



Today - Tomorrow - Together

Helping Communities Grow

ANNUAL REPORT 2024

KENBANCORP

kentlandbank.com

KENBANCORP
Kentland, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

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2024 ANNUAL REPORT

To: Our Shareholders
 Our Customers
 Our Communities

We are pleased to report that KenBancorp and its wholly owned subsidiary Kentland Bank experienced another solid performance in 2024. On a comparison basis, earnings decreased 13.50% in 2024 to \$4,331,778, equating to a Return on Average Equity of 10.86%, versus 13.15% in 2023. The Return on Average Assets also decreased in 2024 to 1.16%, versus 1.44% in 2023.

Our credit quality remains very strong. This, coupled with our strong capital position, allowed the Board of Directors to declare a special dividend payable on January 2, 2025, of \$22.00 per share. Please note this is in addition to a regular dividend of \$9.00 per share. The total dividends declared in 2024 was \$39.75 per share.

Kentland Bank continued to experience strong loan growth in 2024 which is a key driver of our earnings. We expect our loan growth to slow somewhat in 2025 with prolonged higher interest rates and a slowing economy making a larger impact than the previous year.

I would again like to thank our Bank Officers and Employees for their exceptional efforts over the past year. We feel very confident they are poised to lead Kentland Bank to great things in the future!

Lastly, your Board of Directors remain committed to doing everything we can to enhance your shareholder value. We discuss monthly any possible ideas and ways to do so, without putting your investment at an unacceptable level of risk.

Thank you all for your continued trust and support! We wish you and your family and businesses a prosperous 2025!



Mitchell H. Van Kley
Chairman of the Board

Special Disclaimer

This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

FINANCIAL HIGHLIGHTS

	<u>2024</u>	<u>2023</u>	<u>% Change</u>
PERFORMANCE DATA			
Net income	\$ 4,331,778	\$ 5,008,078	(13.50)%
Per share	45.80	53.60	(14.56)%
Cash dividends declared	3,753,912	4,422,582	(15.12)%
Per share	39.75	47.25	(15.87)%
Book value per share, December 31	425.42	422.20	0.76%

PERFORMANCE RATIOS

Return on average equity ⁽¹⁾	10.86%	13.15%
Return on average assets	1.16%	1.44%

BALANCE SHEET AT YEAR ENDS

Total assets	\$ 379,442,418	\$ 359,659,308
Loans (net)	227,206,557	199,666,443
Total deposits	300,187,184	284,331,102
Shareholders' equity	40,239,882	39,541,730

BALANCE SHEET DAILY AVERAGES

Total assets	\$ 372,483,000	\$ 347,476,000
Loans (net)	217,115,000	184,055,000
Total deposits	290,533,000	295,006,000

(1) Calculated using simple average of consolidated equity.

FIVE YEAR RECORD

<u>Year</u>	<u>Net Income</u>		<u>Dividends</u>		<u>Shareholders' Equity</u>	
	<u>Amount</u>	<u>Per Share</u>	<u>Amount</u>	<u>Per Share</u>	<u>Amount</u>	<u>Per Share</u>
2020	4,229,274	45.33	3,827,909	41.00	48,448,632	518.49
2021	4,209,582	44.74	3,913,894	41.50	47,894,903	507.74
2022	4,136,768	44.17	3,884,883	41.75	36,615,819	395.72
2023	5,008,078	53.60	4,422,582	47.25	39,541,730	422.20
2024	4,331,778	45.80	3,753,912	39.75	40,239,882	425.42

KENBANCORP TRANSACTION PRICE RANGES OF COMMON STOCK AND CASH DIVIDENDS

	<u>As of</u>	<u>Transaction Price</u>	<u>Cash Dividend</u>	<u>Transaction Price</u>	<u>Cash Dividend</u>
		<u>2024</u>		<u>2023</u>	
First Quarter	3/31	\$ 539	\$ -	\$ 534	\$ -
Second Quarter	6/30	550	8.75	546	8.50
Third Quarter	9/30	553	-	551	-
Fourth Quarter	12/31	565	31.00	565	38.75

KenBancorp's common stock is traded in the Newton County, Indiana area. The common stock of KenBancorp has never been actively traded, and there has never been an established market for the stock.



INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors
KenBancorp
Kentland, Indiana

Opinion

We have audited the consolidated financial statements of KenBancorp ("Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2024, and the related notes to the financial statements.

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of KenBancorp 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.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, the Company has changed its method of accounting for credit losses effective January 1, 2023 due to the adoption of Financial Accounting Standards Board (FASB) Accounting Standards Codification No. 326, Financial Instruments – Credit Losses (ASC 326). The Company adopted the new credit loss standard using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 consolidated 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 KenBancorp's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor's Responsibilities for the Audit of the 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 consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of KenBancorp's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about KenBancorp's ability to continue as a going concern for a reasonable period of time.

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the 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.


