# Mayville Financial Corporation

Mayville, Michigan

MSB
MAYVILLE STATE BANK

Years Ended December 31, 2022 and 2021

2022 Annual Report

Rehmann

# MAYVILLE FINANCIAL CORPORATION

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**MAYVILLE FINANCIAL CORPORATION (MFC) & MAYVILLE STATE BANK (MSB)**

**Board of Directors (Year elected to Board; Occupation)**

**Brad Sullivan, Chairman – 2000 ................................................................. CFO, General Housing Corp.**
**Dan Babcock, Vice Chairman – 2003 .................................................. CEO, Marlette Regional Hospital**
**James Abbey – 2014 ............................................................... Partner, Abbey, Abbey & Thomas PLLC**
**Shelly Brooks – 2005 ..................................................................... President/CEO, Mayville State Bank**
**Bruce Buckmaster – 2019 .......................................................... Owner, Buckmaster Farm Services Inc.**
**Evan Osentoski - 2019 ................................................ Assoc. Real Estate Broker, Osentoski Realty Co.**

**Officers and Employees (MSB unless otherwise noted)**

**Shelly Brooks .......................................................... President/CEO, MSB; President & Treasurer, MFC**
**Scott Wegrzyn ......................... Board Secretary MFC; Vice President; Bank Secrecy Officer; Loan Officer**
**Timothy Gallagher ............................................................... Vice President, MSB; Vice President, MFC**
**Bethany Wingert ........................................................................................ Cashier; Operations Officer**
**Celeste Hurd ..................................................................................................................... Financial Officer**
**Jeffery Fackler .......................................................... Information Technology Officer; Security Officer**
**Anna Blackwell ........................................................................... Asst. Vice President; IRA Administrator**
**Ben Heminger ............................................................................ Assistant Vice President; Loan Officer**
**Jack Millerschin ........................................................................... Asst. Cashier; MFC Asst. Secretary**
**Cammie Asmus ...................................................................................................... Head of Operations**
**Nicole Dziuba ......................... Sr. Financial Services Representative; Director of Marketing; CRA Officer**
**Samantha Barriger ............................................................................................................................ Teller**
**Jenna Franks ..................................................................................................................................... Teller**
**Dawson Hilts ............................................................................................................................ Loan Officer**
**Ashleigh Jackson ............................................... Loan Review Officer; Financial Services Representative**
**Michelle Kiss ............................................................................................................................ Custodian**
**Kathleen Leach ......................................................................................................................... Custodian**
**Jacklyn Majors .............................................. Asst. Branch Manager; Financial Services Representative**
**April Pelch ........................................ Branch Manager; Financial Services Representative; Loan Officer**
**Joy Perkins ........................................................................................................ Bookkeeping Operations**
**Amanda Roberts ................................................................................................................................ Teller**
**Kimberly Smith ........................................................................ Bookkeeping Operations; EFT Specialist**
**Tina TerBush .............................................................................. Teller; Financial Services Representative**
**Diane Travis ............................................................................................................................... Custodian**
**Jessica Trisch ............................................................... ...Teller; Sr. Financial Services Representative**
**Amber Wilchur ............................................................................................... Teller; Loan Processor**
**Jayden Williamson ............................................................................................................................. Teller**
**Kathy Wilson ............................................................................................... Records Administrator**

Dear Shareholders:

The Board of Directors and management of Mayville Financial Corporation are pleased to submit this 138th annual report for the year ended December 31, 2022.

Net income for the year 2022 ended at $756,311 (+1.89%), representing a return on average assets of 0.71% and a return on average equity of 8.69%. Total assets ended the year at $104.2 million, a 5.51% decrease from 2021 year-end. Total deposits decreased $2.7 million (-2.7%) to $96.9 million. With high inflation and increased costs on many staple goods, consumers have needed to access their savings, thus causing a decline in deposit dollars. Loans outstanding as of December 31, 2022 were $44.1 million as compared to $41.9 million on December 31, 2021, an increase of $2.2 million or 5.16%. This is the second consecutive year of strong loan growth after the rise of PPP loans and their subsequent forgiveness. With the rise in interest rates, there has been a decline in mortgage refinancing activity, but there continues to be opportunities to grow the loan portfolio in other sectors while maintaining strong credit quality.

Mayville Financial Corporation's stock price ended the year selling at $29.50 per share (+28.26%), up from year-end 2021 price of $23.00. Shareholders received a total of $0.90 per share in cash dividends during 2022, representing a return of 3.75% based on the average MFC stock price of $23.97 for the year. The Bank maintained strong capital levels, keeping the Bank in a well-capitalized position.

Return on Average Stockholders' Equity (ROE) was 8.69% as compared to 7.00% for 2022. By measuring the Bank's income that is earned on our stockholders' equity, ROE signals how effectively we are using your investment to generate increased profits.

The book value decreased to $15.78 per share as of December 31, 2022, from $23.01 as of December 31, 2021 (-31.42%). Due to rising interest rates, the Bank's investment portfolio has experienced reductions in fair value. These unrealized losses in the investment portfolio are reflected as a reduction in equity, resulting in the decreased book value amounts. Recognition of the unrealized losses would only occur if the Bank were to sell investments before maturity.

This performance helped retain the Bank's 5-Star rating from Bauer Financial, Inc., for the quarter ending December 31, 2022; the 102nd consecutive quarter the Bank has earned this superior rating.

Mayville Financial Corporation continues to have positive performance allowing us to pay consistent dividends to our shareholders. Conservative management and prudent lending decisions will continue to be an integral part of the sustained success of the Bank. It is expected that the Bank will continue to see challenges with pressure on earnings from a compressed interest margin and lower loan demand due to higher interest rates. Opportunities will be sought which attempt to enhance profitability and expand products and services, with a focus on improving our digital footprint with our retail and business customers. The financial condition of the Bank remains strong and we remain committed to serving the needs of our community and providing a good rate of return to our shareholders.

We thank you, our shareholders, for your continued interest in and support of Mayville Financial Corporation and its subsidiary, Mayville State Bank. With your support, we will continue to successfully grow the Bank and increase the value of your investment.

