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

FORM 10-Q

(Mark One)

☒ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the quarterly period ended March 31, 2025 or

☐ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

For the transition period from ______ to ______

Commission File Number: 001-40999

Finward Bancorp
(Exact name of registrant as specified in its charter)

Indiana (State or other jurisdiction of incorporation or organization)	35-1927981 (I.R.S. Employer Identification Number)
9204 Columbia Avenue Munster, Indiana (Address of principal executive offices)	46321 (ZIP code)

Registrant's telephone number, including area code: (219) 836-4400

N/A
(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common stock, no par value	FNWD	The NASDAQ Stock Market, LLC

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer”, “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act:
Large accelerated filer ☐ Accelerated filer ☐ Non-accelerated filer ☒
Smaller Reporting Company ☒ Emerging growth company ☐

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

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

There were 4,325,589 shares of the registrant’s Common Stock, without par value, outstanding at May 9, 2025.

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Finward Bancorp
Condensed Consolidated Balance Sheets

(Dollars in thousands)	*(unaudited)* March 31, 2025	December 31, 2024
ASSETS		
Cash and non-interest bearing deposits in other financial institutions	$ 18,563	$ 17,883
Interest bearing deposits in other financial institutions	52,829	52,047
Federal funds sold	975	654
Total cash and cash equivalents	72,367	70,584
Securities available-for-sale	330,127	333,554
Loans held-for-sale	2,849	1,253
Loans receivable, net of deferred fees and costs	1,491,696	1,508,976
Less: Allowance for credit losses	(17,955)	(16,911)
Net loans receivable	1,473,741	1,492,065
Federal Home Loan Bank stock	6,547	6,547
Accrued interest receivable	7,821	7,721
Premises and equipment	46,680	47,259
Cash value of bank owned life insurance	33,712	33,514
Goodwill	22,395	22,395
Other intangible assets	1,635	1,860
Other assets	41,839	43,947
Total assets	$ 2,039,713	$ 2,060,699
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits:		
Non-interest bearing	$ 281,461	$ 263,324
Interest bearing	1,468,923	1,497,242
Total	1,750,384	1,760,566
Repurchase agreements	45,053	40,116
Borrowed funds	56,657	65,000
Accrued expenses and other liabilities	35,812	43,603
Total liabilities	1,887,906	1,909,285
Commitments and contingencies		
Stockholders' Equity:		
Preferred stock, no par or stated value; 10,000,000 shares authorized, none outstanding	-	-
Common stock, no par or stated value; 10,000,000 shares authorized; shares issued and outstanding: March 31, 2025 – 4,324,485 December 31, 2024 – 4,313,698	-	-
Additional paid-in capital	70,132	70,034
Accumulated other comprehensive loss	(58,244)	(58,084)
Retained earnings	139,919	139,464
Total stockholders' equity	151,807	151,414
Total liabilities and stockholders' equity	$ 2,039,713	$ 2,060,699

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Income
(unaudited)

(Dollars in thousands, except per share data)	Quarter Ended March 31,	
	2025	2024
Interest income:		
Loans receivable	$ 19,655	$ 18,879
Securities	2,133	2,243
Other interest earning assets	553	862
Total interest income	22,341	21,984
Interest expense:		
Deposits	8,045	8,794
Repurchase agreements	348	370
Borrowed funds	635	1,040
Total interest expense	9,028	10,204
Net interest income	13,313	11,780
Provision for credit losses	454	-
Net interest income after provision for credit losses	12,859	11,780
Noninterest income:		
Fees and service charges	1,109	1,153
Wealth management operations	619	633
Gain on tax credit investment	67	-
Gain on sale of loans held-for-sale, net	230	152
Loss on sale of securities, net	-	(531)
Increase in cash value of bank owned life insurance	198	193
Gain on sale of real estate	-	11,858
Other	6	17
Total noninterest income	2,229	13,475
Noninterest expense:		
Compensation and benefits	7,372	7,109
Occupancy and equipment	2,111	1,915
Data processing	1,039	1,170
Marketing	86	158
Federal deposit insurance premiums	433	501
Professional and outside services	1,260	1,557
Technology	454	625
Other	1,717	1,969
Total noninterest expense	14,472	15,004
Income before income tax expenses	616	10,251
Income tax expenses	161	972
Net income	$ 455	$ 9,279
Earnings per common share:		
Basic	$ 0.11	$ 2.18
Diluted	$ 0.11	$ 2.17
Dividends declared per common share	$ -	$ 0.12

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Comprehensive Income
(unaudited)

(Dollars in thousands)	Quarter Ended March 31,	
	2025	2024
Net income	$ 455	$ 9,279
Net change in net unrealized gains and losses on securities available-for-sale:		
Unrealized loss arising during the period	(210)	(6,712)
Less: reclassification adjustment for losses included in net income	-	531
Net securities loss during the period	(210)	(6,181)
Tax effect	50	1,481
Other comprehensive loss, net of tax	(160)	(4,700)
Comprehensive income	$ 295	$ 4,579

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Changes in Stockholder's Equity
(unaudited)

(Dollars in thousands, except per share data)	*Common Stock*	*Additional Paid-in Capital*	*Accumulated Other Comprehensive Loss*	*Retained Earnings*	*Total Equity*
Balance at January 1, 2024	$ -	$ 69,555	$ (51,613)	$ 129,403	$ 147,345
Net income	-	-	-	9,279	9,279
Other comprehensive loss, net of tax	-	-	(4,700)	-	(4,700)
Stock-based compensation expense	-	172	-	-	172
Cash dividends, $0.12 per share	-	-	-	(515)	(515)
Balance at March 31, 2024	$ -	$ 69,727	$ (56,313)	$ 138,167	$ 151,581
Balance at January 1, 2025	$ -	$ 70,034	$ (58,084)	$ 139,464	$ 151,414
Net income	-	-	-	455	455
Other comprehensive loss, net of tax	-	-	(160)	-	(160)
Stock-based compensation expense	-	98	-	-	98
Balance at March 31, 2025	$ -	$ 70,132	$ (58,244)	$ 139,919	$ 151,807

See accompanying notes to condensed consolidated financial statements.

Finward Bancorp
Condensed Consolidated Statements of Cash Flows
(unaudited)

(Dollars in thousands)	Three months ended March 31, 2025	Three months ended March 31, 2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 455	$ 9,279
Adjustments to reconcile net income to net cash from operating activities:		
Origination of loans for sale	(9,596)	(3,756)
Sale of loans originated for sale	8,263	3,571
Depreciation and amortization, net of accretion	1,600	1,712
Stock based compensation expense	98	172
Cash payments for lease liabilities	(397)	(176)
Loss on sale of securities, net	-	531
Gain on sale of loans held-for-sale, net	(265)	(144)
Gain on sale of real estate	-	(11,867)
Increase of cash value of bank owned life insurance	(198)	(193)
Loss (gain) on derivatives	35	(8)
Provision for credit losses	454	-
Change in:		
Interest receivable	(100)	462
Interest payable	(34)	(2,353)
Other assets	2,095	2,731
Accrued expenses and other liabilities	(6,219)	14
Total adjustments	(4,264)	(9,304)
Net cash used in operating activities	(3,809)	(25)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from maturities and pay downs of securities available-for-sale	2,863	3,367
Proceeds from sales of securities available-for-sale	-	14,697
Net change in loans receivable	16,946	4,159
Purchase of premises and equipment	(183)	(711)
Proceeds from sale of premises and equipment	-	17,730
Proceeds from sale of foreclosed real estate	72	-
Net cash provided by investing activities	19,698	39,242
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in deposits	(10,182)	(65,943)
Proceeds from borrowed funds	1,657	90,000
Repayment of borrowed funds	(10,000)	(80,000)
Change in repurchase agreements	4,937	3,013
Dividends paid	(518)	(515)
Net cash used in financing activities	(14,106)	(53,445)
Net change in cash and cash equivalents	1,783	(14,228)
Cash and cash equivalents at beginning of period	70,584	86,008
Cash and cash equivalents at end of period	$ 72,367	$ 71,780
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash paid during the period for:		
Interest	$ 8,994	$ 12,559
Noncash activities:		
Dividends declared not paid	-	515
Right-of-use asset obtained in exchange for lease liability	-	16,140

See accompanying notes to condensed consolidated financial statements.

Note 1 - Basis of Presentation

Organization and Description of Business

The condensed consolidated financial statements include the accounts of Finward Bancorp (the “Company” or “FNWD”) and Peoples Bank (the “Bank”), and the Bank’s wholly-owned subsidiaries, Peoples Service Corporation, NWIN, LLC; NWIN Funding, Incorporated, and Columbia Development Company, LLC. The Company has no other business activity other than being a holding company for the Bank and the Company’s earnings are primarily dependent upon the earnings of the Bank. The accompanying unaudited condensed consolidated financial statements were prepared in accordance with instructions for Form 10-Q and, therefore, do not include all disclosures required by U.S. generally accepted accounting principles for complete presentation of condensed consolidated financial statements. In the opinion of management, the condensed consolidated financial statements contain all adjustments necessary to present fairly the condensed consolidated balance sheets of the Company as of March 31, 2025, and December 31, 2024, and the condensed consolidated statements of income, comprehensive income (loss), and changes in stockholders’ equity, and the condensed consolidated statements of cash flows for the quarters ended March 31, 2025, and 2024. The income reported for the quarter ended March 31, 2025, is not necessarily indicative of the results to be expected for the full year.

The Company's revenue is primarily derived from the business of banking. The Company's financial performance is monitored on a consolidated basis by the CEO, who is considered to be the Company's Chief Operating Decision Maker ("CODM"). This review is supported by the Chief Financial Officer, Chief Revenue Officer, and Chief Operating Officer. Financial performance is reported to the CODM monthly. The presentation of financial performance to the CODM is consistent with amounts and financial statement line items shown in the Company's consolidated balance sheets and consolidated statements of income. Additionally, the Company's significant expenses are adequately segmented by category and amount in the consolidated statements of income to include all significant items when considering both qualitative and quantitative factors. Significant expenses of the Company include compensation and benefits, net occupancy expense, equipment costs, data processing fees, and professional fees.

All of the Company’s financial results are similar and considered by management to be aggregated into one reportable operating segment. The Company's revenue is primarily derived from the business of banking and the Company’s CODM evaluates financial performance on a Company-wide basis. Accordingly, all of the Company’s operations are considered by management to be aggregated in one reportable operating segment.

The Notes to the Condensed Consolidated Financial Statements appearing in Finward Bancorp’s Annual Report on Form 10-K (2024 Annual Report), which include descriptions of significant accounting policies, should be read in conjunction with these interim financial statements. The Condensed Consolidated Balance Sheet at December 31, 2024, has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. generally accepted accounting principles(GAAP) for complete financial statements.

Note 2 - Use of Estimates

Preparing financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting period, as well as the disclosures provided. Actual results could differ from those estimates. Estimates associated with the allowance for credit losses are particularly susceptible to material change in the near term.

Note 3 – **Accounting Pronouncements Recently Adopted or Issued**

In October 2023, the FASB issued ASU 2023-06, Disclosure Improvements: Codification Amendment in Response to the SEC's Disclosure Update and Simplification Initiative. The ASU incorporates several disclosure and presentation requirements currently residing in the SEC Regulations S-X and S-K. The amendments will be applied prospectively and are effective when the SEC removes the related requirements from Regulations S-X or S-K. Any amendments the SEC does not remove by June 30, 2027 will not be effective. As we are currently subject to these SEC requirements, this ASU is not expected to have a material impact on our condensed consolidated financial statements or related disclosures.

In December 2023, the FASB issued ASU 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which enhances transparency about income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid and to improve the effectiveness of income tax disclosures. This accounting standards update will be effective for us for fiscal year 2025, with early adoption permitted. We are currently evaluating the impact of this accounting standard, but do not expect it to have a material impact on our condensed consolidated financial statements.

In November 2024, the FASB issued ASU 2024-03, Income Statement—Reporting Comprehensive Income—Expense Disaggregation Disclosures, which requires public business entities disclose additional information about specific expense categories in the notes to financial statements at interim and annual reporting periods. The amendments in this update are effective for annual reporting periods beginning after December 15, 2026, and interim reporting periods beginning after December 15, 2027. Early adoption is permitted. We are currently evaluating the impact of this accounting standard, but we do not expect it to have a material impact on our condensed consolidated financial statements.

In November 2024, the FASB issued ASU 2024-04, Debt-Debt With Conversion and Other Options, which clarifies the requirements for determining whether certain settlements of convertible debt instruments, including convertible debt instruments with cash conversion features or convertible debt instruments that are not currently convertible, should be accounted for as an induced conversion. The amendments are effective for annual reporting periods beginning after December 15, 2025, and interim reporting periods within those annual reporting periods beginning after December 15, 2025. Early adoption is permitted. We are currently evaluating the impact of this accounting standard, but we do not expect it to have a material impact on our condensed consolidated financial statements.

Note 4 - Securities

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

	(Dollars in thousands)			
March 31, 2025	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government sponsored entities	$ 8,884	$ -	$ (669)	$ 8,215
Collateralized mortgage obligations and residential mortgage-backed securities	133,099	-	(23,516)	109,583
Municipal securities	262,616	-	(51,917)	210,699
Collateralized debt obligations	2,152	-	(522)	1,630
Total securities available-for-sale	$ 406,751	$ -	$ (76,624)	$ 330,127

	(Dollars in thousands)			
December 31, 2024	Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
U.S. government sponsored entities	$ 8,884	$ -	$ (823)	$ 8,061
Collateralized mortgage obligations and residential mortgage-backed securities	135,974	-	(26,649)	109,325
Municipal securities	262,954	-	(48,205)	214,749
Collateralized debt obligations	2,156	-	(737)	1,419
Total securities available-for-sale	$ 409,968	$ -	$ (76,414)	$ 333,554

The cost basis and estimated fair value of available-for-sale debt securities at March 31, 2025, by contractual maturity, were as follows. Securities not due at a single maturity date, primarily collateralized mortgage obligations and residential mortgage-backed securities, are shown separately.

	(Dollars in thousands) Available-for-sale	
March 31, 2025	Cost Basis	Estimated Fair Value
Due in one year or less	$ -	$ -
Due from one to five years	11,953	11,009
Due from five to ten years	35,524	31,110
Due over ten years	226,175	178,425
Collateralized mortgage obligations and residential mortgage-backed securities	133,099	109,583
Total	$ 406,751	$ 330,127

Sales of available-for-sale securities were as follows for the quarter ended:

	(Dollars in thousands)	
	March 31, 2025	March 31, 2024
Proceeds	$ -	$ 14,697
Gross gains	-	-
Gross losses	-	(531)

Accumulated other comprehensive loss balances, net of tax, related to available-for-sale securities, were as follows:

	(Dollars in thousands) Unrealized loss
Ending balance, December 31, 2024	$ (58,084)
Period change	(160)
Ending balance, March 31, 2025	$ (58,244)

	(Dollars in thousands) Unrealized loss
Ending balance, December 31, 2023	$ (51,613)
Period change	(4,700)
Ending balance, March 31, 2024	$ (56,313)

Securities with market values of approximately $ 330.4 million and $ 326.5 million were pledged as of March 31, 2025 and December 31, 2024, respectively, as collateral for repurchase agreements, public funds, and for other purposes as permitted or required by law.

Securities with unrealized losses at March 31, 2025, and December 31, 2024 not recognized in income are as follows:

	(Dollars in thousands) Less than 12 months		12 months or longer		Total		
March 31, 2025	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Percentage of Total Portfolio in Loss Position
U.S. government sponsored entities	$ -	$ -	$ 8,215	$ (669)	$ 8,215	$ (669)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	-	-	109,583	(23,516)	109,583	(23,516)	100.0%
Municipal securities	-	-	210,699	(51,917)	210,699	(51,917)	100.0%
Collateralized debt obligations	-	-	1,630	(522)	1,630	(522)	100.0%
Total	$ -	$ -	$ 330,127	$ (76,624)	$ 330,127	$ (76,624)	100.0%
Number of securities		-		413		413	

	(Dollars in thousands) Less than 12 months		12 months or longer		Total		
December 31, 2024	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Estimated Fair Value	Unrealized Losses	Percentage of Total Portfolio in Loss Position
U.S. government sponsored entities	$ -	$ -	$ 8,061	$ (823)	$ 8,061	$ (823)	100.0%
Collateralized mortgage obligations and residential mortgage-backed securities	-	-	109,325	(26,649)	109,325	(26,649)	100.0%
Municipal securities	3,310	(156)	211,439	(48,049)	214,749	(48,205)	100.0%
Collateralized debt obligations	-	-	1,419	(737)	1,419	(737)	100.0%
Total	$ 3,310	$ (156)	$ 330,244	$ (76,258)	$ 333,554	$ (76,414)	100.0%
Number of securities		4		409		413	

Unrealized losses on securities have not been recognized into income because the securities are of high credit quality or have undisrupted cash flows. Management has the intent and ability to hold these securities for the foreseeable future, and the decline in fair value is largely due to changes in interest rates and volatility in securities markets. The fair values are expected to recover as the securities approach maturity.