Crowe LLP

South Bend, Indiana
April 8, 2025

KENBANCORP
CONSOLIDATED BALANCE SHEETS
December 31, 2024 and 2023

	<u>2024</u>	<u>2023</u>
ASSETS		
Cash and due from financial institutions	\$ 12,938,610	\$ 9,375,067
Federal funds sold	<u>770,870</u>	<u>599,837</u>
Cash and cash equivalents	13,709,480	9,974,904
Interest earning deposits in other financial institutions	244,729	979,610
Available-for-sale (AFS) securities	111,262,686	123,137,951
Loans, net of allowance for credit losses of \$3,270,488 and \$2,624,269	227,206,557	199,666,443
Restricted equity securities - at cost	2,128,850	1,678,850
Premises and equipment - net	6,466,330	6,564,959
Other real estate owned - net	531,708	1,200,703
Bank owned life insurance	11,340,447	11,125,054
Accrued interest receivable and other assets	<u>6,551,631</u>	<u>5,330,834</u>
Total assets	<u>\$ 379,442,418</u>	<u>\$ 359,659,308</u>
LIABILITIES		
Deposits		
Demand, non-interest bearing	\$ 72,799,583	\$ 97,273,716
Interest-bearing transaction accounts	128,162,098	106,959,130
Time	<u>99,225,503</u>	<u>80,098,256</u>
Total deposits	300,187,184	284,331,102
Borrowings	35,000,000	31,157,000
Accrued interest payable and other liabilities	<u>4,015,352</u>	<u>4,629,476</u>
Total liabilities	339,202,536	320,117,578
SHAREHOLDERS' EQUITY		
Common stock, no par value: 1,000,000 shares authorized; 94,584 – 2024 and 93,657 – 2023 shares issued and outstanding	88,000	88,000
Additional paid-in capital	8,888,504	8,391,325
Retained earnings	37,924,665	37,346,799
Accumulated other comprehensive income (loss)	<u>(6,661,287)</u>	<u>(6,284,394)</u>
Total shareholders' equity	<u>40,239,882</u>	<u>39,541,730</u>
Total liabilities and shareholders' equity	<u>\$ 379,442,418</u>	<u>\$ 359,659,308</u>

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2024, 2023 and 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
INTEREST INCOME			
Loans, including related fees	\$ 16,363,750	\$ 12,521,000	\$ 8,930,132
Federal funds sold and other	188,853	207,363	255,806
Taxable securities	2,492,193	2,096,748	1,361,973
Nontaxable securities	<u>1,180,126</u>	<u>1,422,023</u>	<u>1,416,614</u>
Total interest income	<u>20,224,922</u>	<u>16,247,134</u>	<u>11,964,525</u>
INTEREST EXPENSE			
Deposits	5,063,865	2,842,768	737,816
Borrowings	<u>1,668,388</u>	<u>569,713</u>	<u>44,280</u>
Total interest expense	<u>6,732,253</u>	<u>3,412,481</u>	<u>782,096</u>
NET INTEREST INCOME	13,492,669	12,834,653	11,182,429
PROVISION (RECOVERY) FOR CREDIT LOSSES	<u>664,000</u>	<u>92,042</u>	<u>(51,134)</u>
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	<u>12,828,669</u>	<u>12,742,611</u>	<u>11,233,563</u>
OTHER INCOME			
Service charges on deposit accounts	480,334	538,704	511,354
Security gains (losses)	(16,477)	48,795	-
Bank owned life insurance income	215,393	192,564	175,586
Other	<u>618,286</u>	<u>1,002,294</u>	<u>1,014,174</u>
Total other income	1,297,536	1,782,357	1,701,114
OTHER EXPENSES			
Salaries and employee benefits	5,460,184	5,142,941	4,965,726
Occupancy	549,633	527,811	592,103
Furniture and equipment	577,437	556,112	483,600
FDIC insurance	157,622	150,247	91,683
Other real estate owned, net	(18,992)	11,101	15,151
Other	<u>2,210,137</u>	<u>2,261,278</u>	<u>2,088,752</u>
Total other expenses	<u>8,936,021</u>	<u>8,649,490</u>	<u>8,237,015</u>
INCOME BEFORE INCOME TAXES	5,190,184	5,875,478	4,697,662
Income tax expense	<u>858,406</u>	<u>867,400</u>	<u>560,894</u>
NET INCOME	<u>\$ 4,331,778</u>	<u>\$ 5,008,078</u>	<u>\$ 4,136,768</u>
EARNINGS PER SHARE	<u>\$ 45.80</u>	<u>\$ 53.60</u>	<u>\$ 44.17</u>

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2024, 2023 and 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Net income	\$ 4,331,778	\$ 5,008,078	\$ 4,136,768
Other comprehensive income (loss):			
Unrealized holding gains and (losses) on available-for-sale securities	(373,523)	3,298,295	(13,672,013)
Reclassification adjustments for (gains) and losses recognized in income	<u>16,477</u>	<u>(48,795)</u>	<u>-</u>
Net unrealized gains and (losses)	(357,046)	3,249,500	(13,672,013)
Tax effect	<u>(19,847)</u>	<u>(786,953)</u>	<u>3,117,441</u>
Total other comprehensive income (loss)	<u>(376,893)</u>	<u>2,462,547</u>	<u>(10,554,572)</u>
Comprehensive income (loss)	<u><u>\$ 3,954,885</u></u>	<u><u>\$ 7,470,625</u></u>	<u><u>\$(6,417,804)</u></u>

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2024, 2023 and 2022

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balances at January 1, 2022	\$ 88,000	\$ 8,762,854	\$ 37,236,418	\$ 1,807,631	\$ 47,894,903
Net income	-	-	4,136,768	-	4,136,768
Other comprehensive loss	-	-	-	(10,554,572)	(10,554,572)
Cash dividends (\$41.75 per share)	-	-	(3,884,883)	-	(3,884,883)
Issuance of common stock (1,364 shares)	-	727,215	-	-	727,215
Purchase & retirement of stock (3,164 shares)	-	(1,703,612)	-	-	(1,703,612)
Balances at December 31, 2022	88,000	7,786,457	37,488,303	(8,746,941)	36,615,819
Cumulative change from adoption of ASC 326 (Note 1)	-	-	(727,000)	-	(727,000)
Balance at January 1, 2023 (as adjusted for adoption of ASC 326)	88,000	7,786,457	36,761,303	(8,746,941)	35,888,819
Net income	-	-	5,008,078	-	5,008,078
Other comprehensive income	-	-	-	2,462,547	2,462,547
Cash dividends (\$47.25 per share)	-	-	(4,422,582)	-	(4,422,582)
Issuance of common stock (1,196 shares)	-	642,692	-	-	642,692
Purchase & retirement of stock (69 shares)	-	(37,824)	-	-	(37,824)
Balances at December 31, 2023	88,000	8,391,325	37,346,799	(6,284,394)	39,541,730
Net income	-	-	4,331,778	-	4,331,778
Other comprehensive income	-	-	-	(376,893)	(376,893)
Cash dividends (\$39.75 per share)	-	-	(3,753,912)	-	(3,753,912)
Issuance of common stock (1,327 shares)	-	718,401	-	-	718,401
Purchase & retirement of stock (400 shares)	-	(221,222)	-	-	(221,222)
Balances at December 31, 2024	<u>\$ 88,000</u>	<u>\$ 8,888,504</u>	<u>\$ 37,924,665</u>	<u>\$ (6,661,287)</u>	<u>\$ 40,239,882</u>