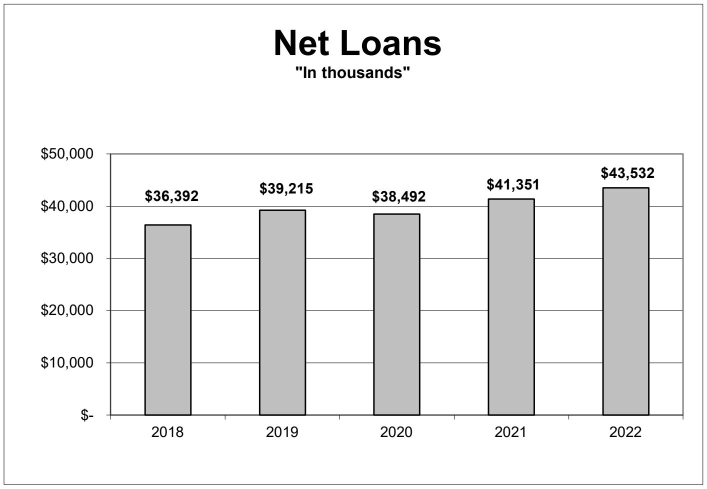
For the Board of Directors,

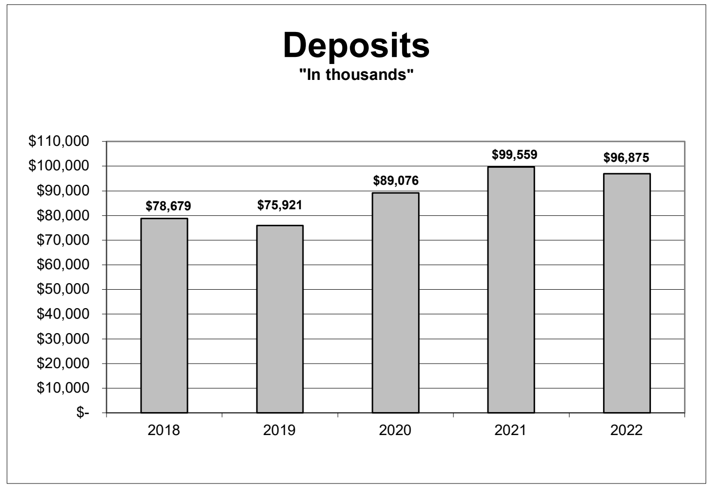
Shelly M Brooks

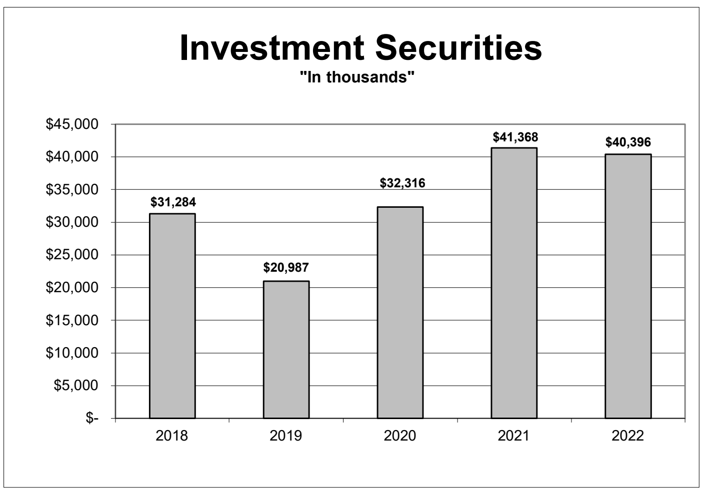
Shelly M. Brooks
President
MAYVILLE FINANCIAL CORPORATION

