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

# FORM 10-Q

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

For the quarterly period ended March 31, 2024

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

For the transition period from ________ to

Commission File Number: **000-19202**

# ChoiceOne Financial Services, Inc.

(Exact Name of Registrant as Specified in its Charter)

| | |
|---|---|
| **Michigan**<br>(State or Other Jurisdiction of Incorporation or Organization) | **38-2659066**<br>(I.R.S. Employer Identification No.) |
| **109 East Division**<br>**Sparta, Michigan**<br>(Address of Principal Executive Offices) | **49345**<br>(Zip Code) |

**(616) 887-7366**
(Registrant's Telephone Number, including Area Code)

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer ☐ Accelerated filer ☐

Non-accelerated filer ☒ Smaller reporting company ☒

Emerging growth company ☐

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

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

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|---|---|
| Common stock | COFS | NASDAQ Capital Market |

As of April 30, 2024, the Registrant had 7,571,112 shares of common stock outstanding.

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**PART I. FINANCIAL INFORMATION**

Item 1. Financial Statements.

ChoiceOne Financial Services, Inc.
**CONSOLIDATED BALANCE SHEETS** (Unaudited)

| (Dollars in thousands, except share data) | | March 31, 2024 | | December 31, 2023 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and due from banks | $ | 149,779 | $ | 55,083 |
| Time deposits in other financial institutions | | 350 | | 350 |
| Cash and cash equivalents | | 150,129 | | 55,433 |
| | | | | |
| Equity securities, at fair value (Note 2) | | 7,560 | | 7,505 |
| Securities available for sale, at fair value (Note 2) | | 504,636 | | 514,598 |
| Securities held to maturity, at amortized cost net of credit losses (Note 2) | | 397,981 | | 407,959 |
| Federal Home Loan Bank stock | | 4,449 | | 4,449 |
| Federal Reserve Bank stock | | 5,066 | | 5,065 |
| Loans held for sale | | 6,035 | | 4,710 |
| Loans to other financial institutions (Note 3) | | 30,032 | | 19,400 |
| Core loans (Note 3) | | 1,388,558 | | 1,391,253 |
| Total loans held for investment (Note 3) | | 1,418,590 | | 1,410,653 |
| Allowance for credit losses (Note 3) | | (16,037) | | (15,685) |
| Loans, net | | 1,402,553 | | 1,394,968 |
| | | | | |
| Premises and equipment, net | | 28,268 | | 29,750 |
| Other real estate owned, net | | 122 | | 122 |
| Cash value of life insurance policies | | 45,079 | | 45,074 |
| Goodwill | | 59,946 | | 59,946 |
| Core deposit intangible | | 1,651 | | 1,854 |
| Other assets | | 57,224 | | 45,273 |
| Total assets | $ | 2,670,699 | $ | 2,576,706 |
| | | | | |
| **Liabilities** | | | | |
| Deposits – noninterest-bearing | $ | 502,685 | $ | 547,625 |
| Deposits – interest-bearing | | 1,641,193 | | 1,550,985 |
| Brokered deposits | | 41,970 | | 23,445 |
| Total deposits | | 2,185,848 | | 2,122,055 |
| | | | | |
| Borrowings | | 210,000 | | 200,000 |
| Subordinated debentures | | 35,568 | | 35,507 |
| Other liabilities | | 32,527 | | 23,510 |
| Total liabilities | | 2,463,943 | | 2,381,072 |
| | | | | |
| **Shareholders' Equity** | | | | |
| Preferred stock; shares authorized: 100,000; shares outstanding: none | | - | | - |
| Common stock and paid-in capital, no par value; shares authorized: 15,000,000; shares outstanding: 7,556,137 at March 31, 2024 and 7,548,217 at December 31, 2023 | | 173,786 | | 173,513 |
| Retained earnings | | 77,294 | | 73,699 |
| Accumulated other comprehensive loss, net | | (44,324) | | (51,578) |
| Total shareholders' equity | | 206,756 | | 195,634 |
| Total liabilities and shareholders' equity | $ | 2,670,699 | $ | 2,576,706 |

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.
**CONSOLIDATED STATEMENTS OF INCOME** (Unaudited)

| (Dollars in thousands, except share data) | Three Months Ended March 31, 2024 | Three Months Ended March 31, 2023 |
|---|---|---|
| Interest income | | |
| Loans, including fees | $ 20,786 | $ 14,873 |
| Securities: | | |
| Taxable | 5,348 | 4,913 |
| Tax exempt | 1,412 | 1,435 |
| Other | 886 | 177 |
| Total interest income | 28,432 | 21,398 |
| Interest expense | | |
| Deposits | 8,777 | 3,276 |
| Advances from Federal Home Loan Bank | 441 | 605 |
| Other | 2,740 | 505 |
| Total interest expense | 11,958 | 4,386 |
| Net interest income | 16,474 | 17,012 |
| Provision for (reversal of) credit losses on loans | 403 | 309 |
| Provision for (reversal of) credit losses on unfunded commitments | (403) | (284) |
| Net Provision for (reversal of) credit losses expense | - | 25 |
| Net interest income after provision | 16,474 | 16,987 |
| Noninterest income | | |
| Customer service charges | 2,405 | 2,267 |
| Insurance and investment commissions | 198 | 196 |
| Gains on sales of loans | 454 | 403 |
| Net gains (losses) on sales of securities | - | - |
| Net gains on sales and write downs of other assets | 1 | 3 |
| Earnings on life insurance policies | 495 | 263 |
| Trust income | 213 | 184 |
| Change in market value of equity securities | 35 | 63 |
| Other | 250 | 292 |
| Total noninterest income | 4,051 | 3,671 |
| Noninterest expense | | |
| Salaries and benefits | 7,831 | 8,083 |
| Occupancy and equipment | 1,462 | 1,643 |
| Data processing | 1,670 | 1,682 |
| Professional fees | 615 | 621 |
| Supplies and postage | 178 | 191 |
| Advertising and promotional | 150 | 149 |
| Intangible amortization | 203 | 252 |
| FDIC insurance | 375 | 300 |
| Other | 1,200 | 1,074 |
| Total noninterest expense | 13,684 | 13,995 |
| Income before income tax | 6,841 | 6,663 |
| Income tax expense | 1,207 | 1,030 |
| Net income | $ 5,634 | $ 5,633 |
| Basic earnings per share (Note 4) | $ 0.75 | $ 0.75 |
| Diluted earnings per share (Note 4) | $ 0.74 | $ 0.75 |
| Dividends declared per share | $ 0.27 | $ 0.26 |

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)** (Unaudited)

| (Dollars in thousands) | Three Months Ended March 31, 2024 | Three Months Ended March 31, 2023 |
|---|---|---|
| Net income | $ 5,634 | $ 5,633 |
| | | |
| Other comprehensive income: | | |
| Change in net unrealized gain (loss) on available-for-sale securities | (3,170) | 13,694 |
| Income tax benefit (expense) | 666 | (2,876) |
| Less: reclassification adjustment for net (gain) loss for fair value hedge | 5,323 | (6,021) |
| Income tax benefit (expense) | (1,118) | 1,264 |
| Unrealized gain (loss) on available-for-sale securities, net of tax | 1,701 | 6,061 |
| | | |
| Amortization of net unrealized (gains) losses on securities transferred from available-for-sale to held-to-maturity | 56 | 29 |
| Income tax benefit (expense) | (12) | (6) |
| Unrealized loss on held to maturity securities, net of tax | 44 | 23 |
| | | |
| Change in net unrealized gain (loss) on cash flow hedge | 6,086 | (2,896) |
| Income tax benefit (expense) | (1,278) | 608 |
| Less: amortization of net unrealized (gains) losses included in net income | 887 | 156 |
| Income tax benefit (expense) | (186) | (33) |
| Unrealized gain (loss) on cash flow hedge instruments, net of tax | 5,509 | (2,165) |
| | | |
| Other comprehensive income (loss), net of tax | 7,254 | 3,919 |
| | | |
| Comprehensive income (loss) | $ 12,888 | $ 9,552 |

See accompanying notes to interim consolidated financial statements.

ChoiceOne Financial Services, Inc.
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY** (Unaudited)
For the three months ended March 31,

| (Dollars in thousands, except per share data) | Number of Shares | Common Stock and Paid in Capital | Retained Earnings | Accumulated Other Comprehensive Income/(Loss), Net | Total |
|---|---|---|---|---|---|
| Balance, January 1, 2023 | 7,516,098 | $ 172,277 | $ 60,348 | $ (71,797) | $ 160,828 |
| Net income | | | 5,633 | | 5,633 |
| Other comprehensive income (loss) | | | | 3,919 | 3,919 |
| Shares issued | 5,651 | 147 | | | 147 |
| Effect of employee stock purchases | | 7 | | | 7 |
| Stock-based compensation expense | | 133 | | | 133 |
| Cash dividends declared ($0.26 per share) | | | (1,955) | | (1,955) |
| Balance, March 31, 2023 | 7,521,749 | $ 172,564 | $ 64,026 | $ (67,878) | $ 168,712 |
| Balance, January 1, 2024 | 7,548,217 | $ 173,513 | $ 73,699 | $ (51,578) | $ 195,634 |
| Net income | | | 5,634 | | 5,634 |
| Other comprehensive income (loss) | | | | 7,254 | 7,254 |
| Shares issued | 7,040 | 90 | | | 90 |
| Effect of employee stock purchases | | 11 | | | 11 |
| Stock options exercised and issued (1) | 880 | | | | - |
| Stock-based compensation expense | | 172 | | | 172 |
| Cash dividends declared ($0.27 per share) | | | (2,039) | | (2,039) |
| Balance, March 31, 2024 | 7,556,137 | $ 173,786 | $ 77,294 | $ (44,324) | $ 206,756 |

(1) The amount shown represents the number of shares issued in net exercise transactions where shares were surrendered in payment of taxes and/or payment of all or part of the exercise price.

ChoiceOne Financial Services, Inc.
**CONSOLIDATED STATEMENTS OF CASH FLOWS** (Unaudited)

| (Dollars in thousands) | Three Months Ended March 31, 2024 | 2023 |
|---|---|---|
| Cash flows from operating activities: | | |
| Net income | $ 5,634 | $ 5,633 |
| Adjustments to reconcile net income to net cash from operating activities: | | |
| (Reversal of) provision for credit losses | - | 25 |
| Depreciation | 636 | 609 |
| Amortization | 2,427 | 2,500 |
| Compensation expense on employee and director stock purchases, stock options, and restricted stock units | 295 | 235 |
| Net change in market value of equity securities | (35) | (63) |
| Gains on sales of loans | (454) | (403) |
| Loans originated for sale | (18,507) | (10,283) |
| Proceeds from loan sales | 17,427 | 11,753 |
| Earnings on bank-owned life insurance | (299) | (263) |
| Earnings on death benefit from bank-owned life insurance | (196) | - |
| Deferred federal income tax (benefit)/expense | 301 | 252 |
| Net change in: | | |
| Other assets | (1,410) | 995 |
| Other liabilities | 9,495 | (1,821) |
| Net cash provided by operating activities | 15,314 | 9,169 |
| | | |
| Cash flows from investing activities: | | |
| Maturities, prepayments and calls of securities available for sale | 5,879 | 7,052 |
| Maturities, prepayments and calls of securities held to maturity | 9,531 | 2,990 |
| Purchases of securities available for sale | (466) | (323) |
| Purchases of equity securities | (20) | (70) |
| Purchases of securities held to maturity | - | (421) |
| Purchase of Federal Home Loan Bank stock | - | (1,678) |
| Loan originations and payments, net | (7,986) | (20,701) |
| Proceeds from bank owned life insurance death benefits claim | 490 | - |
| Additions to premises and equipment | (311) | (1,025) |
| Proceeds from (payments for) derivative contracts, net | 497 | (551) |
| Payments for derivative contracts settlements | - | (4,191) |
| Net cash provided by (used in) investing activities | 7,614 | (18,918) |
| | | |
| Cash flows from financing activities: | | |
| Net change in deposits | 63,793 | (12,102) |
| Net change in short term borrowings | 10,036 | 35,000 |
| Issuance of common stock | 56 | 52 |
| Share based compensation withholding obligation | (78) | - |
| Cash dividends | (2,039) | (1,955) |
| Net cash provided by financing activities | 71,768 | 20,995 |
| | | |
| Net change in cash and cash equivalents | 94,696 | 11,246 |
| Beginning cash and cash equivalents | 55,433 | 43,943 |
| | | |
| Ending cash and cash equivalents | $ 150,129 | $ 55,189 |
| | | |
| <u>Supplemental disclosures of cash flow information:</u> | | |
| Cash paid for interest | $ 15,278 | $ 4,557 |
| Cash paid for income taxes | - | - |
| Loans transferred to other real estate owned | - | 130 |

See accompanying notes to interim consolidated financial statements.

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Principles of Consolidation

The consolidated financial statements include ChoiceOne Financial Services, Inc. (“ChoiceOne”), its wholly-owned subsidiaries, ChoiceOne Bank (the “Bank”) and 109 Technologies, LLC, and ChoiceOne Bank’s wholly-owned subsidiary, ChoiceOne Insurance Agencies, Inc. (the “Insurance Agency”). Intercompany transactions and balances have been eliminated in consolidation.

ChoiceOne owns all of the common securities of Community Shores Capital Trust I (the “Capital Trust”). Under U.S. generally accepted accounting principles (“GAAP”), the Capital Trust is not consolidated because it is a variable interest entity and ChoiceOne is not the primary beneficiary.

The accompanying unaudited consolidated financial statements and notes thereto reflect all adjustments ordinary in nature which are, in the opinion of management, necessary for a fair presentation of such financial statements. Operating results for the three months ended March 31, 2024, are not necessarily indicative of the results that may be expected for the year ending December 31, 2024.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and footnotes thereto included in ChoiceOne’s Annual Report on Form 10-K for the year ended December 31, 2023.

Use of Estimates

To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, ChoiceOne’s management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided. These estimates and assumptions are subject to many risks and uncertainties, and actual results may differ from these estimates. Estimates associated with the allowance for credit losses and the unrealized gains and losses on securities available for sale and held to maturity are particularly susceptible to change.

Goodwill

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of the acquired tangible assets and liabilities and identifiable intangible assets. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed.

Core Deposit Intangible

Core deposit intangible represents the value of the acquired customer core deposit bases and is included as an asset on the consolidated balance sheets. The core deposit intangible has an estimated finite life, is amortized on an accelerated basis over a 120 month period and is subject to periodic impairment evaluation.

