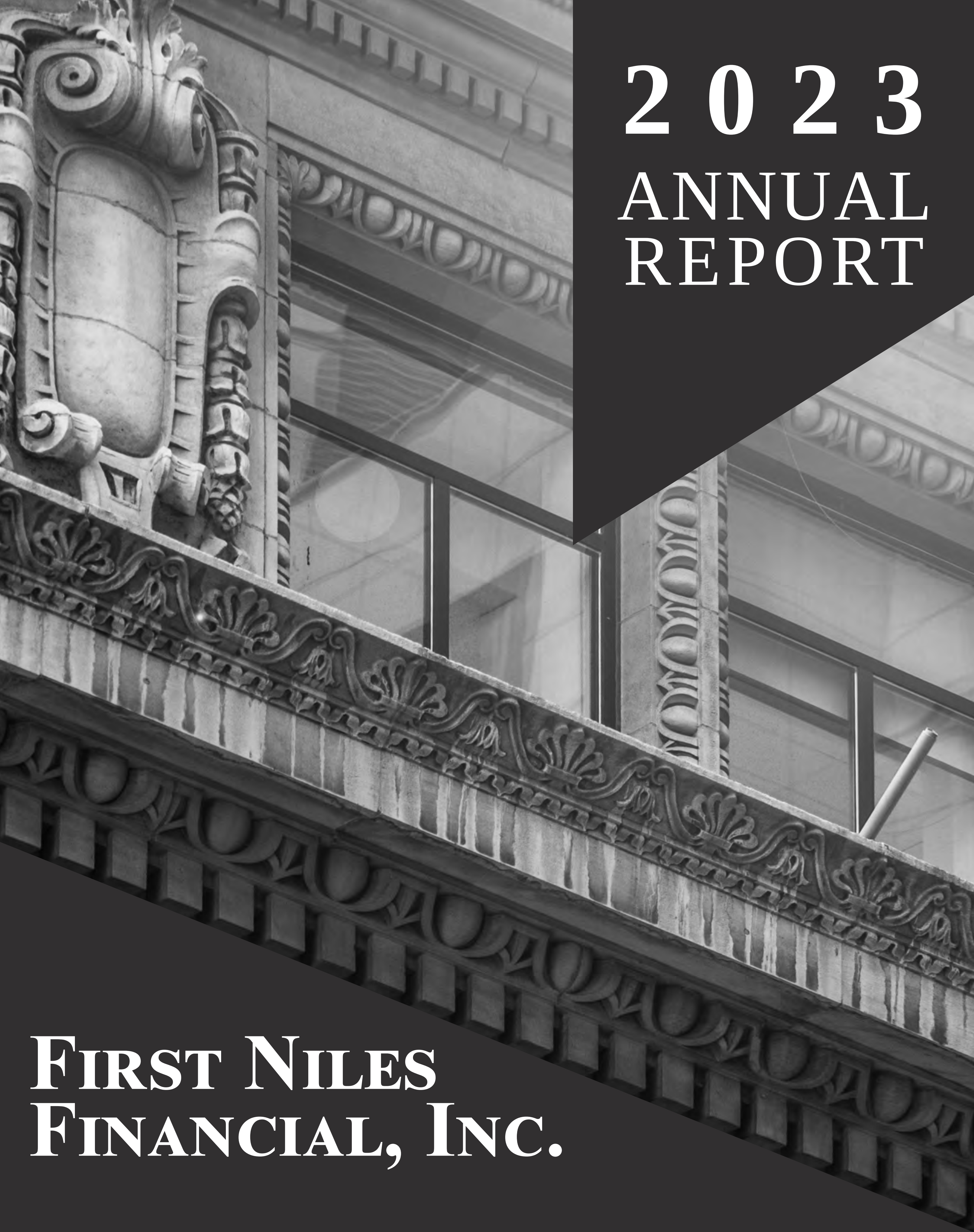

2023 ANNUAL REPORT

First Niles Financial, Inc.

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First Niles Financial, Inc.
55 North Main Street
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March 22, 2024

To Our Stockholders:

The past year showed signs of economic stability, as interest rates and the mortgage markets held relatively steady and inflationary pressures eased. Due to strategies implemented in late 2022 and early 2023, the operating performance of your Company rebounded in 2023 as compared to 2022 The Company recorded net income of $808,000 in 2023, 221% higher than in 2022. Earnings per share in 2023 increased to $0.60 from $0.18 one year earlier.

Net loans receivable increased by $12.0 million during the year, topping $100.0 million for the first time in the 126-year history of the Company. Additionally, the UCMC mortgage subsidiary was profitable on a calendar year basis, despite the noticeably unfavorable housing market that was adversely impacted by both higher market interest rates as well as a limited nationwide housing supply as many homeowners have chosen to stay in their homes for longer periods. Countering this adverse environment for residential mortgage loan originations, was a leaner UCMC, due to budget cuts implemented earlier. As a result, UCMC is well positioned to contribute significantly to the bottom line when the housing market rebounds.

Deposits at the Company finished the year at $88.1 million, also a record high. Unfortunately, due to relatively high market interest rates and strong competition for funds, the cost of deposits rose 115 basis points during the year, resulting in a tightening of net interest margin. We expect that the cost of deposits will continue to adversely impact the Company throughout 2024.

Please be assured that maintaining strong credit quality continues to be among our primary objectives at First Niles. Asset quality continued strong throughout the year as nonperforming assets represented only 0.28% of total assets at year-end 2023. In addition, at year-end 2023, our allowance for credit losses to nonperforming loans was a healthy 243.43%.

At December 31, 2023, stockholders' equity totaled approximately $13.7 million, or 8.71% of total assets and our book value per common share was $10.08. Your Board of Directors and management team is committed to building shareholder value and will continue to consider strategic options that maximize the value of the UCMC mortgage subsidiary as well as the community bank relationship it has built with its customers and community over its long history.

Sincerely,

/s/ Daniel E. Csontos

DANIEL E. CSONTOS
President and Chief Executive Officer

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Executive Overview

First Niles Financial, Inc. ("First Niles" or the "Company") is a unitary, non-diversified holding company, headquartered in Niles, Ohio. First Niles has no significant operations outside those of its wholly-owned operating subsidiary, Home Federal Savings and Loan Association of Niles ("Home Federal" or the "Bank" or the "Association"). References in this Annual Report to "we," "us," and "our" refer to First Niles and/or Home Federal as the context suggests or requires.

Home Federal is a $156.9 million federal savings association. Our principal business consists of attracting retail deposits from the general public and investing those funds primarily in permanent and construction loans secured by first mortgages on one- to four-family residences. However, in the past several years we also increased our origination of permanent and construction loans secured by first mortgages on commercial and multi-family real estate. To a lesser extent, we originate consumer and commercial business loans. Historically, we have borrowed funds from the Federal Home Loan Bank of Cincinnati ("FHLB") and reinvested the proceeds in investment securities at generally favorable interest rate spreads. More recently, these borrowings have been used for general liquidity purposes, including the origination of the types of loans as described above as well as funding originations at our mortgage banking subsidiary as explained below.

On August 2, 2021, the Company acquired 100% of the outstanding equity interest of Union Capital Mortgage Corporation ("Union Capital") for $3.3 million in cash and stock. Union Capital is a mortgage banking company that provides residential mortgage loans to the general public and sells them in the secondary market. Union Capital continues to conduct its mortgage banking business from offices located in Westlake, Huron and Hudson, Ohio.

The acquisition of Union Capital has expanded our presence in northeast Ohio and the greater Cleveland area and helped diversify our business model as the level of competition in our market area is strong and dominated by commercial banks, credit unions and other financial institutions of varying sizes and characteristics. Current economic conditions and strong competition have the potential to limit loan demand. In the event current economic and market conditions persist or worsen, and loan demand weakens, we cannot give any assurances that we will be able to maintain or increase our mortgage originations or mortgage loan portfolio, which could adversely affect our operations and financial results.

Our results of operations depend primarily on net interest income, which is determined by (i) the difference between rates of interest we earn on interest-earning assets, consisting primarily of mortgage loans, collateralized mortgage obligations and other investments, and the rates we pay on interest-bearing liabilities, consisting primarily of deposits and borrowings; and (ii) the relative amounts of our interest-earning assets and interest-bearing liabilities. The level of noninterest income, such as gain on sale of loans, fees received from customer deposit account service charges and gains on sales of investments, and the level of noninterest expense, such as federal deposit insurance premiums, salaries and benefits, office occupancy costs, and data processing costs, also affect our results of operations. Finally, our results of operations may also be affected significantly by general economic and competitive conditions, including changes in market interest rates, loan demand, government policies and actions of regulatory authorities, all of which are beyond our control.

Short-term market interest rates increased during 2023, but at a slower pace than in 2022, due to Federal Reserve Board Open Market Operations in response to the most significant inflationary pressures in almost forty years. Longer-term interest rates also rose steadily during the year, but not as much as short-term interest rates, resulting in a downward-sloping yield curve. Should this trend continue, this environment could have a negative impact on our results of operations as our balance sheet is liability sensitive, which means our interest-earning assets generally reprice less frequently than our interest-bearing liabilities. As such, the spread between our interest-earning assets and our interest-bearing liabilities would be expected to decrease. However, this environment could change quickly if the Federal Reserve Board decides to start decreasing short term interest rates if inflationary pressures subside. Additionally, our existing level of nonaccrual loans, or any increase in this level, negatively impacts the results of operations, regardless of the interest rate environment. The cost of compliance with increased government regulation, especially in recent years has also negatively impacted our operating expenses and thus our earnings.

As of December 31, 2023, nonperforming loans totaled 0.42% of net loans receivable. Nonperforming assets represented 0.28% of total assets at year- end 2023. At such date, our allowance for credit losses to nonperforming loans was 243.43% and to net loans receivable was 1.02%. At December 31, 2023, we were in compliance with all applicable regulatory capital requirements and remain a “well-capitalized” institution.

The following tables, beginning on the next page, set forth selected consolidated financial information for the periods reported.

SELECTED CONSOLIDATED FINANCIAL INFORMATION

	Years Ended December 31,		
	2023	2022	2021
		(In thousands)	
Selected Financial Condition Data:			
Total assets	$ 156,897	$ 133,890	$ 124,497
Loans receivable, net	102,985	90,967	73,742
Securities - held to maturity	1,250	1,250	1,250
Securities – available for sale and FHLB stock	18,837	18,236	10,836
Deposits	88,100	83,492	80,607
Total borrowings	53,070	35,092	27,216
Stockholders' equity	13,661	13,144	15,305

	Years Ended December 31,		
	2023	2022	2021
	(In thousands, except per share amounts)		
Selected Operations Data:			
Total interest income	$ 6,709	$ 4,269	$ 3,282
Total interest expense	3,394	1,258	1,130
Net interest income	3,315	3,011	2,152
Provision for credit losses	125	20	20
Net interest income after provision for credit losses	3,190	2,991	2,132
Fees and service charges	15	16	14
Gain on sales of loans, net	3,522	4,002	3,403
Gain on sales of investment securities	-	-	-
Other noninterest income	69	64	90
Total noninterest income	3,606	4,082	3,507
Total noninterest expense	5,794	6,635	4,921
Income before taxes	1,002	438	718
Income tax provision	194	186	132
Net income	$ 808	$ 252	$ 586
Earnings per share – basic	$ 0.60	$ 0.18	$ 0.48
Diluted	$ 0.60	$ 0.18	$ 0.48
Dividends per share	$ 0.24	$ 0.24	$ 0.24

	Years Ended December 31,		
	2023	**2022**	**2021**
Selected Financial Ratios and Other Data:			
Performance Ratios:			
Return on assets (ratio of net income to average total assets)	0.54%	0.20%	0.50%
Return on equity (ratio of net income to average equity)	6.21	1.79	4.21
Interest rate spread:			
Average during year	2.28	2.68	2.00
Tax equivalent average during year	2.29	2.68	2.00
End of year	1.81	2.50	2.31
Net interest margin (net interest income divided by average interest-earning assets)	2.38	2.68	2.04
Tax equivalent net interest margin (net interest income divided by average interest-earning assets)	2.40	2.68	2.04
Ratio of average interest-earning assets to average interest-bearing liabilities	1.04	1.00	1.04
Quality Ratios:			
Nonperforming assets to total assets at end of year	0.28%	0.11%	0.36%
Nonperforming loans to loans receivable, net, end of year	0.42	0.16	0.61
Allowance for credit losses to nonperforming loans, end of year	243.43	450.74	128.13
Allowance for credit losses to loans receivable, net, end of year	1.02	0.74	0.78
Capital Ratios:			
Equity to total assets at end of year	8.71%	9.82%	12.29%
Average equity to average assets	8.77	10.98	11.96
Other Data:			
Book value per common share outstanding	$10.08	$9.70	$11.30
Dividend payout ratio[1]	40.35%	129.30%	51.12%
Number of full-service offices	1	1	1

[1] Dividends per share divided by earnings per common share and common share equivalent.

