $13,203,000 for the year ended December 31, 2024 compared to net income of $5,560,000 for the year ended December 31, 2023. The provision for credit losses resulted in a balance of $1,640,000 for the year ended December 31, 2024 compared to a credit balance of $217,000 for the year ended December 31, 2023. Goodwill impairment amounted to $19,133,000 at December 31, 2024 and $0 at December 31, 2023. During the years ended December 31, 2024 and 2023, net premium amortization on securities amounted to $273,000 and $1,519,000, respectively. Net gains on sales of mortgage loans were $80,000 for the year ended December

31, 2024, compared to $65,000 for the year ended December 31, 2023. Originations of mortgage loans originated for resale exceeded proceeds (including gains) from sales of mortgage loans originated for resale by $446,000 and $77,000 for the years ended December 31, 2024 and 2023, respectively. Net securities gains were $105,000 for the year ended December 31, 2024, compared to net securities losses of $118,000 for the year ended December 31, 2023. Accrued interest receivable decreased by $208,000 during the year ended December 31, 2024 and increased by $810,000 during the year ended December 31, 2023. Accrued interest payable decreased by $671,000 during the year ended December 31, 2024 and increased by $2,260,000 during the year ended December 31, 2023. Other assets increased by $812,000 during the year ended December 31, 2024 and decreased by $661,000 during the year ended December 31, 2023. Other liabilities decreased by $20,000 and $5,429,000 during the years ended December 31, 2024 and 2023, respectively. Amortization of investment in low-income housing partnerships amounted to $819,000 for the year ended December 31, 2024, compared to $231,000 for the year ended December 31, 2023.

Investing activities used cash of $33,158,000 and $76,833,000 during the years ended December 31, 2024 and 2023, respectively. Net activity in the available-for-sale securities portfolio (including proceeds from sale, maturities, and redemptions, net against purchases) provided cash of $4,419,000 during the year ended December 31, 2024 and used cash of $16,533,000 during the year ended December 31, 2023. Net change in restricted investment in bank stocks provided cash of $1,901,000 during the year ended December 31, 2024 and used cash of $3,749,000 during the year ended December 31, 2023. Net cash used to originate loans amounted to $37,740,000 and $52,480,000 during the years ended December 31, 2024 and 2023, respectively. Purchase of premises and equipment used cash of $1,728,000 and $1,656,000 during the years ended December 31, 2024 and 2023, respectively. Purchase of investment in real estate ventures used cash of $10,000 and $2,415,000 during the years ended December 31, 2024 and 2023, respectively.

Financing activities provided cash of $25,231,000 and $77,203,000 during the years ended December 31, 2024 and 2023, respectively. Deposits increased by $65,441,000 during the year ended December 31, 2024 and decreased by $13,060,000 during the year ended December 31, 2023. Short-term borrowings decreased by $19,042,000 during the year ended December 31, 2024 and increased by $50,000 during the year ended December 31, 2023. Proceeds from long-term borrowings amounted to $4,000,000 for the year ended December 31, 2024, compared to $100,000,000 for the year ended December 31, 2023. Repayment of long-term borrowings used cash of $20,000,000 during the year ended December 31, 2024 and $3,000,000 during the year ended December 31, 2023. Dividends paid amounted to $5,168,000 for the year ended December 31, 2024, compared to $6,780,000 for the year ended December 31, 2023.

Managing liquidity remains an important segment of asset/liability management. The overall liquidity position of the Corporation is maintained by an active asset/liability management committee. The Corporation believes that its core deposit base is stable even in periods of changing interest rates. Liquidity and funds management are governed by policies and measured on a monthly basis. These measurements indicate that liquidity generally remains stable and exceeds the Corporation’s minimum defined levels of adequacy. Other than the trends of continued competitive pressures and volatile interest rates, there are no known demands, commitments, events or uncertainties that will result in, or that are reasonably likely to result in, liquidity increasing or decreasing in any material way. Given our financial strength, we expect to be able to maintain adequate liquidity as we manage through the current environment, utilizing current funding options and possibly utilizing new options.

Table 16 represents scheduled maturities of the Corporation’s contractual obligations by time remaining until maturity as of December 31, 2024.

Table 16 — Contractual Obligations

(Dollars in thousands)

December 31, 2024	Less than 1 Year	1 - 3 Years	4 -5 Years	Over 5 Years	Total
Time deposits	$ 245,238	$ 96,990	$ 20,390	$ 5,500	$ 368,118
Securities sold under agreement to repurchase	32,932	—	—	—	32,932
Short-term borrowings	101,494	—	—	—	101,494
Long-term borrowings	—	64,000	42,000	—	106,000
Subordinated debentures	—	—	—	25,000	25,000
Operating lease obligations	175	294	314	2,160	2,943
	$ 379,839	$ 161,284	$ 62,704	$ 32,660	$ 636,487

Off-Balance Sheet Arrangements

The Corporation is party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and, to a lesser extent, standby letters of credit. At December 31, 2024, the Corporation had outstanding unfunded commitments to extend credit of $111,793,000 and outstanding standby letters of credit of $8,195,000. Because these commitments generally have fixed expiration dates and many will expire without being drawn upon, the total commitment level does not necessarily represent future cash requirements. Please refer to Note 15 — Financial Instruments with Off-Balance Sheet Risk and Concentrations of Credit Risk for a discussion of the nature, business purpose, and importance of the Corporation's off-balance sheet arrangements.

MARKET RISK

Market risk is the risk of loss arising from adverse changes in the fair value of financial instruments due to changes in interest rates, exchange rates and equity prices. The Corporation's market risk is composed primarily of interest rate risk. The Corporation's interest rate risk results from timing differences in the repricing of assets, liabilities, off-balance sheet instruments, and changes in relationships between rate indices and the potential exercise of explicit or embedded options.

Increases in the level of interest rates also may adversely affect the fair value of the Corporation's securities and other earning assets. Generally, the fair value of fixed-rate instruments fluctuates inversely with changes in interest rates. As a result, increases in interest rates could result in decreases in the fair value of the Corporation's interest-earning assets, which could adversely affect the Corporation's results of operations if sold, or, in the case of interest-earning assets classified as available-for-sale, the Corporation's stockholders' equity, if retained. Under FASB Accounting Standards Codification ("ASC") 320-10, *Investments – Debt Securities*, changes in the unrealized gains and losses, net of taxes, on debt securities classified as available-for-sale are reflected in the Corporation's stockholders' equity. The Corporation does not own any trading assets.

Asset/Liability Management

The principal objective of asset/liability management is to manage the sensitivity of the net interest margin to potential movements in interest rates and to enhance profitability through returns from managed levels of interest rate risk. The Corporation actively manages the interest rate sensitivity of its assets and liabilities. Table 17 presents an interest sensitivity analysis of assets and liabilities as of December 31, 2024. Several techniques are used for measuring interest rate sensitivity. Interest rate risk arises from the mismatches in the repricing of assets and liabilities within a given time period, referred to as a rate sensitivity gap. If more assets than liabilities mature or reprice within the time frame, the Corporation is asset sensitive. This position would contribute positively to net interest income in a rising rate environment. Conversely, if more liabilities mature or reprice, the Corporation is liability sensitive. This position would contribute positively to net interest income in a falling rate environment.

Limitations of interest rate sensitivity gap analysis as illustrated in Table 17 include: a) assets and liabilities which contractually reprice within the same period may not, in fact, reprice at the same time or to the same extent; b) changes in market interest rates do not affect all assets and liabilities to the same extent or at the same time, and c) interest rate sensitivity gaps reflect the Corporation's position on a single day (December 31, 2024 in the case of the following schedule) while the Corporation continually adjusts its interest sensitivity throughout the year. The Corporation's cumulative gap at one year indicates the Corporation is liability sensitive at December 31, 2024.

Table 17 — Interest Rate Sensitivity Analysis

(Dollars in thousands)

	December 31, 2024				
	One Year	1 - 5 Years	Beyond 5 Years	Not Rate Sensitive	Total
Assets	$ 192,688	$ 617,807	$ 565,885	$ 52,203	$ 1,428,583
Liabilities/Stockholders' Equity	$ 594,040	$ 245,651	$ 446,413	$ 142,479	$ 1,428,583
Interest Rate Sensitivity Gap	$ (401,352)	$ 372,156	$ 119,472	$ (90,276)	
Cumulative Gap	$ (401,352)	$ (29,196)	$ 90,276	$ —	

Earnings at Risk

The Bank's Asset/Liability Committee ("ALCO") is responsible for reviewing the interest rate sensitivity position and establishing policies to monitor and limit exposure to interest rate risk. The guidelines established by ALCO are reviewed by the Corporation's Board of Directors. The Corporation recognizes that more sophisticated tools exist for measuring the interest rate risk in the balance sheet beyond interest rate sensitivity gap. Although the Corporation continues to measure its interest rate sensitivity gap, the Corporation utilizes additional modeling for interest rate risk in the overall balance sheet. Earnings at risk and economic values at risk are analyzed.

Earnings simulation modeling addresses earnings at risk and net present value estimation addresses economic value at risk. While each of these interest rate risk measurements has limitations, taken together they represent a reasonably comprehensive view of the magnitude of interest rate risk to the Corporation.

Earnings Simulation Modeling

The Corporation's net income is affected by changes in the level of interest rates. Net income is also subject to changes in the shape of the yield curve. For example, a flattening of the yield curve would result in a decline in earnings due to the compression of earning asset yields and increased liability rates, while a steepening would result in increased earnings as earning asset and liability yields widen.

Earnings simulation modeling is the primary mechanism used in assessing the impact of changes in interest rates on net interest income. The model reflects management's assumptions related to asset yields and rates paid on liabilities, deposit sensitivity, size and composition of the balance sheet. The assumptions are based on what management believes at that time to be the most likely interest rate environment. Earnings at risk is the change in net interest income from a base case scenario under various scenarios of rate shock increases and decreases in the interest rate earnings simulation model.

Table 18 presents an analysis of the changes in net interest income and net present value of the balance sheet resulting from various immediate shock increases or decreases in the level of interest rates, such as two percentage points (200 basis points) in the level of interest rates. The calculated estimates of change in net interest income and net present value of the balance sheet are compared to current limits approved by ALCO and the Board of Directors. The earnings simulation model projects net interest income would decrease 2.58%, 4.82% and 6.69% in the 100, 200 and 300 basis point increasing rate scenarios presented. In addition, the earnings simulation model projects net interest income would increase 0.77% in the 100 basis point decreasing rate scenario presented and decrease 1.44% and 3.26% in the 200 and 300 basis point decreasing rate scenarios presented, respectively. All of these forecasts are within the Corporation's one year policy guidelines.

The analysis and model used to quantify the sensitivity of net interest income becomes less reliable in a decreasing rate scenario given the current interest rate environment with federal funds trading in the 425-450 basis point range and many deposit accounts still lagging at markedly lower rates. Results of the decreasing basis point declining scenarios are affected by the fact that many of the Corporation's interest-bearing liabilities are at rates below 1% and therefore likely may not decline 100 or more basis points. However, the Corporation's interest-sensitive assets are able to decline by these amounts. For the years ended December 31, 2024 and 2023, the cost of interest-bearing liabilities averaged 3.56% and 2.85%, respectively, and the yield on average interest-earning assets, on a fully taxable equivalent basis, averaged 5.30% and 4.64%, respectively.

Net Present Value Estimation

The net present value measures economic value at risk and is used for helping to determine levels of risk at a point in time present in the balance sheet that might not be taken into account in the earnings simulation model. The net present value of the balance sheet is defined as the discounted present value of asset cash flows minus the discounted present value of liability cash flows. At December 31, 2024, net present value is projected to decrease 1.12%, 4.56%, and 9.35% in the 100, 200 and 300 basis point immediate increase scenarios, respectively. Additionally, the 100, 200 and 300 basis point immediate decreases in rates are estimated to affect net present value with a decrease of 0.99%, 7.09% and 20.34%, respectively. All scenarios presented are within the Corporation's policy limits.

The computation of the effects of hypothetical interest rate changes are based on many assumptions. They should not be relied upon solely as being indicative of actual results, since the computations do not account for actions management could undertake in response to changes in interest rates.

Table 18 — Effect of Change in Interest Rates

December 31, 2024:	**Projected Change**
Effect on Net Interest Income	
1-Year Net Interest Income Simulation Projection	
+300 bp Shock vs. Stable Rate	(6.69)%
+200 bp Shock vs. Stable Rate	(4.82)%
+100 bp Shock vs. Stable Rate	(2.58)%
Flat rate	
–100 bp Shock vs. Stable Rate	0.77 %
–200 bp Shock vs. Stable Rate	(1.44)%
–300 bp Shock vs. Stable Rate	(3.26)%
Effect on Net Present Value of Balance Sheet	
Static Net Present Value Change	
+300 bp Shock vs. Stable Rate	(9.35)%
+200 bp Shock vs. Stable Rate	(4.56)%
+100 bp Shock vs. Stable Rate	(1.12)%
Flat rate	
–100 bp Shock vs. Stable Rate	(0.99)%
–200 bp Shock vs. Stable Rate	(7.09)%
–300 bp Shock vs. Stable Rate	(20.34)%

Table 19 shows the quarterly results of operations for the Corporation for the years ended December 31, 2024 and 2023:

Table 19 — Quarterly Results of Operations (Unaudited)

(Dollars in thousands, except per share data)

	Three Months Ended			
2024	**March 31**	**June 30**	**September 30**	**December 31**
Interest income	**$ 16,946**	**$ 17,593**	**$ 18,242**	**$ 18,641**
Interest expense	**9,471**	**9,592**	**10,088**	**9,992**
Net interest income	**7,475**	**8,001**	**8,154**	**8,649**
Provision for credit losses	**264**	**510**	**718**	**148**
Non-interest income	**1,344**	**1,621**	**1,860**	**1,872**
Non-interest expense	**27,145**	**7,666**	**7,820**	**7,953**
(Loss) Income before income tax (benefit) expense	**(18,590)**	**1,446**	**1,476**	**2,420**
Income tax (benefit) expense	**(213)**	**66**	**(31)**	**133**
Net (loss) income	**$ (18,377)**	**$ 1,380**	**$ 1,507**	**$ 2,287**
Basic and diluted (losses) earnings per share	**$ (3.00)**	**$ 0.23**	**$ 0.25**	**$ 0.38**

(Dollars in thousands, except per share data)

	Three Months Ended			
2023	March 31	June 30	September 30	December 31
Interest income	$ 13,307	$ 13,651	$ 14,237	$ 15,793
Interest expense	5,503	6,543	7,353	8,473
Net interest income	7,804	7,108	6,884	7,320
Provision (credit) for credit losses	—	34	(370)	119
Non-interest income	1,452	1,539	1,476	1,689
Non-interest expense	7,753	7,157	7,420	6,915
Income before income tax expense	1,503	1,456	1,310	1,975
Income tax expense	146	317	27	194
Net income	$ 1,357	$ 1,139	$ 1,283	$ 1,781
Basic and diluted earnings per share	$ 0.22	$ 0.19	$ 0.21	$ 0.29

Critical Accounting Estimates

The Corporation has chosen accounting policies that it believes are appropriate to accurately and fairly report its operating results and financial position, and the Corporation has applied those policies in a consistent manner.

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America require that the Corporation make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. These estimates and assumptions are based on historical or other factors believed to be reasonable under the circumstances. The Corporation evaluates these estimates and assumptions on an ongoing basis and may retain outside consultants, lawyers and actuaries to assist in its evaluation. These estimates, assumptions and judgments are based on information available as of the date of the consolidated financial statements; accordingly, as this information changes, the consolidated financial statements could reflect different estimates, assumptions and judgments.

The Corporation considers four accounting policies to be critical because they involve the most significant judgments and estimates used in preparation of its consolidated financial statements. The four policies are the determination of allowance for securities losses, the assessment of possible impairment of equity securities, the determination of the allowance for credit losses, and the assessment of goodwill for possible impairment.

Allowance for Securities Losses. The allowance for securities losses represents management's estimate of probable credit losses inherent in the securities portfolio. Management evaluates debt securities for impairment where there has been a decline in fair value below the amortized cost basis of a debt security to determine whether there is a credit loss associated with the decline in fair value. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses on securities.

Impairment of Equity Securities. Valuations for the equity securities portfolio are determined using quoted market prices, where available. If quoted market prices are not available, the equity securities valuation is based on cost less any impairment. In addition to valuation, management must assess whether there are any declines in value below the carrying value of the securities that would require an adjustment in carrying value and recognition of the loss in the Corporation's Consolidated Statements of Income.

Allowance for Credit Losses. The allowance for credit losses represents management's estimate of losses arising from borrowers' inability to make loan payments as required. Determining the amount of the allowance for credit losses is considered a critical accounting estimate because it requires significant judgment and the use of estimates related to specific expectations for the future economic environment, the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may impact the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral (if the loan is collateral dependent), the composition of the portfolio, and other relevant factors. The loan portfolio also represents the largest asset type on the Corporation's Consolidated Balance Sheets.

Goodwill. Goodwill represents the excess purchase consideration over the fair value of net assets acquired in connection with acquisitions. Goodwill is not amortized but is periodically evaluated for impairment. Impairment testing is performed using either a qualitative or quantitative approach. The Corporation has selected December 31 as the date to perform the annual goodwill impairment test. Additionally, a goodwill impairment evaluation is performed on an interim basis when events or circumstances indicate impairment potentially exists. Based on an interim goodwill impairment test completed during the first quarter of 2024 for which a decrease in the Corporation's stock price was a triggering event, it was determined, more likely than not, that the fair value of the Corporation's goodwill was less than it's carrying value. Based on the results of the impairment test, the Corporation recorded a full goodwill impairment charge of $19,133,000 effective March 31, 2024.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not required.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors of
First Keystone Corporation

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of First Keystone Corporation and Subsidiary ("Company") as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (“PCAOB”) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

Emphasis of a Matter

We draw attention to Note 1 of the financial statements, which discusses the full impairment of goodwill which occurred during the quarter ended March 31, 2024. Our opinion is not modified in respect of this matter.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of a critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing separate opinions on the critical audit matter or on the accounts or disclosures to which it relates.

Allowance for Credit Losses – Qualitative Factors

Critical Audit Matter Description

As described in Note 1, the allowance for credit losses (“ACL”) is an estimate of losses arising from borrowers’ inability to make loan payments as required, which is calculated via a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. The Company’s ACL is calculated by collectively evaluating and individually evaluating loans. The Company collectively evaluates applicable loans based on segments according to their homogeneous characteristics, aligned with the segmentation of the FDIC Bank Call Report.

The ACL is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management’s periodic evaluation of the adequacy of the ACL is based on specific expectations for the future economic environment that are incorporated in the projection, with loss expectations to revert to the long-run historical mean after such time as management can make or obtain a reasonable and supportable forecast. Management also considers the Company’s past loan loss experience, known and inherent risks in the portfolio, adverse situations that may impact the borrower’s ability to repay (including the timing of future payments), the estimated value of any underlying collateral (if the loan is collateral dependent), composition of the loan portfolio, and other relevant factors. This evaluation is inherently subjective as it requires material estimates based on management's judgment regarding the projection of expected credit losses over the contractual lifetime of the loans.

Modeling of the ACL uses sophisticated statistical techniques to arrive at reasonable and supportable forecasts of expected losses. The Company has contracted with a third-party vendor to assist in developing models for the ACL related to the Company's loan portfolio. The Company has opted to utilize the Weighted Average Remaining Maturity ("WARM") method to calculate the ACL which uses an average annual charge-off rate. This average annual charge-off rate contains loss content over several vintages and is used as a foundation for estimating the credit loss content for loans by segmented pools at the balance sheet date and is used to determine a historical charge-off rate. When estimating expected credit losses, the Company considers forward-looking information that is both reasonable, supportable, and relevant to assessing the collectability of cash flows. Reasonable and supportable forecasts may extend over the entire contractual term of a loan or a period shorter than the contractual term. Reasonable and supportable forecasts may vary by portfolio segment or individual forecast input. These forecasts may include data from internal sources, external sources, or a combination of both.

We identified the qualitative factor component of the ACL on loans collectively evaluated for credit loss as a critical audit matter as auditing the underlying qualitative factors required significant auditor judgment as amounts determined by management rely on analysis that is highly subjective and includes significant estimation uncertainty.

How the Critical Audit Matter was Addressed in the Audit

The primary procedures we performed to address this critical audit matter included:

- Evaluating the appropriateness of management's methodology for estimating the ACL on loans.
- Testing of the completeness and accuracy of data used by management in determining qualitative factor adjustments.
- Evaluating the reasonableness of management's judgments related to the qualitative loss factors to determine if the loss factors are calculated in accordance with management's policies and were consistently applied from the point of adoption to year end.