Stock Transactions

A total of 3,822 shares of common stock were issued to ChoiceOne’s Board of Directors for a cash price of $112,000 under the terms of the Directors’ Stock Purchase Plan in the first quarter of 2024. A total of 2,400 shares for a cash price of $56,000 were issued under the Employee Stock Purchase Plan in the first quarter of 2024. ChoiceOne's common stock repurchase program announced in April 2021 and amended in 2022, authorizes repurchases of up to 375,388 shares, representing 5% of the total outstanding shares of common stock as of the date the program was adopted. No shares were repurchased under this program in the first quarter of 2024.

Reclassifications

Certain amounts presented in prior periods have been reclassified to conform to the current presentation.

Allowance for Credit Losses (“ACL”)

The ACL is a valuation allowance for expected credit losses. The ACL is increased by the provision for credit losses and decreased by loans charged off less any recoveries of charged off loans. As ChoiceOne has had very limited loss experience since 2011, management elected to utilize benchmark peer loss history data to estimate historical loss rates. ChoiceOne identified an appropriate peer group for each loan cohort which shared similar characteristics. Management estimates the ACL required based on the selected peer group loan loss experience, the nature and volume of the loan portfolio, information about specific borrower situations and estimated collateral values, a reasonable and supportable economic forecast, and other 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 that collection of a loan balance is not possible.

The ACL consists of general and specific components. The general component covers loans collectively evaluated for credit losses and is based on peer historical loss experience adjusted for current and forecasted factors. Management's adjustment for current and forecasted factors is based on trends in delinquencies, trends in charge-offs and recoveries, trends in the volume of loans, changes in underwriting standards, trends in loan review findings, the experience and ability of lending staff, and a reasonable and supportable economic forecast described further below.

The discounted cash flow methodology is utilized for all loan pools. This methodology is supported by our CECL software provider and allows management to calculate contractual life by factoring in all cash flows and adjusting them for behavioral and credit-related aspects.

Reasonable and supportable economic forecasts have to be incorporated in determining expected credit losses. The forecast period represents the time frame from the current period end through the point in time that we can reasonably forecast and support entity and environmental factors that are expected to impact the performance of our loan portfolio. Ideally, the economic forecast period would encompass the contractual terms of all loans; however, the ability to produce a forecast that is considered reasonable and supportable becomes more difficult or may not be possible in later periods. Subsequent to the end of the forecast period, we revert to historical loan data based on an ongoing evaluation of each economic forecast in relation to then current economic conditions as well as any developing loan loss activity and resulting historical data. As of March 31, 2024, we used a one-year reasonable and supportable economic forecast period, with a two year straight-line reversion period.

We are not required to develop and use our own economic forecast model, and we elected to utilize economic forecasts from third-party providers that analyze and develop forecasts of the economy for the entire United States at least quarterly.

Other inputs to the calculation are also updated or reviewed quarterly. Prepayment speeds are updated on a one quarter lag based on the asset liability model from the previous quarter. This model is performed at the loan level. Curtailment is updated quarterly within the ACL model based on our peer group average. The reversion period is reviewed by management quarterly with consideration of the current economic climate.

We are also required to consider expected credit losses associated with loan commitments over the contractual period in which we are exposed to credit risk on the underlying commitments unless the obligation is unconditionally cancellable by us. Any allowance for off-balance sheet credit exposures is reported as an other liability on our Consolidated Balance Sheet and is increased or decreased via the provision for credit losses account on our Consolidated Statement of Income. 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 aggregate reserve rates calculated for the funded portion of loans at the portfolio level applied to the amount of commitments expected to be funded.

Loans that do not share risk characteristics are evaluated on an individual basis and are excluded from the collective evaluation. ChoiceOne has determined that any loans which have been placed on non-performing status, loans with a risk rating of 6 or higher, and loans past due more than 60 days will be assessed individually for evaluation. Management's judgment will be used to determine if the loan should be migrated back to pool on an individual basis. Individual analysis will establish a specific reserve for loans in scope. Specific reserves on non-performing loans are typically based on management's best estimate of the fair value of collateral securing these loans, adjusted for selling costs as appropriate or based on the present value of the expected cash flows from that loan.

Securities

Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale because they might be sold before maturity. Debt securities classified as available for sale are carried at fair value, with unrealized holding gains and losses reported separately in the accumulated other comprehensive income or loss section of shareholders' equity, net of tax effect. Restricted investments in Federal Reserve Bank stock and Federal Home Loan Bank stock are carried at cost. Equity securities consist of investments in preferred stock and investments in common stock of other financial institutions. Equity securities are reported at their fair value with changes in market value reported through current earnings.

Interest income includes amortization of purchase premium or discount. Premiums and discounts on securities are amortized using the level-yield method without anticipating prepayments. Gains or losses on sales are recorded on the trade date based on the amortized cost of the security sold.

Securities Available for Sale ("AFS") – For securities AFS in an unrealized loss position, management determines whether they intend to sell or if it is more likely than not that ChoiceOne 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 being established under CECL. For securities AFS with unrealized losses not meeting these criteria, management evaluates whether any decline in fair value is due to credit loss 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 allowance for credit losses ("ACL") 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 under ASC 326-30 are recorded as provisions for (or reversal of) credit loss expense. Losses are charged against the allowance when the collectability of a 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 income, net of income taxes. At March 31, 2024, there was no ACL related to securities AFS. Accrued interest receivable on securities AFS was excluded from the estimate of credit losses.

Securities Held to Maturity ("HTM") – Since the adoption of CECL, ChoiceOne measures credit losses on securities HTM on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. The ACL on HTM securities is a contra asset valuation account that is deducted from the carrying amount of securities HTM to present the net amount expected to be collected. HTM securities are charged off against the ACL when deemed uncollectible. Adjustments to the ACL are reported in ChoiceOne's Consolidated Statements of Income in the provision for credit losses. Accrued interest receivable on securities HTM is excluded from the estimate of credit losses. With regard to US Treasury securities, these have an explicit government guarantee; therefore, no ACL is recorded for these securities. With regard to obligations of states and political subdivisions and other HTM securities, management considers (1) issuer bond ratings, (2) historical loss rates for given bond ratings, (3) the financial condition of the issuer, and (4) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities. A discounted cash flow method will be used to determine the reserve required for any credit losses on HTM securities. At March 31, 2024, the ACL related to securities HTM is insignificant.

**Recent Accounting Pronouncements**

Improvements to Income Tax Disclosure

ASU 2023-09 enhances transparency by requiring consistent categorization, greater disaggregation, and detailed disclosure related to income taxes paid. These changes aim to help users of financial statements understand factors contributing to differences between effective and statutory tax rates. The disclosure is effective for annual reporting periods beginning after December 15, 2024.

**NOTE 2 – SECURITIES**

The fair value of equity securities and the related gross unrealized gains and (losses) recognized in noninterest income were as follows:

| | March 31, 2024 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Equity securities | $ 7,980 | $ 292 | $ (712) | $ 7,560 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Equity securities | $ 7,960 | $ 212 | $ (667) | $ 7,505 |

The following tables present the amortized cost and fair value of securities available for sale and the gross unrealized gains and losses recognized in accumulated other comprehensive income (loss) and the amortized cost and fair value of securities held to maturity and the related gross unrealized gains and losses:

| | March 31, 2024 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Amortized | Gross Unrealized | Gross Unrealized | Fair |
| Available for Sale: | Cost | Gains | Losses | Value |
| U.S. Treasury notes and bonds | $ 90,229 | $ - | $ (10,953) | $ 79,276 |
| State and municipal | 263,439 | - | (32,511) | 230,928 |
| Mortgage-backed | 207,478 | 29 | (23,757) | 183,750 |
| Corporate | 250 | - | (46) | 204 |
| Asset-backed securities | 10,729 | - | (251) | 10,478 |
| Total | $ 572,125 | $ 29 | $ (67,518) | $ 504,636 |
| (Dollars in thousands) | | | | |
| Held to Maturity: | | | | |
| U.S. Government and federal agency | $ 2,974 | $ - | $ (322) | $ 2,652 |
| State and municipal | 195,710 | 9 | (31,086) | 164,633 |
| Mortgage-backed | 178,818 | - | (24,692) | 154,126 |
| Corporate | 20,021 | 20 | (2,679) | 17,362 |
| Asset-backed securities | 458 | - | (21) | 437 |
| Total | $ 397,981 | $ 29 | $ (58,800) | $ 339,210 |

| | December 31, 2023 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Amortized | Gross Unrealized | Gross Unrealized | Fair |
| Available for Sale: | Cost | Gains | Losses | Value |
| U.S. Treasury notes and bonds | $ 90,345 | $ - | $ (10,151) | $ 80,194 |
| State and municipal | 269,918 | - | (35,236) | 234,682 |
| Mortgage-backed | 212,392 | 14 | (23,905) | 188,501 |
| Corporate | 250 | - | (46) | 204 |
| Asset-backed securities | 11,334 | - | (317) | 11,017 |
| Total | $ 584,239 | $ 14 | $ (69,655) | $ 514,598 |
| | | | | |
| (Dollars in thousands) | | | | |
| Held to Maturity: | | | | |
| U.S. Government and federal agency | $ 2,972 | $ - | $ (293) | $ 2,679 |
| State and municipal | 196,098 | 14 | (30,220) | 165,892 |
| Mortgage-backed | 188,329 | - | (25,796) | 162,533 |
| Corporate | 20,013 | 21 | (2,864) | 17,170 |
| Asset-backed securities | 547 | - | (30) | 517 |
| Total | $ 407,959 | $ 35 | $ (59,203) | $ 348,791 |

Available for sale securities with unrealized losses as of March 31, 2024 and December 31, 2023, aggregated by investment category and length of time the individual securities have been in an unrealized loss position, were as follows:

| | March 31, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | More than 12 months | | Total | |
| (Dollars in thousands) | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |
| Available for Sale: | Value | Losses | Value | Losses | Value | Losses |
| U.S. Treasury notes and bonds | $ - | $ - | $ 79,276 | $ 10,953 | $ 79,276 | $ 10,953 |
| State and municipal | - | - | 230,928 | 32,511 | 230,928 | 32,511 |
| Mortgage-backed | 777 | 3 | 169,823 | 23,754 | 170,600 | 23,757 |
| Corporate | - | - | 204 | 46 | 204 | 46 |
| Asset-backed securities | - | - | 10,478 | 251 | 10,478 | 251 |
| Total temporarily impaired | $ 777 | $ 3 | $ 490,709 | $ 67,515 | $ 491,486 | $ 67,518 |

| | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | More than 12 months | | Total | |
| (Dollars in thousands) | Fair | Unrealized | Fair | Unrealized | Fair | Unrealized |
| Available for Sale: | Value | Losses | Value | Losses | Value | Losses |
| U.S. Treasury notes and bonds | $ - | $ - | $ 80,194 | $ 10,151 | $ 80,194 | $ 10,151 |
| State and municipal | 557 | 6 | 234,125 | 35,230 | 234,682 | 35,236 |
| Mortgage-backed | 1,255 | 23 | 176,400 | 23,882 | 177,655 | 23,905 |
| Corporate | - | - | 204 | 46 | 204 | 46 |
| Asset-backed securities | - | - | 11,017 | 317 | 11,017 | 317 |
| Total temporarily impaired | $ 1,812 | $ 29 | $ 501,940 | $ 69,626 | $ 503,752 | $ 69,655 |

Held to maturity securities with unrealized losses as of March 31, 2024 and December 31, 2023, aggregated by investment category and length of time the individual securities have been in an unrealized loss position, were as follows:

| | March 31, 2024 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | More than 12 months | | Total | |
| (Dollars in thousands) Held to Maturity: | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government and federal agency | $ - | $ - | $ 2,652 | $ 322 | $ 2,652 | $ 322 |
| State and municipal | 6,540 | 1,332 | 157,833 | 29,754 | 164,373 | 31,086 |
| Mortgage-backed | 871 | 2 | 153,255 | 24,690 | 154,126 | 24,692 |
| Corporate | - | - | 15,699 | 2,679 | 15,699 | 2,679 |
| Asset-backed securities | - | - | 437 | 21 | 437 | 21 |
| Total temporarily impaired | $ 7,411 | $ 1,334 | $ 329,876 | $ 57,466 | $ 337,287 | $ 58,800 |

| | December 31, 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 months | | More than 12 months | | Total | |
| (Dollars in thousands) Held to Maturity: | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| U.S. Government and federal agency | $ - | $ - | $ 2,679 | $ 293 | $ 2,679 | $ 293 |
| State and municipal | 23 | - | 165,526 | 30,220 | 165,549 | 30,220 |
| Mortgage-backed | - | - | 162,533 | 25,796 | 162,533 | 25,796 |
| Corporate | - | - | 15,509 | 2,864 | 15,509 | 2,864 |
| Asset-backed securities | - | - | 517 | 30 | 517 | 30 |
| Total temporarily impaired | $ 23 | $ - | $ 346,764 | $ 59,203 | $ 346,787 | $ 59,203 |

ChoiceOne evaluates all securities on a quarterly basis to determine if an ACL and corresponding impairment charge should be recorded. Consideration is given to the extent to which the fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of ChoiceOne to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value of amortized cost basis. ChoiceOne believes that unrealized losses on securities were temporary in nature and were caused primarily by changes in interest rates, increased credit spreads, and reduced market liquidity and were not caused by the credit status of the issuer.  No ACL was recorded in the three months ended March 31, 2024 and 2023.

At March 31, 2024 and December 31, 2023, there were 570 and 569 securities with an unrealized loss, respectively.  Unrealized losses have not been recognized into income because the issuers' bonds are of high credit quality, and management does not intend to sell prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

The majority of unrealized losses at March 31, 2024, are related to U.S. Treasury notes and bonds, state and municipal bonds and mortgage backed securities.  The U.S. Treasury notes are guaranteed by the U.S. government and 100% of the notes are rated AA or better. State and municipal bonds are backed by the taxing authority of the bond issuer or the revenues from the bond. On March 31, 2024, 85% of state and municipal bonds held are rated AA or better, 11% are A rated and 4% are not rated.  Of the mortgage-backed securities held on March 31, 2024, 40% were issued by US government sponsored entities and agencies, and rated AA, 40% are AAA rated private issue and collateralized mortgage obligation, and 20% are unrated privately issued mortgage-backed securities with structured credit enhancement and collateralized mortgage obligation.