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
December 31, 2024, 2023 and 2022

	<u>2024</u>	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 4,331,778	\$ 5,008,078	\$ 4,136,768
Adjustments to reconcile net income to net cash from operating activities:			
Provision (recovery) for credit losses	664,000	92,042	(51,134)
Depreciation	439,315	398,045	406,656
Security (gains) losses	16,477	(48,795)	-
Net amortization (accretion) on securities	177,639	185,124	342,989
Income earned on bank owned life insurance	(215,393)	(192,564)	(175,586)
Gain on sale of other real estate owned	(85,935)	(25,096)	(33,970)
Change in:			
Interest receivable and other assets	(1,220,797)	(526,265)	(2,401,233)
Interest payable and other liabilities	<u>70,238</u>	<u>(565,216)</u>	<u>2,796,190</u>
NET CASH FROM OPERATING ACTIVITIES	4,177,322	4,325,353	5,020,680
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest earning deposits	734,881	1,625,854	1,654,159
Proceeds from maturities, calls, and principal repayments of securities	20,329,740	17,116,588	10,711,857
Purchase of securities	(10,552,830)	(12,066,282)	(62,147,218)
Proceeds from sales of securities	1,547,193	9,611,284	-
Redemption of Federal Home Loan Bank stock	(450,000)	(1,016,500)	41,500
Proceeds from sales of other real estate owned	754,930	185,097	183,049
Loans made to customers, net of principal repayments	(28,204,114)	(27,928,711)	(11,712,337)
Premises and equipment expenditures, net	<u>(340,686)</u>	<u>(450,716)</u>	<u>(1,530,140)</u>
NET CASH USED IN INVESTING ACTIVITIES	(16,180,886)	(12,923,386)	(62,799,130)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	15,856,082	(3,694,447)	(5,753,665)
Dividends paid	(4,458,121)	(3,894,234)	(3,944,077)
Net change in other borrowings	(6,157,000)	3,210,000	2,947,000
Proceeds from Federal Home Loan Bank advances	25,000,000	25,000,000	10,000,000
Repayments of Federal Home Loan Bank advances	(15,000,000)	(10,000,000)	(10,000,000)
Proceeds from issuance and sale of stock	718,401	642,692	727,215
Purchase and retirement of stock	<u>(221,222)</u>	<u>(37,824)</u>	<u>(1,703,612)</u>
NET CASH (USED IN) FROM FINANCING ACTIVITIES	<u>15,738,140</u>	<u>11,226,187</u>	<u>(7,727,139)</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,734,576	2,628,154	(65,505,589)
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>9,974,904</u>	<u>7,346,750</u>	<u>72,852,339</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$ 13,709,480</u>	<u>\$ 9,974,904</u>	<u>\$ 7,346,750</u>
Cash paid during the year for:			
Interest	\$ 6,406,458	\$ 3,177,282	\$ 819,881
Income taxes	1,015,000	996,000	325,000
Supplemental noncash disclosures:			
Transfers from loans to other real estate owned	\$ -	\$ 139,146	\$ -

See accompanying notes to consolidated financial statements.

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of KenBancorp (the Company) and its wholly owned subsidiaries Kentland Risk Management, a captive insurance company, and Kentland Bank (the Bank) and its wholly owned subsidiary Kentland Investment, Inc., Kentland Portfolio, LLC, Kentland Holdings, Inc. and Kentland Funding Corp. Intercompany balances and transactions are eliminated in consolidation. Kentland Risk Management was dissolved on August 11, 2023. The Company generates the majority of its commercial, mortgage and installment loans and receives deposits from customers located primarily in the Newton, Jasper and Tippecanoe counties, Indiana and Iroquois and Vermillion counties, Illinois market areas. Although the overall loan portfolio is diversified, a substantial portion of the debtors' ability to honor their contracts is dependent upon the agriculture industry. A majority of the Bank's loans are secured by specific items of collateral including business and consumer assets and real property.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 8, 2025, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash on hand, demand deposits in other institutions and daily federal funds sold. Cash flows are reported net for customer loan and deposit transactions, time deposits with other institutions and short-term borrowings with maturities of 90 days or less.

Securities: Available-for-sale securities are those which management may decide to sell before maturity. They are reported at fair value, with unrealized gains or losses included in other comprehensive income (loss). Premiums and discounts are recognized as interest income using the level yield method. Premiums are amortized to the earliest call date, while discounts are amortized to maturity. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

Allowance for Credit Losses – Available-For-Sale Securities: For available-for-sale debt securities in an unrealized loss position, the Company first assesses whether it intends to sell, 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 requirement 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 aforementioned 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 (loss).

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 or requirement to sell is met.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accrued interest receivable on available-for-sale debt securities totaled \$784,041 and \$867,748 at December 31, 2024 and 2023 and is excluded from the estimate of credit losses.

