GRAND RIVER COMMERCE, INC.

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31

2024

GRAND RIVER COMMERCE, INC.

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GRAND RIVER COMMERCE, INC.

March 25, 2024

Dear Shareholders,

We are pleased to report that our Company has successfully navigated through a challenging period and has emerged stronger, with renewed profitability for our Bank and a clear path to enhancing shareholder value. Our audited financial statements, which reflect the result of operations for Grand River Commerce, Inc. (the “Company”) and Grand River Bank (the “Bank”), for fiscal year ended December 31, 2024, are provided in detail below.

Financial Recovery and Profitability

Over the past year, we have focused on stabilizing Bank operations and addressing the factors that contributed to our previous losses. Through diligent efforts and revised strategic initiatives, we have regained profitability at the Bank, marking a significant milestone in our recovery journey.

Strategic Plan for Enhancing Shareholder Value

Our commitment to improving shareholder value is unwavering. We have developed a comprehensive plan that targets key financial metrics and operational efficiencies:

1. **Return on Average Assets (ROAA)**: We are optimizing our asset portfolio to ensure higher returns, focusing on quality investments and prudent risk management.
2. **Return on Average Equity (ROAE):** By enhancing our equity base and improving profitability, we aim to deliver significantly improved returns to our shareholders.
3. **Lower Loan to Deposit Ratio:** We are strategically managing our loan portfolio to maintain a balanced loan-to-deposit ratio, ensuring liquidity and stability.
4. **Stronger Margins and Efficiency Ratio:** Our efforts to streamline operations and reduce costs have resulted in stronger margins and an improved efficiency ratio. We continue to seek opportunities to enhance operational improvements and are committed to a peer leading level of efficiency.
5. **Reduced Expenses:** Cost management remains a priority. We have implemented measures to reduce annual operational expenses by more than $1 million without compromising the quality of our services.
6. **Exceptional Asset Quality:** Maintaining exceptional asset quality is at the core of our strategy. We are committed to rigorous credit assessments and proactive risk management to safeguard our assets.
7. **Improved Capital Ratios:** Strengthening our capital ratios is essential for long-term stability and growth. We have taken steps to bolster our capital base, ensuring we are well-positioned for future opportunities.

Looking Ahead

As we move forward, we remain dedicated to executing our strategic plan and delivering value to our shareholders. Our focus on financial discipline, operational excellence, and prudent risk management will continue to drive our improved results and lead to greater success.

Financial Results for 2024

As of December 31, 2024, total assets of the Company stood at $525 million, a pre-planned decrease of $24.6 million from year-end 2023. As noted last quarter, commercial loan demand has softened, which continues throughout the industry. Many borrowers have delayed significant projects and purchases in anticipation of interest rate reductions and lower borrowing costs, as evidenced across our market and nationally. Residential mortgage production continues to be hampered by elevated interest rates, with lower demand and an insufficient inventory of homes available for sale. Recent data from the Kent and Ottawa County realtor associations reflect these trends. The corresponding decrease in loans and securities available for sale more than offset growth in cash holdings.

Asset quality, a leading indicator of the fundamental strength of our Bank, remains exceptionally strong. Delinquency is nominal and non-performing loans, as a percentage of the portfolio, remain low, at 0.3%. Our clean, well-performing portfolio allows us to avoid the distraction, expense and losses associated with troubled credits.

As previously reported, in late 2023, the Board of Directors approved the closure of Grand River Mortgage Company, LLC ("GRMC"), our national mortgage lending subsidiary. The loans-in-process pipeline were cleared out in early 2024 and the wind-up is nearing completion. In previous communications, we shared our belief that terminating GRMC would allow the Bank to begin the process of recovery and restoration. Accordingly, it is both encouraging and gratifying to report that the Bank's profitability continues to improve. The Bank generated net income of $776,000 in 2024 compared to a loss of $6.4 million in 2023. On a Bank-only basis, separate from trailing GRMC shutdown expenses, net income of $861,000 was generated. At the Company level, a loss of $523,000 was incurred, primarily from interest expense on the Company's subordinated-debt, and routine administrative costs.

The initiatives we implemented are ongoing and producing the desired results. Having recently moved beyond the effects of the mortgage subsidiary, we will remain cautious in our approach to growth in 2025. We have managed the balance sheet to anticipate modest rate fluctuations, but if rates remain stable or decrease, we expect to report continued margin improvement throughout the remainder of 2025.

Year-over-year, non interest income declined $2.4 million, primarily as a consequence of the closure of GRMC. GRMC generated non interest income of $2.5 million in 2023 from its mortgage banking operations. GRMC generated no non-interest income in 2024. As anticipated, the shutdown of GRMC resulted in a year-over-year improvement in non interest expenses, which decreased $11.5 million, or 45%.

The Board and Management remain keenly focused upon prudent expense control and improved efficiencies, as referenced above. In furtherance of these goals, the Bank made the difficult decision to implement a reduction in force during July of 2024. Related to the staffing reductions, the Bank incurred a one-time expense of approximately $221,000. Expense reductions already in place are expected to net approximately $1 million in annualized cost savings going forward.

Maintaining capital ratios that meet or exceed the regulatory definition of well-capitalized remains a priority. As has been the case since its inception, the Bank again met those requirements as of December 31, 2024.

New Bank Leadership

On September 3, 2024, the Bank announced the previously planned promotion of Drew Ysseldyke to President & CEO of the Bank. He succeeds Pat Gill, who had served as CEO of the Bank since 2012. The Company and Bank thank Pat for his 12 plus years of service and leadership to the Company which are highlighted by many years of robust growth while maintaining near pristine asset quality. His contributions to our organizations are many, and we are grateful for all that he has done.

Our financial results are always available via the Investor Relations section of our website, www.grandriverbank.com. We encourage you to use this comprehensive resource to track performance and to gain valuable information about your investment in our Company.

We remain committed to the improvement of our performance trajectory and are encouraged by our results to date.

We appreciate your continued support and confidence in our Bank. Together, we are building a stronger, more resilient institution that is poised for sustained growth and profitability.

Thank you for your trust and partnership.

GRAND RIVER
COMMERCE, INC.

Sincerely,

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Forward looking statements

Certain statements contained in this presentation are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995 that are subject to significant risks and uncertainties. Forward-looking statements include information concerning our future results, interest rates, loan and deposit growth, operations, new branch openings and business strategy. These statements often included words such as "may," "will," "believe," "expect," "anticipate," "predict," "intend," "plan," "estimate," or "continue" or the negative thereof or other variations thereon or comparable terminology. As you consider forward-looking statements, you should understand that these statements are not guarantees of future performance or results. They involve risks, uncertainties and assumptions that could cause actual results to differ materially from those in the forward-looking statements. These factors include but are not limited to: (i) the continuing strength of our existing business, which may be affected by various factors, including but not limited to interest rate fluctuations, level of delinquencies, defaults and prepayments by our borrowers, general economic conditions and conditions specifically related to the financial and credit markets, legislative and regulatory changes in banking, securities and tax laws, regulations and their application by our regulators, our competition; and (ii) the risks and uncertainties discussed in this annual report, Dated March 25, 2025; and (iii) the risks and uncertainties set forth from time to time in the Company's other published reports and public statements. You should keep in mind that any forward-looking statements speak only as of the date on which they were made. New risks and uncertainties come up from time to time and it is impossible for us to predict these events or how they may affect us. We do not intend to update or revise any forward-looking statements after the date on which they are made. In light of all of the foregoing risks and uncertainties, you should keep in mind that any forward-looking statement made in this presentation may not reflect actual future results.

Rehmann

INDEPENDENT AUDITORS' REPORT

March 18, 2025

Board of Directors and Shareholders
Grand River Commerce, Inc.
Grandville, Michigan

Opinion

We have audited the consolidated financial statements of ***Grand River Commerce, Inc.*** (the "Company"), which comprise the consolidated balance sheets as of December 31, 2024 and 2023, and the related consolidated statements of operations, comprehensive loss, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Grand River Commerce, Inc.*** as of December 31, 2024 and 2023, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Discontinued Operations

As described more fully in Notes 2 and 18 to the consolidated financial statements, the Company sustained significant losses from operations in 2024 and 2023. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Notes 2 and 18. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

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

Auditors' 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 auditors' 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 the Company's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Other Information included in the Annual Report

Management is responsible for the other information included in the Company's accompanying annual report. The other information comprises Management's Report but does not include the consolidated financial statements and our auditors' 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 audits 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.

Rehmann Robson LLC

GRAND RIVER COMMERCE, INC.

Consolidated Balance Sheets

(Dollars in thousands)

	December 31	
Assets	**2024**	**2023**
Cash and due from banks	$ 23,513	$ 21,981
Investment securities, available-for-sale	12,431	13,882
Restricted investments	3,657	3,157
Mortgage loans held for sale	497	1,255
Total loans	479,962	500,540
Less allowance for credit losses	5,140	5,412
Net loans	474,822	495,128
Premises and equipment (net)	1,350	1,709
Deferred income taxes	4,182	4,047
Interest receivable and other assets	4,038	4,568
Discontinued operations (Notes 2 and 18)	17	3,349
Total assets	**$ 524,507**	**$ 549,076**
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing	$ 89,828	$ 96,004
Interest-bearing	345,293	362,272
Total deposits	435,121	458,276
Interest payable and other liabilities	3,022	4,329
Other debt	35,500	34,500
Subordinated debt		
(net of issuance costs of $375 and $534 at December 31, 2024 and 2023)	15,525	15,366
Discontinued operations (Notes 2 and 18)	339	977
Total liabilities	**489,507**	**513,448**
Shareholders' equity		
Common stock		
$0.01 par value, authorized 10,000,000 shares; issued and outstanding		
7,039,280 shares in 2024 and 2023	70	70
Additional paid-in capital	40,992	40,992
Accumulated deficit	(4,001)	(3,478)
Accumulated other comprehensive loss	(2,061)	(1,956)
Total shareholders' equity	**35,000**	**35,628**
Total liabilities and shareholders' equity	**$ 524,507**	**$ 549,076**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Operations
(Dollars in thousands)

