



# Annual Report 2024



# **STAR Financial Group, Inc.**

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

December 31, 2024 and 2023

**STAR Financial Group, Inc.**  
**Independent Auditor's Report and Consolidated Financial Statements**  
**December 31, 2024 and 2023**

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**STAR Financial Group, Inc.**  
**Financial Highlights**  
**Years Ended December 31, 2024, 2023 and 2022**  
(In Thousands Except Share Data)

|   | <u>2024</u>  | <u>2023</u>  | <u>2022</u>  |
|---|--------------|--------------|--------------|
| <b>For the Year</b>                       |              |              |              |
| Net income                                | \$ 23,708    | \$ 23,863    | \$ 23,129    |
| Dividends declared                        | 3,866        | 3,658        | 3,667        |
| Weighted average shares                   | 2,779,945    | 2,792,246    | 2,968,111    |
| Per Basic Common Share                    |              |              |              |
| Net income                                | \$ 8.53      | \$ 8.55      | \$ 7.79      |
| Dividends declared                        | 1.39         | 1.31         | 1.24         |
| Book value at December 31                 | 75.45        | 67.08        | 54.02        |
| <b>At December 31</b>                     |              |              |              |
| Total assets                              | \$ 2,975,885 | \$ 2,998,676 | \$ 3,011,251 |
| Earning assets                            | 2,719,070    | 2,737,004    | 2,754,128    |
| Loans and leases                          | 1,713,337    | 1,639,546    | 1,598,869    |
| Deposits                                  | 2,603,176    | 2,546,014    | 2,523,807    |
| Total parent company stockholders' equity | 208,886      | 187,308      | 150,835      |
| <b>Capital Ratios (Bank only)</b>         |              |              |              |
| Risk-based capital ratios                 |              |              |              |
| Tier I                                    | 13.52%       | 12.32%       | 13.00%       |
| Total (Tier I plus Tier II)               | 14.41        | 13.18        | 13.89        |
| Leverage ratio                            | 10.17        | 9.73         | 9.03         |
| Common Equity Tier I                      | 13.52        | 12.32        | 13.00        |

## **Independent Auditor's Report**

Audit Committee  
STAR Financial Group, Inc.  
Fort Wayne, Indiana

### ***Opinion***

We have audited the consolidated financial statements of STAR Financial Group, Inc. (Company) and subsidiaries, which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related statements of income, comprehensive income, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of STAR Financial Group, Inc. as of December 31, 2024 and 2023, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, STAR Financial Group, Inc.'s internal control over financial reporting as of December 31, 2024, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 19, 2025, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

### ***Basis for Opinion***

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

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

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about STAR Financial Group, Inc.'s ability to continue as a going concern for a reasonable period of time.

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

### ***Other Information Included in the Annual Report***

Management is responsible for the other information included in the annual report. The other information comprises the information included in the annual report but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

**Forvis Mazars, LLP**

**Fort Wayne, Indiana  
March 19, 2025**

**STAR Financial Group, Inc.**  
**Consolidated Balance Sheets**  
**Years Ended December 31, 2024 and 2023**  
(In Thousands Except Share Data)

|  | <b>2024</b>         | <b>2023</b>         |
|--|---------------------|---------------------|
| <b>Assets</b>  |                     |                     |
| Cash and cash equivalents  |                     |                     |
| Cash and due from banks  | \$ 59,341           | \$ 62,511           |
| Interest-bearing demand deposits                                   | 13,670              | 51,204              |
| Total cash and cash equivalents                                    | 73,011              | 113,715             |
| Investment securities available-for-sale                           | 1,010,565           | 1,065,207           |
| Loans held for sale  | -                   | 249                 |
| Loans and leases   | 1,713,337           | 1,639,546           |
| Less: Allowance for credit losses                                  | (18,502)            | (19,202)            |
| Net loans and leases   | 1,694,835           | 1,620,344           |
| Bank owned life insurance  | 47,272              | 46,838              |
| Premises and equipment, net  | 81,112              | 80,184              |
| Interest receivable  | 12,183              | 11,328              |
| Goodwill   | 2,636               | 2,636               |
| Other assets, net  | 54,271              | 58,175              |
| Total assets   | <u>\$ 2,975,885</u> | <u>\$ 2,998,676</u> |
| <b>Liabilities and Equity</b>                                      |                     |                     |
| <b>Liabilities</b>   |                     |                     |
| Deposits   |                     |                     |
| Demand, noninterest bearing  | \$ 825,776          | \$ 908,898          |
| Interest bearing   |                     |                     |
| Demand   | 1,415,519           | 1,358,934           |
| Time deposits  | 361,881             | 278,182             |
| Total deposits   | 2,603,176           | 2,546,014           |
| Long-term borrowings   | 75,000              | 175,000             |
| Junior subordinated debt   | 10,310              | 10,310              |
| Subordinated debt  | 50,000              | 50,000              |
| Other liabilities, net   | 25,748              | 27,438              |
| Total liabilities  | 2,764,234           | 2,808,762           |
| <b>Equity</b>  |                     |                     |
| Common Stock   |                     |                     |
| No par value, 5,000,000 shares authorized, 4,854,380 shares issued | 7,359               | 7,359               |
| Capital surplus  | 7,280               | 7,454               |
| Retained earnings  | 387,138             | 367,296             |
| Accumulated other comprehensive loss                               | (78,385)            | (81,968)            |
| Treasury stock at cost, 2,085,832 and 2,063,382 shares             |                     |                     |
| as of December 31, 2024 and 2023, respectively                     | (114,506)           | (112,833)           |
| Total Parent Company Stockholders' Equity                          | 208,886             | 187,308             |
| Noncontrolling Interest  | 2,765               | 2,606               |
| Total equity   | 211,651             | 189,914             |
| Total liabilities and equity                                       | <u>\$ 2,975,885</u> | <u>\$ 2,998,676</u> |

**STAR Financial Group, Inc.**  
**Consolidated Statements of Income**  
**Years Ended December 31, 2024 and 2023**  
(In Thousands Except Share Data)

|  | <b>2024</b>      | <b>2023</b>      |
|--|------------------|------------------|
| <b>Interest Income</b>                               |                  |                  |
| Interest on loans                                    | \$ 99,368        | \$ 88,778        |
| Interest on investment securities                    |                  |                  |
| Taxable  | 40,504           | 39,588           |
| Tax exempt   | 1,225            | 1,365            |
| Total interest income                                | <u>141,097</u>   | <u>129,731</u>   |
| <b>Interest Expense</b>                              |                  |                  |
| Interest on deposits                                 | 51,087           | 32,265           |
| Interest on borrowings                               | 6,332            | 11,390           |
| Total interest expense                               | <u>57,419</u>    | <u>43,655</u>    |
| <b>Net Interest Income</b>                           | 83,678           | 86,076           |
| <b>Credit Loss Expense</b>                           | -                | 2,950            |
| <b>Net Interest Income After Credit Loss Expense</b> | <u>83,678</u>    | <u>83,126</u>    |
| <b>Noninterest Income</b>                            |                  |                  |
| Service charges and fees                             | 7,114            | 7,338            |
| Bank card processing                                 | 8,836            | 9,115            |
| Mortgage sales and servicing fees                    | 1,241            | 1,263            |
| Trust and brokerage fee income                       | 4,686            | 4,338            |
| Gain (loss) on sale of fixed assets                  | 2,736            | (80)             |
| Other fees and commissions                           | 1,416            | 1,035            |
| Loss on sales of securities                          | -                | (658)            |
| Other  | 4,383            | 2,860            |
| Total noninterest income                             | <u>30,412</u>    | <u>25,211</u>    |
| <b>Noninterest Expense</b>                           |                  |                  |
| Salaries and employee benefits                       | 44,878           | 45,025           |
| Occupancy expense                                    | 6,319            | 5,386            |
| Equipment expense                                    | 12,931           | 11,572           |
| Bank card processing fees                            | 3,662            | 3,566            |
| Loan and collection expense                          | 1,010            | 1,126            |
| Deposit insurance premiums                           | 1,387            | 1,520            |
| Advertising and promotional                          | 1,695            | 1,742            |
| Professional services                                | 2,872            | 2,218            |
| Other  | 11,057           | 7,849            |
| Total noninterest expense                            | <u>85,811</u>    | <u>80,004</u>    |
| <b>Income Before Income Taxes</b>                    | 28,279           | 28,333           |
| <b>Provision for Income Taxes</b>                    | 4,571            | 4,470            |
| <b>Net Income</b>                                    | <u>\$ 23,708</u> | <u>\$ 23,863</u> |
| <b>Income Per Share</b>                              |                  |                  |
| Basic  | \$ 8.53          | \$ 8.55          |
| Diluted  | \$ 8.46          | \$ 8.50          |
| <b>Weighted Average Shares Outstanding</b>           |                  |                  |
| Basic  | 2,779,945        | 2,792,246        |
| Diluted  | 2,801,962        | 2,806,099        |



**STAR Financial Group, Inc.**  
**Consolidated Statements of Comprehensive Income**  
**Years Ended December 31, 2024 and 2023**  
(In Thousands)

|  | <u>2024</u>      | <u>2023</u>      |
|--|------------------|------------------|
| <b>Net Income</b>  | \$ 23,708        | \$ 23,863        |
| <b>Other Comprehensive Income</b>  |                  |                  |
| Unrealized appreciation on available-for-sale securities, net of taxes of \$1,021 and \$4,731, for 2024 and 2023, respectively         | 3,583            | 17,797           |
| Reclassification adjustment for realized losses included in net income, net of taxes of \$0 and \$138, for 2024 and 2023, respectively | -                | 520              |
|  | <u>3,583</u>     | <u>18,317</u>    |
| <b>Comprehensive Income</b>  | <u>\$ 27,291</u> | <u>\$ 42,180</u> |