Collateralized debt obligations with a cost basis of $ 2.2 million and fair value of $ 1.6 million at March 31, 2025 and $1.4 million at December 31, 2024, had previously recorded impairment of $ 173 thousand, which will not be recoverable until maturity of the security.

Accrued interest receivable on AFS debt securities totaled $ 2.3 million at March 31, 2025, and December 31, 2024. These amounts are excluded from the estimate of credit losses. The Company made the policy election to exclude accrued interest from the amortized cost basis of AFS debt securities and report accrued interest separately on the condensed consolidated balance sheet.

Note 5 - Loans Receivable

The Company's current lending programs are described below:

Residential Mortgage Loans. The primary lending activity of the Company has been the granting of conventional mortgage loans to enable borrowers to purchase existing homes, refinance existing homes, or construct new homes. Conventional loans are made up to a maximum of 97% of the purchase price or appraised value, whichever is less. For loans made in excess of 80% of value, private mortgage insurance is generally required in an amount sufficient to reduce the Company's exposure to 80% or less of the appraised value of the property. Loans insured by private mortgage insurance companies can be made for up to 97% of value.

Fixed rate loans currently conform to Freddie Mac guidelines for loans purchased under the one-to-four family program. Loan interest rates are determined based on secondary market yield requirements and local market conditions. Fixed rate mortgage loans with contractual maturities generally exceeding fifteen years may be sold and/or classified as held for sale to control exposure to interest rate risk.

The Company's Adjustable-Rate Mortgage Loans ("ARMs") include offerings that reprice annually or are "Mini-Fixed". The "Mini-Fixed" mortgage reprices annually after a three, five, seven or ten year period. The ability of the Company to successfully market ARM's depends upon loan demand, prevailing interest rates, volatility of interest rates, public acceptance of such loans and terms offered by competitors.

Home Equity Line of Credit. The Company offers a fixed and variable rate revolving line of credit secured by the equity in the borrower's home. Both products offer an interest only option where the borrower pays interest only on the outstanding balance each month. Equity lines will typically require an appraisal and a second mortgage lender's title insurance policy. Loans are generally made up to a maximum of 89% of the appraised value of the property less any outstanding liens.

Commercial Real Estate and Multifamily Loans. Commercial real estate loans are typically made to a maximum of 80% of the appraised value. Such loans are generally made on an adjustable-rate basis. These loans are typically made for terms of 15 to 25 years. Loans with an amortizing term exceeding 15 years normally have a balloon feature calling for a full repayment within seven to ten years from the date of the loan. The balloon feature affords the Company the opportunity to restructure the loan if economic conditions warrant. Commercial real estate loans include loans secured by commercial rental units, apartments, condominium developments, small shopping centers, owner occupied commercial/industrial properties, hospitality units and other retail and commercial developments.

While commercial real estate lending is generally considered to involve a higher degree of risk than single family residential lending due to the concentration of principal in a limited number of loans and the effects of general economic conditions on real estate developers and managers, the Company has endeavored to reduce this risk in several ways. In originating commercial real estate loans, the Company considers the feasibility of the project, the financial strength of the borrowers and lessees, the managerial ability of the borrowers, the location of the project (generally in our geographic operating footprint and lending area) and the economic environment. Management evaluates the debt coverage ratio and analyzes the reliability of cash flows, as well as the quality of earnings. All such loans are made in accordance with well-defined underwriting standards and are generally supported by personal guarantees, which represent a secondary source of repayment.

Loans for the construction of commercial properties are generally located within an area permitting physical inspection and regular review of business records. Projects financed outside of the Company's primary lending area generally involve borrowers and guarantors who are or were previous customers of the Company or projects that are underwritten according to the Bank's underwriting standards.

Construction and Land Development. Construction loans on residential properties are made primarily to individuals and contractors who are under contract with an individual purchaser. These loans are personally guaranteed by the borrower. The maximum loan-to-value ratio is 89% of either the current appraised value or the cost of construction, whichever is less. Residential construction loans are typically made for periods of one year.

Loans are also made for the construction of commercial properties. All such loans are made in accordance with well-defined underwriting standards. Generally, if the loans are not owner occupied, these types of loans require proof of intent to lease and a confirmed end-loan takeout. In general, loans made do not exceed 80% of the appraised value of the property. Commercial construction loans are typically made for periods not to exceed two years or date of occupancy, whichever is less.

Commercial Business. Although the Company's priority in extending various types of commercial business loans changes from time to time, the basic considerations in determining the makeup of the commercial business loan portfolio are economic factors, regulatory requirements and money market conditions. The Company seeks commercial loan relationships from the local business community and from its present customers. Conservative lending policies based upon sound credit analysis governs the extension of commercial credit. The following loans, although not inclusive, are considered preferable for the Company's commercial loan portfolio: loans collateralized by liquid assets; loans secured by general use machinery and equipment; secured short-term working capital loans to established businesses secured by business assets; short-term loans with established sources of repayment and secured by sufficient equity and real estate; and unsecured loans to customers whose character and capacity to repay are firmly established.

Consumer Loans. The Company offers consumer loans to individuals for personal, household or family purposes. Consumer loans are either secured by adequate collateral, or unsecured. Unsecured loans are based on the strength of the applicant's financial condition. All borrowers must meet current underwriting standards. The consumer loan program includes both fixed and variable rate products.

Manufactured Homes. The Company has previously purchased fixed rate closed loans from a third-party that are subject to the Company's underwriting requirements and secured by manufactured homes. The maturity date on these loans can range up to 25 years. In addition, these loans are partially secured by a reserve account held at the Company.

Government Loans. The Company is permitted to purchase non-rated municipal securities; tax anticipation notes and warrants within the local market area.

Loans consist of the following as of March 31, 2025, and December 31, 2024:

(Dollars in thousands)

	March 31, 2025	December 31, 2024
Loans secured by real estate:		
Residential real estate	$ 458,424	$ 467,293
Home equity	49,752	49,758
Commercial real estate	554,866	551,674
Construction and land development	86,728	82,874
Multifamily	204,964	212,455
Total loans secured by real estate	1,354,734	1,364,054
Commercial business	99,519	104,246
Consumer	504	551
Manufactured homes	25,762	26,708
Government	9,279	11,024
Loans receivable	1,489,798	1,506,583
Add:		
Net deferred loan origination costs	2,209	2,439
Loan clearing funds	(311)	(46)
Loans receivable, net of deferred fees and costs	$ 1,491,696	$ 1,508,976

The Company's age analysis of past due loans is summarized below:

(Dollars in thousands)	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due and Accruing	Current	Accruing Loans	Non-accrual Loans	Total Loans Receivable
March 31, 2025								
Residential real estate	$ 5,665	$ 1,286	$ -	$ 6,951	$ 446,447	$ 453,398	$ 5,026	$ 458,424
Home equity	627	350	-	977	47,972	48,949	803	49,752
Commercial real estate	4,315	3,704	-	8,019	545,833	553,852	1,014	554,866
Construction and land development	458	-	-	458	85,611	86,069	659	86,728
Multifamily	725	219	-	944	202,066	203,010	1,954	204,964
Commercial business	201	162	-	363	96,129	96,492	3,027	99,519
Consumer	3	-	-	3	501	504	-	504
Manufactured homes	489	38	-	527	25,235	25,762	-	25,762
Government	-	-	-	-	9,279	9,279	-	9,279
Total	$ 12,483	$ 5,759	$ -	$ 18,242	$ 1,459,073	$ 1,477,315	$ 12,483	$ 1,489,798
December 31, 2024								
Residential real estate	$ 4,423	$ 1,184	$ -	$ 5,607	$ 457,021	$ 462,628	$ 4,665	$ 467,293
Home equity	1,002	123	-	1,125	48,150	49,275	483	49,758
Commercial real estate	4,556	571	-	5,127	545,267	550,394	1,280	551,674
Construction and land development	2,039	-	-	2,039	80,177	82,216	658	82,874
Multifamily	1,961	359	-	2,320	206,773	209,093	3,362	212,455
Commercial business	493	508	-	1,001	99,955	100,956	3,290	104,246
Consumer	5	-	-	5	546	551		551
Manufactured homes	428	54	-	482	26,226	26,708	-	26,708
Government	-	-	-	-	11,024	11,024	-	11,024
Total	$ 14,907	$ 2,799	$ -	$ 17,706	$ 1,475,139	$ 1,492,845	$ 13,738	$ 1,506,583

The following table shows the amortized cost of loans, segregated by portfolio segment, credit quality rating and year of origination as of March 31, 2025, and December 31, 2024, and gross charge-offs for the quarter ended March 31, 2025, and for the year ended December 31, 2024.

March 31, 2025	2025	2024	2023	2022	2021	Prior	Revolving	Revolving Converted to Term	Total
Total Loans Receivable	$ 26,523	$ 127,439	$ 138,601	$ 285,036	$ 296,829	$ 516,611	$ 98,070	$ 689	$ 1,489,798
Total current period gross charge-off	-	(12)	-	-	-	(107)	-	-	(119)
Residential real estate									
Pass (1-6)	$ 3,142	$ 13,348	$ 29,842	$ 88,224	$ 97,552	$ 214,155	$ 2,571	$ -	$ 448,834
Special mention (7)	-	-	393	-	1,324	2,759	-	-	4,476
Substandard (8)	-	-	698	1,512	473	2,431	-	-	5,114
Total	$ 3,142	$ 13,348	$ 30,933	$ 89,736	$ 99,349	$ 219,345	$ 2,571	$ -	$ 458,424
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Home equity									
Pass (1-6)	$ 356	$ 131	$ 47	$ 100	$ 54	$ 2,881	$ 44,360	$ 360	$ 48,289
Special mention (7)	-	-	8	-	20	17	279	329	653
Substandard (8)	-	26	-	250	-	245	289	-	810
Total	$ 356	$ 157	$ 55	$ 350	$ 74	$ 3,143	$ 44,928	$ 689	$ 49,752
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Commercial real estate									
Pass (1-6)	$ 14,094	$ 50,380	$ 65,619	$ 118,149	$ 93,987	$ 197,122	$ 3,230	$ -	$ 542,581
Special mention (7)	-	965	830	2,594	2,362	4,955	25	-	11,731
Substandard (8)	-	-	-	221	-	333	-	-	554
Total	$ 14,094	$ 51,345	$ 66,449	$ 120,964	$ 96,349	$ 202,410	$ 3,255	$ -	$ 554,866
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Construction and land development									
Pass (1-6)	3,889	38,283	22,525	3,583	7,720	2,429	4,434	-	82,863
Special mention (7)	-	-	-	-	522	1,074	-	-	1,596
Substandard (8)	-	-	1,013	-	1,256	-	-	-	2,269
Total	$ 3,889	$ 38,283	$ 23,538	$ 3,583	$ 9,498	$ 3,503	$ 4,434	$ -	$ 86,728
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Multifamily									
Pass (1-6)	$ 2,354	$ 6,369	$ 8,646	$ 56,365	$ 72,827	$ 53,182	$ 684	$ -	$ 200,427
Special mention (7)	-	-	219	774	382	1,208	-	-	2,583
Substandard (8)	-	-	-	438	-	1,516	-	-	1,954
Total	$ 2,354	$ 6,369	$ 8,865	$ 57,577	$ 73,209	$ 55,906	$ 684	$ -	$ 204,964
Current period gross charge-off	-	-	-	-	-	(46)	-	-	(46)
Commercial business									
Pass (1-6)	$ 2,457	$ 14,405	$ 7,476	$ 8,728	$ 5,719	$ 13,827	$ 40,882	$ -	$ 93,494
Special mention (7)	-	-	24	950	36	774	1,214	-	2,998
Substandard (8)	-	-	1,138	73	159	1,555	102	-	3,027
Total	$ 2,457	$ 14,405	$ 8,638	$ 9,751	$ 5,914	$ 16,156	$ 42,198	$ -	$ 99,519
Current period gross charge-off	-	-	-	-	-	(61)	-	-	(61)
Consumer									
Pass (1-6)	$ 231	$ 81	$ 123	$ 30	$ 39	$ -	$ -	$ -	$ 504
Total	$ 231	$ 81	$ 123	$ 30	$ 39	$ -	$ -	$ -	$ 504
Current period gross charge-off	-	(12)	-	-	-	-	-	-	(12)
Manufactured homes									
Pass (1-6)	$ -	$ -	$ -	$ 1,800	$ 11,202	$ 12,722	$ -	$ -	$ 25,724
Special mention (7)	-	-	-	-	29	9	-	-	38
Total	$ -	$ -	$ -	$ 1,800	$ 11,231	$ 12,731	$ -	$ -	$ 25,762
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Government									
Pass (1-6)	$ -	$ 3,451	$ -	$ 1,245	$ 1,166	$ 3,417	$ -	$ -	$ 9,279
Total	$ -	$ 3,451	$ -	$ 1,245	$ 1,166	$ 3,417	$ -	$ -	$ 9,279
Current period gross charge-off	-	-	-	-	-	-	-	-	-

December 31, 2024	2024	2023	2022	2021	2020	Prior	Revolving	Revolving Converted to Term	Total
Total Loans Receivable	$ 124,670	$ 143,098	$ 291,855	$ 308,352	$ 211,268	$ 324,738	$ 102,602	$ -	$ 1,506,583
Total current period gross charge-off	$ (64)	$ -	$ (1,010)	$ (125)	$ (2)	$ (1,267)	$ -	$ -	$ (2,468)
Residential real estate									
Pass (1-6)	$ 13,118	$ 30,947	$ 90,324	$ 99,390	$ 102,552	$ 119,449	$ 2,468	$ -	$ 458,248
Special Mention (7)	-	371	365	1,064	554	1,937	-	-	4,291
Substandard (8)	-	539	1,161	601	510	1,943	-	-	4,754
Total	$ 13,118	$ 31,857	$ 91,850	$ 101,055	$ 103,616	$ 123,329	$ 2,468	$ -	$ 467,293
Current period gross charge-off	-	-	-	-	-	(28)	-	-	(28)
Home equity									
Pass (1-6)	$ 193	$ 68	$ 153	$ 110	$ -	$ 3,342	$ 44,943	$ -	$ 48,809
Special Mention (7)	-	132	-	-	3	15	309	-	459
Substandard (8)	26	-	138	-	-	218	108	-	490
Total	$ 219	$ 200	$ 291	$ 110	$ 3	$ 3,575	$ 45,360	$ -	$ 49,758
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Commercial real estate									
Pass (1-6)	$ 49,861	$ 67,290	$ 123,342	$ 96,206	$ 53,864	$ 148,529	$ 2,976	$ -	$ 542,068
Special Mention (7)	974	-	1,036	2,375	668	2,930	25	-	8,008
Substandard (8)	-	-	-	-	202	1,396	-	-	1,598
Total	$ 50,835	$ 67,290	$ 124,378	$ 98,581	$ 54,734	$ 152,855	$ 3,001	$ -	$ 551,674
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Construction and land development									
Pass (1-6)	$ 34,599	$ 24,360	$ 3,732	$ 7,867	$ 224	$ 820	$ 5,312	$ -	$ 76,914
Special Mention (7)	-	-	-	1,207	2,468	-	-	-	3,675
Substandard (8)	-	1,018	-	1,267	-	-	-	-	2,285
Total	$ 34,599	$ 25,378	$ 3,732	$ 10,341	$ 2,692	$ 820	$ 5,312	$ -	$ 82,874
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Multifamily									
Pass (1-6)	$ 6,398	$ 8,923	$ 56,771	$ 74,716	$ 36,075	$ 20,066	$ 627	$ -	$ 203,576
Special Mention (7)	-	-	780	3,332	1,217	-	-	-	5,329
Substandard (8)	-	-	446	1,219	1,516	369	-	-	3,550
Total	$ 6,398	$ 8,923	$ 57,997	$ 79,267	$ 38,808	$ 20,435	$ 627	$ -	$ 212,455
Current period gross charge-off	-	-	-	(125)	-	-	-	-	(125)
Commercial business									
Pass (1-6)	$ 14,655	$ 8,123	$ 9,441	$ 6,094	$ 3,653	$ 11,416	$ 44,046	$ -	$ 97,428
Special Mention (7)	-	25	978	39	-	800	1,686	-	3,528
Substandard (8)	-	1,139	80	171	177	1,621	102	-	3,290
Total	$ 14,655	$ 9,287	$ 10,499	$ 6,304	$ 3,830	$ 13,837	$ 45,834	$ -	$ 104,246
Current period gross charge-off	-	-	(1,010)	-	-	(1,239)	-	-	(2,249)
Consumer									
Pass (1-6)	$ 301	$ 163	$ 34	$ 51	$ -	$ 2	$ -	$ -	$ 551
Substandard (8)	-	-	-	-	-	-	-	-	-
Total	$ 301	$ 163	$ 34	$ 51	$ -	$ 2	$ -	$ -	$ 551
Current period gross charge-off	(64)	-	-	-	(2)	-	-	-	(66)
Manufactured homes									
Pass (1-6)	$ -	$ -	$ 1,634	$ 11,360	$ 7,559	$ 6,101	$ -	$ -	$ 26,654
Substandard (8)	-	-	-	28	26	-	-	-	54
Total	$ -	$ -	$ 1,634	$ 11,388	$ 7,585	$ 6,101	$ -	$ -	$ 26,708
Current period gross charge-off	-	-	-	-	-	-	-	-	-
Government									
Pass (1-6)	$ 4,545	$ -	$ 1,440	$ 1,255	$ -	$ 3,784	$ -	$ -	$ 11,024
Total	$ 4,545	$ -	$ 1,440	$ 1,255	$ -	$ 3,784	$ -	$ -	$ 11,024
Current period gross charge-off	-	-	-	-	-	-	-	-	-

The Company has established a standard loan grading system to assist management, lenders and review personnel in their analysis and supervision of the loan portfolio. The use and application of these grades by the Company is uniform and conforms to regulatory definitions. The loan grading system is as follows:

1 – **Superior Quality**
Loans in this category are substantially risk free. Loans fully collateralized by a Bank certificate of deposit or Bank deposits with a hold are substantially risk free.