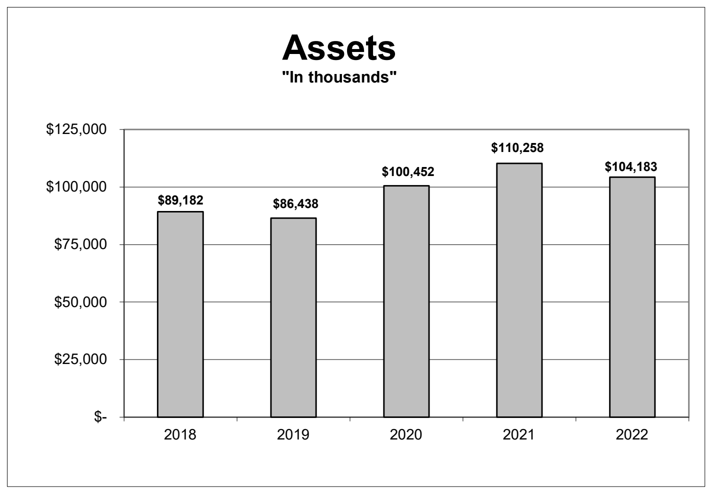
# Mayville Financial Corporation

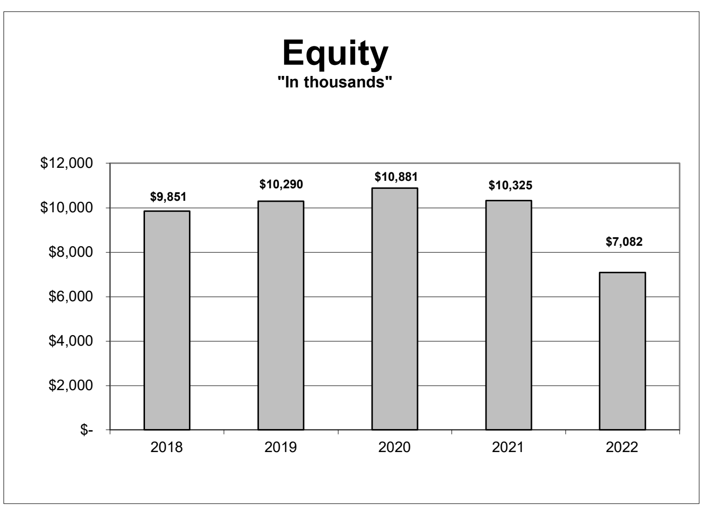
## Financial Highlights - Five Years

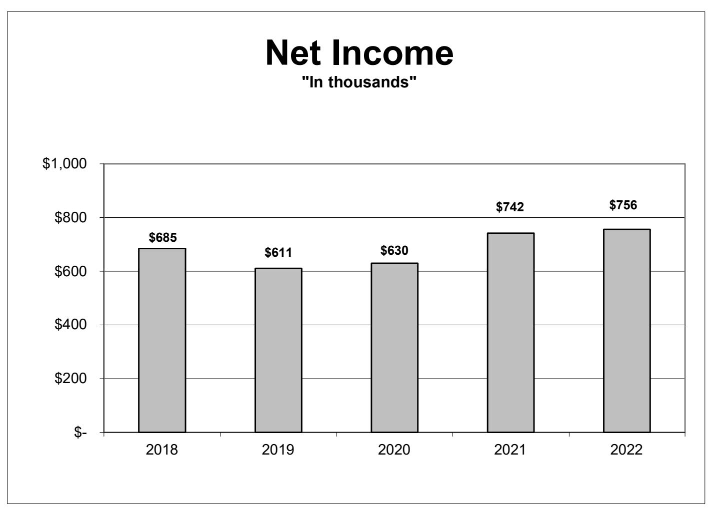


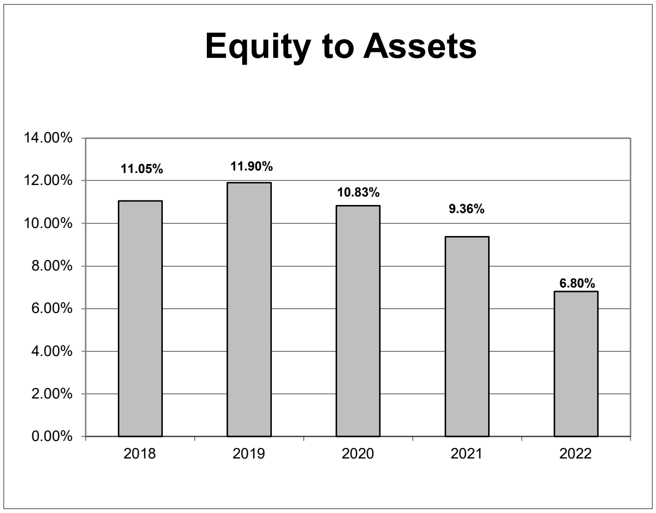



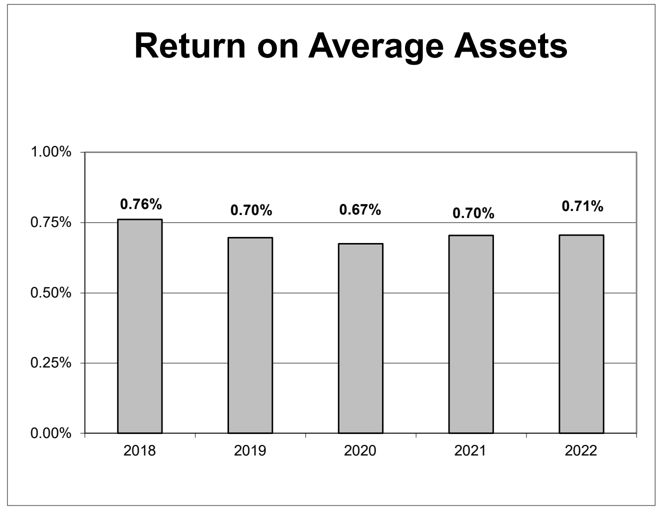



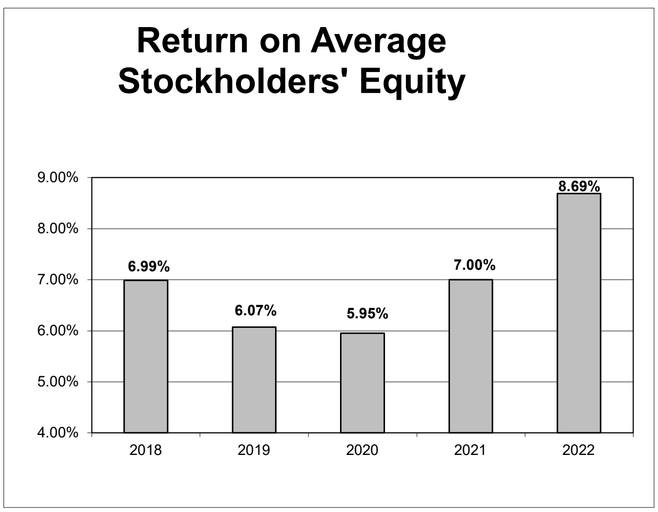



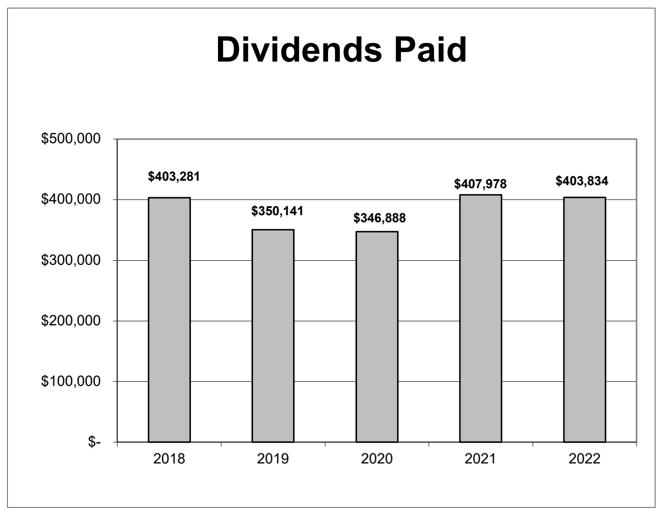
# Mayville Financial Corporation

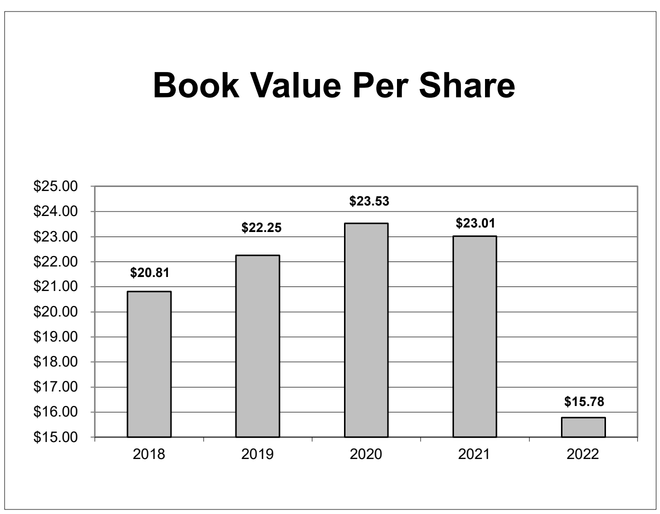
## Financial Highlights - Five Years



# INDEPENDENT AUDITORS' REPORT

April 28, 2023

Stockholders and Board of Directors
Mayville Financial Corporation
Mayville, Michigan

***Opinion***

We have audited the accompanying consolidated financial statements of ***Mayville Financial Corporation*** (the "Corporation"), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive (loss) income, stockholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Mayville Financial Corporation***, as of December 31, 2022 and 2021, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Basis for Opinion***

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

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

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

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

***Auditors' Responsibilities for the Audit of the Consolidated Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Corporation's internal control. Accordingly, no such opinion is expressed.

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

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

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

***Other Information included in the Annual Report***

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

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

Rehmann Robson LLC

## MAYVILLE FINANCIAL CORPORATION

### Consolidated Balance Sheets

| | December 31 | |
|---|---|---|
| | 2022 | 2021 |
| **ASSETS** | | |
| Cash and due from banks | $ 5,916,660 | $ 9,524,701 |
| Federal funds sold | 1,975,000 | 3,067,000 |
| **Cash and cash equivalents** | **7,891,660** | **12,591,701** |
| Certificates of deposit held at other financial institutions | 4,460,000 | 7,923,000 |
| Debt securities | | |
| Available-for-sale | 39,543,716 | 39,959,775 |
| Held-to-maturity | 852,782 | 1,408,313 |
| Federal Home Loan Bank stock, at cost | 284,400 | 323,100 |
| Net loans | 43,531,693 | 41,350,945 |
| Accrued interest receivable | 331,495 | 310,162 |
| Premises and equipment, net | 2,915,094 | 3,077,944 |
| Bank owned life insurance | 3,330,374 | 3,236,831 |
| Deferred tax asset | 861,500 | - |
| Other assets | 180,193 | 76,056 |
| **Total assets** | **$ 104,182,907** | **$ 110,257,827** |
| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| **Deposits** | | |
| Interest-bearing | | |
| NOW and money market accounts | $ 17,417,390 | $ 17,026,561 |
| Savings accounts | 37,760,321 | 38,912,406 |
| Other time deposits | 18,720,754 | 18,748,842 |
| Time deposits over $250,000 | 602,077 | 673,166 |
| Total interest-bearing | 74,500,542 | 75,360,975 |
| Noninterest-bearing | 22,373,988 | 24,197,641 |
| **Total deposits** | **96,874,530** | **99,558,616** |
| Accrued interest payable | 11,108 | 13,584 |
| Accrued expenses and other liabilities | 215,419 | 360,405 |
| **Total liabilities** | **97,101,057** | **99,932,605** |
| Commitments and contingencies (Notes 9 and 11) | | |
| **Stockholders' equity** | | |
| Common stock, no par value: 1,250,000 shares authorized, 448,704 shares issued and outstanding | 3,594,418 | 3,594,418 |
| Retained earnings | 7,245,153 | 6,892,676 |
| Accumulated other comprehensive loss | (3,757,721) | (161,872) |
| **Total stockholders' equity** | **7,081,850** | **10,325,222** |
| **Total liabilities and stockholders' equity** | **$ 104,182,907** | **$ 110,257,827** |