# STAR Financial Group, Inc.

## Consolidated Statements of Changes in Equity

### Years Ended December 31, 2024 and 2023

(In Thousands Except Share Data)

|   | Common Stock | Capital Surplus | Retained Earnings | Accumulated Other Comprehensive Loss | Treasury Stock | Total Parent Company Stockholders' Equity | Non Controlling Interest | Total Equity |
|---|--------------|-----------------|-------------------|--------------------------------------|----------------|---|--------------------------|--------------|
| <b>Balance, January 1, 2023</b>                                       | \$ 7,359     | \$ 7,318        | \$ 347,091        | \$ (100,285)                         | \$ (112,740)   | \$ 148,743                                | \$ 2,609                 | \$ 151,352   |
| Net income  | -            | -               | 23,863            | -                                    | -              | 23,863                                    | -                        | 23,863       |
| Other comprehensive loss  | -            | -               | -                 | 18,317                               | -              | 18,317                                    | -                        | 18,317       |
| Cash dividends (\$1.31 per share)                                     | -            | -               | (3,658)           | -                                    | -              | (3,658)                                   | -                        | (3,658)      |
| Purchase of treasury stock (4,218 shares)                             | -            | -               | -                 | -                                    | (317)          | (317)                                     | -                        | (317)        |
| Share based compensation expense                                      | -            | 360             | -                 | -                                    | -              | 360                                       | -                        | 360          |
| Issuance of treasury stock for restricted stock awards (2,843 shares) | -            | (224)           | -                 | -                                    | 224            | -   | -                        | -            |
| Distributions to noncontrolling interests                             | -            | -               | -                 | -                                    | -              | -   | (3)                      | (3)          |
| <b>Balance, December 31, 2023</b>                                     | 7,359        | 7,454           | 367,296           | (81,968)                             | (112,833)      | 187,308                                   | 2,606                    | 189,914      |
| Net income  | -            | -               | 23,708            | -                                    | -              | 23,708                                    | -                        | 23,708       |
| Other comprehensive income  | -            | -               | -                 | 3,583                                | -              | 3,583                                     | -                        | 3,583        |
| Cash dividends (\$1.39 per share)                                     | -            | -               | (3,866)           | -                                    | -              | (3,866)                                   | -                        | (3,866)      |
| Purchase of treasury stock (28,126 shares)                            | -            | -               | -                 | -                                    | (2,110)        | (2,110)                                   | -                        | (2,110)      |
| Share based compensation expense                                      | -            | 263             | -                 | -                                    | -              | 263                                       | -                        | 263          |
| Issuance of treasury stock for restricted stock awards (5,676 shares) | -            | (437)           | -                 | -                                    | 437            | -   | -                        | -            |
| Contributions from noncontrolling interests                           | -            | -               | -                 | -                                    | -              | -   | 160                      | 160          |
| <b>Balance, December 31, 2024</b>                                     | \$ 7,359     | \$ 7,280        | \$ 387,138        | \$ (78,385)                          | \$ (114,506)   | \$ 208,886                                | \$ 2,766                 | \$ 211,652   |

**STAR Financial Group, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**  
(In Thousands)

|  | <b>2024</b>             | <b>2023</b>              |
|--|-------------------------|--------------------------|
| <b>Operating Activities</b>  |                         |                          |
| Net income   | \$ 23,708               | \$ 23,863                |
| Items not requiring (providing) cash   |                         |                          |
| Provision for credit losses  | -                       | 2,950                    |
| Net gain from sale of loans  | (435)                   | (426)                    |
| Origination of loans for sale  | (11,853)                | (11,064)                 |
| Proceeds from sale of loans  | 12,537                  | 11,663                   |
| Increase in value of bank-owned life insurance                                 | (1,267)                 | (1,123)                  |
| Depreciation and amortization on premises and equipment                        | 5,927                   | 5,203                    |
| Net amortization of securities   | 4,166                   | 4,220                    |
| Provision for deferred taxes   | (1,420)                 | (420)                    |
| Loss on sale of securities   | -                       | 658                      |
| Loss (gain) on sale of premises and equipment                                  | (2,736)                 | 80                       |
| Repayment of operating lease liabilities                                       | 1,852                   | 1,197                    |
| Share based compensation expense   | 263                     | 360                      |
| Change in interest receivable  | (855)                   | (79)                     |
| Change in other assets   | 1,943                   | (272)                    |
| Change in other liabilities  | (1,690)                 | (3,060)                  |
| Net cash provided by operating activities                                      | <u>30,140</u>           | <u>33,750</u>            |
| <b>Investing Activities</b>  |                         |                          |
| Proceeds from sales of investment securities available-for-sale                | -                       | 82,177                   |
| Proceeds from maturities and calls of investment securities available-for-sale | 57,645                  | 68,813                   |
| Proceeds from sale of premises and equipment                                   | 4,607                   | -                        |
| Proceeds from bank-owned life insurance policy                                 | 833                     | 734                      |
| Purchases of premises and equipment  | (8,179)                 | (19,426)                 |
| Purchases of investment securities available-for-sale                          | (2,605)                 | (61,283)                 |
| Net change in loans  | (74,491)                | (44,371)                 |
| Net cash provided (used) in investing activities                               | <u>(22,190)</u>         | <u>26,644</u>            |
| <b>Financing Activities</b>  |                         |                          |
| Net change in deposits   | 57,162                  | 22,207                   |
| Proceeds from long-term borrowings   | 20,000                  | 210,000                  |
| Repayment of long-term borrowings  | (120,000)               | (280,013)                |
| Cash dividends   | (3,866)                 | (3,658)                  |
| Purchase of treasury stock   | (2,110)                 | (317)                    |
| Contributions from noncontrolling interests                                    | 160                     | -                        |
| Distributions to noncontrolling interests                                      | -                       | (3)                      |
| Net cash used by financing activities  | <u>(48,654)</u>         | <u>(51,784)</u>          |
| <b>Net Change in Cash and Cash Equivalents</b>                                 | <u>(40,704)</u>         | <u>8,610</u>             |
| <b>Cash and Cash Equivalents, Beginning of Year</b>                            | <u>113,715</u>          | <u>105,105</u>           |
| <b>Cash and Cash Equivalents, End of Year</b>                                  | <u><u>\$ 73,011</u></u> | <u><u>\$ 113,715</u></u> |

**STAR Financial Group, Inc.**  
**Consolidated Statements of Cash Flows**  
**Years Ended December 31, 2024 and 2023**  
(In Thousands)

|  | <b>2024</b> | <b>2023</b> |
|--|-------------|-------------|
| <b>Supplemental Cash Flows Information</b> |             |             |
| Interest paid                              | \$ 56,628   | \$ 43,093   |
| Income taxes paid                          | 2,682       | 5,381       |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.  
December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

### Note 1: Nature of Operations and Summary of Significant Accounting Policies

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

STAR Financial Group, Inc. (STAR or the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiary, STAR Financial Bank (Bank). The Bank has one wholly owned subsidiary, Titan, Inc. (Titan). In 2020, the Company owned 100% of the newly formed entity, 215 W Main, LLC, which was established to acquire and hold real estate. 215 W Main is the majority owner in the new construction project, incorporated as Berry Maiden Main, LLC, that began in 2021 for STAR's new headquarters. The project reached substantial completion in 2024. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers throughout Central and Northeastern Indiana. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank also provides trust and investment advisory services through a separate division titled STAR Wealth Management (Wealth). Titan is primarily engaged in managing the Bank's investment securities.

#### ***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

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

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

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

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

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents are defined to include the Company's cash on hand and demand deposits with other institutions (including money market mutual funds).

At December 31, 2024, the Company's cash accounts exceeded federally insured limits by approximately \$11,476,000.

#### ***Investment Securities***

Available-for-sale securities, which include any debt security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses for those with no allowance for credit losses are recorded, net of related income tax effects, in other comprehensive income (loss). Changes in the fair value of equity securities is recorded in non-interest income. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component in earnings as an allowance for credit losses and the remaining portion is recognized in other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.  
December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

### ***Allowance for Credit Losses – Available-For-Sale Securities***

For available-for-sale securities in an unrealized loss position, the Company first assesses whether the security meets certain criteria. The criteria is whether the Company intends to sell the security, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirements to sell is met, the security's amortized cost basis is written down to fair value through income.

For debt securities available-for-sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent to requirement to sell is met.

### ***Loans Held for Sale***

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

### ***Loans***

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

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

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first mortgages, junior lien mortgages and other secured consumer loans at 90 days past due. Unsecured retail loans are wholly charged off when the loan is 90 days past due.

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For all loan classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on individually evaluated loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt modification loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

### **Allowance for Credit Losses - Loans**

The allowance for credit losses is established as losses are estimated to have occurred through a provision for credit losses charged to income. Credit losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for credit losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance for credit losses contains general and allocated components. The general component covers loans with similar risk characteristics. The allocated component covers loans that do not share risk characteristics and are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. For those loans that are individually evaluated, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the loan is lower than the carrying value of that loan.

The methodology for calculating the general component of the allowance for credit loss contains four elements: the average charge-off method, qualitative elements, a forward look consideration, and a prepayment analysis. The average charge-off method calculates an estimate of losses primarily based on past experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history on a weighted average basis experienced by the Company. Management believes the weighted average historical loss experience methodology is appropriate in the current economic environment. The qualitative elements utilized in the allowance for credit loss calculation utilizes both objective and subjective indicators. The qualitative elements include nine categories: ability of staff, changes in collateral values, changes in loan concentration levels, economic conditions, external factors such as regulatory, level and trends in non-accrual or adversely classified loans, loan review results, nature and volume of the portfolio and loan terms, and changes in lending policies and procedures. Items within these categories are ranked as baseline, low, medium, or high levels of risk, and the related risk level per categories dictates the level of qualitative factor that is used depending on the standard deviation level from historical loss. The forward look consideration consists of leveraging a regression analysis based on forward looking economic forecasts. Forecast data for GDP and unemployment from the Federal Reserve are used in conjunction with third-party providers to complete a forward look consideration in the allowance for credit loss calculation. The prepayment analysis relates to anticipated prepayment speeds which will adjust anticipated loan losses. The prepayment calculation considers the interest rate environment and whether any economic incentives exist that would affect the average life of the loan portfolio.