Critical Accounting Policies

Accounting Pronouncements Adopted in 2023. As of January, 1, 2023, the Company adopted ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" and subsequent related updates. See the Notes to the Consolidated Financial Statements included in this Annual Report for additional information regarding the impact of adopting this pronouncement.

Allowance for Credit Losses. The allowance for credit losses is a significant estimate that can and does change based on management's assumptions about specific borrowers and current general economic and business conditions, among other factors. Management reviews the adequacy of the allowance for credit losses no less frequently than on a quarterly basis. The evaluation of adequacy by management includes consideration of past loss experience, changes in the composition of the loan portfolio, the current condition and amount of loans outstanding, identified problem loans, information about specific borrower situations and estimated collateral values, among other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes that the uncollectability of a loan balance is substantiated.

Securities. Securities are classified as held to maturity or available for sale on the date of purchase. Only those securities classified as held to maturity, and which management has both the intent and ability to hold to maturity, are reported at amortized cost. Available-for-sale securities are reported at fair value with unrealized gains and losses, net of related deferred income taxes, included in accumulated other comprehensive income on the Consolidated Balance Sheet. The fair value of a security is determined based on quoted market prices. Realized gains and losses are reported within noninterest income in the Consolidated Statement of Income. The cost of securities sold is based on the specific identification method. The Company measures expected credit losses on available-for-sale and held-to-maturity securities quarterly to determine if declines in fair value have resulted from credit losses or other factors. The review includes an analysis of the facts and circumstances of each individual investment, such as the severity of loss, the length of time the fair value has been below cost, the expectation for that security's performance, the creditworthiness of the issuer and our intent and ability to hold the security. If this evaluation indicates that a credit loss exists, an allowance for credit losses is recorded. The price movements within our securities portfolio are primarily dependent upon the movement in interest rates, particularly given the minimal inherent credit risk of these securities.

Financial Condition

The following discussion compares our consolidated financial condition at December 31, 2023 to December 31, 2022 and the results of operations for the year ended December 31, 2023 with the year ended December 31, 2022. This discussion should be read in conjunction with the consolidated financial statements and footnotes included herein.

Assets totaled $156.9 million at December 31, 2023, an increase of $23.0 million from December 31, 2022. Cash and cash equivalents increased $7.9 million and net loans receivable held for investment increased $12.0 million during 2023. Total investment securities increased $601,000 during the year. As of December 31, 2023, investment securities were comprised of $16.1 million in securities available for sale and $1.3 million in securities held to maturity. Home Federal also had $2.8 million in FHLB stock as of December 31, 2023, an increase of $1.1 million from year-end 2022.

Our loan portfolio increased $12.0 million, or 13.2%, to $103.0 million at December 31, 2023, as compared to $91.0 million at December 31, 2022. Specifically, loans secured by one- to four-family properties, our largest loan category, increased $12.0 million and ended the year with a balance of $74.4 million. Commercial real estate loans, which includes loans secured by multi-family properties, decreased $1.8 million, ending the year with a balance of $19.9 million. Home equity lines of credit ended the year at $3.0 million, $277,000 more than at December 31, 2022. Loans for construction and development increased $2.3 million ending the year with a balance of $4.9 million. Commercial and industrial loans decreased $400,000 during the year, ending with a balance of $1.9 million. The allowance for credit losses increased $387,000 during 2023 and ended the year at $1.1 million. The majority of this increase is due to the adoption of the Current Expected Credit Loss methodology as outlined in the Notes to the Consolidated Financial Statements included in this Annual Report.

Deposits totaled $88.1 million at December 31, 2023, compared to $83.5 million at December 31, 2022, an increase of $4.6 million, or 5.5%. During the year ended December 31, 2022, savings, demand and NOW accounts collectively decreased $3.2 million and certificates of deposit increased $7.8 million.

FHLB advances totaled $53.0 million at December 31, 2023 as compared to $35.0 million at December 31, 2022. At December 31, 2023, these FHLB advances were comprised of twenty-six different contracts. Twenty-three advances, totaling $48.5 million, have original maturities greater than one year, have fixed interest rates and remaining maturities ranging from April 2024 through July 2052. These advances may have a prepayment penalty if paid prior to maturity, depending on pre-established contractual terms, as set by the FHLB.

The advances from the FHLB have been used for general liquidity purposes, including originating loans, funding deposit withdrawals and funding the operations of Union Capital Mortgage Corporation. See Notes 11 and 12 of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders for additional information on our FHLB advances. At December 31, 2023 the Company had $70,000 in other borrowings related to a commitment to fund an investment in an Affordable Housing Tax Credit Fund.

Total equity at December 31, 2023 was $13.7 million, or 8.7% of total assets. This was $517,000 more than at year-end 2022. The increase in total equity during the year was attributable to a $268,000 decrease in accumulated other comprehensive loss, and $249,000 increase in retained earnings.

During 2023 and 2022 the Company did not repurchase any common or preferred shares. As of December 31, 2022, there was an ongoing share repurchase program in progress authorizing the purchase of up to 3.0% of the Company's outstanding common shares and another program authorizing the purchase of up to 10.0% of the Company's class A preferred shares. As of December 31, 2023, 13,745 common shares and 2,254 preferred shares had been purchased as part of the respective authorizations. At December 31, 2023 and 2022 there were 1,333,067 shares of common stock outstanding. Preferred shares outstanding were 21,737 at December 31, 2023 and 2022.

Results of Operations

Net Income. The Company recorded net income of $808,000 for the year ended December 31, 2023, an increase of $556,000 from 2022. The increase in net income was primarily due to a $304,000 increase in net interest income and an $841,000 decrease in noninterest expense, partially offset by a $476,000 decrease in noninterest income.

Our return on average assets was 0.54% for the year ended 2023, compared to 0.20% for the year ended 2022. Return on average equity was 6.21% for 2023, compared to 1.79% for 2022. Average equity to average assets was 8.77% for the year ended 2023, compared to 10.98% for the year ended 2022. In 2023 and 2022, we paid annual, aggregate, regular quarterly dividends on common stock totaling $320,000, or $0.24 per share, and annual, aggregate, regular quarterly dividends on preferred stock totaling $6,000, or $0.28 per share.

Net Interest Income. Net interest income for the year ended December 31, 2023 was $3.3 million, an $304,000 increase from the year ended December 31, 2022. Our net interest spread during 2023 was 2.28%, a 40 basis point decrease from the 2.68% spread experienced during 2022. On a tax-equivalent basis the net interest spread during 2023 was 2.29%, a decrease of 39 basis points from 2.68% in 2022. Net interest margin decreased 30 basis points to 2.38% during 2023 from 2.68% in 2022. On a tax-equivalent basis net interest margin was 2.40% during 2023, as compared to 2.68% in 2022, a decrease of 28 basis points.

Average interest-earning assets increased to $139.1 million during 2023 from $112.5 million during 2022. The increase in average interest-earning assets primarily consisted of a $25.2 million increase in the average balance of loans, and a $2.3 million increase in the average balance of interest-bearing deposits. The overall yield on interest earning assets increased 104 basis points, from 3.80% in 2022 to 4.84% in 2023, on a tax-equivalent basis.

The yield on our portfolio of loans receivable increased 86 basis points during the past year, from 4.26% in 2022 to 5.12% in 2023. The yield on our mortgage-backed and related securities portfolio increased 15 basis points on a year-to-year comparative basis from 2.28% to 2.43%. Our taxable investment securities portfolio experienced an 80 basis point increase from 2.85% in 2022 to 3.65% in 2023. The yield on our tax-exempt investment securities experienced a 94 basis point increase from 3.91 in 2022 to 4.85% in 2023. Adjustable-rate loans comprised approximately 71.8% of our gross loan portfolio at December 31, 2023.

The $21.0 million increase in average interest-bearing liabilities was primarily comprised of a $23.6 million increase in average FHLB advances, partially offset by a $2.6 million decrease in savings deposits. Total interest expense was $3.4 million in 2023 and $1.3 million in 2022. Overall, our cost of funds increased 142 basis points from 1.12% during 2022 to 2.54% during 2023. During 2023, the weighted-average interest rate of our FHLB advances was 3.70%, 122 basis points higher than in 2022. Our cost of deposits increased 115 basis points, from 0.64% during 2022 to 1.79% during 2023. The average rate paid on our certificate of deposit accounts, our largest category of deposit accounts, increased 182 basis points, from 1.02% in 2022 to 2.84% in 2023. The average rate of interest paid on savings deposits and NOW accounts increased 21 basis points from 2022 to 2023.

See the tables below captioned "Average Balances, Interest Rates and Yields" and "Rate/Volume Analysis of Net Interest Income" for more detailed information regarding our net interest income.

Average Balances, Interest Rates and Yields

The following table presents for the periods indicated the total dollar amount of interest income from average interest-earning assets and the resultant yields, as well as the interest expense on average interest-bearing liabilities, expressed both in dollars and rates, using monthly average balances.

	Years Ended December 31, 2023			Years Ended December 31, 2022		
	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate	Average Outstanding Balance	Interest Earned/Paid	Yield/Rate
	(Dollars in Thousands)					
Interest-Earning Assets:						
Loans receivable [1]	$111,253	$5,699	5.12%	$86,057	$3,670	4.26%
Mortgage-backed and related securities	7,786	189	2.43%	7,979	182	2.28%
Investment securities-Taxable	8,765	320	3.65%	10,698	305	2.85%
Investment securities – Tax exempt	783	38	4.85%	665	26	3.91%
FHLB stock	2,504	170	6.79%	1,399	54	3.86%
Interest-bearing deposits	7,977	312	3.91%	5,702	41	0.72%
Total interest-earning assets [1][2]	139,068	6,728	4.84%	112,500	4,278	3.80%
Noninterest-earning assets	10,347			16,601		
Allowance for Loan Losses	(1025)			(654)		
Total Assets	$148,390			$128,447		
Interest-Bearing Liabilities:						
Savings deposits	$24,004	$119	0.50%	$26,617	$50	0.19%
Demand and NOW deposits	10,155	7	0.07%	9,880	8	0.08%
Certificates of deposit	46,452	1317	2.84%	46,701	476	1.02%
FHLB Advances	52,769	1951	3.70%	29,210	724	2.48%
Total interest-bearing liabilities	133,380	3,394	2.54%	112,408	1,258	1.12%
Noninterest-bearing liabilities	2,003			1,937		
Total Liabilities	135,383			114,345		
Stockholders' Equity	13,007			14,102		
Total Liabilities and Equity	$148,390			$128,447		
Tax-equivalent net interest income		$3,334			$3,020	
Less: Tax equivalent adjustment		(19)			(9)	
Net interest income		$3,315			$3,011	
Tax equivalent net interest spread			2.29%			2.68%
Net interest rate spread			2.28%			2.68%
Net earning assets	$5,688			$92		
Tax equivalent net yield on average interest earning assets.			2.40%			2.68%
Net yield on average interest-earning assets			2.38%			2.68%
Average interest-earning assets to average interest-bearing liabilities		1.04			1.00	

[1] Calculated net of deferred loan fees, loan discounts and loans in process. Includes nonaccrual loans.

[2] Tax-equivalent asset yield of 4.84% with an asset yield of 4.82% in 2023.

Rate/Volume Analysis of Net Interest Income

The following table presents the dollar amount of changes in interest income and interest expense for major components of interest-earning assets and interest-bearing liabilities. It distinguishes between the changes related to outstanding balances and those due to the changes in interest rates. For each category of interest-earning assets and interest-bearing liabilities, information is provided on changes attributable to (1) changes in volume (*i.e*., changes in volume multiplied by old rate) and (2) changes in rate (*i.e*., changes in rate multiplied by old volume). For purposes of this table, changes attributable to both rate and volume, which cannot be segregated, have been allocated proportionately to the change due to volume and the change due to rate.