Presented below is a schedule of maturities of securities as of March 31, 2024. Available for sale securities are reported at fair value and held to maturity securities are reported at amortized cost. Callable securities in the money are presumed called and matured at the callable date.

| | Available for Sale Securities maturing within: | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Less than 1 Year | 1 Year - 5 Years | 5 Years - 10 Years | More than 10 Years | Fair Value at March 31, 2024 |
| U.S. Treasury notes and bonds | $ - | $ 66,720 | $ 12,556 | $ - | $ 79,276 |
| State and municipal | - | 11,272 | 105,237 | 114,419 | 230,928 |
| Corporate | - | - | 204 | - | 204 |
| Asset-backed securities | - | 7,643 | 2,835 | - | 10,478 |
| Total debt securities | - | 85,635 | 120,832 | 114,419 | 320,886 |
| | | | | | |
| Mortgage-backed securities | 18,808 | 59,528 | 74,514 | 30,900 | 183,750 |
| Total Available for Sale | $ 18,808 | $ 145,163 | $ 195,346 | $ 145,319 | $ 504,636 |

| | Held to Maturity Securities maturing within: | | | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Less than 1 Year | 1 Year - 5 Years | 5 Years - 10 Years | More than 10 Years | Amortized Cost at March 31, 2024 |
| U.S. Government and federal agency | $ - | $ 2,974 | $ - | $ - | $ 2,974 |
| State and municipal | 1,006 | 14,455 | 99,920 | 80,329 | 195,710 |
| Corporate | - | - | 20,021 | - | 20,021 |
| Asset-backed securities | 458 | - | - | - | 458 |
| Total debt securities | 1,464 | 17,429 | 119,941 | 80,329 | 219,163 |
| | | | | | |
| Mortgage-backed securities | 17,426 | 17,116 | 144,276 | - | 178,818 |
| Total Held to Maturity | $ 18,890 | $ 34,545 | $ 264,217 | $ 80,329 | $ 397,981 |

Following is information regarding unrealized gains and losses on equity securities for the three months ended March 31, 2024 and 2023:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2024 | 2023 |
| (Dollars in thousands) | | |
| Net gains and (losses) recognized during the period | $ 35 | $ 63 |
| Less: Net gains and (losses) recognized during the period on securities sold | - | - |
| | | |
| Unrealized gains and (losses) recognized during the reporting period on securities still held at the reporting date | $ 35 | $ 63 |

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES**

Loans by type as a percentage of the portfolio were as follows:

| | March 31, 2024 | | December 31, 2023 | | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Balance | % | Balance | % | Percent Increase (Decrease) |
| Agricultural | $ 41,950 | 3.0% | $ 49,210 | 3.5% | (14.8) % |
| Commercial and Industrial | 231,222 | 16.3% | 229,915 | 16.3% | 0.6 % |
| Commercial Real Estate | 794,705 | 56.0% | 786,921 | 55.8% | 1.0 % |
| Consumer | 34,268 | 2.4% | 36,541 | 2.6% | (6.2) % |
| Construction Real Estate | 17,890 | 1.3% | 20,936 | 1.5% | (14.5) % |
| Residential Real Estate | 268,523 | 18.9% | 267,730 | 19.0% | 0.3 % |
| Loans to Other Financial Institutions | 30,032 | 2.1% | 19,400 | 1.4% | 54.8 % |
| Gross Loans | $ 1,418,590 | | $ 1,410,653 | | |
| Allowance for credit losses | 16,037 | 1.13% | 15,685 | 1.11% | |
| Net loans | $ 1,402,553 | | $ 1,394,968 | | |

Activity in the allowance for credit losses and balances in the loan portfolio were as follows:

| (Dollars in thousands) | Agricultural | Commercial And Industrial | Consumer | Commercial Real Estate | Construction Real Estate | Residential Real Estate | Loans to Other Financial Institutions | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for Credit Losses Three Months Ended March 31, 2024 | | | | | | | | |
| Beginning balance | $ 94 | $ 2,216 | $ 823 | $ 8,820 | $ 58 | $ 3,644 | $ 30 | $ 15,685 |
| Charge-offs | - | (1) | (123) | - | - | - | - | (124) |
| Recoveries | - | 9 | 60 | - | - | 4 | - | 73 |
| Provision | 3 | 19 | 158 | 347 | (9) | (135) | 20 | 403 |
| Ending balance | $ 97 | $ 2,243 | $ 918 | $ 9,167 | $ 49 | $ 3,513 | $ 50 | $ 16,037 |
| | | | | | | | | |
| Individually evaluated for credit loss | $ 2 | $ 7 | $ 116 | $ 1 | $ - | $ 136 | $ - | $ 262 |
| | | | | | | | | |
| Collectively evaluated for credit loss | $ 95 | $ 2,236 | $ 802 | $ 9,166 | $ 49 | $ 3,377 | $ 50 | $ 15,775 |
| | | | | | | | | |
| Loans | | | | | | | | |
| March 31, 2024 | | | | | | | | |
| Individually evaluated for credit loss | $ 44 | $ 174 | $ 238 | $ 29 | $ - | $ 1,994 | $ - | $ 2,479 |
| Collectively evaluated for credit loss | 41,906 | 231,048 | 34,030 | 794,676 | 17,890 | 266,529 | 30,032 | 1,416,111 |
| Ending balance | $ 41,950 | $ 231,222 | $ 34,268 | $ 794,705 | $ 17,890 | $ 268,523 | $ 30,032 | $ 1,418,590 |

| (Dollars in thousands) | Agricultural | Commercial and Industrial | Consumer | Commercial Real Estate | Construction Real Estate | Residential Real Estate | Loans to Other Financial Institutions | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for Loan Losses | | | | | | | | |
| December 31, 2023 | | | | | | | | |
| Individually evaluated for impairment | $ 2 | $ 6 | $ - | $ 1 | $ — | $ 51 | $ — | $ 60 |
| | | | | | | | | |
| Collectively evaluated for impairment | $ 92 | $ 2,210 | $ 823 | $ 8,819 | $ 58 | $ 3,593 | $ 30 | $ 15,625 |
| | | | | | | | | |
| Loans | | | | | | | | |
| December 31, 2023 | | | | | | | | |
| Individually evaluated for impairment | $ 54 | $ 136 | $ 2 | $ 29 | $ — | $ 1,858 | $ — | $ 2,079 |
| Collectively evaluated for impairment | $ 49,156 | $ 229,779 | $ 36,539 | $ 786,892 | $ 20,936 | $ 265,872 | $ 19,400 | 1,408,574 |
| Acquired with deteriorated credit quality | — | - | - | - | — | - | | - |
| Ending balance | $ 49,210 | $ 229,915 | $ 36,541 | $ 786,921 | $ 20,936 | $ 267,730 | $ 19,400 | $ 1,410,653 |

| (Dollars in thousands) | Agricultural | Commercial and Industrial | Consumer | Commercial Real Estate | Construction Real Estate | Residential Real Estate | Unallocated | Total |
|---|---|---|---|---|---|---|---|---|
| Allowance for Loan Losses Three Months Ended March 31, 2023 | | | | | | | | |
| Beginning balance | $ 144 | $ 1,361 | $ 310 | $ 4,822 | $ 63 | $ 906 | $ 13 | $ 7,619 |
| Cumulative effect of change in accounting principle | 14 | 1,587 | 541 | 3,006 | 20 | 2,010 | (13) | 7,165 |
| Charge-offs | - | - | (140) | - | - | - | - | (140) |
| Recoveries | - | 27 | 69 | 13 | - | 3 | - | 112 |
| Provision | (23) | 45 | 133 | (4) | (10) | 168 | - | 309 |
| Ending balance | $ 135 | $ 3,020 | $ 913 | $ 7,837 | $ 73 | $ 3,087 | $ - | $ 15,065 |
| Individually evaluated for impairment | $ 1 | $ 7 | $ 1 | $ 1 | $ - | $ 42 | $ - | $ 52 |
| Collectively evaluated for impairment | $ 134 | $ 3,013 | $ 912 | $ 7,836 | $ 73 | $ 3,045 | $ - | $ 15,013 |

The provision for credit losses on loans was an expense of $403,000 in the first quarter of 2024, compared to an expense of $309,000 in the same period in the prior year. The provision expense was deemed necessary due to the increase in reserve for collateral dependent loans and an increase in qualitative factors related to the value of underlying collateral for collateral dependent non owner occupied loans and consumer loans.

The process to monitor the credit quality of ChoiceOne's loan portfolio includes tracking (1) the risk ratings of business loans and (2) delinquent and nonperforming consumer loans. Business loans are risk rated on a scale of 1 to 9. A description of the characteristics of the ratings follows:

Risk Rating 1 through 5 or pass: These loans are considered pass credits. They exhibit acceptable credit risk and demonstrate the ability to repay the loan from normal business operations.

Risk rating 6 or special mention: Loans and other credit extensions bearing this grade are considered to be inadequately protected by the current sound worth and debt service capacity of the borrower or of any pledged collateral. These obligations, even if apparently protected by collateral value, have well-defined weaknesses related to adverse financial, managerial, economic, market, or political conditions that have clearly jeopardized repayment of principal and interest as originally intended. Furthermore, there is the possibility that ChoiceOne Bank will sustain some future loss if such weaknesses are not corrected. Clear loss potential, however, does not have to exist in any individual assets classified as substandard. Loans falling into this category should have clear action plans and timelines with benchmarks to determine which direction the relationship will move.

Risk rating 7 or substandard: Loans and other credit extensions graded "7" have all the weaknesses inherent in those graded "6", with the added characteristic that the severity of the weaknesses makes collection or liquidation in full highly questionable or improbable based upon currently existing facts, conditions, and values. Loans in this classification should be evaluated for non-accrual status. All nonaccrual commercial and Retail loans must be at a minimum graded a risk code "7".

Risk rating 8 or doubtful: Loans and other credit extensions bearing this grade have been determined to have the extreme probability of some loss, but because of certain important and reasonably specific factors, the amount of loss cannot be determined. Such pending factors could include merger or liquidation, additional capital injection, refinancing plans, or perfection of liens on additional collateral.

Risk rating 9 or loss: Loans in this classification are considered uncollectible and cannot be justified as a viable asset of ChoiceOne Bank. This classification does not mean the loan has absolutely no recovery value, but that it is neither practical nor desirable to defer writing off this loan even though partial recovery may be obtained in the future.

The following table reflects the amortized cost basis of loans as of March 31, 2024 based on year of origination (dollars in thousands):

| Commercial: | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Term Loans Total | Revolving Loans | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| Agricultural | | | | | | | | | |
| Pass | $ 523 | $ 2,000 | $ 3,723 | $ 3,047 | $ 1,696 | $ 22,303 | $ 33,292 | $ 8,440 | $ 41,732 |
| Special mention | - | - | - | - | - | 218 | 218 | - | 218 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 523 | $ 2,000 | $ 3,723 | $ 3,047 | $ 1,696 | $ 22,521 | $ 33,510 | $ 8,440 | $ 41,950 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Commercial and Industrial | | | | | | | | | |
| Pass | $ 4,323 | $ 27,221 | $ 42,317 | $ 20,127 | $ 9,891 | $ 18,852 | $ 122,731 | $ 107,930 | $ 230,661 |
| Special mention | - | - | 111 | 24 | 33 | 121 | 289 | 109 | 398 |
| Substandard | - | - | - | - | - | 146 | 146 | 17 | 163 |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 4,323 | $ 27,221 | $ 42,428 | $ 20,151 | $ 9,924 | $ 19,119 | $ 123,166 | $ 108,056 | $ 231,222 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ 1 | $ 1 | $ - | $ 1 |
| Commercial Real Estate | | | | | | | | | |
| Pass | $ 10,189 | $ 151,579 | $ 127,964 | $ 105,078 | $ 70,301 | $ 176,176 | $ 641,287 | $ 153,046 | $ 794,333 |
| Special mention | - | - | - | - | - | 372 | 372 | - | 372 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 10,189 | $ 151,579 | $ 127,964 | $ 105,078 | $ 70,301 | $ 176,548 | $ 641,659 | $ 153,046 | $ 794,705 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Total Commercial Loans | $ 15,035 | $ 180,800 | $ 174,115 | $ 128,276 | $ 81,921 | $ 218,188 | $ 798,335 | $ 269,542 | $ 1,067,877 |

| Retail: | 2024 | 2023 | 2022 | 2021 | 2020 | Prior | Term Loans Total | Revolving Loans | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| Consumer | | | | | | | | | |
| Performing | $ 2,210 | $ 9,011 | $ 11,277 | $ 6,201 | $ 2,487 | $ 2,100 | $ 33,286 | $ 782 | $ 34,068 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | 42 | 157 | 1 | - | - | 200 | - | 200 |
| Total | $ 2,210 | $ 9,053 | $ 11,434 | $ 6,202 | $ 2,487 | $ 2,100 | $ 33,486 | $ 782 | $ 34,268 |
| Current year-to-date gross write-offs (1) | $ - | $ 1 | $ 33 | $ 1 | $ - | $ 1 | $ 36 | $ - | $ 36 |
| | | | | | | | | | |
| Construction real estate | | | | | | | | | |
| Performing | $ 960 | $ 1,518 | $ 148 | $ 542 | $ - | $ - | $ 3,168 | $ 14,722 | $ 17,890 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | - | - | - | - | - | - | - | - |
| Total | $ 960 | $ 1,518 | $ 148 | $ 542 | $ - | $ - | $ 3,168 | $ 14,722 | $ 17,890 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | |
| Residential real estate | | | | | | | | | |
| Performing | $ 7,133 | $ 52,345 | $ 63,307 | $ 28,034 | $ 15,992 | $ 50,977 | $ 217,788 | $ 49,220 | $ 267,008 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | 136 | 499 | 697 | - | 111 | 1,443 | 72 | 1,515 |
| Total | $ 7,133 | $ 52,481 | $ 63,806 | $ 28,731 | $ 15,992 | $ 51,088 | $ 219,231 | $ 49,292 | $ 268,523 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | |
| Loans to Other Financial Institutions | | | | | | | | | |
| Performing | $ 30,032 | $ - | $ - | $ - | $ - | $ - | $ 30,032 | $ - | $ 30,032 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | - | - | - | - | - | - | - | - |
| Total | $ 30,032 | $ - | $ - | $ - | $ - | $ - | $ 30,032 | $ - | $ 30,032 |
| Current year-to-date gross write-offs (1) | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | |
| Total Retail Loans | $ 40,335 | $ 63,052 | $ 75,388 | $ 35,475 | $ 18,479 | $ 53,188 | $ 285,917 | $ 64,796 | $ 350,713 |