/s/ Baker Tilly US, LLP

We have served as the Company's auditor since 2018.
Iselin, New Jersey
March 25, 2025

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED BALANCE SHEETS

(Dollars in thousands, except share and per share data)	December 31, 2024	December 31, 2023
ASSETS		
Cash and due from banks	**$ 9,933**	$ 9,462
Interest-bearing deposits in other banks	**7,321**	7,551
Total cash and cash equivalents	**17,254**	17,013
Debt securities available-for-sale, at fair value	**390,288**	392,968
Marketable equity securities, at fair value	**1,587**	1,482
Restricted investment in bank stocks, at cost	**8,984**	10,885
Loans	**947,714**	910,864
Loans held for sale	**737**	214
Allowance for credit losses	**(7,672)**	(6,925)
Net loans	**940,779**	904,153
Premises and equipment, net	**20,272**	19,611
Operating lease right-of-use assets	**1,400**	1,472
Accrued interest receivable	**4,993**	5,201
Cash surrender value of bank owned life insurance	**26,679**	26,010
Investments in low-income housing partnerships	**5,152**	5,961
Goodwill	**—**	19,133
Deferred income taxes	**7,725**	8,695
Other assets	**3,470**	3,286
TOTAL ASSETS	**$ 1,428,583**	$ 1,415,870
LIABILITIES		
Deposits:		
Non-interest bearing	**$ 203,583**	$ 198,569
Interest bearing	**842,297**	781,870
Total deposits	**1,045,880**	980,439
Short-term borrowings	**134,426**	153,468
Long-term borrowings	**106,000**	122,000
Subordinated debentures	**25,000**	25,000
Operating lease liabilities	**1,920**	1,976
Accrued interest payable	**2,152**	2,823
Other liabilities	**6,423**	8,549
TOTAL LIABILITIES	**1,321,801**	1,294,255
STOCKHOLDERS' EQUITY		
Preferred stock, par value $2.00 per share; authorized 1,000,000 shares as of December 31, 2024 and December 31, 2023; issued 0 as of December 31, 2024 and December 31, 2023	**—**	—
Common stock, par value $2.00 per share; authorized 20,000,000 shares as of December 31, 2024 and December 31, 2023; issued 6,450,392 as of December 31, 2024 and 6,352,665 as of December 31, 2023; outstanding 6,218,781 as of December 31, 2024 and 6,121,054 as of December 31, 2023	**12,901**	12,705
Surplus	**45,072**	44,004
Retained earnings	**80,148**	100,260
Accumulated other comprehensive loss	**(25,630)**	(29,645)
Treasury stock, at cost, 231,611 shares as of December 31, 2024 and December 31, 2023	**(5,709)**	(5,709)
TOTAL STOCKHOLDERS' EQUITY	**106,782**	121,615
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 1,428,583**	$ 1,415,870

The accompanying notes are an integral part of these consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands, except per share data)

	Years Ended December 31, 2024	2023
INTEREST INCOME		
Interest and fees on loans	**$ 51,187**	$ 42,747
Interest and dividend income on securities:		
Taxable	**17,743**	12,311
Tax-exempt	**1,074**	1,166
Dividends	**57**	56
Dividend income on restricted investment in bank stocks	**928**	669
Interest on interest-bearing deposits in other banks	**433**	39
Total interest income	**71,422**	56,988
INTEREST EXPENSE		
Interest on deposits	**25,276**	17,108
Interest on short-term borrowings	**7,720**	8,774
Interest on long-term borrowings	**5,053**	896
Interest on subordinated debt	**1,094**	1,094
Total interest expense	**39,143**	27,872
Net interest income	**32,279**	29,116
Provision (credit) for credit losses	**1,640**	(217)
Net interest income after provision for credit losses	**30,639**	29,333
NON-INTEREST INCOME		
Trust department	**1,051**	931
Service charges and fees	**2,247**	2,205
Increase in cash surrender value of life insurance	**669**	621
ATM fees and debit card income	**2,228**	2,195
Net gains on sales of mortgage loans	**80**	65
Net securities gains (losses)	**105**	(118)
Other	**317**	257
Total non-interest income	**6,697**	6,156
NON-INTEREST EXPENSE		
Salaries and employee benefits	**17,228**	16,055
Occupancy, net	**2,191**	2,119
Furniture and equipment expense	**676**	637
Computer expense	**1,478**	1,571
Professional services	**1,617**	1,440
Pennsylvania shares tax	**1,070**	861
FDIC insurance, net	**1,097**	703
ATM and debit card fees	**1,003**	1,146
Data processing fees	**1,022**	1,304
Advertising	**560**	528
Goodwill impairment	**19,133**	—
Other	**3,509**	2,881
Total non-interest expense	**50,584**	29,245
(Loss) Income before income tax (benefit) expense	**(13,248)**	6,244
Income tax (benefit) expense	**(45)**	684
NET (LOSS) INCOME	**$ (13,203)**	$ 5,560
PER SHARE DATA		
Net (loss) income per share:		
Basic	**$ (2.14)**	$ 0.91
Diluted	**(2.14)**	0.91
Dividends per share	**1.12**	1.12

The accompanying notes are an integral part of these consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in thousands)	Year Ended December 31, 2024	Year Ended December 31, 2023
Net (loss) income	**$ (13,203)**	$ 5,560
Other comprehensive income (loss):		
Unrealized net holding gains on debt securities available-for-sale arising during the period, net of income taxes of $423 and $947, respectively	**1,589**	3,563
Less reclassification adjustment for net gains included in net income, net of income taxes of $0 and $(21), respectively (a) (b)	**—**	(78)
Fair value adjustment on derivatives, net of income taxes of $(612) and $(950), respectively	**2,426**	(3,572)
Total other comprehensive income (loss)	**4,015**	(87)
Total comprehensive (loss) income	**$ (9,188)**	$ 5,473

(a) Gross amounts are included in net securities (losses) gains on the consolidated statements of income in non-interest income.

(b) Income tax amounts are included in income tax expense on the consolidated statements of income.

The accompanying notes are an integral part of these consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in thousands, except share and per share data)

	Common Stock				Accumulated Other		Total
	Shares	Amount	Surplus	Retained Earnings	Comprehensive Income (Loss)	Treasury Stock	Stockholders' Equity
Balance at January 1, 2023	6,250,763	$ 12,502	$ 42,439	$ 100,712	$ (29,558)	$ (5,709)	$ 120,386
Cumulative effect of adoption of ASU No. 2016-13				768			768
Net income				5,560			5,560
Other comprehensive loss, net of taxes					(87)		(87)
Issuance of common stock under dividend reinvestment plan	101,902	203	1,565				1,768
Dividends - $1.12 per share				(6,780)			(6,780)
Balance at December 31, 2023	6,352,665	12,705	44,004	100,260	(29,645)	(5,709)	121,615
Net income				**(13,203)**			**(13,203)**
Other comprehensive income, net of taxes					**4,015**		**4,015**
Issuance of common stock under dividend reinvestment plan	**97,727**	**196**	**1,068**				**1,264**
Dividends - $1.12 per share				**(6,909)**			**(6,909)**
Balance at December 31, 2024	**6,450,392**	**$ 12,901**	**$ 45,072**	**$ 80,148**	**$ (25,630)**	**$ (5,709)**	**$ 106,782**

The accompanying notes are an integral part of these consolidated financial statements.

FIRST KEYSTONE CORPORATION AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands)	**2024**	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	**$ (13,203)**	$ 5,560
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Provision (credit) for credit losses on loans	**1,640**	(217)
Credit for credit losses on unfunded commitments	**(64)**	(49)
Goodwill impairment	**19,133**	—
Depreciation and amortization	**946**	798
Net premium amortization on securities	**273**	1,519
Deferred income tax (benefit) expense	**(59)**	253
Common stock issued	**1,264**	1,754
Net gains on sales of mortgage loans	**(80)**	(65)
Proceeds from sales of mortgage loans originated for sale	**3,407**	2,509
Originations of mortgage loans originated for sale	**(3,853)**	(2,586)
Net securities (gains) losses	**(105)**	118
Decrease (increase) in accrued interest receivable	**208**	(810)
Increase in cash surrender value of bank owned life insurance	**(669)**	(621)
Net losses on disposals of premises and equipment	**14**	19
(Increase) Decrease in other assets	**(812)**	661
Amortization of investment in low-income housing partnerships	**819**	231
(Decrease) increase in accrued interest payable	**(671)**	2,260
Decrease in other liabilities	**(20)**	(5,429)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**8,168**	5,905
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities and debt securities available-for-sale	**—**	23,230
Proceeds from maturities and redemptions of debt securities available-for-sale	**69,878**	41,700
Purchases of debt securities available-for-sale	**(65,459)**	(81,463)
Net change in restricted investment in bank stocks	**1,901**	(3,749)
Net increase in loans	**(37,740)**	(52,480)
Purchase of premises and equipment	**(1,728)**	(1,656)
Purchase of investment in real estate venture	**(10)**	(2,415)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	**(33,158)**	(76,833)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase (decrease) in deposits	**65,441**	(13,060)
Net (decrease) increase in short-term borrowings	**(19,042)**	50
Repayment of finance lease obligations	**—**	(7)
Proceeds from long-term borrowings	**4,000**	100,000
Repayment of long-term borrowings	**(20,000)**	(3,000)
Dividends paid	**(5,168)**	(6,780)
NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	**25,231**	77,203
INCREASE IN CASH AND CASH EQUIVALENTS	**241**	6,275
CASH AND CASH EQUIVALENTS, BEGINNING	**17,013**	10,738
CASH AND CASH EQUIVALENTS, ENDING	**$ 17,254**	$ 17,013
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Interest paid	**$ 40,663**	$ 25,612
Income taxes paid	**(8)**	318
SUPPLEMENTAL DISCLOSURE OF NON-CASH ACTIVITIES		
Common stock subscription receivable	**—**	14
Right-of-use assets obtained in exchange for lease liabilities	**33**	33

The accompanying notes are an integral part of these consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of First Keystone Corporation and Subsidiary (the "Corporation") are in accordance with accounting principles generally accepted in the United States of America ("GAAP") and conform to common practices within the banking industry. The significant accounting policies follow:

Principles of Consolidation

The consolidated financial statements include the accounts of First Keystone Corporation and its wholly-owned subsidiary, First Keystone Community Bank (the "Bank"). All significant inter-company balances and transactions have been eliminated in consolidation.

Nature of Operations

The Corporation, headquartered in Berwick, Pennsylvania, provides a full range of banking, trust and related services through its wholly-owned Bank subsidiary and is subject to competition from other financial institutions in connection with these services. The Bank serves a customer base which includes individuals, businesses, governments, and public and institutional customers primarily located in the Northeast Region of Pennsylvania. The Bank has 19 full service offices and 20 Automated Teller Machines ("ATM") located in Columbia, Luzerne, Montour, Monroe, and Northampton counties. The Corporation must also adhere to certain federal and state banking laws and regulations and are subject to periodic examinations made by various state and federal agencies.

Segment Reporting

The Bank acts as an independent community financial services provider, and offers traditional banking and related financial services to individual, business, government, and public and institutional customers. Through its branch and ATM network, as well as online banking, the Bank offers a full array of commercial and retail financial services, including the taking of time, savings and demand deposits; the making of commercial, consumer and mortgage loans; and the providing of other financial services. The Bank also performs personal, corporate, pension and fiduciary services through its trust department.

Management does not separately allocate expenses, including the cost of funding loan demand, between the commercial, retail, trust and mortgage banking operations of the Corporation. As such, discrete financial information is not available and segment reporting would not be meaningful.

Segments are components of a Company that have discrete financial information available and are regularly evaluated by a chief operating decision maker (CODM) to assess performance and decide how resources are allocated. Substantially all of the Corporation's operations occur through the Bank and involve the delivery of loan and deposit products to customers. Management makes operating decisions and assesses performance based on an ongoing review of its banking operation, which constitutes the Corporation's only operating segment for financial reporting purposes. The Corporation's one reportable segment is determined by our Chief Executive Officer, who is designated the CODM, based upon information provided about the Corporation's products and services offered, primarily community banking operations. Our CODM manages business activities on a consolidated basis and uses consolidated net income, as reported on the consolidated financial statements of income, to evaluate financial performance, allocate resources, and monitor budget versus actuals. The competitive analysis along with the monitoring of budgeted versus actual results are used in assessing performance of the segment and in establishing management's compensation. The measure of segment assets is reported on the consolidated statement of financial condition as total assets at December 31, 2024 and 2023.

Significant Concentrations of Credit Risk

The majority of the Corporation's activities involve customers located primarily in Columbia, Luzerne, Montour, Monroe, Northampton, and Lehigh counties in Pennsylvania. The types of securities in which the Corporation invests are presented in Note 2 – Securities. Credit risk as it relates to investment activities is moderated through the monitoring of ratings, geographic concentrations, etc. residing in the portfolio and the observance of minimum rating levels in the investment policy. Note 3 – Loans and Allowance for Credit Losses summarizes the types of lending in which the Corporation engages. The inherent risks associated with lending activities are mitigated by adhering to established underwriting practices and policies, as well as portfolio diversification and thorough monitoring of the loan portfolio. It is management's opinion that the investment and loan portfolios were well balanced at December 31, 2024, to the extent necessary to avoid any significant concentrations of credit risk.

Use of Estimates

The preparation of these consolidated financial statements, in conformity with GAAP, 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 these consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant changes include the determination of allowance for securities losses, the assessment of possible impairment of equity securities, the determination of the allowance for credit losses, the assessment of goodwill for possible impairment, fair value of financial instruments, the valuation of derivative instruments, and the valuation of deferred taxes.

Subsequent Events

The Corporation has evaluated events and transactions occurring subsequent to the consolidated balance sheet date of December 31, 2024, for items that should potentially be recognized or disclosed in the consolidated financial statements. The evaluation was conducted through the date these consolidated financial statements were issued. On February 25, 2025 the Board of Directors declared a dividend of $0.28 per share for the first quarter of 2025. The dividend is payable on March 31, 2025 to shareholders of record as of March 13, 2025.

Cash and Cash Equivalents

For purposes of reporting consolidated cash flows, cash and cash equivalents include cash on hand and due from banks, interest-bearing deposits in other banks, and federal funds sold. The Corporation considers cash classified as interest-bearing deposits with other banks as a cash equivalent since they are represented by cash accounts essentially on a demand basis and mature within one year. Federal funds are also included as a cash equivalent because they are generally purchased and sold for one-day periods.

Debt Securities

The Corporation classifies its debt securities as either "Held-to-Maturity" or "Available-for-Sale" at the time of purchase. Debt securities are accounted for on a trade date basis. Debt securities are classified as Held-to-Maturity when the Corporation has the ability and positive intent to hold the securities to maturity. Debt securities classified as Held-to-Maturity are carried at cost adjusted for amortization of premium and accretion of discount to maturity. At December 31, 2024 and 2023, all debt securities held were classified as Available-for-Sale.

Debt securities not classified as Held-to-Maturity are included in the Available-for-Sale category and are carried at fair value. The amount of any unrealized gain or loss, net of the effect of deferred income taxes, is reported as accumulated other comprehensive loss (AOCL) in the consolidated balance sheets and consolidated statements of changes in stockholders' equity. Management's decision to sell Available-for-Sale securities is based on changes in economic conditions controlling the sources and applications of funds, terms, availability of and yield of alternative investments, interest rate risk and the need for liquidity.

The cost of debt securities classified as Held-to-Maturity or Available-for-Sale is adjusted for amortization of premiums to the earliest call date and accretion of discounts to expected maturity. Such amortization and accretion, as well as interest and dividends, are included in interest and dividend income on securities. Realized gains and losses are included in net securities gains and losses in the consolidated statements of income. The cost of securities sold, redeemed or matured is based on the specific identification method.

The Corporation invests in various forms of agency debt including residential and commercial mortgage-backed securities and callable debt. The mortgage-backed agency securities are issued by Federal Home Loan Mortgage Corporation ("FHLMC"), Federal National Mortgage Association ("FNMA"), Government National Mortgage Association ("GNMA") or Small Business Administration ("SBA"). The other mortgage-backed securities consist of private (non-agency) residential and commercial mortgage-backed securities. The municipal securities consist of general obligations and revenue bonds. Asset-backed securities consist of private (non-agency) student loan pools backed by the Federal Family Education Loan Program ("FFELP") which carry a 97% federal government guarantee. Corporate debt securities consist of senior debt and subordinated debt holdings.

Debt securities available-for-sale are required to be individually evaluated for impairment in accordance with ASC 326, Financial Instruments – Credit Losses. Management evaluates debt securities for impairment where there has been a decline in fair value below the amortized cost basis of a debt security to determine whether there is a credit loss associated with the decline in fair value on at least a quarterly basis, and more frequently when economic or market concerns warrant such evaluation. Credit losses are calculated individually, rather than collectively, using a discounted cash flow method, whereby management compares the present value of expected cash flows with the amortized cost basis of the debt security. The credit loss component would be recognized through the provision for credit losses and the creation of an allowance for credit losses. Consideration is given to (1) the financial condition and near-term prospects of the issuer, (2) the outlook for receiving the contractual cash flows of the investments, (3) the length of time and the extent to which the fair value has been less than cost, (4) our intent and ability to retain the investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value or whether it is more-likely-than-not that we will be required to sell the debt security prior to recovering its fair value, (5) the anticipated outlook for changes in the general level of interest rates, (6) credit ratings, (7) third party guarantees, and (8) collateral values. In analyzing an issuer's financial condition, management considers whether the debt securities are issued by the federal government or its agencies, whether downgrades by bond rating agencies have occurred, the results of reviews of the issuer's financial condition, and the issuer's anticipated ability to pay the contractual cash flows of the debt securities. All issues of U.S. Treasury and Agency-Backed debt securities have the full faith and credit backing of the United States Government or one of its agencies. All other debt securities that do not have a zero expected credit loss are evaluated quarterly to determine whether there is a credit loss associated with a decline in fair value.

Equity Securities

In accordance with ASC 825-10, Financial Instruments - Overall, equity securities with readily determinable fair values are stated at fair value with realized and unrealized gains and losses reported in income. Equity securities without readily determinable fair values are recorded at cost less impairment, if any.

Management evaluates equity securities for impairment at least on a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. Equity securities without readily determinable fair values are generally evaluated for impairment under FASB ASC 321, Equity Securities. In determining impairment under the FASB ASC 321 model, management considers many factors, including (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the entity has the intent to sell the equity security or more likely than not will be required to sell the equity security before its anticipated recovery. The assessment of whether an impairment exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time. If an impairment loss on an equity security is considered to exist, a loss in the amount of the difference between the cost and fair value of the security is recognized. Once the impairment is recorded, this becomes the new cost basis of the equity security and cannot be adjusted upward if there is a subsequent recovery in the fair value of the security.

Fair Value of Financial Instruments

The techniques used to determine fair value are significantly affected by the assumptions used, including assumptions for interest rates, credit losses, prepayment speeds, and estimates of future cash flows. The derived fair value estimates cannot be substantiated by comparison to independent markets, and, in many cases, these values cannot be realized in immediate settlement of the instrument.

Current fair value guidelines clarify that if there has been a significant decrease in volume and level of activity for an asset or liability, the transaction may not be considered orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

The Corporation uses valuation methodologies to record fair value adjustments to certain assets and liabilities and to determine fair value disclosure under GAAP. Fair value estimates are calculated without attempting to estimate the value of anticipated future business and the value of certain assets and liabilities that are not considered financial.

Derivative Instruments and Hedging Activities

The Corporation manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. The Corporation’s derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation’s known or expected cash receipts principally related to the Corporation’s assets and borrowings.

The Corporation has elected to use hedge accounting and records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge.

Restricted Investment in Bank Stocks

The Corporation owns restricted stock investments in the Federal Home Loan Bank of Pittsburgh (“FHLB”) and Atlantic Community Bankers Bank (“ACBB”). These investments do not have a readily determinable fair value because their ownership is restricted and they can be sold back only to the FHLB, ACBB or to another member institution. Therefore, these investments are carried at cost. At December 31, 2024, the Corporation held $8,949,000 in stock of FHLB and $35,000 in stock of ACBB. At December 31, 2023, the Corporation held $10,850,000 in stock of FHLB and $35,000 in stock of ACBB.

Management evaluates the restricted investment in bank stocks for impairment on a quarterly basis. Management’s determination of whether these investments are impaired is based on management’s assessment of the ultimate recoverability of the cost of these investments rather than by recognizing temporary declines in value. The following factors were evaluated to determine the ultimate recoverability of the cost of the Corporation’s restricted investment in bank stocks; (i) the significance of the decline in net assets of the correspondent bank as compared to the capital stock amount for the correspondent bank and the length of time this situation has persisted; (ii) commitments by the correspondent bank to make payments required by law or regulation and the level of such payments in relation to the operating performance of the correspondent bank; (iii) the impact of legislative and regulatory changes on the institutions and, accordingly, on the customer base of the correspondent bank; and (iv) the liquidity position of the correspondent bank. Based on the analysis of these factors, management determined that no impairment charge was necessary related to the restricted investment in bank stocks during 2024 or 2023.

Loans

Net loans are stated at their outstanding recorded investment, net of deferred fees and costs, unearned income and the allowance for credit losses. Interest on loans is recognized as income over the term of each loan, generally, by the accrual method. Loan origination fees and certain direct loan origination costs have been deferred with the net amount amortized using the straight line method or the interest method over the contractual life of the related loans as an interest yield adjustment.

The loans receivable portfolio is segmented into the following segments: Real Estate (including both commercial and residential loans), Agricultural, Commercial and Industrial, Consumer, and State and Political Subdivisions.

Real Estate Lending

The Corporation engages in real estate lending to commercial borrowers in its primary market area and surrounding areas. The commercial component of the Corporation's Real Estate portfolio is secured primarily by commercial retail space, commercial office buildings, residential housing and hotels. Generally, these loans have terms that do not exceed twenty years, have loan-to-value ratios of up to eighty percent of the value of the collateral property, and are typically supported by personal guarantees of the borrowers.

In underwriting these loans, the Corporation performs a thorough analysis of the financial condition of the borrower, the borrower's credit history, and the reliability and predictability of the cash flow generated by the property securing the loan. The value of the property is determined by either independent appraisers or internal evaluations performed by Bank officers.

Real estate loans secured by commercial properties generally present a higher level of risk than loans secured by residential real estate. Repayment of loans secured by commercial real estate is typically dependent upon the successful operation of the related real estate project and/or the effect of the general economic conditions on income producing properties.

The residential component of the Corporation's Real Estate portfolio is comprised of one-to-four family residential mortgage loan originations, home equity term loans and home equity lines of credit. These loans are generated by the Corporation's marketing efforts, its present customers, walk-in customers and referrals. These loans are originated primarily with customers from the Corporation's market area.

The Corporation's one-to-four family residential mortgage originations are secured principally by properties located in its primary market area and surrounding areas. The Corporation offers fixed-rate mortgage loans with terms up to a maximum of thirty years for both permanent structures and those under construction. Loans with terms of thirty years are normally held for sale and sold without recourse; most of the residential mortgages held in the Corporation's residential real estate portfolio have maximum terms of twenty years. Generally, the majority of the Corporation's residential mortgage loans originate with a loan-to-value of eighty percent or less, or those with private mortgage insurance at ninety-five percent or less. Home equity term loans are secured by the borrower's primary residence and typically have a maximum loan-to-value of eighty percent and a maximum term of fifteen years. In general, home equity lines of credit are secured by the borrower's primary residence with a maximum loan-to-value of eighty percent and a maximum term of twenty years.

In underwriting one-to-four family residential mortgage loans, the Corporation evaluates the borrower's ability to make monthly payments, the borrower's prior loan repayment history and the value of the property securing the loan. The ability and willingness to repay is assessed based upon the borrower's employment history, current financial conditions and credit background. A majority of the properties securing residential real estate loans made by the Corporation are appraised by independent appraisers. The Corporation generally requires mortgage loan borrowers to obtain an attorney's title opinion or title insurance and fire and property insurance, including flood insurance, if applicable.

Residential mortgage loans, home equity term loans and home equity lines of credit generally present a lower level of risk than consumer loans because they are secured by the borrower's primary residence. Risk is increased when the Company is in a subordinate position, especially to another lender, for the loan collateral.

Residential mortgage loans held for sale are carried at the lower of cost or market on an aggregate basis determined by independent pricing from appropriate federal or state agency investors. These loans are sold without recourse. Loans held for sale amounted to $737,000 and $214,000 at December 31, 2024 and 2023, respectively.

Agricultural Lending

The Corporation originates agricultural loans to individuals in the farming industry for funding the production of crops or to purchase or refinance capital assets such as farmland, livestock, machinery, equipment, and farm real estate improvements. Agricultural loans are typical secured by collateral related to the farming activities. These loans originate from customers within the Corporation's primary market area or the surrounding areas.

In underwriting agricultural loans, an analysis is performed regarding the borrower's ability to repay the loan, the borrower's capital and collateral, and the past, present, and future cash flows of the borrower, as well as the agricultural industry as a whole. In general, these loans would be secured by cropland, pastureland, orchardland, or timberland that is committed to ongoing management and agricultural production, with a maximum loan-to-value ratio of 70% and a maximum term of ten years.