2 – **Excellent Quality**
The borrower generates excellent and consistent cash flow for debt coverage, excellent average credit scores, excellent liquidity and net worth and are reputable operators with over 15 years' experience. Current and debt to tangible net worth ratios are excellent. Loan to value is substantially below policy and collateral condition is excellent.

3 – **Great Quality**
The borrower generates more than sufficient cash flow to fund debt service and cash flow is improving. Average credit scores are very strong. Operators are reputable with significant years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are very strong. Loan to value is significantly below policy and collateral condition is significantly above average.

4 – **Above Average Quality**
The borrower generates more than sufficient cash flow to fund debt service, but cash flow trends may be stable or slightly declining. Average credit scores are strong. The borrower is a reputable operator with many years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are strong. Loan to value is below policy and collateral condition is above average.

5 – **Average Quality**
Borrowers are considered creditworthy and can repay the debt in the normal course of business, however, cash flow trends may be inconsistent or fluctuating. Average credit scores are satisfactory, and years of experience is acceptable. Liquidity and net worth are satisfactory. Current and debt to tangible net worth ratios are average. Loan to value is slightly below policy and the collateral condition is slightly above average.

6 – **Pass**
Borrowers are considered creditworthy, but financial condition may show signs of weakness due to internal or external factors. Cash flow trends may be declining annually. Average credit scores may be low but remain acceptable. The borrower has limited years of experience. Liquidity, net worth, current and debt to tangible net worth ratios are below average. Loan to value is nearing policy limits and collateral condition is average.

7 – **Special Mention**
A special mention asset has identified weaknesses that deserve Management's close attention. If left uncorrected, these weaknesses may result in deterioration of the repayment prospects for the asset or in the Company's credit position at some future date. Special mention assets are not adversely classified and do not expose the Company to sufficient risk to warrant adverse classification. There is still adequate protection by the current sound worth and paying capacity of the obligor or of the collateral pledged. The Special Mention rating is viewed as transitional and will be monitored closely.

Loans in this category may exhibit some of the following risk factors. Cash flow trends may be consistently declining or may be questionable. Debt coverage ratios may be at or near 1:1. Average credit scores may be very weak, or the borrower may have minimal years of experience. Liquidity, net worth, current and debt to tangible net worth ratios may be very weak. Loan to value may be at policy limits or may exceed policy limits. Collateral condition may be below average.

8 – **Substandard**
This classification consists of loans which are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged. Financial statements normally reveal some or all of the following: poor trends, lack of earnings and cash flow, excessive debt, lack of liquidity, and the absence of creditor protection. Loans are still considered collectible, but due to increased risks and defined weaknesses of the credit, some loss could be incurred in collection if the deficiencies are not corrected.

9 – **Doubtful**
Such loans have been placed on nonaccrual status and may be heavily dependent upon collateral possessing a value that is difficult to determine or based upon some near-term event which lacks clear certainty. These loans have all of the weaknesses of those classified as Substandard; however, based on existing conditions, these weaknesses make full collection of the principal balance highly improbable.

10 – Loss
Loans that are considered uncollectible and of such little value that continuing to carry them as assets is not warranted.

Loans with risk classifications of pass and special mention were part of the pooled loan ACL analysis. Loans classified as substandard or worse were individually evaluated for impairment and specific reserves were established, if applicable. Risk gradings for loans with balances greater than $1 million are updated every 12 months through analysis during origination, renewals, modifications, or regular annual review. Risk gradings for loans with balances less than $1 million are updated primarily through analysis during origination, renewals, modifications, or periodic review. Risk gradings are also downgraded due to delinquency at month end. In particular, 60 days past due are downgraded to Special Mention, while 90 days past due are further downgraded to Substandard.

Modifications to Borrowers Experiencing Financial Difficulty

The allowance for credit losses incorporates an estimate of lifetime expected credit losses and is recorded on each asset upon origination. The starting point to estimate such credit losses is historical loss information. The Company uses a probability of default/loss given default model to determine the allowance for credit losses recorded at origination. Occasionally, the Company subsequently modifies loans for borrowers experiencing financial distress by providing the following forms of relief: principal forgiveness, term extension, payment delay, or interest rate reduction. In some cases, the Company provides multiple types of modifications on one loan. Because the effect of most modifications to borrowers experiencing financial difficulty is already included in the allowance for credit losses, no change to the allowance for credit losses is generally recorded for these modifications.

The following table shows the amortized cost of loans at March 31, 2025, that were both experiencing financial difficulty and modified during the quarter ended March 31, 2025, segregated by portfolio segment and type of modification. The percentage of the amortized cost of loans that were modified to borrowers in financial distress as compared to the amortized cost of each segment of financial receivable is also presented below.

	For the quarter ended March 31, 2025				
(Dollars in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	% of Total Segment Financing Receivables
Residential real estate	$ -	172	$ -	$ -	0.04%

	For the quarter ended March 31, 2024				
(Dollars in thousands)	Payment Delay	Term Extension	Interest Rate Reduction	Combination Term Extension and Interest Rate Reduction	% of Total Segment Financing Receivables
Residential real estate	$ 630	$ 1,262	$ -	$ -	0.39%

The financial effects of payment delay modifications and term extension modifications had a forbearance average of five months and four months weighted average extension to life of loan, respectively. There were no commitments to lend additional amounts to the borrowers included in the previous tables.

The borrowers with term extension have had their maturity dates extended and as a result their monthly payments were reduced.

(Dollars in thousands)	For the quarter ended March 31, 2025			
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Payment delay
Residential real estate	$ -	-%	7 months	-

(Dollars in thousands)	For the quarter ended March 31, 2024			
	Principal forgiveness	Weighted average interest rate reduction	Weighted average term extension	Payment delay
Residential real estate	$ -	-%	-	4 months

The Company closely monitors the performance of loans that have been modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tables present the performance of financial difficulty modification in the twelve months following modification.

(Dollars in thousands)	For the quarter ended March 31, 2025			
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due
Residential real estate	$ 644	$ 344	$ 125	$ 192

(Dollars in thousands)	For the quarter ended March 31, 2024			
	Current	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due
Residential real estate	$ 889	$ 1,003	$ -	$ -

Upon the Company’s determination that a modified loan has subsequently been deemed uncollectible, the loan is written off. Therefore, the amortized cost of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount. All modified loans are deemed collectible.

Foreclosures

As part of the normal course of business, the Company had $ 1.3 million in loans involved in a foreclosure process at March 31, 2025, compared to $0.7 million at December 31, 2024. The Company had no Other Real Estate Owned balance as of March 31, 2025 and December 31, 2024.

Acquired Loan Purchase Discounts

As part of the fair value of loans receivable, there was a net fair value discount for loans acquired of $ 4.1 million at March 31, 2025, compared to $4.4 million at December 31, 2024.

Accretable yield, or income recorded for the three months ended March 31, is as follows:

(Dollars in thousands)		Total
2024	$	222
2025		230

Accretable yield, or income expected to be recorded in the future is as follows:

(Dollars in thousands)		Total
Remainder of 2025	$	468
2026		469
2027		305
2028		289
2029		252
2030 and thereafter		2,343
Total	$	4,126

Allowance for Credit Losses

The allowance for credit losses is established for current expected credit losses on the Company's loan portfolio utilizing guidance in Accounting Standards Codification (ASC) Topic 326.

The determination of the allowance requires significant judgment to estimate credit losses measured on a collective pool basis when similar risk characteristics exist, and for loans evaluated individually. In determining the allowance, the Company estimates expected future losses for the loan's entire contractual term adjusted for expected payments when appropriate. The allowance estimate considers relevant available information, from internal and external sources relating to the historical loss experience, current conditions, and reasonable and supportable forecasts for the Company's outstanding loan balances. The allowance is an estimation that reflects management's evaluation of expected losses related to the Company's financial assets measured at amortized cost. To ensure that the allowance is maintained at an adequate level, a detailed analysis is performed on a quarterly basis and an appropriate provision is made to adjust the allowance.

The Company categorizes the loan portfolio into nine segments based on similar risk characteristics. Loans within each segment are collectively evaluated using the probability of default ("PD")/loss given default ("LGD") methodology (PD/LGD). In creating the "current expected credit loss (CECL)" model as required under ASC 326, the Company has established a two-year reasonable and supportable forecast period with a two-year straight line reversion to the long-term historical average. Due to its minimal loss history, the Company elected to use peer data for a more reasonable calculation. The following tables show the changes in the allowance for credit losses, segregated by portfolio segment, for the three months ended March 31, 2025, and 2024.

The Company's activity in the allowance for credit losses, by loan segment, is summarized below for the three months ended March 31, 2025:

(Dollars in thousands)	*Beginning Balance*	*Charge-offs*	*Recoveries*	*Provisions*	*Ending Balance*
Allowance for credit losses:					
Residential real estate	$ 4,481	$ -	$ 16	$ (2,055)	$ 2,442
Home equity	835	-	-	(213)	622
Commercial real estate	6,444	-	4	3,209	9,657
Construction and land development	2,651	-	-	(1,007)	1,644
Multifamily	1,003	(46)	10	1,225	2,192
Commercial business	1,185	(61)	55	55	1,234
Consumer	5	(12)	1	9	3
Manufactured homes	252	-	-	(123)	129
Government	55	-	-	(23)	32
Total	$ 16,911	$ (119)	$ 86	$ 1,077	$ 17,955

The Company's activity in the allowance for credit losses, by loan segment, is summarized below for the three months ended March 31, 2024:

(Dollars in thousands)	*Beginning Balance*	*Charge-offs*	*Recoveries*	*Provisions*	*Ending Balance*
Allowance for credit losses:					
Residential real estate	$ 3,984	$ -	$ 10	$ 23	$ 4,017
Home equity	698	-	-	39	737
Commercial real estate	7,045	-	-	211	7,256
Construction and land development	4,206	-	-	(750)	3,456
Multifamily	933	-	-	24	957
Commercial business	1,649	-	2	484	2,135
Consumer	7	(18)	1	16	6
Manufactured homes	181	-	-	(8)	173
Government	65	-	-	3	68
Total	$ 18,768	$ (18)	$ 13	$ 42	$ 18,805

A collateral dependent loan relies solely on the operation or sale of the collateral for repayment. In evaluating the overall risk associated with the loan, the Company considers character, overall financial condition and resources, and payment record of the borrower; the prospects for support from any financially responsible guarantors; and the nature and degree of protection provided by the cash flow and value of any underlying collateral. However, as other sources of repayment become inadequate over time, the significance of the collateral's value increases and the loan may become collateral dependent.

The table below presents the amortized cost basis and allowance for credit losses (“ACL”) allocated for collateral dependent loans in accordance with ASC 326, which are individually evaluated to determine expected credit losses.

(Dollars in thousands)	March 31, 2025					
	Real Estate	Equipment/ Inventory	Accounts Receivable	Vehicles	Total	ACL Allocation
Residential real estate	$ 2,749	$ -	$ -	$ -	$ 2,749	$ 29
Home equity	202	-	-	-	202	-
Commercial real estate	554	-	-	-	554	64
Construction and land development	2,269	-	-	-	2,269	-
Multifamily	1,954	-	-	-	1,954	-
Commercial business	641	1,315	1,324	131	3,411	166
Total	$ 8,369	$ 1,315	$ 1,324	$ 131	$ 11,139	$ 259

(Dollars in thousands)	December 31, 2024					
	Real Estate	Equipment/ Inventory	Accounts Receivable	Vehicles	Total	ACL Allocation
Residential real estate	$ 3,012	$ -	$ -	$ -	$ 3,012	$ 50
Home equity	219				219	-
Commercial real estate	1,598	-	-	-	1,598	43
Construction and land development	2,285	-	-	-	2,285	-
Multifamily	3,550	-	-	-	3,550	-
Commercial business	712	1,399	1,428	144	3,683	191
Total	$ 11,376	$ 1,399	$ 1,428	$ 144	$ 14,347	$ 284

A deferred cost reserve is maintained for the portfolio of manufactured home loans that have been purchased. This reserve is available for use for manufactured home loan nonperformance and costs associated with nonperformance. If the segment performs in line with expectations, the deferred cost reserve is paid as a premium to the third-party originator of the loan. The unamortized balance of the deferred cost reserve totaled $ 2.8 million and $ 2.9 million as of March 31, 2025, and December 31, 2024, respectively, and is included in net deferred loan origination cost.

The following table presents non–accrual loans and loans past due over 90 days still on accrual by class of loans:

As of March 31, 2025 *(Dollars in thousands)*	Non accrual with No Allowance for Credit Loss	Non accrual with Allowance for Credit Loss	Non accrual Loans in Total	Loans Past Due over 90 Days Still Accruing
Residential real estate	$ 1,265	$ 3,761	$ 5,026	$ -
Home equity	165	638	803	-
Commercial real estate	358	656	1,014	-
Construction and land development	659	-	659	-
Multifamily	1,954	-	1,954	-
Commercial business	2,827	200	3,027	-
Total	$ 7,228	$ 5,255	$ 12,483	$ -

As of December 31, 2024 *(Dollars in thousands)*	Non accrual with No Allowance for Credit Loss	Non accrual with Allowance for Credit Loss	Non accrual Loans in Total	Loans Past Due over 90 Days Still Accruing
Residential real estate	$ 1,514	$ 3,150	$ 4,664	$ -
Home equity	179	304	483	-
Commercial real estate	1,078	202	1,280	-
Construction and land development	659	-	659	-
Multifamily	3,362	-	3,362	-
Commercial business	3,099	191	3,290	-
Total	$ 9,891	$ 3,847	$ 13,738	$ -

Accrued interest receivable on loans totaled $ 5.5 million on March 31, 2025, and $5.3 million on December 31, 2024, and is excluded from the estimate of credit losses. The Company made the accounting policy election to not measure an ACL for accrued interest receivable. Accrued interest deemed uncollectible will be written off through interest income.

Liability for Credit Losses on Unfunded Loan Commitments

The liability for credit losses inherent in unfunded loan commitments is included in accrued expenses and other liabilities on the Condensed Consolidated Balance Sheet. The adequacy of the reserve for unfunded commitments is determined quarterly based on methodology similar to the methodology for determining the ACL. The following table shows the changes in the liability for credit losses on unfunded loan commitments.