The following table reflects the amortized cost basis of loans as of December 31, 2023 based on year of origination (dollars in thousands):

| Commercial: | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Term Loans Total | Revolving Loans | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| Agricultural | | | | | | | | | |
| Pass | $ 5,015 | $ 4,088 | $ 3,078 | $ 1,788 | $ 7,028 | $ 18,476 | $ 39,473 | $ 9,507 | $ 48,980 |
| Special mention | - | - | - | - | 176 | 54 | 230 | - | 230 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 5,015 | $ 4,088 | $ 3,078 | $ 1,788 | $ 7,204 | $ 18,530 | $ 39,703 | $ 9,507 | $ 49,210 |
| Current year-to-date gross write-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Commercial and Industrial | | | | | | | | | |
| Pass | $ 23,600 | $ 45,489 | $ 23,462 | $ 10,502 | $ 9,214 | $ 11,882 | $ 124,149 | $ 105,559 | $ 229,708 |
| Special mention | - | - | 28 | 35 | 73 | 64 | 200 | 3 | 203 |
| Substandard | - | - | - | - | - | 4 | 4 | - | 4 |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 23,600 | $ 45,489 | $ 23,490 | $ 10,537 | $ 9,287 | $ 11,950 | $ 124,353 | $ 105,562 | $ 229,915 |
| Current year-to-date gross write-offs | $ - | $ 55 | $ 30 | $ 71 | $ - | $ 2 | $ 158 | $ - | $ 158 |
| Commercial Real Estate | | | | | | | | | |
| Pass | $ 149,181 | $ 134,289 | $ 107,033 | $ 71,754 | $ 43,846 | $ 136,361 | $ 642,464 | $ 143,120 | $ 785,584 |
| Special mention | - | - | - | - | - | 1,337 | 1,337 | - | 1,337 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Loss | - | - | - | - | - | - | - | - | - |
| Total | $ 149,181 | $ 134,289 | $ 107,033 | $ 71,754 | $ 43,846 | $ 137,698 | $ 643,801 | $ 143,120 | $ 786,921 |
| Current year-to-date gross write-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Total Commercial Loans | $ 177,796 | $ 183,866 | $ 133,601 | $ 84,079 | $ 60,337 | $ 168,178 | $ 807,857 | $ 258,189 | $ 1,066,046 |

| Retail: | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Term Loans Total | Revolving Loans | Grand Total |
|---|---|---|---|---|---|---|---|---|---|
| Consumer | | | | | | | | | |
| Performing | $ 9,775 | $ 13,876 | $ 6,771 | $ 2,849 | $ 1,260 | $ 1,202 | $ 35,733 | $ 808 | $ 36,541 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | - | - | - | - | - | - | - | - |
| Total | $ 9,775 | $ 13,876 | $ 6,771 | $ 2,849 | $ 1,260 | $ 1,202 | $ 35,733 | $ 808 | $ 36,541 |
| Current year-to-date gross write-offs | $ 8 | $ 24 | $ 11 | $ 28 | $ - | $ 1 | $ 72 | $ - | $ 72 |
| | | | | | | | | | |
| Construction real estate | | | | | | | | | |
| Performing | $ 2,507 | $ 2,719 | $ 552 | $ - | $ - | $ - | $ 5,778 | $ 15,158 | $ 20,936 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | - | - | - | - | - | - | - | - |
| Total | $ 2,507 | $ 2,719 | $ 552 | $ - | $ - | $ - | $ 5,778 | $ 15,158 | $ 20,936 |
| Current year-to-date gross write-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | |
| Residential real estate | | | | | | | | | |
| Performing | $ 54,231 | $ 64,768 | $ 28,301 | $ 16,391 | $ 12,556 | $ 40,270 | $ 216,517 | $ 49,491 | $ 266,008 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | 380 | 826 | - | - | 486 | 1,692 | 30 | 1,722 |
| Total | $ 54,231 | $ 65,148 | $ 29,127 | $ 16,391 | $ 12,556 | $ 40,756 | $ 218,209 | $ 49,521 | $ 267,730 |
| Current year-to-date gross write-offs | $ - | $ 26 | $ - | $ - | $ - | $ 1 | $ 27 | $ - | $ 27 |
| | | | | | | | | | |
| Loans to Other Financial Institutions | | | | | | | | | |
| Performing | $ 19,400 | $ - | $ - | $ - | $ - | $ - | $ 19,400 | $ - | $ 19,400 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Nonaccrual | - | - | - | - | - | - | - | - | - |
| Total | $ 19,400 | $ - | $ - | $ - | $ - | $ - | $ 19,400 | $ - | $ 19,400 |
| Current year-to-date gross write-offs | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| | | | | | | | | | |
| Total Retail Loans | $ 85,913 | $ 81,743 | $ 36,450 | $ 19,240 | $ 13,816 | $ 41,958 | $ 279,120 | $ 65,487 | $ 344,607 |

(1) It is noted that write-offs in the table above do not include checking account write offs. Checking account write-offs during the first three months of 2024 were $87,000 or an annualized $348,000 compared to $480,000 during the full year 2023.

The following table presents the amortized cost basis of the loans modified to borrowers experiencing financial difficulty disaggregated by class of financing receivable and type of concession granted during 2023. There have been no loans modified due to borrowers experiencing financial difficulty as of March 31, 2024.

| For the period ended: | December 31, 2023 | |
|---|---|---|
| | Term Extension | |
| (Dollars in thousands) | Amortized Cost Basis | % of Total Class of Financing Receivable |
| Commercial and industrial | $ 60 | 0% |
| Residential real estate | 129 | 0% |
| Total | $ 189 | |

The following table presents the financial effect by type of modification made to borrowers experiencing financial difficulty and class of financing receivable during 2023. There have been no loans modified due to borrowers experiencing financial difficulty as of March 31, 2024.

| For the period ended: | December 31, 2023 |
|---|---|
| | Term Extension |
| Commercial and industrial | Termed out line of credit & termed out draw note |
| Residential real estate | Provided with new twelve month payment plan to catch up on past due balance. |

The following table presents the period-end amortized cost basis of financing receivables that had a payment default during the period and were modified in the 12 months before default to borrowers experiencing financial difficulty.

| For the period ended: | March 31, 2024 |
|---|---|
| (Dollars in thousands) | Term extension |
| Commercial and industrial | 52 |
| Residential real estate | 126 |
| Total | $ 178 |

| For the period ended: | December 31, 2023 |
|---|---|
| (Dollars in thousands) | Term extension |
| Commercial and industrial | 60 |
| Residential real estate | 129 |
| Total | $ 189 |

The following table presents the period-end amortized cost basis of loans that have been modified in the past 12 months to borrowers experiencing financial difficulty by payment status and class of financing receivable.

| For the period ended: | March 31, 2024 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Current | 30-89 days | Greater than 90 days | Total |
| Commercial and industrial | $ 52 | - | - | $ 52 |
| Residential real estate | - | - | 126 | 126 |
| Total | $ 52 | $ - | $ 126 | $ 178 |

| For the period ended: | December 31, 2023 | | | |
|---|---|---|---|---|
| (Dollars in thousands) | Current | 30-89 days | Greater than 90 days | Total |
| Commercial and industrial | $ 60 | $ - | $ - | $ 60 |
| Residential real estate | - | - | 129 | 129 |
| Total | $ 60 | $ - | $ 129 | $ 189 |

Nonaccrual loans by loan category were as follows:

| As of March 31, 2024 | | | |
|---|---|---|---|
| (Dollars in thousands) | Nonaccrual loans with no ACL | Total nonaccrual loans | Interest income recognized during the period on nonaccrual loans |
| Consumer | $ 43 | $ 200 | $ 5 |
| Residential real estate | 436 | 1,515 | 3 |
| Total nonaccrual loans | $ 479 | $ 1,715 | $ 8 |

| As of March 31, 2023 | | | |
|---|---|---|---|
| (Dollars in thousands) | Nonaccrual loans with no ACL | Total nonaccrual loans | Interest income recognized during the period on nonaccrual loans |
| Residential real estate | $ 1,432 | $ 1,596 | $ - |
| Total nonaccrual loans | $ 1,432 | $ 1,596 | $ - |

| As of December 31, 2023 | | | |
|---|---|---|---|
| (Dollars in thousands) | Nonaccrual loans with no ACL | Total nonaccrual loans | Interest income recognized during the period on nonaccrual loans |
| Commercial and industrial | $ - | $ 1 | $ - |
| Residential real estate | 707 | 1,722 | 16 |
| Total nonaccrual loans | $ 707 | $ 1,723 | $ 16 |

An aging analysis of loans by loan category follows:

| (Dollars in thousands) | Loans Past Due 30 to 59 Days (1) | Loans Past Due 60 to 89 Days (1) | Loans Past Due Greater Than 90 Days (1) | Total (1) | Loans Not Past Due | Total Loans | Loans 90 Days Past Due and Accruing |
|---|---|---|---|---|---|---|---|
| March 31, 2024 | | | | | | | |
| Agricultural | $ - | $ - | $ - | $ - | $ 41,950 | $ 41,950 | $ - |
| Commercial and industrial | - | - | - | - | 231,222 | 231,222 | - |
| Consumer | 31 | 94 | 4 | 129 | 34,139 | 34,268 | - |
| Commercial real estate | 173 | - | - | 173 | 794,532 | 794,705 | - |
| Construction real estate | - | - | - | - | 17,890 | 17,890 | - |
| Residential real estate | 873 | 770 | 126 | 1,769 | 266,754 | 268,523 | |
| Loans to Other Financial Institutions | - | - | - | - | 30,032 | 30,032 | |
| | $ 1,077 | $ 864 | $ 130 | $ 2,071 | $ 1,416,519 | $ 1,418,590 | $ - |
| December 31, 2023 | | | | | | | |
| Agricultural | $ - | $ - | $ - | $ - | $ 49,210 | $ 49,210 | $ - |
| Commercial and industrial | - | - | 1 | 1 | 229,914 | 229,915 | - |
| Consumer | 31 | 2 | - | 33 | 36,508 | 36,541 | - |
| Commercial real estate | 173 | - | - | 173 | 786,748 | 786,921 | - |
| Construction real estate | - | - | - | - | 20,936 | 20,936 | - |
| Residential real estate | 755 | 549 | 870 | 2,174 | 265,556 | 267,730 | - |
| Loans to Other Financial Institutions | - | - | - | - | 19,400 | 19,400 | |
| | $ 959 | $ 551 | $ 871 | $ 2,381 | $ 1,408,272 | $ 1,410,653 | $ - |

(1) Includes nonaccrual loans.

**NOTE 4 – EARNINGS PER SHARE**

Earnings per share are based on the weighted average number of shares outstanding during the period. A computation of basic earnings per share and diluted earnings per share follows:

| (Dollars in thousands, except share data) | Three Months Ended March 31, 2024 | 2023 |
|---|---|---|
| Basic | | |
| Net income | $ 5,634 | $ 5,633 |
| Weighted average common shares outstanding | 7,552,680 | 7,519,282 |
| Basic earnings per common shares | $ 0.75 | $ 0.75 |
| Diluted | | |
| Net income | $ 5,634 | $ 5,633 |
| Weighted average common shares outstanding | 7,552,680 | 7,519,282 |
| Plus dilutive stock options and restricted stock units | 47,336 | 33,047 |
| Weighted average common shares outstanding and potentially dilutive shares | 7,600,016 | 7,552,329 |
| Diluted earnings per common share | $ 0.74 | $ 0.75 |

There were 4,500 stock options that were considered anti-dilutive to earnings per share for the three months ended March 31 2024. There were no stock options that were considered anti-dilutive to earnings per share for the three months ended March 31, 2023.

**NOTE 5 – FINANCIAL INSTRUMENTS**

Financial instruments as of the dates indicated were as follows:

| (Dollars in thousands) | Carrying Amount | Estimated Fair Value | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|---|
| March 31, 2024 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | $ 150,129 | $ 150,129 | $ 150,129 | $ - | $ - |
| Equity securities at fair value | 7,560 | 7,560 | 4,705 | - | 2,855 |
| Securities available for sale | 504,636 | 504,636 | 79,276 | 425,360 | - |
| Securities held to maturity | 397,981 | 339,210 | - | 326,243 | 12,967 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 9,515 | 9,515 | - | 9,515 | - |
| Loans held for sale | 6,035 | 6,216 | - | 6,216 | - |
| Loans, net | 1,402,553 | 1,360,841 | - | - | 1,360,841 |
| Accrued interest receivable | 11,454 | 11,454 | - | 11,454 | - |
| Interest rate lock commitments | 73 | 73 | - | 73 | - |
| Interest rate derivative contracts | 20,231 | 20,231 | - | 20,231 | - |
| Loan swaps | 18 | 18 | - | 18 | - |
| Liabilities | | | | | |
| Noninterest-bearing deposits | 502,685 | 502,685 | 502,685 | - | - |
| Interest-bearing deposits | 1,641,193 | 1,639,387 | - | 1,639,387 | - |
| Brokered deposits | 41,970 | 41,900 | - | 41,900 | - |
| Borrowings | 210,000 | 209,629 | - | 209,629 | - |
| Subordinated debentures | 35,568 | 31,659 | - | 31,659 | - |
| Accrued interest payable | 2,955 | 2,955 | - | 2,955 | - |
| Interest rate derivative contracts | - | - | - | - | - |
| Loan swaps | 18 | 18 | - | 18 | - |
| December 31, 2023 | | | | | |
| Assets | | | | | |
| Cash and cash equivalents | $ 55,433 | $ 55,433 | $ 55,433 | $ - | $ - |
| Equity securities at fair value | 7,505 | 7,505 | 4,749 | - | 2,756 |
| Securities available for sale | 514,598 | 514,598 | 80,194 | 434,404 | - |
| Securities held to maturity | 407,959 | 348,791 | - | 335,493 | 13,298 |
| Federal Home Loan Bank and Federal Reserve Bank stock | 9,514 | 9,514 | - | 9,514 | - |
| Loans held for sale | 4,710 | 4,851 | - | 4,851 | - |
| Loans, net | 1,394,968 | 1,362,920 | - | - | 1,362,920 |
| Accrued interest receivable | 10,066 | 10,066 | - | 10,066 | - |
| Interest rate lock commitments | 64 | 64 | - | 64 | - |
| Interest rate derivative contracts | 8,880 | 8,880 | - | 8,880 | - |
| Liabilities | | | | | |
| Noninterest-bearing deposits | 547,625 | 547,625 | 547,625 | - | - |
| Interest-bearing deposits | 1,550,985 | 1,549,386 | - | 1,549,386 | - |
| Brokered deposits | 23,445 | 23,435 | - | 23,435 | - |
| Borrowings | 200,000 | 199,743 | - | 199,743 | - |
| Subordinated debentures | 35,507 | 31,748 | - | 31,748 | - |
| Accrued interest payable | 6,223 | 6,223 | - | 6,223 | - |
| Interest rate derivative contracts | - | - | - | - | - |

**NOTE 6 – FAIR VALUE MEASUREMENTS**

The following tables present information about the Company's assets and liabilities measured at fair value on a recurring basis at March 31, 2024 and December 31, 2023, and the valuation techniques used by the Company to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that the Company has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets, and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability.