	Year Ended December 31	
	2024	2023
Interest income		
Loans, including fees	$ 26,674	$ 24,049
Securities	522	462
Federal funds sold and other income	1,219	1,227
Total interest income	**28,415**	**25,738**
Interest expense		
Deposits	13,747	11,569
Borrowings	2,448	1,841
Total interest expense	**16,195**	**13,410**
Net interest income	**12,220**	**12,328**
Credit loss reversal	(377)	(49)
Net interest income, after credit loss reversal	**12,597**	**12,377**
Noninterest income		
Gain on sale of mortgage loans	552	546
Service charges and other fees	62	50
Other	367	281
Total noninterest income	**981**	**877**
Noninterest expenses		
Compensation	9,165	9,715
Occupancy and equipment	1,075	1,106
Data processing and IT support	596	432
Software	969	939
Professional services	712	729
Insurance	648	604
Other	964	1,229
Total noninterest expenses	**14,129**	**14,754**
Net loss before income tax benefit	(551)	(1,500)
Income tax benefit	113	287
Loss from continuing operations	**(438)**	**(1,213)**
Loss from discontinued operations before income tax benefit	(111)	(7,739)
Income tax benefit	26	1,652
Loss from discontinued operations	**(85)**	**(6,087)**
Net loss	**$ (523)**	**$ (7,300)**
Basic loss per common share		
Loss from continuing operations	$ (0.06)	$ (0.17)
Loss from discontinued operations	(0.01)	(0.86)
Net loss	**$ (0.07)**	**$ (1.04)**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Comprehensive Loss

(Dollars in thousands)

	Year Ended December 31	
	2024	2023
Net loss	$ (523)	$ (7,300)
Unrealized holding (losses) gains on investment securities arising during the year	(133)	322
Income tax benefit (expense) related to other comprehensive (loss) gain	28	(69)
Other comprehensive (loss)/income	(105)	253
Comprehensive loss	**$ (628)**	**$ (7,047)**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Shareholders' Equity
(Dollars in thousands)

	Common Stock	Additional Paid-in Capital-Common Stock	Accumulated Surplus (Deficit)	Accumulated Other Comprehensive Loss	Total Shareholders' Equity
Balances, January 1, 2023	**$ 70**	**$ 41,156**	**$ 3,822**	**$ (2,209)**	**$ 42,839**
Share-based compensation expense	-	(164)	-	-	(164)
Comprehensive loss	-	-	(7,300)	253	(7,047)
Balances, December 31, 2023	**70**	**40,992**	**(3,478)**	**(1,956)**	**35,628**
Comprehensive loss	-	-	(523)	(105)	(628)
Balances, December 31, 2024	**$ 70**	**$ 40,992**	**$ (4,001)**	**$ (2,061)**	**$ 35,000**

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

GRAND RIVER COMMERCE, INC.

Consolidated Statements of Cash Flows
(Dollars in thousands)

	Year Ended December 31	
	2024	2023
Cash flows from operating activities		
Net loss	$ (523)	$ (7,300)
Adjustments to reconcile net loss to net cash from operating activities		
Share-based compensation	35	(164)
Credit loss reversal	(377)	(49)
Net amortization of investment securities	40	38
Originations of loans held for sale	(20,671)	(97,643)
Proceeds from loan sales	25,204	96,730
Net gain on sale of loans	(605)	(3,080)
Depreciation and amortization	398	473
Non-cash lease expense	434	413
Impairment of productive assets	18	257
Deferred income tax benefit	(107)	(1,925)
Amortization of debt issuance costs	159	70
Net change in		
Interest receivable and other assets	68	(426)
Interest payable and other liabilities	(2,158)	1,277
Operating lease obligations	426	450
Net cash from operating activities	**2,341**	**(10,879)**
Cash flows from investing activities		
Activity in available-for-sale securities		
Maturities and pre-payments	1,278	1,438
Loan principal originations, net	20,536	(39,365)
Purchase of Federal Home Loan Bank restricted stock	(410)	(1,189)
Purchase of Federal Reserve Bank restricted stock	(90)	(180)
Purchase of premises and equipment	(28)	(3)
Net cash from investing activities	**21,286**	**(39,299)**
Cash flows provided by financing activities		
Acceptances and withdrawals of deposits, net	(23,193)	(3,363)
Federal Home Loan Bank borrowings	18,000	30,000
Repayments of Federal Home Loan Bank borrowings	(17,000)	(10,000)
Issuance of subordinated debt (net of issuance costs)	-	7,251
Net cash from financing activities	**(22,193)**	**23,888**
Net change in cash and cash equivalents	1,434	(26,290)
Cash and cash equivalents at beginning of year	22,089	48,379
Cash and cash equivalents at end of year	**$ 23,523**	**$ 22,089**
Supplemental cash flow information		
Cash paid for interest	$ 16,457	$ 12,716

Cash flows from Grand River Mortgage Company's (GRMC) discontinued operations are reflected in the presentation above. Operating cash flows for GRMC amounted to $2.5 million in 2024 and negative $9.5 million in 2023. There were no cashflow outlays for investing activities in 2024, compared to $14,000 in 2023.

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

Notes to Consolidated Financial Statements

1. ORGANIZATION, BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Grand River Commerce, Inc. (“GRCI”) was incorporated under the laws of the State of Michigan to organize a Bank in Michigan. Upon receiving regulatory approvals to commence business, GRCI chartered Grand River Bank, (the “Bank”). The Bank is a wholly-owned subsidiary of GRCI (the "Company"). In late 2021, Grand River Mortgage Company, LLC ("GRMC"), was formed as a wholly owned subsidiary of the Bank.

The Bank is a full-service commercial bank headquartered in Grandville, Michigan, serving the communities of Grandville, Grand Rapids and the surrounding areas in Kent and Ottawa counties in Michigan, offering a broad range of commercial and consumer banking services to businesses, professionals, and local residents who are particularly responsive to the style of service which the Bank provides.

The Bank is chartered by the State of Michigan and is a member of the Federal Deposit Insurance Corporation (“FDIC”) and the Federal Reserve. The Bank is subject to the regulations and supervision of the Federal Reserve as well as state regulators and undergoes periodic examinations by these regulatory authorities while still maintaining insurance governed by the FDIC.

Active competition, principally from other commercial banks, savings banks, credit unions, and mortgage companies exists in all of the Bank’s primary markets. The Bank’s results of operations can be significantly affected by changes in interest rates or changes in the industries which comprise a significant portion of the local economic environment which currently include medical, manufacturing, automotive and professional services.

GRMC, a direct to consumer national mortgage lender, offered a variety of lending products including purchase, cash out and re-finance. All loans originated by GRMC were intended for sale on the secondary market. In the 4th quarter of 2023, the Board of directors voted to discontinue operations of GRMC. As of December 31, 2023, GRMC ceased its active sales operations. See Note 2 - Discontinued Operations for additional detail regarding GRMC.

GRCI is also subject to regulations of the Federal Reserve Board governing bank holding companies. In addition, GRMC was subject to certain other state regulatory authorities specific to the consumer lending line of business in the states where GRMC was required to be licensed.

Concentration Risks

The Bank's primary deposit products are interest and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial and consumer loans. The majority of the Bank's loan portfolio is comprised of commercial real estate and commercial and industrial loans. Commercial real estate loans represented 72% and 73% of total loans at December 31, 2024 and 2023, respectively. Commercial and industrial loans represent 9% and 8% of total loans at December 31, 2024 and 2023, respectively. While the Bank has a concentration in loans collateralized by real estate, management believes that the Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

Principles of Consolidation

The consolidated financial statements include the accounts of GRCI, the Bank and GRMC (collectively, the "Company"). All significant intercompany accounts and transactions have been eliminated in consolidation. When the term "Bank" is used throughout these statements it is inclusive of GRMC, as applicable.

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheets and the reported amounts of income and expenses during the year. Actual results could differ from those estimates and assumptions.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for expected credit losses and for the valuation of deferred tax assets. In connection with the determination of these allowances, management obtains independent appraisals for significant properties and evaluates the events which could impact the realization of deferred tax assets.

Summary of Significant Accounting Policies

Accounting policies used in the preparation of these consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America ("GAAP"). The principles which materially affect the determination of the consolidated financial position and results of operations of the Company are summarized below.

Notes to Consolidated Financial Statements

Cash and Cash Equivalents
For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold, if any, all of which mature within ninety days. Generally, federal funds are sold for a one-day period. Deposit accounts are maintained in various financial institutions which generally exceed FDIC insured limits. Management does not believe the Company is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

Fair Value
Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based on prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value accounting hierarchy is as follows:

Level 1: Inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets which the Company can participate.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement, and include inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 3.

Investment Securities
Debt securities classified as available-for-sale (AFS) consist of those securities which might be sold prior to maturity due to changes in interest rates, prepayment risks, yield and availability of alternative investments, liquidity needs or other factors. Securities classified as AFS are reported at fair value and the related unrealized gain or loss is reported in other comprehensive loss, net of tax.

A debt security is placed in nonaccrual status at the time any principal or interest payments become 90 days delinquent. Interest accrued but not received for a security placed on nonaccrual is reversed against interest income.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Premiums on callable debt securities are amortized to their earliest call date. Gains or losses on the sale of debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

Allowance for Credit Losses - Available for Sale Securities (AFS)

In estimating the allowance for credit losses on AFS debt securities in an unrealized loss position, management first determines whether they intend to sell or if it is more likely than not that the Company will be required to sell the security before recovery of the 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 with an Allowance for Credit Losses (ACL). For securities AFS with unrealized losses not meeting these criteria, management evaluates whether any decline in fair value is due to credit losses or other factors. In making this assessment, management considers any changes to the rating of the security by rating agencies and adverse conditions specifically related to the issuer of 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 the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an ACL adjustment is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Changes in the ACL are recorded as provisions for (or reversal of) credit loss expense. Losses are charged against the allowance when the collectability of a debt security AFS is confirmed or when either of the criteria regarding intent or requirement to sell is met. Any impairment that has not been recorded through an ACL is recognized in other comprehensive loss, net of income taxes. At December 31, 2024, and 2023, as well as at the adoption of CECL on January 1, 2023, there was no ACL related to AFS debt securities.

Accrued interest receivable on AFS debt securities totaled $44,000 and $56,000 as of December 31, 2024 and 2023, respectively, and was excluded from the estimate of expected credit losses.

Restricted Investments

Restricted investments include stock issued by the Federal Reserve Bank of Chicago (FRB) as well as stock issued by the Federal Home Loan Bank of Indianapolis (FHLB). Holdings of FRB stock are $1,405,500 and $1,315,500 as of December 31, 2024 and 2023, respectively. Holdings of FHLB stock are $2,251,100 and $1,841,300 as December 31, 2024 and 2023, respectively. These nonmarketable equity securities and the value assigned to their stock dividends are recorded at cost as they do not have a readily determinable fair value since ownership is restricted and lacks a market.

Mortgage Loans Held for Sale

Mortgage loans originated and held for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Estimated fair value is determined using forward commitments to sell loans to permanent investors, or current market rates for loans of similar quality and type. Net unrealized losses, if any, are recognized in a valuation allowance by a charge to earnings. Discounts or premiums on loans held for sale are deferred until the related loan is sold. Loans held for sale are sold with servicing rights released.