Loans: Loans that management has the intent and ability to hold for the foreseeable future are reported at the principal balance outstanding net of unearned interest, deferred loan fees and costs and an allowance for credit losses. Interest on loans is accrued over the term of the loans based on the principal balance outstanding, except where substantial doubt exists as to the collectability of a loan, in which case the accrual of interest is discontinued. Loan fees, net of certain direct loan origination costs, are deferred and recognized into interest income over the term of the loan using the level yield method.

For all classes of financing receivables, interest income is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such 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.

Allowance For Credit Losses: The allowance for credit losses is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Peer historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to peer historical loss information are made for differences in current loan-specific risk characteristics such as differences in portfolio mix, delinquency level or collateral as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company utilizes the Weighted Average Remaining Maturity (WARM) methodology. The WARM method uses an average annual charge-off rate of peers and remaining life to estimate the Allowance for Credit Loss (ACLs). The average annual peer charge-off rate contains losses over several vintages and is used as a foundation for estimating the credit losses for the remaining balances of financial assets in an asset pool as of the balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining balance of the financial assets.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The Corporation has identified the loan portfolio segments: Commercial; Agriculture; Real Estate; Installment; and Other.

Commercial loans include those secured by pledged assets of the customer's business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer's ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Real estate loans are those that are secured by residential property. This portfolio segment includes fixed and adjustable-rate mortgage loans that provided for the full amortization of principal and home equity lines of credit. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Company seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Installment and Other portfolio segments include consumer installment loans and leases. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or repayment is from the operation of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals, and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

For off balance sheet credit exposures outlined in the ASU at 326-20-30-11, it is the Company's position that nearly all of the unfunded amounts on lines of credit are unconditionally cancellable, and therefore not subject to having a liability recorded.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less costs to sell. If fair value declines, a valuation allowance is recorded through expense and included with other real estate owned expenses. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated on the straight-line method over asset useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease.

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

Restricted Equity Securities: Restricted equity includes Federal Home Loan Bank (FHLB) stock and Farmer Mac stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss, before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive (loss) income. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Earnings per share are calculated based on the weighted average number of shares outstanding during the year. The weighted average number of shares used was 94,588 in 2024, 93,434 in 2023, and 93,665 in 2022.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable, and an amount or range of loss can be reasonably estimated. Management does not believe there now are such matters that will have a material effect on the financial statements.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. These restrictions pose no practical limit on the ability of the Bank or holding company to pay dividends at historical levels.

Fair Values of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Revenue from Contracts with Customers: Revenue from contracts with customers includes service charges on deposits, interchange fees and other income. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Service charges on deposits: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include fees for services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Fees (included in Other income): The Company earns interchange fees from credit and debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Other income: The Company earns fees for transaction-based services, such as check cashing, purchasing checks and money order and wire transfers. Fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. The Company did not finance sales of other real estate owned so gains and losses are recognized when the sale is completed.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Adoption of New Accounting Standards: On January 1, 2023, the Company adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 made changes to the accounting for available-for-sale debt securities. One such change is to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell.

The Company adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The Company recorded a decrease to retained earnings of \$727,000, net of tax as of January 1, 2023 for the cumulative effect of adopting ASC 326.

The following table illustrates the impact of ASC 326.

	January 1, 2023		
	As Reported Under <u>ASC 326</u>	Pre-ASC 326 <u>Adoption</u>	Impact of ASC 326 <u>Adoption</u>
Loans			
Commercial	\$ 1,415,312	\$ 1,010,081	\$ 405,231
Agricultural	737,581	334,570	403,011
Real Estate	178,145	150,919	27,226
Installment	38,125	47,659	(9,534)
Lease Receivable and Other	<u>169,522</u>	<u>75,456</u>	<u>94,066</u>
Total	<u>\$ 2,538,685</u>	<u>\$ 1,618,685</u>	<u>\$ 920,000</u>

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KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 2 – SECURITIES

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

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
<u>December 31, 2024</u>				
U.S. Treasury and agency	\$ 44,155,278	\$ 7,742	\$ (1,072,261)	\$ 43,090,759
States and political subdivisions	61,166,502	23,993	(7,080,273)	54,110,222
Mortgage-backed investments, residential	<u>14,414,774</u>	<u>61,282</u>	<u>(414,351)</u>	<u>14,061,705</u>
	<u>\$ 119,736,554</u>	<u>\$ 93,017</u>	<u>\$ (8,566,885)</u>	<u>\$ 111,262,686</u>

The allowance for credit losses on available-for-sale securities was \$0 at December 31, 2024 and 2023.

	Amortized <u>Cost</u>	Gross Unrealized <u>Gains</u>	Gross Unrealized <u>Losses</u>	Fair <u>Value</u>
<u>December 31, 2023</u>				
U.S. Treasury and agency	\$ 59,180,195	\$ 18,137	\$ (2,230,825)	\$ 56,967,507
Municipal bonds	394,000	41,100	-	435,100
States and political subdivisions	56,652,493	97,686	(5,611,349)	51,138,830
Mortgage-backed investments, residential	<u>15,028,085</u>	<u>36,700</u>	<u>(468,271)</u>	<u>14,596,514</u>
	<u>\$ 131,254,773</u>	<u>\$ 193,623</u>	<u>\$ (8,310,445)</u>	<u>\$ 123,137,951</u>

The fair value of securities available-for-sale at year-end, by contractual maturity is shown below. Securities not due at a single maturity, primarily mortgage-backed investments, are shown separately.