(Dollars in thousands)	Three months ended, March 31, 2025	Three months ended, March 31, 2024
Balance, beginning of period	$ 2,739	$ 3,441
Recovery of credit for provision	(623)	(42)
Balance, end of period	$ 2,116	$ 3,399

Note 6 – Intangibles and Acquisition-Related Accounting

(Dollars in thousands)	2025	2024
Goodwill balance January 1,	$ 22,395	$ 22,395
Goodwill balance March 31,	$ 22,395	$ 22,395

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible assets in the business acquired. The Company's goodwill relates to the value inherent in the banking industry and that value is dependent upon the ability of the Company to provide quality, cost effective banking services in a competitive marketplace. Goodwill is tested periodically for impairment. If the implied fair value of goodwill is lower than its carrying amount, goodwill impairment is indicated, and goodwill is written down to its implied fair value. There has not been any impairment of goodwill identified or recorded.

In addition to goodwill, a core deposit intangible was established from previous acquisitions. The Company had core deposit intangible balances of $ 1.6 million and $1.9 million as of March 31, 2025, and December 31, 2024, respectively. The table below summarizes the intangibles amortization:

The amortization recorded for the quarter ended March 31, is as follows:

(Dollars in thousands)	Total
2024	$ 360
2025	$ 225

Amortization to be recorded in future periods is as follows:

(Dollars in thousands)	Total
Remainder of 2025	$ 463
2026	360
2027	294
2028	228
2029	162
Thereafter	128
Total	$ 1,635

Note 7 – Deposits

The Company's end-of-period deposit portfolio balances were as follows:

(Dollars in thousands)	March 31, 2025	December 31, 2024
Checking	$ 589,403	$ 591,487
Savings	274,028	275,121
Money market	342,106	333,705
Certificates of deposit	544,847	560,253
Total deposits	$ 1,750,384	$ 1,760,566

The aggregate amount of retail and brokered certificates of deposit with a balance of $250 thousand or more was approximately $ 132.9 million at March 31, 2025 and $141.4 million at December 31, 2024.

At March 31, 2025, scheduled maturities of retail and brokered certificates of deposit were as follows:

	(Dollars in thousands)
2025	$ 494,876
2026	44,418
2027	4,622
2028	729
2029 and thereafter	202
Total	$ 544,847

Note 8 - Concentrations of Credit Risk

The Company grants residential, commercial real estate, commercial business, and installment loans to customers primarily in Lake County in northwest Indiana and Cook County in northeast Illinois. The Company is also an active lender in Porter County, and to a lesser extent, LaPorte, Newton and Jasper counties in Indiana; and DuPage, Lake, and Will counties in Illinois. Substantially all loans are secured by specific items of collateral including residences, commercial real estate, land development, business assets and consumer assets.

Note 9 - Earnings per Share

Earnings per common share is computed by dividing net income by the weighted-average number of common shares outstanding. A reconciliation of the numerators and denominators of the basic and diluted earnings per common share computations for the quarters ended March 31, 2025 and 2024, are as follows:

(dollars in thousands except per share data)	Quarter Ended March 31, 2025	2024
Basic earnings per common share:		
Net income as reported	$ 455	$ 9,279
Weighted average common shares outstanding	4,266,976	4,256,667
Basic earnings per common share	$ 0.11	$ 2.18
Diluted earnings per common share:		
Net income as reported	$ 455	$ 9,279
Weighted average common shares outstanding	4,266,976	4,256,667
Add: Dilutive effect of unvested restricted stock awards	17,520	14,028
Weighted average common and dilutive potential common shares outstanding	4,284,496	4,270,695
Diluted earnings per common share	$ 0.11	$ 2.17

Note 10 - Stock Based Compensation

The Company's 2015 Stock Option and Incentive Plan (the "Plan"), which was adopted by the Company's Board of Directors on February 27, 2015, and approved by the Company's shareholders on April 24, 2015, permits the grant of equity awards for up to 250,000 shares of common stock. The plan was amended and restated effective February 25, 2022. Awards granted under the Plan may be in the form of incentive stock options, non-qualified stock options, unrestricted stock, restricted stock, performance shares, performance units, stock appreciation rights or any combination thereof, as provided in the plan

As required by the Stock Compensation Topic, companies are required to record compensation cost for stock options and awards provided to employees in return for employment service. For the quarter ended March 31, 2025, stock based compensation expense of $98 thousand was recorded, compared to $172 thousand for the quarter ended March 31, 2024. It is anticipated that current outstanding unvested awards will result in additional compensation expense of approximately $0.8 million with a weighted average life of 1.9 years.

Restricted stock awards are issued with an award price equal to the market price of the Company's common stock on the award date and vest three years after the grant date. Forfeiture provisions exist for personnel that separate employment before the vesting period expires. A summary of restricted stock activity under the Company's Plan described above for the quarter ended March 31, 2025, follows:

Non-vested Shares	*Shares*	*Weighted Average Grant Date Fair Value*
Non-vested at January 1, 2025	44,570	$ 36.74
Granted	14,826	26.53
Vested	(12,609)	26.38
Forfeited	(109)	29.13
Non-vested at March 31, 2025	46,678	$ 36.31

Note 11 – Derivative Financial Instruments

The Company uses derivative financial instruments to help manage exposure to interest rate risk and the effects that changes in interest rates may have on net income and the fair value of assets and liabilities. The Company has certain interest rate derivative positions that are not designated as hedging instruments. Derivative assets and liabilities are recorded at fair value on the Condensed Consolidated Balance Sheet and do not take into account the effects of master netting agreements. Master netting agreements allow the Company to settle all derivative contracts held with a single counterparty on a net basis, and to offset net derivative positions with related collateral, where applicable. These derivative positions relate to transactions in which the Company enters into an interest rate swap with a client while at the same time entering into an offsetting interest rate swap with another financial institution. In connection with each transaction, the Company agrees to pay interest to the client on a notional amount at a variable interest rate and receive interest from the client on the same notional amount at a fixed interest rate. At the same time, the Company agrees to pay another financial institution the same fixed interest rate on the same notional amount and receive the same variable interest rate on the same notional amount. The transaction allows the client to effectively convert a variable rate loan to a fixed rate. Because the terms of the swaps with the customers and the other financial institutions offset each other, with the only difference being counterparty credit risk, changes in the fair value of the underlying derivative contracts are not materially different and do not significantly impact the Company's results of operations.

The Company enters into commitments to originate loans whereby the interest rate on the loan is determined prior to funding (i.e., interest rate lock commitment). The interest rate lock commitments are considered derivatives and are recorded on the accompanying condensed consolidated balance sheets at fair value in accordance with FASB ASC 815, Derivatives and Hedging.

The following table shows the amounts of non-hedging derivative financial instruments:

March 31, 2025

	Asset derivatives		Liability derivatives	
(Dollars in thousands)	Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	Other assets	$ 4,382	Other liabilities	$ 4,382
Interest rate lock commitments	Other assets	47	N/A	-
Total		$ 4,429		$ 4,382

December 31, 2024

	Asset derivatives		Liability derivatives	
(Dollars in thousands)	Statement of Financial Condition classification	Fair value	Statement of Financial Condition classification	Fair value
Interest rate swap contracts	Other assets	$ 5,486	Other liabilities	$ 5,486
Interest rate lock commitments	Other assets	24	N/A	-
Total		$ 5,510		$ 5,486

The following table shows the amounts included in the Statements of Income for non-hedging derivative financial instruments:

		Quarter Ended March 31,	
(Dollars in thousands)	Statement of Income Classification	2025	2024
Interest rate swap contracts	Fees and service charges	$ (30)	$ (30)
Interest rate lock commitments	Gain on sale of loans held-for-sale, net	(35)	8
Total		$ (65)	$ (22)

The following table shows the offsetting of financial assets and derivative assets:

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		Net Amount
				Financial Instruments	Cash Collateral Received	
March 31, 2025						
Interest rate swap contracts	$ 4,382	$ -	$ 4,382	$ -	$ 3,630	$ 752
Interest rate lock commitments	47	-	47	-	-	47
Total	$ 4,429	$ -	$ 4,429	$ -	$ 3,630	$ 799

(Dollars in thousands)	Gross Amounts of Recognized Assets	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		Net Amount
				Financial Instruments	Cash Collateral Received	
December 31, 2024						
Interest rate swap contracts	$ 5,486	$ -	$ 5,486	$ -	$ 5,120	$ 366
Interest rate lock commitments	82	-	82	-	-	82
Total	$ 5,568	$ -	$ 5,568	$ -	$ 5,120	$ 448

The following table shows the offsetting of financial liabilities and derivative liabilities:

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		Net Amount
				Financial Instruments	Cash Collateral Pledged	
March 31, 2025						
Interest rate swap contracts	$ 4,382	$ -	$ 4,382	$ -	$ -	$ 4,382

(Dollars in thousands)	Gross Amounts of Recognized Liabilities	Gross Amounts Offset in the Statement of Financial Condition	Net Amounts of Assets Presented in the Statement of Financial Condition	Gross Amounts not Offset in the Statement of Financial Condition		Net Amount
				Financial Instruments	Cash Collateral Pledged	
December 31, 2024						
Interest rate swap contracts	$ 5,486	$ -	$ 5,486	$ -	$ -	$ 5,486

Note 12 - Fair Value

The Fair Value Measurements Topic establishes a hierarchy that requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The Topic describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

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

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

The fair values of securities available-for-sale are determined on a recurring basis by obtaining quoted prices on nationally recognized securities exchanges or pricing models utilizing significant observable inputs such as matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities. Different judgments and assumptions used in pricing could result in different estimates of value. In certain cases where market data is not readily available because of a lack of market activity or little public disclosure, values may be based on unobservable inputs and classified in Level 3 of the fair value hierarchy.

The Company evaluates AFS security impairment on a quarterly basis. This allows the Company to maintain the same amortized cost basis of the securities before and after adoption date. The Company has $173 thousand of previously recorded credit impairment on collateralized debt obligations. The Company believes this continues to represent the expected credit losses of the amortized cost basis, therefore, has maintained an ACL for AFS debt securities. The ACL is monitored quarterly and is measured by evaluating the present value of cash flows as compared to the amortized cost basis of the security. To the extent that there are improvements in credit related to these securities, the ACL will be reduced to account for the improvements. If any improvements in credit exceed the amount of previously reduced amortized cost bases, recoveries will be recorded through the income statement in the period received. The allowance for collateralized debt credit losses was at $173 thousand at March 31, 2025 and December 31, 2024.

The Company's subordination for each collateralized debt obligation is calculated by taking the total performing collateral and subtracting the sum of the total collateral within the Company's class and the total collateral within all senior classes, and then stating this result as a percentage of the total performing collateral. This measure is an indicator of the level of collateral that can default before potential cash flow disruptions may occur. In addition, management calculates subordination assuming future collateral defaults by utilizing the default/deferral assumptions in the Company's impairment analysis. Subordination assuming future default/deferral assumptions is calculated by deducting future defaults from the current performing collateral. At March 31, 2025 and December 31, 2024, management reviewed the subordination levels for each security in context of the level of current collateral defaults and deferrals within each security; the potential for additional defaults and deferrals within each security; the length of time that the security has been in "payment in kind" status; and the Company's class position within each security.

At March 31, 2025 and December 31, 2024, the collateralized debt obligations with a cost basis of $ 2.2 million have been placed in "payment in kind" status. The Company's securities that are classified as "payment in kind" are a result of not receiving the scheduled quarterly interest payments. For the securities in "payment in kind" status, management anticipates to receive the unpaid contractual interest payments from the issuer, because of the self-correcting cash flow waterfall provisions within the structure of the securities. When a tranche senior to the Company's position fails the coverage test, the Company's interest cash flows are paid to the senior tranche and recorded as a reduction of principal. The coverage test represents an over collateralization target by stating the balance of the performing collateral as a percentage of the balance of the Company's tranche, plus the balance of all senior tranches. The principal reduction in the senior tranche continues until the appropriate coverage test is passed. As a result of the principal reduction in the senior tranche, more cash is available for future payments to the Company's tranche. Management will not capitalize the "payment in kind" interest payments to the book value of the securities and will keep these securities in non-accrual status until the quarterly interest payments resume.

The fair value of the Company's interest rate swap contracts, both assets and liabilities, are valued by a third- party pricing agent using an income approach and are classified within Level 2 of the valuation hierarchy.

The fair value of the Company’s interest rate lock commitments is based on the price of the underlying loans expected to be sold to an investor while taking into consideration the probability the rate lock commitments will close and are classified within Level 2 of the valuation hierarchy. The Company utilized a third party pricing service for classifying and valuing the fair value of collateralized debt obligations held. These securities were categorized as unobservable Level 3 and priced using an Option-Adjusted Discounted Cash flow model to value these securities. The significant inputs to this model include yield, prepayment speed, default rate, and loss severity.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

There were no transfers to or from Levels 1 and 2 during the quarter ended March 31, 2025 and the year ended December 31, 2024. Changes in Level 3 assets relate to the result of change in estimated fair values, payments received, and sales of securities that have been classified as Level 3 during the quarter ended March 31, 2025 and all of 2024. Assets measured at fair value on a recurring basis are summarized below:

		Fair Value Measurements at March 31, 2025 Using		
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap contracts	$ 4,382	$ -	$ 4,382	$ -
Interest rate lock commitments	47	-	47	-
Available-for-sale debt securities:				
U.S. government sponsored entities	8,215	-	8,215	-
Collateralized mortgage obligations and residential mortgage-backed securities	109,583	-	109,583	-
Municipal securities	210,699	-	210,699	-
Collateralized debt obligations	1,630	-	-	1,630
Total securities available-for-sale	$ 330,127	$ -	$ 328,497	$ 1,630
Liabilities:				
Interest rate swap contracts	$ 4,382	$ -	$ 4,382	$ -

		Fair Value Measurements at December 31, 2024 Using		
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Interest rate swap contracts	$ 5,486	$ -	$ 5,486	$ -
Interest rate lock commitments	82	-	82	-
Available-for-sale debt securities:				
U.S. government sponsored entities	8,061	-	8,061	-
Collateralized mortgage obligations and residential mortgage-backed securities	109,325	-	109,325	-
Municipal securities	214,749	-	214,749	-
Collateralized debt obligations	1,419	-	-	1,419
Total securities available-for-sale	$ 333,554	$ -	$ 332,135	$ 1,419
Liabilities:				
Interest rate swap contracts	$ 5,486	$ -	$ 5,486	$ -

A reconciliation of available-for-sale securities, which require significant adjustment based on unobservable data, are presented in the following table:

	(Dollars in thousands) *Estimated Fair Value Measurements Using Significant Unobservable Inputs (Level 3)*
	Available-for-sale securities
Beginning balance, January 1, 2025	$ 1,419
Principal payments	(4)
Total unrealized gains, included in other comprehensive loss	215
Ending balance, March 31, 2025	$ 1,630
Beginning balance, January 1, 2024	$ 1,357
Principal payments	(4)
Total unrealized gains, included in other comprehensive loss	89
Ending balance, March 31, 2024	$ 1,442

Assets measured at fair value on a non-recurring basis are summarized below:

		Fair Value Measurements at March 31, 2025 Using		
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ -	$ -	$ -	$ -

		Fair Value Measurements at December 31, 2024 Using		
(Dollars in thousands)	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Collateral dependent loans	$ 1,496	$ -	$ -	$ 1,496

Significant (Level 3) Inputs

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

(Dollars in thousands)	Fair Value at March 31, 2025	Valuation Technique	Significate Unobservable Inputs	Range	Weighted-Average Range
Collateral dependent loans	$ -	Fair value of collateral	Discount for type of property and current market conditions	0% - 80%	0%

(Dollars in thousands)	Fair Value at December 31, 2024	Valuation Technique	Significate Unobservable Inputs	Range	Weighted-Average Range
Collateral dependent loans	$ 1,496	Fair value of collateral	Discount for type of property and current market conditions	0% - 80%	8%

The following table shows carrying values and related estimated fair values of financial instruments not carried at fair value in the condensed consolidated balance sheets as of the dates indicated. Estimated fair values are further categorized by the inputs used to measure fair value. Items that are not financial instruments are not included.