Loans are considered sold when the Bank surrenders control over the transferred assets to the purchaser, with standard representations and warranties. At such time, the loan is removed from the Bank's loan portfolio and a gain or loss is recorded on the sale. Gains and losses on loan sales are determined based on the difference between the carrying value of the assets sold, the estimated fair value of any assets or liabilities that are newly created as a result of the transaction and the proceeds from the sale.

Loans

Loans receivable that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balance adjusted for any charge-offs, the allowance for credit losses, and unamortized premiums or discounts on purchased loans. Interest is credited to income on a daily basis based upon the principal amount outstanding. Net deferred loan fees and costs for commercial loans classified as held to maturity are included in the consolidated balance sheet. Management estimates that direct costs incurred in originating mortgage and consumer loans classified as held-to-maturity are approximately equal to origination fees earned on these loans. As a result, net deferred loan origination fees for these loan types are not included on the consolidated balance sheets.

Interest income on all classes of loans is discontinued when management believes, after consideration of economic and business conditions and collection efforts, that the borrowers' financial condition is such that collection of interest is doubtful, typically 90 days past due, unless the credit is well secured or is 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. Nonaccrual loans and loans past due 90 days still on accrual are considered in nonperforming status for purposes of credit quality evaluation and are individually evaluated for impairment.

All interest accrued but not received for loans placed on nonaccrual in the current year is reversed against interest income. Interest accrued but not received for loans placed on nonaccrual due from prior years is charged against the allowance for credit losses. 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. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Allowance for Credit Losses (ACL)

The allowance for credit losses (ACL) is a valuation account that is deducted from the loan portfolios' amortized cost basis to present the net amount expected to be collected on loans. The ACL is increased by the provision for credit losses and recoveries, and decreased by reversals of the provision and charge-offs of loans. Management believes the ACL balance to be adequate based on known and inherent risks in the portfolio, past loan loss experience, information about specific borrower situations and estimated collateral values, current and forecasted economic conditions and other relevant factors. Allocations of the ACL may be made for specific loans, but the entire ACL is available for any loan that, in management’s judgment, should be charged-off. Loan losses are charged against the ACL when management believes the uncollectibility of a loan balance is confirmed. Management continues its collection efforts on previously charged-off balances and applies recoveries as additions to the ACL. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off.

The ACL is measured on a collective pool basis when similar risk characteristics exist. Pools are determined based on federal call code. The Weighted Average Remaining Maturity (WARM) method is used for all loan pools. This approach projects an estimated future remaining life of the portfolio based on historical exit events within each given pool. Given the Bank's limited loss history, a loss rate computed based on actual loss history from a peer group of similar sized financial institutions is used. This loss rate is then applied to the pool's balance based on the estimated remaining life of the pool. Determination of the lookback period for peer data is subjective. Management evaluates this lookback timeframe to ensure that it is reasonable and supportable. Additionally, the ACL calculation includes subjective adjustments to the historical loss factors for qualitative risk considerations that are likely to cause estimated losses to differ from historical experience as described below.

The ACL established for specific loans is based on a thorough analysis of the most probable source of repayment, including the present value of the loan’s expected future cash flows, the loan’s estimated market value, or the estimated fair value of the underlying collateral. These loans are excluded from the collective pools mentioned above. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs, as appropriate.

The unallocated portion of the ACL, if any, relates to expected losses that are not otherwise evaluated in the collective pools or loans specifically evaluated. The qualitative factors associated with the unallocated ACL are subjective and require a high degree of management judgment. These factors include the inherent imprecision in mathematical models and credit quality statistics, recent economic uncertainty, losses incurred from recent events, and lagging or incomplete data.

A number of qualitative factors are considered including changes in lending policies, economic conditions, portfolio dynamics, credit quality trends, collateral valuation trends, external factors, and other considerations. During each reporting period, management considers the need to make adjustments to these factors that may cause expected losses to differ from those experienced in the historical loss periods.

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 loan 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 Bank.

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, interest rate reduction, other than insignificant payment delays, or a term extension. When principal forgiveness is provided, the amount of the forgiveness is charged off against the ACL.

Accrued interest receivable for loans is included as part of a separate line item on the consolidated balance sheet and totaled $1.4 million as of December 31, 2024, and 2023. Management elected not to measure an ACL for accrued interest receivable and instead elected to reverse accrued interest income on loans that are placed on nonaccrual status. Management believes this policy results in the timely reversal of uncollectible interest.

The Bank has certain lending policies and procedures in place that are designed to maximize loan income within an acceptable level of risk. Management reviews and approves these policies and procedures on a regular basis. A reporting system supplements the review process by providing management with frequent reports related to loan production, loan quality, concentrations of credit, loan delinquencies and nonperforming and potential problem loans. Diversification in the loan portfolio is a means of managing risk associated with fluctuations in economic conditions.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Bank has identified the following portfolio segments:

Commercial and industrial loans are underwritten after evaluating and understanding the borrower’s ability to operate profitably and prudently expand its business. Underwriting standards are designed to promote relationship banking rather than transactional banking. Current and projected cash flows are reviewed to determine the ability of the borrower to repay their obligations as agreed. Commercial and industrial loans are primarily made 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 and industrial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may incorporate a personal guarantee. In limited circumstances, 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 dependent on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Bank's commercial real estate portfolio are diverse in terms of type. This diversity helps reduce the Bank's exposure to adverse economic events that affect any single industry. Management monitors and evaluates commercial real estate loans based on collateral, geography, and risk grade criteria. As a general rule, the Bank avoids financing single-purpose projects unless other underwriting factors are present to help mitigate risk. The Bank also utilizes third-party experts to provide insight and guidance about economic conditions and trends affecting market areas it serves.

Commercial real estate loans are subject to underwriting standards and processes similar to commercial and industrial loans, in addition to those of real estate loans. These 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, generally, is largely dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan.

In addition, management monitors the level of owner-occupied commercial real estate loans versus non-owner occupied loans. The outstanding principal balance of the Bank's commercial real estate loans were collateralized by the following categories at December 31:

	2024	2023
Owner occupied properties	38.7%	38.5%
Non-owner occupied properties	42.3	43.0
Multifamily properties	8.3	7.1
1–4 family residential properties	5.5	6.7
Other properties	5.2	4.7
Total	**100.0%**	**100.0%**

With respect to loans to developers and builders that are secured by non-owner occupied properties that the Bank may originate from time to time, the Bank generally requires the borrower to have had an existing relationship with the Bank and have a proven record of success. Commercial real estate construction and land development ("Construction") loans are underwritten utilizing feasibility studies, independent appraisal reviews, sensitivity analysis of absorption and lease rates and financial analysis of the developers and property owners. Construction loans are generally based upon estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Bank until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions, and the availability of long-term financing.

The Bank monitors and manages consumer loan risk through its policies and procedures. These policies and procedures are developed and modified, as needed, by management. The majority of this portfolio is made up of residential real estate loans. As such, underwriting standards are heavily influenced by statutory requirements, which include, but are not limited to, generally conservative loan-to-value percentages, collection remedies, the number of such loans a borrower can have at one time and documentation requirements.

The Bank has implemented an independent loan review that reviews and validates the credit risk program on a periodic basis. Results of these reviews are presented to management, the Audit Committee, and the Board of Directors. The loan review process complements and reinforces the risk identification and assessment decisions made by lenders and credit personnel, as well as the Bank's policies and procedures.

Although management believes the ACL to be appropriate, ultimate losses may vary from its estimates. At least quarterly, the Board of Directors reviews the appropriateness of the ACL, including consideration of the relevant risks in the portfolio, current economic conditions, reasonable and supportable forecasts, and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the ACL is adjusted. In addition, the Bank's primary regulators periodically review the appropriateness of the ACL. The regulatory agencies may require changes to the ACL based on their judgment about information available at the time of their examination.

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 legally isolated from the Bank, 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 Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Bank transfers of financial assets are generally limited to commercial loan participations sold to other banks and residential mortgage loans sold in the secondary market.

In 2024, the Bank and GRMC sold to unrelated third parties residential mortgage loans with proceeds of $21.3 million and $3.9 million, respectively. In 2023, the Bank and GRMC sold to unrelated third parties residential mortgage loans with proceeds of $22.3 million and $74.4 million, respectively. In 2024, gains on these sales totaled $552,000 for the Bank and $53,000 for GRMC. In 2023, gains on these sales totaled $546,000 for the Bank and approximately $2.5 million for GRMC. There is no substantive continuing involvement related to these loans.

Other Real Estate Owned

Real estate properties acquired through, or in lieu of, loan foreclosure are to be sold and are initially recorded at fair value less estimated selling costs at the date of foreclosure establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the real estate is carried at the lower of carrying amount or fair value less costs to sell. Revenues and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets, a component of other noninterest expense. As of December 31, 2024, and 2023, the Company had no foreclosed real estate properties or properties in the process of foreclosure.

Premises and Equipment

Equipment is carried at cost less accumulated depreciation. Depreciation is computed principally by the straight-line method based upon the estimated useful lives of the assets, which range generally from 3 to 8 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs, and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

Share-Based Compensation

The cost of employee services or certain performance metrics received in exchange for awards of equity instruments are recognized based on the grant-date fair value of those awards. An expense equal to the fair value of the awards over the requisite service period of the awards is recognized in the consolidated statements of operations.

The Company estimates the per share fair value of option grants and stock only appreciation rights (SOSARs) on the date of grant using the Black-Scholes pricing model using assumptions for the expected dividend yield, expected stock price volatility, risk-free interest rate and expected option term. These assumptions are subjective in nature, involve uncertainties and, therefore, cannot be determined with precision. The Black-Scholes option pricing model also contains certain inherent limitations when applied to options that are not traded on public markets. The per share fair value of options and SOSARs is highly sensitive to changes in assumptions. The use of different assumptions or different option pricing models could result in materially different per share fair

The Company estimated the fair value of restricted stock awards and performance based restricted stock units (PRSUs) based upon the quoted market price of the common stock on the date of grant.

Rights to SOSAR's and PRSU's granted in 2021 were forfeited in 2023. Associated expenses reported in prior periods were reversed in 2023. As of December 31, 2023, there were no remaining SOSAR or PRSU compensation plans in place for the Company. See Notes 2 and 13 for additional details.

Mortgage Banking Derivatives

Commitments to fund mortgage loans (interest rate locks) to be sold into the secondary market and mandatory and best-efforts sales commitments for the future delivery of these mortgage loans are accounted for as free standing derivatives. The fair value of the interest rate lock is recorded at the time the commitment is executed and is adjusted for the expected exercise of the commitment before the loan is funded. In order to hedge the change in interest rates resulting from its commitments to fund loans, the Bank enters into forward commitments for the future delivery of mortgage loans when the interest rate locks are entered into. Fair values of these mortgage derivatives are estimated based on changes in mortgage interest rates from the date the interest on the loan is locked. Changes in the fair values of these derivatives are included in net gain on sales of residential mortgage loans included in the consolidated statements of operations and is not material.