	<u>December 31, 2024</u> Amortized <u>Cost</u>	Fair Value
Due in one year or less	\$ 26,079,796	\$ 25,734,853
Due after one year through five years	18,746,876	17,978,242
Due after five years through ten years	22,078,313	19,585,904
Due after ten years	38,416,795	33,901,982
Mortgage-backed	<u>14,414,774</u>	<u>14,061,705</u>
	<u>\$ 119,736,554</u>	<u>\$ 111,262,686</u>

Proceeds from the sale of securities was \$1,547,000, \$9,611,000, and \$0 for 2024, 2023 and 2022, respectively. Gross gains from sales of securities were \$0 and gross losses from sales of securities were \$16,477 for 2024. Gross gains from sales of securities were \$82,295 and gross losses from sales of securities were \$33,500 for 2023. There were no realized gains or losses in 2022.

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KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 2 – SECURITIES (Continued)

Securities with a fair value of approximately \$58,157,000 at year-end 2024 and \$40,054,000 at year-end 2023 were pledged to secure FHLB advances.

At year-end 2024 and 2023, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year-end 2024 and 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>2024</u>						
U.S. Treasury and Agency	\$ 903,809	\$ (1,621)	\$ 41,626,472	\$ (1,070,640)	\$ 42,530,281	\$ (1,072,261)
States and political subdivisions	11,358,037	(150,554)	39,452,144	(6,929,719)	50,810,451	(7,080,273)
Mortgage-backed investments, residential	649,150	(15,176)	6,784,173	(399,175)	7,433,323	(414,351)
Total	<u>\$ 12,910,996</u>	<u>\$ (167,351)</u>	<u>\$ 87,863,059</u>	<u>\$ (8,399,534)</u>	<u>\$ 100,774,055</u>	<u>\$ (8,566,885)</u>
	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
<u>2023</u>						
U.S. Treasury and Agency	\$ -	\$ -	\$ 56,298,851	\$ (2,230,825)	\$ 56,298,851	\$ (2,230,825)
States and political subdivisions	1,076,301	(4,706)	40,692,832	(5,606,643)	41,769,133	(5,611,349)
Mortgage-backed investments, residential	801,690	(8,524)	9,097,137	(459,747)	9,898,827	(468,271)
Total	<u>\$ 1,877,992</u>	<u>\$ (13,230)</u>	<u>\$ 106,088,820</u>	<u>\$ (8,297,215)</u>	<u>\$ 107,966,811</u>	<u>\$ (8,310,445)</u>

Unrealized losses on investments have not been recognized into income because the issuer(s) are of high credit quality (rated AA or higher or issued by U.S. government agencies). These securities are currently performing. Management does not intend to sell, and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the investments approach their maturity date and/or market rates decline.

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KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES

Loans are comprised of the following classifications:

	<u>2024</u>	<u>2023</u>
Commercial	\$ 149,703,918	\$ 131,021,459
Agricultural	65,390,114	55,000,325
Real estate	6,841,355	6,988,848
Installment	2,302,422	2,924,989
Lease receivables and other, net	<u>6,239,236</u>	<u>6,355,091</u>
Subtotal	230,477,045	202,290,712
Less: Allowance for credit losses	<u>(3,270,488)</u>	<u>(2,624,269)</u>
Loans, net	<u>\$ 227,206,557</u>	<u>\$ 199,666,443</u>

Included in the loan portfolio are loans made to officers, directors, principal shareholders, and their associates. At December 31, 2024 and 2023, such loans totaled \$4,238,000 and \$4,117,000, respectively.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the activity in the allowance for credit losses by portfolio segment for the years ending December 31, 2024, 2023 and 2022:

<u>December 31, 2024</u>	<u>Commercial</u>	<u>Agricultural</u>	<u>Real Estate</u>	<u>Installment</u>	<u>Lease Receivables and Other</u>	<u>Unallocated</u>	<u>Total</u>
Allowance for credit losses:							
Beginning balance	\$ 1,665,988	\$ 725,587	\$ 97,130	\$ 30,053	\$ 105,511	\$ -	\$ 2,624,269
Provision for credit losses	527,575	165,159	(25,719)	(7,652)	4,637	-	664,000
Loans charged-off	-	-	-	(289)	(23,053)	-	(23,342)
Recoveries	-	-	-	300	5,261	-	5,561
Total ending allowance balance	<u>\$ 2,193,563</u>	<u>\$ 890,746</u>	<u>\$ 71,411</u>	<u>\$ 22,412</u>	<u>\$ 92,356</u>	<u>\$ -</u>	<u>\$ 3,270,488</u>
 <u>December 31, 2023</u>	 <u>Commercial</u>	 <u>Agricultural</u>	 <u>Real Estate</u>	 <u>Installment</u>	 <u>Lease Receivables and Other</u>	 <u>Unallocated</u>	 <u>Total</u>
Allowance for credit losses:							
Beginning balance, prior to adoption of ASC 326	\$ 1,010,081	\$ 334,570	\$ 150,919	\$ 47,659	\$ 75,456	\$ -	\$ 1,618,685
Impact of adoption of ASC 326	405,231	403,011	27,226	(9,534)	94,066	-	920,000
Provision for credit losses	180,076	(11,994)	(37,576)	(9,179)	(29,285)	-	92,042
Loans charged-off	-	-	(43,439)	(154)	(35,760)	-	(79,353)
Recoveries	70,600	-	-	1,261	1,034	-	72,895
Total ending allowance balance	<u>\$ 1,665,988</u>	<u>\$ 725,587</u>	<u>\$ 97,130</u>	<u>\$ 30,053</u>	<u>\$ 105,511</u>	<u>\$ -</u>	<u>\$ 2,624,269</u>
 <u>December 31, 2022</u>	 <u>Commercial</u>	 <u>Agricultural</u>	 <u>Real Estate</u>	 <u>Installment</u>	 <u>Lease Receivables and Other</u>	 <u>Unallocated</u>	 <u>Total</u>
Allowance for loan losses:							
Beginning balance	\$ 1,095,822	\$ 321,630	\$ 89,074	\$ 55,718	\$ 82,281	\$ 48,835	\$ 1,693,360
Provision for loan losses	(85,941)	12,940	61,845	(8,315)	17,172	(48,835)	(51,134)
Loans charged-off	-	-	-	(5,594)	(23,997)	-	(29,591)
Recoveries	200	-	-	5,850	-	-	6,050
Total ending allowance balance	<u>\$ 1,010,081</u>	<u>\$ 334,570</u>	<u>\$ 150,919</u>	<u>\$ 47,659</u>	<u>\$ 75,456</u>	<u>\$ -</u>	<u>\$ 1,618,685</u>