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A loan is considered collateral dependent when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in identifying a collateral dependent loan include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as collateral dependent. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Collateral dependency is measured on a loan-by-loan basis for non-homogenous type loans such as commercial, non-owner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For collateral dependent loans where the Company utilizes the discounted cash flows method, the Company includes the entire change in the present value of cash flows as provision for credit losses.

The fair values of collateral dependent loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of individual evaluation and annually thereafter for commercial, commercial real estate and multi-family loans. It is the Company's practice to obtain annual appraisals on collateral dependent loans. The Company applies a discount rate to the appraisal based upon the collateral type. In the case of commercial real estate, the discount rate is 25%. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is considered in the Company's determination of the allowance for credit losses through the analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

Segments of loans with similar risk characteristics are collectively evaluated based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for the allocated component of the allowance for credit loss calculation, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt modification (TDM) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

### **Allowance for Credit Losses – Off-Balance Sheet Exposure**

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



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### ***Bank Owned Life Insurance***

Bank owned life insurance consists of investments in life insurance policies on certain key executives and other members of the Bank's management. The policies are carried at their net cash surrender value. Changes in the policy value are recorded as an adjustment to the carrying value with the corresponding amount recognized as non-interest income or expense. Earnings on these policies are based on the net earnings on the cash surrender value of the policies.

### ***Premises and Equipment***

Premises and equipment are recorded at cost less accumulated depreciation. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets generally ranging from three to 25 years. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on disposition are included in the consolidated statements of income.

### ***FHLB Stock***

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. Included in other assets on the consolidated balance sheets is FHLB stock totaling \$11,070,600 at December 31, 2024 and 2023.

### ***Goodwill***

Goodwill is evaluated annually for impairment – or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recorded in the consolidated financial statements. There was no impairment as of December 31, 2024.

### ***Intangible Assets***

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

### ***Other Real Estate Owned***

Other real estate owned represents properties acquired through foreclosures or deeds in lieu of foreclosure or former branches held for sale. The properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure establishing a new cost basis. Any excess of the loan amount over the net realizable value of such property when acquired is charged to the allowance for loan and lease losses, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. In the case of former branches, any excess of net book value over the net realizable value of such property is charged to impairment of premises and equipment. Subsequent write-downs and gains or losses on sales are recorded in the income statement. Costs of maintaining the properties are recorded in the consolidated income statement as incurred. Included in other assets on the consolidated balance sheets is other real estate owned totaling \$200,763 and \$301,343 at December 31, 2024 and 2023, respectively.

### ***Mortgage Servicing Rights***

Mortgage servicing assets are recognized when rights are acquired through the sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

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Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with mortgage sales and servicing fees on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

### **Transfers of Financial Assets**

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

### **Lease Commitments**

The Company leases certain banking center locations, office space, land and billboards. In determining whether a contract contains a lease, the Company examines the contract to ensure an asset was specifically identified and that the Company has control of use over the asset. To determine whether a lease is classified as operating or finance, the Company performs an economic life test on all building leases with greater than a twenty years term. Further, the Company performs a fair value test to identify any leases that have a present value of future lease payments over the lease term that is greater than 90% of the fair value of the building.

At lease inception, the Company determines the lease term by adding together the minimum lease term and all optional renewal periods that it is reasonably certain to renew. The Company determines this on each lease by considering all relevant contract based, asset-based, market-based, and entity-based economic factors. Generally, the exercise of lease renewal options is at the Company's sole discretion. The lease term is used to determine whether a lease is operating or finance and is used to calculate straight-line rent expense. Additionally, the depreciable life of leasehold improvements is limited by the expected lease term.

Operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date the Company takes possession of the property. Rent expense and variable lease costs are included in occupancy expense on the Company's consolidated statements of income. Included in variable lease costs are leases with rent escalations based on recent financial indices, such as the Consumer Price Index, where the Company estimates future rent increases and records the actual difference to variable costs. Certain leases require the Company to pay common area maintenance, real estate taxes, insurance and other operating expenses associated with the leases premises. These expenses are classified in occupancy expense, consistent with similar costs for owned locations. There are no residual value guarantees, restrictions or covenants imposed by leases.

The Company accounts for lease and non-lease components together as a single lease component by class of underlying asset. Operating lease obligations with an initial term longer than 12 months are recorded with a right of use asset and a lease liability in the consolidated balance sheet.

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The discount rate used in determining the lease liability and related right of use asset is based upon what would be obtained by the Company for similar loans as an incremental rate as of the date of origination or renewal.

### **Treasury Stock**

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

### **Earnings Per Share**

Basic earnings per share are based on the weighted average number of common shares outstanding. Dilutive earnings per share includes the dilutive effect of additional potential common shares issuable under restricted stock awards.

### **Income Taxes**

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

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

The Company files consolidated income tax returns with its subsidiaries. The Company recognizes interest and penalties, if any, as income tax expense.

### **Adoption of New Accounting Standards**

Segment Reporting: In November 2023, the FASB issued ASU 2023-07 "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures." These amendments require, among other things, that a public entity that has a single reportable segment provide all the disclosures required by the amendments in this ASU and all existing segment disclosures in Topic 208. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. Early adoption is permitted. A public entity should apply the amendments retrospectively to all periods presented in the financial statements. The Company adopted ASU 2023-07 on January 1, 2024 and it did not have a material impact on its accounting and disclosures.

### **Subsequent Events**

Subsequent events have been evaluated through March 19, 2025, which is the date the consolidated financial statements were available to be issued.

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### Note 2: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

|  | Amortized Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value          |
|--|---------------------|------------------------------|-------------------------------|---------------------|
| <b>December 31, 2024</b>   |                     |                              |                               |                     |
| U.S. Treasury and agency securities                                  | \$ 105,020          | \$ -                         | \$ 5,294                      | \$ 99,726           |
| Obligations of states and political subdivisions                     | 158,936             | 1                            | 29,938                        | 128,999             |
| Mortgage-backed Government Sponsored<br>Enterprise (GSE) residential | 822,499             | 662                          | 63,629                        | 759,532             |
| Pooled trust preferred securities                                    | 23,184              | -                            | 876                           | 22,308              |
|  | <u>\$ 1,109,639</u> | <u>\$ 663</u>                | <u>\$ 99,737</u>              | <u>\$ 1,010,565</u> |
|  | Amortized Cost      | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair Value          |
| <b>December 31, 2023</b>   |                     |                              |                               |                     |
| U.S. Treasury and agency securities                                  | \$ 106,120          | \$ -                         | \$ 7,363                      | \$ 98,757           |
| Obligations of states and political subdivisions                     | 159,591             | 7                            | 28,399                        | 131,199             |
| Mortgage-backed Government Sponsored<br>Enterprise (GSE) residential | 879,159             | 477                          | 67,441                        | 812,195             |
| Pooled trust preferred securities                                    | 24,015              | 139                          | 1,098                         | 23,056              |
|  | <u>\$ 1,168,885</u> | <u>\$ 623</u>                | <u>\$ 104,301</u>             | <u>\$ 1,065,207</u> |

Securities with a carrying value of approximately \$199,383,000 and \$212,157,000 at December 31, 2024 and 2023, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase and for other purposes as required by law.

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

|  | Available for Sale  |                     |
|--|---------------------|---------------------|
|  | Amortized<br>Cost   | Fair Value          |
| Due within one year  | \$ 19,989           | \$ 19,934           |
| Due after one year through five years                      | 85,357              | 80,113              |
| Due after five years through ten years                     | 62,032              | 49,240              |
| Due after ten years  | 119,762             | 101,746             |
| Total investment securities with a contractual<br>maturity | 287,140             | 251,033             |
| Mortgage-backed GSE residential                            | 822,499             | 759,532             |
| Total investment securities                                | <u>\$ 1,109,639</u> | <u>\$ 1,010,565</u> |

There were no gross gains on available-for-sale securities during 2024 and 2023. Gross losses of \$0 and \$658,000 resulting from sales of AFS securities were realized in 2024 and 2023.

Certain investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2024 and 2023, was \$972,358,000 and \$1,016,859,000 respectively, which is approximately 96% and 95%, respectively, of the available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates since the securities were purchased and current depressed market conditions.

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The Company has not recorded an allowance for credit losses for available-for-sale securities at December 31, 2024. This is based on evaluation of available evidence, including recent changes in market interest rates, discounted cash flow analysis, and credit rating information, except as discussed below.

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2024 and 2023.

| Description of Securities                        | December 31, 2024   |                   |                   |                   |                   |                   |
|--|---------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total             |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value        | Unrealized Losses |
| U.S. Treasury and agency securities              | \$ -                | \$ -              | \$ 99,726         | \$ 5,294          | \$ 99,726         | \$ 5,294          |
| Obligations of states and political subdivisions | -                   | -                 | 128,673           | 29,938            | 128,673           | 29,938            |
| Mortgage-backed GSE residential                  | 44,824              | 1,671             | 686,512           | 61,958            | 731,336           | 63,629            |
| Pooled trust preferred securities                | -                   | -                 | 12,623            | 876               | 12,623            | 876               |
|  | <u>\$ 44,824</u>    | <u>\$ 1,671</u>   | <u>\$ 927,534</u> | <u>\$ 98,066</u>  | <u>\$ 972,358</u> | <u>\$ 99,737</u>  |

  

| Description of Securities                        | December 31, 2023   |                   |                   |                   |                     |                   |
|--|---------------------|-------------------|-------------------|-------------------|---------------------|-------------------|
|  | Less than 12 Months |                   | 12 Months or More |                   | Total               |                   |
|  | Fair Value          | Unrealized Losses | Fair Value        | Unrealized Losses | Fair Value          | Unrealized Losses |
| U.S. Treasury and agency securities              | \$ 947              | \$ 3              | \$ 97,482         | \$ 7,360          | \$ 98,429           | \$ 7,363          |
| Obligations of states and political subdivisions | -                   | -                 | 130,867           | 28,399            | 130,867             | 28,399            |
| Mortgage-backed GSE residential                  | 31,581              | 386               | 743,206           | 67,055            | 774,787             | 67,441            |
| Pooled trust preferred securities                | -                   | -                 | 12,776            | 1,098             | 12,776              | 1,098             |
|  | <u>\$ 32,528</u>    | <u>\$ 389</u>     | <u>\$ 984,331</u> | <u>\$ 103,912</u> | <u>\$ 1,016,859</u> | <u>\$ 104,301</u> |

### *U.S. Treasury and Agency Securities*

The unrealized losses on the Company's investments in securities of U.S. Treasury and Agency Securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company has not recorded an allowance for credit losses at December 31, 2024.