Income Taxes

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce the deferred tax assets to the amount expected to be realized. Income tax expense is the tax payable or refundable for the period plus, or minus the change during the period in deferred tax assets and liabilities.

Revenue Recognition

Revenues are recognized as they are earned based on contractual terms, as transactions occur, or as services are provided and collectability is reasonably assured. The primary source of revenue is interest income from the Bank’s loans and investment securities. Noninterest revenue is also earned from various banking services offered by the Bank.

Interest Income: The Company's largest source of revenue is interest income which is primarily recognized on an accrual basis based on contractual terms written into loans and investment contracts.

Noninterest Income: The Company derives the majority of its noninterest revenue from: (1) gains related to mortgage loan sales, (2) service charges for deposit related services, and (3) debit and credit card interchange income. Most of these services are transaction based and revenue is recognized as the related service is provided.

Comprehensive Loss

Accounting principles generally require that recognized revenue, expenses, gains and losses be included in net loss. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale investment securities, are reported as a separate component of the equity section in the consolidated balance sheets. Such items, along with net loss, are components of accumulated other comprehensive loss.

Off-Balance Sheet Credit Related Financial Instruments and Related Allowance for Credit Losses

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customers' 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.

The Company also considers expected credit losses associated with loan commitments. Any allowance for off-balance sheet credit exposures is reported as an other liability on the consolidated balance sheet and is increased or decreased via the credit loss expense (reversal) line item on the consolidated statement of operations. The calculation includes consideration of the likelihood that funding will occur and forecasted credit losses on commitments expected to be funded over their estimated lives. The allowance is calculated using the same methodology, inputs, and assumptions as the funded portion of loans at the pool level applied to the amount of commitments expected to be funded.

Net Loss per Share

Basic and diluted net loss per share have been computed by dividing net loss by the weighted-average number of common shares outstanding for the year. Weighted-average common shares outstanding totaled 7,039,280 as of 2024 and 7,038,301 as of 2023. Common stock equivalents consisting of Common Stock Options and Convertible Debt as described in Notes 8 and 13 are considered anti-dilutive and therefore not included for 2024 and 2023.

Reclassifications

Certain amounts as reported in the 2023 consolidated financial statements have been reclassified to conform to the 2024 presentation.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2024, the most recent balance sheet presented herein, through the date these consolidated financial statements were available to be issued.

2. DISCONTINUED OPERATIONS (SEE ALSO NOTE 18.)

In the fourth quarter of 2021, the Company approved the formation of Grand River Mortgage Company, LLC (“GRMC”). GRMC was formed for the purpose of establishing a direct-to-consumer residential mortgage origination operation with a national footprint. It was structured as a wholly-owned subsidiary of the Bank.

Although operating losses were expected during the start-up phase, GRMC proved unable to achieve projected profitability and incurred persistent losses. The underperformance was primarily attributable to the rapid rise in market interest rates triggered by the Federal Reserve, which significantly slowed loan demand, production, and associated revenue. In the third quarter of 2023, the Company raised additional capital through a subordinated convertible debt offering to support GRMC, enhance the Bank's capital to support ongoing growth, and for general corporate purposes. That offering is described in detail in Note 8. Revisions to the GRMC business plan and significant cost reduction measures did not result in sufficient performance improvement. Acknowledging that the ongoing impact of GRMC was not sustainable, the Board of Directors, in the fourth quarter of 2023, approved the winding down of GRMC's operations.

GRMC operations were largely wound down during the fourth quarter of 2023. Nominal staff was retained into 2024 for the purposes of liquidating the loan pipeline and other tasks necessary for an orderly shutdown. The final staff member was released in August 2024. There were no one time employee termination benefits recognized in 2023 or 2024. As a result of the losses and eventual discontinuance of operations, the equity-based compensation awards for Stock-Only Appreciation Rights (“SOSARs”) and Performance-Based Restricted Stock Units (“PRSUs”) issued to the former President of GRMC were forfeited. SOSARs and PRSUs are discussed further in Note 13. Management has reviewed all contractual obligations of GRMC and no material contingencies have been identified except for certain vendor contracts. The shutdown of GRMC is expected to be completed in 2025 and is anticipated to have minimal impact on the operations of the Bank and the Company in 2025 and subsequent reporting periods.

All of GRMC's loans held for sale as of December 31, 2023 were sold in 2024. Two additional loans that had interest rate lock commitments in 2023, but had not yet funded, were funded and sold in 2024. Mortgage interest and fees, as well as gain on sale of loans, were not material in 2024.

With its closure, GRMC vacated properties it occupied. Two of these properties had right of use lease assets and liabilities which were disposed of in 2023. These disposals resulted in a net gain of $31,000. GRMC's premises and equipment were evaluated for impairment and written down to their estimated values. This action resulted in $18,000 of impairment expense in 2024 and $102,000 of impairment expense in 2023. Its software assets were evaluated for impairment. This evaluation resulted in all remaining software assets being written off and an associated one time charge of $155,000 in 2023. GRMC's prepaid assets were evaluated and written down resulting in additional expense of $62,000 in 2023. The PRSU's and SOSAR's were forfeited in 2023, resulting in reversal of prior period expenses totaling $230,000. Expenses were accrued for outstanding commitments that management was aware of as of December 31, 2024 and 2023.

As of the date of these financial statements, GRMC has no ongoing business operations and the Company has no continuing involvement with GRMC. The ultimate disposition of GRMC as a legal entity is still being evaluated.

The carrying amounts of major classes of assets and liabilities included as part of discontinued operations at December 31 are summarized as follows (dollars in thousands):

	2024	2023
Assets		
Cash and due from banks	$ 10	$ 108
Mortgage loans held for sale	-	3,170
Premises and equipment (net)	7	36
Interest receivable and other assets	-	35
Total assets of discontinued operations	**$ 17**	**$ 3,349**
Liabilities		
Escrow funds	$ -	$ 38
Interest payable and other liabilities	339	939
Total liabilities of discontinued operations	**$ 339**	**$ 977**

Intercompany accounts that are eliminated in the process of consolidation are excluded from this presentation. Principally, these items include intercompany loans from the Bank to GRMC to fund mortgages held for sale and working capital. As of December 31, 2024 and December 31, 2023 intercompany loan balances totaled $1.7 million and $4.2 million, respectively.

The major classes of income and expenses of GRMC included in discontinued operations for the year ended December 31 are summarized as follows (dollars in thousands):

	2024	2023
Interest income		
Loans, including fees	$ 12	$ 732
Noninterest income		
Mortgage banking income (loss)	(4)	2,488
Other	2	-
Total income	**10**	**3,220**
Noninterest expenses		
Salaries and benefits	159	5,547
Occupancy and equipment	10	855
Professional services	53	971
Software	7	294
Loan processing	(126)	1,275
Advertising	-	2,003
Other	18	14
Total noninterest expenses	**121**	**10,959**
Loss before income tax benefit	(111)	(7,739)
Income tax benefit	26	1,652
Net loss on discontinued operations	**$ (85)**	**$ (6,087)**

Intercompany accounts that are eliminated in the process of consolidation are excluded from this presentation. Principally, interest expense for intercompany loans from the Bank to GRMC to fund mortgages held for sale and working capital. Interest expense on these loans totaled $12,000 in 2024 and $126,000 in 2023.

3. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Available-for-sale investment securities and mortgage banking derivatives are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as impaired loans, foreclosed assets, and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write down of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities
Fair values for investment securities are based on quoted market prices, where available. If quoted market prices are unavailable, fair values are based on quoted market prices of comparable instruments or other model based valuation techniques such as the present value of future cash flows, adjusted for the security’s credit rating, prepayment assumptions, and other factors such as credit loss and liquidity assumptions. As such, all investment securities are classified as Level 2.

Impaired Loans
The fair value of impaired loans is measured in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies the impaired loan as nonrecurring Level 3.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Company believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Recorded at Fair Value on a Recurring Basis
As of December 31, 2024 and 2023, there were $12.4 million and $13.9 million, respectively, of marketable securities recorded in Level 2 of the fair value hierarchy and measured at fair value on a recurring basis.

At December 31, 2024 and 2023, the fair value of interest rate lock commitments was not significant.

Assets Recorded at Fair Value on a Nonrecurring Basis

As of December 31, 2024 and December 31, 2023, there was no other real estate owned in which to measure at fair value on a nonrecurring basis.

Impaired loans as of December 31, 2024 and 2023, which are measured for impairment using the fair value of the collateral for collateral dependent loans, had a carrying amount of $1.5 million and $1.6 million, respectively, recorded in Level 2 of the fair value hierarchy resulting in a specific allocation to the allowance for credit losses of $33,000 and $60,000 for 2024 and 2023, respectively.

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Company's consolidated balance sheets are as follows as of December 31 (dollars in thousands):

		Fair Value Measurement at December 31, 2024 Using:			
	Carrying Amount	Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 23,513	$ 23,513	$ -	$ -	$ 23,513
Restricted investments	3,657	-	3,657	-	3,657
Loans held for sale	497	-	509	-	509
Net loans	474,822	-	-	448,530	448,530
Interest receivable	1,486	-	1,486	-	1,486
Financial liabilities					
Noninterest-bearing deposits	$ 89,828	$ 89,828	$ -	$ -	$ 89,828
Interest-bearing deposits	345,293	-	336,864	-	336,864
Federal Home Loan Bank advances	35,500	-	35,500	-	35,500
Subordinated debt - callable	8,096	-	7,542	-	7,542
Subordinated debt - convertible	7,429	-	-	7,429	7,429
Interest payable	691	-	691	-	691

	Carrying Amount	Fair Value Measurement at December 31, 2023 Using: Level 1	Level 2	Level 3	Total
Financial assets					
Cash and cash equivalents	$ 21,981	$ 21,981	$ -	$ -	$ 21,981
Restricted investments	3,157	-	3,157	-	3,157
Loans held for sale	1,255	-	1,255	-	1,255
Net loans	495,128	-	-	455,201	455,201
Interest receivable	1,554	-	1,554	-	1,554
Financial liabilities					
Noninterest-bearing deposits	$ 96,004	$ 96,004	$ -	$ -	$ 96,004
Interest-bearing deposits	362,272	-	342,922	-	342,922
Federal Home Loan Bank advances	34,500	-	34,600	-	34,600
Subordinated debt - callable	8,071	-	7,161	-	7,161
Subordinated debt - convertible	7,295	-	-	7,295	7,295
Interest payable	953	-	953	-	953

The estimated fair values of financial instruments disclosed above as of December 31, 2024 and 2023 follow the guidance in ASU No. 2016-01 which prescribes an “exit price” approach in estimating and disclosing fair value of financial instruments incorporating discounts for credit, liquidity, and marketability factors.

4. INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale debt securities, including gross unrealized gains and losses, are summarized as follows as of December 31 (dollars in thousands):

2024	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 8,700	$ -	$ 1,567	$ 7,133
Small business administration program securities	3,968	-	729	3,239
Municipal securities	1,872	-	212	1,660
Corporate securities	500	-	101	399
Total	$ 15,040	$ -	$ 2,609	$ 12,431

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Mortgage-backed securities	$ 9,674	$ -	$ 1,456	$ 8,219
Small business administration program securities	4,288	-	700	3,587
Municipal securities	1,896	-	190	1,706
Corporate securities	500	-	130	370
Total	$ 16,358	$ -	$ 2,476	$ 13,882

All securities are held as available-for-sale. The amortized cost and fair value of securities grouped by contractual maturity at December 31, 2024, are summarized as follows:

2024	Amortized Cost	Fair Value
Available-for-sale		
Due in one year or less	$ -	$ -
Due after one years through five	-	-
Due after five years through ten	2,372	2,059
Mortgage-backed securities	8,700	7,133
Small business administration program securities	3,968	3,239
Total	$ 15,040	$ 12,431

There were no sales of investment securities in 2023 or 2024.

As of December 31, 2024 and 2023, there were no pledged securities.

As of December 31, 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.

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations. Because of their variable monthly payment, mortgage-backed securities and small business administration program securities are not reported by a specific maturity group.

Securities with unrealized losses, not recognized in income, aggregated by investment category for which an allowance for credit losses has not been recorded, and length of time that individual securities have been in a continuous unrealized loss position at December 31 are as follows (dollars in thousands):

	Less than 12 Months		Over 12 Months		Total	
2024	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities	$ -	$ -	$ 7,133	$ 1,567	$ 7,133	$ 1,567
Small business administration program securities	-	-	3,239	729	3,239	729
Municipal securities	-	-	1,660	212	1,660	212
Corporate securities	-	-	399	101	399	101
Total	$ -	$ -	$ 12,431	$ 2,609	$ 12,431	$ 2,609

	Less than 12 Months		Over 12 Months		Total	
2023	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Loss**	**Fair Value**	**Gross Unrealized Losses**
Mortgage-backed securities	$ -	$ -	$ 8,219	$ 1,456	$ 8,219	$ 1,456
Small business administration program securities	-	-	3,587	700	3,587	700
Municipal securities	-	-	1,706	190	1,706	190
Corporate securities	-	-	370	130	370	130
Total	$ -	$ -	$ 13,882	$ 2,476	$ 13,882	$ 2,476

As of December 31, 2024 and December 31, 2023, all individual marketable securities held by the Company were in an unrealized loss position.

As of December 31, 2024 and 2023, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position. Management does not expect any credit losses on these portfolios, does not intend to sell the securities, and believes it is unlikely that management will be required to sell them before their anticipated recovery. The decline in fair value is primarily due to changes in interest rates and other market conditions. The issuers continue to make timely payments, and the fair value is expected to recover as the securities approach maturity. Furthermore, management does not intend to sell any of these securities and considers it is more likely than not that the Company will not have to sell them before recovering their cost.

5. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The components of the outstanding loan balances are summarized as follows at December 31 (dollars in thousands):

	2024	2023
Commercial and industrial	$ 41,958	$ 41,098
Commercial real estate		
Commercial	326,060	346,115
Construction and land development	17,186	19,510
Total commercial real estate	343,246	365,625
Consumer		
Residential and other	89,999	87,316
Construction	4,759	6,501
Total consumer	94,758	93,817
Gross loans	479,962	500,540
Allowance for credit losses	5,140	5,412
Total loans, net	**$ 474,822**	**$ 495,128**

The following table presents the activity in the allowance for credit losses by portfolio segment for the years ended December 31, 2024 and 2023 (dollars in thousands):

	Commercial and Industrial	Commercial Real Estate	Consumer	Unallocated	Total
December 31, 2024					
Allowance for credit losses:					
Beginning balance	**$ 398**	**$ 4,141**	**$ 873**	**$ -**	**$ 5,412**
Loans charged-off	(43)	-	(1)	-	(44)
Recoveries collected	-	-	-	-	-
Credit loss expense	46	(246)	(28)	-	(228)
Total ending allowance balance	**$ 401**	**$ 3,895**	**$ 844**	**$ -**	**$ 5,140**

	Commercial and Industrial	Commercial Real Estate	Consumer	Unallocated	Total
December 31, 2023					
Allowance for credit losses:					
Beginning balance	**$ 441**	**$ 4,433**	**$ 1,053**	**$ 1**	**$ 5,928**
Impact of adopting ASC 326	(250)	(247)	(265)	14	(748)
Loans charged-off	(115)	-	-	-	(115)
Recoveries collected	-	-	-	-	-
Credit loss expense	322	(45)	85	(15)	347
Total ending allowance balance	**$ 398**	**$ 4,141**	**$ 873**	**$ -**	**$ 5,412**

The Bank categorizes commercial 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 Bank analyzes loans individually by classifying the loans as to credit risk.

These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into nine major categories, defined as follows:

- **Pass.** Meets the qualities of the definition of loan grades 1-5 listed below.
  - **Prime Rating-1**. Borrower demonstrates exceptional credit fundamentals, including stable and predictable profit margins and cash flows, strong liquidity, and a conservative balance sheet with superior asset quality. Historic and projected performance indicates that borrower is able to meet obligations under almost any economic circumstance.
  - **High Quality-2.** Borrower consistently and internally generates sufficient cash flow to fund debt service. Management has successful experience with this company or with similar business activities in a similar market. Current and projected trends are positive and superior. Management breadth and depth indicates high degree of stability.
  - **Average Quality-3.** Balance sheet is comprised of good capital base, acceptable leverage, and liquidity. Ratios are at or slightly above peers. Operation generates sufficient cash to fund debt service and some working assets or capital expansion. Loans have excellent collateral with standard advance rates. Current trends are positive or stable.

- **Acceptable Quality-4.** Borrower generates sufficient cash flow to fund debt service, but most working assets and all capital expansion needs are funded by other sources. Borrower is able to meet interest payments but could not term out evergreen credit lines in a reasonable period of time. Earnings may be trending down; a loss may be shown indicating some volatility in earnings. However, management is acceptable and long-term trends are positive or neutral. Borrower may be able to obtain similar financing from other institutions.

- **Watch-5.** Borrowers may exhibit declining earnings, strained cash flow, increasing leverage, and/or weakening market position. They generally have limited additional debt capacity, modest coverage, and/or weakness in asset quality. Loans may be currently performing as agreed but could be adversely affected by factors such as deteriorating economic conditions, operating problems, pending litigation, or declining value of collateral. Management may be of good character, but weak. Borrower may have some limited ability to obtain similar financing with comparable or somewhat worse terms at other lending institutions.

- **Special Mention-6.** Loans classified as special mention have a potential for 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 Bank's credit position at some future date.

- **Substandard-7.** 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 Bank will sustain some loss if the deficiencies are not corrected.

- **Doubtful-8.** Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristics that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

- **Loss-9.** Loans are considered uncollectible and of little or no value as a Bank asset. Such loans are charged off when classified as loss.

Non-accrual loans and loans past due 90 days or more still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans). The sum of non-accrual loans and loans past due over 90 days will differ from the total impaired loan amount.

Credit Quality Indicators

Based on the analysis performed as of December 31, 2024, the risk category of commercial loans by class of loans is as follows (dollars in thousands):

	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2024							
Commercial and Industrial:							
Risk Rating							
Pass	$ 5,638	$ 5,700	$ 4,705	$ 4,557	$ 888	$ 20,010	$ 41,498
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	410	-	-	50	460
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	**$ 5,638**	**$ 5,700**	**$ 5,115**	**$ 4,557**	**$ 888**	**$ 20,060**	**$ 41,958**
Current period gross write-offs	$ -	$ -	$ 43	$ -	$ -	$ -	**$ 43**
Commercial Real Estate - Commercial:							
Risk Rating							
Pass	$ 31,001	$ 41,695	$ 85,848	$ 84,957	$ 78,589	$ 2,868	$ 324,958
Special Mention	-	-	-	1,102	-	-	1,102
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	**$ 31,001**	**$ 41,695**	**$ 85,848**	**$ 86,059**	**$ 78,589**	**$ 2,868**	**$ 326,060**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**
Commercial Real Estate - Construction and Land Development:							
Risk Rating							
Pass	$ 9,001	$ 7,170	$ 901	$ -	$ 114	$ -	$ 17,186
Special Mention	-	-	-	-	-	-	-
Substandard	-	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	**$ 9,001**	**$ 7,170**	**$ 901**	**$ -**	**$ 114**	**$ -**	**$ 17,186**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**

For consumer loans, a loan is considered performing if loan payments are timely. The following table presents the recorded investment in consumer loans based on payment activity and class as of December 31, 2024 (dollars in thousands).

	Term Loans Amortized Cost Basis by Origination Year						
	2024	2023	2022	2021	Prior	Revolving Loans	Total
Consumer Residential and Other:							
Performing	$ 2,909	$ 13,026	$ 23,006	$ 21,023	$ 19,918	$ 10,117	$ 89,999
Non-Performing	-	-	-	-	-	-	-
Total	**$ 2,909**	**$ 13,026**	**$ 23,006**	**$ 21,023**	**$ 19,918**	**$ 10,117**	**$ 89,999**
Current period gross write-offs	$ 1	$ -	$ -	$ -	$ -	$ -	**$ 1**
Consumer Construction:							
Performing	$ 2,136	$ 1,706	$ 769	$ 72	$ 76	$ -	$ 4,759
Non-Performing	-	-	-	-	-	-	-
Total	**$ 2,136**	**$ 1,706**	**$ 769**	**$ 72**	**$ 76**	**$ -**	**$ 4,759**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	$ -	**$ -**

Based on the analysis performed as of December 31, 2023, the risk category of commercial loans by class of loans is as follows (dollars in thousands):

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
As of December 31, 2023						
Commercial and Industrial:						
Risk Rating						
Pass	$ 8,899	$ 6,436	$ 6,508	$ 2,671	$ 16,102	$ 40,616
Special Mention	14	-	-	-	-	14
Substandard	-	418	-	-	50	468
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 8,913**	**$ 6,854**	**$ 6,508**	**$ 2,671**	**$ 16,152**	**$ 41,098**
Current period gross write-offs	$ 65	$ -	$ -	$ -	$ 50	**$ 115**
Commercial Real Estate - Commercial:						
Risk Rating						
Pass	$ 48,629	$ 90,985	$ 95,058	$ 107,814	$ 2,456	$ 344,942
Special Mention	-	-	1,173	-	-	1,173
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 48,629**	**$ 90,985**	**$ 96,231**	**$ 107,814**	**$ 2,456**	**$ 346,115**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**
Commercial Real Estate - Construction and Land Development:						
Risk Rating						
Pass	$ 11,645	$ 3,853	$ 1,375	$ 135	$ 2,502	$ 19,510
Special Mention	-	-	-	-	-	-
Substandard	-	-	-	-	-	-
Doubtful	-	-	-	-	-	-
Loss	-	-	-	-	-	-
Total	**$ 11,645**	**$ 3,853**	**$ 1,375**	**$ 135**	**$ 2,502**	**$ 19,510**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**

For consumer loans, a loan is considered performing if loan payments are timely. The following table presents the recorded investment in consumer loans based on payment activity and class as of December 31, 2023 (dollars in thousands).