In instances where inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Company's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Disclosures concerning assets and liabilities measured at fair value are as follows:

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| (Dollars in thousands) | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) | Balance at Date Indicated |
|---|---|---|---|---|
| Equity Securities Held at Fair Value - March 31, 2024 | | | | |
| Equity securities | $ 4,705 | $ - | $ 2,855 | $ 7,560 |
| | | | | |
| Investment Securities, Available for Sale - March 31, 2024 | | | | |
| U.S. Treasury notes and bonds | $ 79,276 | $ - | $ - | $ 79,276 |
| State and municipal | - | 230,928 | - | 230,928 |
| Mortgage-backed | - | 183,750 | - | 183,750 |
| Corporate | - | 204 | - | 204 |
| Asset-backed securities | - | 10,478 | - | 10,478 |
| Total | $ 79,276 | $ 425,360 | $ - | $ 504,636 |
| | | | | |
| Derivative Instruments - March 31, 2024 | | | | |
| Interest rate derivative contracts - assets | $ - | $ 20,231 | $ - | $ 20,231 |
| Interest rate derivative contracts - liabilities | $ - | $ - | $ - | $ - |
| | | | | |
| Loan Swaps - March 31, 2024 | | | | |
| Loan swaps - assets | $ - | $ 18 | $ - | $ 18 |
| Loan swaps - liabilities | $ - | $ 18 | $ - | $ 18 |
| | | | | |
| Equity Securities Held at Fair Value - December 31, 2023 | | | | |
| Equity securities | $ 4,749 | $ - | $ 2,756 | $ 7,505 |
| | | | | |
| Investment Securities, Available for Sale - December 31, 2023 | | | | |
| U. S. Treasury notes and bonds | $ 80,194 | $ - | $ - | $ 80,194 |
| State and municipal | - | 234,682 | - | 234,682 |
| Mortgage-backed | - | 188,501 | - | 188,501 |
| Corporate | - | 204 | - | 204 |
| Asset-backed securities | - | 11,017 | - | 11,017 |
| Total | $ 80,194 | $ 434,404 | $ - | $ 514,598 |
| | | | | |
| Derivative Instruments - December 31, 2023 | | | | |
| Interest rate derivative contracts - assets | $ - | $ 8,880 | $ - | $ 8,880 |
| Interest rate derivative contracts - liabilities | $ - | $ - | $ - | $ - |

Securities classified as available for sale are generally reported at fair value utilizing Level 2 inputs. ChoiceOne's external investment advisor obtained fair value measurements from an independent pricing service that uses matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair value measurements considered observable data that may include dealer quotes, market spreads, cash flows and the bonds' terms and conditions, among other things. Securities classified in Level 2 included U.S. Government and federal agency securities, state and municipal securities, mortgage-backed securities, corporate bonds, and asset backed securities. The Company classified certain state and municipal securities and corporate bonds, and equity securities as Level 3. Based on the lack of observable market data, estimated fair values were based on the observable data available and reasonable unobservable market data.

**Changes in Level 3 Assets Measured at Fair Value on a Recurring Basis**

| (Dollars in thousands) | Three Months Ended March 31, 2024 | 2023 |
|---|---|---|
| Equity Securities Held at Fair Value | | |
| Balance, January 1 | $ 2,756 | $ 2,542 |
| Total realized and unrealized gains included in noninterest income | 79 | 25 |
| Net purchases, sales, calls, and maturities | 20 | 70 |
| Net transfers into Level 3 | - | - |
| Balance, March 31, | $ 2,855 | $ 2,637 |
| | | |
| Amount of total losses for the period included in earning attributable to the change in unrealized gains (losses) relating to assets and liabilities still held at March 31, | $ 1 | $ 5 |

Of the Level 3 assets that were held by the Company at March 31, 2024, the net unrealized gain as of March 31, 2024 was $291,000, compared to $165,000 as of March 31, 2023. The change in the net unrealized gain or loss is recognized in noninterest income or other comprehensive income in the consolidated balance sheets and income statements. Amounts recognized in noninterest income relate to changes in equity securities. A total of $20,000 and $70,000 of Level 3 securities were purchased during the three months ended 2024 and 2023, respectively.

Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets and liabilities. As a result, the unrealized gains and losses for these assets and liabilities presented in the tables above may include changes in fair value that were attributable to both observable and unobservable inputs.

The Company also has assets that under certain conditions are subject to measurement at fair value on a non-recurring basis. These assets are not normally measured at fair value, but can be subject to fair value adjustments in certain circumstances, such as impairment. Disclosures concerning assets measured at fair value on a non-recurring basis are as follows:

**Assets Measured at Fair Value on a Non-recurring Basis**

| (Dollars in thousands) | Balances at Dates Indicated | Quoted Prices In Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
|---|---|---|---|---|
| Collateral Dependent Loans | | | | |
| March 31, 2024 | $ 1,611 | $ - | $ - | $ 1,611 |
| December 31, 2023 | $ 387 | $ - | $ - | $ 387 |
| | | | | |
| Other Real Estate | | | | |
| March 31, 2024 | $ 122 | $ - | $ - | $ 122 |
| December 31, 2023 | $ 122 | $ - | $ - | $ 122 |

Collateral dependent loans classified as Level 3 are loans for which the repayment is expected to be provided substantially through the sale or operation of the collateral when the borrower is experiencing financial difficulty. The fair value of the collateral should be adjusted for estimated costs to sell if the repayment depends on the sale of the collateral. The net carrying amount of the loan should not exceed the fair value of the collateral (less costs to sell, if applicable).

**NOTE 7 – REVENUE FROM CONTRACTS WITH CUSTOMERS**

ChoiceOne has a variety of sources of revenue, which include interest and fees from customers as well as revenue from non-customers. ASC Topic 606, Revenue from Contracts with Customers, covers certain sources of revenue that are classified within noninterest income in the Consolidated Statements of Income. Sources of revenue that are included in the scope of ASC Topic 606 include service charges and fees on deposit accounts, interchange income, investment asset management income and transaction-based revenue, and other charges and fees for customer services.

Service Charges and Fees on Deposit Accounts

Revenue includes charges and fees to provide account maintenance, overdraft services, wire transfers, funds transfer, and other deposit-related services. Account maintenance fees such as monthly service charges are recognized over the period of time that the service is provided. Transaction fees such as wire transfer charges are recognized when the service is provided to the customer.

Interchange Income

Revenue includes debit card interchange and network revenues. This revenue is earned on debit card transactions that are conducted through payment networks such as MasterCard. The revenue is recorded as services are delivered and is presented net of interchange expenses.

Investment Commission Income

Revenue includes fees from the investment management advisory services and revenue is recognized when services are rendered. Revenue also includes commissions received from the placement of brokerage transactions for purchase or sale of stocks or other investments. Commission income is recognized when the transaction has been completed.

Trust Fee Income

Revenue includes fees from the management of trust assets and from other related advisory services. Revenue is recognized when services are rendered.

Following is noninterest income separated by revenue within the scope of ASC 606 and revenue within the scope of other GAAP topics:

| | Three Months Ended March 31, | |
|---|---|---|
| (Dollars in thousands) | 2024 | 2023 |
| Service charges and fees on deposit accounts | $ 1,118 | $ 1,027 |
| Interchange income | 1,287 | 1,240 |
| Investment commission income | 198 | 196 |
| Trust fee income | 213 | 184 |
| Other charges and fees for customer services | 149 | 137 |
| Noninterest income from contracts with customers within the scope of ASC 606 | 2,965 | 2,784 |
| Noninterest income within the scope of other GAAP topics | 1,086 | 887 |
| Total noninterest income | $ 4,051 | $ 3,671 |

## NOTE 8 – DERIVATIVE AND HEDGING ACTIVITIES

ChoiceOne is exposed to certain risks relating to its ongoing business operations. ChoiceOne utilizes interest rate derivatives as part of its asset liability management strategy to help manage its interest rate risk position. Derivative instruments represent contracts between parties that result in one party delivering cash to the other party based on a notional amount and an underlying term (such as a rate, security price or price index) as specified in the contract. The amount of cash delivered from one party to the other is determined based on the interaction of the notional amount of the contract with the underlying term. Derivatives are also implicit in certain contracts and commitments.

ChoiceOne recognizes derivative financial instruments in the consolidated financial statements at fair value regardless of the purpose or intent for holding the instrument. ChoiceOne records derivative assets and derivative liabilities on the balance sheet within other assets and other liabilities, respectively. Changes in the fair value of derivative financial instruments are either recognized in income or in shareholders' equity as a component of accumulated other comprehensive income or loss depending on whether the derivative financial instrument qualifies for hedge accounting and, if so, whether it qualifies as a fair value hedge or cash flow hedge.

**Interest rate swaps**

ChoiceOne uses interest rate swaps as part of its interest rate risk management strategy to add stability to net interest income and to manage its exposure to interest rate movements. Interest rate swaps designated as hedges involve the receipt of variable-rate amounts from a counterparty in exchange for ChoiceOne making fixed-rate payments or the receipt of fixed-rate amounts from a counterparty in exchange for ChoiceOne making variable rate payments, over the life of the agreements without the exchange of the underlying notional amount.

In the second quarter of 2022, ChoiceOne entered into two pay-floating/receive-fixed interest rate swaps (the "Pay Floating Swap Agreements") for a total notional amount of $200.0 million that were designated as cash flow hedges. These derivatives hedge the variable cash flows of specifically identified available-for-sale securities, cash and loans. The Pay Floating Swap Agreements were determined to be highly effective during the periods presented and therefore no amount of ineffectiveness has been included in net income. The Pay Floating Swap Agreements pay a coupon rate equal to SOFR while receiving a fixed coupon rate of 2.41%. In March 2023, ChoiceOne terminated all Pay Floating Swap Agreements for a cash payment of $4.2 million. The loss will be amortized into interest income over 13 months, which was the remaining period of the swap agreements. The remaining loss to be fully amortized is $205,000, which will be complete in April 2024.

In the second quarter of 2022, ChoiceOne entered into one forward starting pay-fixed/receive-floating interest rate swap (the "Pay Fixed Swap Agreement") for a notional amount of $200.0 million that was designated as a cash flow hedge. This derivative hedges the risk of variability in cash flows attributable to forecasted payments on future deposits or floating rate borrowings indexed to the SOFR Rate. The Pay Fixed Swap Agreement is two years forward starting with an eight-year term set to expire in 2032. The Pay Fixed Swap Agreements will pay a fixed coupon rate of 2.75% while receiving the SOFR Rate, which begins in April 2024.

In the fourth quarter of 2022, ChoiceOne entered into four pay-fixed/receive-floating interest rate swaps for a total notional amount of $201.0 million that were designated as fair value hedges. These derivatives hedge the risk of changes in fair value of certain available for sale securities for changes in the SOFR benchmark interest rate component of the fixed rate bonds. All four of these hedges were effective immediately on December 22, 2022. Of the total notional value, $101.9 million has a ten-year term set to expire in 2032, with the benchmark SOFR interest rate risk component of the fixed rate bonds equal to 3.390%. Of the total notional value, $50.0 million has a nine-year term set to expire in 2031, with the benchmark SOFR interest rate risk component of the fixed rate bonds equal to 3.4015%. The remaining notional value of $49.1 million has a nine-year term set to expire in 2031, with the benchmark SOFR interest rate risk component of the fixed rate bond equal to 3.4030%. ChoiceOne adopted ASC2022-01, as of December 20, 2022, to use the portfolio layer method. The fair value basis adjustment associated with available-for-sale fixed rate bonds initially results in an adjustment to AOCI. For available-for-sale securities subject to fair value hedge accounting, the changes in the fair value of the fixed rate bonds related to the hedged risk (the benchmark interest rate component and the partial term) are then reclassed from AOCI to current earnings offsetting the fair value measurement change of the interest rate swap, which is also recorded in current earnings. Net cash settlements are received/paid semi-annually, with the first starting in March 2023, and will be included in interest income.

Net settlements received on these four pay-fixed/receive-floating swaps were $1.0 million and $565,000 for the three months ended March 31, 2024 and 2023, respectively, which were included in interest income.

The table below presents the fair value of derivative financial instruments as well as the classification within the consolidated statements of financial condition:

| (Dollars in thousands) | March 31, 2024 Balance Sheet Location | March 31, 2024 Fair Value | December 31, 2023 Balance Sheet Location | December 31, 2023 Fair Value |
|---|---|---|---|---|
| Derivatives designated as hedging instruments | | | | |
| Interest rate contracts | Other Assets | $ 20,231 | Other Assets | $ 8,880 |
| Interest rate contracts | Other Liabilities | $ - | Other Liabilities | $ - |

The table below presents the effect of fair value and cash flow hedge accounting on the consolidated statements of operations for the periods presented:

| | Location and Amount of Gain or (Loss) Recognized in Income on Fair Value and Cash Flow Hedging Relationships | | | |
|---|---|---|---|---|
| | Three months ended March 31, 2024 | | Three months ended March 31, 2023 | |
| (Dollars in thousands) | Interest Income | Interest Expense | Interest Income | Interest Expense |
| Total amounts of income and expense line items presented in the consolidated statements of income in which the effects of fair value or cash flow hedges are recorded | $ 58 | $ - | $ (366) | $ - |
| Gain or (loss) on fair value hedging relationships: | | | | |
| Interest rate contracts: | | | | |
| Hedged items | $ (5,323) | $ - | $ 6,022 | $ - |
| Derivatives designated as hedging instruments | $ 5,265 | $ - | $ (5,960) | $ - |
| Amount excluded from effectiveness testing recognized in earnings based on amortization approach | $ - | $ - | $ - | $ - |
| Gain or (loss) on cash flow hedging relationships: | | | | |
| Interest rate contracts: | | | | |
| Amount of gain or (loss) reclassified from accumulated other comprehensive income into income | $ (887) | $ - | $ (156) | $ - |
| Amount excluded from effectiveness testing recognized in earnings based on amortization approach | $ - | $ - | $ - | $ - |

The table below presents the cumulative basis adjustments on hedged items designated as fair value hedges and the related amortized cost of those items as of the periods presented:

| (Dollars in thousands) Line Item in the Statement of Financial Position in which the Hedged Item is included | Amortized cost of the Hedged Assets/(Liabilities) | March 31, 2024 Cumulative amount of Fair Value Hedging Adjustment included in the carrying amount of the Hedged Assets/(Liabilities) |
|---|---|---|
| Securities available for sale | $ 222,194 | $ (5,719) |

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

The following discussion is designed to provide a review of the consolidated financial condition and results of operations of ChoiceOne Financial Services, Inc. ("ChoiceOne") and its wholly-owned subsidiaries.  This discussion should be read in conjunction with the interim consolidated financial statements and related notes.