### *Obligations of State and Political Subdivisions*

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company has not recorded an allowance for credit losses at December 31, 2024.

### *Mortgage-backed GSE Residential*

The unrealized losses on the Company's investment in mortgage-backed GSE residential securities were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company has not recorded an allowance for credit losses at December 31, 2024.

### *Pooled Trust Preferred Securities*

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Pooled trust preferred securities within the available-for-sale portfolio include six securities which are collateralized by trust preferred securities principally issued by banks. As of December 31, 2024, there were six pools and one pool was determined to be fully evaluated if a credit loss exists by monitoring to ensure it has adequate credit support. Management believes there is no need for an allowance for credit losses. The remaining five securities rated below investment grade were evaluated for impairment as discussed below and not deemed to be other-than-temporarily impaired. The Company's unrealized losses on pooled trust preferred securities were primarily caused by deterioration in the financial status of the institutions within the respective pools and sector downgrades by analysts and rating agencies.

### Note 3: Loans and Allowance for Loan and Lease Losses

STAR's business activity is primarily with customers located in north central and northeast Indiana. The loan portfolio is diversified by type and industry. Collateral requirements for each loan are based upon the credit evaluation of each transaction.

Classes of loans at December 31, include:

|                                       | 2024         | 2023         |
|---------------------------------------|--------------|--------------|
| Commercial and industrial             | \$ 591,291   | \$ 584,054   |
| Commercial real estate                | 673,620      | 632,247      |
| Consumer:                             |              |              |
| Consumer, home equity lines of credit | 87,040       | 84,083       |
| Consumer, auto                        | 9,563        | 11,998       |
| Consumer, other                       | 18,976       | 12,772       |
| Residential                           | 331,165      | 310,182      |
| Finance leases                        | 1,682        | 4,210        |
| Gross loans                           | 1,713,337    | 1,639,546    |
| Allowance for credit losses           | (18,502)     | (19,202)     |
| Net loans                             | \$ 1,694,835 | \$ 1,620,344 |

The components of the Company's direct financing leases as of December 31 are summarized below:

|                               | 2024     | 2023     |
|-------------------------------|----------|----------|
| Future minimum lease payments | \$ 1,668 | \$ 4,393 |
| Residual interests            | 63       | 218      |
| Initial direct costs          | -        | 1        |
| Unearned income               | (49)     | (402)    |
|                               | \$ 1,682 | \$ 4,210 |

Future minimum lease payments are as follows:

|            |          |
|------------|----------|
| 2025       | \$ 664   |
| 2026       | 482      |
| 2027       | 295      |
| 2028       | 114      |
| 2029       | 113      |
| Thereafter | -        |
|            | \$ 1,668 |

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The risk characteristics of each loan portfolio segment are as follows:

### Commercial and Industrial and Commercial Real Estate

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers; however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

### Real Estate, Consumer, Leases and Other

Real estate, consumer, leases and other loans consist of four segments - residential mortgage loans, personal loans, direct financing leases and other loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Consumer personal, leases and other loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

The following tables present the activity in the allowance for credit losses and the recorded investment in loans based on portfolio segment as of December 31, 2024 and 2023:

| 2024                             |                                 |                           |               |                 |                   |                  |
|----------------------------------|---------------------------------|---------------------------|---------------|-----------------|-------------------|------------------|
|                                  | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer      | Residential     | Finance<br>Leases | Total            |
| <b>Allowance for Credit Loss</b> |                                 |                           |               |                 |                   |                  |
| Balance, beginning of year       | \$ 7,398                        | \$ 8,285                  | \$ 917        | \$ 2,356        | \$ 246            | \$ 19,202        |
| Credit loss expense              | (461)                           | (517)                     | 493           | -               | -                 | (485)            |
| Losses charged off               | (259)                           | -                         | (493)         | -               | -                 | (752)            |
| Recoveries                       | 487                             | 10                        | 33            | 7               | -                 | 537              |
| Balance, end of year             | <u>\$ 7,165</u>                 | <u>\$ 7,778</u>           | <u>\$ 950</u> | <u>\$ 2,363</u> | <u>\$ 246</u>     | <u>\$ 18,502</u> |
| 2023                             |                                 |                           |               |                 |                   |                  |
|                                  | Commercial<br>and<br>Industrial | Commercial<br>Real Estate | Consumer      | Residential     | Finance<br>Leases | Total            |
| <b>Allowance for Credit Loss</b> |                                 |                           |               |                 |                   |                  |
| Balance, beginning of year       | \$ 8,048                        | \$ 8,275                  | \$ 1,023      | \$ 2,354        | \$ 246            | \$ 19,946        |
| Credit loss expense              | 2,158                           | -                         | 366           | -               | -                 | 2,524            |
| Losses charged off               | (2,998)                         | -                         | (507)         | -               | -                 | (3,505)          |
| Recoveries                       | 190                             | 10                        | 35            | 2               | -                 | 237              |
| Balance, end of year             | <u>\$ 7,398</u>                 | <u>\$ 8,285</u>           | <u>\$ 917</u> | <u>\$ 2,356</u> | <u>\$ 246</u>     | <u>\$ 19,202</u> |



## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2024 and 2023:

| 2024                   |                           |                           |                            |                   |                     |                     |
|------------------------|---------------------------|---------------------------|----------------------------|-------------------|---------------------|---------------------|
|                        | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>than 90<br>Days | Total<br>Past Due | Current             | Total<br>Loans      |
| Commercial and         |                           |                           |                            |                   |                     |                     |
| industrial             | \$ 3,404                  | \$ 146                    | \$ 3,420                   | \$ 6,970          | \$ 584,321          | \$ 591,291          |
| Commercial real estate | 520                       | -                         | -                          | 520               | 673,100             | 673,620             |
| Consumer               |                           |                           |                            |                   |                     |                     |
| Consumer,              |                           |                           |                            |                   |                     |                     |
| home equity            |                           |                           |                            |                   |                     |                     |
| lines of credit        | 106                       | 21                        | 46                         | 173               | 86,867              | 87,040              |
| Consumer, auto         | -                         | -                         | -                          | -                 | 9,563               | 9,563               |
| Consumer, other        | 64                        | -                         | -                          | 64                | 18,912              | 18,976              |
| Residential            | 445                       | 8                         | 57                         | 510               | 330,655             | 331,165             |
| Finance leases         | -                         | -                         | -                          | -                 | 1,682               | 1,682               |
| Total                  | <u>\$ 4,539</u>           | <u>\$ 175</u>             | <u>\$ 3,523</u>            | <u>\$ 8,237</u>   | <u>\$ 1,705,100</u> | <u>\$ 1,713,337</u> |
| 2023                   |                           |                           |                            |                   |                     |                     |
|                        | 30-59<br>Days<br>Past Due | 60-89<br>Days<br>Past Due | Greater<br>than 90<br>Days | Total<br>Past Due | Current             | Total<br>Loans      |
| Commercial and         |                           |                           |                            |                   |                     |                     |
| industrial             | \$ 712                    | \$ 163                    | \$ 2,448                   | \$ 3,323          | \$ 580,731          | \$ 584,054          |
| Commercial real estate | -                         | -                         | -                          | -                 | 632,247             | 632,247             |
| Consumer               |                           |                           |                            |                   |                     |                     |
| Consumer,              |                           |                           |                            |                   |                     |                     |
| home equity            |                           |                           |                            |                   |                     |                     |
| lines of credit        | -                         | 54                        | 70                         | 124               | 83,959              | 84,083              |
| Consumer, auto         | 10                        | -                         | 4                          | 14                | 11,984              | 11,998              |
| Consumer, other        | 4                         | -                         | -                          | 4                 | 12,768              | 12,772              |
| Residential            | 256                       | -                         | 13                         | 269               | 309,913             | 310,182             |
| Finance leases         | -                         | -                         | -                          | -                 | 4,210               | 4,210               |
| Total                  | <u>\$ 982</u>             | <u>\$ 217</u>             | <u>\$ 2,535</u>            | <u>\$ 3,734</u>   | <u>\$ 1,635,812</u> | <u>\$ 1,639,546</u> |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