	Term Loans Amortized Cost Basis by Origination Year					
	2023	2022	2021	Prior	Revolving Loans	Total
Consumer Residential and Other:						
Performing	$ 10,479	$ 23,629	$ 23,076	$ 21,303	$ 8,829	$ 87,316
Non-Performing	-	-	-	-	-	-
Total	**$ 10,479**	**$ 23,629**	**$ 23,076**	**$ 21,303**	**$ 8,829**	**$ 87,316**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**
Consumer Construction:						
Performing	$ 2,806	$ 2,124	$ 409	$ 79	$ 1,083	$ 6,501
Non-Performing	-	-	-	-	-	-
Total	**$ 2,806**	**$ 2,124**	**$ 409**	**$ 79**	**$ 1,083**	**$ 6,501**
Current period gross write-offs	$ -	$ -	$ -	$ -	$ -	**$ -**

As of December 31, 2024 and 2023, the Bank had a total recorded investment of $460,000 and $468,000, respectively, in nonaccrual loans, all of which were classified as commercial and industrial loans. As of December 31, 2024 and 2023, an allowance for credit losses was recorded for all such nonaccrual loans. Interest income on nonaccrual loans during 2024, and 2023 was not material. There were no loans past due over 90 days still on accrual as of December 31, 2024 and 2023.

The amortized cost basis of individually evaluated loans designated by management as having a higher risk that are collateral dependent amounted to $1,916,000 and $2,041,000 at December 31, 2024 and 2023, respectively.

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

2024	Real Estate	General Business Assets	Other
Commercial			
Commercial and industrial	$ -	$ 460	$ -
Commercial real estate	1,102	-	-
Other			
Consumer	-	-	354
Total	**$ 1,102**	**$ 460**	**$ 354**

2023	Real Estate	General Business Assets	Other
Commercial			
Commercial and industrial	$ -	$ 468	$ -
Commercial real estate	1,173	-	-
Other			
Consumer	-	-	400
Total	**$ 1,173**	**$ 468**	**$ 400**

The following table presents the aging of the recorded investments in past due loans as of December 31, 2024 and 2023 by class of loans (dollars in thousands):

2024	Commercial and Industrial	Commercial Real Estate	Real Estate Construction and Land Developmen t	Consumer Residential and Other	Consumer Construction	Total Loans
30-60 days past due	$ -	$ 30	$ -	$ 110	$ -	$ 140
61-90 days past due	-	-	-	119	-	119
Greater than 90 days	460	-	-	-	-	460
Total past due	460	30	-	229	-	719
Current	41,498	326,030	17,186	89,770	4,759	479,243
Total loans	**$ 41,958**	**$ 326,060**	**$ 17,186**	**$ 89,999**	**$ 4,759**	**$ 479,962**

2023	Commercial and Industrial	Commercial Real Estate	Real Estate Construction and Land Developmen t	Consumer Residential and Other	Consumer Construction	Total Loans
30-60 days past due	$ 423	$ -	$ -	$ -	$ -	$ 423
61-90 days past due	482	-	-	-	-	482
Greater than 90 days	-	-	-	-	-	-
Total past due	905	-	-	-	-	905
Current	40,193	346,115	19,510	87,316	6,501	499,635
Total loans	**$ 41,098**	**$ 346,115**	**$ 19,510**	**$ 87,316**	**$ 6,501**	**$ 500,540**

No loans were both experiencing financial difficulty and modified during the years ended December 31, 2024 and 2023.

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment are summarized as follows at December 31 (dollars in thousands):

	2024	2023
Leasehold improvements	$ 1,661	$ 1,658
Furniture, fixtures, and equipment	2,454	2,666
Accumulated depreciation/amortization	(2,765)	(2,615)
Premises and equipment, net	**$ 1,350**	**$ 1,709**

Depreciation and amortization expense from continuing operations was $386,000 and $401,000 for 2024 and 2023, respectively.

7. DEPOSITS

The components of the outstanding deposit balances are as follows as of December 31 (dollars in thousands):

	2024	2023
Noninterest-bearing		
Demand	$ 89,828	$ 96,004
Interest-bearing		
Checking	39,061	36,372
Savings	140,584	176,830
Time, $250,000 and under	129,932	109,507
Time, over $250,000	35,716	39,563
Total deposits	**$ 435,121**	**$ 458,276**

Scheduled maturities of time deposits for each of the years succeeding December 31, 2024, are as follows (dollars in thousands):

Year	Amount
2025	$ 104,917
2026	17,812
2027	27,613
2028	11,457
2029	3,849
Total	**$ 165,648**

8. BORROWED FUNDS *(Including Subsequent Event)*

Federal Funds Borrowed Lines

As of December 31, 2024, and December 31, 2023, the Bank had available $19 million in unsecured Federal Funds Purchased lines of credit with correspondent banks. No amounts were outstanding on these lines for either period.

Federal Reserve Bank Borrowings

The Bank pledges eligible agricultural and commercial and industrial loans to secure a borrowing arrangement with the Federal Reserve Bank of Chicago. Capacity totaled $13.7 million and $8.2 million as of December 31, 2024, and 2023, respectively, with no balance outstanding during either period.

Federal Home Loan Bank of Indianapolis

The Bank pledges eligible real estate loans to secure a borrowing arrangement with the Federal Home Loan Bank of Indianapolis. Borrowing capacity totaled $106.7 million and $107.8 million as of December 31, 2024, and 2023, respectively. As of December 31, 2024, the Bank had 5 outstanding advances supported by this collateral totaling $35.5 million. As of December 31, 2023, the Bank had six outstanding advances supported by this collateral totaling $34.5 million. Further detail of the advances outstanding as of December 31 is as follows (dollars in thousands):

	2024		2023	
Maturity Year	Amount	Weighted Average Rate	Amount	Weighted Average Rate
2024	$ -	0.00%	$ 17,000	4.81%
2025	18,000	4.51%	-	0.00%
2026	10,000	4.15%	10,000	4.15%
2027	7,500	4.82%	7,500	4.82%
Total	**$ 35,500**	**4.47%**	**$ 34,500**	**4.62%**

As of the date of these consolidated financial statements, all advances with 2025 maturities have matured. These maturities were replaced with a series of short-term borrowings, which remain outstanding in the amount of $9 million, having a weighted average rate of 4.53%, maturing in March and April 2025.

Subordinated Debt - Callable and Convertible

Subordinated Debt - Callable

In October 2020, the Company issued $8.25 million of subordinated debt with an outstanding balance, net of unamortized issuance cost, of $8.10 million and $8.07 million at December 31, 2024, and 2023, respectively. The interest rate is fixed at 5.50%, payable semi-annually on June 30th and December 31st of each year, beginning on December 31, 2020, until December 31, 2025, at which time it converts to the 3-month Secured Overnight Financing Rate (SOFR) plus 5.38% (rate would be 9.69% based on December 31, 2024 3-month SOFR and 10.71% based on December 31, 2023 3-month SOFR), with interest payable quarterly in arrears on March 31st, June 30th, September 30th, and December 31st of each year. Final maturity is December 2030, however, in accordance with the terms of the Notes the Company has the option to call the debt at par following the fifth anniversary. This debt is carried on the consolidated balance sheets net of issuance costs, which are amortized over the life of the instrument. As of December 31, 2024, and 2023, the unamortized cost balances were $154,000 and $179,000, respectively.

The Company incurred approximately $263,000 of debt issuance costs relating to the issuance of the Notes, which were recorded as a reduction to the Notes on the consolidated balance sheets. The debt issuance costs are being amortized and recognized as additional interest expense over the expected life of the Notes using the effective interest rate method. The Company determined the expected life of the debt is equal to the 10-year term of the Note. The effective interest rate on the Notes is 5.81%.

Non-Convertible Notes payable consisted of the following at December 31 (dollars in thousands):

	2024	2023
Principal amount of Notes	$ 8,250	$ 8,250
Unamortized debt issuance costs	(154)	(179)
Net carrying amount	**$ 8,096**	**$ 8,071**

Interest expense incurred in connection with Non-Convertible Notes consisted of the following at December 31 (dollars in thousands):

	2024	2023
Coupon interest	$ 454	$ 454
Amortization of debt issuance costs	25	26
Total interest expense on notes	**$ 479**	**$ 480**

On December 31, 2030, the gross principal balance of $8.25 million is due on the Company's Non-Convertible Note.

Convertible Debt

In September 2023, the Company issued $7.65 million of convertible subordinated debt. The interest rate is fixed at 9.00%, payable quarterly in arrears on January 1st, April 1st, July 1st, and October 1st of each year, beginning on October 1, 2023. The debt will mature on September 1, 2026, unless it is repurchased, redeemed, or converted earlier in accordance with the terms of the Notes. The Notes comprise the Company's senior, unsecured obligations and are (i) equal in right of payment with the Company's existing and future senior, unsecured indebtedness;(ii) senior in right of payment to the Company's existing and future indebtedness that is expressly subordinated to the Notes; (iii) effectively subordinated to the Company's existing and future secured indebtedness, to the extent of the value of the collateral securing that indebtedness; and (iv) structurally subordinated to all existing and future indebtedness and other liabilities, including trade payables, and (to the extent the Company is not a holder thereof) preferred equity, if any, of the Company's subsidiaries.

At any time before the maturity date, the Company has the option to prepay the debt and holders of the Notes may convert the debt to common stock at a conversion rate of 70% of the prior quarter end's tangible book value. As of December 31, 2024, the conversion equates to approximately 2.2 million shares of the Company’s common stock or 285.144 shares of the Company’s common stock per $1,000 principal amount of the Notes. This equates to a conversion price of approximately $3.51 per share of the Company’s common stock. As of December 31, 2023, the conversion equated to approximately 2.1 million shares of the Company’s common stock or 268.5285 shares of the Company’s common stock per $1,000 principal amount of the Notes. This equated to a conversion price of approximately $3.72 per share of the Company’s common stock.