Commercial and Industrial Lending

The Corporation originates commercial and industrial loans principally to businesses located in its primary market area and surrounding areas. These loans are used for various business purposes, which include short-term loans and lines of credit to finance machinery and equipment, inventory and accounts receivable. Generally, the maximum term for loans extended on machinery and equipment is based on the projected useful life of such machinery and equipment. Most business lines of credit are written on demand and are reviewed annually.

Commercial and industrial loans are generally secured with short-term assets; however, in many cases, additional collateral such as real estate is provided as additional security for the loan. Loan-to-value maximum thresholds have been established by the Corporation and are specific to the type of collateral. Collateral values may be determined using invoices, inventory reports, accounts receivable aging reports, business financial statements, collateral appraisals or internal evaluations, etc. Commercial and industrial loans are typically supported by personal guarantees of the borrower.

In underwriting commercial and industrial loans, an analysis is performed to evaluate the borrower's character and capacity to repay the loan, the adequacy of the borrower's capital and collateral, as well as the conditions affecting the borrower. Evaluation of the borrower's past, present and future cash flows is also an important aspect of the Corporation's analysis of the borrower's ability to repay.

Commercial and industrial loans generally present a higher level of risk than other types of loans due primarily to the effect of general economic conditions. Commercial and industrial loans are typically made on the basis of the borrower's ability to make repayment from cash flows from the borrower's primary business activities. As a result, the availability of funds for the repayment of commercial and industrial loans is dependent on the success of the business itself, which in turn, is likely to be dependent upon the general economic environment.

As an addition to the commercial loans receivable portfolio, the Corporation may purchase the guaranteed portion of loans secured by the U.S. Government. The originating bank retains the unguaranteed portion of the loan. The loans are sponsored by one of the various government agencies including the SBA, United States Department of Agriculture ("USDA"), and the Farm Service Agency ("FSA"). Government Guaranteed Loans ("GGLs") carry no credit risk due to an unconditional and irrevocable guarantee (which is supported by the full faith and credit of the U.S. Government) on all principal and the balance of interest accruing through ninety days beyond the date that demand is made to the originating bank for repurchase of the loan. As of December 31, 2024, the Corporation's balance of GGLs was $4,306,000, compared to $4,470,000 at December 31, 2023.

Consumer Lending

The Corporation offers a variety of secured and unsecured consumer loans, including vehicle loans, stock secured loans and loans secured by financial institution deposits. These loans originate primarily with customers from the Corporation's market area.

Consumer loan terms vary according to the type and value of collateral and creditworthiness of the borrower. In underwriting personal loans, a thorough analysis is performed regarding the borrower's willingness and financial ability to repay the loan as agreed. The ability and willingness to repay is assessed based upon the borrower's employment history, current financial condition and credit background.

Consumer loans may entail greater credit risk than residential real estate loans, particularly in the case of personal loans which are unsecured or are secured by rapidly depreciable assets, such as automobiles or recreational equipment. In such cases, repossessed collateral for a defaulted personal loan may not provide an adequate source of repayment of the outstanding loan balance as a result of the greater likelihood of damage, loss or depreciation. In addition, personal loan collections are dependent on the borrower's continuing financial stability and therefore, are more likely to be affected by adverse personal circumstances. Furthermore, the application of various federal and state laws, including bankruptcy and insolvency laws, may limit the amount which can be recovered on such loans.

State and Political Subdivisions Lending

The Corporation, from time to time, may originate loans to state and political subdivisions that are within the Corporation's primary market area or surrounding areas. These loans may be either taxable or tax-free. These loans may be issued for the purpose of land improvement, infrastructure changes, bond refinances, or the purchase of equipment. State and political loans are typically secured by the taxing power of the borrowing entity. In some cases, the loans may also be secured by the property/item being purchased. Audited financial statements are required as part of the underwriting for all state and political loans and a full analysis of all components of the audited statements is performed. If the loan is to be classified as tax-free, a letter from the entity's solicitor stating such is required, as well.

The risk associated with these types of loans is considerably less than commercial loan transactions. Repayment is based on the full faith, credit, and ability of the borrowing entity to tax and then collect the payments. Delinquency or loss on these types of loans is de minimus.

Delinquent Loans

Generally, a loan is considered to be past-due when scheduled loan payments are in arrears 10 days or more. Delinquent notices are generated automatically when a loan is 10 or 15 days past-due, depending on loan type. Collection efforts continue on past-due loans that have not been brought current, when it is believed that some chance exists for improvement in the status of the loan. Past-due loans are continually evaluated with the determination for charge-off being made when no reasonable chance remains that the status of the loan can be improved.

Commercial and industrial loans and real estate loans issued for commercial purpose are charged off in whole or in part when they become sufficiently delinquent based upon the terms of the underlying loan contract and when a collateral deficiency exists. Because all or part of the contractual cash flows are not expected to be collected, the loan is considered to be impaired, and the Corporation estimates the impairment based on its analysis of the cash flows or collateral estimated at fair value less cost to sell. Should a GGL default, demand is made to the originating bank for repurchase of the loan. If the originating bank does not repurchase the loan, demand for repurchase is then made to the appropriate government agency which has provided the guarantee for the loan.

Real estate loans issued for residential purposes and consumer loans are charged off when they become sufficiently delinquent based upon the terms of the underlying loan contract and when the value of the underlying collateral is not sufficient to support the loan balance and a loss is expected. At that time, the amount of estimated collateral deficiency, if any, is charged off for loans secured by collateral, and all other loans are charged off in full. Loans with collateral are written down to the estimated fair value of the collateral less cost to sell.

Existing loans in which the borrower has declared bankruptcy are considered on a case by case basis to determine whether repayment is likely to occur (e.g. reaffirmation by the borrower with demonstrated repayment ability). Otherwise, loans are charged off in full or written down to the estimated fair value of collateral less cost to sell.

Generally, a loan is classified as non-accrual and the accrual of interest on such a loan 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. A loan may remain on accrual status if it is well secured (or supported by a strong guarantee) and in the process of collection. When a loan is placed on non-accrual status, unpaid interest credited to income in the current year is reversed and unpaid interest accrued in prior years is charged against interest income. Certain non-accrual loans may continue to perform; that is, payments are still being received. Generally, the payments are applied to principal. These loans remain under constant scrutiny, and if performance continues, interest income may be recorded on a cash basis based on management's judgment regarding the collectability of principal.

Allowance for Credit Losses - Loans

The allowance for credit losses ("ACL") is an estimate of losses arising from borrowers' inability to make loan payments as required, which is calculated via a valuation account that is deducted from the amortized cost basis to present the net amount expected to be collected on the loan portfolio. The Corporation completed a one-time adjustment on January 1, 2023 to decrease the ACL at the adoption of ASU 2016-13, Financial Instruments – Credit Losses, through retained earnings, but all subsequent adjustments will be established through provisions for credit losses charged against income. Loans deemed to be uncollectible are charged against the ACL and subsequent recoveries, if any, are credited to the allowance.

The ACL is maintained at a level estimated by management to be adequate to absorb potential loan losses. Management's periodic evaluation of the adequacy of the ACL is based on specific expectations for the future economic environment that are incorporated in the projection, with loss expectations to revert to the long-run historical mean after such time as management can make or obtain a reasonable and supportable forecast. Management also considers the Corporation's past loan loss experience, known and inherent risks in the portfolio, adverse situations that may impact the borrower's ability to repay (including the timing of future payments), the estimated value of any underlying collateral (if the loan is collateral dependent), composition of the loan portfolio, and other relevant factors. This evaluation is inherently subjective as it requires material estimates based on management's judgment regarding the projection of expected credit losses over the contractual lifetime of the loans.

Modeling of the ACL uses sophisticated statistical techniques to arrive at reasonable and supportable forecasts of expected losses. The Corporation has contracted with a third-party vendor to assist in developing models for the ACL related to the Corporation's loan portfolio under ASU 2016-13. The Corporation has opted to utilize the Weighted Average Remaining Maturity ("WARM") method to calculate the ACL which uses an average annual charge-off rate. This average annual charge-off rate contains loss content over several vintages and is used as a foundation for estimating the credit loss content for loans by segmented pools at the balance sheet date and is used to determine a historical charge-off rate. When estimating expected credit losses, the Corporation considers forward-looking information that is both reasonable, supportable, and relevant to assessing the collectability of cash flows. Reasonable and supportable forecasts may extend over the entire contractual term of a loan or a period shorter than the contractual term. Reasonable and supportable forecasts may vary by portfolio segment or individual forecast input. These forecasts may include data from internal sources, external sources, or a combination of both.

When the contractual term of a loan extends beyond the reasonable and supportable period, ASC Topic 326 requires reverting to historical loss information, or an appropriate proxy, for those periods beyond the reasonable and supportable forecast period (often referred to as the reversion period). The Corporation may revert to historical loss information for each individual forecast input or based on the entire estimate of loss. Reversion to historical loss information may be immediate, occur on a straight-line basis, or use any systematic/rational method. Management may apply different reversion techniques depending on the economic environment or applicable loan portfolio.

The methodology used to determine the ACL also includes a qualitative component in which the Corporation adjusts expected credit loss estimates for information not already captured in the loss estimation process. These qualitative factor adjustments may increase or decrease management's estimate of expected credit losses. Changes in the level of the Corporation's ACL may not always be directionally consistent with changes in the level of qualitative factor adjustments due to the incorporation of reasonable and supportable forecasts in estimating expected losses. Management considers qualitative factors that are relevant to the Corporation as of the reporting date, which may include but are not limited to: 1) changes in lending policies and procedures, including changes in underwriting standards and collection, charge-off, and recovery practices not considered elsewhere; 2) changes in international, national, regional, and local economic and business conditions and developments that affect the collectability of the loan portfolio, including the condition of various market segments; 3) changes in the nature and volume of the loan portfolio; 4) changes in the experience, ability, and depth of management and other relevant staff; 5) changes in the volume and severity of past due loans, the volume of non-accrual loans, and the volume and severity of adversely classified or graded loans; 6) changes in the quality of the Corporation's loan review system; 7) changes in the value of underlying collateral for collateral dependent loans; 8) the existence and effect of any concentrations of credit and changes in the level of such concentrations; and 9) the effect of other external factors such as competition and legal and regulatory requirements on the level of estimated credit losses in the Corporation's existing loan portfolio.

The Corporation's ACL is calculated by collectively evaluating and individually evaluating loans. The Corporation collectively evaluates applicable loans based on segments according to their homogeneous characteristics, aligned with the segmentation of the FDIC Bank Call Report. The Corporation collectively evaluates loans and determines applicable loss rates based on the following segments/classes:

<u>Real Estate</u>

- Construction, land development, and other land loans
- Residential construction (loans to build homes, both speculative and owner-occupied, and 1-4 family lot loans)
- Agribusiness, farmland, or secured by farmland
- Revolving, open-end, 1-4 family residential properties (and extended under lines of credit)
- Loans secured by first liens
- Loans secured by junior liens
- Secured by multifamily (5 or more) residential properties
- Loans secured by owner occupied, non-farm, non-residential properties
- Loans secured by other non-farm, non-residential properties

<u>Agricultural</u>

- Loans to finance agricultural production and other loans for farmers

<u>Commercial and Industrial</u>

- Commercial and industrial loans

<u>Consumer</u>

- Other revolving credit plans
- Automobile loans
- Other consumer loans

<u>State and Political Subdivisions</u>

- Obligations (other than securities or leases) of states and political subdivisions in the U.S.

In accordance with ASC 326-20-30-2, the Corporation will evaluate individual loans for expected credit losses when the loans do not share similar risk characteristics with loans evaluated using the collective method. Management may evaluate loans on an individual basis even when no specific expectation of collectability is in place. Loans deemed to be impaired are specifically identified and measured for impairment. A loan is deemed to be impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the loan agreement. Loans to be considered for impairment include all non-accrual loans or any other selected loans where full collection is unlikely. Factors considered by management in determining impairment include payment status 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. Once identified as impaired, the loans are measured individually for impairment based on one of the following methods:

- The present value of expected cash flows, discounted at the loan's effective interest rate (i.e. the contractual interest rate adjusted for any net deferred loan fees or costs, premium, or discount existing at the origination or acquisition of the loan)
- The loan's observable market price
- The fair value of the collateral if the loan is deemed to be collateral dependent. A loan is collateral dependent if the repayment of the loan is expected to be provided solely by the liquidation of the underlying collateral and there are no other available and reliable sources of repayment. Management will consider estimated costs to sell, on a discounted basis, in the measurement of impairment if these costs are expected to reduce the cash flows available to repay the loan. Any portion of the recorded investment for a collateral dependent loan (including any capitalized accrued interest, net deferred loan fees or costs, and unamortized premium or discount) exceeding the fair value of the collateral that can be identified as uncollectible is deemed a confirmed loss and will be charged off against the ACL

Loans that have been individually measured for impairment may have a portion of the allowance allocated to cover the calculated amount of impairment as determined by the methods listed above, referred to as a specific allocation. Loans individually evaluated for impairment may also have a zero specific allocation if the loans are deemed to have no impairment, or if the amount of the impairment will be charged off.

ASU 2022-02, *Loan Modifications Experiencing Financial Difficulty*, eliminated the accounting guidance for Troubled Debt Restructurings ("TDRs") while enhancing disclosure requirements for certain loan refinancing and restructurings by creditors when a borrower is experiencing financial difficulty. In accordance with the new guidance, the Corporation no longer evaluates loans with modifications made to borrowers experiencing financial difficulty individually for impairment, nor establishes a related specific reserve for such loans, but rather these loans are included in their respective portfolio segment and evaluated collectively for impairment to establish an allowance for credit losses. Any modifications of loans to borrowers experiencing financial difficulty that are classified as non-accrual or are otherwise designated as collateral dependent are individually evaluated for determination of expected credit losses.

The most common types of concessions granted upon modification of a loan to a borrower experiencing financial difficulties include: (a) a reduction in the interest rate for the remaining life of the debt, (b) an extension of the maturity date at an interest rate lower than the current market rate for new debt with similar risk, (c) a temporary period of interest-only payments, and (d) a reduction in the contractual payment amount for either a short period or for the remaining term of the loan. A less common concession would be forgiveness of a portion of the loan's principal. Loans so modified remain collectively evaluated for determination of expected credit losses, unless, during the process of evaluation, it is determined that the loan should be placed on non-accrual status until the Corporation determines that future collection of principal and interest is reasonably assured or the loan is otherwise deemed to be collateral dependent.

There may be certain types of loans for which the expectation of credit loss is zero after evaluating historical loss information, making necessary adjustments for current conditions and reasonable and supportable forecasts, and considering any collateral or guarantee arrangements that are not free-standing contracts. Factors considered by management when evaluating whether expectations of zero credit loss are appropriate may include, but are not limited to: 1) a long history of zero credit loss; 2) full securitization by cash or cash equivalents; 3) high credit ratings from rating agencies with no expected future downgrade; 4) principal and interest payments that are guaranteed by the U.S. government; 5) the issuer, guarantor, or sponsor can print its own currency and the currency is held by other central banks as reserve currency; and 6) the interest rate on the security is recognized as a risk-free rate.

A loan that is fully secured by cash or cash equivalents, such as a certificate of deposit issued by the lending institution, would likely have zero credit loss expectations. Similarly, the guaranteed portion of an SBA loan purchased on the secondary market through the SBA's fiscal and transfer agent would likely have zero credit loss expectations because these financial assets are unconditionally guaranteed by the U.S. government.

ASC Topic 326 introduces the concept of purchased credit deteriorated ("PCD") assets. PCD assets are acquired financial assets that, at acquisition, have experienced more-than-insignificant deterioration in credit quality since origination, as determined by the Corporation's assessment. The Corporation does not possess loans classified as purchased credit deterioration at this time. Should the Corporation purchase loans, these loans will be evaluated to determine if they are PCD.

A reserve for unfunded lending commitments is provided for possible credit losses on off-balance sheet credit exposures. Off-balance sheet credit exposures primarily include undrawn portions of revolving lines of credit and standby letters of credit. The reserve for unfunded lending commitments represents management's estimate of losses inherent in its unfunded loan commitments and, if necessary, is recorded in other liabilities on the consolidated balance sheets. As of December 31, 2024 and December 31, 2023, the amount of the reserve for unfunded lending commitments was $102,000 and $166,000, respectively.

The Corporation made a policy election to exclude accrued interest receivable from the amortized cost basis of loans. Accrued interest receivable on loans is reported as a component of accrued interest receivable on the Corporation's consolidated balance sheets and totaled $2,575,000 and $2,476,000 as of December 31, 2024 and 2023, respectively. Accrued interest receivable on loans is excluded from the estimate of credit losses.

The Corporation is subject to periodic examination by its federal and state examiners, and may be required by such regulators to recognize additions to the ACL based on their assessment of credit information available to them at the time of their examinations.

The Corporation utilizes a risk grading matrix as a tool for managing credit risk in the loan portfolio and assigns an asset quality rating (risk grade) to all loans. An asset quality rating is assigned using the guidance provided in the Corporation's loan policy. Primary responsibility for assigning the asset quality rating rests with the credit department. The asset quality rating is validated periodically by both an internal and external loan review process.

The commercial loan grading system focuses on a borrower's financial strength and performance, experience and depth of management, primary and secondary sources of repayment, the nature of the business and the outlook for the particular industry. Primary emphasis is placed on financial condition and trends. The grade also reflects current economic and industry conditions; as well as other variables such as liquidity, cash flow, revenue/earnings trends, management strengths or weaknesses, quality of financial information, and credit history.

The loan grading system for residential real estate secured and consumer loans focuses on the borrower's credit score and credit history, debt-to-income ratio and income sources, collateral position and loan-to-value ratio.

Risk grade characteristics are as follows:

Risk Grade 1 – MINIMAL RISK through Risk Grade 6 – MANAGEMENT ATTENTION (Pass Grade Categories)

Risk is evaluated via examination of several attributes including but not limited to financial trends, strengths and weaknesses, likelihood of repayment when considering both cash flow and collateral, sources of repayment, leverage position, management expertise, and repayment history.

At the low-risk end of the rating scale, a risk grade of 1 – Minimal Risk is the grade reserved for loans with exceptional credit fundamentals and virtually no risk of default or loss. Loan grades then progress through escalating ratings of 2 through 6 based upon risk. Risk Grade 2 – Modest Risk are loans with sufficient cash flows; Risk Grade 3 – Average Risk are loans with key balance sheet ratios slightly above the borrower's peers; Risk Grade 4 – Acceptable Risk are loans with key balance sheet ratios usually near the borrower's peers, but one or more ratios may be higher; and Risk Grade 5 – Marginally Acceptable are loans with strained cash flow, increasing leverage and/or weakening markets. Risk Grade 6 – Management Attention are loans with weaknesses resulting from declining performance trends and the borrower's cash flows may be temporarily strained. Loans in this category are performing according to terms, but present some type of potential concern.

Risk Grade 7 − SPECIAL MENTION (Non-Pass Category)

Assets in this category are adequately collateralized but have potential weakness which may, if not checked or corrected, weaken the asset or inadequately protect the Corporation's credit position at some future date. The loans may constitute increased credit risk, but not to the point of justifying a classification of substandard. No loss of principal or interest is envisioned, but risk is increasing beyond that at which the loan originally would have been granted. Historically, cash flows are inconsistent; financial trends show some deterioration. Liquidity and leverage are above industry averages. Financial information could be incomplete or inadequate. A Special Mention asset has potential weaknesses that deserve management's close attention.

Risk Grade 8 − SUBSTANDARD (Non-Pass Category)

Generally, these assets are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Assets so classified must have "well-defined" weaknesses that jeopardize the full liquidation of the debt.

These loans are characterized by the distinct possibility that the Corporation will sustain some loss if the aggregate amount of substandard assets is not fully covered by the liquidation of the collateral used as security. Substandard loans have a high probability of payment default and require more intensive supervision by Corporation management.

Risk Grade 9 − DOUBTFUL (Non-Pass Category)

Generally, loans graded doubtful have all the weaknesses inherent in a substandard loan with the added factor that the weaknesses are pronounced to a point whereby the basis of current information, conditions, and values, collection or liquidation in full is deemed to be highly improbable. The possibility of loss is extremely high, but because of certain important and reasonably specific pending factors that may work to strengthen the asset, its classification is deferred until, for example, a proposed merger, acquisition, liquidation procedure, capital injection, perfection of liens on additional collateral and/or refinancing plan is completed. Loans are graded doubtful if they contain weaknesses so serious that collection or liquidation in full is questionable.

Premises and Equipment, net

Premises and equipment are stated at cost less accumulated depreciation computed principally utilizing the straight-line method over the estimated useful lives of the assets. Long-lived assets are reviewed for impairment whenever events or changes in business circumstances indicate that the carrying value may not be recovered.

Maintenance and minor repairs are charged to operations as incurred. The cost and accumulated depreciation of the premises and equipment retired or sold are eliminated from the property accounts at the time of retirement or sale, and the resulting gain or loss is reflected in current operations.

Mortgage Servicing Rights

The Corporation originates and sells real estate loans to investors in the secondary mortgage market. After the sale, the Corporation may retain the right to service these loans. The mortgage loans sold and serviced for others are not included in the consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were $77,262,000 and $82,489,000 at December 31, 2024 and 2023, respectively. When originated mortgage loans are sold and servicing is retained, a servicing asset is capitalized based on relative fair value at the date of the sale. Servicing assets are amortized as an offset to other fees in proportion to, and over the period of, estimated net servicing income. The servicing asset is included in other assets in the consolidated balance sheets and amounted to $218,000 at December 31, 2024 and $265,000 at December 31, 2023. The amount of servicing income earned was $200,000 and $213,000 at December 31, 2024 and 2023, respectively. Amortization recognized in relation to mortgage servicing rights was $72,000 at both December 31, 2024 and 2023, respectively. Both income and amortization are included in service charges and fees on the consolidated statements of income. Gains or losses on sales of mortgage loans are recognized based on the differences between the selling price and the carrying value of the related mortgage loans sold.

Bank Owned Life Insurance

The cash surrender value of bank owned life insurance is carried as an asset, and changes in cash surrender value are recorded as non-interest income in the consolidated statements of income.

The Corporation entered into agreements to provide post-retirement benefits to two retired employees in the form of life insurance payable to the employee's beneficiaries upon their death through endorsement split dollar life insurance arrangements. The Corporation's accrued liabilities for this benefit agreement as of December 31, 2024 and 2023 which are included in other liabilities in the Corporation's consolidated balance sheets were $63,000 and $62,000, respectively. The related expense for this benefit agreement amounted to $1,000 in 2024 and $9,000 in 2023. The expense recognized in 2024 and 2023 was the result of service costs associated with the benefit agreement.