	Years Ended December 31, 2023 vs. 2022		
	Increase/(Decrease) Due To		Total
	Volume	Rate	Increase (Decrease)
	(In Thousands)		
Interest-earning assets:			
Loans receivable	$ 1,203	$ 826	$ 2,029
Mortgage-backed and related securities	(4)	11	7
Investment securities and FHLB stock	30	103	133
Interest-bearing deposits and other	22	249	271
Total interest-earning assets	$ 1,251	$ 1,189	$ 2,440
Interest-bearing liabilities:			
Savings deposits	$ (4)	$ 73	$ 69
Demand and NOW deposits	-	(1)	(1)
Certificates of deposit	(3)	844	841
Borrowings	762	465	1,227
Total interest-bearing liabilities	$ 755	$ 1,381	$ 2,136
Net interest income	$ 496	$ (192)	$ 304

Provision for Credit Losses. Our provision for credit losses, which is the amount charged against income to increase the allowance for credit losses, was $125,000 and $20,000 for the years ended December 31, 2023 and 2022, respectively. Nonperforming loans, which are defined as nonaccruing loans as well as loans delinquent more than 90 days and still accruing interest, increased by $287,000 to $437,000 at December 31, 2023, from $150,000 at December 31, 2022. Our nonperforming loans totaled 0.42% of net loans receivable at December 31, 2023, compared to 0.16% of net loans receivable at December 31, 2022. Our allowance for loan losses was $1.06 million at December 31, 2023, representing 243.43% of nonperforming loans and 1.02% of net loans receivable. At December 31, 2022 the allowance for loan losses was $677,000, representing 450.74% of nonperforming loans and 0.74% of net loans receivable. At December 31, 2023 we had no real estate owned which was unchanged from December 31, 2022.

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

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

We will continue to monitor our allowance for credit losses and make future adjustments to the allowance through the provision for credit losses as economic conditions dictate. Although we maintain our allowance for credit losses at a level which management considers to be adequate to provide for losses, there can be no assurance that future losses will not exceed estimated amounts or that additional provisions for credit losses will not be required in future periods. In addition, our determination as to the amount of the allowance for credit losses is subject to review by the Office of the Comptroller of the Currency, as part of its examination process, which may result in the establishment of an additional allowance.

Noninterest Income. Noninterest income decreased to $3.6 million for the year ended December 31, 2023 from $4.1 million for the year ended December 31, 2022. During 2023, noninterest income included $3.5 million net gain on sale of loans, $17,000 in service fees and other income, and $67,000 in accrued income from bank owned life insurance. During 2022, noninterest income included $4.0 million net gain on sale of loans, $19,000 in service fees and other income, and $61,000 in accrued income from bank owned life insurance. The decline in net gain on sale of loans on a year-to-year basis was primarily due to an industry-wide slowdown in housing sales related to the level of market interest rates and the supply of available housing.

Noninterest Expense. Noninterest expense decreased $841,000 for the year ended December 31, 2023 as compared to the year ended December 31, 2022. The decrease was primarily due to a $1.0 million decrease in compensation and benefits at Union Capital Mortgage Corporation, partially offset by a $76,000 increase in FDIC premiums, a $19,000 increase in occupancy and equipment and a $58,000 increase in other operating expense. The decrease in compensation and benefits at Union Capital Mortgage Corporation was comprised of a reduction of employees as well as decreased commissions related to lower mortgage loan origination volume.

Federal Income Taxes. The provision for federal income taxes was $194,000 for the year ended December 31, 2023, an $8,000 increase from the $186,000 expense recorded in 2022. See Note 10 of the Notes to Consolidated Financial Statements contained in this Annual Report to Stockholders.

Asset and Liability Management; Market Risk Analysis

As stated above, we derive our income primarily from the excess of interest collected over interest paid. The rates of interest we earn on assets and pay on liabilities generally are established contractually for a period of time. However, market interest rates change over time and our results of operations, like those of many financial institutions, are impacted by these changes and the interest rate sensitivity of our assets and liabilities. The risk associated with changes in interest rates and our ability to adapt to these changes is known as interest rate risk and is among Home Federal's most significant market risks.

Our operations are also affected by our level of noninterest income and expenses. Noninterest income includes net gain on sale of loans, service charges and fees and gain on sale of investments. Noninterest expenses primarily include compensation and benefits, occupancy and equipment expenses, deposit insurance premiums, legal, compliance and data processing expenses. Our results of operations are also significantly affected by general economic and competitive conditions, particularly changes in market interest rates, government legislation and regulation, and monetary and fiscal policy.

In an attempt to manage our exposure to changes in interest rates and comply with applicable regulations, we monitor Home Federal's interest rate risk. In monitoring interest rate risk, we continually analyze and manage our assets and liabilities based on their payment streams and interest rates, the timing of their maturities, and their sensitivity to actual or potential changes in market interest rates.

An asset or liability is interest rate sensitive within a specific time period if it will mature or reprice within that time period. If our assets mature or reprice more rapidly or to a greater extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to increase during periods of rising interest rates and decrease during periods of falling interest rates. Conversely, if our assets mature or reprice more slowly or to a lesser extent than our liabilities, then the market value of our portfolio equity and our net interest income would tend to decrease during periods of rising interest rates and increase during periods of falling interest rates. Our policy has been to address the interest rate risk inherent in our business of originating long-term loans funded by short-term deposits by maintaining sufficient liquid assets for material and prolonged changes in interest rates. We believe that our liquidity position and capital levels, which are well in excess of regulatory requirements, assist us in reasonably limiting the effects of our interest rate risk exposure.

Our Board of Directors is responsible for reviewing our asset and liability position. The Board performs a quarterly review of interest rate risk and trends, liquidity and capital ratios and related regulatory requirements. In addition, the Board reviews simulations of the effect of changes in interest rates on Home Federal's capital, net interest income and net income under various interest rate scenarios. Management of Home Federal is responsible for implementing the policies and decisions of the Board of Directors with respect to our asset and liability goals and strategies.

To manage the interest rate risk, we attempt to originate adjustable-rate loans. At December 31, 2023, adjustable-rate mortgage loans, including home equity lines of credit, totaled $77.9 million, or 71.8% of our total gross loan portfolio. We also maintain a portfolio of liquid assets which includes investment securities. Maintaining liquid assets, however, tends to reduce potential net income because liquid assets usually provide a lower yield than other interest-earning assets, such as loans.

Based on our current balance sheet structure, we are more vulnerable to increases in interest rates than to decreases in interest rates, given current market interest rate levels and trends, as illustrated in the table below.

The following table sets forth the change in Home Federal's economic value of equity at December 31, 2023, based on independent models, and to a lesser extent, internal assumptions that would occur upon an immediate change in interest rates of up to 300 basis points, with no effect given to any steps that management might take to counteract that change. Economic value of equity is the present value of expected cash flows from assets, liabilities and off-balance sheet contracts.

	December 31, 2023				
	Economic Value of Equity			Economic Value of Equity as % of the Economic Value of Total Assets	
Change in Rate	Amount	$ Change	% Change	EVE Ratio	BP Change
	(Dollars in Thousands)				
+300	$ 10,045	$ (3,193)	-24.1%	6.72%	(213)
+200	11,019	(2,219)	-16.8%	7.37%	(148)
+100	12,053	(1,185)	-9.0%	8.06%	(79)
	13,238	---	---	8.85%	-
-100	13,656	418	3.2%	9.13%	28
-200	13,865	627	4.7%	9.27%	42

In the above table, the first column on the left presents the basis point increments of parallel yield curve shifts. The second column presents the overall dollar amount of economic value of equity at each basis point increment. The third and fourth columns present Home Federal's actual position in dollar change and percentage change in economic value of equity at each basis point increment. The remaining columns present Home Federal's percentage change and basis point change in its economic value of equity as a percentage of the economic value of total assets. At December 31, 2023, Home Federal was within the economic value of equity interest rate risk policy limits established by its Board of Directors. Computations of prospective effects of hypothetical interest rate changes are based on numerous assumptions, including interest rates, loan prepayments, deposit decay rates, and the market values of certain assets under the various interest rate scenarios and should not be relied upon as indicative of actual results. Certain shortcomings are inherent in the method of analysis presented in the computation of economic value of equity. Although certain assets and liabilities may have similar maturities or periods within which they reprice, they may react differently to changes in market interest rates. The interest rates on certain types of assets and liabilities may fluctuate in advance of changes in market interest rates, while interest rates on other types may lag behind changes in market rates. In the event of a change in interest rates, prepayments and early withdrawal levels could deviate significantly from those assumed in making the calculations set forth above.

Liquidity and Commitments

Home Federal's primary sources of funds are deposits, repayments and prepayments of loans and securities and interest income. Although maturity and scheduled amortization of loans and securities are relatively predictable sources of funds, deposit flows and prepayments on loans and securities are influenced significantly by general interest rates, economic conditions and competition. Historically, we have been able to generate sufficient cash through our deposits and have only utilized borrowings to a limited degree for liquidity purposes.

Liquidity management is an ongoing and long-term function of our asset/liability management strategy. Excess funds generally are invested in interest-bearing overnight deposits at other financial institutions and in short-term investment securities. If we require funds beyond our ability to generate deposits, additional sources of funds are available. Our most liquid assets are cash and cash equivalents. At December 31, 2023, cash and cash equivalents totaled $14.6 million compared to $6.7 million at December 31, 2022. We monitor and review liquidity regularly and maintain short-term, unsecured lines of credit with two different commercial banks which can be accessed immediately. These unsecured lines of credit aggregate $7.0 million. Home Federal also maintains a $2.0 million secured line of credit with another depository financial institution that is immediately available for longer term financing needs. All three lines of credit had no funds drawn as of December 31, 2023. Additionally, we have the ability to borrow funds from the FHLB of Cincinnati. At December 31, 2023, we had $7.2 million in unused borrowing capacity from the FHLB of Cincinnati.

At December 31, 2023, we had commitments to fund $4.7 million in construction loans. At this date, we had no investment security purchase commitments outstanding and no performance standby letters of credit outstanding. The unused portion of home equity lines of credit was $2.4 million and the unused portion of commercial lines of credit was $2.8 million. Certificates of deposit scheduled to mature in one year or less at December 31, 2023 totaled $39.7 million. Based on historical experience, we believe that a significant portion of maturing deposits will remain with us. We believe, based on our current balance sheet structure and our ability to acquire funds from various sources, that our liquidity is adequate.

Capital

Total equity was $13.7 million at December 31, 2023, or 8.71% of total assets on that date. Consistent with our goals to operate a sound and profitable financial organization, we actively seek to maintain a "well-capitalized" institution in accordance with regulatory standards. As of December 31, 2023, Home Federal exceeded all capital requirements of the Office of the Comptroller of the Currency. Our regulatory capital ratios at December 31, 2023 were as follows: Tier 1 (leverage) capital, 8.75%; Tier 1 risk-based capital, 14.12%; and Total risk-based capital, 15.27%. The regulatory capital requirements to be considered well capitalized are 5.0%, 8.0%, and 10.0%, respectively.

Impact of Inflation and Changing Prices

The financial statements and related data presented herein have been prepared in accordance with generally accepted accounting principles which require the measurement of financial position and operating results in terms of historical dollars without considering changes in the relative purchasing power of money over time due to inflation. The primary impact of inflation on our operations is reflected in increased operating costs. Unlike most industrial companies, virtually all of the assets and liabilities of a financial institution are monetary in nature. As a result, interest rates, generally, have a more significant impact on a financial institution's performance than does inflation. Interest rates do not necessarily move in the same direction or to the same extent as the prices of goods and services.

Disclosure Regarding Forward-Looking Statements

First Niles and Home Federal may from time to time make written or oral "forward-looking statements." These forward-looking statements may be contained in this Annual Report to Stockholders, in our proxy statement for our annual meeting and in other communications by us, which are made in good faith pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. The words "may," "could," "should," "would," "believe," "anticipate," "estimate," "expect," "intend," "plan" and similar expressions are intended to identify forward-looking statements.

Forward-looking statements include statements with respect to our beliefs, plans, objectives, goals, expectations, anticipations, estimates and intentions that are subject to significant risks and uncertainties. The following factors, many of which are subject to change based on various other factors beyond our control, could cause our financial performance to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements:

- the strength of the United States economy in general and the strength of the local economies in which we conduct our operations;
- the effects of, and changes in, trade, monetary and fiscal policies and laws, including interest rate policies of the Federal Reserve Board;
- inflation, interest rate, market and monetary fluctuations and/or volatility;
- the timely development of and acceptance of new products and services of Home Federal and the perceived overall value of these products and services by users, including the features, pricing and quality compared to competitors' products and services;
- the willingness of users to substitute competitors' products and services for our products and services;
- the success of Home Federal in gaining regulatory approval of its products and services, when required;
- the impact of changes in financial services laws and regulations (including laws concerning taxes, banking, securities and insurance);
- the impact of technological changes;
- the financial impact of acquisitions and any challenges from integrating any acquisitions;
- changes in consumer spending and savings habits; and
- our success at managing the risks involved in the foregoing.

The foregoing list of important factors is not exclusive. We do not undertake to update any forward-looking statement, whether written or oral, that may be made from time to time by or on behalf of First Niles, Home Federal, or UCMC.