	March 31, 2025		Estimated Fair Value Measurements at March 31, 2025 Using		
(Dollars in thousands)	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 72,367	$ 72,367	$ 72,367	$ -	$ -
Loans held-for-sale	2,849	2,913	-	2,913	-
Loans receivable, net	1,473,741	1,424,533	-	-	1,424,533
Federal Home Loan Bank stock	6,547	6,547	-	6,547	-
Accrued interest receivable	7,821	7,821	-	7,821	-
Financial liabilities:					
Non-interest bearing deposits	$ 281,461	$ 281,461	$ 281,461	$ -	$ -
Interest bearing deposits	1,468,923	1,468,595	924,076	544,519	-
Repurchase agreements	45,053	44,915	37,163	7,752	-
Borrowed funds	56,657	56,384	-	56,384	-
Accrued interest payable	654	654	-	654	-

	December 31, 2024		Estimated Fair Value Measurements at December 31, 2024 Using		
(Dollars in thousands)	Carrying Value	Estimated Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial assets:					
Cash and cash equivalents	$ 70,584	$ 70,584	$ 70,584	$ -	$ -
Loans held-for-sale	1,253	1,277	-	1,277	-
Loans receivable, net	1,492,065	1,435,148	-	-	1,435,148
Federal Home Loan Bank stock	6,547	6,547	-	6,547	-
Accrued interest receivable	7,721	7,721	-	7,721	-
Financial liabilities:					
Non-interest bearing deposits	$ 263,324	$ 263,324	$ 263,324	$ -	$ -
Interest bearing deposits	1,497,242	1,496,638	936,989	559,649	-
Repurchase agreements	40,116	39,960	32,364	7,596	-
Borrowed funds	65,000	63,432	-	63,432	-
Accrued interest payable	620	620	-	620	-

The following methods were used to estimate the fair value of financial instruments presented in the preceding table at March 31, 2025 and December 31, 2024:

Cash and cash equivalent carrying amounts approximate fair value. The fair values of securities available-for-sale are obtained from broker pricing (Level 2), with the exception of collateralized debt obligations, which are valued by a third-party specialist (Level 3). Loans held-for-sale comprise residential mortgages and are priced based on values established by the secondary mortgage markets (Level 2). The estimated fair value for net loans receivable is based on the exit price notion which is the exchange price that would be received to transfer the loans at the most advantageous market price in an orderly transaction between market participants on the measurement date (Level 3). Federal Home Loan Bank stock is estimated at book value due to restrictions that limit the sale or transfer of the security. Interest rate swap agreements, both assets and liabilities, are valued by a third-party pricing agent using an income approach (Level 2). Fair values of accrued interest receivable and payable approximate book value, as the carrying values are determined using the observable interest rate, balance, and last payment date.

Non-interest and interest bearing deposits, which include checking, savings, and money market deposits, are estimated to have fair values based on the amount payable as of the reporting date (Level 1). The fair value of fixed-maturity certificates of deposit (included in interest bearing deposits) are based on estimates of the rate the Company would pay on similar deposits, applied for the time period until maturity (Level 2). Estimated fair values for short-term repurchase agreements, which represent sweeps from demand deposits to accounts secured by pledged securities, are estimated based on the amount payable as of the reporting date (Level 1). Longer-term repurchase agreements, with contractual maturity dates of quarter or more, are based on estimates of the rate the Company would pay on similar deposits, applied for the time period until maturity (Level 2). Short-term borrowings are generally only held overnight, therefore, their carrying amount is a reasonable estimate of fair value (Level 1). The fair value of FHLB Advances are estimated by discounting the future cash flows using quoted rates from the FHLB for similar advances with similar maturities (Level 2). The estimated fair value of other financial instruments, and off-balance sheet loan commitments, approximate cost and are not considered significant to this presentation.

Note 13 - Borrowings

At March 31, 2025, and December 31, 2024, borrowed funds are summarized below:

	(Dollars in thousands)	
	March 31, 2025	*December 31, 2024*
FHLB Line of Credit variable rate of 4.68% at March 31, 2025	$ 1,657	$ -
FHLB Fixed rate advance with outstanding rate of 4.85%, maturing May 16, 2025	10,000	10,000
FHLB Fixed rate advance with outstanding rate of 4.77%, maturing May 19, 2025	10,000	10,000
FHLB Fixed rate advance with outstanding rate of 3.63%, maturing March 7, 2028 (1)	10,000	-
FHLB Fixed rate advance with outstanding rate of 3.38%, maturing August 7, 2028 (1)	-	10,000
FHLB Fixed rate advance with outstanding rate of 3.22%, maturing August 7, 2029 (1)	-	10,000
FHLB Fixed rate advance with outstanding rate of 3.84%, maturing August 28, 2029 (1)	15,000	15,000
FHLB Fixed rate advance with outstanding rate of 3.74%, maturing August 28, 2029 (1)	10,000	10,000
Total	$ 56,657	$ 65,000

(1) FHLB retains putable option to call these advances after a period of time

At March 31, 2025, scheduled maturities of borrowed funds were as follows:

	(Dollars in thousands)
2025	$ 21,657
2026	-
2027	-
2028	10,000
2029	25,000
Total	$ 56,657

The Company's liquidity position remains strong with solid core deposit customer relationships, excess cash, debt securities, and access to diversified borrowing sources. The Company has available liquidity of $899.8 million including borrowing capacity from the FHLB and Federal Reserve facilities and other sources. The Company also maintains a $25.0 million line of credit with the Federal Home Loan Bank of Indianapolis. The Company has a $1.7 million balance on the line of credit at March 31, 2025, compared to none at December 31, 2024. The Company did not have other borrowings at March 31, 2025, or as of December 31, 2024.

Note 14 - Leases

Under ASC 842, operating lease expense is generally recognized on a straight-line basis over the term of the lease. On February 22, 2024, the Bank closed its previously announced sale-leaseback transaction with MountainSeed Real Estate Services, LLC (the "Buyer"), pursuant to which the Bank sold to the Buyer five properties owned and operated as branch locations (the "Properties") for an aggregate purchase price of $ 17.2 million, including customary closing adjustments. Under the Sale Agreement, the Bank also entered into triple net lease agreements (the "Lease Agreements") with the Buyer under which the Bank leases each of the Properties, and pursuant to which the Bank is responsible for the insurance, real estate taxes, and maintenance and repairs for each of the properties. Each of the Lease Agreements became effective upon the closing of the sale-leaseback transaction and have an initial term of 15 years. The Bank's obligations under the Lease Agreements are guaranteed by the Company.

As the rate implicit in the leases generally is not readily determinable for our operating leases, the discount rates used to determine the present value of our lease liability are based on our incremental borrowing rate at the lease commencement date and commensurate with the remaining lease term. Our incremental borrowing rate for a lease is the rate of interest we would have to pay to borrow on a collateralized basis over a similar term an amount equal to the lease payments in a similar economic environment. Leases with an initial term of 12 months or less are not recorded on the balance sheet and are excluded from our weighted-average remaining lease term.

The following table summarizes supplemental cash flow and other information related to our operating leases:

(Dollars in thousands)	Quarter Ended March 31, 2025	2024
Gain on sale-leaseback transaction, net	$ -	$ (11,772)
Operating cash flows		
Cash paid for amounts included in the measurement of lease liabilities for leases	397	176
Right of Use assets obtained in the exchange for lease liabilities - Operating leases	-	16,140
Weighted-average remaining lease terms (in years) - Operating leases	14	15
Weighted-average discount rate - Operating leases	7.66%	7.68%
Variable lease payments	$ 70	$ -
Operating lease costs	481	327
Total lease costs (1)	$ 551	$ 327

(1) Included in Occupancy and equipment costs on the condensed consolidated statements of income

The following table represents the maturity of the Company's operating lease liabilities as of March 31, 2025:

(Dollars in thousands)

Maturity Analysis	
Remainder 2025	$ 1,196
2026	1,622
2027	1,657
2028	1,692
2029	1,679
Thereafter	16,798
Total	24,644
Less: Present value discount	(9,748)
Lease liability	$ 14,896

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Summary

Finward Bancorp (the "Company") is a financial holding company registered with the Board of Governors of the Federal Reserve System. Peoples Bank ("the Bank"), an Indiana commercial bank, is a wholly-owned subsidiary of the Company. The Company has no other business activity other than being a holding company for the Bank. The following management's discussion and analysis presents information concerning our financial condition as of March 31, 2025, as compared to December 31, 2024, and the results of operations for the quarter ending March 31, 2025, and March 31, 2024. This discussion should be read in conjunction with the condensed consolidated financial statements and other financial data presented elsewhere herein and with the financial statements and other financial data, as well as the Management's Discussion and Analysis of Financial Condition and Results of Operations, included in the Company's Annual Report on Form 10-K for the year ended December 31, 2024.

On March 31, 2025, the Company had total assets of $2.0 billion, loans receivable, net of deferred fees and costs, of $1.5 billion and total deposits of $1.8 billion. Stockholders' equity totaled $151.8 million or 7.4% of total assets, with a book value per share of $35.10. Net income for the quarter ended March 31, 2025, was $455 thousand, or $0.11 earnings per diluted common share. For the quarter ended March 31, 2025, the return on average assets (ROA) was 0.09%, while the return on average stockholders' equity (ROE) was 1.17%.

Regulatory Developments Regarding the Company and the Bank

Consent Order

On November 7, 2023, the Bank entered into a Stipulation and Consent to the Issuance of a Consent Order (the "Stipulation") with the FDIC and the Indiana Department of Financial Institutions ("DFI"), consenting to the issuance of a consent order (the "Order") relating to the Bank's compliance with the Bank Secrecy Act and its implementing regulations (collectively, the "BSA"). In consenting to the issuance of the Order, the Bank did not admit or deny any charges of unsafe or unsound banking practices or violations of law or regulation relating to its BSA compliance. The Order is based on findings of the FDIC and DFI during their joint examination commencing in February 2023 (the "Examination"). Since the completion of the Examination, the board of directors and management of the Company and the Bank have aggressively taken an active role in working to address the findings contained in the Examination and have proactively taken steps to comply with the requirements of the Order prior to its effectiveness, as further discussed below.

Under the terms of the Order, the Bank or its board of directors is required to take certain affirmative actions to comply with the Bank's obligations under the BSA. These affirmative actions include, but are not limited to, the following: strengthening the board of directors' oversight of the Bank's BSA activities; developing, adopting, and implementing a revised BSA compliance program; developing a revised system of internal controls designed to ensure full compliance with the BSA; retaining management qualified to oversee the Bank's BSA compliance program, including retaining a qualified BSA officer; assessing BSA staffing needs and identifying staff positions and personnel for BSA compliance; developing, adopting, and implementing a revised BSA training program; developing, adopting, and implementing a revised suspicious activity reporting program; implementing a board-approved customer due diligence program, and reviewing and enforcing enhanced customer due diligence and risk assessment procedures; eliminating or correcting certain violations of BSA law and regulations, and correcting BSA program weaknesses; ensuring that all reports required by the BSA are accurately and properly filed; and developing and implementing a written plan to review past account and transaction activity to determine whether suspicious activity was properly identified and reported.

Prior to implementation, certain of the actions required by the Order are subject to review by, and approval or non-objection from, the FDIC and the DFI. The Order will remain in effect and enforceable until it is modified, terminated, suspended, or set aside by the FDIC and DFI.

Numerous actions have been taken to date by the Bank to strengthen its BSA and anti-money laundering compliance practices, policies, procedures, and controls. In this regard, the Bank began developing corrective actions prior to the entry of the Order and expects that it will be able to undertake and implement all required actions within the time periods specified in the Order. These actions include, without limitation, the formation of a Risk Management and Compliance Committee of the board of directors, consisting solely of independent directors, to assist the board in overseeing compliance efforts; enhancing the Bank's risk management and compliance programs through restructuring reporting lines; improving technology and increasing BSA compliance staff, including hiring senior personnel; making additional investments into processes and system upgrades to strengthen anti-money laundering controls; enhancing education and training of the Bank's employees responsible for BSA and anti-money laundering compliance; and conducting a look-back review of accounts and transaction activity to identify and properly report suspicious activity and appointing a new Senior Vice President, General Counsel, Corporate Secretary, and Chief Risk Officer of the Company and the Bank with oversight responsibility over the Bank's enhanced risk management infrastructure, including BSA compliance.

The Bank has incurred and will continue to incur additional non-interest expenses associated with the implementation of the corrective actions set forth in the Order. However, these expenses are not expected to have a material impact on the results of operations or financial condition of the Company or the Bank.

Memorandum of Understanding

On August 9, 2024, the Bank entered into a memorandum of understanding ("MOU") with the FDIC and DFI. The MOU is an informal administrative agreement pursuant to which the Bank has agreed to take various actions and comply with certain requirements to enhance certain areas of the Bank's operations. The MOU documents an understanding among the Bank, the FDIC, and DFI that, among other things, the Bank will: refrain from paying cash dividends without prior regulatory approval and develop and implement certain plans regarding the Bank's operations, capital, and strategy. The Bank will submit written quarterly progress reports to the FDIC and DFI detailing compliance with the MOU. The MOU will remain in effect until modified or terminated by the FDIC and DFI.

Management does not expect the actions called for by these regulatory actions to have a substantial impact on the Company's or the Bank's ongoing day-to-day operations, although they may have the effect of limiting or delaying the Company's or the Bank's ability or plans to expand and engage in business acquisitions.

Financial Condition

General

During the quarter ended March 31, 2025, total assets decreased by $21.0 million (1.0%), with interest-earning assets decreasing by $18.0 million (0.9%). At March 31, 2025, interest-earning assets totaled $1.89 billion compared to $1.90 billion at December 31, 2024. Earning assets represented 92.4% of total assets at March 31, 2025, and 92.3% of total assets at December 31, 2024.

Loan Portfolio

Net loans receivable totaled $1.49 billion at March 31, 2025, compared to $1.51 billion at December 31, 2024. The loan portfolio, which is the Company's largest asset, is the primary source of both interest and fee income. The Company's lending strategy emphasizes quality loan growth, product diversification, and competitive and profitable pricing.

The Company's end-of-period loan balances were as follows:

(Dollars in thousands)	March 31, 2025		December 31, 2024	
	Balance	% Loans	Balance	% Loans
Residential real estate	$ 458,424	30.8%	$ 467,293	31.0%
Home equity	49,752	3.3	49,758	3.3
Commercial real estate	554,866	37.2	551,674	36.6
Construction and land development	86,728	5.8	82,874	5.5
Multifamily	204,964	13.8	212,455	14.1
Commercial business	99,519	6.7	104,246	6.9
Consumer	504	0.0	551	0.0
Manufactured Homes	25,762	1.7	26,708	1.8
Government	9,279	0.6	11,024	0.7
Gross loans receivable	1,489,798	100.0%	1,506,583	100.0%
Plus:				
Net deferred loans origination costs	2,209		2,439	
Loan clearing funds	(311)		(46)	
Loans receivable, net of deferred fees and costs	$ 1,491,696		$ 1,508,976	
Adjustable rate loans / loans receivable	$ 772,439	51.8%	$ 793,920	52.7%

Our total commercial real estate portfolio (which includes but is not limited to loans secured by office space, medical office space, and mixed-use retail/office space) totaled $554.9 million as of March 31, 2025, compared to $551.7 million as of December 31, 2024. Given prevailing market conditions such as continued elevated interest rate levels and reduced occupancy as a result of the increase in hybrid work arrangements, we are carefully monitoring these loans for signs of deterioration in credit quality.

Commercial real estate loans remained our largest loan segment and accounted for 37.2% of the total loan portfolio at March 31, 2025, and 36.6% at December 31, 2024. A further breakdown of the composition of the commercial real estate loan portfolio as of March 31, 2025, and December 31, 2024 is shown in the table below:

Commercial Real Estate (CRE)

(Dollars in thousands)	March 31, 2025			December 31, 2024		
	# Loans	**$ Amount**	**% of Total Gross Loans**	**# Loans**	**$ Amount**	**% of Total Gross Loans**
CRE Owner Occupied (CRE OO)						
Food services & drinking places	67	$ 30,534	2.0%	65	$ 30,481	2.0%
Gasoline stations & fuel dealers	30	30,154	2.0%	28	28,957	1.9%
Ambulatory health care services	33	28,526	1.9%	33	28,891	1.9%
Repair and maintenance	37	16,300	1.1%	34	16,050	1.1%
Specialty trade contractors	32	13,168	0.9%	31	13,265	0.9%
Merchant wholesalers, durable goods	13	12,134	0.8%	13	12,332	0.8%
Truck transportation	15	11,510	0.8%	12	10,350	0.7%
Personal and laundry services	31	10,474	0.7%	31	10,673	0.7%
Professional, scientific, and technical services	26	10,120	0.7%	26	10,266	0.7%
Other	191	84,467	5.7%	195	85,344	5.7%
Total CRE Owner Occupied (CRE OO)	475	$ 247,387	16.6%	468	$ 246,609	16.4%
CRE Non Owner Occupied (CRE NOO)						
Strip centers - lessors	166	$ 139,755	9.4%	165	$ 140,360	9.3%
Hotels	18	48,081	3.2%	18	48,659	3.2%
Industrial properties - lessors	62	46,340	3.1%	60	43,581	2.9%
Office properties - lessors	57	40,421	2.7%	57	38,472	2.6%
Special use - lessors	10	11,420	0.8%	10	11,527	0.8%
MiniWarehouses - lessors	17	8,373	0.6%	17	8,011	0.5%
Big box retail - lessors	2	8,112	0.5%	2	8,201	0.5%
Other	12	4,977	0.3%	14	6,254	0.4%
Total CRE Non Owner Occupied (CRE NOO)	344	$ 307,479	20.6%	343	$ 305,065	20.2%
Total Commercial Real Estate (OO & NOO)	819	$ 554,866	37.2%	811	$ 551,674	36.6%
Total Gross Loans		**$ 1,489,798**			**$ 1,506,583**	

The Bank's Appraisal Policy and Procedures is Board approved annually and reflects current regulatory guidelines and recommendations. As one of the primary factors in commercial loan underwriting is the quality of the asset being pledged as collateral, it is imperative that the appraisal process receive appropriate attention. Appraisals must be prepared in accordance with high professional standards, by appraisers who have the necessary training, experience and knowledge for them to provide an accurate estimate of value. With few exceptions, appraisals are assigned to fee appraisers named in the Board approved appraiser list, which includes the tracking of all required certifications, licenses and insurance. The Bank has engaged with one of the nation's longest-standing third-party appraisal management companies for ordering, management, fulfillment and review of real estate appraisals and other valuation-related services for the properties securing the Bank's commercial real estate loans.