Investments in Low-Income Housing Partnerships

The Corporation is a limited partner in real estate ventures that own and operate affordable residential low-income housing apartment buildings for elderly and mentally challenged adult residents. The investments are accounted for under the cost method. Under the cost method, the Corporation recognizes tax credits as they are allocated and amortizes the initial cost of the investment over the period that the tax credits are allocated to the Corporation. The amount of tax credits allocated to the Corporation were $840,000 and $484,000 in 2024 and 2023, respectively, and the amortization of the investments in the limited partnerships were $819,000 and $231,000 in 2024 and 2023, respectively.

Goodwill

Goodwill resulted from the acquisition of the Pocono Community Bank in November 2007 and of certain fixed and operating assets acquired and deposit liabilities assumed of the branch of another financial institution in Danville, Pennsylvania, in January 2004. Such goodwill represents the excess cost of the acquired assets relative to the assets fair value at the dates of acquisition. During the first quarter of 2008, $152,000 of liabilities related to the Pocono acquisition were recorded as a purchase accounting adjustment resulting in an increase in the excess purchase price. The amount was comprised of the finalization of severance agreements and contract terminations related to the acquisition. In accordance with current accounting standards, goodwill is not amortized. Management performs an annual evaluation for impairment. Any impairment of goodwill results in a charge to income. The Corporation periodically assesses whether events or changes in circumstances indicate that the carrying amounts of goodwill and other intangible assets may be impaired. Goodwill is evaluated for impairment at the reporting unit level and an impairment loss is recorded to the extent that the carrying amount of goodwill exceeds its implied fair value. Goodwill was evaluated for impairment at December 31, 2023, and it was determined that goodwill was not impaired. Due primarily to the decrease in the Company's stock price during the first quarter of 2024 as a triggering event, management evaluated the need for an interim goodwill impairment analysis. The decrease prompted the Company to assess its goodwill utilizing a quantitative impairment test and determined, more likely than not, the fair value of the Company was less than the carrying amount as of March 31, 2024. Based on the results of the impairment test, the Company recorded a goodwill impairment charge of $19,133,000 effective March 31, 2024.

Foreclosed Assets Held for Resale

Real estate properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell on the date of foreclosure, establishing a new cost basis. After foreclosure, valuations are periodically performed and if fair value less cost to sell declines subsequent to foreclosure, a valuation allowance is recorded through expense. Revenues derived from and costs to maintain the assets and subsequent gains and losses on sales are included in non-interest expense on the consolidated statements of income.

Income Taxes

The Corporation accounts for income taxes in accordance with income tax accounting guidance FASB ASC Topic 740, *Income Taxes.*

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

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of the evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Corporation accounts for uncertain tax positions if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more-likely-than-not means a likelihood of more than 50%; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances, and information available at the reporting date and is subject to management's judgment.

The Corporation recognizes interest and penalties on income taxes, if any, as a component of income tax expense in the consolidated statements of income.

Earnings Per Share

Basic earnings per share ("EPS") is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock or resulted in the issuance of common stock that then shared in the earnings of the Corporation. At December 31, 2024 and 2023, there were no potential dilutive common shares outstanding. The following table sets forth the computation of basic and diluted earnings per share.

(In thousands, except earnings per share)	Year Ended December 31,	
	2024	2023
Net (loss) income	**$ (13,203)**	$ 5,560
Weighted-average common shares outstanding	**6,170**	6,054
Basic and diluted (losses) earnings per share	**$ (2.14)**	$ 0.91

Treasury Stock

The purchase of the Corporation's common stock is recorded at cost. At the date of subsequent reissue, the treasury stock account is reduced by the cost of such stock on a first-in-first-out basis.

Trust Assets and Revenues

Property held by the Corporation in a fiduciary or agency capacity for its customers is not included in the accompanying consolidated financial statements since such items are not assets of the Corporation. Assets held in trust were $120,857,000 and $109,064,000 at December 31, 2024 and 2023, respectively. Trust Department income is generally recognized on a cash basis and is not materially different than if it were reported on an accrual basis (see Table 5 – Non-Interest Income for details).

Comprehensive Income (Loss)

The Corporation is required to present accumulated other comprehensive income (loss) in a full set of general-purpose financial statements for all periods presented. Accumulated other comprehensive income (loss) is comprised of net unrealized holding (losses) gains on the debt securities available-for-sale and derivative portfolios. The Corporation has elected to report these effects on the consolidated statements of comprehensive income (loss).

Advertising Costs

It is the Corporation's policy to expense advertising costs in the period in which they are incurred.

Recent Accounting Standards Updates:

Adopted ASUs

In January of 2024, the Corporation adopted ASU No. 2023-07, Segment Reporting-Improvements to Reportable Segment Disclosures (Topic 280). This ASU requires disclosure of incremental segment information on an annual basis for all public entities, including entities with one reportable segment. Such incremental disclosures include information about significant segment expenses, how chief operating decision makers (CODM) measure a segment's profit or loss, and qualitative information about how a CODM assesses segment performance. The Company adopted the provisions of the ASU effective January 1, 2024. As the Corporation has only one reportable segment (community banking segment), this ASU did not have a material effect on the Corporation's consolidated financial statements.

Pending ASUs

In December of 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. ASU 2023-09 requires enhanced income tax disclosures related to the rate reconciliation and information related to income taxes paid. The ASU was issued to enhance transparency and decision usefulness of income tax disclosures. The standard requires: 1. consistent categories and greater disaggregation of information in the rate reconciliation, and 2. income taxes paid, net of refunds received, disaggregated by jurisdiction based on an established threshold. The amendments in this ASU will be applied on a prospective basis and retrospective application is permitted. The amendments in this update are effective for public business entities for fiscal years, and interim periods within those fiscal years beginning after December 15, 2024. Early adoption is permitted for all entities in any interim period. The Corporation is currently evaluating the provisions of ASU 2023-09 and does not expect the adoption of the standard to have a material impact on the Corporation’s financial statements.

Transfer of Financial Assets

Transfers of financial assets are accounted for as sales when control over assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Off-Balance Sheet Financial Instruments

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

Reclassifications

Certain amounts previously reported have been reclassified, when necessary, to conform with presentations used in the 2024 consolidated financial statements. Such reclassifications have no effect on the Corporation’s net income.

NOTE 2 — SECURITIES

Debt Securities

There was no allowance for credit losses for debt securities available-for-sale as of December 31, 2024; therefore, it is not present in the table below. The amortized cost, related estimated fair value, and unrealized gains and losses for debt securities classified as Available-For-Sale were as follows at December 31, 2024 and 2023:

(Dollars in thousands)	**Debt Securities Available-for-Sale**			
December 31, 2024:	**Amortized Cost**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
U.S. Treasury securities	**$ 7,911**	**$ —**	**$ (760)**	**$ 7,151**
Obligations of U.S. Government Agencies and Sponsored Agencies:				
Mortgage-backed	**150,999**	**170**	**(14,461)**	**136,708**
Other	**5,080**	**78**	**(36)**	**5,122**
Other mortgage backed securities	**48,336**	**65**	**(2,128)**	**46,273**
Obligations of state and political subdivisions	**93,809**	**19**	**(10,343)**	**83,485**
Asset-backed securities	**74,006**	**263**	**(402)**	**73,867**
Corporate debt securities	**41,139**	**204**	**(3,661)**	**37,682**
Total	**$ 421,280**	**$ 799**	**$ (31,791)**	**$ 390,288**

(Dollars in thousands)	Debt Securities Available-for-Sale			
December 31, 2023:	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$ 7,881	$ —	$ (840)	$ 7,041
Obligations of U.S. Government Agencies and Sponsored Agencies:				
Mortgage-backed	152,510	—	(14,518)	137,992
Other	7,560	126	(54)	7,632
Other mortgage backed securities	36,623	168	(2,741)	34,050
Obligations of state and political subdivisions	97,899	18	(10,214)	87,703
Asset-backed securities	82,852	150	(840)	82,162
Corporate debt securities	40,647	74	(4,333)	36,388
Total	$ 425,972	$ 536	$ (33,540)	$ 392,968

Debt securities available-for-sale with an aggregate fair value of $251,961,000 at December 31, 2024 and $249,114,000 at December 31, 2023, were pledged to secure public funds, trust funds, securities sold under agreements to repurchase and the Federal Discount Window aggregating $192,671,000 at December 31, 2024 and $182,050,000 at December 31, 2023.

The amortized cost and fair value of securities, by contractual maturity, are shown below at December 31, 2024. Expected maturities will differ from contractual maturities because borrowers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Dollars in thousands)	Available-for-Sale	
	Amortized Cost	Fair Value
1 year or less	$ 9,946	$ 9,895
Over 1 year through 5 years	19,845	18,719
Over 5 years through 10 years	69,650	63,438
Over 10 years	122,504	115,255
Mortgage-backed securities	199,335	182,981
Total	$ 421,280	$ 390,288

At December 31, 2024 and 2023, the Corporation had holdings of securities from the following issuers in excess of ten percent of consolidated stockholders' equity (excluding holdings of the U.S. Government and U.S. Government Agencies and Corporations).

(Dollars in thousands)

December 31, 2024:	**Fair Value**
Issuer	
Sallie Mae Bank	**$ 26,187**
Velocity Commercial Capital	**23,334**
Nelnet Student Loan Trust	**15,008**
Navient Student Loan Trust	**10,726**

(Dollars in thousands)

December 31, 2023:	Fair Value
Issuer	
Sallie Mae Bank	$ 25,737
Nelnet Student Loan Trust	15,486
Navient Student Loan Trust	13,179

Proceeds from sales of investments in debt securities available-for-sale during 2024 and 2023 were $0 and $23,230,000 respectively. Gross gains realized on these sales were $0 and $447,000 respectively. Gross losses on these sales were $0 and $348,000 respectively.

The summary below shows the gross unrealized losses and fair value of the Corporation's debt securities, aggregated by investment category, of which individual securities have been in a continuous unrealized loss position for less than 12 months or 12 months or more as of December 31, 2024 and 2023:

December 31, 2024

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
Available-for-Sale:	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Treasury securities	**$ —**	**$ —**	**$ 7,151**	**$ (760)**	**$ 7,151**	**$ (760)**
Obligations of U.S. Government Agencies and Sponsored Agencies:						
Mortgage-backed	**20,726**	**(570)**	**81,217**	**(13,891)**	**101,943**	**(14,461)**
Other	**—**	**—**	**1,927**	**(36)**	**1,927**	**(36)**
Other mortgage-backed debt securities	**21,700**	**(560)**	**19,001**	**(1,568)**	**40,701**	**(2,128)**
Obligations of state and political subdivisions	**243**	**(7)**	**79,684**	**(10,336)**	**79,927**	**(10,343)**
Asset-backed securities	**7,791**	**(33)**	**16,280**	**(369)**	**24,071**	**(402)**
Corporate debt securities	**7,209**	**(1,178)**	**25,594**	**(2,483)**	**32,803**	**(3,661)**
Total	**$ 57,669**	**$ (2,348)**	**$ 230,854**	**$ (29,443)**	**$ 288,523**	**$ (31,791)**

December 31, 2023

(Dollars in thousands)	Less Than 12 Months		12 Months or More		Total	
Available-for-Sale:	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities	$ —	$ —	$ 7,041	$ (840)	$ 7,041	$ (840)
Obligations of U.S. Government Agencies and Sponsored Agencies:						
Mortgage-backed	23,103	(242)	102,608	(14,276)	125,711	(14,518)
Other	—	—	3,029	(54)	3,029	(54)
Other mortgage-backed debt securities	1,568	(1)	25,042	(2,740)	26,610	(2,741)
Obligations of state and political subdivisions	—	—	82,113	(10,214)	82,113	(10,214)
Asset-backed securities	52,862	(342)	12,726	(498)	65,588	(840)
Corporate debt securities	2,813	(270)	30,501	(4,063)	33,314	(4,333)
Total	$ 80,346	$ (855)	$ 263,060	$ (32,685)	$ 343,406	$ (33,540)

There were 167 individual debt securities in an unrealized loss position as of December 31, 2024, with a combined decline in value representing 7.36% of the debt securities portfolio. There were 177 individual debt securities in an unrealized loss position as of December 31, 2023, with their combined decline in value representing 7.75% of the debt securities portfolio.

The Corporation made a policy election to exclude accrued interest receivable from the amortized cost basis of debt securities available for sale. Accrued interest receivable on debt securities available for sale is reported as a component of accrued interest receivable on the Corporation's consolidated balance sheet and totaled $2,142,000 as of December 31, 2024. Accrued interest receivable on debt securities available for sale is excluded from the estimate of credit losses.

All debt securities available for sale in an unrealized loss position, as of December 31, 2024, continue to perform as scheduled and the Corporation does not believe that there is a credit loss or that a provision for credit losses is necessary. Also, as part of the Corporation's evaluation of its intent and ability to hold debt securities for a period of time sufficient to allow for any anticipated recovery in the market, the Corporation considers its investment strategies, cash flow needs, liquidity position, capital adequacy and interest rate risk position. The Corporation does not currently intend to sell the debt securities within the portfolio and it is not more-likely-than-not that the Corporation will be required to sell the debt securities.

Management continues to monitor all of our debt securities with a high degree of scrutiny. There can be no assurance that the Corporation will not conclude in future periods that conditions existing at that time indicate some or all of its debt securities may be sold or would require a charge to earnings as a provision for credit losses in such periods.

Equity Securities

At December 31, 2024 and 2023, the Corporation had $1,587,000 and $1,482,000, respectively, in equity securities recorded at fair value. The following is a summary of unrealized and realized gains and losses recognized in net income on equity securities during 2024 and 2023:

(Dollars in thousands)

	December 31, 2024	December 31, 2023
Net gains (losses) from market value fluctuations recognized during the period on equity securities	$ 105	$ (217)
Less: Net gains recognized during the period on equity securities sold during the period	—	—
Net gains (losses) recognized during the reporting period on equity securities still held at the reporting date	$ 105	$ (217)

The Corporation monitors the equity securities portfolio monthly with particular attention given to securities in a continuous loss position of at least ten percent for over twelve months. Based on the factors described above, management did not consider any equity securities to be impaired at December 31, 2024 or 2023.

NOTE 3 — LOANS AND ALLOWANCE FOR CREDIT LOSSES

The following table presents the classes of the loan portfolio summarized by risk rating and year of origination and year-to-date gross charge offs by loan portfolio summarized by year of origination as of December 31, 2024 and 2023.

As of December 31, 2024:

(Dollars in thousands)

Real Estate:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ 103,734	114,854	167,390	119,406	101,748	216,890	$ 824,022
7 Special Mention	—	—	76	225	—	1,239	1,540
8 Substandard	—	—	4,529	568	4,093	16,641	25,831
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	76	(30)	133	123	93	13	408
Total Real Estate Loans	$ 103,810	$ 114,824	$ 172,128	$ 120,322	$ 105,934	$ 234,783	$ 851,801
Agricultural:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ 59	223	43	—	—	611	$ 936
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	—	—
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	2	1	—	—	—	—	3
Total Agricultural Loans	$ 61	$ 224	$ 43	$ —	$ —	$ 611	$ 939

Commercial and Industrial:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ 8,481	16,252	8,888	4,544	3,086	24,998	$ 66,249
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	420	—	—	12	25	457
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	86	49	59	5	8	192	399
Total Commercial and Industrial Loans	$ 8,567	$ 16,721	$ 8,947	$ 4,549	$ 3,106	$ 25,215	$ 67,105

Consumer:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ 2,962	1,292	718	577	71	764	$ 6,384
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	6	6
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	38	18	10	3	—	—	69
Total Consumer Loans	$ 3,000	$ 1,310	$ 728	$ 580	$ 71	$ 770	$ 6,459

State and Political Subdivisions:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ —	1,232	2,739	13,338	—	4,829	$ 22,138
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	—	—
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	—	2	1	3	—	3	9
Total State and Political Subdivision Loans	$ —	$ 1,234	$ 2,740	$ 13,341	$ —	$ 4,832	$ 22,147

Total Loans:	2024	2023	2022	2021	2020	Prior	Total
1-6 Pass	$ 115,236	$ 133,853	$ 179,778	$ 137,865	$ 104,905	$ 248,092	$ 919,729
7 Special Mention	—	—	76	225	—	1,239	1,540
8 Substandard	—	420	4,529	568	4,105	16,672	26,294
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	202	40	203	134	101	208	888
Total Loans	$ 115,438	$ 134,313	$ 184,586	$ 138,792	$ 109,111	$ 266,211	$ 948,451

	2024	2023	2022	2021	2020	Prior	Total
Gross Charge Offs:							
Real Estate	$ —	—	—	—	—	345	$ 345
Agricultural	—	—	—	—	—	—	—
Commercial and Industrial	—	—	—	20	—	504	524
Consumer	—	15	29	11	8	6	69
State and Political Subdivisions	—	—	—	—	—	—	—
Total Gross Charge Offs	$ —	$ 15	$ 29	$ 31	$ 8	$ 855	$ 938

As of December 31, 2023:
(Dollars in thousands)

Real Estate:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ 110,819	$ 186,729	$ 132,724	$ 110,038	$ 54,543	$ 192,686	$ 787,539
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	86	587	3,661	9,452	9,598	23,384
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	130	176	153	116	(13)	8	570
Total Real Estate Loans	$ 110,949	$ 186,991	$ 133,464	$ 113,815	$ 63,982	$ 202,292	$ 811,493

Agricultural:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ —	$ 59	$ —	$ —	$ —	$ 611	$ 670
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	—	—
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	—	1	—	—	—	—	1
Total Agricultural Loans	$ —	$ 60	$ —	$ —	$ —	$ 611	$ 671

Commercial and Industrial:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ 12,672	$ 10,186	$ 5,776	$ 7,439	$ 6,833	$ 22,927	$ 65,833
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	650	650
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	95	83	24	17	208	(1)	426
Total Commercial and Industrial Loans	$ 12,767	$ 10,269	$ 5,800	$ 7,456	$ 7,041	$ 23,576	$ 66,909

Consumer:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ 2,415	$ 1,238	$ 926	$ 206	$ 110	$ 802	$ 5,697
7 Special Mention	58	—	—	—	—	—	58
8 Substandard	—	—	—	—	—	—	—
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	38	20	8	2	1	—	69
Total Consumer Loans	$ 2,511	$ 1,258	$ 934	$ 208	$ 111	$ 802	$ 5,824

State and Political Subdivisions:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ 731	$ 4,095	$ 14,139	$ 1,905	$ —	$ 5,303	$ 26,173
7 Special Mention	—	—	—	—	—	—	—
8 Substandard	—	—	—	—	—	—	—
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	2	1	4	1	—	—	8
Total State and Political Subdivision Loans	$ 733	$ 4,096	$ 14,143	$ 1,906	$ —	$ 5,303	$ 26,181

Total Loans:	2023	2022	2021	2020	2019	Prior	Total
1-6 Pass	$ 126,637	$ 202,307	$ 153,565	$ 119,588	$ 61,486	$ 222,329	$ 885,912
7 Special Mention	58	—	—	—	—	—	58
8 Substandard	—	86	587	3,661	9,452	10,248	24,034
9 Doubtful	—	—	—	—	—	—	—
Unearned discount	—	—	—	—	—	—	—
Net deferred loan fees and costs	265	281	189	136	196	7	1,074
Total Loans	$ 126,960	$ 202,674	$ 154,341	$ 123,385	$ 71,134	$ 232,584	$ 911,078

	2023	2022	2021	2020	2019	Prior	Total
Gross Charge Offs:							
Real Estate	$ —	$ —	$ —	$ —	$ —	$ —	$ —
Agricultural	—	—	—	—	—	—	—
Commercial and Industrial	—	—	—	—	—	—	—
Consumer	2	23	13	2	4	13	57
State and Political Subdivisions	—	—	—	—	—	—	—
Total Gross Charge Offs	$ 2	$ 23	$ 13	$ 2	$ 4	$ 13	$ 57

State and Political Subdivision loans include loans categorized as tax-free in the amount of $22,147,000 as of December 31, 2024 and $$26,181,000 as of December 31, 2023. Commercial and Industrial loans include $4,306,000 of GGLs as of December 31, 2024 and $4,470,000 of GGLs as of December 31, 2023. Loans held for sale are included in the Real Estate loans category and amounted to$737,000 at December 31, 2024 and $214,000 as of December 31, 2023.

The activity in the allowance for credit losses by loan class is summarized below for the years ended December 31, 2024 and 2023.

(Dollars in thousands)	Real Estate	Agricultural	Commercial and Industrial	Consumer	State and Political Subdivisions	Total
As of and for the year ended December 31, 2024:						
Beginning balance January 1, 2024	**$ 6,539**	**$ 1**	**$ 265**	**$ 78**	**$ 42**	**$ 6,925**
Charge-offs	**(345)**	**—**	**(524)**	**(69)**	**—**	**(938)**
Recoveries	**21**	**—**	**19**	**5**	**—**	**45**
Provision	**1,000**	**1**	**553**	**84**	**2**	**1,640**
Ending Balance	**$ 7,215**	**$ 2**	**$ 313**	**$ 98**	**$ 44**	**$ 7,672**
Ending balance: individually evaluated for impairment	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**	**$ —**
Ending balance: collectively evaluated for impairment	**$ 7,215**	**$ 2**	**$ 313**	**$ 98**	**$ 44**	**$ 7,672**
Reserve for Unfunded Lending Commitments	**$ 85**	**$ —**	**$ 17**	**$ —**	**$ —**	**$ 102**
Loans Receivable:						
Ending Balance	**$ 851,801**	**$ 939**	**$ 67,105**	**$ 6,459**	**$ 22,147**	**$ 948,451**
Ending balance: individually evaluated for impairment	**$ 4,214**	**$ 309**	**$ —**	**$ —**	**$ —**	**$ 4,523**
Ending balance: collectively evaluated for impairment	**$ 847,587**	**$ 630**	**$ 67,105**	**$ 6,459**	**$ 22,147**	**$ 943,928**

(Dollars in thousands)

	Real Estate	Agricultural	Commercial and Industrial	Consumer	State and Political Subdivisions	Total
As of and for the year ended December 31, 2023:						
Allowance for Credit Losses:						
Balance at December 31, 2022	$ 7,483	$ 6	$ 504	$ 84	$ 197	$ 8,274
CECL adoption adjustment	(717)	(4)	(261)	11	(148)	(1,119)
Beginning balance January 1, 2023	6,766	2	243	95	49	7,155
Charge-offs	—	—	—	(57)	—	(57)
Recoveries	37	—	2	5	—	44
(Credit) Provision	(264)	(1)	20	35	(7)	(217)
Ending Balance	$ 6,539	$ 1	$ 265	$ 78	$ 42	$ 6,925
Ending balance: individually evaluated for impairment	$ —	$ —	$ —	$ —	$ —	$ —
Ending balance: collectively evaluated for impairment	$ 6,539	$ 1	$ 265	$ 78	$ 42	$ 6,925
Reserve for Unfunded Lending Commitments	$ 140	$ —	$ 25	$ —	$ 1	$ 166
Loans Receivable:						
Ending Balance	$ 811,493	$ 671	$ 66,909	$ 5,824	$ 26,181	$ 911,078
Ending balance: individually evaluated for impairment	$ 4,005	$ 309	$ 611	$ —	$ —	$ 4,925
Ending balance: collectively evaluated for impairment	$ 807,488	$ 362	$ 66,298	$ 5,824	$ 26,181	$ 906,153

Gross charge-offs amounted to $938,000 at December 31, 2024, as compared to $57,000 at December 31, 2023. The increased level of charge-offs for the year ended December 31, 2024 was mainly due to aggregate charge-offs of $741,000 that were completed during the third quarter of 2024 on four loans to a plastic processing company focused on non-post-consumer recycling, as the business ceased operations as a result of financial difficulties. During the fourth quarter of 2024, a charge-off of $67,000 was also completed on an owner-occupied, non-farm, non-residential loan to a non-profit civic organization, as the non-profit no longer uses the property, along with a charge-off of $41,000 on a loan to an individual borrower secured by 1-4 family residential real estate. The charge-offs contributed to the increased balance of net charge-offs in 2024 compared to 2023 but was not indicative of a significant change in asset quality in the overall loan portfolio. See Table 11 – Analysis of Allowance for Credit Losses for further details.