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

## MAYVILLE FINANCIAL CORPORATION

### Consolidated Statements of Income

| | Year Ended December 31 | |
|---|---|---|
| | **2022** | **2021** |
| **Interest and dividend income** | | |
| Loans (including fees) | $ 2,035,935 | $ 2,293,809 |
| Investment securities | | |
| Available-for-sale | 729,568 | 520,367 |
| Held-to-maturity | 16,585 | 12,544 |
| Federal funds sold and other | 32,119 | 505 |
| Other interest and dividend income | 205,786 | 212,331 |
| **Total interest and dividend income** | **3,019,993** | **3,039,556** |
| Interest expense on deposits | 141,891 | 161,327 |
| **Net interest income** | **2,878,102** | **2,878,229** |
| **Noninterest income** | | |
| Service charges on deposit accounts | 234,678 | 207,303 |
| Net gain on sale of investment securities | - | 1,197 |
| ATM income | 238,105 | 249,432 |
| Earnings on bank owned life insurance | 93,543 | 89,529 |
| Gain on sale of premises and equipment | 49,460 | - |
| Other | 56,311 | 52,701 |
| **Total noninterest income** | **672,097** | **600,162** |
| **Noninterest expenses** | | |
| Compensation | 1,159,801 | 1,182,923 |
| Profit sharing and other employee benefits | 224,819 | 202,977 |
| Occupancy and equipment | 314,010 | 316,399 |
| FDIC assessments | 29,700 | 10,000 |
| ATM processing fees | 159,379 | 145,407 |
| Professional fees | 97,253 | 88,219 |
| Directors fees | 75,920 | 79,850 |
| Data processing fees | 194,368 | 185,736 |
| Net loss on sale of investment securities | 13,298 | - |
| Other | 380,340 | 399,531 |
| **Total noninterest expenses** | **2,648,888** | **2,611,042** |
| **Income before federal income tax expense** | **901,311** | **867,349** |
| Federal income tax expense | 145,000 | 125,000 |
| **Net income** | **$ 756,311** | **$ 742,349** |
| **Net income per basic share of common stock** | **$ 1.69** | **$ 1.62** |

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

## MAYVILLE FINANCIAL CORPORATION

### Consolidated Statements of Comprehensive (Loss) Income

| | Year Ended December 31 | |
|---|---|---|
| | **2022** | **2021** |
| **Available-for-sale debt securities** | | |
| Unrealized holding losses arising during the year | $ (4,565,005) | $ (740,835) |
| Reclassification adjustment for net realized losses (gains) included in net income | 13,298 | (1,197) |
| **Comprehensive loss before income tax benefit** | (4,551,707) | (742,032) |
| Income tax benefit related to other comprehensive loss | 955,858 | 155,827 |
| **Other comprehensive loss** | **(3,595,849)** | **(586,205)** |
| Net income | 756,311 | 742,349 |
| **Comprehensive (loss) income** | **$ (2,839,538)** | **$ 156,144** |

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

## MAYVILLE FINANCIAL CORPORATION

### Consolidated Statements of Stockholders' Equity

| | Common Stock | | Retained | Accumulated Other Comprehensive | |
|---|---|---|---|---|---|
| | Shares | Amount | Earnings | (Loss) Income | Total |
| **Balances, January 1, 2021** | **462,518** | **$ 3,898,326** | **$ 6,558,305** | **$ 424,333** | **$ 10,880,964** |
| Comprehensive income | - | - | 742,349 | (586,205) | 156,144 |
| Redemption of stock | (13,814) | (303,908) | - | - | (303,908) |
| Cash dividends paid ($0.90 per share) | - | - | (407,978) | - | (407,978) |
| **Balances, December 31, 2021** | **448,704** | **3,594,418** | **6,892,676** | **(161,872)** | **10,325,222** |
| Comprehensive income | - | - | 756,311 | (3,595,849) | (2,839,538) |
| Cash dividends paid ($0.90 per share) | - | - | (403,834) | - | (403,834) |
| **Balances, December 31, 2022** | **448,704** | **$ 3,594,418** | **$ 7,245,153** | **$ (3,757,721)** | **$ 7,081,850** |

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

# MAYVILLE FINANCIAL CORPORATION

## Consolidated Statements of Cash Flows

| | Year Ended December 31 | |
|---|---|---|
| | 2022 | 2021 |
| **Cash flows from operating activities** | | |
| Net income | $ 756,311 | $ 742,349 |
| Adjustments to reconcile net income to net cash provided by operating activities | | |
| Depreciation | 196,020 | 196,505 |
| Increase in cash surrender value of bank owned life insurance | (93,543) | (89,529) |
| Net amortization of investment securities premiums | 244,184 | 357,254 |
| Gain on sale of premises and equipment | (49,460) | - |
| (Loss) gain on sale of investment securities | 13,298 | (1,197) |
| Deferred income tax expense (benefit) | 3,000 | (33,000) |
| Changes in operating assets and liabilities which (used) provided cash | | |
| Accrued interest receivable | (21,333) | (26,618) |
| Other assets | (104,137) | 278,348 |
| Accrued interest payable | (2,476) | (2,954) |
| Accrued expenses and other liabilities | (53,628) | 70,989 |
| **Net cash provided by operating activities** | **888,236** | **1,492,147** |
| **Cash flows from investing activities** | | |
| Net change in certificates of deposit held at other financial institutions | 3,463,000 | 2,976,000 |
| Sale of FHLB stock | 38,700 | - |
| Activity in held-to-maturity securities | | |
| Purchases | (800,000) | (800,000) |
| Maturities, prepayments and calls | 1,355,531 | 138,709 |
| Activity in available-for-sale securities | | |
| Purchases | (12,901,262) | (17,384,190) |
| Maturities, sales, prepayments and calls | 8,508,132 | 7,895,424 |
| Loan principal repayments, net | (2,180,748) | (2,859,305) |
| Proceeds from sales of premises and equipment | 49,460 | - |
| Purchases of premises and equipment | (33,170) | (29,440) |
| **Net cash used in investing activities** | **(2,500,357)** | **(10,062,802)** |
| **Cash flows from financing activities** | | |
| Acceptances and withdrawals of deposits, net | (2,684,086) | 10,482,517 |
| Common stock repurchased | - | (303,908) |
| Cash dividends paid | (403,834) | (407,978) |
| **Net cash (used in) provided by financing activities** | **(3,087,920)** | **9,770,631** |
| **Net (decrease) increase in cash and cash equivalents** | **(4,700,041)** | **1,199,976** |
| Cash and cash equivalents, beginning of year | 12,591,701 | 11,391,725 |
| **Cash and cash equivalents, end of year** | **$ 7,891,660** | **$ 12,591,701** |

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

## Notes to Consolidated Financial Statements

### 1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

***Consolidation and Nature of Business***

The accompanying consolidated financial statements include the accounts of ***Mayville Financial Corporation,*** a registered bank holding company (the "Corporation"), and its wholly owned subsidiary, Mayville State Bank (the "Bank"), and the Bank's subsidiary Mayville Financial Services. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its two branches located in Tuscola County in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

The Bank is a state chartered bank and a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations and supervision of the FDIC and state regulators and undergoes periodic examinations by these regulatory authorities. The Corporation is further subject to regulations and supervision of the Federal Reserve Board governing bank holding companies.