The following tables present the Company's nonaccrual loans as of December 31, 2024 and 2023:

| <b>2024</b>                              |                                   |                   |  |
|--|-----------------------------------|-------------------|--|
|  | <b>Nonaccrual with<br/>No ACL</b> | <b>Nonaccrual</b> | <b>Loan Past Due<br/>Over 89 Days and<br/>Still Accruing</b> |
| Commercial and industrial                | \$ -                              | \$ 3,589          | \$ -   |
| Commercial real estate                   | -                                 | -                 | -  |
| Consumer                                 |                                   |                   |  |
| Consumer, home equity<br>lines of credit | -                                 | 78                | -  |
| Consumer, auto                           | -                                 | -                 | -  |
| Consumer, other                          | -                                 | -                 | -  |
| Residential                              | -                                 | 102               | 57   |
| Finance leases                           | -                                 | -                 | -  |
|  | <u>\$ -</u>                       | <u>\$ 3,769</u>   | <u>\$ 57</u>   |
| <b>2023</b>                              |                                   |                   |  |
|  | <b>Nonaccrual with<br/>No ACL</b> | <b>Nonaccrual</b> | <b>Loan Past Due<br/>Over 89 Days and<br/>Still Accruing</b> |
| Commercial and industrial                | \$ -                              | \$ 3,793          | \$ -   |
| Commercial real estate                   | -                                 | -                 | -  |
| Consumer                                 |                                   |                   |  |
| Consumer, home equity<br>lines of credit | -                                 | 109               | -  |
| Consumer, auto                           | -                                 | -                 | 4  |
| Consumer, other                          | -                                 | -                 | -  |
| Residential                              | -                                 | 127               | -  |
| Finance leases                           | -                                 | -                 | -  |
|  | <u>\$ -</u>                       | <u>\$ 4,029</u>   | <u>\$ 4</u>  |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2024 and 2023:

| 2024                                  |                 |                         |              |                 |
|---------------------------------------|-----------------|-------------------------|--------------|-----------------|
|                                       | Real Estate     | General Business Assets | Other        | Total           |
| Commercial and industrial             | \$ 1,538        | \$ 2,394                | \$ 39        | \$ 3,971        |
| Consumer                              |                 |                         |              |                 |
| Consumer, home equity lines of credit | 98              | -                       | -            | 98              |
| Consumer, other                       | -               | -                       | 2            | 2               |
| Residential                           | 860             | -                       | -            | 860             |
|                                       | <u>\$ 2,496</u> | <u>\$ 2,394</u>         | <u>\$ 41</u> | <u>\$ 4,931</u> |
| 2023                                  |                 |                         |              |                 |
|                                       | Real Estate     | General Business Assets | Other        | Total           |
| Commercial and industrial             | \$ 1,552        | \$ 2,498                | \$ 26        | \$ 4,076        |
| Consumer                              |                 |                         |              |                 |
| Consumer, home equity lines of credit | 63              | -                       | -            | 63              |
| Consumer, other                       | 5               | -                       | 26           | 31              |
| Residential                           | 896             | -                       | -            | 896             |
|                                       | <u>\$ 2,516</u> | <u>\$ 2,498</u>         | <u>\$ 52</u> | <u>\$ 5,066</u> |

The Company closely monitors the performance of loans that are modified to borrowers experiencing financial difficulty to understand the effectiveness of its modification efforts. The following tables present the performance of loans that have been modified in the last 12 months:

| 2024                      |              |                     |                    |
|---------------------------|--------------|---------------------|--------------------|
|                           | Current      | 30-89 Days Past Due | > 90 Days Past Due |
| Commercial and industrial | \$ -         | \$ -                | \$ -               |
| Commercial real estate    | -            | -                   | -                  |
| Consumer                  |              |                     |                    |
| Consumer, residential     | 2            | -                   | -                  |
|                           | <u>\$ 2</u>  | <u>\$ -</u>         | <u>\$ -</u>        |
| 2023                      |              |                     |                    |
|                           | Current      | 30-89 Days Past Due | > 90 Days Past Due |
| Commercial and industrial | \$ 26        | \$ -                | \$ -               |
| Commercial real estate    | -            | -                   | -                  |
| Consumer                  |              |                     |                    |
| Consumer, residential     | -            | -                   | -                  |
|                           | <u>\$ 26</u> | <u>\$ -</u>         | <u>\$ -</u>        |

There was not a material financial effect of the loan modifications presented above to borrowers experiencing financial difficulty for the years ended December 31, 2024 and 2023.

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

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(Table Dollars in Thousands Except Share Data)

There were no loans that had a payment default during the years ended December 31, 2024 and 2023 and were modified in the twelve months prior to that default to borrowers experiencing financial difficulties.

The Company had no foreclosed residential real estate property obtained by physical possession as of December 31, 2024 and 2023. The Company had no consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions as of December 31, 2024 and 2023.

### Internal Risk Categories

Loan grades are numbered 1 through 10. Grades 1 through 6 are considered satisfactory grades. The grade of 7, or Watch, represents loans of lower quality and is considered criticized. The grades of 8, or Substandard, and 9, or Special Mention, and 10, or Loss, refer to assets that are classified. The use and application of these grades by the Bank conform to the Bank's policy.

**Prime (1)** loans have exceptional credit fundamentals, including stable and predictable income and balance sheet performance; highly regarded with excellent management and management depth.

**Good (2)** loans have very good credit fundamentals but less predictable income and balance sheet performance than a prime graded credit. Loans have regional exposure in stable industry with seasoned management.

**Satisfactory (3)** loans are medium size or a local company in a good industry with predictable income and balance sheet performance over time.

**Pass (4)** all loans with acceptable credit risk but of a moderate to small size for local markets. Credit compares equally or favorably to peers and competitors with a solid balance sheet and profitability with some volatility.

**Pass Minus (5)** loans are credits where overall risk associated with creditworthiness criteria is considered higher than normal and warrant attention. Startup or less seasoned company within cyclical industry with moderate levels of volatility and deterioration of credit fundamentals.

**Risk rated with caution (6)** loans are credits where overall risk associated with creditworthiness criteria are less desirable but with potential. High or increasing risk dependence upon collateral or guarantor for protection with weaker or deteriorating financial trends.

**Watch (7)** all credits where overall credit fundamentals need continued review. Considered higher risk with unfavorable characteristics present. Risk, however, remains reasonable. Borrowings would usually be on a fully secured basis.

**Substandard (8)** credits have well-defined weaknesses where payment default is possible but not yet probable. Deficiencies are not corrected quickly and financing alternatives are limited. Reliance on collateral and guarantors is increased.

**Doubtful (9)** loans are credits where the possibility of loss is high, repayment is erratic or nonexistent, and loan is collateral dependent or firm in bankruptcy.

**Loss (10)** loans are no longer considered bankable assets.

**Nonperforming** mortgage, home equity and consumer loans on non-accrual or greater than 90 days past due and are internally monitored monthly by management.

**Performing** all other mortgage, home equity and consumer loans.

Based on the most recent analysis performed, the risk category of loans by class of loan is as follows:

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

| Term Loans Amortized Cost Basis by Origination Year |          |          |           |           |           |                                      |                                   |           |
|---|----------|----------|-----------|-----------|-----------|--------------------------------------|-----------------------------------|-----------|
|   | 2024     | 2023     | 2022      | 2021      | Prior     | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total     |
| Commercial and industrial                           |          |          |           |           |           |                                      |                                   |           |
| Pass  | \$73,487 | \$62,429 | \$91,570  | \$67,261  | \$70,722  | \$178,209                            | -                                 | \$543,678 |
| Watch   | 889      | 2,840    | 4,870     | 6,482     | 6,780     | 19,291                               | -                                 | 41,152    |
| Substandard   | -        | 277      | -         | 1,831     | 890       | 296                                  | -                                 | 3,294     |
| Doubtful  | -        | -        | -         | -         | 2,467     | 700                                  | -                                 | 3,167     |
| Total Commercial and industrial                     | \$74,376 | \$65,546 | \$96,440  | \$75,574  | \$80,859  | \$198,496                            | -                                 | \$591,291 |
| Chargeoffs  | -        | -        | 69        | -         | -         | 190                                  | -                                 | 259       |
| Commercial RE                                       |          |          |           |           |           |                                      |                                   |           |
| Pass  | \$63,311 | \$56,177 | \$143,262 | \$143,979 | \$175,370 | \$61,152                             | -                                 | \$643,251 |
| Watch   | -        | 3,282    | 3,752     | 1,093     | 21,920    | -                                    | -                                 | 30,047    |
| Substandard   | -        | -        | -         | -         | 131       | -                                    | -                                 | 131       |
| Doubtful  | -        | -        | -         | -         | 165       | 26                                   | -                                 | 191       |
| Total Commercial RE                                 | \$63,311 | \$59,459 | \$147,014 | \$145,072 | \$197,586 | \$61,178                             | -                                 | \$673,620 |
| Chargeoffs  | -        | -        | -         | -         | -         | -                                    | -                                 | -         |

| Term Loans Amortized Cost Basis by Origination Year |          |           |           |          |           |                                      |                                   |           |
|---|----------|-----------|-----------|----------|-----------|--------------------------------------|-----------------------------------|-----------|
|   | 2023     | 2022      | 2021      | 2020     | Prior     | Revolving Loans Amortized Cost Basis | Revolving Loans Converted to Term | Total     |
| Commercial and industrial                           |          |           |           |          |           |                                      |                                   |           |
| Pass  | \$74,610 | \$110,591 | \$86,246  | \$29,666 | \$68,525  | \$180,324                            | -                                 | \$549,962 |
| Watch   | 1,337    | 653       | 6,349     | 648      | 5,223     | 14,009                               | -                                 | 28,219    |
| Substandard   | -        | -         | 1,775     | 1,859    | 1,271     | 380                                  | -                                 | 5,285     |
| Doubtful  | -        | -         | -         | 26       | 21        | 541                                  | -                                 | 588       |
| Total Commercial and industrial                     | \$75,947 | \$111,244 | \$94,370  | \$32,199 | \$75,040  | \$195,254                            | -                                 | \$584,054 |
| Chargeoffs  | -        | -         | 2,947     | -        | -         | 51                                   | -                                 | 2,998     |
| Commercial RE                                       |          |           |           |          |           |                                      |                                   |           |
| Pass  | \$38,086 | \$124,260 | \$123,245 | \$30,759 | \$190,092 | \$78,797                             | -                                 | \$585,239 |
| Watch   | 149      | 8,086     | 140       | -        | 21,439    | -                                    | -                                 | 29,814    |
| Substandard   | -        | -         | -         | -        | 17,194    | -                                    | -                                 | 17,194    |
| Doubtful  | -        | -         | -         | -        | -         | -                                    | -                                 | -         |
| Total Commercial RE                                 | \$38,235 | \$132,346 | \$123,385 | \$30,759 | \$228,725 | \$78,797                             | -                                 | \$632,247 |
| Chargeoffs  | -        | -         | -         | -        | -         | -                                    | -                                 | -         |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