Criteria that may require the Bank to obtain a new appraisal or update the existing value for an existing credit include but are not limited to a change in the discount or capitalization rates for a particular location or property type; occupancy or absorption levels; market trends; and/or expense structure. Regarding the necessity of updated valuations for construction financing, factors considered are material changes in construction delays; cost overruns; or reductions in sales prices / rents. This may be done as a part of a renewal, loan workout or as a part of the usual and customary real estate review process that monitors the risks associated with the Bank's loan portfolios.

The following table sets forth certain information at March 31, 2025, regarding the dollar amount of loans in the Company's portfolio based on their contractual terms to maturity. Demand loans, loans having no schedule of repayment and no stated maturity, and overdrafts are reported as due in one year or less. Contractual principal repayments of loans do not necessarily reflect the actual term of the loan portfolio. The average life of mortgage loans is substantially less than their contractual terms because of loan prepayments and because of enforcement of due-on-sale clauses, which give the Company the right to declare a loan immediately due and payable in the event, among other things, that the borrower sells the property subject to the mortgage. The amounts are stated in thousands (000's).

	Maturing within one year	After one but within five years	After five but within fifteen years	After fifteen years	Total
Residential real estate	$ 6,115	$ 19,480	$ 85,913	$ 346,916	$ 458,424
Home equity	7,823	129	5,393	36,407	49,752
Commercial real estate	33,696	144,822	375,715	633	554,866
Construction and land development	29,835	14,959	34,592	7,342	86,728
Multifamily	31,552	59,219	114,193	-	204,964
Commercial business	39,731	41,184	18,511	93	99,519
Consumer	246	258	-	-	504
Manufactured homes	1	140	8,824	16,797	25,762
Government	-	8,113	1,166	-	9,279
Total loans receivable	$ 148,999	$ 288,304	$ 644,307	$ 408,188	$ 1,489,798

The Company is primarily a portfolio lender. Mortgage banking activities historically have been limited to the sale of fixed rate mortgage loans with contractual maturities greater than 15 years. These loans are identified as held for sale when originated and sold, on a loan-by-loan basis, in the secondary market. The Company will also retain fixed rate mortgage loans with a contractual maturity greater than 15 years on a limited basis. During the three months ended March 31, 2025, the Company originated $9.6 million in new fixed rate mortgage loans for sale, compared to $3.8 million during the three months ended March 31, 2024. Net gains realized from the mortgage loan sales totaled $230 thousand for the three months ended March 31, 2025, compared to $152 thousand for the three months ended March 31, 2024. The increase in originations and increase in net gains realized from mortgage loan sales for the three months ended March 31, 2025, compared to the prior year period is due to the receipt of additional gain on sale based on loan performance from loans sold to Federal Home Loan Bank of Indianapolis in previous years. At March 31, 2025, the Company had $2.8 million in loans that were classified as held for sale, compared to $1.3 million at December 31, 2024.

Asset Quality

Non-performing loans include those loans that are 90 days or more past due and those loans that have been placed on non-accrual status. The Company will at times maintain certain loans on accrual status, despite being over 90 days past due, for short periods of time when management has reason to believe payments are in the process of being received.

The Company's nonperforming loans are summarized below:

(Dollars in thousands)

Loan Segment	March 31, 2025	December 31, 2024
Residential real estate	$ 5,026	$ 4,665
Home equity	803	483
Commercial real estate	1,014	1,280
Construction and land development	659	658
Multifamily	1,954	3,362
Commercial business	3,027	3,290
Total	$ 12,483	$ 13,738
Nonperforming loans to total loans	0.84%	0.91%
Nonperforming loans to total assets	0.61%	0.67%

Substandard loans include potential problem loans, where information about possible credit issues or other conditions causes management to question the ability of such borrowers to comply with loan covenants or repayment terms. No loans were internally classified as doubtful or loss at March 31, 2025 or December 31, 2024.

The Company's substandard loans are summarized below:

(Dollars in thousands)

Loan Segment	March 31, 2025	December 31, 2024
Residential real estate	$ 5,114	$ 4,754
Home equity	810	490
Commercial real estate	554	1,598
Construction and land development	2,269	2,285
Multifamily	1,954	3,550
Commercial business	3,027	3,290
Manufactured homes	-	54
Total	$ 13,728	$ 16,021

In addition to identifying and monitoring non-performing and other classified loans, management maintains a list of special mention loans. Special mention loans represent loans management is closely monitoring due to one or more factors that may cause the loan to become classified as substandard.

The Company's special mention loans are summarized below:

(Dollars in thousands)

Loan Segment	March 31, 2025	December 31, 2024
Residential real estate	$ 4,477	$ 4,291
Home equity	655	459
Commercial real estate	11,732	8,008
Construction and land development	1,596	3,675
Multifamily	2,582	5,329
Commercial business	2,997	3,528
Manufactured homes	38	-
Total	$ 24,077	$ 25,290

At March 31, 2025, management is of the opinion that there are no loans where known information about possible credit problems of borrowers causes management to have serious doubts as to the ability of such borrowers to comply with the present loan repayment terms and which will imminently result in such loans being classified as past due or non-accrual. Management does not presently anticipate that any of the non-performing loans or classified loans would materially affect future operations, liquidity or capital resources.

The allowance for credit losses (ACL) is a valuation allowance for expected losses over the estimated life of loan portfolio, increased by the provision for credit losses, and decreased by charge-offs net of recoveries. A loan is charged off against the allowance by management as a loss when deemed uncollectible, although collection efforts continue and future recoveries may occur. The determination of the amounts of the ACL and provisions for credit losses is based on management’s current judgments about the credit quality of the loan portfolio with consideration given to all known relevant internal and external factors that affect loan collectability and reasonable and supportable forecasts as of the reporting date. The appropriateness of the current period provision and the overall adequacy of the ACL are determined through a disciplined and consistently applied quarterly process that reviews the Company’s current credit risk within the loan portfolio and identifies the required allowance for credit losses given the current risk estimates.

The Company's provision for credit losses on loans are summarized below:

(Dollars in thousands)

Loan Segment	March 31, 2025	March 31, 2024
Residential real estate	$ (2,055)	$ 23
Home equity	(213)	39
Commercial real estate	3,209	211
Construction and land development	(1,007)	(750)
Multifamily	1,225	24
Commercial business	55	484
Consumer	9	16
Manufactured homes	(123)	(8)
Government	(23)	3
Total	$ 1,077	$ 42

The Company's charge-off and recovery information is summarized below:

(Dollars in thousands)

	For the quarter ended March 31, 2025		
Loan Segment	Charge-off	Recoveries	Net (Charge-offs)
Residential real estate	$ -	$ 16	$ 16
Commercial real estate	-	4	4
Multifamily	(46)	10	(36)
Commercial business	(61)	55	(6)
Consumer	(12)	1	(11)
Total	$ (119)	$ 86	$ (33)

(Dollars in thousands)

	For the quarter ended March 31, 2024		
Loan Segment	Charge-off	Recoveries	Net (Charge-offs)
Residential real estate	$ -	$ 10	$ 10
Commercial business	-	2	2
Consumer	(18)	1	(17)
Total	$ (18)	$ 13	$ (5)

The ACL provisions take into consideration management's current judgments about the credit quality of the loan portfolio, loan portfolio balances, changes in the portfolio mix, and local economic conditions. In determining the provision for credit losses for the current period, management has considered risks associated with the local economy, changes in loan balances and mix, and asset quality.

The Company's allowance to total loans and non-performing loans are summarized below:

(Dollars in thousands)

	March 31, 2025	December 31, 2024
Allowance for credit losses	$ 17,955	$ 16,911
Total loans	$ 1,491,696	$ 1,508,976
Non-performing loans	$ 12,483	$ 13,738
ACL-to-total loans	1.20%	1.12%
ACL-to-non-performing loans (coverage ratio)	143.8%	123.1%

Investment Portfolio

The primary objective of the Company's investment portfolio is to provide for the liquidity needs of the Company and to contribute to profitability by providing a stable flow of dependable earnings. Funds are generally invested in federal funds, interest bearing balances in other financial institutions, U.S. government securities, U.S. treasury securities, federal agency obligations, obligations of state and local municipalities, and corporate securities. The securities portfolio, all of which is designated as available-for-sale, totaled $330.1 million at March 31, 2025, compared to $333.6 million at December 31, 2024, a decrease of $3.5 million (1.0%). The decrease in securities available for sale for the quarter was primarily due to continued portfolio runoff. Accumulated other comprehensive loss ("AOCL") was $58.2 million as of March 31, 2025, compared to $58.1 million on December 31, 2024, a decline of $160 thousand, or 0.3%. The yield on the securities portfolio increased to 2.38% for the three months ended March 31, 2025 from 2.34% for the three months ended December 31, 2024. Management did not execute any securities sale transactions during the quarter. At March 31, 2025, the securities portfolio represented 17.5% of interest-earning assets and 16.2% of total assets compared to 17.5% of interest-earning assets and 16.2% of total assets at December 31, 2024.

The carrying value of the Company's end-of-period investment portfolio and other short-term investments and stock balances were as follows:

(Dollars in thousands)	March 31, 2025		December 31, 2024	
	Balance	% Securities	Balance	% Securities
U.S. government sponsored entities	$ 8,215	2.5%	$ 8,061	2.4%
Collateralized mortgage obligations and residential mortgage-backed securities	109,583	33.2%	109,325	32.8%
Municipal securities	210,699	63.8%	214,749	64.4%
Collateralized debt obligations	1,630	0.5%	1,419	0.4%
Total securities available-for-sale	$ 330,127	100.0%	$ 333,554	100.0%

(Dollars in thousands)	March 31, 2025 Balance	December 31, 2024 Balance	Change	
			$	%
Interest bearing deposits in other financial institutions	$ 52,829	$ 52,047	$ 782	1.5%
Fed funds sold	975	654	321	49.1%
Federal Home Loan Bank stock	6,547	6,547	-	-

The increase in interest bearing deposits in other financial institutions is the result of the timing of loan fundings and payoffs, inflow and outflow of deposits, repurchase agreements and borrowed funds.

The contractual maturities and weighted average yields for the U.S. government agency securities, municipal securities, and collateralized debt obligations at March 31, 2025, are summarized in the table below. Securities not due at a single maturity date, such as mortgage-backed securities and collateralized mortgage obligations, are shown separately. The carrying values are stated in thousands (000's).

The weighted average yields were calculated by multiplying each carrying value by its annualized yield and dividing the sum of these results by the total carrying values. Yields presented are not on a tax-equivalent basis.

	Within 1 Year		1 - 5 Years		5 - 10 Years		After 10 Years		Total
	Amount	Yield	Amount	Yield	Amount	Yield	Amount	Yield	Amount
U.S. government sponsored entities	$ -	0.00%	$ 8,215	1.00%	$ -	0.00%	$ -	0.00%	$ 8,215
Collateralized mortgage obligations and residential mortgage- backed securities	-	0.00%	-	0.00%	-	0.00%	109,583	1.55%	$ 109,583
Municipal Securities	-	0.00%	2,795	2.38%	31,110	3.24%	176,794	2.99%	210,699
Collateralized debt obligations	-	0.00%	-	0.00%	-	0.00%	1,630	3.34%	1,630
Totals	$ -	0.00%	$ 11,010	1.35%	$ 31,110	3.24%	$ 288,007	2.45%	$ 330,127

Deposits

Deposits are a fundamental and cost-effective source of funds for lending and other investment purposes. The Company offers a variety of products designed to attract and retain customers, with the primary focus on building and expanding relationships.

The Company's end-of-period deposit portfolio balances were as follows:

(Dollars in thousands)	March 31, 2025	December 31, 2024	Change $	Change %
Checking	$ 589,403	$ 591,487	$ (2,084)	-0.4%
Savings.	274,028	275,121	(1,093)	-0.4%
Money market	342,106	333,705	8,401	2.5%
Certificates of deposit	544,847	560,253	(15,406)	-2.7%
Total deposits	$ 1,750,384	$ 1,760,566	$ (10,182)	-0.6%

As of March 31, 2025, deposits totaled $1.8 billion, a decrease of $10.2 million or 0.6% compared to December 31, 2024. Core deposits totaled $1.2 billion at March 31, 2025, compared to $1.2 billion on December 31, 2024, a slight increase of $5.2 million or 0.4%. Core deposits include checking, savings, and money market accounts and represented 68.9% of the Company's total deposits at March 31, 2025. On March 31, 2025, balances for certificates of deposit totaled $544.8 million, compared to $560.3 million on December 31, 2024, a decrease of $15.4 million or 2.7%. The decrease in deposits is primarily related to cyclical inflows and outflows related to a number of municipality depositors and planned adjustments to deposit pricing.

Checking account balances decreased $2.1 million and interest bearing savings account balances decreased $1.1 million in the first three months of 2025 primarily due to decreases in not-for-profit and public funds balances, offset by increases in business and retail customers preferences. Money market account balances increased by $8.4 million during the first three months of 2025 due to business and retail consumer preferences. Certificates of deposits declined by $15.4 million in the first three months of 2025 primarily reflecting customer prioritization of more liquid deposit products. We strive to maintain balances of personal and business checking and savings accounts through our focus on quality customer service, the desire of customers to deal with a local bank, the convenience of our branch network and the breadth and depth of our product line.

Noninterest bearing demand accounts comprised 16.1% of total deposits at March 31, 2025, and 15.0% of total deposits at December 31, 2024. Interest bearing demand accounts, including money market and savings accounts, comprised 52.8% of total deposits at March 31, 2025, and 53.2% at December 31, 2024. Time accounts as a percentage of total deposits were 31.1% at March 31, 2025, and 31.8% at December 31, 2024.

The following table presents the average daily amount of deposits and average rates paid on such deposits for the periods indicated. The amounts are stated in thousands (000's).

	Three Months Ended March 31, 2025		Three Months Ended December 31, 2024	
	Amount	Rate (%)	Amount	Rate (%)
Noninterest bearing demand deposits	$ 279,013	-	$ 289,467	-
Interest-bearing demand deposits	314,545	0.74	296,760	0.78
MMDA Accounts	340,740	2.95	331,411	3.20
Savings accounts	274,684	0.05	276,483	0.05
Certificates of deposit	551,408	3.57	560,544	3.96
Total Deposits	$ 1,760,390	1.83	$ 1,754,665	2.01

The decrease in deposit rates in the three months ended March 31, 2025, as compared to three months ending December 31, 2024, is primarily the result of the decrease in short-term market interest rates.

Borrowed Funds

The Company's borrowed funds are primarily used to fund asset growth not supported by deposit generation. The Company's end-of-period borrowing balances were as follows:

(Dollars in thousands)	March 31, 2025 Balance	December 31, 2024 Balance	Change $	Change %
Repurchase agreements	$ 45,053	$ 40,116	$ 4,937	12.3%
Borrowed funds	56,657	65,000	(8,343)	-12.8%
Total borrowed funds	$ 101,710	$ 105,116	$ (3,406)	-3.2%

Borrowings and repurchase agreements totaled $101.7 million at March 31, 2025, compared to $105.1 million at December 31, 2024, a decrease of $3.4 million or 3.2%. The decrease in borrowings from December 31, 2024, was the result of the FHLB calling $20.0 million of the Company's putable advances due to movement in market interest rates, as well as intentional balance sheet management during the quarter. As of March 31, 2025, 72% of our deposits are fully FDIC insured, and another 9% are further backed by the Indiana Public Deposit Insurance Fund. The Company's liquidity position remains strong with solid core deposit customer relationships, excess cash, debt securities, and access to diversified borrowing sources. As of March 31, 2025, the Company had available liquidity of $696 million including borrowing capacity from the FHLB and Federal Reserve facilities.