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the amortized cost of loans on nonaccrual and loans past due over 89 days still accruing as of December 31, 2024:

	Nonaccrual With No Allowance <u>For Credit Loss</u>	Nonaccrual With Allowance <u>For Credit Loss</u>	Loans Past Due Over 89 Days <u>Still Accruing</u>
<u>December 31, 2024</u>			
Commercial	\$ -	\$ -	\$ -
Commercial real estate	-	-	594,476
Agriculture	-	1,200,040	1,157,951
Residential real estate	-	-	63,820
Installment	-	-	12,909
Lease Receivable and other, net	<u>46,567</u>	<u>-</u>	<u>160,696</u>
Total	<u>\$ 46,567</u>	<u>\$ 1,200,040</u>	<u>\$ 1,989,852</u>

The Company recognized \$0 of interest income on nonaccrual loans during the year ended December 31, 2024.

The following table presents the recorded investment in nonaccrual and loans past due over 89 days still on accrual by class of loans as of December 31, 2023:

	Nonaccrual With No Allowance <u>For Credit Loss</u>	Nonaccrual With Allowance <u>For Credit Loss</u>	Loans Past Due Over 89 Days <u>Still Accruing</u>
<u>December 31, 2023</u>			
Commercial	\$ -	\$ -	\$ 300,687
Commercial real estate	-	-	457,434
Agriculture	-	-	-
Residential real estate	-	-	-
Installment	-	-	5,299
Lease Receivable and other, net	<u>46,264</u>	<u>-</u>	<u>148,657</u>
Total	<u>\$ 46,264</u>	<u>\$ -</u>	<u>\$ 912,077</u>

The Company recognized \$0 of interest income on nonaccrual loans during the year ended December 31, 2023.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

The following table presents the amortized cost basis of collateral-dependent loans by class of collateral as of December 31, 2024:

	<u>Equipment</u>	<u>Real Estate</u>
<u>December 31, 2024</u>		
Commercial	\$ -	\$ -
Commercial real estate	-	-
Agriculture	1,200,040	-
Residential real estate	-	-
Installment	-	-
Lease Receivable and other, net	-	46,567
	<u>-</u>	<u>46,567</u>
Total	<u>\$ 1,200,040</u>	<u>\$ 46,567</u>

There were no collateral dependent loans as of December 31, 2023.

The following table presents the aging of the amortized cost basis in past due loans as of December 31, 2024 and 2023 by class of loans:

	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater than 89 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
<u>December 31, 2024</u>						
Commercial	\$ -	\$ 7,561	\$ 594,476	\$ 602,037	\$ 149,101,881	\$ 149,703,918
Agriculture	29,641	12,449	1,157,951	1,200,041	64,190,073	65,390,114
Real estate	40,305	-	63,820	104,125	6,737,230	6,841,355
Installment	-	2,489	12,909	15,398	2,287,024	2,302,422
Lease receivable and other, net	-	-	160,696	160,696	6,078,540	6,239,236
	<u>-</u>	<u>-</u>	<u>160,696</u>	<u>160,696</u>	<u>6,078,540</u>	<u>6,239,236</u>
Total	<u>\$ 69,946</u>	<u>\$ 22,499</u>	<u>\$ 1,989,852</u>	<u>\$ 2,082,297</u>	<u>\$ 228,394,748</u>	<u>\$ 230,477,045</u>
	<u>30 - 59 Days Past Due</u>	<u>60 - 89 Days Past Due</u>	<u>Greater than 89 Days Past Due</u>	<u>Total Past Due</u>	<u>Loans Not Past Due</u>	<u>Total</u>
<u>December 31, 2023</u>						
Commercial	\$ -	\$ 59,460	\$ 758,121	\$ 817,581	\$ 130,203,878	\$ 131,021,459
Agriculture	-	59,874	-	59,874	54,940,451	55,000,325
Real estate	231,585	62,465	-	294,050	6,694,798	6,988,848
Installment	15,268	-	5,299	20,567	2,904,422	2,924,989
Lease receivable and other, net	27,539	-	194,921	222,460	6,132,631	6,355,091
	<u>27,539</u>	<u>-</u>	<u>194,921</u>	<u>222,460</u>	<u>6,132,631</u>	<u>6,355,091</u>
Total	<u>\$ 274,392</u>	<u>\$ 181,799</u>	<u>\$ 958,341</u>	<u>\$ 1,414,532</u>	<u>\$ 200,876,180</u>	<u>\$ 202,290,712</u>

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

Occasionally, the Company modifies loans to borrowers in financial distress by providing principal forgiveness, term extensions, an other-than-insignificant payment delay, or an interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Company provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. The Company did not modify any loans to borrowers in financial distress during the year ended December 31, 2024 and 2023.

Credit Quality Indicators:

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

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

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

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

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass-rated loans.