The Corporation's activity in the allowance for credit losses on unfunded commitments for the years ended December 31, 2024 and 2023 was as follows:

(Dollars in thousands)

	2024	2023
Balance at January 1	**$ 166**	$ 68
CECL adoption adjustment	**—**	147
Reserve for credit losses on unfunded commitments	**(64)**	(49)
Balance at December 31	**$ 102**	$ 166

The following table presents outstanding balances by loan class prior to allocation of net deferred fees and costs, as well as the balance of net loans after allocation of net deferred fees and costs and the allowance for credit losses as of December 31, 2024 and 2023.

(Dollars in thousands)	December 31, 2024	December 31, 2023
Real Estate	**$ 851,393**	$ 810,923
Agricultural	**936**	670
Commercial and Industrial	**66,706**	66,483
Consumer	**6,390**	5,755
State and Political Subdivisions	**22,138**	26,173
Subtotal	**947,563**	910,004
Net Deferred Fees and Costs	**888**	1,074
Allowance for Credit Losses	**(7,672)**	(6,925)
Loans, Net	**$ 940,779**	$ 904,153

During the year ended December 31, 2024, four modifications were granted on loans to borrowers experiencing financial difficulty which carried a combined post modification recorded investment of $10,183,000. Two modifications of loans to borrowers experiencing financial difficulty were completed during the fourth quarter of 2024, one on a loan carrying a post modification recorded investment of $174,000 to extend the maturity date of the loan by six months and one on a loan carrying a post modification recorded investment of $434,000 to release a portion of the real estate collateral securing the loan. One modification of a loan to a borrower experiencing financial difficulty was completed during the third quarter of 2024 to extend the maturity date of the loan by ten months. The loan carried a post modification recorded investment of $120,000. One modification of a loan to a borrower experiencing financial difficulty was completed during the first quarter of 2024 and consisted of a payment modification which allowed a period of interest-only payments of six months. The loan carried a post modification recorded investment of $9,455,000. There were no modifications granted on loans to borrowers experiencing financial difficulty during the year ended December 31, 2023.

The outstanding recorded investment of loans to borrowers experiencing financial difficulty was $10,193,000 at December 31, 2024. There were no unfunded commitments on modified loans to borrowers experiencing financial difficulty as of December 31, 2024.

The following table presents the outstanding recorded investment of loans to borrowers experiencing financial difficulty as of December 31, 2024. There were no loan modifications granted on loans to borrowers experiencing financial difficulty as of December 31, 2023.

(Dollars in thousands)	December 31, 2024
Modifications of Loans to Borrowers Experiencing Financial Difficulty:	
Non-Accrual	$ —
Accruing	10,193
Total	$ 10,193

At December 31, 2024, were no modifications of loans to borrowers experiencing financial difficulty that were not in compliance with the terms of their restructure.

Of the modifications of loans to borrowers experiencing financial difficulty that were completed during the twelve months preceding December 31, 2024, two loans experienced payment defaults during the year ended December 31, 2024. The loan carrying a post modification recorded investment of $9,455,000 experienced a payment default during the first quarter of 2024 and the loan carrying a post modification outstanding recorded investment of $120,000 experienced a payment default during the fourth quarter of 2024. Both loans were paid current as of December 31, 2024.

The following table presents information regarding modifications of loans to borrowers experiencing financial difficulty that were completed during the year ended December 31, 2024. There were no modifications of loans to borrowers experiencing financial difficulty completed during the year ended December 31, 2023.

(Dollars in thousands)	For the Year Ended December 31, 2024			
	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment	Recorded Investment
Real Estate	3	$ 10,009	$ 10,009	$ 10,019
Commercial and Industrial	1	174	174	174
Total	4	$ 10,183	$ 10,183	$ 10,193

The following table provides detail regarding the types of loan modifications made for borrowers experiencing financial difficulty during the year ended December 31, 2024. There were no modifications of loans to borrowers experiencing financial difficulty completed during the year ended December 31, 2023.

	For the Year Ended December 31, 2024				
	Rate Modification	Term Modification	Payment Modification	Release of Collateral	Number Modified
Real Estate	—	1	1	1	3
Commercial and Industrial	—	1	—	—	1
Total	—	2	1	1	4

The recorded investment, unpaid principal balance, and the related allowance of the Corporation's non-accrual loans are summarized below at December 31, 2024 and 2023.

(Dollars in thousands)	**December 31, 2024**						
	Recorded Investment With Related Allowance	**Recorded Investment With No Related Allowance**	**Total Recorded Investment**	**Unpaid Principal Balance With Related Allowance**	**Unpaid Principal Balance With No Related Allowance**	**Total Unpaid Principal Balance**	**Related Allowance**
Real Estate	**$ —**	**$ 4,214**	**$ 4,214**	**$ —**	**$ 6,203**	**$ 6,203**	**$ —**
Commercial and Industrial	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total	**$ —**	**$ 4,214**	**$ 4,214**	**$ —**	**$ 6,203**	**$ 6,203**	**$ —**

(Dollars in thousands)	December 31, 2023						
	Recorded Investment With Related Allowance	Recorded Investment With No Related Allowance	Total Recorded Investment	Unpaid Principal Balance With Related Allowance	Unpaid Principal Balance With No Related Allowance	Total Unpaid Principal Balance	Related Allowance
Real Estate	$ —	$ 4,005	$ 4,005	$ —	$ 5,994	$ 5,994	$ —
Commercial and Industrial	—	611	611	—	611	611	—
Total	$ —	$ 4,616	$ 4,616	$ —	$ 6,605	$ 6,605	$ —

The recorded investment represents the loan balance reflected on the consolidated balance sheets net of any charge-offs. The unpaid balance is equal to the gross amount due on the loan.

The average recorded investment and interest income recognized for the Corporation's non-accrual loans are summarized below for the years ended December 31, 2024 and 2023.

(Dollars in thousands)	**Year Ended December 31, 2024**					
	Average Recorded Investment With Related Allowance	**Average Recorded Investment With No Related Allowance**	**Total Average Recorded Investment**	**Interest Income Recognized With Related Allowance**	**Interest Income Recognized With No Related Allowance**	**Total Interest Income Recognized**
Real Estate	**$ —**	**$ 3,698**	**$ 3,698**	**$ —**	**$ 55**	**$ 55**
Commercial and Industrial	**—**	**467**	**467**	**—**	**—**	**—**
Total	**$ —**	**$ 4,165**	**$ 4,165**	**$ —**	**$ 55**	**$ 55**

(Dollars in thousands)	Year Ended December 31, 2023					
	Average Recorded Investment With Related Allowance	Average Recorded Investment With No Related Allowance	Total Average Recorded Investment	Interest Income Recognized With Related Allowance	Interest Income Recognized With No Related Allowance	Total Interest Income Recognized
Real Estate	$ —	$ 4,380	$ 4,380	$ —	$ —	$ —
Commercial and Industrial	—	643	643	—	—	—
Total	$ —	$ 5,023	$ 5,023	$ —	$ —	$ —

The following table presents the collateral-dependent loans by segment for the year ended December 31, 2024 and 2023.

(Dollars in thousands)	**December 31, 2024**	
	Real Estate	**Other**
Real Estate	**$ 4,214**	**$ —**
Agricultural	**—**	**309**
Commercial and Industrial	**—**	**—**
Total	**$ 4,214**	**$ 309**

(Dollars in thousands)	December 31, 2023	
	Real Estate	Other
Real Estate	$ 4,005	$ —
Agricultural	—	309
Commercial and Industrial	—	611
Total	$ 4,005	$ 920

At December 31, 2024 and 2023, there were no commitments to lend additional funds with respect to individually evaluated loans.

Total non-performing assets (which includes loans receivable on non-accrual status, foreclosed assets held for resale and loans past-due 90 days or more and still accruing interest) as of December 31, 2024 and 2023 were as follows:

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Real Estate	**$ 4,214**	$ 4,005
Agricultural	**—**	—
Commercial and Industrial	**—**	611
Consumer	**—**	—
State and Political Subdivisions	**—**	—
Total non-accrual loans	**4,214**	4,616
Foreclosed assets held for resale	**—**	—
Loans past-due 90 days or more and still accruing interest	**756**	1,065
Total non-performing assets	**$ 4,970**	$ 5,681

If interest on non-accrual loans had been accrued at original contract rates, interest income would have increased by $2,371,000 in 2024 and $2,488,000 in 2023.

There were no foreclosed assets held for resale at December 31, 2024 or December 31, 2023. Consumer mortgage loans secured by residential real estate for which the Corporation entered into formal foreclosure proceedings but for which physical possession of the property has yet to be obtained amounted to $138,000 at December 31, 2023. These balances were not included in foreclosed assets held for resale at December 31, 2023. There were no consumer mortgage loans secured by residential real estate for which the Corporation entered into formal foreclosure proceedings but for which physical possession of the property has yet to be obtained as of December 31, 2024.

The following tables present the classes of the loan portfolio summarized by the past-due status at December 31, 2024 and 2023:

(Dollars in thousands)	**30-59 Days Past Due**	**60-89 Days Past Due**	**90 Days or Greater Past Due**	**Total Past Due**	**Current-29 Days Past Due**	**Total Loans**	**90 Days Or Greater Past Due and Still Accruing Interest**
December 31, 2024:							
Real Estate	**$ 4,247**	**$ 221**	**$ 4,970**	**$ 9,438**	**$ 842,363**	**$ 851,801**	**$ 756**
Agricultural	**—**	**—**	**—**	**—**	**939**	**939**	**—**
Commercial and Industrial	**378**	**—**	**—**	**378**	**66,727**	**67,105**	**—**
Consumer	**11**	**2**	**—**	**13**	**6,446**	**6,459**	**—**
State and Political Subdivisions	**—**	**—**	**—**	**—**	**22,147**	**22,147**	**—**
Total	**$ 4,636**	**$ 223**	**$ 4,970**	**$ 9,829**	**$ 938,622**	**$ 948,451**	**$ 756**

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current-29 Days Past Due	Total Loans	90 Days Or Greater Past Due and Still Accruing Interest
December 31, 2023:							
Real Estate	$ 2,155	$ 379	$ 5,069	$ 7,603	$ 803,890	$ 811,493	$ 1,065
Agricultural	—	—	—	—	671	671	—
Commercial and Industrial	6	—	591	597	66,312	66,909	—
Consumer	21	4	—	25	5,799	5,824	—
State and Political Subdivisions	—	—	—	—	26,181	26,181	—
Total	$ 2,182	$ 383	$ 5,660	$ 8,225	$ 902,853	$ 911,078	$ 1,065

.

NOTE 4 — PREMISES AND EQUIPMENT, NET

Premises and equipment, net at December 31, 2024 and 2023 is as follows:

(Dollars in thousands)

	Estimated Useful Life (in years)	**2024**	2023
Land	N/A	**$ 3,744**	$ 3,744
Buildings	5-40	**23,500**	23,197
Leasehold improvements	1-20	**347**	338
Equipment	3-25	**8,355**	8,352
		35,946	35,631
Less: Accumulated depreciation		**15,674**	16,020
Total		**$ 20,272**	$ 19,611

Depreciation amounted to $1,063,000 for 2024 and $1,050,000 for 2023 in the consolidated statements of income.

NOTE 5 — DEPOSITS

Major classifications of deposits at December 31, 2024 and 2023 consisted of:

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Non-interest bearing demand	**$ 203,583**	$ 198,569
Interest bearing demand	**278,869**	275,472
Savings	**195,310**	212,280
Time certificates of deposits less than $250,000	**327,236**	259,841
Time certificates of deposits $250,000 or greater	**39,782**	33,185
Other time	**1,100**	1,092
Total deposits	**$ 1,045,880**	$ 980,439

Total deposits increased $65,441,000 to $1,045,880,000 as of December 31, 2024 due to increases in non-interest bearing demand accounts, interest bearing demand accounts and time deposits while savings accounts decreased. The overall increase in deposits was mainly the result of a $74,000,000 increase in time deposits. As of December 31, 2024 the Corporation had $99,149,000 in brokered deposits (CDs) as compared to $65,250,000 at December 31, 2023, an increase of $33,899,000. The balance of retail CDs increased $40,093,000 from $227,776,000 at December 31, 2023 to $267,869,000 at December 31, 2024.

The following is a schedule reflecting classification and remaining maturities of time deposits at December 31, 2024:

(Dollars in thousands)

Year Ending	
2025	$ 245,238
2026	71,863
2027	25,127
2028	19,223
2029	1,167
Thereafter	5,500
Total time deposits	$ 368,118

NOTE 6 — SHORT-TERM BORROWINGS

Short-term borrowings include federal funds purchased, securities sold under agreements to repurchase, Federal Discount Window, and FHLB advances, which generally represent overnight or less than 30 -day borrowings.

Short-term borrowings and weighted-average interest rates at and for the years ended December 31, 2024 and 2023 are as follows:

(Dollars in thousands)	**December 31, 2024**		December 31, 2023	
	Amount	**Average Rate**	Amount	Average Rate
Federal funds purchased	**$ —**	**6.56 %**	$ —	6.57 %
Securities sold under agreements to repurchase	**32,932**	**4.34 %**	19,708	3.28 %
Federal Discount Window	**—**	**5.46 %**	1	4.99 %
Federal Home Loan Bank of Pittsburgh	**101,494**	**5.60 %**	133,759	5.45 %
Total	**$ 134,426**	**5.37 %**	$ 153,468	5.21 %

At December 31, 2024, the maximum borrowing capacity of the Federal Discount Window and federal funds purchased was $16,733,000 and $15,000,000, respectively. Please refer to Note 7 — Long-Term Borrowings for the Corporation's maximum borrowing capacity at FHLB.

Securities Sold Under Agreements to Repurchase ("Repurchase Agreements")

The Corporation enters into agreements under which it sells securities subject to an obligation to repurchase the same or similar securities. Under these arrangements, the Corporation may transfer legal control over the assets but still retain effective control through an agreement that both entitles and obligates the Corporation to repurchase the assets.

As a result, these repurchase agreements are accounted for as collateralized financing agreements (i.e., secured borrowings) and not as a sale and subsequent repurchase of securities. The obligation to repurchase the securities is reflected as a liability on the Corporation's consolidated balance sheets, while the securities underlying the repurchase agreements remain in the respective investment securities asset accounts. In other words, there is not offsetting or netting of the investment securities assets with the repurchase agreement liabilities. In addition, as the Corporation does not enter into reverse repurchase agreements, there is no such offsetting to be done with the repurchase agreements.

The right of setoff for a repurchase agreement resembles a secured borrowing, whereby the collateral would be used to settle the fair value of the repurchase agreement should the Corporation be in default (e.g., fails to make an interest payment to the counterparty). The collateral is held by a correspondent bank in the counterparty's custodial account. The counterparty has the right to sell or repledge the investment securities.

The following table presents the repurchase agreements subject to enforceable master netting arrangements as of December 31, 2024 and 2023.

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Consolidated Balance Sheet	Net Amounts of Liabilities Presented in the Consolidated Balance Sheet	Gross Amounts Not Offset in the Consolidated Balance Sheet: Financial Instruments	Cash Collateral Pledge	Net Amount
December 31, 2024						
Repurchase agreements (a)	**$ 32,932**	**$ —**	**$ 32,932**	**$ (32,932)**	**$ —**	**$ —**
December 31, 2023						
Repurchase agreements (a)	$ 19,708	$ —	$ 19,708	$ (19,708)	$ —	$ —

(a) As of December 31, 2024 and 2023, the fair value of securities pledged in connection with repurchase agreements was $36,216,000 and $28,902,000, respectively.

The following table presents the remaining contractual maturity of the master netting arrangement or repurchase agreements as of December 31, 2024.

(Dollars in thousands)	Remaining Contractual Maturity of the Agreements				
	Overnight and Continuous	Up to 30 days	Greater 30 -90 Days	Greater than 90 Days	Total
December 31, 2024:					
Repurchase agreements and repurchase-to-maturity transactions:					
U.S. Treasury and/or agency securities	**$ 32,932**	**$ —**	**$ —**	**$ —**	**$ 32,932**
Total	**$ 32,932**	**$ —**	**$ —**	**$ —**	**$ 32,932**

NOTE 7 — LONG-TERM BORROWINGS

Long-term borrowings are comprised of advances from FHLB. Under terms of a blanket agreement, collateral for the FHLB loans is certain qualifying assets of the Bank. The qualifying assets are real estate mortgages and certain investment securities.

A schedule of long-term borrowings by maturity as of December 31, 2024 and 2023 follows:

(Dollars in thousands)	**2024**	2023
Due 2024, 1.68%	**—**	20,000
Due 2026, 4.40% to 4.92%	**64,000**	60,000
Due 2028, 4.46% to 5.14%	**42,000**	42,000
Total long-term borrowings	**$ 106,000**	$ 122,000

The Corporation's long-term borrowings consist of notes at fixed interest rates. Upon any default, under the terms of a master agreement, the FHLB may declare all indebtedness of the Corporation immediately due. In addition, the FHLB shall not be required to fund advances under any outstanding commitments.

Irrevocable standby letters of credit may be issued to a customer/beneficiary by the FHLB on the Corporation's behalf in order to secure public/municipal unit deposits, provide credit enhancement to certain transaction types, or to support payment obligations to third parties. These irrevocable standby letters of credit are supported by an irrevocable and independent guarantee by the FHLB for the Corporation's pledging obligation to secure public/municipal unit deposits which eliminates the need for the Corporation to pledge collateral in the amount necessary to secure these funds. There were no irrevocable standby letters of credit which could be drawn on through the FHLB's close of business on December 31, 2024 or 2023. Any irrevocable standby letters of credit are issued as necessary in an amount appropriate to secure specific public/municipal unit deposits.

Under terms of a blanket agreement, collateral for the FHLB loans and letters of credit consists of certain qualifying assets of the Bank. Principal qualifying assets are certain real estate mortgages and investment securities. As of December 31, 2024, loans of $746,271,000 were pledged to the FHLB which resulted in an FHLB maximum borrowing capacity of $521,112,000. As of December 31, 2024, no securities were pledged as collateral to the FHLB to secure FHLB loans and letters of credit.

NOTE 8 — SUBORDINATED DEBENTURES

On December 10, 2020, the Corporation issued $25,000,000 aggregate principal amount of Subordinated Notes due 2030 (the "2020 Notes") to accredited investors. The 2020 Notes are intended to be treated as Tier 2 capital for regulatory capital purposes. The Corporation utilized the net proceeds it received from the sale of the 2020 Notes to support organic growth and for general corporate purposes.

The 2020 Notes bear a fixed interest rate of 4.375% per year for the first five years and then float based on a benchmark rate (as defined). Interest is payable semi-annually in arrears on June 30 and December 31 of each year, which began on June 30, 2021, for the first five years after issuance and will be payable quarterly in arrears thereafter on March 31, June 30, September 30 and December 31. The 2020 Notes will mature on December 31, 2030 and are redeemable in whole or in part, without premium or penalty, at any time on or after December 31, 2025 and prior to December 31, 2030. Additionally, if all or any portion of the 2020 Notes cease to be deemed Tier 2 capital, the Corporation may redeem, in whole and not in part, at any time upon giving not less than ten days' notice, an amount equal to one hundred percent (100%) of the principal amount outstanding plus accrued but unpaid interest to but excluding the date fixed for redemption.

Holders of the 2020 Notes may not accelerate the maturity of the 2020 Notes, except upon the bankruptcy, insolvency, liquidation, receivership or similar law of the Corporation or the Bank.

NOTE 9 — INCOME TAXES

The current and deferred components of the income tax (benefit) expense consisted of the following:

(Dollars in thousands)

	2024	2023
Federal		
Current	**$ 18**	$ 431
Deferred	**(63)**	253
Income tax (benefit) expense	**$ (45)**	$ 684

The following is a reconciliation between the income tax (benefit) expense and the amount of income taxes which would have been provided at the statutory rate of 21%:

(Dollars in thousands)

	2024		2023	
	Amount	**Rate**	Amount	Rate
Federal income tax at statutory rate	**$ (2,782)**	**(21.0)%**	$ 1,311	21.0 %
Tax-exempt income	**(20)**	**(0.2)**	(106)	(1.7)
Low-income housing credits	**(875)**	**(6.6)**	(484)	(7.7)
Bank owned life insurance income	**(140)**	**(1.1)**	(130)	(2.1)
Goodwill impairment	**3,761**	**28.4**	—	—
Prior year tax adjustments	**6**	**0.1**	82	1.3
Other	**5**	**0.1**	11	0.2
Income tax (benefit) expense and rate	**$ (45)**	**(0.3)%**	$ 684	11.0 %

The components of the net deferred tax asset at December 31, 2024 and 2023 are as follows:

(Dollars in thousands)

	2024	2023
Deferred Tax Assets:		
Net unrealized losses on debt securities available-for-sale and derivatives	**$ 6,852**	$ 7,880
Allowance for credit losses	**1,617**	1,454
Provision for unfunded commitments	**21**	35
Deferred compensation	**179**	218
Contributions	**2**	4
Accrued rent expense	**109**	106
Operating lease liabilities	**405**	415
Finance lease liabilities	**—**	—
Limited partnership investments	**538**	322
Impairment loss on securities	**4**	4
Deferred health insurance	**55**	53
Capital and net operating loss carry forwards	**367**	285
Valuation allowance related to state net operating losses	**(367)**	(285)
Total	**9,782**	10,491
Deferred Tax Liabilities:		
Loan fees and costs	**187**	225
Net unrealized gains on marketable equity securities	**259**	231
Operating lease right-of-use assets	**405**	415
Accumulated depreciation	**649**	438
Accretion	**491**	172
Mortgage servicing rights	**61**	58
Derivatives remeasurement	**5**	—
Intangibles	**—**	257
Total	**2,057**	1,796
Net Deferred Tax Asset	**$ 7,725**	$ 8,695

A valuation allowance for deferred tax assets was recorded in the amount of $367,000 and $285,000 at December 31, 2024 and 2023, respectively. The valuation allowance relates to state net operating loss carryforwards for which realizability is uncertain. At December 31, 2024 and 2023, the Corporation had state net operating loss carryforwards, net of a valuation allowance of $0, which would be available to offset future state taxable income, and expire at various dates through 2044.