The debt automatically converts to common stock at maturity. The maturity conversion rate is also 70% of the prior quarter end's tangible book value. This debt is carried on the consolidated balance sheet net of issuance costs, which are amortized over the life of the instrument. As of December 31, 2024, the outstanding balance was $7.65 million, with unamortized debt issuance costs of $221,000. As of December 31, 2023, the outstanding balance was $7.65 million, with unamortized debt issuance costs of $355,000. Interest expense incurred was $689,000 in 2024 and $230,000 in 2023.

The Notes contain customary terms and events of default. If an event of default arising out of certain events of bankruptcy, insolvency, or reorganization involving the Company or a significant subsidiary (as set forth in the Indenture) occurs with respect to the Company, the principal amount of the Notes and accrued and unpaid interest, if any, will automatically become immediately due and payable. If any other event of default (as defined in the Indenture) occurs and is continuing, either the Trustee or the holders of not less than two-thirds of the principal amount of and all accrued but unpaid interest on all the outstanding Notes may declare the principal amount of the Notes to be due and payable immediately by notice to the Company. There were no events of default as of December 31, 2024, or December 31, 2023.

The Notes are accounted for in accordance with ASC 470-20, Debt—Debt with Conversion and Other Options (“ASC 470-20”) and ASC 815-40, Derivatives and Hedging—Contracts in Entity's Own Equity (“ASC 815-40”). Under ASC 815-40, to qualify for equity classification (or nonbifurcation, if embedded), the instrument (or embedded feature) must be both (1) indexed to the issuer’s stock and (2) meet the requirements of the equity classification guidance. Based upon the Company's analysis, it was determined the Notes do contain embedded features indexed to its own stock, but do not meet the requirements for bifurcation, and therefore do not need to be separately accounted for as an equity component. Accordingly, the proceeds received from the issuance of the convertible debt were recorded as a liability on the consolidated balance sheet.

The Company incurred approximately $398,000 of debt issuance costs relating to the issuance of the Convertible Notes, which were recorded as a reduction to the Notes on the consolidated balance sheet. The debt issuance costs are being amortized and recognized as additional interest expense over the expected life of the Notes using the effective interest rate method. The Company determined the expected life of the debt is equal to the three-year term of the Notes. The effective interest rate on the Notes is 10.74%.

Convertible Notes payable consisted of the following at December 31 (dollars in thousands):

	2024	2023
Principal amount of Notes	$ 7,650	$ 7,650
Unamortized debt issuance costs	(221)	(355)
Net carrying amount	**$ 7,429**	**$ 7,295**

The estimated fair value (level 3) of the notes was $7.65 million as of December 31, 2024 and 2023.

Interest expense incurred in connection with Convertible Notes consisted of the following at December 31 (dollars in thousands):

	2024	2023
Coupon interest	$ 689	$ 230
Amortization of debt issuance costs	134	44
Total interest expense on notes	**$ 823**	**$ 274**

9. FEDERAL INCOME TAXES

Deferred income tax assets and liabilities are computed annually for differences between the financial statement and federal income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future, based on enacted tax laws and rates applicable to the period in which the differences are expected to affect taxable income. As of each reporting date, management considers new evidence, both positive and negative, that could affect its view of the future realization of deferred tax assets. A valuation allowance is established when necessary to reduce the deferred tax assets to the amount expected to be realized.

Income tax expense is the tax payable or refundable for the period plus, or minus the change during the period in deferred tax assets and liabilities.

The provisions for income taxes from continuing operations are comprised of the following (dollars in thousands):

	2024	2023
Currently receivable	$ (6)	$ -
Deferred benefit	(107)	(287)
Income tax benefit	**$ (113)**	**$ (287)**

Reconciliation of federal income taxes at statutory rate (21% for 2024 and 2023) to effective rate for the year end December 31 is as follows (dollars in thousands):

	2024	2023
Income tax benefit at statutory rate	$ (115)	$ (315)
Other	2	28
Federal income taxes	**$ (113)**	**$ (287)**

Significant components of the deferred income tax assets and liabilities presented on the consolidated balance sheets are comprised of the following amounts as of December 31:

	2024	2023
Deferred tax assets		
Allowance for credit losses	$ 1,106	$ 1,182
Non-employee stock option plan	54	51
Unrealized loss on securities available-for-sale	548	520
Net operating losses	2,436	2,252
Other	68	150
Total deferred tax assets	**4,212**	**4,155**
Deferred tax liabilities		
Depreciation	(30)	(108)
Net deferred tax asset	**$ 4,182**	**$ 4,047**

Management has concluded that there are no significant uncertain tax positions requiring recognition or disclosure in these consolidated financial statements based on evaluations performed for 2021 through 2024, the years which remain subject to examination by major tax jurisdictions as of December 31, 2024. Management does not expect to generate significant unrecognized tax benefits in the next twelve months. Interest and/or penalties related to income tax matters are reported in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2024, and 2023, and is not aware of claims for such amounts by federal income tax authorities.

Due to losses associated with GRMC, the net operating loss portion of the deferred tax asset has increased. Management has evaluated the levels of the overall deferred tax asset and does not believe a valuation allowance is necessary at this time.

10. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers, and their affiliates. Such credit extensions aggregated approximately $675,000 and $2.4 million at December 31, 2024, and 2023, respectively.

Deposits

Deposits of directors, executive officers, and their affiliates were approximately $1.9 million at December 31, 2024 and $4.5 million at December 31, 2023.

11. OFF-BALANCE SHEET ACTIVITIES

To meet the financing needs of its customers, the Bank is party to financial instruments with off-balance-sheet risk in the normal course of business. These financial instruments are comprised of unused lines of credit, overdraft lines and loan commitments. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making these commitments as it does for on-balance sheet instruments. The amount of collateral obtained, if deemed necessary by the Bank, upon extension of credit is based on management's credit evaluation of the borrower. 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. Risk to credit loss exists, up to the face amounts of these instruments, although material losses are not anticipated.

The contractual amount of financial instruments with off-balance sheet risk was as follows as of December 31 (dollars in thousands):

	2024		2023	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unfunded commitments under lines of credit and overdraft lines	$ 5,828	$ 94,693	$ 13,669	$ 99,850
Commitments to fund loans	5,956	3,285	11,143	8,189
Total	**$ 11,784**	**$ 97,978**	**$ 24,812**	**$ 108,039**

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These commitments are generally collateralized and have a maturity date. They may expire without being drawn upon. These lines of credit may not be drawn upon to the total extent to which the Bank is committed.

Commitments to fund loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

The following table presents the balance and activity for the allowance for credit losses for unfunded commitments for the years ended December 31, 2023, and 2024 (dollars in thousands):

	Allowance for Credit Losses - Unfunded Commitments
Balances, December 31, 2022	**$ -**
Adoption of ASC 326	748
Credit loss reversal	(396)
Balances, December 31, 2023	**352**
Credit loss reversal	(149)
Balances, December 31, 2024	**$ 203**

Notes to Consolidated Financial Statements

12. LEASES

Lessee Arrangements

The Company enters into leases in the normal course of business. Existing leases have remaining terms ranging from 1 to 6 years and do not include residual value guarantees or covenants.

Leases are classified as operating or financing leases at the lease commencement date. Lease expense for short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent the Company's right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

Management includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. Management has also elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on the Company's consolidated balance sheets.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The incremental borrowing rate is based on the FHLB amortizing advance rate, adjusted for the lease term and other factors. The following table summarizes information related such leases during the year ended December 31. (dollars in thousands):

	2024	2023
Cash paid for amounts included in the measurements of lease obligations:		
Operating cash flows from operating leases:	$ 481	$ 473
Right-of-use assets obtained in exchange for new operating lease obligations net of disposals	-	452
Operating lease weighted average remaining lease term (years)	6.0	6.8
Operating lease weighted average discount rate	1.61%	1.69%

Right-of-use assets tied to operating leases were $1.7 million as of December 31, 2024, and $2.1 million as of December 31, 2023. Right-of-use liabilities tied to operating leases were $1.7 million as of December 31, 2024, and $2.2 million as of December 31, 2023. These amounts are included with interest receivable and other assets and interest payable and other liabilities on the consolidated balance sheets. Total lease expense for the years ended 2024 and 2023 was $489,000, and $486,000, respectively. These amounts included $434,000 of amortization expense for operating leases in 2024 and $472,000 in 2023. The Company had no financing leases as of December 31, 2024, or 2023.

Lease Obligations

Future undiscounted lease payments for operating leases with initial terms of one year or more as of December 31, 2024, are as follows (dollars in thousands):

Year	Operating Leases
2025	$ 443
2026	278
2027	278
2028	278
2029	278
Thereafter	278
Total undiscounted lease payments	1,833
Less imputed interest	79
Net lease liabilities	$ 1,754

Notes to Consolidated Financial Statements

13. SHARE-BASED COMPENSATION

On June 23, 2009, the Board of Directors of the Company approved the adoption of the Grand River Commerce, Inc. 2009 Stock Incentive Plan (the "2009 Plan") which provides for the reservation of 200,000 authorized shares of the Company's common stock, $0.01 par value per share, for issuance upon the exercise of certain common stock options, that may be issued pursuant to the terms of the 2009 Plan. The 2009 Plan was approved and adopted by our shareholders at our 2010 Annual Meeting. Effective March 1, 2017, the 2009 Plan was amended in part to add restricted stock as a type of award under the Plan. The plan expired on April 30, 2019, and as such no new awards can be granted under this plan.

Common Stock Options

During the second quarter of 2009, the Company awarded and issued options for the purchase of 100,000 shares of Company common stock. During 2013 and 2012, the Company awarded 500 and 35,000 common shares for additional employee options, respectively, to acquire 500 and 35,000 shares respectively, under the 2009 Plan. All such options expired ten years from date of original grant. Employee options had a 5 year vesting period and Director options had a 3 year vesting period.

The agreements were modified on December 30, 2016. The common stock option exercise price was modified from $10.00 to $5.30 for Director and Employee options resulting in compensation expense of $108,000 in 2016 and associated $12,000 of deferred income tax benefit. In addition, employee options were reset with a new 10-year term.

The total stock options outstanding from the 2009 plan totaled 50,000 at December 31, 2024, and 2023. No such stock options were exercised in 2024 and 2023.

The cost of employee services received in exchange for equity awards, including stock options, is measured based on the grant date fair value of the awards. The cost is recognized as compensation expense over the vesting period of the awards. Management estimates the fair value of all stock options on each grant date and the modified date, using the Black-Scholes option pricing model.

The Company uses expected data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of grant and modification of the option.