Other assets totaled $41.8 million at March 31, 2025, compared to $43.9 million at December 31, 2024. The decrease in other assets is primarily related to decreased fair value of the Company's interest rate swap contract derivative. Accrued expenses and other liabilities totaled $35.8 million at March 31, 2025, compared to $43.6 million at December 31, 2024. The decrease in accrued expenses and other liabilities is primarily the result of the decreased fair value of the Company's interest rate swap contract derivative, along with other activities.

Market Risk and Interest Rate Sensitivity

General

Market risk represents the risk of loss due to changes in market values of assets and liabilities. The Company incurs market risk in the normal course of business through exposures to market interest rates, equity prices, and credit spreads. As of March 31, 2025, the Company has identified interest rate risk as our primary source of market risk.

Interest Rate Risk

Interest rate risk is the risk to earnings and value arising from changes in market interest rates. Interest rate risk arises from timing differences in the repricings and maturities of interest-earning assets and interest-bearing liabilities (repricing risk), changes in the expected maturities of assets and liabilities arising from embedded options, such as borrowers' ability to prepay home mortgage loans at any time and depositors' ability to redeem certificates of deposit before maturity (option risk), changes in the shape of the yield curve where interest rates increase or decrease in a nonparallel fashion (yield curve risk), and changes in spread relationships between different yield curves, such as U.S. Treasuries and SOFR (basis risk).

The Company's board of directors establishes broad policy limits with respect to interest rate risk. As part of this policy, the Asset Liability Committee, or ALCO, establishes specific operating guidelines within the parameters of the board of director's policies. In general, the ALCO focuses on ensuring a stable and steadily increasing flow of net interest income through managing the size and mix of the balance sheet. The management of interest rate risk is an active process which encompasses monitoring loan and deposit flows complemented by investment and funding activities. Effective management of interest rate risk begins with understanding the dynamic characteristics of assets and liabilities and determining the appropriate interest rate risk posture given business forecasts, management objectives, market expectations, and policy constraints.

An asset sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate higher net interest income, as rates earned on our interest-earning assets would reprice upward more quickly than rates paid on our interest-bearing liabilities, thus expanding our net interest margin. Conversely, a liability sensitive position refers to a balance sheet position in which an increase in short-term interest rates is expected to generate lower net interest income, as rates paid on our interest-bearing liabilities would reprice upward more quickly than rates earned on our interest-earning assets, thus compressing our net interest margin.

Interest rate risk measurement is calculated and reported to the ALCO at least quarterly. The information reported includes period-end results and identifies any policy limits exceeded, along with an assessment of the policy limit breach and the action plan and timeline for resolution, mitigation, or assumption of the risk.

Evaluation of Interest Rate Risk

We use income simulations, an analysis of core funding utilization, and economic value of equity (EVE) simulations as our primary tools in measuring and managing interest rate risk. These tools are utilized to quantify the potential earnings impact of changing interest rates over a 12-month simulation horizon (income simulations) as well as identify expected earnings trends given longer term rate cycles (long term simulations, core funding utilizations, and EVE simulation). A standard gap report and funding matrix will also be utilized to provide supporting detailed information on the expected timing of cashflow and repricing opportunities.

There are an infinite number of potential interest rate scenarios, each of which can be accompanied by differing economic, political, and regulatory climates; can generate multiple differing behavior patterns by markets, borrowers, depositors, and other market participants; and can last for varying degrees of time. Therefore, by definition, interest rate risk sensitivity cannot be predicted with certainty. Accordingly, the Company's interest rate risk measurement philosophy focuses on maintaining an appropriate balance between theoretical and practical scenarios; especially given the primary objective of the Company's overall asset/liability management process is to facilitate meaningful strategy development and implementation.

Therefore, we model a set of interest rate scenarios capturing the financial effects of a range of plausible rate scenarios, the collective impact of which will enable the Company to clearly understand the nature and extent of its sensitivity to interest rate changes. Doing so necessitates an assessment of rate changes over varying time horizons and of varying/sufficient degrees such that the impact of embedded options within the balance sheet are sufficiently examined.

We utilize a simulation model as our primary tool to assess the direction and magnitude of variations in net interest income and EVE resulting from potential changes in market interest rates. Key assumptions in the model, which we believe are reasonable but which may have a significant impact on results, include: (i) the timing of changes in interest rates; (ii) shifts or rotations in the yield curve; (iii) re-pricing characteristics for market-rate-sensitive instruments; (iv) varying loan prepayment speeds for different interest rate scenarios; and (v) the overall growth and mix of assets and liabilities.

We forecast the next twelve months of net interest income under an assumed environment of gradual changes in market interest rates under various scenarios. The resulting change in net interest income is an indication of the sensitivity of our earnings to directional changes in market interest rates. The simulation also measures the change in EVE, or the net present value of our assets and liabilities, under an immediate shift, or shock, in interest rates under various scenarios, as calculated by discounting the estimated future cash flows using market-based discount rates.

The following table shows the impact of changes in interest rates on net interest income over the next twelve months and EVE based on our balance sheet as of March 31, 2025 (dollars in millions):

Interest Rate Scenario	EVE*	Percent Change	Net interest income	Percent Change
+400 Bps	$ 263	-38.3%	$ 59.4	-5.1%
+300 Bps	$ 318	-25.4%	$ 61.1	-2.4%
+200 Bps	$ 369	-13.4%	$ 62.2	-0.6%
+100 Bps	$ 406	-4.9%	$ 62.6	0.0%
No change	$ 426	0.0%	$ 62.6	0.0%
-100 Bps	$ 437	2.4%	$ 62.5	0.0%
-200 Bps	$ 433	1.5%	$ 62.4	-0.3%
-300 Bps	$ 413	-3.2%	$ 63.4	1.3%
-400 Bps	$ 387	-9.2%	$ 64.2	2.5%

* Economic Value of Equity ("EVE") at Risk

If interest rates across the yield curve were to uniformly decrease, this analysis suggests that the Bank may be positioned for relatively neutral to positive improvements in net interest income over the next twelve months. If interest rates across the yield curve were to uniformly increase, this analysis suggests we would experience a reduction in net interest income over the next twelve months.

We also forecast the impact of immediate and parallel interest rate shocks on net interest income under various scenarios to measure the sensitivity of our earnings under extreme conditions.

In addition to changes in interest rates, the level of future net interest income is also dependent on a number of other variables, including: the growth, composition and absolute levels of loans, deposits, and other earning assets and interest-bearing liabilities; economic and competitive conditions; potential changes in lending, investing and deposit gathering strategies; and client preferences.

Liquidity and Capital Resources

For the Company, liquidity management refers to the ability to generate sufficient cash to fund current loan demand, meet deposit withdrawals, and pay dividends and operating expenses. Because profit and liquidity are often conflicting objectives, management attempts to maximize the Bank's net interest margin by making adequate, but not excessive, liquidity provisions. Furthermore, we seek to manage funds so that future profits will not be significantly impacted as funding costs increase. We seek to maintain diversified sources of liquidity that may be used during the ordinary course of business as well as on a contingency basis.

Our primary sources of liquidity are deposits, principal and interest payments on loans and securities, and proceeds from calls, maturities, and sales of securities, subject to market conditions. While maturities and scheduled amortization of loans and securities are predictable sources of liquidity, deposit flows and loan and securities prepayments are greatly influenced by general interest rates, economic conditions, and competition. Our most liquid assets are unencumbered cash and due from banks and unpledged securities classified as available for sale, which could be liquidated, subject to market conditions. In the future, our liquidity position will be affected by the level of customer deposits and payments, as well as acquisitions, dividends, and share repurchases in which we may engage. For the next twelve months, we believe that our existing cash resources will be sufficient to meet the liquidity and capital requirements of our operations.

Changes in the liquidity position result from operating, investing and financing activities. Cash flows from operating activities are generally the cash effects of transactions and other events that enter into the determination of net income. The primary investing activities include loan originations, loan repayments, investments in interest bearing balances in other financial institutions, and the purchase, sale, and maturity of investment securities. Financing activities focus almost entirely on the generation of customer deposits. In addition, the Company utilizes borrowings (i.e., repurchase agreements, FHLB advances and federal funds purchased) as a source of funds.

Although customer deposits remain our preferred funding source, maintaining additional sources of liquidity is part of our prudent liquidity risk management practices. We have the ability to borrow from the FHLB. At March 31, 2025, we had five outstanding advances totaling $55 million and the ability to borrow up to $473.9 million from the FHLB. We also have the ability to borrow from the Federal Reserve Bank of Chicago. At March 31, 2025, we had $1.7 million in line of credit drawn from the FHLB and we had no outstanding balance from the Federal Reserve Bank of Chicago. At March 31, 2025, cash and cash equivalents were $72.4 million and secured borrowing capacity at the Federal Reserve Bank totaled $182.6 million, providing total liquidity sources of $695.8 million.

The following table shows the Company's sources of liquidity as of March 31, 2025 and December 31, 2024:

	Sources of Liquidity			
	As of March 31, 2025		As of December 31, 2024	
	Outstanding	Additional Capacity	Outstanding	Additional Capacity
FHLB Advances	$ 55,000	$ 473,902	$ 65,000	$ 459,648
Bank Term Funding and Fed Discount Window	-	182,573	-	186,788
Fed Funds Lines	-	16,000	-	16,000
Other Line of Credit	1,657	23,343	-	25,000
Total	$ 56,657	$ 695,818	$ 65,000	$ 687,436

During the three months ended March 31, 2025, cash and cash equivalents increased by $1.7 million compared to a $14.2 million decrease for the three months ended March 31, 2024. The primary sources of cash and cash equivalents were changes in other borrowings, sales of loans originated for sale, proceeds from the maturity of securities, and change in repurchase agreements. The primary uses of cash and cash equivalents were loan originations. Cash used in operating activities totaled $3.8 million for the three months ended March 31, 2025, compared to cash used of $25 thousand for the three months ended March 31, 2024. Cash used in operating activities was primarily a result of net income and sale of loans originated for sale, offset by loans originated for sale and net change in accrued expenses and other liabilities. Cash provided by investing activities totaled $19.7 million for the current period, compared to cash provided in investing activities of $39.2 million for the three months ended March 31, 2024. Cash provided by investing activities for the current three month period was primarily related to net change in loans receivable, and proceeds from maturity of securities. Cash used in financing activities totaled $14.1 million during the current period compared to net cash used in financing activities of $53.4 million for the three months ended March 31, 2024. The net cash used in financing activities was primarily the result of net change in deposits and change in other borrowed funds, offset against a change in repurchase agreement balances. On a cash basis, the Company paid dividends on common stock of $518 thousand for the three months ended March 31, 2025, and $515 thousand for the three months ended March 31, 2024.

At March 31, 2025, outstanding commitments to fund loans totaled $254.0 million. Approximately 53.8% of the commitments were at variable rates. Standby letters of credit, which are conditional commitments issued by the Company to guarantee the performance of a customer to a third-party, totaled $7.9 million at March 31, 2025. Management believes that the Company has sufficient cash flow and borrowing capacity to fund all outstanding commitments and letters of credit, while maintaining proper levels of liquidity.

Management strongly believes that maintaining a high level of capital enhances safety and soundness. During the three months ended March 31, 2025, stockholders' equity increased by $393 thousand (0.3%). During the three months ended March 31, 2025, stockholders' equity was primarily increased by net income of $455 thousand, offset by other comprehensive losses as the result of market value changes within the securities portfolio of $160 thousand. On April 24, 2014, the Company's Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Company's outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased under the program during the first three months of 2025 or 2024. During 2025, 12,609 restricted stock shares vested under the Incentive Plan outlined in Note 10 of the financial statements, of which 3,930 of these shares were withheld in the form of a net surrender to cover the withholding tax obligations of the vesting employees. The repurchase of these surrendered shares is considered outside of the scope of the formal board approved stock repurchase program.

The Bank is subject to risk-based capital guidelines adopted by the FDIC. The regulations divide capital into multiple tiers. The first tier (Common Equity Tier 1 Capital) includes common shareholders' equity, after deductions for various items including goodwill and certain other intangible assets, and after certain other adjustments. Common Equity Tier 1 Capital also includes accumulated other comprehensive income (for organizations that do not make opt-out elections). The next tier (Tier 1 Capital) is comprised of Common Equity Tier 1 Capital plus other qualifying capital instruments such as perpetual noncumulative preferred stock and junior subordinated debt issued to trusts, and other adjustments. The third tier (Tier 2 Capital) includes instruments such as subordinated debt that have a minimum original maturity of at least five years and are subordinated to the claims of depositors and general creditors, total capital minority interest not included in Tier 1 Capital, and limited amounts of the allowance for credit losses, less applicable regulatory adjustments and deductions. Pursuant to the above capital regulations, the Bank is required to maintain a Common Equity Tier 1 Capital ratio of 4.5%, a Tier 1 Capital ratio of 6%, and a Total Capital ratio (comprised of Tier 1 Capital plus Tier 2 Capital) of 8%. In addition, the capital regulations provide for a minimum leverage ratio (Tier 1 capital to adjusted average assets) of 4%.

In addition to establishing the minimum regulatory capital requirements, the regulations limit capital distributions by the institution and certain discretionary bonus payments to management if an institution does not hold a "capital conservation buffer" consisting of 2.5% of common equity Tier 1 capital to risk-weighted assets above the amount necessary to meet its minimum risk-based capital requirements.

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 required the FRB to set minimum capital levels for bank holding companies that are as stringent as those required for insured depository subsidiaries. However, under the FRB's "Small Bank Holding Company" exemption from consolidated bank holding company capital requirements, bank holding companies and savings and loan holding companies with less than $3 billion in consolidated assets, such as the Company, are exempt from consolidated regulatory capital requirements, unless the FRB determines otherwise in particular cases.

During the three months ended March 31, 2025, the Company's and Bank's risk weighted assets continued to be negatively impacted by regulatory requirements regarding collateralized debt obligations. The regulatory requirements state that for collateralized debt obligations that have been downgraded below investment grade by the rating agencies, increased risk-based asset weightings are required. The Company currently holds pooled collateralized debt obligations with a cost basis of $2.2 million. These investments currently have ratings that are below investment grade. As a result, approximately $7.9 million of risk-based assets are generated by the collateralized debt obligations in the Company's and Bank's total risk based capital calculation.

In addition, the following table shows that, at March 31, 2025, and December 31, 2024, the Bank's capital exceeded all applicable regulatory capital requirements as set forth in 12 C.F.R. § 324.

(Dollars in thousands) *(unaudited)* March 31, 2025	Actual Amount	Actual Ratio	Minimum Required For Capital Adequacy Purposes Amount	Minimum Required For Capital Adequacy Purposes Ratio	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Amount	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Ratio
Common equity tier 1 capital to risk-weighted assets	$ 178,036	11.02%	$ 72,679	4.50%	$ 104,981	6.50%
Tier 1 capital to risk-weighted assets	$ 178,036	11.02%	$ 96,906	6.00%	$ 129,207	8.00%
Total capital to risk-weighted assets	$ 198,107	12.27%	$ 129,207	8.00%	$ 161,509	10.00%
Tier 1 capital to adjusted average assets	$ 178,036	8.48%	$ 84,019	4.00%	$ 105,023	5.00%

(Dollars in thousands) *(unaudited)* December 31, 2024	Actual Amount	Actual Ratio	Minimum Required For Capital Adequacy Purposes Amount	Minimum Required For Capital Adequacy Purposes Ratio	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Amount	Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations Ratio
Common equity tier 1 capital to risk-weighted assets	$ 179,625	11.26%	$ 71,771	4.50%	$ 103,670	6.50%
Tier 1 capital to risk-weighted assets	$ 179,625	11.26%	$ 95,695	6.00%	$ 127,594	8.00%
Total capital to risk-weighted assets	$ 194,499	12.19%	$ 127,594	8.00%	$ 159,492	10.00%
Tier 1 capital to adjusted average assets	$ 179,625	8.47%	$ 84,854	4.00%	$ 106,068	5.00%

The Company's ability to pay dividends to its shareholders is largely dependent upon the Bank's ability to pay dividends to the Company. Under Indiana law, the Bank may pay dividends from its undivided profits (generally, earnings less losses, bad debts, taxes and other operating expenses) as is considered expedient by the Bank's Board of Directors. However, the Bank must obtain the approval of the Indiana Department of Financial Institutions (DFI) if the total of all dividends declared by the Bank during the current year, including the proposed dividend, would exceed the sum of retained net income for the year to date plus its retained net income for the previous two years. For this purpose, "retained net income," means net income as calculated for call report purposes, less all dividends declared for the applicable period. An exemption from DFI approval would require that the Bank have been assigned a composite uniform financial institutions rating of 1 or 2 as a result of the most recent federal or state examination; the proposed dividend would not result in a Tier 1 leverage ratio below 7.5%; and that the Bank not be subject to any corrective action, supervisory order, supervisory agreement, or board approved operating agreement. In addition, under the terms of the MOU, the Bank must seek regulatory approval prior to paying cash dividends. See "– Regulatory Developments Regarding the Company and the Bank – Memorandum of Understanding" above. Moreover, the FDIC and the Federal Reserve Board may prohibit the payment of dividends if it determines that the payment of dividends would constitute an unsafe or unsound practice in light of the financial condition of the Bank. Assuming receipt of regulatory approval for all cash dividends declared by the Bank under the terms of the MOU, the aggregate amount of dividends that the Bank is eligible to declare in 2025, without the need for qualifying for a further exemption or prior DFI approval under the terms of Indiana law described above, is its 2025 net income. On April 9, 2025, the Board of Directors of the Company declared its most recent quarterly dividend of $0.12 per share. The Company's quarterly dividend was paid to shareholders on May 12, 2025 to shareholders of record on April 22, 2025.