In assessing the realizability of deferred tax assets, management considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during periods in which those temporary differences become deductible. Management considers the scheduled reversal of deferred tax liabilities, projected future taxable income and tax planning strategies in making this assessment. Based on the level of historical taxable income and projections for future taxable income over the periods in which the deferred tax assets are deductible and tax planning strategies, management believes it is more likely than not that the Corporation will realize the benefits of these deferred tax assets, net of any valuation allowance at December 31, 2024.

The Corporation did not have any uncertain tax positions at December 31, 2024 and 2023.

The Corporation and its subsidiary file a consolidated federal income tax return. The Corporation is no longer subject to examination by Federal or State taxing authorities for the years before 2021.

NOTE 10 — EMPLOYEE BENEFIT PLANS AND DEFERRED COMPENSATION AGREEMENTS

The Corporation maintains a 401k Plan which has a combined tax qualified savings feature and profit sharing feature for the benefit of its employees. Effective January 1, 2014, the Plan became a Safe Harbor Plan. Under the savings feature, the Corporation makes safe harbor matching contributions of 100% of the first 3% of compensation an employee contributes to the Plan and 50% of the next 2% of compensation an employee contributes to the Plan. The safe harbor matching contributions amounted to $425,000 and $405,000 in 2024 and 2023, respectively. Under the profit sharing feature, contributions, at the discretion of the Board of Directors, are funded currently and amounted to $334,000 and $306,000 in 2024 and 2023, respectively.

The Corporation also has non-qualified deferred compensation agreements with one of its current officers and five retired officers. These agreements are essentially unsecured promises by the Corporation to make monthly payments to the officers over fifteen or twenty year periods. Payments begin based upon specific criteria — generally, when the officer retires. To account for the cost of payments yet to be made in the future, the Corporation recognizes an accrued liability in years prior to when payments begin based on the present value of those future payments. The Corporation's accrued liability for these deferred compensation agreements, reported in other liabilities on the consolidated balance sheets, as of December 31, 2024 and 2023, was $665,000 and $759,000, respectively. The related expense for these agreements, reported in salaries and employee benefits on the consolidated statements of income, amounted to $27,000 and $31,000 in 2024 and 2023, respectively.

NOTE 11 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various pending legal actions and proceedings that are not reflected in the consolidated financial statements. Management does not believe the outcome of these actions and proceedings will have a material effect on the consolidated financial position of the Corporation.

The Corporation currently leases two branch banking facilities and one parcel of land under operating leases. At December 31, 2024, right-of-use assets and lease liabilities were recorded related to these operating leases totaling $1,400,000 and $1,920,000, respectively, in the consolidated balance sheets. Options to extend or terminate a lease may be included in the Corporation's lease agreements. When it is reasonably certain that the Corporation will exercise those options, the right-of-use asset and lease liability will reflect the renewal or termination option. No significant assumptions or judgements were made in determining whether a contract contained a lease or in the consideration of lease versus non-lease components. None of the leases contained an implicit rate; therefore, the Corporation's incremental borrowing rate was used for each of the leases.

The Corporation recognized total operating lease costs for the years ended December 31, 2024 and 2023 of $213,000 and $220,000, respectively. Cash payments totaled $198,000 and $204,000 for the years ended December 31, 2024 and 2023, respectively, in the consolidated statements of income.

The Corporation's one finance lease for equipment expired as of August 31, 2023. The equipment will continue to depreciate for an additional two years. At December 31, 2024, right-of-use assets were recorded related to this finance lease totaling $29,000. Amounts recognized as right-of-use assets related to finance leases are included in premises and equipment, net in the accompanying consolidated balance sheets.

There were no finance lease costs that were recognized by the Corporation for the years ended December 31, 2024 and finance lease costs recognized during the year ended December 31, 2023 were immaterial. Cash payments totaled $0 and $7,000 for the years ended December 31, 2024 and 2023, respectively.

The following table displays the weighted-average term and discount rates for operating leases outstanding as of December 31, 2024 and 2023.

	December 31, 2024	December 31, 2023
Weighted-average term (years)	**18.95**	19.75
Weighted-average discount rate	**4.19%**	4.22%

A maturity analysis of operating lease liabilities and reconciliation of the undiscounted cash flows to the total operating lease liability is as follows:

(Dollars in thousands)

Minimum Lease Payments due:	**December 31, 2024**	December 31, 2023
Within one year	**$ 175**	$ 175
After one but within two years	**140**	140
After two but within three years	**154**	140
After three but within four years	**157**	154
After four but within five years	**157**	157
After five years	**2,160**	2,317
Total undiscounted cash flows	**2,943**	3,083
Discount on cash flows	**(1,023)**	(1,107)
Total lease liability	**$ 1,920**	$ 1,976

NOTE 12 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Risk Management Objective of Using Derivatives

The Corporation uses various financial instruments, including derivatives, to manage its exposure to interest rate risk. The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash receipts and cash payments principally related to specific assets and short-term wholesale funding positions. The Corporation entered into four swap contracts effective September 20, 2023 and one additional swap contract effective September 4, 2024.

Fair Values of Derivative Instruments on the Statement of Financial Condition

The tables below present the fair value of the Corporation's derivative financial instruments as well as their classification on the consolidated balance sheets as of December 31, 2024, and December 31, 2023:

(Dollars in thousands)	**December 31, 2024**			
	Derivative Assets		**Derivative Liabilities**	
	Location	**Fair Value**	**Location**	**Fair Value**
Derivatives designated as hedging instruments:				
Interest rate swaps	**Other Assets**	**$ 817**	**Other Liabilities**	**$ 2,280**
Total		**$ 817**		**$ 2,280**

(Dollars in thousands)	December 31, 2023			
	Derivative Assets		Derivative Liabilities	
	Location	Fair Value	Location	Fair Value
Derivatives designated as hedging instruments:				
Interest rate swaps	Other Assets	$ —	Other Liabilities	$ 4,501
Total		$ —		$ 4,501

The following tables present the derivative assets and liabilities subject to an enforceable master netting arrangement as of December 31, 2024 and 2023.

(Dollars in thousands)	**Gross Amounts of Recognized Assets**	**Gross Amounts Offset in the Consolidated Balance Sheet**	**Net Amounts of Assets Presented in the Consolidated Balance Sheet**	**Gross Amounts Not Offset in the Consolidated Balance Sheet** **Financial Instruments**	**Cash Collateral Received**	**Net Amount**
December 31, 2024						
Derivatives	**$ 817**	**$ —**	**$ 817**	**$ (817)**	**$ —**	**$ —**
December 31, 2023						
Derivatives	$ —	$ —	$ —	$ —	$ —	$ —

(Dollars in thousands)	**Gross Amounts of Recognized Liabilities**	**Gross Amounts Offset in the Consolidated Balance Sheet**	**Net Amounts of Liabilities Presented in the Consolidated Balance Sheet**	**Gross Amounts Not Offset in the Consolidated Balance Sheet** **Financial Instruments**	**Cash Collateral Pledged**	**Net Amount**
December 31, 2024						
Derivatives	**$ 2,280**	**$ —**	**$ 2,280**	**$ (817)**	**$ (1,463)**	**$ —**
December 31, 2023						
Derivatives	$ 4,501	$ —	$ 4,501	$ —	$ (4,501)	$ —

The following table presents the remaining contractual maturity of the master netting arrangements as of December 31, 2024.

(Dollars in thousands)	**Remaining Contractual Maturity of the Agreements** **Up to 1 Year**	**1 to 3 Years**	**3 to 5 Years**	**Greater than 5 Years**	**Total**
December 31, 2024:					
Derivative Assets	**$ —**	**$ 817**	**$ —**	**$ —**	**$ 817**
Derivative Liabilities	**—**	**(1,324)**	**(956)**	**—**	**(2,280)**
Total	**$ —**	**$ (507)**	**$ (956)**	**$ —**	**$ (1,463)**

Fair Value Hedges of Interest Rate Risk

The Corporation is exposed to changes in the fair value of certain of its fixed-rate assets due to changes in benchmark interest rates. The Corporation uses interest rate swaps to manage its exposure to changes in fair value on these instruments attributable to changes in the designated benchmark interest rates. Interest rate swaps designated as fair value hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Corporation receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. Such derivatives are used to hedge the changes in fair value of certain of its pools of fixed rate assets. As of December 31, 2024, the Corporation had a total of two interest rate swaps with a combined notional amount of $50,000,000 hedging fixed-rate debt securities available-for-sale and one interest rate swap with a notional amount of $75,000,000 hedging fixed-rate loans.

As of December 31, 2024, and December 31, 2023, the following amounts were recorded on the balance sheets related to the cumulative basis adjustment for fair value hedges:

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Carrying amount of hedged assets:	**Closed Portfolio Amount**	Closed Portfolio Amount
Fixed Rate Loans	$ **134,878**	—
Available-for-sale - Municipals	**50,653**	$ 50,964
Available-for-sale - MBS	**32,821**	35,806
Total	$ **218,352**	$ 86,770
Interest rate swaps notional amount	$ **125,000**	$ 50,000

(Dollars in thousands)	**December 31, 2024**	December 31, 2023
Cumulative amount of fair value hedging adjustment included in the carrying amount of assets:		
Fixed Rate Loans	$ **823**	$ —
Available-for-sale - Municipals	**(375)**	(1,230)
Available-for-sale - MBS	**(122)**	(407)
Total	$ **326**	$ (1,637)

The table below presents the pre-tax effects of the Corporation's derivative instruments designated as fair value hedges on the consolidated statements of income for the years ended December 31, 2024, and 2023:

(Dollars in thousands)	**December 31,**	
	2024	2023
Amount of loss recognized in other comprehensive loss	$ **(497)**	$ (1,637)
Amount of gain, net of fair value re-measurements, included in interest income	**773**	168

Cash Flow Hedges of Interest Rate Risk

The Corporation uses derivatives to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Corporation has entered into interest rate swaps as part of its interest rate risk management strategy. These interest rate products are designated as cash flow hedges. As of December 31, 2024, the Corporation had two interest rate swaps with a combined notional amount of $100,000,000 hedging specific short-term wholesale funding positions.

For derivatives designated as cash flow hedges, the gain or loss on the derivatives is recorded in other comprehensive loss and subsequently reclassified into interest expense in the same period during which the hedged transaction affects earnings. During the next twelve months, it is estimated that an additional $203,000 will be reclassified as interest expense.

Interest rate swaps designated as cash flow hedges involve the payment of fixed-rate amounts to a counterparty in exchange for the Corporation receiving variable-rate payments over the life of the agreements without the exchange of the underlying notional amount. For cash flow hedges on the Corporation's short-term wholesale funding positions, amounts reported in accumulated other comprehensive loss related to derivatives will be reclassified to interest expense as interest payments are made on the Corporation's hedged variable rate short-term wholesale funding positions. During the year ended December 31, 2024, the Corporation reclassified $850,000 as a reduction in interest expense.

The table below presents the pre-tax effects of the Corporation's derivative instruments designated as cash flow hedges on the consolidated statements of income for the years ended December 31, 2024, and 2023:

(Dollars in thousands)

	December 31,	
	2024	2023
Amount of loss recognized in other comprehensive loss	$ **(993)**	$ (2,885)
Amount of gain reclassified from accumulated other comprehensive loss to interest expense	**850**	274
Interest rate swaps notional amount	$ **100,000**	$ 100,000

Credit Risk-Related Contingent Features

The Corporation has agreements with each of its derivative counterparties that contain a provision where if the Corporation defaults on any of its indebtedness, then the Corporation could also be declared in default on its derivative obligations and could be required to terminate its derivative positions with the counterparty. The Corporation also has agreements with its derivative counterparties that contain a provision where if the Corporation fails to maintain its status as a well-capitalized institution, then the Corporation could be required to terminate its derivative positions with the counterparty. As of December 31, 2024, the Corporation's derivatives were in a net liability position resulting in the Corporation having collateral in the amount of $6,570,000 posted with the counterparty. As of December 31, 2023, the Corporation's derivatives were in a net liability position and accordingly the Corporation had collateral in the amount of $4,650,000 posted with the counterparty.

NOTE 13 — RELATED PARTY TRANSACTIONS

Certain directors, executive officers and immediate family members of First Keystone Corporation and its subsidiary, and companies in which they are principal owners (i.e., at least 10% ownership), were indebted to the Corporation at December 31, 2024 and 2023. The loans do not involve more than the normal risk of collectability nor present other unfavorable features.

A summary of the activity on the related party loans consists of the following:

(Dollars in thousands)

	2024	2023
Balance at January 1	**$ 9,188**	$ 9,647
Additions	**2,363**	909
Deductions	**(2,469)**	(1,368)
Balance at December 31	**$ 9,082**	$ 9,188

The summary of activity on the related party loans represent funds drawn and outstanding at the date of the consolidated financial statements. Commitments by the Bank to related parties on lines of credit and letters of credit for 2024 and 2023, presented an additional off-balance sheet risk to the extent of undisbursed funds in the amounts of $4,568,000 and $4,663,000 respectively, on the above loans.

Deposits from certain officers, directors and immediate family members and/or their related companies held by the Bank amounted to $24,998,000 and $26,988,000 at December 31, 2024 and 2023, respectively.

Funds from certain officers, directors and immediate family members and/or their related companies held in the Trust Department amounted to $12,302,000 at December 31, 2024.

NOTE 14 — REGULATORY MATTERS

Under Pennsylvania banking law, the Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2024, $45,000 of retained earnings were available for dividends without prior regulatory approval, subject to the regulatory capital requirements discussed below. Regulations also limit the amount of loans and advances from the Bank to the Corporation to 10% of consolidated net assets.

The Corporation 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 Corporation's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation must meet specific capital guidelines that involve quantitative measures of the Corporation's assets, liabilities, and certain off-balance sheet items as calculated under regulatory accounting practices. The Corporation's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Management believes, as of December 31, 2024 and 2023, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

On July 2, 2013, the Board of Governors of the Federal Reserve System finalized its rule implementing the Basel III regulatory capital framework, which the FDIC adopted on July 9, 2013. Under the rule, minimum requirements increased both the quantity and quality of capital held by banking organizations. Consistent with the Basel III framework, the rule included a new minimum ratio of common equity tier 1 capital to risk-weighted assets of 4.5 percent, and a common equity tier 1 conservation buffer of 2.5 percent of risk-weighted assets, that applies to all supervised financial institutions, which was phased in over a three year period beginning January 1, 2016, with the full 2.5 percent required as of January 1, 2019. The rule also raised the minimum ratio of tier 1 capital to risk-weighted assets from 4 percent to 6 percent, and includes a minimum leverage ratio of 4 percent for all banking organizations.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total capital, tier I capital and common equity tier 1 capital (as defined in the regulations) to risk weighted assets (as defined), and of tier I capital (as defined) to average assets (as defined).

As of December 31, 2024 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, tier 1 risk-based, common equity tier 1 risk-based and tier 1 leverage ratios as set forth in the table. There are no conditions or events since the notification that management believes have changed the Bank's category.

(Dollars in thousands)	**Actual**		**For Capital Adequacy Purposes**		**Minimum Capital Adequacy with Capital Buffer**		**To Be Well Capitalized Under Prompt Corrective Action Provisions**	
	Amount	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
As of December 31, 2024:								
Total Capital (to Risk-Weighted Assets)	**$ 158,282**	**15.69 %**	**$ 80,723**	**8.00 %**	**$ 105,949**	**10.50 %**	**$ 100,904**	**10.00 %**
Tier 1 Capital (to Risk-Weighted Assets)	**$ 150,508**	**14.92 %**	**$ 60,542**	**6.00 %**	**$ 85,768**	**8.50 %**	**$ 80,723**	**8.00 %**
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	**$ 150,508**	**14.92 %**	**$ 45,407**	**4.50 %**	**$ 70,633**	**7.00 %**	**$ 65,588**	**6.50 %**
Tier 1 Capital (to Average Assets)	**$ 150,508**	**10.24 %**	**$ 58,811**	**4.00 %**	**$ 58,811**	**4.00 %**	**$ 73,513**	**5.00 %**

(Dollars in thousands)	Actual		For Capital Adequacy Purposes		Minimum Capital Adequacy with Capital Buffer		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2023:								
Total Capital (to Risk-Weighted Assets)	$ 151,381	15.68 %	$ 77,247	8.00 %	$ 101,386	10.50 %	$ 96,558	10.00 %
Tier 1 Capital (to Risk-Weighted Assets)	$ 144,290	14.94 %	$ 57,935	6.00 %	$ 82,074	8.50 %	$ 77,247	8.00 %
Common Equity Tier 1 Capital (to Risk-Weighted Assets)	$ 144,290	14.94 %	$ 43,451	4.50 %	$ 67,591	7.00 %	$ 62,763	6.50 %
Tier 1 Capital (to Average Assets)	$ 144,290	10.38 %	$ 55,615	4.00 %	$ 55,615	4.00 %	$ 69,518	5.00 %

The capital conservation buffer phase-in began January 1, 2016. The capital conservation buffer of 2.50% was fully phased in effective January 1, 2019.

The Corporation's capital ratios are not materially different from those of the Bank.

NOTE 15 — FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK AND CONCENTRATIONS OF CREDIT RISK

Financial Instruments with Off-Balance Sheet Risk

The Corporation is a party to financial instruments with off-balance sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit and standby letters of credit. Those instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The contract or notional amounts of those instruments reflect the extent of involvement the Corporation has in particular classes of financial instruments. The Corporation does not engage in trading activities with respect to any of its financial instruments with off-balance sheet risk.

The Corporation's exposure to credit loss in the event of non-performance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments.

The Corporation uses the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

The Corporation may require collateral or other security to support financial instruments with off-balance sheet credit risk.

The contract or notional amounts at December 31, 2024 and 2023 were as follows:

(Dollars in thousands)

	December 31, 2024	December 31, 2023
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	**$ 111,793**	$ 116,954
Financial standby letters of credit	**$ 2,665**	$ 2,120
Performance standby letters of credit	**$ 5,530**	$ 3,688

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

Standby letters of credit are conditional commitments issued by the Corporation to guarantee payment to a third party when a customer either fails to repay an obligation or fails to perform some non-financial obligation. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation may hold collateral (similar to the items held as collateral for commitments to extend credit) to support standby letters of credit for which collateral is deemed necessary.

Financial Instruments with Concentrations of Credit Risk

The Corporation originates primarily commercial and residential real estate loans to customers predominately in the Corporation's primary, Pennsylvania market area. The ability of the majority of the Corporation's customers to honor their contractual loan obligations is dependent on the economy and real estate market in this area. At December 31, 2024, the Corporation had $851,801,000 in loans secured by real estate, which represented 89.8% of total loans. The real estate loan portfolio is largely secured by lessors of residential buildings and dwellings, lessors of non-residential buildings, and lessors of hotels/motels. As of December 31, 2024 and 2023, management is of the opinion that there were no concentrations exceeding 10% of total loans with regard to loans to borrowers who were engaged in similar activities that were similarly impacted by economic or other conditions.

As all financial instruments are subject to some level of credit risk, the Corporation requires collateral and/or guarantees for all loans. Collateral may include, but is not limited to property, plant, and equipment, commercial and/or residential real estate property, land, and pledge of securities. In the event of a borrower's default, the collateral supporting the loan may be seized in order to recoup losses associated with the loan. The Corporation also establishes an allowance for credit losses that constitutes the amount available to absorb losses within the loan portfolio that may exist due to deficiencies in collateral values.

NOTE 16 — STOCKHOLDERS' EQUITY

The Corporation also offers to its shareholders a Dividend Reinvestment and Stock Purchase Plan. Participation in this plan by shareholders began in 2001. The plan provides First Keystone shareholders a convenient and economical way to purchase additional shares of common stock by reinvesting dividends. A plan participant can elect full dividend reinvestment or partial dividend reinvestment provided at least 25 shares are enrolled in the plan. In addition, plan participants may make additional voluntary cash purchases of common stock under the plan of not less than $100 per calendar quarter or more than $2,500 in any calendar quarter.

Shares transferred under this Dividend Reinvestment and Stock Purchase Plan were 97,727 in 2024 and 101,902 in 2023. Remaining shares authorized in the plan were 122,978 as of December 31, 2024.

Shares of First Keystone common stock are purchased for the plan either in the open market by an independent broker on behalf of the plan, directly from First Keystone as original issue shares, or through negotiated transactions. A combination of the previous methods could also occur.

NOTE 17 — FAIR VALUE MEASUREMENTS

Fair value measurement and disclosure guidance defines fair value as the price that would be received to sell the asset or transfer the liability in an orderly transaction (that is, not a forced liquidation or distressed sale) between market participants at the measurement date under current market conditions. This guidance provides additional information on determining when the volume and level of activity for the asset or liability has significantly decreased. The guidance also includes information on identifying circumstances when a transaction may not be considered orderly.

Fair value measurement and disclosure guidance provides a list of factors that a reporting entity should evaluate to determine whether there has been a significant decrease in the volume and level of activity for the asset or liability in relation to normal market activity for the asset or liability. When the reporting entity concludes there has been a significant decrease in the volume and level of activity for the asset or liability, further analysis of the information from that market is needed and significant adjustments to the related prices may be necessary to estimate fair value in accordance with the fair value measurement and disclosure guidance.

This guidance clarifies that when there has been a significant decrease in the volume and level of activity for the asset or liability, some transactions may not be orderly. In those situations, the entity must evaluate the weight of the evidence to determine whether the transaction is orderly. The guidance provides a list of circumstances that may indicate that a transaction is not orderly. A transaction price that is not associated with an orderly transaction is given little, if any, weight when estimating fair value.

Fair value 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. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own belief about the assumptions market participants would use in pricing the asset or liability based upon the best information available in the circumstances. Fair value measurement and disclosure guidance establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

Level 2 Inputs: 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 Inputs: Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (i.e., supported by little or no market activity).

A description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth as follows.