A summary of option activity under the expired 2009 Plan is presented below for the year ended December 31:

	2024			2023		
	Shares	Weighted Average Exercise Price		Shares	Weighted Average Exercise Price	
Outstanding at January 1	50,000	$	5.30	60,000	$	5.30
Granted	-		-	-		-
Exercised	-		-	-		-
Expired or cancelled	-		-	(10,000)		5.30
Outstanding at December 31, including those modified	**50,000**	**$**	**5.30**	**50,000**	**$**	**5.30**

There were 50,000 common stock options able to be exercised as of December 31, 2024 and December 31, 2023. No further options have been granted since 2013. As of December 31, 2024, and 2023, there was no unrecognized compensation cost related to nonvested share-based compensation arrangements granted under this Plan.

Restricted Stock Awards

In February 2021, the Company formalized a new restricted stock plan (the “2020 Plan”) to replace the 2009 Plan, which had expired. The 2020 Plan provides for the reservation of 650,000 authorized shares of the Company's common stock, $0.01 par value per share. Unless terminated earlier, the 2020 Plan expires in February 2031. Under the provisions of the 2020 Plan, the Company cannot be obligated to "cash settle" any of the restricted stock awards through redemption.

There were no shares granted under the 2020 Plan in 2024. In 2023, 15,000 shares were granted under this plan. A total of 6,043 and 12,115 shares vested in 2024 and 2023, respectively, from these and prior year grants. A total of 3,926 shares remain unvested and will fully vest over the next two years. The fair value of restricted stock awards is estimated by the market price of the Company's common stock at the date of grant. Total compensation expense of $35,000 and $64,000 was recognized in 2024 and 2023, respectively, for these restricted stock awards. During the period the shares are not vested, the participant may not sell, assign, transfer, pledge, or otherwise encumber the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Unvested shares are immediately forfeited when the employment of a grantee is terminated and immediately become vested upon a change of control or the death or disability of the participant. There was $23,000 of total unrecognized compensation cost related to nonvested restricted stock awards granted on the plan. These costs will be recognized through 2026.

A summary of restricted stock activity under the 2020 Plan is presented below for the year ended December 31:

	2024		2023	
	Shares	Weighted Average Grant-Date Fair Value	Shares	Weighted Average Grant-Date Fair Value
Nonvested at January 1	9,969	$ 5.89	9,227	$ 7.00
Granted	-	-	15,000	5.40
Vested	6,043	5.84	12,115	5.76
Forfeited	-	-	2,143	7.00
Nonvested at December 31	**3,926**	**$ 5.98**	**9,969**	**$ 5.89**

PRSUs and SOSARs

In November 2021, the Company executed an executive employment agreement which includes equity based compensation awards for Stock Only Appreciation Rights ("SOSARs") and Performance based Restricted Stock Units ("PRSUs"). These awards were issued under the terms of the 2020 Plan. In accordance with ASC 718-10-25, the awards were classified as equity awards that settle in shares of the Company's common stock. The fair value of the awards was measured on the grant date. The fair value of the SOSARs was estimated using a Black Scholes model, and the value of the PRSU's was estimated using the stock price at the grant date multiplied by the units awarded. The cost of the awards was to be spread over the performance period defined in the agreement.

Under the terms of the SOSAR, the recipient received the right to receive payment in the form of shares of common stock equal to the difference, if any, in the fair market value of one share of common stock at the time of exercising the SOSAR and the exercise price. This SOSAR award was set to vest in December 2026 and expire in December 2031. Under the terms of the PRSU agreement, vesting of the award was based on the achievement of cumulative financial performance metrics over a performance period, which began in November 2021 and was set to end in December 2026. Settlement in shares of the Company's stock may be deferred to December 2031 based on a one time election by the recipient. The recipient voluntarily forfeited rights to this award in July 2023, at which time, amounts previously expensed were reversed. For 2023, this resulted in a one-time adjustment of expense recognized from the award's inception. The total adjustment recognized in conjunction with the forfeiture totaled $230,000 in 2023. (Note 2)

A total of 100,000 SOSARs were awarded in 2021 with an average weighted exercise price of $7.23 each. These awards were forfeited in July 2023. A total of 125,000 PRSUs were awarded in 2021 and were forfeited in July 2023. Total compensation expense reversed in 2023 for the SOSARs was ($38,000) and reversal of expense for the PRSUs was ($192,000). (Note 2)

	2023	
SOSARs	Shares	Weighted Average Exercise Price
Outstanding at January 1	100,000	$ 7.23
Granted	-	-
Exercised	-	-
Canceled / forfeited	100,000	7.23
Outstanding at December 31	-	$ -

	2023	
PRSUs	Shares	Weighted Average Price at Grant Date
Outstanding at January 1	125,000	$ 7.23
Granted	-	-
Forfeited	125,000	7.23
Shares delivered	-	-
Outstanding at December 31	-	$ -

Notes to Consolidated Financial Statements

14. EARNINGS PER SHARE (dollars in thousands)

	2024	2023
Basic		
Continuing Operations		
Net loss	$ (438)	$ (1,213)
Discontinued Operations		
Net loss	$ (85)	$ (6,087)
Weighted average common shares outstanding	7,039,280	7,038,301
Continuing operations		
Basic loss per common share	(0.06)	(0.17)
Discontinued operations		
Basic loss per common share	(0.01)	(0.86)
Basic loss per common share	$ (0.07)	$ (1.04)

Because the Company has reported a net loss, diluted net loss per share is equal to basic net loss per share. This is because potential common shares are not included in the calculation, as their effect would be anti-dilutive. Therefore, outstanding options for the purchase of 50,000 and 59,632 shares of common stock for 2024 and 2023, respectively, as well as 2,181,849 and 678,468 shares of common stock related to the convertible debt for the same years, were not considered.

15. MINIMUM REGULATORY CAPITAL REQUIREMENTS AND RESTRICTIONS ON CAPITAL

Banks and bank holding companies are subject to regulatory capital requirements administered by Federal banking agencies. Capital adequacy guidelines and, additionally for the Bank, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting policies. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The prompt corrective action regulations provide four classifications; well capitalized, adequately capitalized, undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, or worse, the Bank would be subject to further regulatory restrictions. The Company is currently restricted from paying dividends until such time it has sufficient retained earnings to do so without negatively affecting its ability to support the Bank.

Failure to meet capital requirements can initiate regulatory action. The Bank has elected not to include the net unrealized gain or loss on available for sale securities in computing regulatory capital. Quantitative measurements established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts of ratios (set forth in the following table). Management believes, as of December 31, 2024 and 2023, that the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2024 and 2023, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, an institution must maintain minimum total risk-based, and Tier 1 leverage ratios as set forth in the following tables. There are no conditions or events since the notification that management believes have changed the Bank’s category.

The Bank's actual capital amounts and ratios are presented in the following tables (dollars in thousands).

December 31, 2024	Actual		Minimum Capital Requirements Plus Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total capital to risk weighted assets	$ 54,093	12.09%	$ 46,973	10.50%	$ 44,736	10.00%
Common equity tier 1 capital to risk weighted assets	48,749	10.90	31,315	7.00	29,078	6.50
Tier 1 capital to risk weighted assets	48,749	10.90	38,026	8.50	35,789	8.00
Tier 1 capital to average assets	48,749	9.19	21,220	4.00	26,525	5.00

December 31, 2023	Actual		Minimum Capital Requirements Plus Conservation Buffer		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
(Dollars in thousands)						
Total capital to risk weighted assets	$ 50,605	10.55%	$ 50,357	10.50%	$ 47,960	10.00%
Common equity tier 1 capital to risk weighted assets	44,841	9.35	33,572	7.00	31,174	6.50
Tier 1 capital to risk weighted assets	44,841	9.35	40,766	8.50	38,368	8.00
Tier 1 capital to average assets	44,841	8.15	22,019	4.00	27,524	5.00

Consistent with its policy that bank holding companies should serve as a source of financial strength for their subsidiary banks, the Federal Reserve has stated that, as a matter of prudence, Grand River Commerce, a bank holding company, generally should not maintain a rate of distributions to shareholders unless its available net income has been sufficient to fully fund the distributions, and the prospective rate of earnings retention appears consistent with the bank holding company's capital needs, asset quality and overall financial condition. In addition, the Company is subject to certain restrictions on the making of distributions as a result of the requirement that the Bank maintain an adequate level of capital as described above. As a Michigan company, the Company is restricted under the Michigan Business Company Act from paying dividends under certain conditions.

On March 27, 2024 Grand River Commerce down streamed $3.0 million of additional capital to the Bank to further bolster its capital position.

16. CONTINGENCIES

Litigation

The Company is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

17. EMPLOYEE BENEFIT PLANS

The Company has a Safe Harbor 401(k) plan covering all employees. Contributions under the 401(k) plan are made by the employee with the Company contributing 100% of the employee deferral for the first 3% of compensation and 50% of the deferral for the next 2% of the employee's deferral within IRS limits. The cost of the plan amounted to approximately $251,000 and $323,000 for 2024 and 2023, respectively. These amounts include approximately $2,000 and $65,000 of expense related to discontinued operations for 2024 and 2023 respectively.

18. OPERATING MATTERS AND MANAGEMENT'S PLAN

The Company reported a net operating loss after income tax benefit of approximately $523,000 in 2024 and $7.3 million in 2023. Significant improvement in the Company's year over year performance is tied to the wind down of GRMC's operations in late 2023. GRMC's net operating losses were $85,000 and $6.1 million in 2024 and 2023, respectively. Losses at GRMC were the primary cause for 2023's net operating loss while 2024's net operating loss was attributable to the losses of GRCI and increased net interest expense related to borrowings, specifically the convertible notes. Management believes that, as a result of the plans detailed below, the Company currently has sufficient capital and other resources to meet its funding requirements over the next year from the date of issuance of these consolidated financial statements.

Notes to Consolidated Financial Statements

GRCI issued approximately $7.65 million of subordinated convertible debt in September 2023 to bolster the Bank's capital position (see Note 8). The full year impact of interest expense associated with this debt expanded GRCI's loss in 2024. This interest expense will remain elevated until the debt is converted or retired. Non-interest expenses associated with the start-up of GRMC were largely eliminated with the cessation of operations in the fourth quarter of 2023. Management is still working on finalizing the shutdown of GRMC, though additional expenses are expected to be nominal. Please see Note 2 for additional detail on discontinued operations.

The Bank, which is the primary earning engine for the Company, recovered from a nominal loss in 2023 by posting meaningful net operating income in 2024. The primary driver of the improved performance is tied to the reduction of non-interest expenses. The Bank expects further improvement in performance in 2025 as loan assets continue to reprice at higher rates, deposit liability rates stabilize, and the effects of cost cutting measures, implemented during 2024, impact a full year's results.

The Bank has consistently remained "Well Capitalized" (see Note 15). Its improving operating results and diligent management of the level of risk based assets are expected to provide resources necessary for the Company to meet its obligations over the next year from the date of issuance of these consolidated financial statements, while maintaining its capital ratios well above regulatory minimums.