***Recent Events***

*The Coronavirus Aid, Relief and Economic Security Act* ("CARES Act") was passed by Congress on March 27, 2020. The CARES Act, as amended, included an allocation of loans to be issued by financial institutions through the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"). PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years (loans made before June 5, 2020) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. Payments are deferred until either the date that the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. The Bank originated a total of 201 PPP loans totaling approximately $5,451,000 during the program. Fees totaling approximately $487,000 were collected from the SBA for these loans during the program, with $62,266 and $323,043 being recognized as interest income on loans in the 2022 and 2021 consolidated statements of income, respectively. The Bank began submitting loan forgiveness in the fourth quarter of 2020. As of December 31, 2022 and 2021, the remaining balance of PPP loans was approximately $105,000 and $855,000, respectively. Loan origination fees associated with PPP loans are deferred and amortized into interest income over the contractual period of 24 months or 60 months, as applicable (or expected term method). Upon SBA forgiveness, any remaining unamortized fees are then recognized into interest income. Participation in the PPP had a significant impact on the Bank's asset mix and net interest income in 2021.

***Concentration Risks***

The Bank's primary deposit products are interest and noninterest-bearing checking accounts, savings accounts, and time deposits, and its primary lending products are real estate mortgages, commercial, and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

***Use of Estimates***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses and the associated valuation of impaired loans.

***Summary of Significant Accounting Policies***

Accounting policies used in preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America. The principles which materially affect the determination of the consolidated financial position and results of operations of the Corporation and its subsidiary are summarized below.

***Cash and Cash Equivalents***

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold. Generally, federal funds are sold for a one-day period. The Bank maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

***Certificates of Deposit Held at Other Financial Institutions***

Certificates of deposit held at other financial institutions mature within five years and are carried at cost.

***Fair Value Measurements***

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

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

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2.

***Investment Securities***

Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive (loss) income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Realized gains or losses on the sale of available-for-sale debt securities are recorded in investment income or loss on the trade date and are determined using the specific identification method.

Investment securities are reviewed at each reporting period for possible other-than-temporary impairment ("OTTI"). In determining whether an other-than-temporary impairment exists for debt securities, management must assert that: (a) it does not have the intent to sell the security; and (b) it is more likely than not it will not have to sell the security before recovery of its cost basis. If these conditions are not met, the Corporation must recognize an other-than-temporary impairment charge through earnings for the difference between the debt security's amortized cost basis and its fair value. For these debt securities, the Corporation separates the total impairment into the credit loss component and the amount of the loss related to other factors.

In order to determine the amount of the credit loss for a debt security, the Corporation calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The amount of the total other-than-temporary impairment related to the credit risk is recognized in earnings and is included in noninterest expense. The amount of the total other-than-temporary impairment related to other risk factors is recognized as a component of other comprehensive (loss) income. For debt securities that have recognized an other-than-temporary impairment through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

***Federal Home Loan Bank Stock***

The Bank is a member of the Federal Home Loan Bank System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis ("FHLB"). The amount of the required investment is based upon the available balance of the Bank's outstanding home mortgage loans or advances from the FHLB and is carried at cost plus the value assigned to stock dividends.

***Loans***

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, and the allowance for loan losses. Interest income is accrued on the unpaid principal balance. Except for fees associated with the origination of PPP loans, management estimates that direct costs incurred in originating loans approximate the origination fees generated on these loans. Therefore, net deferred loan origination fees on loans classified as held-to-maturity are not included on the accompanying consolidated balance sheets. As noted above, loan origination fees associated with PPP loans are deferred and being amortized into income over the contractual period of 24 months or 60 months, as applicable, or until the loan is repaid or forgiven.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments, and loans modified under troubled debt restructurings (nonperforming loans).

***Allowance for Loan Losses***

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Bank's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the appropriateness of the total allowance after loan losses. Loan losses are charged off against the allowance when the Bank determines the loan balance to be uncollectible. Cash received on previously charged-off amounts is recorded as a recovery to the allowance.

The allowance consists of general reserves, specific reserves related to impaired loans, and an unallocated component. For loans that are classified as impaired, a specific reserve is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of that loan. The general reserves covers nonimpaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent 5 years. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if its repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer and residential loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or in nonaccrual status.

The Bank evaluates the credit quality of loans in the consumer loan portfolio, including residential real estate loans, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans and loans past due as to principal or interest 90 days or more are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and measured for impairment as described above.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into five major categories, defined as follows:

**Pass:** A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

**Special Mention (or Watch):** Special mention loans (or watch) have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention (watch) loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

**Substandard:** Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

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

**Loss:** Loans classified as loss are considered uncollectible and are charged off immediately.

The majority of the Bank’s consumer and residential loan portfolio is comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer and residential loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank’s collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer and residential loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, commercial real estate, real estate construction, residential real estate, and consumer and other with risk characteristics described as follows:

**Commercial and Industrial:** Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

**Commercial Real Estate:** Commercial real estate loans generally possess a higher inherent risk of loss than other real estate portfolio segments. Adverse economic developments or an overbuilt market impact commercial real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

**Real Estate Construction:** Real estate construction loans generally possess a higher inherent risk of loss than other real estate portfolio segments. A major risk arises from the necessity to complete projects within a specified cost and time line. Trends in the construction industry significantly impact the credit quality of these loans, as demand drives construction activity. In addition, trends in real estate values significantly impact the credit quality of these loans, as property values determine the economic viability of construction projects.

**Residential Real Estate:** The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate that the borrowers' capacity to repay their obligations may be deteriorating.

**Consumer and Other:** The consumer and other loan portfolio is comprised of a large number of small loans, including automobile, personal loans, credit cards, etc. Most loans are made directly for consumer purchases. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers' capacity to repay their obligations may be deteriorating.

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

***Foreclosed Assets***

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in other noninterest expenses on the consolidated statements of income. There were no foreclosed assets at December 31, 2022 or 2021.

***Off-Balance Sheet Credit Related Financial Instruments***

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commitments under credit arrangements. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when they are funded. Management has determined that any estimated potential loss is immaterial to the overall consolidated financial statements.

***Premises and Equipment***

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets to determine whether carrying values have been impaired.

***Bank Owned Life Insurance***

The Bank holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Bank, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income on the consolidated statements of income.