SNODGRASS
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

INDEPENDENT AUDITOR'S REPORT

Audit Committee
First Niles Financial, Inc.
Niles, Ohio

Opinion

We have audited the accompanying consolidated financial statements of First Niles Financial, Inc. and subsidiary (the "Company"), which comprise the consolidated statements of financial condition as of December 31, 2023 and 2022; 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 to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Change in Accounting Principle

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

Responsibilities of Management for the Financial Statements

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

Responsibilities of Management for the Financial Statements (Continued)

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the President's Message, Management's Discussion and Analysis of Financial Condition and Results of Operations, and Stockholder Information but does not include the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

Other Information (Continued)

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

S. R. Snodgrass, P.C.

Cranberry Township, Pennsylvania
March 18, 2024

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

	December 31, 2023	December 31, 2022
	(In thousands, except share and per share data)	
ASSETS		
Cash and cash equivalents:		
Noninterest-bearing	$ 786	$ 3,016
Interest-bearing	13,802	3,708
Cash and cash equivalents	14,588	6,724
Securities:		
Available for sale	16,067	16,601
Held to maturity, net of allowance for credit losses of $0	1,250	1,250
Certificates of deposit	347	847
Loans:		
Held for investment, net of allowance for credit losses of $1,064 and $677	102,985	90,967
Held for sale	10,099	6,857
Accrued interest receivable	619	438
Federal Home Loan Bank stock	2,770	1,635
Bank-owned life insurance (BOLI)	3,809	3,743
Limited partnership – Ohio Equity Fund	371	466
Goodwill	1,668	1,668
Premises and equipment, net	296	307
Prepaid expenses and other assets	2,028	2,387
TOTAL ASSETS	$ 156,897	$ 133,890
LIABILITIES		
Deposits	$ 88,100	$ 83,492
Accrued interest payable	280	147
Federal Home Loan Bank advances	53,000	35,000
Note payable – Ohio Equity Fund	70	92
Accounts payable and other liabilities	1,786	2,015
TOTAL LIABILITIES	143,236	120,746
STOCKHOLDERS' EQUITY		
Preferred stock, $0.01 par value; 500,000 shares authorized; 29,670 issued	-	-
Common stock, $0.01 par value; 6,000,000 shares authorized, 1,724,741 shares issued	18	18
Additional paid-in capital	6,650	6,650
Retained earnings	13,599	13,350
Accumulated other comprehensive loss	(1,846)	(2,114)
Treasury stock, 611,674 shares of common stock and 7,933 shares of preferred stock	(4,760)	(4,760)
TOTAL STOCKHOLDERS' EQUITY	13,661	13,144
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 156,897	$ 133,890

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF INCOME

	Year Ended December 31, 2023	2022
	(In thousands, except share and per share data)	
INTEREST AND DIVIDEND INCOME		
Loans receivable:		
First mortgage loans	$ 5,215	$ 3,365
Consumer and other loans	484	305
Mortgage-backed and related securities	189	182
U.S. agencies and other securities	339	322
Federal Home Loan Bank stock dividend	170	54
Interest-bearing deposits	312	41
Total interest and dividend income	6,709	4,269
INTEREST EXPENSE		
Deposits	1,443	533
Borrowings	1,951	725
Total interest expense	3,394	1,258
NET INTEREST INCOME	3,315	3,011
CREDIT LOSS EXPENSE		
Provision for credit loss expense – loans	120	20
Provision for credit loss expense – off-balance-sheet commitments	5	-
Total credit loss expense	125	20
NET INTEREST INCOME AFTER CREDIT LOSS EXPENSE	3,190	2,991
NONINTEREST INCOME		
Gains on sales of loans, net	3,522	4,002
BOLI earnings	67	61
Service fees and other	17	19
Total noninterest income	3,606	4,082
NONINTEREST EXPENSE		
Compensation and benefits	3,874	4,913
Directors fees	97	81
Occupancy and equipment	411	392
Federal deposit insurance premiums	112	36
State and local taxes	136	107
Other operating expense	1,164	1,106
Total noninterest expense	5,794	6,635
Income before income taxes	1,002	438
Federal income tax expense	194	186
NET INCOME	$ 808	$ 252
EARNINGS PER SHARE BASIC AND DILUTIVE	$ 0.60	$ 0.18
AVERAGE SHARES OUTSTANDING	1,333,067	1,333,067

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Year Ended December 31, 2023	2022
Net income	$ 808	$ 252
Components of other gains (losses):		
Change in unrealized losses on available-for-sale securities	341	(2,642)
Tax effect	(73)	555
Total other comprehensive income (loss)	268	(2,087)
Total comprehensive income (loss)	$ 1,076	$ (1,835)

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance, December 31, 2021	$ 18	$ 6,650	$ 13,424	$ (27)	$ (4,760)	$ 15,305
Net income	-	-	252	-	-	252
Other comprehensive loss	-	-	-	(2,087)	-	(2,087)
Cash dividends ($0.24 per share)	-	-	(326)	-	-	(326)
Balance, December 31, 2022	$ 18	$ 6,650	$ 13,350	$ (2,114)	$ (4,760)	$ 13,144
Net income	-	-	808	-	-	808
Cumulative effect of adoption of ASU 2016-13	-	-	(233)	-	-	(233)
Other comprehensive income	-	-	-	268	-	268
Cash dividends ($0.24 per share)	-	-	(326)	-	-	(326)
Balance, December 31, 2023	$ 18	$ 6,650	$ 13,599	$ (1,846)	$ (4,760)	$ 13,661

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31, 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	$ 808	$ 252
Adjustments to reconcile net income to net cash (used for) provided by operating activities:		
Deferred income tax benefit	5	(92)
Depreciation	52	55
Amortization of deferred loan fees and costs	33	76
Amortization of discounts and premiums on investments and mortgage-backed and related securities	1	6
Origination of loans held for sale	(116,435)	(133,000)
Proceeds from sales of loans	116,715	137,714
Gain on sale of loans, net	(3,522)	(4,002)
Earnings on BOLI	(67)	(61)
Increase in accrued interest receivable	(181)	(163)
Decrease in prepaid expenses and other assets	93	26
Increase in accrued interest payable	133	73
Increase (decrease) in accounts payable and other liabilities	28	(478)
Net cash (used for) provided by operating activities	(2,337)	406
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available-for-sale securities:		
Maturities, prepayments, and calls	874	3,317
Purchases	-	(13,060)
Purchases of Federal Home Loan Bank stock	(1,252)	(328)
Repayment of Federal Home Loan Bank stock	117	22
Purchases of certificates of deposit	-	(747)
Maturities of certificates of deposit	500	750
Net increase in loans receivable	(12,257)	(20,541)
Purchase of premises and equipment	(41)	(31)
Net cash used for investing activities	(12,059)	(30,618)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net (decrease) increase in savings accounts	(3,177)	1,999
Net increase in certificates of deposit	7,785	886
Net decrease in short-term borrowings	-	(3,100)
Proceeds from Federal Home Loan Bank advances	23,500	16,000
Payment of Federal Home Loan Bank advances	(5,500)	(5,000)
Payment on note payable - Ohio Equity Fund	(22)	(24)
Dividends paid	(326)	(326)
Net cash provided by financing activities	22,260	10,435
Increase (decrease) in cash and cash equivalents	7,864	(19,777)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	6,724	26,501
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 14,588	$ 6,724

See accompanying notes to the consolidated financial statements.

FIRST NILES FINANCIAL, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS (Continued)

	Year Ended December 31, 2023	2022
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for:		
Interest	$ 3,261	$ 1,185
Income taxes	95	-
Noncash activity:		
Recognition of operating lease right-of-use assets	$ -	$ (1,391)
Recognition of operating lease obligations	$ -	$ 1,391
Cumulative adjustment for adoption of ASU 326	$ (295)	$ -
Transfer of loans to other real estate owned	$ 32	$ -
Transfer of construction loans to loans held for sale	$ -	$ 3,445

See accompanying notes to the consolidated financial statements.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

First Niles Financial, Inc. (the "Company") is a savings and loan holding company whose activities are primarily limited to holding the stock of the Home Federal Savings and Loan Association of Niles (the "Association"). The Company conducts a general banking business in Niles, Ohio, which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, commercial, and consumer purposes. On August 2, 2021, the Association acquired Union Capital Mortgage Corporation, a mortgage banking company operating principally in northern Ohio, that provides residential mortgage loans to the general public and sells them in the secondary market.

Use of Estimates

The consolidated financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from such estimates. A material estimate that is particularly susceptible to significant change in the near term relates to the determination of the allowance for credit losses, deferred taxes, and fair value of financial instruments.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and the Association. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes both noninterest and interest-bearing cash, which includes cash on hand and amounts due from the correspondent banks with an original maturity of 90 days or less.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentration of credit risk consist of cash investments in excess of federally insured limits. The Company places its temporary cash with high credit quality financial institutions. At December 31, 2023 and 2022, there were balances of $2,423,000 and $2,821,000, respectively, in excess of the FDIC insured limit of $250,000.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investment Securities

Management determines the appropriate classification of debt securities at the time of purchase and re-evaluates such designation as of each balance sheet date.

Investment securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time but not necessarily to maturity. Securities available for sale are carried at fair value. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. Unrealized gains or losses are reported as increases or decreases in other comprehensive income (loss), net of the deferred tax effect. Realized gains or losses, determined on the basis of the cost of the specific securities sold, are included in earnings. Premiums and discounts are recognized in interest income using the interest method over the terms of the securities.

Investment securities classified as held to maturity are those securities that the Company has both the intent and ability to hold to maturity regardless of changes in market conditions, liquidity needs, or changes in general economic conditions. These securities are carried at cost, adjusted for the amortization of premium and accretion of discount, and computed by a method that approximates the interest method over the terms of the securities.

Allowance for Credit Losses – Held-to-Maturity Securities

The Company measures expected credit losses on held-to-maturity debt securities which are comprised of subordinated notes that are highly rated by major rating agencies and have a long history of no credit losses.

Accrued interest receivable on held-to-maturity debt securities totaled $20,000 at December 31, 2023, and is included within accrued interest receivable on the Consolidated Balance Sheets. This amount is excluded from the estimate of expected credit losses. Held-to-maturity debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When held-to-maturity debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Allowance for Credit Losses – Available-for-Sale Securities

The Company measures expected credit losses on available-for-sale debt securities when the Company does not intend to sell, or when it is not more likely than not that it will be required to sell, the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this evaluation indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists, and an allowance for credit losses is recorded for the credit loss, equal to the amount that the fair value is less than the amortized cost basis. Economic forecast data is utilized to calculate the present value of expected cash flows.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Available-for-Sale Securities (Continued)

The Company obtains its forecast data through a subscription to a widely recognized and relied-upon company who publishes various forecast scenarios. Management evaluates the various scenarios to determine a reasonable and supportable scenario and utilizes a single scenario in the model. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

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

Accrued interest receivable on available-for-sale debt securities totaled $93,000 at December 31, 2023, and is included within accrued interest receivable on the Consolidated Balance Sheet. This amount is excluded from the estimate of expected credit losses. Available-for-sale debt securities are typically classified as nonaccrual when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about the further collectability of principal or interest. When available-for-sale debt securities are placed on nonaccrual status, unpaid interest credited to income is reversed.

Credit Losses on Investment Securities – Prior to adopting ASU 2016-13

The Company adopted ASU No. 2016-13 effective January 1, 2023. Financial statement amounts related to investment securities recorded as of December 31, 2022, and for the period ended December 31, 2022, are presented in accordance with the accounting policies described in the following sections.

Securities are evaluated on at least a quarterly basis, and more frequently when market conditions warrant such an evaluation, to determine whether a decline in their value is other than temporary. To determine whether a loss is other than temporary, management utilizes criteria such as the reasons underlying the decline, the magnitude and duration of the decline, and whether or not management intends to sell or expects that it is more likely than not that it will be required to sell the security prior to an anticipated recovery of the fair value. The term “other than temporary” is not intended to indicate that the decline is permanent but indicates that the prospects for a near-term recovery of value are not necessarily favorable or that there is a lack of evidence to support a realizable value equal to or greater than the carrying value of the investment.

Declines in the fair value of securities below their cost that are deemed to be other than temporary are separated into (a) the amount of the total other-than-temporary impairment related to a decrease in cash flows expected to be collected from the debt security (the credit loss), and (b) the amount of the total other-than-temporary impairment related to all other factors. The amount of the total other-than-temporary impairment related to the credit loss is recognized in earnings. The amount of the total other-than-temporary impairment related to all other factors is recognized in other comprehensive income (loss).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans Receivable

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are stated at their outstanding unpaid principal balances, net of an allowance for credit losses and any deferred fees or costs. Accrued interest receivable totaled $476,000 at December 31, 2023 and was reported in accrued interest receivable on the Consolidated Balance Sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized as an adjustment of the yield (interest income) of the related loans. The Company is amortizing these amounts over the contractual life of the loan. Premiums and discounts on purchased loans are amortized as adjustments to interest income using the effective yield method.