|                        | Term Loans Amortized Cost Basis by Origination Year |          |          |          |           | Revolving<br>Loans<br>Amortized<br>Cost Basis | Revolving<br>Loans<br>Converted to<br>Term | Total     |
|------------------------|---|----------|----------|----------|-----------|---|--|-----------|
|                        | 2024  | 2023     | 2022     | 2021     | Prior     |   |  |           |
| Consumer - HELOC       |   |          |          |          |           |   |  |           |
| Performing             | -   | -        | -        | -        | -         | \$86,962                                      | -  | \$86,962  |
| Nonperforming          | -   | -        | -        | -        | -         | 78  | -  | 78        |
| Total Consumer - HELOC | -   | -        | -        | -        | -         | \$87,040                                      | -  | \$87,040  |
| Chargeoffs             | -   | -        | -        | -        | -         | -   | -  | -         |
| Consumer - Auto        |   |          |          |          |           |   |  |           |
| Performing             | \$3,230   | \$2,771  | \$2,299  | \$837    | \$426     | -   | -  | \$9,563   |
| Nonperforming          | -   | -        | -        | -        | -         | -   | -  | -         |
| Total Consumer - Auto  | \$3,230   | \$2,771  | \$2,299  | \$837    | \$426     | -   | -  | \$9,563   |
| Chargeoffs             | -   | -        | 4        | -        | -         | -   | -  | 4         |
| Consumer - Other       |   |          |          |          |           |   |  |           |
| Performing             | \$12,153  | \$2,630  | \$1,114  | \$359    | \$1,185   | \$1,535                                       | -  | \$18,976  |
| Nonperforming          | -   | -        | -        | -        | -         | -   | -  | -         |
| Total Consumer - Other | \$12,153  | \$2,630  | \$1,114  | \$359    | \$1,185   | \$1,535                                       | -  | \$18,976  |
| Chargeoffs             | -   | -        | 4        | -        | -         | 485   | -  | 489       |
| Residential            |   |          |          |          |           |   |  |           |
| Performing             | \$45,648  | \$49,840 | \$37,903 | \$70,112 | \$119,165 | \$8,338                                       | -  | \$331,006 |
| Nonperforming          | -   | -        | -        | -        | 159       | -   | -  | 159       |
| Total Residential      | \$45,648  | \$49,840 | \$37,903 | \$70,112 | \$119,324 | \$8,338                                       | -  | \$331,165 |
| Chargeoffs             | -   | -        | -        | -        | -         | -   | -  | -         |
| Finance Leases         |   |          |          |          |           |   |  |           |
| Performing             | -   | -        | -        | -        | \$1,682   | -   | -  | \$1,682   |
| Nonperforming          | -   | -        | -        | -        | -         | -   | -  | -         |
| Total Finance Leases   | -   | -        | -        | -        | \$1,682   | -   | -  | \$1,682   |
| Chargeoffs             | -   | -        | -        | -        | -         | -   | -  | -         |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

### Term Loans Amortized Cost Basis by Origination Year

|                        | 2023     | 2022     | 2021     | 2020     | Prior    | Revolving<br>Loans<br>Amortized<br>Cost Basis | Revolving<br>Loans<br>Converted to<br>Term | Total     |
|------------------------|----------|----------|----------|----------|----------|---|--|-----------|
| Consumer - HELOC       |          |          |          |          |          |   |  |           |
| Performing             | -        | -        | -        | -        | -        | \$83,974                                      | -  | \$83,974  |
| Nonperforming          | -        | -        | -        | -        | -        | 109   | -  | 109       |
| Total Consumer - HELOC | -        | -        | -        | -        | -        | \$84,083                                      | -  | \$84,083  |
| Chargeoffs             | -        | -        | -        | -        | -        | -   | -  | -         |
| Consumer - Auto        |          |          |          |          |          |   |  |           |
| Performing             | \$4,357  | \$4,215  | \$1,845  | \$1,073  | \$504    | -   | -  | \$11,994  |
| Nonperforming          | -        | 4        | -        | -        | -        | -   | -  | 4         |
| Total Consumer - Auto  | \$4,357  | \$4,219  | \$1,845  | \$1,073  | \$504    | -   | -  | \$11,998  |
| Chargeoffs             | -        | 12       | -        | -        | -        | -   | -  | 12        |
| Consumer - Other       |          |          |          |          |          |   |  |           |
| Performing             | \$4,987  | \$1,701  | \$975    | \$482    | \$1,796  | \$2,327                                       | -  | \$12,268  |
| Nonperforming          | -        | 4        | -        | -        | -        | -   | -  | 4         |
| Total Consumer - Other | \$4,987  | \$1,705  | \$975    | \$482    | \$1,796  | \$2,327                                       | -  | \$12,272  |
| Chargeoffs             | -        | -        | -        | -        | -        | 481   | -  | 481       |
| Residential            |          |          |          |          |          |   |  |           |
| Performing             | \$43,788 | \$42,610 | \$78,675 | \$88,042 | \$48,390 | \$8,550                                       | -  | \$310,055 |
| Nonperforming          | -        | -        | -        | -        | 127      | -   | -  | 127       |
| Total Residential      | \$43,788 | \$42,610 | \$78,675 | \$88,042 | \$48,517 | \$8,550                                       | -  | \$310,182 |
| Chargeoffs             | -        | -        | -        | -        | -        | -   | -  | -         |
| Finance Leases         |          |          |          |          |          |   |  |           |
| Performing             | -        | -        | -        | -        | \$4,210  | -   | -  | \$4,210   |
| Nonperforming          | -        | -        | -        | -        | -        | -   | -  | -         |
| Total Finance Leases   | -        | -        | -        | -        | \$4,210  | -   | -  | \$4,210   |
| Chargeoffs             | -        | -        | -        | -        | -        | -   | -  | -         |

## Note 4: Premises and Equipment

Premises and equipment as of December 31 are summarized as follows:

|                               | 2024      | 2023      |
|-------------------------------|-----------|-----------|
| Land                          | \$ 18,370 | \$ 18,986 |
| Buildings and improvements    | 79,786    | 37,479    |
| Furniture and equipment       | 36,833    | 45,921    |
| Construction in progress      | -         | 34,819    |
|                               | 134,989   | 137,205   |
| Less accumulated depreciation | (53,877)  | (57,021)  |
| Net premises and equipment    | \$ 81,112 | \$ 80,184 |

## Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

December 31, 2024 and 2023

(Table Dollars in Thousands Except Share Data)

### Note 5: Mortgage Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$260,564,000 and \$279,131,000 at December 31, 2024 and 2023, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in other liabilities, were approximately \$1,714,000 and \$1,410,000 at December 31, 2024 and 2023, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value.

Activity in the balance of servicing assets was as follows:

|  | 2024            | 2023            |
|--|-----------------|-----------------|
| Carrying amount, beginning of year                                   | \$ 1,362        | \$ 1,505        |
| Servicing obligations that result from transfers of financial assets | 125             | 120             |
| Amortization   | (264)           | (271)           |
| Change in valuation allowance  | 2               | 8               |
| Carrying amount, end of year   | <u>\$ 1,225</u> | <u>\$ 1,362</u> |
| Valuation allowance, beginning of year                               | (14)            | (22)            |
| Additions  | 35              | 15              |
| Reductions   | (33)            | (7)             |
| Valuation allowance, end of year                                     | <u>\$ (12)</u>  | <u>\$ (14)</u>  |
| Fair value, beginning of year  | <u>\$ 3,916</u> | <u>\$ 3,999</u> |
| Fair value, end of year  | <u>\$ 3,493</u> | <u>\$ 3,916</u> |

### Note 6: Time Deposits

At December 31, the scheduled maturities of time deposits, including brokered deposits, are as follows:

|            |                   |
|------------|-------------------|
| 2025       | \$ 335,456        |
| 2026       | 12,573            |
| 2027       | 1,519             |
| 2028       | 949               |
| 2029       | 10,783            |
| Thereafter | 601               |
|            | <u>\$ 361,881</u> |

Time deposits with balances of \$250,000 or greater were approximately \$118,576,000 and \$45,373,000 at December 31, 2024 and 2023, respectively.

Included in time deposits at December 31, 2024 and 2023 were approximately \$17,451,000 and \$18,461,000 respectively, of deposits which were obtained through the IntraFi Network. This service allows deposit customers to maintain fully insured balances in excess of the \$250,000 FDIC insurance limit without the inconvenience of having multi-banking relationships. Under the reciprocal program that the Company is currently participating in, customers agree to allow the Company to place their deposits with other participating banks in the IntraFi Network program in



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insurable amounts under \$250,000. In exchange, other banks in the program agree to place their deposits with the Company also in insurable amounts under \$250,000.

### Note 7: Long-Term Borrowings

As of December 31, 2024 and 2023, STAR had Federal Home Loan Bank of Indianapolis advances (advances) outstanding totaling \$75,000,000 and \$175,000,000, respectively. The advances bear interest at rates ranging from 4.35% to 4.52% and mature at various dates through November 1, 2027.

Interest is paid monthly and the weighted average interest rate on the advances was 4.45% and 5.12% as of December 31, 2024 and 2023, respectively. The advances at December 31, 2024, are secured by first-mortgage loans totaling \$369,431,000 and are subject to restrictions or penalties in the event of prepayment.

Maturities of long-term debt are as follows: 2025 - \$25,000,000; 2026 - \$25,000,000; and 2027 - \$25,000,000.

The Company has established borrowing capacity of \$996,301,500 and \$999,913,200 as of December 31, 2024 and 2023, respectively, with the Federal Home Loan Bank and other financial institutions, of which \$75,000,000 and \$175,000,000 was outstanding at December 31, 2024 and 2023, respectively. In addition to the other borrowings, the Company also had \$1,000,000 and \$1,000,000 letters of credit available as of December 31, 2024 and 2023, respectively.

### Note 8: Junior Subordinated Debt and Subordinated Debt

In 2021, the Company privately placed \$50 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 to certain qualified institutional buyers. The Notes will initially bear interest at 3.25% per year, payable semi-annually in arrears. Beginning October 1, 2026 through the maturity date or earlier redemption, the interest rate will reset quarterly based on the then current Three-Month Term SOFR plus 257 basis points, payable quarterly in arrears. Also beginning on October 1, 2026 through maturity, the Notes may be redeemed in whole or in part, at the Company's option. The Notes will mature on October 1, 2031.