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

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>December 31, 2024</u>				
Commercial	\$ 148,528,744	\$ 318,964	\$ 856,210	\$ -
Agriculture	64,225,041	135,585	1,029,488	-
Real estate	6,777,534	-	63,821	-
Installment	2,289,513	-	12,909	-
Lease receivables and other, net	<u>6,078,539</u>	<u>-</u>	<u>160,697</u>	<u>-</u>
Total	<u>\$ 227,899,371</u>	<u>\$ 454,549</u>	<u>\$ 2,123,125</u>	<u>\$ -</u>

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>
<u>December 31, 2023</u>				
Commercial	\$ 129,695,107	\$ 389,812	\$ 936,540	\$ -
Agriculture	54,753,763	-	246,562	-
Real estate	6,988,848	-	-	-
Installment	2,919,690	-	5,299	-
Lease receivables and other, net	<u>6,160,171</u>	<u>-</u>	<u>194,920</u>	<u>-</u>
Total	<u>\$ 200,517,579</u>	<u>\$ 389,812</u>	<u>\$ 1,383,321</u>	<u>\$ -</u>

NOTE 4 – PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	<u>2024</u>	<u>2023</u>
Land	\$ 482,987	\$ 482,987
Buildings and improvements	6,660,432	6,646,126
Furniture and equipment	<u>3,287,234</u>	<u>2,960,854</u>
Total	10,430,653	10,089,967
Accumulated depreciation	<u>(3,964,323)</u>	<u>(3,525,008)</u>
Net	<u>\$ 6,466,330</u>	<u>\$ 6,564,959</u>

Depreciation expense was \$439,315, \$398,405, and \$406,656 for 2024, 2023 and 2022.

NOTE 5 – DEPOSITS

Time deposits of \$250,000 or more were \$33,075,000 and \$26,250,000 at year-end 2024 and 2023. Contractual maturities of time deposit accounts for the next five years:

2025	\$ 89,167,187
2026	7,583,034
2027	1,244,791
2028	447,835
2029	<u>782,656</u>
Total	<u>\$ 99,225,503</u>

Deposits held for officers, directors, principal shareholders, and their associates totaled \$12,568,000 and \$11,932,000 at December 31, 2024 and 2023, respectively.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 6 – BORROWINGS

A summary of the carrying value of the Company's borrowings at December 31, 2024 and 2023 is presented below:

	<u>2024</u> <u>Balance</u>	<u>2023</u> <u>Balance</u>
Federal Funds Purchased	\$ -	\$ 6,157,000
Federal Home Loan Bank (FHLB) Advances	<u>35,000,000</u>	<u>25,000,000</u>
	<u>\$ 35,000,000</u>	<u>\$ 31,157,000</u>

Federal funds purchased are generally due in one day and bear interest at market rates. FHLB advances are secured by a blanket pledge of eligible securities and mortgage loans and require monthly interest payments.

The following fixed rate advances are outstanding at December 31, 2024 and 2023:

<u>Maturity Date</u>	<u>Interest Rate</u>	<u>2024</u> <u>Balance</u>	<u>2023</u> <u>Balance</u>
December 6, 2028	4.19%	10,000,000	10,000,000
May 22, 2028	3.28	-	15,000,000
February 16, 2029	3.74	10,000,000	-
July 23, 2029	3.60	<u>15,000,000</u>	<u>-</u>
		<u>\$ 35,000,000</u>	<u>\$ 25,000,000</u>

The advances are payable at their maturity, with a prepayment penalty for early payments.

The following schedule outlines required annual principal payments:

Due in 2028	10,000,000
Due in 2029	<u>25,000,000</u>
Total	<u>\$ 35,000,000</u>

In 2016, the Company obtained a \$7.8 million unsecured line of credit at Banker's Bank with an interest rate of 4.75% and a balance of \$0 as of December 31, 2024 and 2023.

In 2024, the Company obtained a \$5.0 million line of credit with the FHLB that matures on November 28, 2025. The balance of the line of credit was \$0 as of December 31, 2024.

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 7 – BENEFIT PLANS

The Bank maintains a 401(k) plan which covers substantially all employees and allows employee contributions. The Bank may elect to make annual contributions on behalf of the participants, as determined by the Board of Directors, and is required to match subject to certain limitations, elective employee contributions. Total annual expense for the plan was \$199,354 in 2024, \$191,530 for 2023, and \$183,278 for 2022. Participants are able to direct all, or a portion of their contributions to be invested in company stock. Shares are purchased from the Holding Company at the current market price. During 2024, 2023 and 2022, the Plan acquired 995 shares for \$539,453, 814 shares for \$439,245, and 1,023 shares for \$546,035, respectively.

The Director Stock Purchase Plan allows each director to annually acquire up to 50 shares of Company stock at the current market price. During 2024, 2023 and 2022, directors acquired 332, 382, and 341 shares per year, respectively, for an aggregate price of \$178,948, \$204,898, and \$181,180, respectively.

NOTE 8 – INCOME TAXES

Income tax expense was as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Income tax/(benefit):			
Current	\$ 986,183	\$ 947,994	\$ 631,461
Deferred	(127,777)	(42,162)	(56,655)
Change in valuation allowance	<u>-</u>	<u>(38,432)</u>	<u>(13,912)</u>
Total	<u>\$ 858,406</u>	<u>\$ 867,400</u>	<u>\$ 560,894</u>

The difference between the financial statement tax provision and the amount computed by applying the federal income tax rate of 21% to pretax income is reconciled as follows:

	<u>2024</u>	<u>2023</u>	<u>2022</u>
Income tax computed at statutory rate	\$ 1,089,939	\$ 1,233,850	\$ 986,509
Effect of:			
Tax exempt income	(247,205)	(299,502)	(298,631)
State tax (net of Federal benefit)	60,514	32,373	23,950
Bank owned life insurance	(45,233)	(40,438)	(36,876)
Captive insurance	-	(64,255)	(125,815)
Other	<u>391</u>	<u>5,372</u>	<u>11,757</u>
Income tax expense	<u>\$ 858,406</u>	<u>\$ 867,400</u>	<u>\$ 560,894</u>

Year-end deferred tax assets/(liabilities) are comprised of the following components:

	<u>2024</u>	<u>2023</u>
Deferred tax assets from:		
Allowance for credit losses	\$ 685,998	\$ 521,276
Other real estate owned write-downs	22,127	22,152
Net unrealized loss on securities	1,812,581	1,832,428
Capital loss carryforward	3,597	-
Deferred Loan Fees	<u>-</u>	<u>125</u>
	<u>2,524,303</u>	<u>2,375,981</u>

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 8 – INCOME TAXES (Continued)

Deferred tax liabilities for:		
Depreciation	(197,617)	(197,198)
FHLB stock dividends	(15,951)	(15,970)
Leases	(5,428)	(9,788)
REIT spillover dividend	(61,489)	(19,715)
Prepaid Expenses	(43,071)	(41,858)
Other	(3,164)	(1,799)
	<u>(326,720)</u>	<u>(286,328)</u>
Valuation allowance	-	-
Net deferred tax asset	<u>\$ 2,197,583</u>	<u>\$ 2,089,653</u>

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana and Illinois. The Company is no longer subject to examination by taxing authorities for years before 2021. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company did not have any amounts accrued for interest and penalties at December 31, 2024 and 2023.

NOTE 9 – OFF-BALANCE-SHEET ACTIVITIES

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance-sheet risk were as follows at year end:

	<u>2024</u>		<u>2023</u>	
	<u>Fixed</u> <u>Rate</u>	<u>Variable</u> <u>Rate</u>	<u>Fixed</u> <u>Rate</u>	<u>Variable</u> <u>Rate</u>
Unused lines of credit	\$ -	\$ 58,593,142	\$ -	\$ 67,117,827
Letters of Credit	-	281,554	-	288,496

Commitments to make loans are generally made for periods of 90 days or less. The Bank had \$0 in commitments to make loans at December 31, 2024 and 2023.

The Bank was not required to maintain a reserve at year-end 2024 and 2023 in the form of cash on hand or as a deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

(Continued)

NOTE 10 – CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was fully phased in at 2.50% in 2024 and 2023. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2024, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2024 and 2023, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optimal, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio greater than the required minimum will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. The community bank leverage ratio minimum requirement is 9%. An eligible banking organization is provided a two-quarter grace period to correct a ratio that falls below this required amount, provided that the bank maintains a leverage ratio greater than 8%.

An eligible banking organization can opt out of the CBLR framework and revert to the risk-weighting framework without restriction. As of December 31, 2024, both the Company and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 10 – CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS (Continued)

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	<u>Actual</u>		<u>Action Regulations</u>	<u>To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)</u>	
	<u>Amount</u>	<u>Ratio</u>		<u>Amount</u>	<u>Ratio</u>
<u>2024</u>					
Tier 1 Capital (to Average Assets)	\$ 46,836	12.15%		\$ 19,272	5.0%

In 2023, the Company did not elect to measure capital adequacy under the CBLR framework.

	<u>Actual</u>		<u>Minimum Required For Capital Adequacy Purposes</u>		<u>To Be Well Capitalized Under Prompt Corrective Action Regulations</u>	
	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>	<u>Amount</u>	<u>Ratio</u>
<u>2023</u>						
Total Capital (to Risk Weighted Assets)	\$48,320,000	17.19%	\$22,483,000	8.0%	\$28,103,000	10.0%
Common Tier 1 (CET1)	45,695,000	16.26	16,862,000	6.0	22,483,000	8.0
Tier 1 Capital (to Risk Weighted Assets)	45,695,000	13.16	13,886,000	4.0	17,358,000	5.0
Tier 1 Capital (to Average Assets)	45,695,000	16.26	12,646,000	4.5	18,267,000	6.5

(Continued)

NOTE 11 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Collateral Dependent Loans: The fair value of collateral dependent loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Other Real Estate Owned: Nonrecurring adjustments to certain land development and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 11 – FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

Fair Value Measurements at December 31, 2024 Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	\$ -	\$ 43,090,759	\$ -	\$ 43,090,759
Municipal bonds	-	-	-	-
States and political				
subdivisions	-	54,110,222	-	54,110,222
Mortgage-backed securities - residential	-	14,061,705	-	14,061,705
Total investment securities available-for-sale	\$ -	\$ 111,262,686	\$ -	\$ 111,262,686
Fair Value Measurements at December 31, 2023 Using:				
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	\$ -	\$ 56,967,507	\$ -	\$ 56,967,507
Municipal bonds	-	435,100	-	435,100
States and political				
subdivisions	-	51,138,830	-	51,138,830
Mortgage-backed securities - residential	-	14,596,514	-	14,596,514
Total investment securities available-for-sale	\$ -	\$ 123,137,951	\$ -	\$ 123,137,951

(Continued)

KENBANCORP
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2024, 2023 and 2022

NOTE 11 – FAIR VALUE (Continued)

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

	Fair Value Measurements at December 31, 2024 Using:			<u>Total</u>
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
(Dollars in thousands)				
Collateral-dependent loans:				
Commercial	\$ -	\$ -	\$ -	\$ -
Agriculture	-	-	1,065,040	1,065,040
Real estate	-	-	-	-
Installment	-	-	-	-
Lease receivables and other, net	-	-	-	-

Individually evaluated loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of \$1,200,040 with a valuation allowance of \$135,000 at December 31, 2024, resulting in an increased provision for loan losses of \$135,000 for the year ended December 31, 2024.

There were no assets measured at fair value on a non-recurring basis at December 31, 2023.

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2024:

	<u>Fair Value</u>	<u>Valuation Technique(s)</u>	<u>Unobservable Input(s)</u>	<u>Range</u>
<u>2024</u>				
Collateral-dependent loans – Agriculture	\$ 1,065,040	Sales comparison approach	Adjustment for differences between the comparable sales and age of valuations	10-20%



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