For all classes of loans receivable, the accrual of interest is discontinued when the contractual payment of principal or interest has become 90 days past due or management has serious doubts about further collectability of principal or interest, even though the loan is currently performing. A loan may remain on accrual status if it is in the process of collection and is either guaranteed or well secured. When a loan is placed on nonaccrual status, unpaid interest credited to income in the current year is reversed, and unpaid interest accrued in prior years is charged against the allowance for credit losses. Interest received on nonaccrual loans generally is either applied against principal or reported as interest income on a cash basis, according to management's judgment as to the collectability of principal. Generally, loans are restored to accrual status when the obligation is brought current, has performed in accordance with the contractual terms for a reasonable period of time (generally six months), and the ultimate collectability of the total contractual principal and interest is no longer in doubt. The past-due status of all classes of loans receivable is determined based on contractual due dates for loan payments.

Loans Held for Sale

Certain newly originated mortgage loans are classified as held for sale because it is management's intent to sell these residential mortgage loans. These residential mortgage loans held for sale are carried at the lower of aggregate cost or fair value.

Allowance for Credit Losses – ACL Loans

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

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

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Credit Losses – Loans (Continued)

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments and measures the allowance for credit losses using the following methods: commercial real estate, real estate mortgage, commercial and industrial, construction and development, and home equity lines of credit. All of these portfolios related to the allowance for credit losses are measured utilizing the WARM method.

Historical credit loss experience is the basis for the estimation of expected credit losses. Historical loss rates are applied to pools of loans with similar risk characteristics. After consideration of the historic loss calculation, management applies qualitative adjustments to reflect the current conditions and reasonable and supportable forecasts not already reflected in the historical loss information at the balance sheet date. Our reasonable and supportable forecast adjustment is based on changes in national, regional, and local economic and business conditions such as GDP and the unemployment forecast, and management judgment. For periods beyond The Company's reasonable and supportable forecast, the company reverts to historical loss rates utilizing a straight-line method over a one-year reversion period. The qualitative adjustments for current conditions are based upon changes in lending policies and practices, experience and ability of lending staff, quality of the Company's loan review system, value of underlying collateral, the existence of and changes in concentrations, and other external factors. These modified historical loss rates are multiplied by the outstanding principal balance of each loan to calculate a required reserve.

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

The ACL for individual loans begins with the use of normal credit review procedures, to identify whether a loan no longer shares similar risk characteristics with other pooled loans and, therefore, should be individually assessed. The Company evaluates all commercial loans that meet the following criteria: 1) when it is determined that foreclosure is probable, 2) substandard, doubtful, and nonperforming loans when repayment is expected to be provided substantially through the operation or sale of the collateral; and 3) when it is determined by management that a loan does not share similar risk characteristics with other loans. Specific reserves are established based on the following three acceptable methods for measuring the ACL: 1) the present value of expected future cash flows discounted at the loan's original effective interest rate; 2) the loan's observable market price; or 3) the fair value of the collateral when the loan is collateral dependent. The Company's individual loan evaluations consist primarily of the fair value of collateral method because most of the Company's loans are collateral dependent. Collateral values are discounted to consider disposition costs when appropriate. A specific reserve is established or a charge-off is taken if the fair value of the loan is less than the loan balance.

Allowance for Loan Losses – Prior to adopting ASU 2016-13

Prior to the adoption of ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the Company calculated its allowance for loan losses (ALL) using an incurred loan loss methodology. The following policy related to the ALL in prior periods.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses – Prior to adopting ASU 2016-13 (Continued)

The allowance for loan losses represents the amount that management estimates is adequate to provide for probable losses inherent in its loan portfolio. The allowance method is used in providing for loan losses. Accordingly, all loan losses are charged to the allowance, and all recoveries are credited to it. The allowance for loan losses is established through a provision for loan losses that is charged to operations. The provision is based on management's periodic evaluation of the adequacy of the allowance for loan losses, which encompasses the overall risk characteristics of the various portfolio segments, past experience with losses, the impact of economic conditions on borrowers, and other relevant factors.

The estimates used in determining the adequacy of the allowance for loan losses, including the amounts and timing of future cash flows expected on impaired loans, are particularly susceptible to significant change in the near term.

A loan is considered impaired when it is probable the borrower will not repay the loan according to the original contractual terms of the loan agreement. Management has determined that residential real estate and all consumer loans represent large groups of smaller-balance homogeneous loans that are to be collectively evaluated. Loans that experience insignificant payment delays, which are defined as 90 days or less, generally are not classified as impaired. A loan is not impaired during a period of delay in payment if the Company expects to collect all amounts due, including interest accrued at the contractual interest rate for the period of delay. All loans identified as impaired are evaluated independently by management. Management determines the significance of payment delays on a case-by-case basis, taking into consideration all circumstances concerning the loan, the creditworthiness and payment history of the borrower, the length of the payment delay, and the amount of shortfall in relation to the principal and interest owed. The Company estimates credit losses on impaired loans based on the present value of expected cash flows or the fair value of the underlying collateral if the loan repayment is expected to come from the sale or operation of such collateral. Impaired loans, or portions thereof, are charged off when it is determined a realized loss has occurred. Until such time, an allowance for loan losses is maintained for estimated losses. Cash receipts on impaired loans are applied first to accrued interest receivable unless otherwise required by the loan terms, except when an impaired loan is also a nonaccrual loan.

Management establishes the allowance for loan losses based upon its evaluation of the pertinent factors underlying the types and quality of loans in the portfolio. Commercial loans and commercial real estate loans are reviewed on a regular basis, with a focus on larger loans along with loans that have experienced past payment or financial deficiencies. Larger commercial loans and commercial real estate loans that are 90 days or more past due are selected for impairment testing. These loans are analyzed to determine whether they are impaired, which means that it is probable that all amounts will not be collected according to the contractual terms of the loan agreement. All commercial loans that are delinquent 90 days and residential mortgage loans that are 90 days delinquent and are placed on nonaccrual status are classified on an individual basis. The remaining loans are evaluated and classified as groups of loans with similar risk characteristics. The Company allocates allowances based on the factors described below, which conform to the Company's asset classification policy. In reviewing risk within the Association's loan portfolio, management has determined there to be several different risk categories within the loan portfolio. The allowance for loan losses consists of amounts applicable to: (i) the commercial loan portfolio, (ii) the commercial real estate portfolio, (iii) the consumer loan portfolio, and (iv) the loans secured by residential real estate portfolio. Factors considered in this process included general loan terms, collateral, and availability of historical data to support the analysis. Historical loss percentages for each risk category are calculated and used as the basis for calculating allowance allocations. Certain qualitative factors are then added to the historical allocation percentage to get the total factor to be applied to nonclassified loans.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses – Prior to adopting ASU 2016-13 (Continued)

The following qualitative factors are analyzed:

- Levels of and trends in delinquencies
- Trends in volume and terms
- Changes in lending policy and procedures
- Changes in management and lending staff
- Economic trends
- Concentrations of credit
- Changes in underlying collateral value

The Company analyzes its loan portfolio each quarter to determine the appropriateness of its allowance for loan losses.

Allowance for Credit Losses on Off-Balance-Sheet Credit Exposures

The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit unless that obligation is unconditionally cancellable by the Company. The allowance for credit losses on off-balance-sheet credit exposures is adjusted through credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life.

Accounting Pronouncements Adopted in 2023

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments and subsequent related updates. This ASU replaces the incurred loss methodology for recognizing credit losses and requires businesses and other organizations to measure the current expected credit losses (CECL) on financial assets measured at amortized cost, including loans and held-to-maturity securities, net investments in leases, off-balance-sheet credit exposures such as unfunded commitments, and other financial instruments. In addition, ASC 326 requires credit losses on available-for-sale debt securities to be presented as an allowance rather than as a write-down when management does not intend to sell or believes that it is not more likely than not they will be required to sell. This guidance became effective on January 1, 2023, for the Company. The results reported for periods beginning after January 1, 2023, are presented under ASC 326, while prior period amounts continue to be reported in accordance with previously applicable accounting standards.

The Company adopted this guidance, and subsequent related updates, using the modified retrospective approach for all financial assets measured at amortized cost, including loans, held-to-maturity debt securities, and unfunded commitments. On January 1, 2023, the Company recorded a cumulative effect decrease to retained earnings of $233,000, net of tax, of which $221,000 related to loans and $12,000 related to unfunded commitments. No charges were recorded as of the date of adoption related to available-for-sale securities.

The Company expanded the pooling utilized under the legacy incurred loss method to include additional segmentation based on risk. The impact of the change from the incurred loss model to the current expected credit loss model is detailed below (in thousands).

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting Pronouncements Adopted in 2023 (Continued)

	January 1, 2023		
	Pre-adoption	Adoption Impact	As Reported
Assets			
ACL on debt securities held to maturity			
U.S. government agency securities	$ -	$ -	$ -
State and municipal securities	-	-	-
Mortgage-backed securities	-	-	-
ACL on debt securities available for sale			
U.S. government agency securities	-	-	-
State and municipal securities	-	-	-
Mortgage-backed securities	-	-	-
ACL on loans			
Real estate mortgage	461	130	591
Commercial real estate	160	110	270
Home equity	20	(1)	19
Construction and development	19	12	31
Commercial and industrial	17	29	46
Liabilities			
ACL for unfunded commitments	-	15	15
	$ 677	$ 295	$ 972

Federal Home Loan Bank Stock

Federal Home Loan Bank of Cincinnati (FHLB) stock is carried at cost, classified as a restricted security because no ready market exists for this investment, it has no quoted market value, and it is periodically reviewed for impairment based on ultimate recovery of par value. At December 31, 2023, the Company does not consider the stock to be impaired.

Bank-Owned Life Insurance (BOLI)

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

Premises and Equipment

Land is carried at cost, premises and equipment are recorded at cost and include expenditures, which extend the useful lives of existing assets. Maintenance, repairs, and minor renewals are expensed as incurred. For financial reporting, depreciation is provided on the straight-line method over the estimated useful lives of the assets, estimated to be 40 to 50 years for buildings and 3 to 10 years for furniture and equipment. Gains or losses realized on the disposition of premises and equipment are reflected in the Consolidated Statement of Income.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned

Other real estate owned includes properties that have been acquired in complete or partial satisfaction of debt. These properties are initially recorded at fair value on the date of acquisition, establishing a new cost basis. Subsequent to acquisition, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value, less estimated costs to sell. Gains and losses realized on the sale are included in noninterest income. Net costs of maintaining and operating the properties are expensed as incurred.

Goodwill

The Company utilizes a two-step process for testing the impairment of goodwill on at least an annual basis. This approach could cause more volatility in the Company's reported net income because impairment losses, if any, could occur irregularly and in varying amounts. The Company may also perform a qualitative assessment to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying value. Based on the fair value of the reporting unit, no impairment of goodwill was recognized in 2023.

Federal Income Taxes

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. A deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carryforward attributes may be utilized against current period earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management's estimate of future taxable income. A valuation allowance is provided for deferred tax assets to the extent that the value of net deductible temporary differences and carryforward attributes exceeds management's estimates of taxes payable on future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future.

The provisions of "Accounting for Uncertainty in Income Taxes" prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more likely than not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement.

The Company recognizes interest and penalties on income taxes as a component of income tax expense.

Comprehensive Income (Loss)

The Company is required to present comprehensive income (loss) and its components in a full set of general-purpose financial statements for all periods presented. Other comprehensive income (loss) comprises unrealized holding gains and losses on the available-for-sale securities portfolio.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Transfers of Financial Assets

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

Advertising Costs

Advertising costs are expensed as incurred. Advertising expenses were $2,800 and $7,100 for the years ended December 31, 2023 and 2022, respectively.

Treasury Stock

Common stock and preferred shares repurchased are recorded as treasury stock at cost.

Earnings per Share

The Company maintains a simple capital structure with no stock plans that would have a dilutive effect on earnings per share. Earnings per share is calculated by dividing net income less preferred dividends by the weighted-average number of shares outstanding for the periods.

Reclassification of Comparative Amounts

Certain comparative amounts for the prior year have been reclassified to conform to current-year presentation. Such reclassifications had no effect on net income or stockholders' equity.

2. REVENUE RECOGNITION

The primary sources of revenue for the Company are from interest and dividend income on loans and securities along with noninterest revenue resulting from investment security gains, loan servicing, gains on the sale of loans, commitment fees, fees from financial guarantees, certain credit cards fees, and income on bank-owned life insurance that are not within the scope of ASC 606. These sources of revenue cumulatively comprise 97 percent of the total revenue of the Company. Services within the scope of ASC 606 include income from fiduciary activities, service charges on deposit accounts, other service income, and gain on sale of OREO, net. For these accounts, fees related to specific customer transactions are attributable to specific performance obligations of the Company where the revenue is recognized at a defined point in time, completion of the requested service/transaction.

3. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of investment securities available for sale are summarized as follows:

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance For Credit Losses	Fair Value
Available for sale	(In thousands)				
Collateralized mortgage obligations	$ 5,019	$ -	$ (671)	$ -	$ 4,348
Mortgage-backed securities	2,349	-	(210)	-	2,139
U.S. government agency securities	10,250	-	(1,358)	-	8,892
Municipal bond	785	-	(97)	-	688
Total	$ 18,403	$ -	$ (2,336)	$ -	$ 16,067

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available for sale	(In thousands)			
Collateralized mortgage obligations	$ 5,634	$ -	$ (747)	$ 4,887
Mortgage-backed securities	2,613	-	(251)	2,362
U.S. government agency securities	10,249	-	(1,600)	8,649
Municipal bond	782	-	(79)	703
Total	$ 19,278	$ -	$ (2,677)	$ 16,601

3. INVESTMENT SECURITIES

The amortized cost, gross unrealized gains and losses, and fair values of investment securities held to maturity are summarized as follows:

	December 31, 2023				
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Allowance For Credit Losses
Held to maturity	(In thousands)				
Subordinated notes	$ 1,250	$ -	$ (91)	$ 1,159	-
Total	$ 1,250	$ -	$ (91)	$ 1,159	-

	December 31, 2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held to maturity	(In thousands)			
Subordinated notes	$ 1,250	$ -	$ (46)	$ 1,204
Total	$ 1,250	$ -	$ (46)	$ 1,204

3. INVESTMENT SECURITIES (Continued)

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position:

December 31, 2023	Less than Twelve Months Fair Value	Less than Twelve Months Gross Unrealized Losses	Twelve Months or Greater Fair Value	Twelve Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Available for sale			(In thousands)			
Collateralized mortgage obligations	$ -	$ -	$ 4,348	$ (671)	$ 4,348	$ (671)
Mortgage-backed securities	-	-	2,131	(210)	2,131	(210)
U.S. government agency securities	-	-	8,892	(1,358)	8,892	(1,358)
Municipal bond	-	-	688	(97)	688	(97)
	$ -	$ -	$ 16,059	$ (2,336)	$ 16,059	$ (2,336)

December 31, 2022	Less than Twelve Months Fair Value	Less than Twelve Months Gross Unrealized Losses	Twelve Months or Greater Fair Value	Twelve Months or Greater Gross Unrealized Losses	Total Fair Value	Total Gross Unrealized Losses
Available for sale			(In thousands)			
Collateralized mortgage obligations	$ 4,482	$ (697)	$ 405	$ (50)	$ 4,887	$ (747)
Mortgage-backed securities	2,118	(234)	235	(17)	2,353	(251)
U.S. government agency securities	4,368	(631)	4,281	(969)	8,649	(1,600)
Municipal bond	702	(79)	-	-	702	(79)
	$ 11,670	$ (1,641)	$ 4,921	$ (1,036)	$ 16,591	$ (2,677)

The Company has 55 debt securities in the twelve months or greater category as of December 31, 2023. In management's opinion, the unrealized losses on securities reflect changes in interest rates subsequent to the acquisition of specific securities. The Company does not intend to sell the securities in an unrealized loss position and is unlikely to be required to sell these securities before a recovery of fair value, which may be maturity. The Company concluded that the decline in fair value of these securities was not indicative of a credit loss. No securities in the portfolio required an allowance for credit losses to be recorded during the year ended December 31, 2023, and no impairment was recorded during the year ended December 31, 2022.

The amortized cost and fair value of investment securities at December 31, 2023, by contractual maturity, are shown below. 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.

2023	Available for Sale Amortized Cost	Available for Sale Fair Value	Held to Maturity Amortized Cost	Held to Maturity Fair Value
Due after one year through five years	$ 134	$ 126	$ 1,000	$ 909
Due after five years through ten years	11,193	9,732	250	250
Due after ten years	7,076	6,209	-	-
Total	$ 18,403	$ 16,067	$ 1,250	$ 1,159

3. INVESTMENT SECURITIES (Continued)

During 2023 and 2022, the Company did not sell any available-for-sale securities.

Investment securities with a carrying value of $11.7 million and $5.4 million at December 31, 2023 and 2022, respectively, were pledged to secure public deposits, collateral for borrowings, and other purposes as required by law.

4. LOANS

Major classifications of loans held for investment are summarized as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Commercial real estate	$ 19,899	$ 21,666
Real estate mortgage	74,358	62,396
Commercial and industrial	1,890	2,254
Construction and development	4,879	2,582
Home equity lines of credit	3,023	2,746
Total	104,049	91,644
Less allowance for credit losses	1,064	677
Net loans	$ 102,985	$ 90,967

In the ordinary course of business, the Company has granted loans to some of its officers, directors, and their related interests. Related-party loans are made on substantially the same terms, including interest rates and collateral, as those prevailing at the time for comparable transactions with unrelated persons and do not involve more than normal risk of collectability. The aggregate dollar amount of these loans was approximately $853,000 and $924,000 at December 31, 2023 and 2022, respectively. During the years ended December 31, 2023 and 2022, there were no loans or additional draws on home equity lines of credit made to officers, directors, and their related interests, while principal repayments of $71,000 and $28,000 were received from related parties during 2023 and 2022, respectively.

The Company's lending efforts have historically focused on one-to-four family residential real estate loans and construction loans, which comprise approximately $74.4 million, or 71.5 percent, of the total loan portfolio at December 31, 2023, and $62.4 million, or 68.1 percent, of the total loan portfolio at December 31, 2022. Historically, such loans have been underwritten with cash down payments sufficient to provide the Company with adequate collateral coverage in the event of default. Nevertheless, the Company, as with any lending institution, is subject to the risk that real estate values or economic conditions could deteriorate in its primary lending areas within Ohio, thereby impairing collateral values.

5. ALLOWANCE FOR CREDIT LOSSES

The following table presents the activity in the allowance for credit losses by portfolio segment for the year ended December 31, 2023:

	December 31, 2023					
	Commercial Real Estate	Real Estate Mortgage	Commercial and Industrial	Construction and Development	Home Equity Lines of Credit	Total
Allowance for credit losses:						
Beginning balance	$ 160	$ 461	$ 17	$ 19	$ 20	$ 677
Impact of adopting ASC 326	110	130	29	12	(1)	280
Charge-offs	-	(13)	-	-	-	(13)
Recoveries	-	-	-	-	-	-
Provision	(51)	125	(18)	49	15	120
Ending balance	$ 219	$ 703	$ 28	$ 80	$ 34	$ 1,064

As of December 31, 2023, the Company expects that the markets in which it operates will experience a decline in economic conditions, based primarily on inflationary pressures and anticipated interest rate hikes, causing an increase in the level and trend of delinquencies over the next year. Management adjusted the historical loss experience for these expectations.

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended December 31, 2022:

	December 31, 2022						
	Commercial Real Estate	Real Estate Mortgage	Commercial and Industrial	Construction and Development	Home Equity Lines of Credit	Unallocated	Total
Allowance for loan losses				(In thousands)			
Beginning balance	$ 136	$ 333	$ 26	$ 66	$ 13	$ 3	$ 577
Charge-offs	-	-	-	(23)	-	-	(23)
Recoveries	-	103	-	-	-	-	103
Provision	24	25	(9)	(24)	7	(3)	20
Ending balance	$ 160	$ 461	$ 17	$ 19	$ 20	$ -	$ 677
Ending balance Individually evaluated for impairment	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Ending balance Collectively evaluated for impairment	$ 160	$ 461	$ 17	$ 19	$ 20	$ -	$ 677
Loans:							
Ending balance	$ 21,666	$ 62,396	$ 2,254	$ 2,582	$ 2,746	$ -	$ 91,644
Ending balance idually evaluated for impairment	$ -	$ 136	$ -	$ -	$ 14	$ -	$ 150
Ending balance Collectively evaluated for impairment	$ 21,666	$ 62,260	$ 2,254	$ 2,582	$ 2,732	$ -	$ 91,494

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Impaired Loans

The following table includes the recorded investment and unpaid principal balances for impaired loans with the associated allowance amount, if applicable, as of and for the year ended:

	December 31, 2022				
	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Totals by type:					
Commercial real estate	$ -	$ 84	$ -	$ 35	$ 13
Real estate mortgage	136	330	-	168	19
Commercial and industrial	-	-	-	-	-
Construction and development	-	-	-	-	-
Home equity lines of credit	14	41	-	16	-
Deposit secured	-	-	-	-	-
	$ 150	$ 455	$ -	$ 219	$ 32

Age Analysis of Past-Due Loans Receivable

The performance and credit quality of the loan portfolio is also monitored by analyzing the age of the loans receivable as determined by the length of time a recorded payment is past due. The following table presents the classes of the loan portfolio summarized by the past-due status:

	December 31, 2023					
	Current	31-60 Days Past Due	61-90 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Total Loans
Commercial real estate	$ 19,899	$ -	$ -	$ -	$ -	$ 19,899
Real estate mortgage	73,927	-	317	114	431	74,358
Commercial and industrial	1,890	-	-	-	-	1,890
Construction and development	4,879	-	-	-	-	4,879
Home equity lines of credit	3,017	-	-	6	6	3,023
Total	$ 103,612	$ -	$ 317	$ 120	$ 437	$ 104,049

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	90 Days or Greater Past Due	Total Past Due	Current	Total
	(In thousands)					
Commercial real estate	$ -	$ -	$ -	$ -	$ 21,666	$ 21,666
Real estate mortgage	2,718	46	136	2,900	59,496	62,396
Commercial and industrial	-	-	-	-	2,254	2,254
Construction and development	446	-	-	446	2,136	2,582
Home equity lines of credit	-	-	14	14	2,732	2,746
Deposit secured	-	-	-	-	-	-
Total	$ 3,164	$ 46	$ 150	$ 3,360	$ 88,284	$ 91,644

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonperforming Loans

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due 90 days or more still accruing interest as of December 31, 2023:

	Nonaccrual with no ACL	Nonaccrual with ACL	Total Nonaccrual	Loans Past Due 90 Days Still Accruing	Total Nonperforming
Residential real estate	$ 114	$ -	$ 114	$ 317	$ 431
Home equity	6	-	6	-	6
Total	$ 120	$ -	$ 120	$ 317	$ 437

The following table presents, by class of loans and leases, the amortized cost basis of collateral-dependent nonperforming loans and leases and type of collateral as of December 31, 2023:

	Real Estate
Residential real estate	$ 431
Home equity	6
Total	$ 437

The following table presents loans on nonaccrual status or 90 days delinquent and still accruing interest by portfolio segment:

	December 31, 2022	
	Nonaccrual	Past Due 90 Days or More and Still Accruing
Commercial real estate	$ -	$ -
Real estate mortgage	136	-
Home equity lines of credit	14	-
	$ 150	$ -

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt, such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The company analyzes loans individually to classify the loans as to credit risk. This analysis includes non-homogeneous loans, such as commercial real estate, commercial and industrial, and construction and development. This analysis is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Pass. – loans in this category have strong asset quality and liquidity along with a multi-year track record of profitability.