In March 2006, the Company formed STAR Capital Trust I (Trust I) and STAR Capital Trust II (Trust II) which are both statutory business trusts. Trust I issued \$5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating \$5,155,000 to Trust I. The subordinated debentures are the sole assets of Trust I. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month CME Term SOFR (4.87%) plus 1.40% (6.27%) and mature on June 30, 2036, and are non-callable for five years after issuance. The securities may be called at any quarterly interest date at par.

Trust II issued \$5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating \$5,155,000 to Trust II. The subordinated debentures are the sole assets of Trust II. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month CME Term SOFR (4.87%) plus 1.40% (6.27%) and mature on June 30, 2036. The securities may be called at any quarterly interest date at par.

The trust preferred capital securities, subject to certain limitations, are included in Tier I Capital for regulatory purposes. Trust I and Trust II are not consolidated into the Company and as a result, the Company accounts for the investment in Trust I and Trust II as assets, the subordinated debentures as debt, and the interest paid/received thereon as interest expense/income.

### Note 9: Stock Based Compensation

The Company's long-term incentive model was approved in 2020 and agreements are entered into with employees every January 1. Issuance of stock vests over a period of three years. Restricted stock units (RSU) are either time vested or based on performance metrics achieved by the Company. The total compensation expense recognized for the long-term incentive plan was \$263,000 and \$360,000 for the years ended December 31, 2024 and 2023, respectively.

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A summary of the status of the Company's nonvested restricted stock units as of December 31, 2024, and 2023, and changes during the periods then ended is presented below:

|                                | Shares  | Weighted<br>Average<br>Grant Date<br>Fair Value |
|--------------------------------|---------|---|
| Nonvested at January 1, 2023   | 14,558  | \$ 74.10  |
| Granted                        | 9,638   | 84.00   |
| Vested                         | (2,843) | 78.68   |
| Forfeited                      | -       | -   |
| Nonvested at December 31, 2023 | 21,353  | \$ 81.49  |
| Granted                        | 11,225  | 80.75   |
| Vested                         | (5,676) | 76.91   |
| Forfeited                      | (2,868) | 76.75   |
| Nonvested at December 31, 2024 | 24,034  | \$ 82.15  |

The total unrecognized compensation was \$1,201,000 and \$777,000 for the years ended December 31, 2024 and 2023, respectively.

### Note 10: Income Tax Expense

The Company files income tax returns in the U.S. federal jurisdiction and various states and local jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or income tax examinations by tax authorities for years before 2021.

Income tax provision is summarized as follows:

|                   | 2024     | 2023     |
|-------------------|----------|----------|
| Current           |          |          |
| Federal           | \$ 6,422 | \$ 4,861 |
| State             | (431)    | 29       |
| Deferred          |          |          |
| Federal           | (1,482)  | 15       |
| State             | 62       | (435)    |
| Total tax expense | \$ 4,571 | \$ 4,470 |

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A net deferred tax asset is included in other assets and is comprised of the following temporary differences at December 31:

|  | 2024              | 2023              |
|--|-------------------|-------------------|
| Deferred tax assets  |                   |                   |
| Allowance for credit losses                                  | \$ 4,670          | \$ 5,413          |
| Other nondeductible accruals                                 | 1,148             | 1,511             |
| Unrealized losses on available-for-sale securities           | 20,837            | 21,789            |
| State net operating loss                                     | -                 | 398               |
| Other-than-temporary impairment                              | 309               | 309               |
| Partnership investments                                      | 328               | 266               |
| Deferred income  | 234               | 288               |
| Premises and equipment, including equipment leased to others | 2,607             | -                 |
| Other  | 180               | 329               |
|  | <u>\$ 30,313</u>  | <u>\$ 30,303</u>  |
| Deferred tax liabilities                                     |                   |                   |
| Mortgage servicing rights                                    | \$ (303)          | \$ (339)          |
| Premises and equipment, including equipment leased to others | -                 | (1,513)           |
| Prepaid expenses   | (677)             | (793)             |
| Accretion  | (2,462)           | (1,357)           |
| Deferred loan fees   | (507)             | (398)             |
| Other  | (148)             | (155)             |
|  | <u>\$ (4,097)</u> | <u>\$ (4,555)</u> |
| Total net deferred taxes                                     | <u>\$ 26,216</u>  | <u>\$ 25,748</u>  |

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is as follows:

|  | 2024            | 2023            |
|--|-----------------|-----------------|
| Income taxes at statutory rate             | \$ 5,711        | \$ 5,932        |
| State income taxes, net of federal benefit | (291)           | (317)           |
| Tax-exempt interest                        | (692)           | (636)           |
| Bank owned life insurance                  | (218)           | (204)           |
| Captive insurance income                   | -               | (357)           |
| Tax credits                                | (65)            | (39)            |
| Other, net                                 | 126             | 91              |
| Net income tax expense                     | <u>\$ 4,571</u> | <u>\$ 4,470</u> |

At December 31, 2024, the Company had a state net operating loss of \$21,953,000 which carries forward for twenty years.

### Note 11: Accumulated Other Comprehensive Loss

The components of accumulated other comprehensive loss, included in stockholders' equity, are as follows:

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|  | 2024               | 2023               |
|--|--------------------|--------------------|
| Net unrealized loss on available-for-sale securities | \$ (99,074)        | \$ (103,678)       |
| Tax effect   | 20,689             | 21,710             |
| Net-of-tax amount                                    | <u>\$ (78,385)</u> | <u>\$ (81,968)</u> |

### Note 12: Employee Retirement and Savings Plans

STAR has a Section 401(k) savings plan for substantially all employees. The savings plan provides that STAR may contribute up to 50% of the amount of compensation deferred by the employee, up to 5%. STAR contributed approximately \$1,110,000 and \$1,138,000 to the plans in 2024 and 2023, respectively.

### Note 13: Related Party Transactions

The Bank has loan, deposit and other transactions with its directors and officers, and with organizations and individuals with which they are associated. In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. The aggregate dollar amount of loans to directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to approximately \$43,222,000 and \$38,380,000 at December 31, 2024 and 2023, respectively. The aggregate dollar amount of deposits of directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to approximately \$6,318,000 and \$8,456,000 at December 31, 2024 and 2023, respectively.

### Note 14: Commitments and Contingencies

The Bank, in the normal course of business, is a party to various financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve elements of credit risk in excess of amounts recognized in the financial statements. The contract amounts of those instruments reflect the extent of involvement STAR has in financial instruments.

Financial instruments whose contract amounts represent credit risk at December 31:

|                              | 2024       | 2023       |
|------------------------------|------------|------------|
| Commitments to extend credit | \$ 831,170 | \$ 810,729 |
| Standby letters of credit    | 6,600      | 9,986      |
| Forward sale commitments     | 463        | 805        |

STAR's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. STAR follows the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to loan funds to customers providing there is compliance with terms of the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, plant and equipment and real estate.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments when deemed necessary.

Forward sale commitments are commitments to sell groups of residential mortgage loans that the Bank originates or purchases as part of its mortgage banking activities. The Bank commits to sell the loans at specified prices in a future period, typically within 90 days. These commitments are acquired to reduce market risk on mortgage loans in the

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process of origination and mortgage loans held for sale since the Bank is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market.

Management does not expect any material losses to result from these financial instruments.

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

In early 2021, STAR announced plans to begin construction on their new headquarters which will be located in downtown Fort Wayne. Construction began in 2021 and reached substantial completion in 2024. The Company has entered into construction-related contracts in the amount of \$37.7 million. The amount outstanding on the contract is \$0 and \$4,762,000 as of December 31, 2024 and 2023 respectively.

### Note 15: Regulatory Matters

The Company and Bank are subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's and Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and Bank must meet specific capital guidelines that involve quantitative measures of the Company's and Bank's assets, liabilities and certain off-balance sheet items as calculated under U.S. GAAP, regulatory reporting requirements and regulatory capital standards. The Company's and Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors.

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

As of December 31, 2024, the most recent notification received from federal banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

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STAR Bank's capital amounts and ratios are presented in the following table:

|   | Actual    |        | Minimum Capital Requirement |       | Minimum to be Well Capitalized Under Prompt Corrective Actions Provisions |        |
|---|-----------|--------|-----------------------------|-------|---|--------|
|   | Amount    | Ratio  | Amount                      | Ratio | Amount  | Ratio  |
| <b>As of December 31, 2024</b>                  |           |        |                             |       |   |        |
| <b>Total capital (to risk weighted assets)</b>  |           |        |                             |       |   |        |
| STAR Financial Bank                             | \$342,310 | 14.41% | \$190,055                   | 8.00% | \$237,568   | 10.00% |
| <b>Tier I capital (to risk weighted assets)</b> |           |        |                             |       |   |        |
| STAR Financial Bank                             | 321,076   | 13.52  | 142,541                     | 6.00  | 190,055   | 8.00   |
| <b>Tier 1 capital (to average assets)</b>       |           |        |                             |       |   |        |
| STAR Financial Bank                             | 321,076   | 10.17  | 126,232                     | 4.00  | 157,790   | 5.00   |
| <b>Common equity Tier I capital</b>             |           |        |                             |       |   |        |
| STAR Financial Bank                             | 321,076   | 13.52  | 106,906                     | 4.50  | 154,419   | 6.50   |
| <b>As of December 31, 2023</b>                  |           |        |                             |       |   |        |
| <b>Total capital (to risk weighted assets)</b>  |           |        |                             |       |   |        |
| STAR Financial Bank                             | \$326,123 | 13.18% | \$197,903                   | 8.00% | \$247,379   | 10.00% |
| <b>Tier I capital (to risk weighted assets)</b> |           |        |                             |       |   |        |
| STAR Financial Bank                             | 304,674   | 12.32  | 148,427                     | 6.00  | 197,903   | 8.00   |
| <b>Tier 1 capital (to average assets)</b>       |           |        |                             |       |   |        |
| STAR Financial Bank                             | 304,674   | 9.73   | 125,308                     | 4.00  | 156,635   | 5.00   |
| <b>Common equity Tier I capital</b>             |           |        |                             |       |   |        |
| STAR Financial Bank                             | 304,674   | 12.32  | 111,320                     | 4.50  | 160,796   | 6.50   |

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Banking regulations limit the amount that the Bank may pay the Company without prior approval of bank regulatory authorities. At December 31, 2024, retained earnings available for dividends to the Company without such approval totaled approximately \$67,504,000.