Financial Assets Measured at Fair Value on a Recurring Basis

At December 31, 2024 and 2023, securities measured at fair value on a recurring basis and the valuation methods used are as follows:

(Dollars in thousands)

December 31, 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt Securities Available-for-Sale:				
U.S. Treasury securities	**$ 7,151**	**$ —**	**$ —**	**$ 7,151**
Obligations of U.S. Government Agencies and Sponsored Agencies:				
Mortgaged-backed	**—**	**136,708**	**—**	**136,708**
Other	**—**	**5,122**	**—**	**5,122**
Other mortgage backed debt securities	**—**	**46,273**	**—**	**46,273**
Obligations of state and political subdivisions	**—**	**83,485**	**—**	**83,485**
Asset-backed securities	**—**	**73,867**	**—**	**73,867**
Corporate debt securities	**—**	**37,682**	**—**	**37,682**
Total debt securities available-for-sale	**7,151**	**383,137**	**—**	**390,288**
Marketable equity securities	**1,587**	**—**	**—**	**1,587**
Total recurring fair value measurements	**$ 8,738**	**$ 383,137**	**$ —**	**$ 391,875**

(Dollars in thousands)

December 31, 2023	Level 1	Level 2	Level 3	Total
Debt Securities Available-for-Sale:				
U.S. Treasury securities	$ 7,041	$ —	$ —	$ 7,041
Obligations of U.S. Government Agencies and Sponsored Agencies:				
Mortgaged-backed	—	137,992	—	137,992
Other	—	7,632	—	7,632
Other mortgage backed debt securities	—	34,050	—	34,050
Obligations of state and political subdivisions	—	87,703	—	87,703
Asset-backed securities	—	82,162	—	82,162
Corporate debt securities	—	36,388	—	36,388
Total debt securities available-for-sale	7,041	385,927	—	392,968
Marketable equity securities	1,482	—	—	1,482
Total recurring fair value measurements	$ 8,523	$ 385,927	$ —	$ 394,450

The estimated fair values of equity securities and US Treasury debt securities classified as Level 1 are derived from quoted market prices in active markets; the equity securities consist mainly of stocks held in other banks. The estimated fair values of all other debt securities classified as Level 2 are obtained from nationally-recognized third-party pricing agencies. The estimated fair values are derived primarily from cash flow models, which include assumptions for interest rates, credit losses, and prepayment speeds. The significant inputs utilized in the cash flow models are based on market data obtained from sources independent of the Corporation (observable inputs), and are therefore classified as Level 2 within the fair value hierarchy. The Corporation does not have any Level 3 inputs for securities. There were no transfers between Level 1 and Level 2 during 2024 and 2023.

Financial Assets Measured at Fair Value on a Nonrecurring Basis

Periodically, non-recurring adjustments may be applied to the carrying value of loans based on the fair value measurements for partial charge-offs of the uncollectible portions of these loans. Nonrecurring adjustments can also include certain specific allocation amounts for individually evaluated collateral-dependent loans as calculated when establishing the allowance for credit losses. The Corporation's valuation procedure for any individually evaluated loans greater than $250,000 requires an appraisal to be obtained and reviewed annually at year end unless the Board of Directors waives such requirement for a specific loan, in favor of obtaining a Certificate of Inspection instead, defined as an internal evaluation completed by the Corporation. A quarterly collateral evaluation is performed which may include a site visit, property pictures and discussions with realtors and other similar business professionals to ascertain current values. For individually evaluated loans less than $250,000 upon classification and annually at year end, the Corporation completes a Certificate of Inspection, which includes an onsite inspection, and considers value indicators such as insured values, tax assessed values, recent sales comparisons and a review of the previous evaluations. These assets are included as Level 3 fair values, based upon the lowest level that is significant to the fair value measurements. The fair value consists of the individually evaluated loan balances less the valuation allowance and/or charge-offs. There were no transfers between valuation levels in 2024 and 2023.

Individually evaluated loans measured at fair value on a nonrecurring basis as of December 31, 2024 and 2023 are as follows:

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets at December 31, 2024				
Individually evaluated loans:				
Real Estate	**$ —**	**$ —**	**$ 1,603**	**$ 1,603**
Total individually evaluated loans	**$ —**	**$ —**	**$ 1,603**	**$ 1,603**

(Dollars in thousands)	Level 1	Level 2	Level 3	Total
Assets at December 31, 2023				
Individually evaluated loans:				
Real Estate	$ —	$ —	$ 1,990	$ 1,990
Total individually evaluated loans	$ —	$ —	$ 1,990	$ 1,990

Nonfinancial Assets Measured at Fair Value on a Nonrecurring Basis

There were no foreclosed assets held for resale measured at fair value on a nonrecurring basis at December 31, 2024 or December 31, 2023.

The Corporation's foreclosed asset valuation procedure requires an appraisal or a Certificate of Inspection, which considers the sales prices of similar properties in the proximate vicinity, to be completed periodically with the exception of those cases in which the Bank has obtained a sales agreement. These assets are included as Level 3 fair values, based upon the lowest level that is significant to the fair value measurements. There were no transfers between valuation levels in 2024 and 2023.

The following table presents additional quantitative information about assets measured at fair value on a nonrecurring basis and for which the Corporation has utilized Level 3 inputs to determine the fair value:

(Dollars in thousands)	Quantitative Information about Level 3 Fair Value Measurements				
December 31, 2024	Estimate	Valuation Technique	Unobservable Input	Range	Average
Individually evaluated loans - collateral dependent	**$ 1,603**	**Appraisal of collateral[1,3] Certificate of Inspection[1,3]**	**Appraisal adjustments[2] Qualitative Adjustments[4]**	**(5%) – (5%)**	**(5%)**
December 31, 2023					
Individually evaluated loans - collateral dependent	$ 1,990	Appraisal of collateral[1,3] Certificate of Inspection[1,3]	Appraisal adjustments[2] Qualitative Adjustments[4]	(5%) – (5%)	(5%)

1. Fair value is generally determined through independent appraisals or Certificates of Inspection of the underlying collateral, as defined by Bank regulators.
2. Appraisals may be adjusted downward by management for qualitative factors such as economic conditions and estimated liquidation expenses. The typical range of appraisal adjustments are presented as a percent of the appraisal value.
3. Includes qualitative adjustments by management and estimated liquidation expenses.
4. Collateral values may be adjusted downward by management for qualitative factors such as economic conditions and estimated liquidation expenses.

Fair Value of Financial Instruments Measured on a Nonrecurring Basis

(Dollars in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2024			
		Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:					
Cash and due from banks	**$ 9,933**	**$ 9,933**	**$ —**	**$ —**	**$ 9,933**
Interest-bearing deposits in other banks	**7,321**	**—**	**7,321**	**—**	**7,321**
Restricted investment in bank stocks	**8,984**	**—**	**8,984**	**—**	**8,984**
Net loans	**940,779**	**—**	**—**	**929,302**	**929,302**
Mortgage servicing rights	**218**	**—**	**—**	**218**	**218**
Accrued interest receivable	**4,993**	**—**	**4,993**	**—**	**4,993**
Derivative assets	**817**	**—**	**817**	**—**	**817**
FINANCIAL LIABILITIES:					
Demand, savings and other deposits	**677,762**	**—**	**677,762**	**—**	**677,762**
Time deposits	**368,118**	**—**	**366,772**	**—**	**366,772**
Short-term borrowings	**134,426**	**—**	**134,541**	**—**	**134,541**
Long-term borrowings	**106,000**	**—**	**107,728**	**—**	**107,728**
Subordinated debentures	**25,000**	**—**	**20,618**	**—**	**20,618**
Accrued interest payable	**2,152**	**—**	**2,152**	**—**	**2,152**
Derivative liabilities	**2,280**	**—**	**2,280**	**—**	**2,280**

(Dollars in thousands)	Carrying Amount	Fair Value Measurements at December 31, 2023			
		Level 1	Level 2	Level 3	Total
FINANCIAL ASSETS:					
Cash and due from banks	$ 9,462	$ 9,462	$ —	$ —	$ 9,462
Interest-bearing deposits in other banks	7,551	—	7,551	—	7,551
Restricted investment in bank stocks	10,885	—	10,885	—	10,885
Net loans	904,153	—	—	885,840	885,840
Mortgage servicing rights	265	—	—	265	265
Accrued interest receivable	5,201	—	5,201	—	5,201
FINANCIAL LIABILITIES:					
Demand, savings and other deposits	686,321	—	686,321	—	686,321
Time deposits	294,118	—	292,073	—	292,073
Short-term borrowings	153,468	—	153,509	—	153,509
Long-term borrowings	122,000	—	125,343	—	125,343
Subordinated debentures	25,000	—	22,762	—	22,762
Accrued interest payable	2,823	—	2,823	—	2,823
Derivative liabilities	4,501	—	4,501	—	4,501

NOTE 18 — REVENUE RECOGNITION

The Corporation has elected to apply the guidance outlined in FASB ASC 606 regarding the measurement or recognition of revenue. The main types of revenue contracts included in non-interest income within the consolidated statements of income which are subject to ASC 606 are as follows:

Deposit related fees and service charges

Service charges and fees on deposits, which are included as liabilities in the consolidated balance sheets, consist of fees related to monthly fees for various retail and business checking accounts, ATM fees (charged for withdrawals by the Corporation's deposit customers from other bank ATMs) and insufficient funds fees ("NSF") (which are charged when customers overdraw their accounts beyond available funds). All deposit liabilities are considered to have one-day terms and therefore related fees are recognized in income at the time when the services are provided to the customers. The Corporation elected to adopt a practical expedient related to incremental costs of obtaining deposit contracts. As such, any costs associated with acquiring the deposits, except for certificate of deposits ("CDs") with maturities in excess of one year, are recognized as an expense within the non-interest expense in the consolidated statements of income when incurred as the amortization period of the deposit liabilities that otherwise would have been recognized is one year or less.

Wealth/Asset/Trust Management Fees

Wealth management services are delivered to individuals, corporations and retirement funds located primarily within the Corporation's geographic markets. The Trust Department of the Corporation conducts the wealth management operations, which provides a broad range of personal and corporate fiduciary services, including the administration of estates.

Assets held in a fiduciary capacity by the Trust Department are not assets of the Corporation and, therefore, are not included in the Corporation's consolidated financial statements. Wealth management fees, which are contractually agreed with each customer, are earned each month and recognized on a cash basis based on average fair value of the trust assets under management. The services provided under such a contract are considered a single performance obligation under ASC 606 because they embody a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Wealth management fees charged by the Trust Department follow a tiered structure based on the type and size of the assets under management. Wealth management fees are included within non-interest income in the consolidated statements of income. As of December 31, 2024 and 2023, the fair value of trust assets under management was $120,857,000 and $109,064,000, respectively. The costs of acquiring asset management customers are incremental and recognized within the non-interest expense of the consolidated statements of income.

Interchange Fees and Surcharges

Interchange fees are related to the acceptance and settlement of debit card transactions, both point-of-sale and ATM, to cover operating costs and risks associated with the approval and settlement of the transactions. Interchange fees vary by type of transaction and each merchant sector. Net income recognized from interchange fees is included in non-interest income on the consolidated statements of income. A surcharge is assessed for use of the Corporation's ATMs by non-customers. All interchange fees and surcharges are recognized as received on a daily basis for the prior business day's transactions. All expenses related to the settlement of debit card transactions (both point-of-sale and ATM) are recognized on a monthly basis and included in non-interest expense on the consolidated statements of income.

NOTE 19 – GOODWILL

Goodwill resulted from the acquisition of the Pocono Community Bank in November 2007 and of certain fixed and operating assets acquired and deposit liabilities assumed of the branch of another financial institution in Danville, Pennsylvania, in January 2004. Such goodwill represents the excess cost of the acquired assets relative to the assets' fair value at the dates of acquisition. In accordance with current accounting standards, goodwill is not amortized. Goodwill totaled $0 at December 31, 2024 and $19,133,000 at December 31, 2023.

Impairment testing is performed on an annual basis, using either a qualitative or quantitative approach. The assumptions used in the impairment test of goodwill are susceptible to change based on changes in economic conditions and other factors, including our stock price. Any change in the assumptions utilized to determine the carrying value of goodwill could adversely affect our results of operations.

Goodwill was evaluated for impairment at December 31, 2023, and it was determined that goodwill was not impaired. Due primarily to the decrease in the Company's stock price during the first quarter of 2024 as a triggering event, management evaluated the need for an interim goodwill impairment analysis. The decrease prompted the Corporation to assess its goodwill utilizing a quantitative impairment test and determined it was more likely than not the fair value of the Corporation was less than the carrying amount as of March 31, 2024. Based on the results of the impairment test, the Corporation recorded a goodwill impairment charge of $19,133,000 effective March 31, 2024.

NOTE 20 — PARENT COMPANY FINANCIAL INFORMATION

Condensed financial information for First Keystone Corporation (parent company only) was as follows:

BALANCE SHEETS

(Dollars in thousands)

	December 31, 2024	December 31, 2023
ASSETS		
Cash	**$ 4,124**	$ 9,753
Investment in banking subsidiary	**125,239**	135,301
Marketable equity securities	**1,587**	1,482
Prepaid expenses and other assets	**512**	551
TOTAL ASSETS	**$ 131,462**	$ 147,087
LIABILITIES		
Receivable from banking subsidiary	**$ (547)**	$ (307)
Subordinated debentures	**25,000**	25,000
Accrued expenses and other liabilities	**258**	779
TOTAL LIABILITIES	**24,711**	25,472
STOCKHOLDERS' EQUITY		
Common stock	**12,901**	12,705
Surplus	**45,072**	44,004
Retained earnings	**80,148**	100,260
Accumulated other comprehensive loss	**(25,661)**	(29,645)
Treasury stock, at cost	**(5,709)**	(5,709)
TOTAL STOCKHOLDERS' EQUITY	**106,751**	121,615
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	**$ 131,462**	$ 147,087

STATEMENTS OF (LOSS) INCOME

(Dollars in thousands)

	Years Ended December 31,	
	2024	2023
INCOME		
Dividends from subsidiary bank	**$ 1,760**	$ 1,526
Net securities gains (losses)	**105**	(217)
Other income	**79**	94
TOTAL INCOME	**1,944**	1,403
EXPENSE		
Interest on subordinated debt	**1,094**	1,094
Other expense	**256**	217
TOTAL EXPENSE	**1,350**	1,311
INCOME BEFORE INCOME TAX BENEFIT	**594**	92
INCOME TAX BENEFIT	**(251)**	(303)
	845	395
EQUITY IN UNDISTRIBUTED (LOSSES) EARNINGS OF BANKING SUBSIDIARY	**(14,048)**	5,165
NET (LOSS) INCOME	**$ (13,203)**	$ 5,560

STATEMENTS OF COMPREHENSIVE (LOSS) INCOME

(Dollars in thousands)

	Years Ended December 31,	
	2024	2023
Net (Loss) Income	**$ (13,203)**	$ 5,560
Other comprehensive income (loss):		
Equity in other comprehensive income (loss) of banking subsidiary	**4,015**	(87)
Total other comprehensive income (loss)	**4,015**	(87)
Total Comprehensive (Loss) Income	**$ (9,188)**	$ 5,473

STATEMENTS OF CASH FLOWS

(Dollars in thousands)

	Years Ended December 31,	
	2024	2023
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (loss) income	**$ (13,203)**	$ 5,560
Adjustments to reconcile net income to net cash provided by operating activities:		
(Gains) losses on securities	**(105)**	217
Deferred income tax expense (benefit)	**27**	(88)
Equity in undistributed losses (earnings) of banking subsidiary	**14,048**	(5,165)
(Decrease) increase in prepaid/accrued expenses and other assets/liabilities	**(509)**	869
Decrease in advances from banking subsidiary	**(242)**	(474)
NET CASH PROVIDED BY OPERATING ACTIVITIES	**16**	919
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sales of equity securities	**—**	—
NET CASH PROVIDED BY INVESTING ACTIVITIES	**—**	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from issuance of common stock	**1,264**	1,754
Dividends paid	**(6,909)**	(6,780)
NET CASH USED IN FINANCING ACTIVITIES	**(5,645)**	(5,026)
DECREASE IN CASH AND CASH EQUIVALENTS	**(5,629)**	(4,107)
CASH AND CASH EQUIVALENTS, BEGINNING	**9,753**	13,860
CASH AND CASH EQUIVALENTS, ENDING	**$ 4,124**	$ 9,753

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

First Keystone Corporation maintains disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934, as amended) designed to ensure that information required to be disclosed in the reports that the Corporation files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Based upon their evaluation of those disclosure controls and procedures performed as of the end of the period covered by this report, the Chief Executive Officer and Chief Financial Officer of the Corporation concluded that the Corporation's disclosure controls and procedures were effective as of December 31, 2024.

Management's Report on Internal Control Over Financial Reporting

The management of First Keystone Corporation is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) under the Securities and Exchange Act of 1934). The Corporation's internal control system was designed to provide reasonable assurance to the Corporation's management and Board of Directors regarding the preparation and fair presentation of published financial statements. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, the application of any evaluation of effectiveness to future periods is subject to the risk that controls may become inadequate because of changes in conditions, or that compliance with the policies or procedures may deteriorate.

The management of First Keystone Corporation, along with participation of the Chief Executive Officer and the Chief Financial Officer, assessed the effectiveness of the Corporation's internal control over financial reporting as of December 31, 2024. In making this assessment, we used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in the Internal Control — Integrated Framework (2013).

Controls and Procedures of the Corporation's 2023 Annual Report set forth management's conclusion that because of the material weakness and related matters described in Item 9A of the 2023 Annual Report, the Corporation's internal control over financial reporting was not effective as of December 31, 2023. The matters described in Item 9A of the 2023 Annual Report related to the failure to properly review and update remaining life calculations and the qualitative factors grid related to the allowance for credit losses calculations under the Corporation's CECL model. The identified material weaknesses did not result in any material misstatement in the Corporation's consolidated financial statements. During 2024, the Corporation completed the remediation efforts described in Item 9A of the 2023 Annual Report. Management instituted a new control requiring that the remaining life calculations are run on a quarterly basis in order to recalculate the annual attrition rate. The quarterly calculation of the annual attrition rate is subsequently reviewed with members of the CECL committee after quarter-end but before the quarterly CECL calculation is rolled forward, and the discussion is memorialized in the minutes of the CECL committee. In addition, management has introduced several refinements in its qualitative factors grid utilized in the calculation of the allowance for credit losses and eliminated duplicative and overlapping values when defining the ranges used to determine the magnitude of qualitative adjustments. As of December 31, 2024, based on management's assessment, the Corporation's internal control over financial reporting was effective.

Changes in Internal Control over Financial Reporting

Other than the changes described above, there were no changes in the Corporation's internal control over financial reporting during the fiscal quarter ended December 31, 2024, that materially affected, or are reasonably likely to materially affect, the Corporation's internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

During the year ended December 31, 2024, no director or officer of the Corporation adopted or terminated a "Rule 10b5-1 trading arrangement" or a "non-Rule 10b5-1 trading arrangement," as each term is defined in Item 408(a) of Regulation S-K.

ITEM 9C. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS

Not Applicable.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information under the captions "Information As To Directors and Nominees," "Principal Officers of the Bank and the Corporation," "Committees of the Board of Directors" and "Section 16(A) Beneficial Ownership Reporting Compliance" are incorporated here by reference from First Keystone Corporation's definitive proxy statement.

CODE OF ETHICS

The Corporation has adopted a Directors and Senior Management Code of Ethics, which applies to all members of the Board of Directors and to senior officers of the Corporation. It can be found on the Investor Relations section of our website at https://firstkeystonecorp.fkc.bank.

ITEM 11. EXECUTIVE COMPENSATION

The information under the captions "Executive Compensation" and "Oversight of Executive Compensation and Director Nominations" are incorporated here by reference from First Keystone Corporation's definitive proxy statement.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information under the caption "Share Ownership" is incorporated here by reference from First Keystone Corporation's definitive proxy statement.

Equity Compensation Plan Information

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans excluding securities reflected in column (a) (c)
Equity compensation plans approved by shareholders	—	$ —	—
Equity compensation plans not approved by shareholders	—	—	—
Total	—	$ —	—

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information under the captions "Related Person Transactions" and "Governance of the Company" are incorporated here by reference from First Keystone Corporation's definitive proxy statement.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information under the captions "Report of the Audit Committee" and "Proposal No. 2: Ratification of Independent Registered Public Accounting Firm" are incorporated here by reference from First Keystone Corporation's definitive proxy statement.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) 1. Financial Statements

The following consolidated financial statements are included in Part II, Item 8, of this Report:

First Keystone Corporation and Subsidiary.

Reports of Independent Registered Public Accounting Firm *(PCAOB ID 23)*
Consolidated Balance Sheets
Consolidated Statements of Income
Consolidated Statements of Comprehensive Income (Loss)
Consolidated Statements of Changes in Stockholders' Equity
Consolidated Statements of Cash Flows
Notes to Consolidated Financial Statements

2. Financial Statement Schedules

Financial statements schedules are omitted because the required information is either not applicable, not required, or is shown in the financial statements or in their notes.

ITEM 16. FORM 10-K SUMMARY

None.

3. Exhibits

Exhibits required by Item 601 of Regulation S-K:

Exhibit Number Referred to

Item 601 of Regulation S-K	Description of Exhibit
3i	Articles of Incorporation, as amended (Incorporated by reference to Exhibit 3(i) to the Registrant's Report on Form 8-K dated August 28, 2018).
3ii	By-Laws, as amended and restated (Incorporated by reference to Exhibit 3(ii) to the Registrant's Report on Form 8-K dated August 28, 2018).
10.1(a)	Supplemental Employee Retirement Plan – J. Gerald Bazewicz (Incorporated by reference to Exhibit 10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).*
10.1(b)	Supplemental Employee Retirement Plan – David R. Saracino (Incorporated by reference to Exhibit 10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).*
10.1(d)	Supplemental Employee Retirement Plan – Elaine Woodland (Incorporated by reference to Exhibit 10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2013).*

Item 601 of Regulation S-K	Description of Exhibit
10.2	Management Incentive Compensation Plan (Incorporated by reference to Exhibit 10 to Registrant's Annual Report on Form 10-K for the year ended December 31, 2018).*
10.4	First Keystone Corporation 1998 Stock Incentive Plan (Incorporated by reference to Exhibit 10 to Registrant's Report on Form 10-Q for the quarter ended September 30, 2006).*
14	First Keystone Corporation Directors and Senior Management Code of Ethics (Incorporated by reference to Exhibit 99.1 to Registrant's Report on Form 8-K dated August 27, 2013).
19	Insider Trading Policy of First Keystone Corporation.**
21	List of Subsidiaries of the Issuer, filed with this annual report on Form 10-K.**
23.1	Consent of Baker Tilly US, LLP.**
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.**
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.**
32.1	Section 1350 Certification of Chief Executive Officer.**
32.2	Section 1350 Certification of Chief Financial Officer.**

101.INS	XBRL Instance Document.**
101.SCH	XBRL Taxonomy Extension Schema Document.**
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.**
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.**
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.**
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.**
104	Cover Page Interactive Data File (Formatted as Inline XBRL and Contained in Exhibit 101)

* Denotes a compensatory plan.
** Filed herewith.