***Income Taxes***

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

***Advertising Costs***

The cost of advertising and promotions are expensed as incurred. The Corporation incurred $26,313 and $36,263 in advertising costs in 2022 and 2021, respectively.

***Net Income Per Share***

Net income per basic share of common stock represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the year, which was 448,704 and 458,240 in 2022 and 2021, respectively.

***Reclassification***

Certain amounts reported in the 2021 consolidated financial statements have been reclassified to conform with the 2022 presentation.

***Subsequent Events***

In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2022, the most recent consolidated balance sheet presented herein, through ______, 2023, the date these consolidated financial statements were available to be issued. No significant such events or transactions were identified.

***Adoption of New Accounting Standings***

***Accounting Standards Update ("ASU") 2016-02, Leases:*** In February 2016, the FASB issued ASU 2016-02, *Leases* ("ASU 2016-02"). ASU 2016-02 amends the existing accounting principles for the recognition, measurement, presentation and disclosure of leases for both lessees and lessors. ASU 2016-02 requires a lessee to recognize a right-of-use asset and a lease liability on the balance sheet for most leases. In July 2018, the FASB issued ASU 2018-11, *Leases, Targeted Improvements* ("ASU 2018-11"). ASU 2018-11 provides entities with a transition method option to not restate comparative periods presented, but to recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption. With the passing of ASU 2020-05, the provisions of ASU 2016-02 and ASU 2018-11 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2021. The Bank adopted these lease accounting standards effective January 1, 2022. The impact of the adoption of this standard was not material to the Corporation's financial position.

***Pending Accounting Pronouncements, Not Yet Adopted***

ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and all subsequent amendments to the ASU (collectively, "ASC 326"). Issued in 2016, the intention of ASU 2016-13 was to improve financial reporting by requiring timelier recording of credit losses on loans and certain other financial instruments held by financial institutions.

The ASU requires that the measurement of all expected credit losses for financial assets that are measured at amortized cost at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will also use forward-looking information to develop their credit loss estimates.

In addition, the ASU amends existing guidance on accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration, and also applies to certain off-balance sheet credit exposures.

The standard on credit losses will take effect for fiscal years beginning after December 15, 2022. Management is currently evaluating the provisions of ASC 326 to determine the potential impact on the Corporation’s consolidated financial statements.

## 2. FAIR VALUE MEASUREMENTS

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

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

***Debt Securities***

Held-to-maturity debt securities are recorded at fair value on a nonrecurring basis only when an other-than-temporary impairment is recorded. Debt securities classified as available-for-sale are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 1 securities include U.S. Treasury notes, if any. Level 2 fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include states and municipal securities, mortgage-backed securities, securities issued by government-sponsored entities and corporate bonds in active markets. Securities classified as Level 3 include securities in less liquid markets and may include certain municipal securities. The Corporation does not have any Level 3 securities at December 31, 2021 or 2020.

***Loans***

The Corporation does not record loans at fair value on a recurring basis. However, from time to time, a loan is considered impaired and an allowance for loan losses is established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, fair value of similar debt, enterprise value, liquidation value, and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans. At December 31, 2022 and 2021, substantially all of the total impaired loans were evaluated based on the fair value of the collateral. Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation classifies the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation classifies the impaired loan as nonrecurring Level 3.

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

***Assets Recorded at Fair Value on a Recurring Basis***

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a recurring basis as of December 31:

| | Assets at Fair Value | | | |
|---|---|---|---|---|
| **2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investment securities available-for-sale: | | | | |
| Corporate bonds | $ - | $ 2,784,604 | $ - | $ 2,784,604 |
| Government-sponsored enterprises | - | 4,097,268 | - | 4,097,268 |
| States and municipal | - | 14,023,833 | - | 14,023,833 |
| Mortgage-backed | - | 18,638,011 | - | 18,638,011 |
| **Total assets at fair value** | **$ -** | **$ 39,543,716** | **$ -** | **$ 39,543,716** |

| | Assets at Fair Value | | | |
|---|---|---|---|---|
| **2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Investment securities available-for-sale: | | | | |
| Corporate bonds | $ - | $ 2,890,481 | $ - | $ 2,890,481 |
| Government-sponsored enterprises | - | 995,137 | - | 995,137 |
| States and municipal | - | 20,060,429 | - | 20,060,429 |
| Mortgage-backed | - | 16,013,728 | - | 16,013,728 |
| **Total assets at fair value** | **$ -** | **$ 39,959,775** | **$ -** | **$ 39,959,775** |

***Assets Recorded at Fair Value on a Nonrecurring Basis***

The following table sets forth by level, within the fair value hierarchy, the recorded amount of assets measured at fair value on a nonrecurring basis as of December 31:

| | Assets at Carrying Value | | | |
|---|---|---|---|---|
| **2022** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Impaired loans (1) | $ - | $ - | $ 7,201 | $ 7,201 |

| | Assets at Carrying Value | | | |
|---|---|---|---|---|
| **2021** | **Level 1** | **Level 2** | **Level 3** | **Total** |
| Impaired loans (1) | $ - | $ - | $ 80,279 | $ 80,279 |

(1) Certain impaired loans were remeasured and reported at fair value through a specific valuation allowance based upon the estimated fair value of the underlying collateral. Impaired loans of $7,201 and $80,279 at December 31, 2022 and 2021, respectively, were reduced by a specific valuation allowance totaling $7,201 and $28,000 as of December 31, 2022 and 2021, respectively.

Quantitative information about Level 3 fair value measurements is as follows as of December 31:

| **2022** | **Level 3 Instruments** | | | |
|---|---|---|---|---|
| **Instrument** | **Fair Value** | **Valuation Technique** | **Unobservable Input** | **Range** |
| Impaired loans | $ 7,201 | Discounted Appraisal Value | Discount Applied to Collateral Appraisal | 100% |

| **2021** | **Level 3 Instruments** | | | |
|---|---|---|---|---|
| **Instrument** | **Fair Value** | **Valuation Technique** | **Unobservable Input** | **Range** |
| Impaired loans | $ 80,279 | Discounted Appraisal Value | Discount Applied to Collateral Appraisal | 5% - 40% |

## Notes to Consolidated Financial Statements

### 3. INVESTMENT SECURITIES

The amortized cost and fair value of debt securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

| 2022 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-Maturity** | | | | |
| States and municipal | $ 852,782 | $ - | $ 2,753 | $ 850,029 |
| **Available-for-Sale** | | | | |
| Corporate bonds | 2,809,280 | - | 24,676 | 2,784,604 |
| Government-sponsored enterprises | 4,442,432 | 2,492 | 347,656 | 4,097,268 |
| States and municipal | 15,773,186 | - | 1,749,353 | 14,023,833 |
| Mortgage-backed | 21,275,427 | - | 2,637,416 | 18,638,011 |
| Total available-for-sale | 44,300,325 | 2,492 | 4,759,101 | 39,543,716 |
| **Total** | **$ 45,153,107** | **$ 2,492** | **$ 4,761,854** | **$ 40,393,745** |

| 2021 | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-Maturity** | | | | |
| States and municipal | $ 1,408,313 | $ 4,371 | $ 746 | $ 1,411,938 |
| **Available-for-Sale** | | | | |
| Corporate bonds | 2,813,886 | 76,595 | - | 2,890,481 |
| Government-sponsored enterprises | 999,996 | 382 | 5,241 | 995,137 |
| States and municipal | 20,070,811 | 145,570 | 155,952 | 20,060,429 |
| Mortgage-backed | 16,279,984 | 41,259 | 307,515 | 16,013,728 |
| Total available-for-sale | 40,164,677 | 263,806 | 468,708 | 39,959,775 |
| **Total** | **$ 41,572,990** | **$ 268,177** | **$ 469,454** | **$ 41,371,713** |

There were no securities pledged as of December 31, 2022 or 2021.