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

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

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

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators (Continued)

Based on the most recent analysis performed, the following table presents the recorded investment in non-homogeneous loans by internal risk rating system as of December 31, 2023:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Commercial real estate									
Risk Rating									
Pass	$ 206	3,828	2,124	3,806	2,180	5,660	973	$ -	$ 18,777
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	1,122	-	-	1,122
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 206	$ 3,828	$ 2,124	$ 3,806	$ 2,180	$ 6,782	$ 973	$ -	$ 19,899
Commercial real estate									
Current period gross charge-off:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Commercial and industrial									
Risk Rating									
Pass	$ -	-	794	-	304	28	514	$ -	$ 1,640
Special Mention	-	-	-	-	250	-	-	-	250
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ -	$ -	$ 794	$ -	$ 554	$ 28	$ 514	$ -	$ 1,890
Commercial and industrial									
Current period gross charge-off:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Construction and Development									
Risk Rating									
Pass	$ 2,084	$ 754	$ -	$ 444	$ 1,597	$ -	$ -	$ -	$ 4,879
Special Mention	-	-	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 2,084	$ 754	$ -	$ 444	$ 1,597	$ -	$ -	$ -	$ 4,879
Construction and Development									
Current period gross charge-off:	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total									
Risk Rating									
Pass	$ 2,290	$ 4,582	$ 2,918	$ 4,250	$ 4,081	$ 5,688	$ 1,487	$ -	$ 25,296
Special Mention	-	-	-	-	250	-	-	-	250
Substandard	-	-	-	-	-	1,122	-	-	1,122
Doubtful	-	-	-	-	-	-	-	-	-
Total	$ 2,290	$ 4,582	$ 2,918	$ 4,250	$ 4,331	$ 6,810	$ 1,487	$ -	$ 26,668

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Credit Quality Indicators (Continued)

The following tables present each loan class by credit quality indicator for the year ended:

	December 31, 2022				
	Commercial Real Estate	Commercial and Industrial	Construction and Development	Real Estate Mortgage	Home Equity Lines of Credit
			(In thousands)		
Pass	$ 20,465	$ 2,254	$ 2,582	$ 62,057	$ 2,618
Special Mention	-	-	-	124	-
Substandard	1,201	-	-	215	128
	$ 21,666	$ 2,254	$ 2,582	$ 62,396	$ 2,746

The Company monitors the credit risk profile by payment activity for residential and consumer loan classes. Loans past due 90 days or more and loans on nonaccrual status are considered nonperforming. Nonperforming loans are reviewed quarterly. The following table presents the amortized cost in residential and consumer loans based on payment activity:

	Term Loans Amortized Costs Basis by Origination Year						Revolving Loans Amortized Cost Basis	Revolving Loans Converted to Term	
December 31, 2023	2023	2022	2021	2020	2019	Prior			Total
Residential real estate									
Payment Performance									
Performing	$ 15,426	$ 28,844	$ 12,374	$ 4,908	$ 5,054	$ 7,321	$ -	$ -	$ 73,927
Nonperforming	-	317	-	-	-	114	-	-	431
Total	$ 15,426	$ 29,161	$ 12,374	$ 4,908	$ 5,054	$ 7,435	$ -	$ -	$ 74,358
Residential real estate									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ (13)	$ -	$ -	$ (13)
Home equity lines of credit									
Payment Performance									
Performing	$ -	-	-	-	-	-	$ 2,865	152	$ 3,017
Nonperforming	-	-	-	-	-	-	6	-	6
Total	$ -	$ -	$ -	$ -	$ -	$ -	$ 2,871	$ 152	$ 3,023
Home equity lines of credit									
Current period gross charge-offs	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Total									
Payment Performance									
Performing	$ 15,426	$ 28,844	$ 12,374	$ 4,908	$ 5,054	$ 7,321	$ 2,865	$ 152	$ 76,944
Nonperforming	-	317	-	-	-	114	6	-	437
Total	$ 15,426	$ 29,161	$ 12,374	$ 4,908	$ 5,054	$ 7,435	$ 2,871	$ 152	$ 77,381

5. ALLOWANCE FOR CREDIT LOSSES (Continued)

Modifications to Borrowers Experiencing Financial Difficulty

Occasionally, the Company may modify a loan to a borrower in financial distress by providing a term extension, other-than-insignificant payment delay, or interest rate reduction. No such modifications were made for the year ended December 31, 2023.

Troubled Debt Restructuring

Consistent with accounting and regulatory guidance, the Company recognizes a troubled debt restructuring when the Company, for economic or legal reasons related to a borrower's financial difficulties, grants a concession to the borrower that would not normally be considered. Regardless of the form of concession granted, the Company's objective in offering a troubled debt restructuring is to increase the probability of repayment of the borrower's loan principal.

The Bank had loans of $83,000 classified as troubled debt restructurings during the year ended December 31, 2022.

6. LIMITED PARTNERSHIP – OHIO EQUITY FUND

The Company holds an interest in a limited partnership formed to assist in the production, rehabilitation, and preservation of affordable housing in Ohio and surrounding states. The Company accounts for the investment in the limited partnership using the proportional amortization method, which allows the Company to amortize the cost of the investment in proportion to the tax credits and other tax benefits it receives to income tax expense. Management believes this is the best estimate of fair value. At December 31, 2023 and 2022, the amortized cost of the investment was $371,000 and $466,000, respectively. Under the terms of the limited partnership agreement, the Company agreed to a subscription price of $1,000,000 executed by a capital contribution note.

7. OTHER REAL ESTATE OWNED

As of December 31, 2023 and 2022, the Company had no other real estate owned. As of December 31, 2023, there were no formal foreclosure proceedings initiated on loans.

8. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows:

	December 31, 2023	December 31, 2022
	(In thousands)	
Land	$ 32	$ 32
Building and building improvements	711	688
Furniture and equipment	326	318
	1,069	1,038
Less accumulated depreciation	773	731
Total	$ 296	$ 307

Depreciation and amortization charged to operations were $52,000 and $55,000 in 2023 and 2022, respectively.

9. DEPOSITS

Time deposits (in thousands) totaling, $39,722, $13,593, $1,147, $66, and $208 at December 31, 2023, mature during 2024, 2025, 2026, 2027, and 2028, respectively.

Substantially all deposits are interest bearing. The type of deposit accounts are summarized as follows:

	2023	2022
	(In thousands)	
Savings and transaction accounts	$ 33,364	$ 36,541
Certificates of deposit	54,736	46,951
Total	$ 88,100	$ 83,492

Time deposits include certificates of deposit and other time deposits in denominations equal to or in excess of $250,000. Such deposits aggregated to $34.1 million and $24.6 million at December 31, 2023 and 2022, respectively.

As of December 31, 2023, the Bank had two deposit relationships, in the amount of $10.7 million, which exceed five percent of total deposits.

10. FEDERAL INCOME TAXES

Income tax expense consists of the following at December 31:

	2023	2022
	(In thousands)	
Current	$ 189	$ 278
Deferred	5	(92)
Total	$ 194	$ 186

10. FEDERAL INCOME TAXES (Continued)

The reconciliation of income tax provision computed at the federal statutory rate to the Company's effective income tax provision is as follows:

	2023		2022	
	Amount	% of Pretax Income	Amount	% of Pretax Income
	(In thousands)			
Provision at statutory rate	$ 210	21.0 %	$ 92	21.0 %
Effect of tax-exempt income	(3)	(0.3)	(3)	(0.7)
Bank-owned life insurance, net	(14)	(1.4)	(13)	(2.9)
Nondeductible earnout payment	-	-	127	29.0
Other	1	0.1	(17)	(3.9)
Actual tax expense and effective rate	$ 194	19.4 %	$ 186	42.5 %

The components of the net deferred federal income tax asset are as follows:

	2023	2022
	(In thousands)	
Deferred tax assets:		
Allowance for credit losses	$ 228	$ 142
Imputed loan interest	77	63
Net unrealized losses on investment securities	490	563
Net operating loss and credits carryforward	234	506
Gross deferred tax assets	1,029	1,274
Deferred tax liabilities:		
Nondeductible earnout payment	-	(127)
FHLB stock dividends	(132)	(132)
Depreciation	(12)	(10)
Other	(21)	(125)
Gross deferred tax liabilities	(165)	(394)
Net deferred tax assets	$ 864	$ 880

The amount of federal income tax expense attributable to continuing operations may differ from the amount of expense that would result from applying domestic federal statutory rates to pre-tax income from continuing operations primarily due to statutory deduction limitations.

The Company was previously allowed a special bad debt deduction based on a percentage of earnings, generally limited to 8 percent of otherwise taxable income, or the amount of qualifying and nonqualifying loans outstanding and subject to certain limitations based on aggregate loans and savings account balances at the end of the calendar year. If the amounts that qualified as deductions for federal income tax purposes are later used for purposes other than for bad debt losses, including distributions in liquidation, such distributions will be subject to federal income taxes at the then current corporate income tax rate. Retained earnings at December 31, 2023, includes approximately $2.5 million for which federal income taxes have not been provided. The amount of the unrecognized deferred tax liability relating to the cumulative percentage of earnings bad debt deduction totaled approximately $525,000 at December 31, 2023.

10. FEDERAL INCOME TAXES (Continued)

There is currently no liability for uncertain tax positions and no known unrecognized tax benefits. The Company recognizes, when applicable, interest and penalties related to unrecognized tax benefits in the provision for income taxes in the Consolidated Statement of Income. With few exceptions, the Company is no longer subject to U.S. federal, state, or local income tax examinations by tax authorities for years before 2020.

11. SHORT-TERM BORROWINGS

Short-term borrowings are from the FHLB. The outstanding balances and related information for short-term borrowings are summarized as follows:

Average balances outstanding during the year represent daily average balances, and average interest rates represent interest expenses divided by average balance.

	2023	2022
Balance, December 31	$ -	$ -
Maximum month-end balance during the year	5,500	13,900
Average balance during the year	1,808	6,786
Average year-end interest rate	-	-
Average interest rate during the year	5.49%	2.24%

12. BORROWED FUNDS

Federal Home Loan Bank (FHLB) advances are secured by $7.9 million of investment securities held in safekeeping at the FHLB and qualifying one-to-four family residential loans up to 125 percent of outstanding advances, or $53 million at December 31, 2023, and $35 million at December 31, 2022. Advances issued by the FHLB are at either a variable or fixed rate of interest. Additionally, some advances have a fixed rate for an initial period until a quarterly option exercisable by the FHLB may convert the issue to a variable rate. Other advances have a fixed rate for an initial period until a quarterly put option exercisable by the FHLB would subject the advance to repayment or refinancing at prevailing interest rates. Each convertible advance is subject to a prepayment penalty if paid prior to its maturity date, except when prior to maturity, an advance is converted to a variable rate. In the event of such conversion, the advance may be prepaid without penalty at conversion and on a quarterly basis thereafter. Each fixed rate or putable advance is subject to a prepayment penalty if paid prior to its maturity or put date, as applicable. Cash management advances may be prepaid at any time without penalty.

The Company has a blanket credit arrangement with the FHLB with a maximum borrowing capacity of approximately $67.6 million at December 31, 2023. This credit arrangement is subject to annual renewal, incurs no service charges, and is secured by the Bank’s FHLB stock and certain first mortgage loans.

12. BORROWED FUNDS (Continued)

The following table summarizes the advances as of December 31:

Description	Maturity	Interest Rate	At December 31, 2023	At December 31, 2022
			(In thousands)	
Fixed rate	January 2023	2.36 %	$ -	$ 2,000
Fixed rate	January 2023	2.08	-	2,000
Fixed rate	December 2023	2.54	-	1,500
Fixed rate	April 2024	2.55	2,000	2,000
Fixed rate	June 2024	2.15	1,000	1,000
Fixed rate	August 2024	1.82	1,500	1,500
Fixed rate	January 2025	1.76	2,000	2,000
Fixed rate	January 2025	1.61	1,000	1,000
Fixed rate	February 2025	2.43	3,000	3,000
Fixed rate	October 2025	4.13	3,000	-
Fixed rate	December 2025	4.31	3,000	3,000
Fixed rate	January 2026	4.02	3,000	-
Fixed rate	June 2026	4.24	4,000	4,000
Fixed rate	July 2026	4.25	1,000	-
Fixed rate	November 2026	3.99	2,000	-
Fixed rate	June 2027	3.98	2,000	2,000
Fixed rate	November 2027	4.29	5,000	5,000
Fixed rate	December 2027	3.93	1,000	1,000
Fixed rate	January 2028	3.97	3,000	-
Fixed rate	January 2028	3.81	3,000	-
Fixed rate	February 2028	3.71	1,000	-
Fixed rate	February 2028	4.14	2,000	-
Fixed rate	March 2028	4.35	4,000	-
Fixed rate	May 2028	3.95	1,000	-
Fixed rate	August 2028	4.47	500	-
Fixed rate	December 2028	3.46	1,000	1,000
Fixed rate	June 2038	3.77	1,000	1,000
Fixed rate	June 2039	3.04	1,000	1,000
Fixed rate	July 2052	4.14	1,000	1,000
			$ 53,000	$ 35,000

The weighted-average interest rate is 3.69 percent at December 31, 2023.

The note payable to The Ohio Equity Fund had a balance of $70,000 and $92,000 as of December 31, 2023 and 2022, respectively, with a maturity of December 2026. Principal payments totaling $22,000, $22,000, and $26,000 at December 31, 2023, mature during 2024, 2025, and 2026.

The Company maintains $7.0 million unsecured lines of credit with two other financial institutions. The Company also maintains a $2.0 million secured line of credit with a third financial institution. At December 31, 2023 and 2022, the lines of credit were not used and were fully available.

13. EMPLOYEE BENEFITS

The Company contributed $56,000 and $147,000 to the 401(k) plan in 2023 and 2022, respectively.

14. LEASE OBLIGATIONS

The Company leases offices in Hudson and Westlake for its mortgage banking activities under operating leases expiring in 2024 and 2031, respectively. Several assumptions and judgments were made when applying the requirements of Topic 842 to the Company's existing lease commitments, including the allocation of consideration in the contracts between lease and nonlease components, determination of the lease term, and determination of the discount rate used in calculating the present value of the lease payments.

The lease cost associated with the operating leases for the year ended December 31, 2023, amounted to $202,000. The right-of use-asset associated with operating leases amounted to $891,000 at December 31, 2023. The lease liability associated with operating leases amounted to $891,000 at December 31, 2023.