### Note 16: Disclosures About Fair Value of Assets and Liabilities

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

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

### Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2024 and 2023:

|  |    | 2024  |  |                                       |            |
|--|----|---|--|---------------------------------------|------------|
|  |    | Fair Value Measurements Using                                 |  |                                       |            |
|  |    | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |            |
|  |    | Level 1   | Level 2                                      | Level 3                               | Fair Value |
| <b>Cash Equivalents</b>                          |    |   |  |                                       |            |
| Money market mutual funds                        | \$ | 240   | \$   | 240                                   | \$ -       |
| <b>Available-for-Sale Securities</b>             |    |   |  |                                       |            |
| U.S. Treasury and agency securities              |    | 99,726  |  | 99,726                                | -          |
| Obligations of states and political subdivisions |    | 128,999   |  | 128,999                               | -          |
| Mortgage-backed GSE residential                  |    | 759,532   |  | 759,532                               | -          |
| Pooled trust preferred securities                |    | 22,308  |  | 22,308                                | -          |
|  |    | 2023  |  |                                       |            |
|  |    | Fair Value Measurements Using                                 |  |                                       |            |
|  |    | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets | Significant<br>Other<br>Observable<br>Inputs | Significant<br>Unobservable<br>Inputs |            |
|  |    | Level 1   | Level 2                                      | Level 3                               | Fair Value |
| <b>Cash Equivalents</b>                          |    |   |  |                                       |            |
| Money market mutual funds                        | \$ | 114   | \$   | 114                                   | \$ -       |
| <b>Available-for-Sale Securities</b>             |    |   |  |                                       |            |
| U.S. Treasury and agency securities              |    | 98,757  |  | 98,757                                | -          |
| Obligations of states and political subdivisions |    | 131,199   |  | 131,199                               | -          |
| Mortgage-backed GSE residential                  |    | 812,195   |  | 812,195                               | -          |
| Pooled trust preferred securities                |    | 23,056  |  | 23,056                                | -          |

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Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2024. For assets and liabilities classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

### Cash Equivalents

Where quoted market prices are available in an active market, cash equivalents are classified within Level 1 of the valuation hierarchy and include only money market mutual funds. The Company had no cash equivalents classified as Level 2 or Level 3.

### Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These level 2 securities include U.S. Treasury and agency securities, obligations of state and political subdivisions, pooled trust preferred securities, and mortgage-backed GSE residential securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Finance department. The Finance department contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Finance department challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

### Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2024 and 2023.

|                            |            | 2024   |   |  |  |
|----------------------------|------------|--|---|--|--|
|                            |            | Fair Value Measurements Using  |   |  |  |
|                            |            | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |  |
|                            | Fair Value |  |   |  |  |
| Collateral Dependent Loans | \$ 4,931   | \$ -   | \$ -  | \$ 4,931   |  |
|                            |            | 2023   |   |  |  |
|                            |            | Fair Value Measurements Using  |   |  |  |
|                            |            | Quoted Prices<br>in Active<br>Markets for<br>Identical Assets<br>Level 1 | Significant<br>Other<br>Observable<br>Inputs<br>Level 2 | Significant<br>Unobservable<br>Inputs<br>Level 3 |  |
|                            | Fair Value |  |   |  |  |
| Collateral Dependent Loans | \$ 5,066   | \$ -   | \$ -  | \$ 5,066   |  |

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a nonrecurring basis.

### Collateral Dependent Loans



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Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are individually evaluated. An allowable method for determining the amount of expected credit loss includes estimating fair value using the fair value of the collateral for collateral dependent loans. If the individually evaluated loan is identified as collateral dependent, then the fair value method of measuring the amount of expected credit loss is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when the estimated expected credit loss is determined using the fair value method.

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

### Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements as of December 31, 2024 and 2023.

|                            | <b>Fair Value at<br/>December 31,<br/>2024</b> | <b>Valuation<br/>Technique</b> | <b>Unobservable<br/>Inputs</b> | <b>Range<br/>(Weighted<br/>Average)</b> |
|----------------------------|--|--------------------------------|--------------------------------|---|
| Collateral Dependent Loans | \$ 4,931                                       | Market comparable properties   | Marketability discount         | 37.23% - 67.59%<br>(17.44%)             |
|                            | <b>Fair Value at<br/>December 31,<br/>2023</b> | <b>Valuation<br/>Technique</b> | <b>Unobservable<br/>Inputs</b> | <b>Range<br/>(Weighted<br/>Average)</b> |
| Collateral Dependent Loans | \$ 5,066                                       | Market comparable properties   | Marketability discount         | 65.43% - 100%<br>(12.08%)               |

### Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationship between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

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### Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2024 and 2023.

|                              | Carrying<br>Amount | Fair<br>Value | Level 1    | Level 2 | Level 3   |
|------------------------------|--------------------|---------------|------------|---------|-----------|
| <b>December 31, 2024</b>     |                    |               |            |         |           |
| Financial assets             |                    |               |            |         |           |
| Cash and cash equivalents    | \$ 73,011          | \$ 73,011     | \$ 73,011  | \$ -    | \$ -      |
| Loans and leases, net        | 1,694,835          | 1,631,169     | -          | -       | 1,631,169 |
| Interest receivable          | 12,183             | 12,183        | -          | 12,183  | -         |
| Federal Home Loan Bank stock | 11,071             | 11,071        | -          | 11,071  | -         |
| Financial liabilities        |                    |               |            |         |           |
| Demand deposits              | 2,241,295          | 2,241,295     | 2,241,295  | -       | -         |
| Time deposits                | 361,881            | 346,489       | -          | 346,489 | -         |
| Long-term borrowings         | 75,000             | 75,511        | -          | 75,511  | -         |
| Subordinated debt            | 60,310             | 48,123        | -          | 48,123  | -         |
| Interest payable             | 2,241              | 2,241         | -          | 2,241   | -         |
| <b>December 31, 2023</b>     |                    |               |            |         |           |
| Financial assets             |                    |               |            |         |           |
| Cash and cash equivalents    | \$ 113,715         | \$ 113,715    | \$ 113,715 | \$ -    | \$ -      |
| Loans held for sale          | 249                | 257           | -          | 257     | -         |
| Loans and leases, net        | 1,620,344          | 1,557,345     | -          | -       | 1,557,345 |
| Interest receivable          | 11,328             | 11,328        | -          | 11,328  | -         |
| Federal Home Loan Bank stock | 11,071             | 11,071        | -          | 11,071  | -         |
| Financial liabilities        |                    |               |            |         |           |
| Demand deposits              | 2,267,832          | 2,267,832     | 2,267,832  | -       | -         |
| Time deposits                | 278,182            | 260,753       | -          | 260,753 | -         |
| Long-term borrowings         | 175,000            | 176,479       | -          | 176,479 | -         |
| Subordinated debt            | 60,310             | 43,720        | -          | 43,720  | -         |
| Interest payable             | 1,449              | 1,449         | -          | 1,449   | -         |

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

### Cash and Cash Equivalents, Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amounts approximate fair value.

### Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

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### Loans and Leases, net

Fair value is estimated by discounting the future cash flows using market rates for similar loans to similar borrowers. The market rates reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

### Deposit Liabilities

The fair values disclosed for demand deposits (*e.g.*, interest and noninterest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amounts). The carrying amounts for variable-rate, fixed-term time deposits approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

### Long-Term Borrowings

Fair values for Federal Home Loan Bank and other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

### Subordinated Debt

The fair value for subordinated debt is estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

### Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these items is not material.

## Note 17: Earnings Per Share

The factors used in the Company's earnings per share computation are as follows:

|   | 2024      | 2023      |
|---|-----------|-----------|
| Net income                                      | \$ 23,708 | \$ 23,863 |
| Weighted average shares outstanding             | 2,779,945 | 2,792,246 |
| Add: Dilutive effects of restricted stock units | 22,017    | 13,853    |
| Average shares and dilutive potential shares    | 2,801,962 | 2,806,099 |
| Basic earnings per share                        | \$ 8.53   | \$ 8.55   |
| Diluted earnings per share                      | \$ 8.46   | \$ 8.50   |

## Note 18: Segment Information

The Company has one reportable operating segment, commercial banking. While chief operating decision makers monitor revenue streams of various products and services, the identifiable segments' operations are managed, and financial performance is evaluated on a company-wide basis. The commercial banking segment provides a broad array of financial products and services including commercial and consumer banking services, trust and wealth advisory services, and insurance to individual and business clients through most of its 37 banking center locations in Indiana.

The accounting policies of the commercial banking segment are the same as those described in Note 1 of the Notes to Consolidated Financial Statements. The chief operating decision makers assess performance for the commercial banking segment and decide how to allocate resources based on net income available to common shareholders which

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is also reported on the Consolidated Statements of Income as net income available to common shareholders. The measure of segment assets is reported on the Consolidated Balance Sheet as total assets.

The chief operating decision makers use net income available to common shareholders to evaluate income generated from segment assets (return on average total assets) in deciding whether to reinvest profits into the commercial banking segment or to pay dividends. Net income available to common shareholders is also used by the chief operating decision makers to monitor budget versus actual results. Net income available to common shareholders as well as other common company-wide financial performance and credit quality metrics such as earnings per common share and net interest margin, among others, are used for competitive analysis by benchmarking to the Company's competitors as well as used in assessing the performance of the segment and for establishing compensation. See the Consolidated Balance Sheets, Consolidated Statements of Income, Consolidated Statements of Comprehensive Income, Consolidated Statement of Cash Flows and Consolidated Statements of Changes in Equity.

The Company's chief operating decision makers are the members of the Executive Committee of STAR Financial Bank and the STAR Financial Group, Inc. Board of Directors.