The amortized cost and fair value of held-to-maturity securities and available-for-sale securities grouped by contractual maturity at December 31, 2022, are summarized as follows:

| | Maturing | | | | |
|---|---|---|---|---|---|
| | Due in One Year Or Less | Due After One Year Through Five Years | Due After Five Years Through Ten Years | Securities with Variable Monthly Payments | Total |
| **Held-to-Maturity** | | | | | |
| States and municipal | $ 838,175 | $ 14,607 | $ - | $ - | $ 852,782 |
| **Available-for-sale** | | | | | |
| Corporate bonds | 2,403,483 | 405,797 | - | - | 2,809,280 |
| Government-sponsored enterprises | - | 3,191,708 | 1,250,724 | - | 4,442,432 |
| States and municipal | - | 8,938,475 | 6,834,711 | - | 15,773,186 |
| Mortgage-backed | - | - | - | 21,275,427 | 21,275,427 |
| **Total available-for-sale** | 2,403,483 | 12,535,980 | 8,085,435 | 21,275,427 | 44,300,325 |
| **Total amortized cost** | **$ 3,241,658** | **$ 12,550,587** | **$ 8,085,435** | **$ 21,275,427** | **$ 45,153,107** |
| **Fair value** | **$ 3,226,707** | **$ 11,555,362** | **$ 6,973,665** | **$ 18,638,011** | **$ 40,393,745** |

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed securities are not reported by a specific maturity group.

There were $2,916,896 and $1,440,341 in proceeds from sales of available-for-sale securities during 2022 and 2021, respectively. Gross realized gains amounted of $0 and $16,492 and gross realized losses of $13,298 and $15,295 in 2022 and 2021, respectively. This resulted in a reclassification of a loss of $13,298 ($16,091 net of tax) in 2022 and a gain of $1,197 ($946 net of tax) in 2021 from accumulated other comprehensive loss to (loss) gain on sale of securities, a component of noninterest expense and income, respectively, on the consolidated statements of income.

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31 is as follows:

| 2022 | Less than 12 Months Fair Value | Less than 12 Months Gross Unrealized Loss | Over 12 Months Fair Value | Over 12 Months Gross Unrealized Loss | Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| **Held-to-Maturity** | | | | | | |
| States and municipal | $ 828,387 | $ 2,753 | $ - | $ - | $ 828,387 | $ 2,753 |
| **Available-for-sale** | | | | | | |
| Corporate bonds | 2,784,604 | 24,676 | - | - | 2,784,604 | 24,676 |
| Government-sponsored enterprises | 3,372,063 | 295,007 | 447,351 | 52,649 | 3,819,414 | 347,656 |
| States and municipal | 4,225,722 | 215,854 | 9,798,111 | 1,533,499 | 14,023,833 | 1,749,353 |
| Mortgage-backed | 8,147,744 | 540,864 | 10,490,267 | 2,096,552 | 18,638,011 | 2,637,416 |
| **Total securities available-for-sale** | **$ 18,530,133** | **$ 1,076,401** | **$ 20,735,729** | **$ 3,682,700** | **$ 39,265,862** | **$ 4,759,101** |

| 2021 | Less than 12 Months Fair Value | Less than 12 Months Gross Unrealized Loss | Over 12 Months Fair Value | Over 12 Months Gross Unrealized Loss | Fair Value | Total Gross Unrealized Losses |
|---|---|---|---|---|---|---|
| **Held-to-Maturity** | | | | | | |
| States and municipal | $ 799,254 | $ 746 | $ - | $ - | $ 799,254 | $ 746 |
| **Available-for-sale** | | | | | | |
| Government-sponsored enterprises | 494,759 | 5,241 | - | - | 494,759 | 5,241 |
| States and municipal | 11,234,341 | 155,952 | - | - | 11,234,341 | 155,952 |
| Mortgage-backed | 11,800,715 | 252,632 | 2,330,242 | 54,883 | 14,130,957 | 307,515 |
| **Total securities available-for-sale** | **$ 24,329,069** | **$ 414,571** | **$ 2,330,242** | **$ 54,883** | **$ 26,659,311** | **$ 469,454** |

As of December 31, 2022, the Corporation's investment security portfolio consisted of 140 securities, 133 of which were in an unrealized loss position.

As of December 31, 2022 and 2021, management conducted an analysis to determine whether securities currently in an unrealized loss position should be considered other-than-temporarily-impaired ("OTTI"). Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable that the issuer will be unable to pay the amount when due?
- Is it more likely than not that the Corporation will not have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended for an unreasonable period of time?

Based on the Corporation's analysis using the above criteria, the fact that management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Corporation will not have to sell the securities before recovery of their cost basis, management does not believe that the values of any securities are other-than-temporarily impaired as of December 31, 2022 or 2021.

## 4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank grants commercial, consumer and residential mortgage loans to customers situated primarily in the Tuscola County Area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Substantially all of the consumer and residential loans are collateralized by various items of property, while commercial loans are collateralized primarily by business assets and personal guarantees; a portion of loans are unsecured.

Loans are summarized at December 31:

| | 2022 | 2021 |
|---|---|---|
| Commercial and industrial | $ 3,367,283 | $ 5,042,826 |
| Commercial real estate | 3,710,256 | 2,971,636 |
| Real estate construction | 2,048,075 | 1,370,553 |
| Residential real estate | 29,498,564 | 28,155,164 |
| Consumer and other | 5,435,905 | 4,359,868 |
| Total loans | 44,060,083 | 41,900,047 |
| Allowance for loan losses | 528,390 | 549,102 |
| **Loans, net** | **$ 43,531,693** | **$ 41,350,945** |