## FORWARD-LOOKING STATEMENTS

This discussion and other sections of this quarterly report contain forward-looking statements that are based on management's beliefs, assumptions, current expectations, estimates and projections about the financial services industry, the economy, and ChoiceOne. Words such as "anticipates," "believes," "estimates," "expects," "forecasts," "intends," "is likely," "plans," "predicts," "projects," "may," "could," "look forward," "continue," "future," "will" and variations of such words and similar expressions are intended to identify such forward-looking statements.  Management's determination of the provision and allowance for credit losses, the carrying value of goodwill, loan servicing rights, other real estate owned, and the fair value of investment securities (including whether any impairment on any investment security is temporary or other-than-temporary and the amount of any impairment) and management's assumptions concerning pension and other post-retirement benefit plans involve judgments that are inherently forward-looking.  All of the information concerning interest rate sensitivity is forward-looking.  All statements with references to future time periods are forward-looking.  These statements are not guarantees of future performance and involve certain risks, uncertainties and assumptions ("risk factors") that are difficult to predict with regard to timing, extent, likelihood, and degree of occurrence. Therefore, actual results and outcomes may materially differ from what may be expressed, implied or forecasted in such forward-looking statements.  Furthermore, ChoiceOne undertakes no obligation to update, amend, or clarify forward-looking statements, whether as a result of new information, future events, or otherwise.

Additional risk factors include, but are not limited to, the risk factors discussed in Item 1A of ChoiceOne's Annual Report on Form 10-K for the year ended December 31, 2023 and in Part II, Item 1A of this Quarterly Report on Form 10-Q.  These are representative of the risk factors that could cause a difference between an ultimate actual outcome and a preceding forward-looking statement.

## RESULTS OF OPERATIONS

ChoiceOne reported net income of $5,634,000 for the three months ended March 31, 2024, compared to $5,633,000 for the same period in 2023. Diluted earnings per share were $0.74 in the three months ended March 31, 2024, compared to $0.75 per share in the same period in the prior year. During 2023 and 2024, earnings were negatively affected by increased deposit costs, and partially offset by organic loan growth and higher interest income on loans due to higher interest rates.

As of March 31, 2024, total assets were $2.7 billion, an increase of $260.8 million compared to March 31, 2023.  The growth is primarily attributed to an increase in gross loans, which includes a $178.0 million increase in core loans (total loans held for investment less loans to other financial institutions), an increase in cash of $94.9 million, and a $30.0 million increase in loans to other financial institutions over the twelve month period ending March 31, 2024. However, this growth was tempered by a $57.5 million reduction in securities during the same time period. ChoiceOne has actively managed its liquidity to support organic loan growth, strategically shifting from lower-yielding assets to higher-yielding loans. This is reflected in the loan growth observed since March 31, 2023.

Deposits, excluding brokered deposits, increased by $45.3 million or an annualized 8.6% in the first quarter of 2024 and $75.8 million or 3.7% compared to March 31, 2023.  Deposits grew in the first quarter of 2024 due to new business, recapture of deposit losses, and some seasonality in municipal balances. ChoiceOne continues to be proactive in managing its liquidity position by using brokered deposits, the Bank Term Funding Program ("BTFP"), and FHLB advances to ensure ample liquidity.  At March 31, 2024, total available borrowing capacity from all sources was $960.7 million.   Uninsured deposits totaled $792.3 million or 37.0% of deposits at March 31, 2024.

The increase in short term interest rates led to higher deposit costs, which rose to an annualized 1.65% in the first quarter of 2024, compared to an annualized 1.57% in the previous quarter and an annualized 0.62% in the first quarter of 2023. As deposits reprice and customers shift to certificate of deposits and other interest bearing products; this trend is likely to persist. ChoiceOne is taking active measures to control these costs and expects to pay lower rates on deposits than the federal funds rate.  Interest expense on borrowings for the three months ended March 31, 2024 increased $1.8 million compared to the same period in the prior year, due to increases in borrowing amounts and interest rates.  Borrowings include $170 million from the BTFP and $40 million of FHLB borrowings at a weighted average fixed rate of 4.7%, with the earliest maturity in January 2025.  Total cost of funds increased to an annualized 2.0% in the first quarter of 2024 compared to an annualized 1.91% in the fourth quarter of 2023 and an annualized 0.79% in the first quarter of 2023.

The annualized return on average assets and annualized return on average shareholders' equity were 0.86% and 11.26%, respectively, for the first quarter of 2024, compared to an annualized 0.94% and an annualized 13.42%, respectively, for the same period in 2023. The decrease in the return on average assets and return on average shareholders' equity in the three months ended March 31, 2024, was caused by an increase in both average assets of $229.7 million and shareholders' equity of $32.2 million, respectively.

Dividends

Cash dividends of $2.0 million or $0.27 per share were declared in the first quarter of 2024, compared to $2.0 million or $0.26 per share in the first quarter of 2023. The cash dividend payout percentage was 36.2% for the first three months of 2024, compared to 34.7% in the same period in the prior year.

Interest Income and Expense

Tables 1 and 2 on the following pages provide information regarding interest income and expense for the three months ended March 31, 2024 and 2023. Table 1 documents ChoiceOne's average balances and interest income and expense, as well as the average rates earned or paid on assets and liabilities. Table 2 documents the effect on interest income and expense of changes in volume (average balance) and interest rates. These tables are referred to in the discussion of interest income, interest expense and net interest income.

**Table 1 – Average Balances and Tax-Equivalent Interest Rates**

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2024 | | | 2023 | | |
| (Dollars in thousands) | Average Balance | Interest | Rate | Average Balance | Interest | Rate |
| Assets: | | | | | | |
| Loans (1)(3)(4)(5) | $ 1,412,569 | $ 20,807 | 5.92 % | $ 1,202,268 | $ 14,889 | 5.02 % |
| Taxable securities (2) | 710,508 | 5,348 | 3.03 | 761,318 | 4,913 | 2.62 |
| Nontaxable securities (1) | 291,632 | 1,788 | 2.47 | 298,429 | 1,817 | 2.47 |
| Other | 64,064 | 886 | 5.56 | 19,452 | 177 | 3.68 |
| Interest-earning assets | 2,478,773 | 28,829 | 4.68 | 2,281,467 | 21,796 | 3.87 |
| Noninterest-earning assets | 142,236 | | | 109,877 | | |
| Total assets | $ 2,621,009 | | | $ 2,391,344 | | |
| Liabilities and Shareholders' Equity: | | | | | | |
| Interest-bearing demand deposits | $ 883,372 | $ 3,577 | 1.63 % | $ 875,435 | $ 1,572 | 0.73 % |
| Savings deposits | 338,497 | 641 | 0.76 | 407,022 | 273 | 0.27 |
| Certificates of deposit | 377,640 | 4,115 | 4.38 | 247,856 | 1,279 | 2.09 |
| Brokered deposit | 34,708 | 444 | 5.14 | 12,762 | 152 | 4.84 |
| Borrowings | 214,835 | 2,523 | 4.72 | 63,122 | 708 | 4.55 |
| Subordinated debentures | 35,535 | 412 | 4.67 | 35,290 | 402 | 4.62 |
| Other | 19,699 | 246 | 5.02 | - | - | 0.00 |
| Interest-bearing liabilities | 1,904,286 | 11,958 | 2.53 | 1,641,487 | 4,386 | 1.08 |
| Demand deposits | 506,175 | | | 566,628 | | |
| Other noninterest-bearing liabilities | 10,371 | | | 15,277 | | |
| Total liabilities | 2,420,832 | | | 2,223,392 | | |
| Shareholders' equity | 200,177 | | | 167,952 | | |
| Total liabilities and shareholders' equity | $ 2,621,009 | | | $ 2,391,344 | | |
| Net interest income (tax-equivalent basis) (Non-GAAP) (1) | | $ 16,871 | | | $ 17,410 | |
| Net interest margin (tax-equivalent basis) (Non-GAAP) (1) | | | 2.74 % | | | 3.09 % |
| Reconciliation to Reported Net Interest Income | | | | | | |
| Net interest income (tax-equivalent basis) (Non-GAAP) (1) | | $ 16,871 | | | $ 17,410 | |
| Adjustment for taxable equivalent interest | | (397) | | | (398) | |
| Net interest income (GAAP) | | $ 16,474 | | | $ 17,012 | |
| Net interest margin (GAAP) | | | 2.67 % | | | 3.02 % |

(1)Adjusted to a fully tax-equivalent basis to facilitate comparison to the taxable interest-earning assets. The adjustment uses an incremental tax rate of 21%. The presentation of these measures on a tax-equivalent basis is not in accordance with GAAP, but is customary in the banking industry. These non-GAAP measures ensure comparability with respect to both taxable and tax-exempt loans and securities.

(2)Taxable securities include dividend income from Federal Home Loan Bank and Federal Reserve Bank stock.

(3)Loans include both loans to other financial institutions and loans held for sale.

(4)Non-accruing loan balances are included in the balances of average loans. Non-accruing loan average balances were $1.7 million and $1.4 million in the first quarter of 2024 and 2023, respectively.

(5)Interest on loans included net origination fees and accretion income related to acquired loans. Accretion income related to acquired loans was $390,000 and $471,000 in the first quarter of 2024 and 2023, respectively.

**Table 2 – Changes in Tax-Equivalent Net Interest Income**

| (Dollars in thousands) | Three Months Ended March 31, 2024 Over 2023 | | |
|---|---|---|---|
| | Total | Volume | Rate |
| Increase (decrease) in interest income (1) | | | |
| Loans (2) | $ 5,918 | $ 2,915 | $ 3,003 |
| Taxable securities | 435 | (1,732) | 2,167 |
| Nontaxable securities (2) | (29) | (27) | (2) |
| Other | 709 | 580 | 129 |
| Net change in interest income | 7,033 | 1,736 | 5,297 |
| | | | |
| Increase (decrease) in interest expense (1) | | | |
| Interest-bearing demand deposits | 2,005 | 15 | 1,990 |
| Savings deposits | 368 | (308) | 676 |
| Certificates of deposit | 2,836 | 916 | 1,920 |
| Brokered deposit | 292 | 281 | 11 |
| Borrowings | 1,815 | 1,787 | 28 |
| Subordinated debentures | 10 | 4 | 6 |
| Other | 246 | 246 | - |
| Net change in interest expense | 7,572 | 2,941 | 4,631 |
| Net change in tax-equivalent net interest income | $ (539) | $ (1,205) | $ 666 |

(1)The volume variance is computed as the change in volume (average balance) multiplied by the previous year's interest rate. The rate variance is computed as the change in interest rate multiplied by the previous year's volume (average balance). The change in interest due to both volume and rate has been allocated to the volume and rate changes in proportion to the relationship of the absolute dollar amounts of the change in each.

(2)Interest on nontaxable investment securities and loans has been adjusted to a fully tax-equivalent basis using an incremental tax rate of 21%.

Net Interest Income

Tax-equivalent net interest income decreased $539,000 in the first quarter of 2024, compared to the same period in 2023. The primary factor contributing to the reduction in interest income is the increase in deposit costs, as customers transfer their funds to accounts and products that offer higher interest rates. This was partially offset by higher interest rates on new loans. Tax equivalent net interest margin decreased 35 basis points in the first quarter of 2024 to 2.74%, compared to the same period in 2023. GAAP based net interest margin decreased 35 basis points in the first quarter of 2024 to 2.67%, compared to the same period in 2023. Tax-equivalent net interest margin has increased 2 basis points in the first quarter of 2024 compared to the fourth quarter of 2023

The following table presents the annualized cost of deposits and the annualized cost of funds for the three months ended March 31, 2024 and March 31, 2023.

| | Three Months Ended March 31, | |
| --- | --- | --- |
| | 2024 | 2023 |
| Cost of deposits | 1.65% | 0.62% |
| Cost of funds | 2.00% | 0.79% |

ChoiceOne has experienced substantial loan growth from March 31, 2023 to March 31, 2024, leading to an increase in interest income from loans of $5.9 million in the three months ended March 31, 2024, compared to the same period in the prior year. Average loans grew $210.3 million in the three ended March 31, 2024, compared to the same period in the prior year. In addition, the average rate earned on loans increased 90 basis points in the three months ended March 31, 2024, compared to the same period in the prior year. Interest income on loans for the first three months of 2024 was reduced by $665,000 due to amortization expense related to the March 2023 sale of the pay floating swap derivative and a decline in accretion income related to acquired loans of $81,000, compared to the same period in 2023.

The average balance of total securities decreased $57.6 million in the three months ended March 31, 2024, compared to the same period in the prior year. The decrease is due to paydowns and a decline in the fair value of available for sale securities. The average rate earned on securities increased 31 basis points in the three months ended March 31, 2024, compared to the same period in the prior year. Interest income on securities for the first three months of 2024 was reduced by $222,000 due to amortization expense related to the March 2023 sale of the pay floating swap derivative.

Interest expense increased $7.6 million in the first three months of 2024, compared to the same period in the prior year. The average rate paid on interest bearing-demand deposits and savings deposits increased 81 basis points in the three months ended March 31, 2024, compared to the same period in the prior year. This was offset by the decline in the average balance of interest bearing-demand deposits and savings deposits, of $60.6 million during the first three months of 2024. The increase in the average balance of certificates of deposits, excluding brokered deposits, of $129.8 million during the first three months of 2024, combined with a 229 basis point increase in the rate paid on certificates of deposits, excluding brokered deposits, during the first three months of 2024, compared to the same period in the prior year, led to an increase in interest expense of $2.8 million during the first three months of 2024.

In order to bolster liquidity, ChoiceOne borrowed a total of $170.0 million from the Bank Term Funding Program ("BTFP") during the second and fourth quarters of 2023 and held $42.0 million in brokered deposits and $40.0 million in FHLB advances on March 31, 2024. The net effect of these additional borrowed funds and brokered deposits was an increase in interest expense of $2.1 million for the first three months of 2024, compared to the same period in 2023.