The Corporation will provide a copy of any exhibit upon receipt of a written request for the particular exhibit or exhibits desired. All requests should be addressed to the Corporation's principal executive offices.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

FIRST KEYSTONE CORPORATION

/s/ Jack W. Jones
Jack W. Jones
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 25, 2025

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ John E. Arndt	March 25, 2025
John E. Arndt, Vice Chairman/Director	Date
/s/ D. Matthew Bower	March 25, 2025
D. Matthew Bower, Director	Date
/s/ Robert A. Bull	March 25, 2025
Robert A. Bull, Chairman/Director	Date
/s/ Whitney B. Holloway	March 25, 2025
Whitney B. Holloway, Director	Date
/s/ Michael L. Jezewski	March 25, 2025
Michael L. Jezewski, Director	Date
/s/ Nancy J. Marr	March 25, 2025
Nancy J. Marr, Director	Date
/s/ William E. Rinehart	March 25, 2025
William E. Rinehart, Director	Date
/s/ Elaine A. Woodland	March 25, 2025
Elaine A. Woodland, Director	Date
/s/ Stacy L. Gordner	March 25, 2025
Stacy L. Gordner, Interim Chief Financial Officer (Principal Financial Officer)	Date
/s/ David R. Saracino	March 25, 2025
David R. Saracino, Secretary/Director	Date
/s/ Jack W. Jones	March 25, 2025
Jack W. Jones, President/ Chief Executive Officer/Director	Date

EXHIBIT 19

INSIDER TRADING POLICY OF FIRST KEYSTONE CORPORATION

Adopted: January 11, 1994 and
Revised on October 1, 1996 and January 13, 2015
By the Board of Directors

I. STATEMENT OF POLICY

The maintenance of extremely high standards of honesty, integrity and fair dealing are essential to assure the public's trust in the performance and maintenance of an impartial trading price of First Keystone Corporation's (the "Corporation") securities in the marketplace. "Insider Trading", the trading of securities based on Material Non-Public information, is not only unfair, but it erodes investor confidence and participation in the marketplace for the Corporation's securities. The preservation of that trust and of the Corporation's reputation requires close observance of these standards by the directors, officers, employees of the Corporation and its subsidiaries including First Keystone Community Bank (the "Bank") (collectively, the "Subsidiaries) and persons holding 10% or more of the Corporation's equity securities ("10% Holders").

The Corporation and its Subsidiaries require that their directors, officers, employees, 10% Holders, and other representatives avoid possible misconduct and any situation in which Material Non-Public information could be misappropriated by anyone to gain an unfair advantage in any trading of the Corporation's securities. In all situations, including those where the law is unclear or in conflict, directors, officers, and employees are expected to refrain from any discussion about Material Non-Public information.

An intentional violation of the provisions of this Insider Trading Policy (the "Policy") may result in termination of employment as an officer or employee of the Corporation and any of its Subsidiaries, and, if applicable, in a request to resign from the Board of Directors of the Corporation or its Subsidiaries. The Board of Directors of the Corporation will address intentional violations of this Policy by a "Quasi-insider" or "Temporary Insider".

This Policy also advises insiders of the reporting requirements and liabilities under Section 16 (a) and Section 16 (b) of the Securities and Exchange Act of 1934, as amended (the "1934 Act"), respectively, as well as those of the Sarbanes-Oxley Act of 2002.

Compliance with the Policy is the responsibility of every representative of the Corporation and its Subsidiaries.

II. DEFINITIONS

The following terms have the meanings as set forth below and are to be used in the implementation of the Policy:

"Beneficial Ownership"

A beneficial owner is defined in the Section 16 of the rules adopted pursuant to the 1934 Act (the "Section 16 Rules") to mean "any person who, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares direct or indirect pecuniary interest in the relevant class of equity securities". The following rights or powers are generally accepted indicia of beneficial ownership:

(1) to vote or control the voting of the Corporation's securities,
(2) to transfer or control the transfer of the Corporation's securities,
(3) to receive income from the Corporation's securities or control the disposition of the income,

(4) to receive or control the disposition of the proceeds in a liquidation.

In addition, securities held by a spouse, minor children and persons who share the same or common household are considered to be "beneficially-owned" by a person required to report such ownership to the Securities and Exchange Commission ("SEC").

"Equity Securities"

An equity security is defined broadly to include any stock, derivative security or similar security; or any security convertible, with or without consideration, into such a security; or carrying any warrant or right to subscribe to or purchase such security; or any such warrant or right.

"Insider"

(1) the Corporation's and its Subsidiaries' Directors, Executive Officers, Officers, (including the assistant officers to be designated) and Advisory, Emeritus and Honorary Directors to the extent they have policy-making functions or have access to inside information.
(2) other employees of the Corporation and its Subsidiaries that are designated by the Board of Directors of the Corporation as an Insider who, by virtue of their position, perform policy-making functions and/or have access to Material Non-Public information, or
(3) 10% Holders.

"Inside Information"

Information which emanates from within the Corporation or its Subsidiaries, and is intended for a corporate purpose, such as data concerning banking operations, finances or expansion and acquisition plans. Knowledge of potential takeover is an obvious form of Inside Information. This term includes all Material Non-Public information which affects the Corporation or its Subsidiaries or the market for the Corporation's securities.

"Insider Trading Compliance Officer" or "ITC Officer"

An officer or employee of this Corporation or any of its Subsidiaries who is appointed by the Corporation's Board of Directors and who is primarily responsible to carry out the intent and purpose of the Policy and to administer its provisions. The ITC Officer shall have access and report directly to the Board of Directors of the Corporation.

"Material"

A fact is material if there is a substantial likelihood that a reasonable investor would consider it important in making his or her investment decision. In other words, there must be a substantial likelihood that the disclosure of the omitted fact would have been viewed by the reasonable investor as having significantly altered the "total mix" of information available. While it is not possible to identify all information that would be deemed "material," the following types of information ordinarily would be considered material:

- Earnings that are inconsistent with prior performance or the consensus expectations of the investment community;
- Potential significant problems in the Bank's loan portfolio, including nonaccrual or foreclosure situations;
- A pending or proposed merger, acquisition or tender offer; or
- A change in dividend policy, the declaration of a stock split, or an offering of additional securities.

"Non-Public"

Information that has not been distributed in a manner designed to make it available to the general investor or general public.

"Quasi-insider"

A person, such as an attorney, accountant, consultant, investment banker and any other person temporarily employed by the Corporation or its Subsidiaries who gains access to Material Non-Public information.

"Section 16 Insider"

As defined in section III of the Policy.

"Temporary Insider"

A person who gains access to Material Non-Public information even if he or she has no relationship with the Corporation or its Subsidiaries.

"10% Holders"

An analysis of beneficial ownership pursuant to Section 13 (d) of the 1934 Act is used to determine beneficial ownership of more than ten percent of a class of equity securities for Section 16 purposes, with some modifications. The Section 13 (d) definition of beneficial ownership is used only to determine when the status of the 10% Holder has been triggered. Once such status has been attained, the reporting and short-swing provisions of Section 16 apply only to securities in which the insider has a pecuniary interest. Under the Section 16 Rules, only those securities in which insiders have or share direct or indirect pecuniary interest are subject to the Section 16 (a) reporting obligations and the Section 16 (b) short-swing profit recovery. A pecuniary interest is defined as "the opportunity, directly or indirectly, to profit or share in any profit derived from any transaction in the securities".

III. INSIDERS SUBJECT TO REPORTING REQUIREMENTS

The Policy mandates that the following insiders are subject to Section 16 reporting requirements with the SEC (“Section 16 Insiders”):

(1) All members of the Board of Directors of the Corporation.

(2) All Executive Officers of the Corporation as designated by the Board of Directors of the Corporation.

(3) Directors and certain officers of any Subsidiary as defined by the Board of Directors of the Corporation.

IV. REPORTING REQUIREMENTS

A. The ITC Officer shall make available to Section 16 Insiders and those persons known by the Board of Directors of the Corporation or its Subsidiaries who are 10% Holders SEC Form 3 (Initial Statement of Beneficial Ownership of Securities) for their completion and execution, if not already completed, executed and filed with the SEC. The ITC Officer shall assist in the preparation, completion, review, execution and amendment of the Form 3.

B. No Section 16 Insider shall effect any trade in the Corporation's securities, unless he or she has first informed the ITC Officer two days before a transaction is effected and a transaction review has been completed by use of the checklist form as set forth on Appendix A (Checklist for Short-Swing Profit Rule). The ITC Officer shall assist in filing SEC Form 4 (Statement of Changes in Beneficial Ownership of Securities) within two (2) business days of the trade date as required by the Sarbanes-Oxley Act of 2002. In order to enable the ITC Officer to assist in the preparation and filing Form 4 on a timely basis, it is imperative that Section 16 Insiders execute a power of attorney authorizing the designated officers to sign and file on behalf of the insider reports required under Section 16. The ITC Officer shall report, as soon as practicable to the Board of Directors of the Corporation, any potential violation of the Short-Swing Profit Rule and any failure to file Form 4 with the SEC within two (2) business days of the trade date.

C. The ITC Officer shall inform any person that is a 10% Holder about his or her obligation to complete and file SEC Form 3, if he or she has not already done so, and SEC Form 4 within two (2) business days of the trade date in connection with all transactions to which he or she is a party and about the Short-Swing Profit Rule.

D. Within twenty (20) days after the end of each calendar year, each Section 16 Insider shall review his/her prior year's securities transactions with the ITC Officer to determine if an SEC Form 5 must be completed, executed and file with the SEC within forty-five (45) days after the end of the calendar year.

E. The ITC Officer shall consult with the Transfer Agent, Registrar or employee of the Corporation or its Subsidiary who registers the trades in the Corporation's securities, in order to identify any person, individually or acting in concert with others as a group, who holds beneficially 5% or more of the Corporation's securities. It is the responsibility of the ITC Officer to inform such person that he or she must prepare and file, in a timely manner with the SEC, Schedules 13D or 13G, as the case may be. The ITC Officer is also to consult with the appropriate employees of the Corporation or its Subsidiaries to ascertain whether the employee holds beneficially 5% or more of the Corporation's securities in a trust or other fiduciary relationship. The ITC Officer is to assist the appropriate Corporation or Subsidiary employee in the preparation and timely filing with the SEC of the appropriate schedule under Section 13 of the 1934 Act and all amendments thereto. The ITC Officer is also authorized to assist any Director or Executive officer of the Corporation or its Subsidiaries in the preparation and timely filing of a Schedule 13D and all amendments thereto.

V. PROHIBITIVE ACTIVITIES

A. No Insider (as defined in the Policy) shall effect any transaction in the securities of the Corporation, unless he or she has informed the ITC Officer two days in advance of such transaction. An Insider shall execute a certification on the form as set forth on Appendix B (Certification of Non-disclosure of Material Non-public Information) prior to effecting any transaction in the securities of the Corporation.

B. No Insider shall effect any transaction in the securities of the Corporation while he or she is in possession of Material Non-Public information.

C. No Insider shall divulge, disclose or "tip" any Material Non-Public information to any person for any reason whatsoever without the express consent and direction of the Board of Directors of the Corporation.

D. Intentional violations of this Policy and of the rules promulgated hereunder (as described below) may result in termination of employment as an officer or employee of the Corporation or any of its Subsidiaries, and, if applicable, in a request to resign from the Board of Directors of this Corporation or its Subsidiaries. Intentional violations of the provisions of this Policy by a "Quasi-insider" or a "Temporary Insider" will be addressed by the Board of Directors of the Corporation.

E. Violations of Section 16 (a) and Section 16 (b) will result in the Insider being held liable for all short-swing profits; in addition, the SEC has the ability to enforce Section 16 Rules by seeking fines in judicial action or entering administrative cease and desist orders. Pursuant to the Securities Enforcement Remedies and Penny Stock Reform Act of 1990, the SEC is authorized to petition a district court to impose fines upon violators of Section 16 (a). Fines can range from $5,000 in ordinary cases to $50,000 in cases of deliberate or reckless disregard and potentially higher for exceptional cases.

VI. COMPLIANCE PROGRAM

A. There is hereby established a special trading program for Insiders:

1. A purchase, sale, gift, transfer, or assignment of the securities of the Corporation ("Securities Trade") can occur or be effected by an Insider only 24 hours after the release of periodic financial information to the general public. This periodic financial information includes as a minimum, quarterly press releases containing quarterly comparative earnings and asset statistics as well as such other financial information considered by management of the Corporation to be pertinent and material. The dissemination of such information to market-makers in the Corporation's outstanding stock and the local media, and filing of such information on a Current Report on Form 8-K with the SEC shall constitute the release of periodic financial information to the

general public. It is the policy of the Corporation to release such periodic financial information within thirty (30) days following each calendar quarter end.

2. An Insider shall not effect a Securities Trade from the last business day of each calendar quarter until such time as such periodic financial information is released to the public as specified in paragraph 1 above. After the release of such periodic financial information and until the next to last business day of the next calendar quarter is the period of time permitted to effect a Securities Trade. This is referred to as the "Trading Window Period". The Trading Window Period does not reduce the obligations of the Insider under the federal securities law.
3. **Securities transactions are prohibited beginning on the last business day of a calendar quarter and continuing until the periodic financial information has been released to the general public as specified in paragraph 1 above. This is referred to as the "No Trading Window Period".**
4. Certain corporate actions that may have a significant impact on the Corporation's stock price will also warrant a "No Trading Window Period".

   The following items would be included:

   a) Stock repurchase programs.
   b) Stock splits or stock dividends.
   c) Significant special cash dividends in an amount equal to or greater than the combined total of the last four regular quarterly dividends.
   d) Catastrophic fraud or loan losses resulting in a major depletion of capital or severely diminished earnings of the Corporation or its Subsidiaries.
   e) The Corporation or a Subsidiary being acquired by another company.
   f) The Corporation acquiring another financial institution.

The "No Trading Window Period" will be in effect for the above events from the date of adoption by the Board of Directors of the Corporation until such time as they are communicated to the general public as specified in paragraph 1 above.

Other corporate actions, while considered significant in nature, have only a very limited or negligible impact on the Corporation's stock price. Therefore, a "No Trading Window Period" is not required upon their adoption. These actions would include:

   a) Adoption of an Employee Stock Option Plan or an Employee Stock Incentive Plan
   b) Adoption of a Dividend Reinvestment Plan
   c) The purchase or sale of a branch and/or deposits and loans
   d) Increases in the regular quarterly dividend
   e) Changes in the composition of the Board of Directors or Senior Management of the Corporation or its Subsidiaries

5. If an Insider is in possession of Material Non-Public information during any Trading Window Period, he or she is prohibited from effecting a Securities Trade.
6. At least two days prior to the commencement of a Securities Trade, an Insider shall advise the ITC Officer, shall prepare and file with the assistance of the ITC Officer, the appropriate SEC forms, and shall complete the Certification of Non-Disclosure of Material Non-Public Information (Appendix B).

B. The ITC Officer shall be responsible to develop educational materials and periodic presentations that relate to this Policy.

C. The ITC Officer shall develop rules, for approval by the Board of Directors of the Corporation, to implement this Policy. Such rules shall cover, but not be limited to:

(a) a security program to limit access to Material Non-Public information by persons not authorized to view such information,
(b) a program to monitor the trading activity in the Corporation's securities,
(c) a system of filing and record keeping for the copies of the Insider's Forms 3, 4 and 5 that have been and will be submitted to the Corporation as a part of this compliance program (such filings shall be retained for a minimum of three years),
(d) a procedure to identify delinquent Insider filings for purposes of disclosure in the proxy statement and the Form 10-Ks,
(e) limitations on the transmission of Material Non-Public information by insiders,
(f) discipline for violations of this program, and
(g) a training program for persons who become Insiders (as defined under this Policy).

D. Each person who is or becomes an Insider shall receive a copy of this Policy and shall execute the form of Acknowledgment and Agreement of Compliance on the form as set forth on Appendix C. An executed copy of this Appendix C shall be kept in the employment or personnel file of each Insider.

E. If by definition, a Quasi-insider or Temporary Insider has been determined, they shall receive and execute the Covenant of Non-Disclosure By A Quasi-insider or Temporary Insider on the form as set forth on Appendix D.

VII. OBLIGATION TO REPORT VIOLATIONS

The improper or unauthorized disclosure of Material, Non-Public information and/or breaches of this Policy can inflict great damage upon the Corporation and its employees. Therefore, it is the obligation of every employee and director of the Corporation and its Subsidiaries who become aware of improper use or disclosure of Material, Non-Public information or material breaches of this policy to promptly communicate the relevant facts to the ITC Officer, or to counsel.

CHECKLIST FOR SHORT-SWING PROFIT RULE

Note: ANY combination of PURCHASE AND SALE or SALE AND PURCHASE of the Corporation's securities within six months of each other results in a violation of Section 16(b) of the Securities Exchange Act of 1934 and the "profit" must be recovered by the Corporation. It makes no difference how long the shares being sold have been held. The highest priced sale will be matched with the lowest priced purchase.

SALES
If a sale of the Corporation's securities is to be made by you (a Section 16 Insider or 10% Holder or any member of your immediate family):

1. Have there been any purchases by you or options to purchase stock granted to you (or family members) within the past six months?

    ____ Yes ____ No
    If yes above and the purchase was made by a family member, then is such family member's stock beneficially owned by you?
    ____ Yes ____No

2. Are any purchases (or option exercises) anticipated within the next six months?

    ____Yes ____No

3. Has the ITC Officer responsible for preparing Form 4 been advised?

    ____Yes ____No

PURCHASES
If a purchase or grant of an option of the Corporation's securities is to be made:

1. Have there been any sales by you (or family members) within the past six months?

   ____Yes ____No
   If yes above and the sale was by a family member, then is such family member's stock beneficially owned by you?

   ____Yes ____No

2. Are any sales anticipated or required within the next six months (such as tax related or year-end transactions)?

   ____Yes ____No

3. Has the ITC Officer responsible for preparing the Form 4 been advised?

   ____Yes ____No

4. What is the proposed manner of purchase?

   ____Broker ____Private

NOTE: Before proceeding with a purchase or sale of the Corporation's securities, consider whether you are aware of Material Non-Public information which could affect the price of stock. The above information is provided to the best of the undersigned's knowledge, information and belief.

Date ______________

Signature of Insider ___________________________

Print Name of Insider__________________________

CIK Number of Insider_________________________

Signature of Insider Trading Officer __________________________

CERTIFICATION OF NON-DISCLOSURE OF MATERIAL NON-PUBLIC INFORMATION

To the best of my knowledge, information and belief, I hereby certify that I do not possess Material Non-Public information for purposes of the Insider Training Policy of First Keystone Corporation prior to the commencement of a Securities Trade (as defined in such policy) which shall be effected on________________________.

Date_______________

Signature of Insider_________________________

Print Name of Insider_______________________

ITC Officer Signature_______________________

POLICY ACKNOWLEDGEMENT

I, the undersigned, hereby acknowledge my awareness of the Insider Trading Policy of First Keystone Corporation and Subsidiaries and affiliates (“Policy”), its contents and amendments thereto. Further, upon review of the Policy, I hereby certify that I understand its provisions and what they require of me as an Insider as defined in the Policy. I understand that an intentional violation of this Policy may result in the termination of my employment from the Corporation or a Subsidiary or a request to resign from the Board of Directors of the Corporation or a Subsidiary.

Date_______________

Signature of Director, Officer, or Employee _____________________________

AGREEMENT OF COMPLIANCE

I, the undersigned, hereby certify that I understand what is required of me by the provisions of the Insider Trading Policy of First Keystone Corporation, as a Director, Officer, or employee of the Corporation or its Subsidiary. Further, I hereby certify that by the setting of my hand to this instrument, I agree to comply in good faith with the provisions and spirit of the aforementioned Policy

.
Date _______________

Signature of Director, Officer, or Employee _________________________

COVENANT OF NON-DISCLOSURE BY A QUASI-INSIDER OR TEMPORARY INSIDER

I/we acknowledge the establishment of an Insider Trading Policy (the "Policy") by First Keystone Corporation (the "Corporation"). I/we acknowledge further that I/we may be considered a Quasi-insider or Temporary Insider for purposes of the Policy because of the likelihood that I/we may gain access to Material Non-Public information concerning the Corporation as a result of my/our engagement with the Corporation or any of its Subsidiaries. I/we covenant that I/we will not divulge, disclose or "tip" any Material Non-Public information concerning the Corporation or its Subsidiaries to any person for any reason whatsoever, excepting persons with whom I/we am/are employed and who may have access to such information in the normal course of their duties. I/we further covenant that I/we will in good faith make every attempt to limit access to such information at my/our place of employment.

Date _____________

Signature of Covenantor_______________________

Print Name of Person_________________________

Print Person's Employer or Trade Name___________________________

ITC Officer Signature_________________________

EXHIBIT 21

FIRST KEYSTONE CORPORATION

LIST OF SUBSIDIARIES OF THE ISSUER

Direct Subsidiary: First Keystone Community Bank, Pennsylvania state chartered commercial bank.

The consolidated financial statements include the accounts of the Corporation and its subsidiary.

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statements on Form S-3D (No. 333-227152) and Form S-3/A (No. 333-228140) of First Keystone Corporation of our report dated March 25, 2025, relating to the consolidated financial statements and the effectiveness of First Keystone Corporation's internal control over financial reporting, which appears in this annual report on Form 10-K for the year ended December 31, 2024.

/s/ Baker Tilly US, LLP (formerly known as Baker Tilly Virchow Krause, LLP)

Iselin, New Jersey
March 25, 2025

EXHIBIT 31.1

FIRST KEYSTONE CORPORATION
CERTIFICATION

I, Jack W. Jones, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 2024, of First Keystone Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Jack W. Jones
Jack W. Jones
President and Chief Executive Officer
(Principal Executive Officer)

Date: March 25, 2025

EXHIBIT 31.2

FIRST KEYSTONE CORPORATION
CERTIFICATION

I, Stacy L. Gordner, certify that:

1. I have reviewed this annual report on Form 10-K for the period ended December 31, 2024, of First Keystone Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ Stacy L. Gordner
Stacy L. Gordner
Assistant Vice President and Interim Chief Financial Officer
(Principal Financial Officer)

Date: March 25, 2025

EXHIBIT 32.1

FIRST KEYSTONE CORPORATION

CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of First Keystone Corporation (the “Corporation”) for the period ended December 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Jack W. Jones, President and Chief Executive Officer, certify, pursuant to and for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the period covered by the Report.

/s/ Jack W. Jones
Jack W. Jones
President and Chief Executive Officer
(Principal Executive Officer)

March 25, 2025

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.

EXHIBIT 32.2

FIRST KEYSTONE CORPORATION

CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350

AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Annual Report on Form 10-K of First Keystone Corporation (the "Corporation") for the period ended December 31, 2024, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Stacy L. Gordner, Interim Chief Financial Officer, certify, pursuant to and for the purposes of 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

1. The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Corporation as of and for the period covered by the Report.

/s/ Stacy L. Gordner
Stacy L. Gordner
Assistant Vice President and Interim Chief Financial Officer
(Principal Financial Officer)

March 25, 2025

A signed original of this written statement required by Section 906 has been provided to the Corporation and will be retained by the Corporation and furnished to the Securities and Exchange Commission or its staff upon request.