Management considers the Company's historical pattern of exercising renewal options on leases and the positive performance of the leased locations, when determining whether it is reasonably certain that the leases will be renewed. If management concludes that there is reasonable certainty about the renewal option, it is included in the calculation of the remaining term of each applicable lease. The discount rate utilized in calculating the present value of the remaining lease payments for each lease was the Federal Home Loan Bank of Cincinnati advance rate corresponding to the remaining maturity of the lease. The following table presents the remaining lease term for the leases outstanding at December 31, 2023.

Undiscounted cash flows due in:		Operating
2024	$	137
2025		132
2026		132
2027		132
2028		132
Thereafter		275
Total undiscounted cash flows		940
Discount on cash flows		(49)
Total lease liability	$	891
Weighted average discount rate		1.5%
Weighted average remaining term		84 months

15. PREFERRED STOCK

On December 22, 2006, pursuant to the common stockholders' approval, 30,119 preferred shares were issued in exchange for outstanding common shares, on a one-for-one basis, to all common shareholders of record owning 300 or less shares.

Shareholders owning the Series A Preferred Stock are entitled to a 5 percent preference in the distribution of dividends when and if declared on the common stock. Shareholders owning preferred stock do not have voting rights except for matters pertaining to change in control, such as merger, share exchange or sale of substantially all Company assets. The Series A Preferred Stock automatically converts to shares of Common Stock immediately prior to a change in control.

16. ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table presents the changes in accumulated other comprehensive loss by component, net of tax for the years ended December 31, 2023 and 2022.

		Net Unrealized (Loss) Gain on Securities
Accumulated other comprehensive loss, December 31, 2021	$	(27)
Total other comprehensive loss		(2,087)
Accumulated other comprehensive loss, December 31, 2022	$	(2,114)
Total other comprehensive income		268
Accumulated other comprehensive loss, December 31, 2023	$	(1,846)

There were no amounts reclassified out of accumulated other comprehensive loss as of December 31, 2023 and 2022.

17. COMMITMENTS

The Company 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 including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the Statement of Financial Condition. The contract or notional amounts of the commitments reflect the extent of the Company's involvement in such financial instruments.

The Company's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Company uses the same credit policies in making commitments and conditional obligations as those utilized for on-balance-sheet instruments.

At December 31, 2023, the Company had outstanding commitments of approximately $2.4 million of variable-rate home equity lines of credit, $2.8 million of commercial lines of credit, and $4.7 million of construction loans. The average interest rate of the lines of credit was 9.1 percent at December 31, 2023. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

At December 31, 2022, the Company had outstanding commitments of approximately $2.3 million of variable rate home equity lines of credit, $1.5 million of commercial lines of credit, and $3.1 million of construction loans. The average interest rate of the lines of credit was 7.75 percent at December 31, 2022. In the opinion of management, the outstanding loan commitments equaled or exceeded prevalent market interest rates and such loans were underwritten in accordance with normal underwriting policies, and all commitments will be funded via cash flow from operations and existing excess liquidity.

17. COMMITMENTS

From time to time, and in the ordinary course of business, the Company becomes a party to litigation. In the opinion of management, after consultation with legal counsel, the ultimate disposition of any current claim, asserted or unasserted, is not expected to have a material effect on the Company's consolidated financial statements.

As of December 31, 2023, the reserve on unfunded commitments was $21,000.

18. FAIR VALUE MEASUREMENTS

The following disclosures show the hierarchal disclosure framework associated with the level of pricing observations utilized in measuring assets and liabilities at fair value. The three broad levels of pricing observations are as follows:

Level I: Quoted prices are available in active markets for identical assets or liabilities as of the reported date.

Level II: Pricing inputs are other than the quoted prices in active markets, which are either directly or indirectly observable as of the reported date. The nature of these assets and liabilities includes items for which quoted prices are available but traded less frequently and items that are fair-valued using other financial instruments, the parameters of which can be directly observed.

Level III: Valuations are derived from valuation techniques in which one or more significant inputs or significant value drivers are unobservable.

This hierarchy requires the use of observable market data, when available.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

18. FAIR VALUE MEASUREMENTS

Financial Assets and Liabilities Measured on a Recurring Basis

Assets measured at fair value on a recurring basis are as follows:

	December 31, 2023			
	Level I	Level II	Level III	Total
	(In thousands)			
Assets measured at fair value on a recurring basis:				
Collateralized mortgage obligations	$ -	$ 4,348	$ -	$ 4,348
Mortgage-backed securities	-	2,139	-	2,139
U.S. government agency securities		8,892		8,892
Municipal bond	-	688	-	688
Total	$ -	$ 16,067	$ -	$ 16,067

	December 31, 2022			
	Level I	Level II	Level III	Total
	(In thousands)			
Assets measured at fair value on a recurring basis:				
Collateralized mortgage obligations	$ -	$ 4,887	$ -	$ 4,887
Mortgage-backed securities	-	2,362	-	2,362
U.S. government agency securities		8,649		8,649
Municipal bond	-	703	-	703
Total	$ -	$ 16,601	$ -	$ 16,601

18. FAIR VALUE MEASUREMENTS (Continued)

Financial Instruments

The fair values of the Company's financial instruments not required to be reported at fair value are as follows:

	December 31, 2023				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities:					
Held to maturity	$ 1,250	$ 1,159	$ -	$ 1,159	$ -
Net loans	113,084	104,836	-	-	104,836
Financial liabilities:					
Deposits	$ 88,100	$ 87,840	$ 33,364	$ -	$ 54,476
Federal Home Loan Bank Advances and notes payable	53,070	52,227	-	-	52,227

	December 31, 2022				
	Carrying Value	Fair Value	Level I	Level II	Level III
Financial assets:					
Investment securities:					
Held to maturity	$ 1,250	$ 1,204	$ -	$ 1,204	$ -
Net loans	97,824	93,113	-	-	93,113
Financial liabilities:					
Deposits	$ 83,492	$ 82,611	$ 36,541	$ -	$ 46,070
Federal Home Loan Bank Advances and notes payable	35,092	33,788	-	-	33,788

For cash and cash equivalents, certificates of deposits, BOLI, Federal Home Loan Bank stock, accrued interest receivable, and accrued interest payable, the carrying value is reasonable estimate of fair value.

19. REGULATORY CAPITAL

Federal regulations require the Company and the Association to maintain minimum amounts of capital. Specifically, the Company is required to maintain certain minimum dollar amounts and ratios of total and Tier 1 capital to risk-weighted assets and of Tier 1 capital to average total assets. Management believes, as of December 31, 2023 and 2022, the Company meets all capital adequacy requirements to which it is subject.

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Association to maintain minimum amounts and ratios (set forth in the following table) of total, Tier 1 capital and common equity Tier 1 (as defined in the regulations) to risk-weighted assets, and of Tier 1 capital to average assets. Management believes, as of December 31, 2023, that the Company and the Association meet all capital adequacy requirements to which they are subject.

19. REGULATORY CAPITAL (Continued)

As of December 31, 2023 and 2022, the OCC categorized the Company as well capitalized under the regulatory framework for prompt corrective action. To be classified as a well-capitalized financial institution, common equity Tier 1 risk-based, Total risk-based, Tier 1 risk-based, and Tier 1 leverage capital ratios must be at least 6.5 percent, 10 percent, 8 percent, and 5 percent, respectively.

The Association's actual capital ratios are presented in the following table that shows the Association met all regulatory capital requirements. The capital position of the Association does not differ significantly from the Company's capital position.

As of December 31, 2023 and 2022, management believes that the Company met all capital adequacy requirements to which it was subject.

	2023		2022	
	Amount (In thousands)	Ratio	Amount (In thousands)	Ratio
Total capital (to risk-weighted assets)				
Actual	$ 14,443	15.27 %	$ 13,905	16.71 %
For capital adequacy purposes	7,569	8.00	6,656	8.00
To be well capitalized	9,461	10.00	8,320	10.00
Tier 1 capital (to risk-weighted assets)				
Actual	$ 13,358	14.12 %	$ 13,228	15.90 %
For capital adequacy purposes	5,677	6.00	4,992	6.00
To be well capitalized	7,569	8.00	6,656	8.00
Common equity Tier 1 capital (to risk-weighted assets)				
Actual	$ 13,358	14.12 %	$ 13,228	15.90 %
For capital adequacy purposes	4,257	4.50	3,744	4.50
To be well capitalized	6,150	6.50	5,408	6.50
Tier 1 capital (to average assets)				
Actual	$ 13,358	8.75 %	$ 13,228	10.16 %
For capital adequacy purposes	6,107	4.00	5,206	4.00
To be well capitalized	7,634	5.00	6,508	5.00

The Company's management believes that, under the current regulatory capital regulations, the Company will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Company, such as increased interest rates or a downturn in the economy in the primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

19. REGULATORY CAPITAL (Continued)

The Association is subject to regulations imposed by the OCC regarding the amount of capital distributions payable to the Company. Generally, the Association's payment of dividends is limited, without prior OCC approval, to net earnings for the current calendar year plus the two preceding calendar years, less capital distributions paid over the comparable time period. Insured institutions are required to file an application with the OCC for capital distributions in excess of this limitation. The Association must also give notice to the Federal Reserve Bank of Cleveland for approval prior to declaring a dividend to the Company.

20. SUBSEQUENT EVENTS

Management has reviewed events occurring through March 18, 2024, the date the financial statements were issued, and no other subsequent events occurred requiring accrual or disclosure.

ANNUAL MEETING

The annual meeting of stockholders will be held at 2:00 p.m. local time, Wednesday, April 24, 2024, at the main office of First Niles, located at 55 North Main Street, Niles, Ohio.

COMMON STOCK AND DIVIDENDS

First Niles Financial, Inc.'s common stock is quoted on the OTCPink under the symbol "FNFI."

As of December 31, 2023, the Company had issued 1,724,741 shares of common stock with 1,333,067 outstanding held by approximately 84 stockholders of record. At the same date the Company had issued 29,670 shares of preferred stock with 21,737 shares outstanding held by approximately 142 stockholders of record.

The table below presents the quarterly range of high and low sales prices of First Niles' common stock for 2022 and 2023, as well as the amount of cash distributions declared during the stated periods. The price information set forth in the table below was provided by an independent outside source.

	HIGH	LOW	Cash Dividends Declared
First Quarter (ended March 31, 2022)	$10.52	$10.11	$0.06
Second Quarter (ended June 30, 2022)	$12.45	$9.84	$0.06
Third Quarter (ended September 30, 2022)	$10.75	$8.99	$0.06
Fourth Quarter (ended December 31, 2022)	$14.10	$9.04	$0.06
First Quarter (ended March 31, 2023)	$10.92	$9.96	$0.06
Second Quarter (ended June 30, 2023)	$10.40	$8.55	$0.06
Third Quarter (ended September 30, 2023)	$13.00	$9.55	$0.06
Fourth Quarter (ended December 31, 2023)	$10.47	$9.62	$0.06

Dividend payment decisions are made with consideration of a variety of factors including earnings, financial condition, market considerations and regulatory restrictions. Restrictions on dividend payments are described in Note 19 of the Notes to Consolidated Financial Statements included in this Annual Report.

STOCKHOLDER AND GENERAL INQUIRIES	TRANSFER AGENT
Daniel E. Csontos, President First Niles Financial, Inc. 55 North Main Street Niles, Ohio 44446 (330) 652-2539	Computershare P.O. Box 30170 College Station, TX 77842-3170 (888) 294-8217 (toll free) http://www.computershare.com/investor

ANNUAL AND OTHER REPORTS

Copies of the Company's Annual Report can be obtained, without cost, by writing or calling: First Niles Financial, Inc. Investor Relations, Attn: Daniel E. Csontos, President, 55 North Main Street, Niles, Ohio 44446, telephone (330) 652-2539.

FIRST NILES FINANCIAL, INC.
CORPORATE INFORMATION

COMPANY AND BANK ADDRESS

55 North Main Street
Niles, Ohio 44446

Telephone: (330) 652-2539
Fax: (330) 652-0911

BOARD OF DIRECTORS

DANIEL E. CSONTOS
President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

P. JAMES KRAMER
Chairman, First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles
President, Wm. Kramer & Sons, Inc.

WILLIAM EDDY
President, Clinic of Osteopathic Medicine, Inc.

LANCE OSBORNE
President, Osborne Capital Group, LLC

ROBERT I. SHAKER
Owner, Shaker Law Offices, LLC

ANTE N. TURCINOV
General Manager, Union Capital Mortgage

EXECUTIVE OFFICERS

DANIEL E. CSONTOS
President and Chief Executive Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

MARY ANN COATES
Chief Financial Officer of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

RAYMOND J. CALGAGNI
Vice President of First Niles Financial, Inc. and Home Federal Savings and Loan Association of Niles

INDEPENDENT AUDITORS

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