In September 2021, ChoiceOne completed a private placement of $32.5 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes due 2031. In addition, ChoiceOne holds certain subordinated debentures issued in connection with a trust preferred securities offering that were obtained as part of the merger with Community Shores. The average balance of subordinated debentures was relatively flat in the first quarter of 2024 compared to the same period in the prior year.

Provision and Allowance for Credit Losses
On January 1, 2023, ChoiceOne adopted ASU 2016-13 CECL which caused an increase in the allowance for credit losses ("ACL") of $7.2 million. The large increase was partially due to the economic environment and the nature of the CECL calculation. Approximately 20% of this increase was related to the migration of purchased loans into the portfolio assessed by the CECL calculation. ChoiceOne also booked a liability for expected credit losses on unfunded loans and other commitments of $3.3 million related to the adoption of CECL. These unfunded loans are open credit lines with current customers and loans approved by ChoiceOne but not funded. The increase in the ACL and the cost of the liability resulted in a decrease in the retained earnings account on our Consolidated Balance Sheet equal to the after-tax impact, with the tax impact portion being recorded in deferred taxes in our Consolidated Balance Sheet in accordance with FASB guidance.

The ACL consists of general and specific components. The general component covers loans collectively evaluated for credit loss and is based on peer historical loss experience adjusted for current and forecasted factors. Management's adjustment for current and forecasted factors is based on trends in delinquencies, trends in charge-offs and recoveries, trends in the volume of loans, changes in underwriting standards, trends in loan review findings, the experience and ability of lending staff, and a reasonable and supportable economic forecast described further below.

The determination of our loss factors is based, in part, upon benchmark peer loss history adjusted for qualitative factors that, in management's judgment, affect the collectability of the portfolio as of the analysis date. ChoiceOne's lookback period of benchmark peer net charge-off history was from January 1, 2004 through December 31, 2019 for this analysis.

Loans individually evaluated for credit losses increased by $400,000 to $2.5 million during the first quarter of 2024, and the ACL related to these individually evaluated loans increased by $202,000 during the same period largely due to two recently classified collateral dependent retail and consumer loan relationships.

Nonperforming loans, which includes Other Real Estate Owned ("OREO") but excludes performing troubled loan modifications ("TLM"), remained historically low at $1.7 million on March 31, 2024 compared to $1.7 million as of December 31, 2023, and $1.7 million as of March 31, 2023. The ACL was 1.13% of total loans, excluding loans held for sale, at March 31, 2024, compared to 1.11% on December 31, 2023, and 1.24% on March 31, 2023. The liability for expected credit losses on unfunded loans and other commitments was $1.8 million on March 31, 2024, compared to $2.2 million on December 31, 2023, and $3.0 million on March 31, 2023.

Charge-offs and recoveries for respective loan categories for the three months ended March 31, 2024 and 2023 were as follows:

| (Dollars in thousands) | 2024 | | 2023 | |
|---|---|---|---|---|
| | Charge-offs | Recoveries | Charge-offs | Recoveries |
| Agricultural | $ - | $ - | $ - | $ - |
| Commercial and industrial | 1 | 9 | - | 27 |
| Consumer | 123 | 60 | 140 | 69 |
| Commercial real estate | - | - | - | 13 |
| Construction real estate | - | - | - | - |
| Residential real estate | - | 4 | - | 3 |
| | $ 124 | $ 73 | $ 140 | $ 112 |

Net charge-offs were $51,000 during the first three months of 2024, compared to net charge-offs of $27,000 during the same period in 2023. Net charge-offs for checking accounts during the first three months of 2024 were $31,000 compared to $56,000 for the same period in the prior year. Annualized net charge-offs as a percentage of average loans were 0.01% for both the first quarter of 2024 and 2023.

The provision for credit losses on loans was $403,000 during the first three months of 2024, compared to $309,000 in the same period in the prior year. The provision expense was deemed necessary due to the increase in reserve for collateral dependent loans and an increase in qualitative factors related to the value of underlying collateral for collateral dependent non owner occupied loans and consumer loans.

The loan provision expense was offset by the decrease in unfunded commitments provision expense of $403,000 in first three months of 2024, due to changes in mix and a decline in balance. Total unfunded commitments decreased $59.3 million in the first quarter of 2024 compared to December 31, 2023.

Net provision for credit losses was $0 for the first quarter of 2024.

Noninterest Income

Noninterest income increased $380,000 in the three months ended March 31, 2024, compared to the same period in the prior year. The increase was largely due to earnings on a bank owned life insurance death benefit claim in the amount of $196,000 and an increase in customer service charges of $138,000 in the first quarter of 2024 compared to the same period in 2023. These increases were offset by changes in the market value of equity securities in the three months ended March 31, 2024, compared to the same period in the prior year.

Noninterest Expense

Noninterest expense declined by $311,000 in the three months ended March 31, 2024 compared to the same period in 2023. The decline in total noninterest expense was due to a decline in employee health insurance benefits and a decline in occupancy and equipment related to two branch closures during the quarter. ChoiceOne anticipates a low impact on customer retention related to the branch closures and expects to save around $700,000 annually from this decision. This was offset by increases to FDIC insurance and other costs related to inflationary pressures. Management continues to seek out ways to manage costs, but also recognizes the value of investing in innovation and attracting the best talent in our industry to compete effectively in our markets.

Income Tax Expense

Income tax expense was $1.2 million in the first three months of 2024 compared to $1.0 million for the same period in 2023. The effective tax rate was 17.6% for the first three months of 2024 compared to 15.5% for the same period in 2023. In the three months ended March 31, 2024, non taxable municipal interest decreased and disallowed interest expense increased compared to the first three months of 2023.

## FINANCIAL CONDITION

Securities

Total available for sale securities on March 31, 2024, were $504.6 million compared to $514.6 million on December 31, 2023, with the decrease caused by $5.9 million of principal repayments, calls and maturities. The unrealized loss on securities available for sale declined by $2.2 million in the first three months of 2024. Total held to maturity securities on March 31, 2024, were $398.0 million compared to $408.0 million on December 31, 2023. ChoiceOne's held to maturity securities declined during the first three months of 2024, due to $9.5 million of principal repayments, calls and maturities.

At March 31, 2024, ChoiceOne had $126.3 million in unrealized losses on its investment securities, including $67.5 million in unrealized losses on available for sale securities and $58.8 in unrealized losses on held to maturity securities. Unrealized losses on corporate and municipal bonds have not been recognized into income because management believes the issuers are of high credit quality, and management does not intend to sell prior to their anticipated recovery, and the decline in fair value is largely due to changes in interest rates and other market conditions. The issuers continue to make timely principal and interest payments on the bonds. The fair value is expected to recover as the bonds approach maturity.

ChoiceOne utilizes interest rate derivatives as part of its asset liability management strategy to help manage its interest rate risk position. In order to hedge the risk of rising rates and unrealized losses on securities resulting from the rising rates, ChoiceOne currently holds pay fixed, receive variable interest rate swaps with a total notional value of $401.0 million. These derivative instruments increase in value as long-term interest rates rise, which partially offsets the reduction in shareholders' equity due to unrealized losses on securities available for sale. Refer to Note 8 - Derivatives and Hedging Activities of the consolidated financial statements for more discussion on ChoiceOne's derivative position.

Equity securities included a money market preferred security ("MMP") of $1.0 million and common stock of $6.6 million as of March 31, 2024. As of December 31, 2023, equity securities included a MMP of $1.0 million and common stock of $6.5 million.

Per U.S. generally accepted accounting principles, unrealized gains or losses on securities available for sale are reflected on the balance sheet in accumulated other comprehensive income (loss), while unrealized gains or losses on securities held to maturity are not reflected on the balance sheet.

Loans

The company's loan portfolio by call report code was as follows:

| | | March 31, 2024 | | December 31, 2023 | |
|---|---|---|---|---|---|
| (Dollars in thousands) | Call Report Codes | Balance | % | Balance | % |
| Construction & Development Loans | 1A2 | $ 85,325 | 6.0% | $ 112,877 | 8.0% |
| 1-4 Family Loans | 1A1, 1C1, 1C2A, 1C2B | 357,117 | 25.2% | 347,036 | 24.6% |
| Multifamily Loans | 1D | 59,318 | 4.2% | 56,563 | 4.0% |
| Owner Occupied CRE Loans | 1E1 | 290,841 | 20.5% | 281,515 | 20.0% |
| Non-Owner Occupied CRE Loans | 1E2 | 319,969 | 22.5% | 298,265 | 21.1% |
| Commercial & Industrial Loans | 2A2, 4A | 222,835 | 15.7% | 219,849 | 15.6% |
| Farm & Agriculture Loans | 1B, 3 | 39,791 | 2.8% | 46,515 | 3.3% |
| Consumer & Other Loans | 6B, 6C, 6D, 8, 9b2,10B | 43,394 | 3.1% | 48,033 | 3.4% |
| Total Loans | | $ 1,418,590 | | $ 1,410,653 | |

Average loan balances increased to $1.41 billion in the first quarter of 2024 compared to $1.36 billion in the fourth quarter of 2023 and $1.20 billion in the first quarter of 2023. Core loans decreased by $2.7 million or 0.8% on an annualized basis during the first quarter of 2024 and grew $178.0 million or 14.7% since March 31, 2023. Loans to other financial institutions were $30.0 million as of March 31, 2024, compared to $19.4 million and $0 as of December 31, 2023 and March 31, 2023, respectively. Loans to other financial institutions is comprised of a warehouse line of credit to facilitate mortgage loan originations and the interest rate fluctuates with the national mortgage market. This balance is short term in nature with an average life of under 30 days. Management believes the short-term structure and low credit risk of this asset is advantageous in the current rate environment. Loan interest, including fee income increased $5.9 million in the first quarter of 2024 compared to the same period in 2023.

Loan growth was concentrated in non-owner occupied commercial real estate loans which grew $21.7 million in the first three months of 2024 and 1-4 family loans which grew $10.1 million.  The growth in non-owner occupied CRE loans came from our loan production offices in Holland, Oakland, Wyoming, and Macomb, MI, as experienced lenders were hired there in the past 18 months.  CRE growth consisted of increases in seasoned hospitality groups, apartment buildings in the Grand Rapids, Michigan market, and professional office space in suburban areas with long-term leases and low loan to value ratios.   Growth in 1-4 family loans was due to the growth in our warehouse line of credit or loans to other financial institutions.  This growth was partially offset by a $27.6 million decline in construction and development loans which experienced an acceleration in our funding cycle toward the close of 2023.

During the first three months of 2024 and 2023, ChoiceOne recorded accretion income related to acquired loans in the amount of $390,000 and $471,000, respectively.  Remaining credit and yield mark on acquired loans from the mergers with County Bank Corp. and Community Shores will accrete into income as the acquired loans mature.  The remaining yield mark on acquired loans from the mergers with County Bank Corp. and Community Shores totaled $2.1 million as of March 31, 2024.

Asset Quality

As part of its review of the loan portfolio, management also monitors the various nonperforming loans. Nonperforming loans are comprised of loans accounted for on a nonaccrual basis, loans not included in nonaccrual loans, which are contractually past due 90 days or more as to interest or principal payments, and troubled loan modifications which are accruing and initiated in the past year.

The balances of these nonperforming loans were as follows:

| (Dollars in thousands) | | March 31, 2024 | | December 31, 2023 |
|---|---|---|---|---|
| Loans accounted for on a nonaccrual basis | $ | 1,715 | $ | 1,723 |
| Accruing loans which are contractually past due 90 days or more as to principal or interest payments | | - | | - |
| Loans past due defined as "troubled loan modifications" which are not included above | | - | | - |
| Total | $ | 1,715 | $ | 1,723 |

The balance of nonaccrual loans in the first three months of 2024 is primarily made up of residential mortgage loans.  Management believes the ACL allocated to its nonperforming loans was sufficient at March 31, 2024.

Goodwill

Goodwill is not amortized but is evaluated annually for impairment and on an interim basis if events or changes in circumstances indicate that goodwill might be impaired. The goodwill impairment test is performed by comparing the fair value of a reporting unit with its carrying amount, and an impairment charge would be recognized for any amount by which the carrying amount exceeds the reporting unit’s fair value.  Accounting pronouncements allow a company to first perform a qualitative assessment for goodwill prior to a quantitative assessment (Step 1 assessment). If the results of the qualitative assessment indicate that it is more likely than not that goodwill is impaired, then a quantitative assessment must be performed. If not, there is no further assessment required. The Company acquired Valley Ridge Financial Corp. in 2006, County Bank Corp in 2019, and Community Shores in 2020, which resulted in the recognition of goodwill of $13.7 million, $38.9 million and $7.3 million, respectively.

ChoiceOne engaged a third party valuation firm to assist in performing a quantitative analysis of goodwill as of November 30, 2022 ("the valuation date"). In deriving the fair value of the reporting unit (the Bank), the third-party firm assessed general economic conditions and outlook; industry and market considerations and outlook; the impact of recent events to financial performance; the market price of ChoiceOne’s common stock and other relevant events. In addition, the valuation relied on financial projections through 2027 and growth rates prepared by management. Based on the valuation prepared, it was determined that ChoiceOne's estimated fair value of the reporting unit at the valuation date was greater than its book value and impairment of goodwill was not required.

Management concurred with the conclusion derived from the quantitative goodwill analysis as of the valuation date and determined that there were no material changes and that no triggering events had occurred that indicated impairment from the valuation date through March 31, 2024, and as a result that it is more likely than not that there was no goodwill impairment as of March 31, 2024.

Deposits and Borrowings

Deposits, excluding brokered deposits, increased by $45.3 million or an annualized 8.6% in the first quarter of 2024 and $75.8 million or 3.7% compared to March 31, 2023. Deposits grew in the first quarter of 2024 due to new business, recapture of deposit losses, and some seasonality in municipal balances. The increase in short term interest rates led to higher deposit costs, which rose to an annualized 1.65% in the first quarter of 2024, compared to an annualized 1.57% in the fourth quarter of 2023, and an annualized 0.62% in the first quarter of 2023. As deposits reprice and customers shift to certificate of deposits and other interest bearing products; this trend is likely to persist. ChoiceOne is taking active measures to control these costs and expects to pay lower rates on deposits than the federal funds rate.

Uninsured deposits totaled $792.3 million or 37.0% of deposits on March 31, 2024 compared to $769.7 million, or 36.3% of total deposits at December 31, 2023. At March 31, 2024, total available borrowing capacity from all sources was $960.7 million, which exceeds uninsured deposits.