Results of Operations - Comparison of the Quarter Ended March 31, 2025 to the Quarter Ended March 31, 2024

For the quarter ended March 31, 2025, the Company reported net income of $455 thousand, compared to net income of $9.3 million for the quarter ended March 31, 2024, a decrease of $8.8 million (95.1%). The decrease in net income for the quarter ended March 31, 2025 is primarily attributable to the $11.8 million pre-tax gain associated with the sale leaseback transaction occurring during the quarter ended March 31, 2024. For the quarter ended March 31, 2025, the return on average assets was 0.09%, compared to 1.77 % for the quarter ended March 31, 2024. The return on average equity was 1.17% for the quarter ended March 31, 2025, compared to 24.97% for the quarter ended March 31, 2024.

Information relating to the average consolidated balance sheet and the yield on average earning assets and cost of average liabilities for the periods indicated are in the following table. Dividing the related interest, on an annualized basis, by the average balance of assets or liabilities drives the disclosed rates. Average balances are derived from daily balances.

Quarter Ended *(Dollars in thousands)* *(unaudited)*	Average Balances, Interest, and Rates					
	March 31, 2025			March 31, 2024		
	Average Balance	Interest	Rate (%)	Average Balance	Interest	Rate (%)
ASSETS						
Interest bearing deposits in other financial institutions	$ 53,553	$ 541	4.04	$ 68,935	$ 852	4.95
Federal funds sold	1,375	12	3.49	814	10	4.91
Securities available-for-sale	336,060	1,997	2.38	365,194	2,161	2.37
Loans receivable	1,498,312	19,655	5.25	1,504,011	18,879	5.02
Federal Home Loan Bank stock	6,547	136	8.31	6,547	82	5.01
Total interest earning assets	1,895,847	$ 22,341	4.71	1,945,501	$ 21,984	4.52
Cash and non-interest bearing deposits in other financial institutions	27,919			18,230		
Allowance for credit losses	(16,946)			(18,743)		
Other noninterest bearing assets	153,148			151,945		
Total assets	$ 2,059,968			$ 2,096,933		
LIABILITIES AND STOCKHOLDERS' EQUITY						
Interest-bearing deposits	$ 1,481,377	$ 8,045	2.17	$ 1,487,771	$ 8,794	2.36
Repurchase agreements	41,631	348	3.34	38,151	370	3.88
Borrowed funds	61,613	635	4.12	90,053	1,040	4.62
Total interest bearing liabilities	1,584,621	$ 9,028	2.28	1,615,975	$ 10,204	2.53
Non-interest bearing deposits	279,013			294,398		
Other noninterest bearing liabilities	40,923			37,897		
Total liabilities	1,904,557			1,948,270		
Total stockholders' equity	155,411			148,663		
Total liabilities and stockholders' equity	$ 2,059,968			$ 2,096,933		
Net Interest Income		$ 13,313			$ 11,780	
Return on average assets	0.09%			1.77%		
Return on average equity	1.17%			24.97%		
Net interest margin (average earning assets)	2.81%			2.42%		
Net interest margin (average earning assets) - tax equivalent	2.95%			2.57%		
Net interest spread	2.43%			1.99%		
Ratio of interest-earning assets to interest-bearing liabilities	1.20x			1.20x		

Net interest income for the quarter ended March 31, 2025, was $13.3 million, an increase of $1.5 million (13.0%), compared to $11.8 million for the quarter ended March 31, 2024. The weighted-average yield on interest-earning assets was 4.71% for the quarter ended March 31, 2025, compared to 4.52% for the quarter ended March 31, 2024. The weighted-average cost of interest-bearing liabilities for the quarter ended March 31, 2025, was 2.28% compared to 2.53% for the quarter ended March 31, 2024. The impact of the 4.71% return on interest-earning assets and the 2.28% cost of interest-bearing liabilities resulted in an interest rate spread of 2.43% for the current quarter, an increase from the 1.99% spread for the quarter ended March 31, 2024. On a tax adjusted basis, the Company's net interest margin was 2.95% for the quarter ended March 31, 2025, compared to 2.57% for the quarter ended March 31, 2024. The Company believes that it is a standard practice in the banking industry to present net interest margin and net interest income on a fully-taxable equivalent basis, as these measures provide useful information to make peer comparisons. Tax adjusted net interest margin represents a non-GAAP financial measure. See the non-GAAP reconciliation table immediately below and the section captioned "Non-GAAP Financial Measures" for further disclosure regarding non-GAAP financial measures.

(Dollars in thousands)	Quarter Ended,	
(unaudited)	March 31, 2025	March 31, 2024
Calculation of tax adjusted net interest margin		
Net interest income	$ 13,313	$ 11,780
Tax adjusted interest on securities and loans	670	722
Adjusted net interest income	$ 13,983	$ 12,502
Total average earning assets	1,895,847	1,945,501
Tax adjusted net interest margin	2.95%	2.57%

The increased net interest income and net interest margin for the quarter ended March 31, 2025, was primarily the result of reduced deposit and borrowing costs as a result of the Federal Reserve reduction of federal funds rates year over year and increased loan yields as commercial loans mature and/or reprice.

The following table shows the change in noninterest income for the quarter ending March 31, 2025, and March 31, 2024.

(Dollars in thousands)	Quarter Ended March 31,		3/31/2025 vs. 3/31/2024	
	2025	2024	$ Change	% Change
Noninterest income:				
Fees and service charges	$ 1,109	$ 1,153	$ (44)	-3.8%
Wealth management operations	619	633	(14)	-2.2%
Gain on tax cred investment	67	-	67	0.0%
Gain on sale of loans held-for-sale, net	230	152	78	51.3%
Loss on sale of securities, net	-	(531)	531	-100.0%
Increase in cash value of bank owned life insurance	198	193	5	2.6%
Gain (loss) on sale of real estate	-	11,858	(11,858)	-100.0%
Other	6	17	(11)	-64.7%
Total noninterest income	$ 2,229	$ 13,475	$ (11,246)	-83.5%

The decrease in noninterest income was primarily caused by two special first quarter 2024 strategic initiatives involving the pre-tax non-interest income gain of approximately $11.8 million from a sale-leaseback transaction completed on February 22, 2024. This 2024 noninterest income real estate gain was also partially offset by a $531 thousand loss from the sale of $15.1 million in securities, a transaction also completed during first quarter 2024 to improve future profitability, deleverage the balance sheet through a reduction in borrowings outstanding, and further benefit regulatory capital ratios in subsequent periods.

The following table shows the change in noninterest expense for the quarter ending March 31, 2025, and March 31, 2024.

(Dollars in thousands)	Quarter Ended March 31,		3/31/2025 vs. 3/31/2024	
	2025	2024	$ Change	% Change
Noninterest expense:				
Compensation and benefits	$ 7,372	$ 7,109	$ 263	3.7%
Occupancy and equipment	2,111	1,915	196	10.2%
Data processing	1,039	1,170	(131)	-11.2%
Marketing	86	158	(72)	-45.6%
Federal deposit insurance premiums	433	501	(68)	-13.6%
Professional services	1,260	1,557	(297)	-19.1%
Net (gain) recognized on sale of premises and equipment	454	625	(171)	-27.4%
Other	1,717	1,969	(252)	-12.8%
Total noninterest expense	$ 14,472	$ 15,004	$ (532)	-3.5%

Decreases in non-interest expenses during the quarter ended March 31, 2025, were primarily attributable to non-recurring professional and outside service expenses occurring during 2024 which were associated with the implementation of the corrective actions set forth in the consent order and sale leaseback transaction, as well as lower data processing and technology costs during 2025. This decrease in non-interest expense was primarily offset by increases in compensation and benefit expense driven by annual merit-based increases, as well as increased ongoing occupancy and equipment expenses associated with the sale leaseback transaction.

The provision for income taxes was $161 thousand for the quarter ended March 31, 2025, as compared to $972 thousand for the quarter ended March 31, 2024. The effective tax rate was 26.1% for the quarter ended March 31, 2025, as compared to 9.5% for the quarter ended March 31, 2024. The Company's higher current effective tax rate for the quarter ended March 31, 2025, is a result of lower tax preferred income relative to taxable income during the quarter as compared to March 31, 2024 which included a $11.8 million pre-tax gain associated with the sale leaseback transaction closed during the quarter.

Critical Accounting Policies

The notes to the condensed consolidated financial statements included in Item 8 of the Company's Annual Report on Form 10–K for 2024 contain a summary of the Company's significant accounting policies. Certain of these policies are important to the portrayal of the Company's financial condition, since they require management to make difficult, complex or subjective judgments, some of which may relate to matters that are inherently uncertain.

Forward-Looking Statements

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. The words or phrases "would be," "will allow," "intends to," "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "project," or similar expressions are also intended to identify "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act. The Company cautions readers that forward-looking statements, including without limitation those relating to the Company's future business prospects, merger and acquisition activities, interest income and expense, net income, liquidity, and capital needs are subject to certain risks and uncertainties that could cause actual results to differ materially from those indicated in the forward-looking statements, due to, among other things, factors identified in this report, including those identified in the Company's 2024 Form 10-K.

Non-GAAP Financial Measures

This filing includes certain financial measures that are identified as non-GAAP, including adjusted net interest income and tax adjusted net interest margin. The Company provides these non-GAAP performance measures because they are used by management to evaluate and measure the Company's performance, which the Company believes also is useful to assist investors in assessing the Company's operating performance. Where non-GAAP financial measures are used in this report, the most comparable GAAP measure, as well as the reconciliation to the most comparable GAAP measure, can be found in the tables referenced herein.

The adjusted net interest income and tax-adjusted net interest margin measures recognize the income tax savings when comparing taxable and tax-exempt assets. Interest income and yields on tax-exempt securities and loans are presented using the current federal income tax rate of 21%. Management believes that it is standard practice in the banking industry to present net interest income and net interest margin on a fully tax-equivalent basis and that it may enhance comparability for peer comparison purposes.

Although these non-GAAP financial measures are frequently used by investors to evaluate a financial institution's business and performance, they have limitations as analytical tools and should not be considered in isolation, or as a substitute for analyses of results as reported under GAAP. In addition, these non-GAAP financial measures may differ from those used by other financial institutions to assess their business operations and performance.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

Not applicable.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures .

The Company maintains disclosure controls and procedures (as defined in Sections 13a – 15(e) and 15d – 15(e)) of regulations promulgated under the Securities Exchange Act of 1934 (the "Exchange Act") that are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. These disclosure controls and procedures include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the Company's management, including its principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. The Company's Chief Executive Officer and Chief Financial Officer evaluate the effectiveness of the Company's disclosure controls and procedures as of the end of each quarter. Based on that evaluation as of March 31, 2025, the Company's Chief Executive Officer and Chief Financial Officer have concluded that such disclosure controls and procedures were effective as of that date in ensuring that information required to be disclosed by the Company under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms**.**

(b) Changes in Internal Control Over Financial Reporting .

There was no change in the Company's internal control over financial reporting identified in connection with the Company's evaluation of controls that occurred during the quarter ended March 31, 2025, that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II - Other Information

Item 1. Legal Proceedings

The Company and its subsidiaries, from time to time, are involved in legal proceedings in the ordinary course of business against its debtors and are defendants in legal actions arising from normal business activities. Management, after consultation with legal counsel believes that the ultimate liabilities, if any, resulting from these actions will not have a material adverse effect on the financial position of the Bank or on the consolidated financial position of the Company.

Item 1A. Risk Factors

Not Applicable.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

On April 24, 2014 the Company's Board of Directors authorized a stock repurchase program to repurchase up to 50,000 shares of the Company's outstanding common stock, from time to time and subject to market conditions, on the open market or in privately negotiated transactions. The stock repurchase program does not expire and is only limited by the number of shares that can be purchased. The stock repurchase program will be reviewed annually by the Board of Directors. No shares were repurchased during the quarter ended March 31, 2025 under the stock repurchase program.

Period	Total Number of Shares Purchased (2)	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Program(1)
January 1, 2025 – January 31, 2025	-	N/A	-	48,828
February 1, 2025 – February 28, 2025	3,930	$ 26.38	-	48,828
March 1, 2025 – March 31, 2025	-	N/A	-	48,828

(1) The stock repurchase program was announced on April 24, 2014, whereby the Company is authorized to repurchase up to 50,000 shares of the Company's common stock outstanding. There is no express expiration date for this program.

(2) The number of shares above includes shares of common stock reacquired from the Company's executive officers and employees to satisfy the tax withholding obligations on restricted stock awards granted under the Company's 2015 Stock Option and Incentive Plan. For the three months ended March 31, 2025, 3,930 shares were reacquired at an average per share price of $26.38 pursuant to these tax withholding transactions.

Item 3. Defaults Upon Senior Securities

There are no matters reportable under this item.

Item 4. Mine Safety Disclosures

Not Applicable

Item 5. Other Information

None

Item 6. Exhibits

Exhibit Number	Description
31.1	Rule 13a-14(a)/15d-14(a) Certification of Chief Executive Officer.
31.2	Rule 13a-14(a)/15d-14(a) Certification of Chief Financial Officer.
32.1	Section 1350 Certifications.
101	The following materials from the Company’s Form 10-Q for the quarterly period ended March 31, 2025, formatted in an XBRL Interactive Data File: (i) Condensed Consolidated Balance Sheets; (ii) Condensed Consolidated Statements of Income; (iii) Condensed Consolidated Statements of Changes in Stockholders’ Equity; (iv) Condensed Consolidated Statement of Comprehensive Income; (v) Condensed Consolidated Statements of Cash Flows; and (vi) Notes to Condensed Consolidated Financial Statements, with detailed tagging of notes and financial statement schedules.
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

FINWARD BANCORP

Date: May 15, 2025	/s/ Benjamin J. Bochnowski Benjamin J. Bochnowski President and Chief Executive Officer
Date: May 15, 2025	/s/ Benjamin L. Schmitt Benjamin L. Schmitt Executive Vice President, Chief Financial Officer and Treasurer

Exhibit 31.1

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin J. Bochnowski, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Finward Bancorp;

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2025

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

Exhibit 31.2

CERTIFICATION PURSUANT TO
RULE 13a-14(a)/15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002

I, Benjamin L. Schmitt, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Finward Bancorp;

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

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

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

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

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

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

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

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

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

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

Date: May 15, 2025

/s/ Benjamin L. Schmitt
Benjamin L. Schmitt
Executive Vice President, Chief Financial
Officer and Treasurer

Exhibit 32.1

CERTIFICATIONS PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q of Finward Bancorp (the "Company") for the quarterly period ended March 31, 2025, as filed with the Securities and Exchange Commission (the "Report"), each of Benjamin J. Bochnowski, President and Chief Executive Officer of the Company, and Benjamin L. Schmitt, Executive Vice President, Chief Financial Officer and Treasurer of the Company, hereby certifies, pursuant to 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 15, 2025

/s/ Benjamin J. Bochnowski
Benjamin J. Bochnowski
President and Chief Executive Officer

/s/ Benjamin L. Schmitt
Benjamin L. Schmitt
Executive Vice President, Chief Financial Officer and Treasurer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to Finward Bancorp and will be retained by Finward Bancorp and furnished to the Securities and Exchange Commission or its staff upon request.