In September 2021, ChoiceOne completed a private placement of $32.5 million in aggregate principal amount of 3.25% fixed-to-floating rate subordinated notes due 2031. ChoiceOne also holds $3.4 million in subordinated debentures issued in connection with a $4.5 million trust preferred securities offering, which were obtained in the merger with Community Shores, offset by the merger mark-to-market adjustment.

At March 31, 2024, ChoiceOne has borrowed $170 million from the Federal Reserve's Bank Term Funding Program (BTFP). This program provides a 1-year term at a fixed rate with the ability to prepay at any time without penalty. The interest rate on the BTFP borrowings as of March 31, 2024 was 4.76% and fixed through January of 2025. Collateral pledged is U.S. Treasuries, agency debt and mortgage-backed securities valued at par. At March 31, 2024 ChoiceOne had $40 million of borrowings from the FHLB with a weighted average rate of 4.58% with maturities through 2026. Total cost of funds increased to an annualized 2.0% in the first quarter of 2024 compared to an annualized 1.91% in the fourth quarter of 2023 and an annualized 0.79% in the first quarter of 2023.

Shareholders' Equity

Shareholders' equity totaled $206.8 million as of March 31, 2024, up from $168.7 million as of March 31, 2023. This increase is due to increased retained earnings and an improvement in accumulated other compressive loss (AOCI) of $23.6 million compared to March 31, 2023. The improvement in AOCI, despite the rise in interest rates, is due to both the shortening duration and maturing (paydowns) of the securities portfolio, as well as an increase in unrealized gain on the pay-fixed swap derivatives. ChoiceOne Bank remains "well-capitalized" with a total risk-based capital ratio of 12.6% as of March 31, 2024, compared to 13.0% on March 31, 2023.

ChoiceOne uses interest rate swaps to manage interest rate exposure to certain fixed assets and variable rate liabilities. On March 31, 2024, ChoiceOne had pay-fixed interest rate swaps with a total notional value of $401.0 million, a weighted average coupon of 3.07%, a fair value of $20.2 million and an average remaining contract length of 7 to 8 years. These derivative instruments increase in value as long-term interest rates rise, which offsets the reduction in equity due to unrealized losses on securities available for sale. Included in the total is $200.0 million of forward starting pay-fixed, receive floating interest rate swaps used to hedge interest bearing liabilities. These forward starting swaps will pay a fixed coupon of 2.75% while receiving SOFR starting in late April 2024. At the SOFR rate on March 31, 2024 of 5.34%, these forward starting swaps would contribute approximately $432,000 monthly, which will partially offset interest expense. In addition, in March 2023, ChoiceOne eliminated all receive-fix, pay floating swap agreements for a cash payment of $4.2 million. The loss is being amortized in interest income with an expense of approximately $300,000 monthly through April 2024, which was the remaining period of the agreements. The effect of these two items will increase net interest income by approximately $732,000 monthly starting in May 2024.

On January 1, 2023, ChoiceOne adopted ASU 2016-13 CECL which caused an increase in the ACL of $7.2 million and booked a liability for expected credit losses on unfunded loans and other commitments of $3.3 million. The increase in the ACL and the cost of the liability resulted in a decrease in the retained earnings account on our Consolidated Balance Sheet equal to the after-tax impact, with the tax impact portion being recorded in deferred taxes in our Consolidated balance Sheet in accordance with FASB guidance. This reduction in retained earnings was offset by first quarter 2023 earnings and recovery of accumulated other comprehensive loss.

Regulatory Capital Requirements

Following is information regarding compliance of ChoiceOne and ChoiceOne Bank with regulatory capital requirements:

| (Dollars in thousands) | Actual | | Minimum Required for Capital Adequacy Purposes | | Minimum Required to be Well Capitalized Under Prompt Corrective Action Regulations | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| March 31, 2024 | | | | | | |
| ChoiceOne Financial Services Inc. | | | | | | |
| Total capital (to risk weighted assets) | $ 239,906 | 13.3 % | $ 144,589 | 8.0 % | N/A | N/A |
| Common equity Tier 1 capital (to risk weighted assets) | 189,483 | 10.5 | 81,331 | 4.5 | N/A | N/A |
| Tier 1 capital (to risk weighted assets) | 193,983 | 10.7 | 108,442 | 6.0 | N/A | N/A |
| Tier 1 capital (to average assets) | 193,983 | 7.6 | 102,516 | 4.0 | N/A | N/A |
| | | | | | | |
| ChoiceOne Bank | | | | | | |
| Total capital (to risk weighted assets) | $ 227,346 | 12.6 % | $ 144,441 | 8.0 % | $ 180,551 | 10.0 % |
| Common equity Tier 1 capital (to risk weighted assets) | 213,575 | 11.8 | 81,248 | 4.5 | 117,358 | 6.5 |
| Tier 1 capital (to risk weighted assets) | 213,575 | 11.8 | 108,330 | 6.0 | 144,441 | 8.0 |
| Tier 1 capital (to average assets) | 213,575 | 8.3 | 102,433 | 4.0 | 128,041 | 5.0 |
| | | | | | | |
| December 31, 2023 | | | | | | |
| ChoiceOne Financial Services Inc. | | | | | | |
| Total capital (to risk weighted assets) | $ 233,840 | 13.0 % | $ 144,441 | 8.0 % | N/A | N/A |
| Common equity Tier 1 capital (to risk weighted assets) | 185,412 | 10.3 | 81,248 | 4.5 | N/A | N/A |
| Tier 1 capital (to risk weighted assets) | 189,912 | 10.5 | 108,331 | 6.0 | N/A | N/A |
| Tier 1 capital (to average assets) | 189,912 | 7.5 | 101,337 | 4.0 | N/A | N/A |
| | | | | | | |
| ChoiceOne Bank | | | | | | |
| Total capital (to risk weighted assets) | $ 224,095 | 12.4 % | $ 144,274 | 8.0 % | $ 180,342 | 10.0 % |
| Common equity Tier 1 capital (to risk weighted assets) | 212,283 | 11.8 | 81,154 | 4.5 | 117,223 | 6.5 |
| Tier 1 capital (to risk weighted assets) | 212,283 | 11.8 | 108,205 | 6.0 | 144,274 | 8.0 |
| Tier 1 capital (to average assets) | 212,283 | 8.4 | 101,244 | 4.0 | 126,555 | 5.0 |

Management reviews the capital levels of ChoiceOne and ChoiceOne Bank on a regular basis. The Board of Directors and management believe that the capital levels as of March 31, 2024 are adequate for the foreseeable future. The Board of Directors' determination of appropriate cash dividends for future periods will be based on, among other things, market conditions and ChoiceOne's requirements for cash and capital.

Liquidity

Net cash provided by operating activities was $15.8 million for the three months ended March 31, 2024 compared to $9.2 million in the same period in 2023. The change was due to the change in other liabilities, partially offset by lower net proceeds from loan sales in 2024 compared to 2023. Net cash provided by investing activities was $7.1 million for the three months ended March 31, 2024 compared to $18.9 million used in the same period in 2023. The change was due in part to a decrease in net loan originations that led to cash used of $8.0 million in the first three months of 2024 compared to $20.7 million used in the same period during the prior year. Net maturities, payments and calls of securities was $15.4 million for the three months ended March 31, 2024 compared to $10.0 million used in the same period in 2023. Net cash provided by financing activities was $71.8 million for the three months ended March 31, 2024, compared to $21.0 million in the same period in the prior year. ChoiceOne had $63.8 million in deposit growth in the first three months of 2024 compared to a decrease of $12.1 million in the same period in 2023. ChoiceOne also increased borrowing by $10.0 million in the first three months of 2024 compared to an increase of $35.0 million in the same period during the prior year.

ChoiceOne's market risk exposure occurs in the form of interest rate risk and liquidity risk. ChoiceOne's business is transacted in U.S. dollars with no foreign exchange risk exposure. Agricultural loans comprise a relatively small portion of ChoiceOne's total assets. Management believes that ChoiceOne's exposure to changes in commodity prices is insignificant.

Liquidity risk deals with ChoiceOne's ability to meet its cash flow requirements. These requirements include depositors desiring to withdraw funds and borrowers seeking credit. Longer-term liquidity needs may be met through core deposit growth, maturities of and cash flows from investment securities, normal loan repayments, advances from the FHLB and the Federal Reserve Bank, brokered certificates of deposit, and income retention. ChoiceOne had $170.0 million in outstanding borrowings from the BTFP as of March 31, 2024. ChoiceOne had $40.0 million in outstanding borrowings at the FHLB as of March 31, 2024. The acceptance of brokered certificates of deposit is not limited as long as the Bank is categorized as “well capitalized” under regulatory guidelines. At March 31, 2024, total available borrowing capacity from the FHLB and the Federal Reserve Bank was $960.7 million.

ChoiceOne continues to review its liquidity management and has taken steps in an effort to ensure adequacy. These steps include limiting bond purchases in the first three months of 2024, pledging securities to FHLB and the Federal Reserve Bank in order to increase borrowing capacity and using alternative funding sources such as brokered deposits.

Item 4. Controls and Procedures.

An evaluation was performed under the supervision and with the participation of ChoiceOne’s management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of ChoiceOne’s disclosure controls and procedures as of March 31, 2024. Based on and as of the time of that evaluation, ChoiceOne’s management, including the Chief Executive Officer and Chief Financial Officer, concluded that ChoiceOne’s disclosure controls and procedures were effective as of the end of the period covered by this report to ensure that material information required to be disclosed in the reports that ChoiceOne files or submits under the Securities Exchange Act of 1934 (the “Exchange Act”) is recorded, processed, summarized and reported within the time periods specified by the Securities and Exchange Commission’s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in the reports that ChoiceOne files or submits under the Exchange Act is accumulated and communicated to management, including ChoiceOne’s principal executive and principal financial officers, as appropriate to allow for timely decisions regarding required disclosure.

There was no change in ChoiceOne’s internal control over financial reporting that occurred during the three months ended March 31, 2024 that has materially affected, or that is reasonably likely to materially affect, ChoiceOne’s internal control over financial reporting.

## PART II. OTHER INFORMATION

Item 1. Legal Proceedings.

There are no material pending legal proceedings to which ChoiceOne or ChoiceOne Bank is a party or to which any of their properties are subject, except for proceedings that arose in the ordinary course of business.

Item 1A. Risk Factors.

Information concerning risk factors is contained in the discussion in Item 1A, “Risk Factors,” in ChoiceOne’s Annual Report on Form 10-K for the year ended December 31, 2023.

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

There were no unregistered sales of equity securities in the first quarter of 2024.

There were no issuer purchases of equity securities during the first quarter of 2024.

Item 5. Other Information

None.

Item 6. Exhibits

The following exhibits are filed or incorporated by reference as part of this report:

| Exhibit Number | Document |
|---|---|
| 3.1 | Restated Articles of Incorporation of ChoiceOne Financial Services, Inc. Previously filed as an exhibit to ChoiceOne's Form 10-K Annual Report for the year ended December 31, 2022. Here incorporated by reference. |
| 3.2 | Bylaws of ChoiceOne as currently in effect and any amendments thereto. Previously filed as an exhibit to ChoiceOne's Form 8-K filed April 21, 2021. Here incorporated by reference. |
| 4.1 | Advances, Pledge and Security Agreement between ChoiceOne Bank and the Federal Home Loan Bank of Indianapolis. Previously filed as an exhibit to ChoiceOne Financial Services, Inc.'s Form 10-K Annual Report for the year ended December 31, 2013. Here incorporated by reference. |
| 4.2 | Form of 3.25% Fixed-to-Floating Rate Subordinated Note due September 3, 2031. Previously filed as an exhibit to ChoiceOne Financial Services, Inc.'s Form 8-K filed September 7, 2021. Here incorporated by reference. |
| 4.3 | Form of 3.25% Fixed-to-Floating Rate Global Subordinated Note due September 3, 2031. Previously filed as an exhibit to ChoiceOne Financial Services, Inc.'s Form 8-K filed September 7, 2021. Here incorporated by reference. |
| 31.1 | Certification of Chief Executive Officer |
| 31.2 | Certification of Chief Financial Officer |
| 32.1 | Certification pursuant to 18 U.S.C. § 1350. |
| 101.INS | Inline XBRL Instance Document |
| 101.SCH | Inline XBRL Taxonomy Extension Schema Document |
| 101.CAL | Inline XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | Inline XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | Inline XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | Inline XBRL Taxonomy Extension Presentation Linkbase Document |
| 104 | Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101) |

## SIGNATURES

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

| | |
|---|---|
| | CHOICEONE FINANCIAL SERVICES, INC. |
| Date: May 07, 2024 | /s/ Kelly J. Potes<br>Kelly J. Potes<br>Chief Executive Officer<br>(Principal Executive Officer) |
| Date: May 07, 2024 | /s/ Adom J. Greenland<br>Adom J. Greenland<br>Chief Financial Officer and Treasurer<br>(Principal Financial and Accounting Officer) |

**EXHIBIT 31.1**

**CERTIFICATIONS**

I, Kelly J. Potes, certify that:

1.I have reviewed this quarterly report on Form 10-Q of ChoiceOne Financial Services, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 07, 2024

/s/ Kelly J. Potes
Kelly J. Potes
Chief Executive Officer
ChoiceOne Financial Services, Inc.

**EXHIBIT 31.2**

**CERTIFICATIONS**

I, Adom J. Greenland, certify that:

1. I have reviewed this quarterly report on Form 10-Q of ChoiceOne Financial Services, Inc.;

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

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

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

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

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

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

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

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

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

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

Date: May 07, 2024

/s/ Adom J. Greenland
Adom J. Greenland
Chief Financial Officer and Treasurer
ChoiceOne Financial Services, Inc.

**EXHIBIT 32.1**

**CERTIFICATION**

Pursuant to 18 U.S.C. § 1350, each of the undersigned hereby certifies in his capacity as an officer of ChoiceOne Financial Services, Inc. (the "Company") that the Quarterly Report of the Company on Form 10-Q for the quarter ended March 31, 2024 fully complies with the requirements of Section 13(a) of the Securities Exchange Act of 1934 and that the information contained in such report fairly presents, in all material respects, the financial condition of the Company at the end of such period and the results of operations of the Company for such period.

| | |
|---|---|
| Date: May 07, 2024 | /s/ Kelly J. Potes<br>Kelly J. Potes<br>Chief Executive Officer |
| Date: May 07, 2024 | /s/ Adom J. Greenland<br>Adom J. Greenland<br>Chief Financial Officer and Treasurer |