## Notes to Consolidated Financial Statements

The allowance for loan losses and recorded investment in loans are as follows for the years ended December 31:

| 2022 | Commercial and Industrial | Commercial Real Estate | Real Estate Construction | Residential Real Estate | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | | | |
| Balance at beginning of year | $ 52,410 | $ 87,595 | $ 3,426 | $ 232,770 | $ 36,141 | $ 136,760 | $ 549,102 |
| Provision for loan losses | (16,491) | 68,108 | 1,694 | (10,874) | 24,889 | (67,326) | - |
| Loans charged-off | - | - | - | (300) | (37,024) | - | (37,324) |
| Recoveries | - | - | - | - | 16,612 | - | 16,612 |
| **Balance at end of year** | **$ 35,919** | **$ 155,703** | **$ 5,120** | **$ 221,596** | **$ 40,618** | **$ 69,434** | **$ 528,390** |
| **Allowance for loan losses attributable to:** | | | | | | | |
| Individually evaluated for impairment | $ 7,201 | $ - | $ - | $ - | $ - | $ - | $ 7,201 |
| Collectively evaluated for impairment | 28,718 | 155,703 | 5,120 | 221,596 | 40,618 | 69,434 | 521,189 |
| **Total allowance for loan losses** | **$ 35,919** | **$ 155,703** | **$ 5,120** | **$ 221,596** | **$ 40,618** | **$ 69,434** | **$ 528,390** |
| **Loans:** | | | | | | | |
| Individually evaluated for impairment | $ 7,201 | $ - | $ - | $ 569,570 | $ - | | $ 576,771 |
| Collectively evaluated for impairment | 3,360,082 | 3,710,256 | 2,048,075 | 28,928,994 | 5,435,905 | | 43,483,312 |
| Total loans | 3,367,283 | 3,710,256 | 2,048,075 | 29,498,564 | 5,435,905 | | 44,060,083 |
| Accrued interest receivable | 2,253 | 17,876 | - | 77,284 | 16,337 | | 113,750 |
| **Total recorded investment in loans** | **$ 3,369,536** | **$ 3,728,132** | **$ 2,048,075** | **$ 29,575,848** | **$ 5,452,242** | | **$ 44,173,833** |

| 2021 | Commercial and Industrial | Commercial Real Estate | Real Estate Construction | Residential Real Estate | Consumer and Other | Unallocated | Total |
|---|---|---|---|---|---|---|---|
| **Allowance for loan losses:** | | | | | | | |
| Balance at beginning of year | $ 31,739 | $ 166,421 | $ 917 | $ 289,338 | $ 28,820 | $ 49,873 | $ 567,108 |
| Provision for loan losses | 20,671 | (78,826) | 2,509 | (56,568) | 25,327 | 86,887 | - |
| Loans charged-off | - | - | - | - | (21,396) | - | (21,396) |
| Recoveries | - | - | - | - | 3,390 | - | 3,390 |
| **Balance at end of year** | **$ 52,410** | **$ 87,595** | **$ 3,426** | **$ 232,770** | **$ 36,141** | **$ 136,760** | **$ 549,102** |
| **Allowance for loan losses attributable to:** | | | | | | | |
| Individually evaluated for impairment | $ 6,000 | $ - | $ - | $ 17,000 | $ 5,000 | $ - | $ 28,000 |
| Collectively evaluated for impairment | 46,410 | 87,595 | 3,426 | 215,770 | 31,141 | 136,760 | 521,102 |
| **Total allowance for loan losses** | **$ 52,410** | **$ 87,595** | **$ 3,426** | **$ 232,770** | **$ 36,141** | **$ 136,760** | **$ 549,102** |
| **Loans:** | | | | | | | |
| Individually evaluated for impairment | $ 9,840 | $ - | $ - | $ 528,184 | $ 9,560 | | $ 547,584 |
| Collectively evaluated for impairment | 5,032,986 | 2,971,636 | 1,370,553 | 27,626,980 | 4,350,308 | | 41,352,463 |
| Total loans | 5,042,826 | 2,971,636 | 1,370,553 | 28,155,164 | 4,359,868 | | 41,900,047 |
| Accrued interest receivable | 3,227 | 14,652 | - | 66,682 | 20,792 | | 105,353 |
| **Total recorded investment in loans** | **$ 5,046,053** | **$ 2,986,288** | **$ 1,370,553** | **$ 28,221,846** | **$ 4,380,660** | | **$ 42,005,400** |

## Notes to Consolidated Financial Statements

The following table shows the loans allocated by management's internal risk ratings as of December 31:

| 2022 | Commercial Credit Risk Profile by Risk Rating | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention or Watch | Substandard | Doubtful | Total |
| **Risk Rating** | | | | | |
| Commercial and industrial | $ 3,360,082 | $ - | $ 7,201 | $ - | $ 3,367,283 |
| Commercial real estate | 2,775,255 | 935,001 | - | - | 3,710,256 |
| **Total** | **$ 6,135,337** | **$ 935,001** | **$ 7,201** | **$ -** | **$ 7,077,539** |

The following table shows the homogeneous loans allocated by payment activity as of December 31:

| 2022 | Consumer Credit Risk Profile by Payment Activity | | | |
|---|---|---|---|---|
| | Real Estate Construction | Residential Real Estate | Consumer and Other | Total |
| **Payment activity** | | | | |
| Performing | $ 2,048,075 | $ 29,282,425 | $ 5,435,905 | $ 36,766,405 |
| Nonperforming | - | 216,139 | - | 216,139 |
| **Total** | **$ 2,048,075** | **$ 29,498,564** | **$ 5,435,905** | **$ 36,982,544** |

The following table shows the loans allocated by management's internal risk ratings as of December 31:

| 2021 | Commercial Credit Risk Profile by Risk Rating | | | | |
|---|---|---|---|---|---|
| | Pass | Special Mention or Watch | Substandard | Doubtful | Total |
| **Risk Rating** | | | | | |
| Commercial and industrial | $ 5,032,986 | $ - | $ 9,840 | $ - | $ 5,042,826 |
| Commercial real estate | 2,199,367 | 772,269 | - | - | 2,971,636 |
| Total | **$ 7,232,353** | **$ 772,269** | **$ 9,840** | **$ -** | **$ 8,014,462** |

## Notes to Consolidated Financial Statements

The following table shows the homogeneous loans allocated by payment activity as of December 31:

| 2021 | Consumer Credit Risk Profile by Payment Activity: Real Estate Construction | Residential Real Estate | Consumer and Other | Total |
|---|---|---|---|---|
| **Payment activity** | | | | |
| Performing | $ 1,370,553 | $ 28,135,099 | $ 4,350,308 | $ 33,855,960 |
| Nonperforming | - | 20,065 | 9,560 | 29,625 |
| **Total** | **$ 1,370,553** | **$ 28,155,164** | **$ 4,359,868** | **$ 33,885,585** |

The following table shows an aging analysis of the loan portfolio by time past due as of December 31:

| | Accruing Interest | | | | |
|---|---|---|---|---|---|
| **2022** | **Current** | **30-89 Days Past Due** | **More Than 90 Days Past Due** | **Total Nonaccrual** | **Total Loans** |
| Commercial and industrial | $ 3,292,983 | $ 74,300 | $ - | $ - | $ 3,367,283 |
| Commercial real estate | 3,710,256 | - | - | - | 3,710,256 |
| Real estate construction | 2,048,075 | - | - | - | 2,048,075 |
| Residential real estate | 28,482,087 | 800,338 | 216,139 | - | 29,498,564 |
| Consumer and other | 5,417,865 | 18,040 | - | - | 5,435,905 |
| **Total** | **$ 42,951,266** | **$ 892,678** | **$ 216,139** | **$ -** | **$ 44,060,083** |

| | Accruing Interest | | | | |
|---|---|---|---|---|---|
| **2021** | **Current** | **30-89 Days Past Due** | **More Than 90 Days Past Due** | **Total Nonaccrual** | **Total Loans** |
| Commercial and industrial | $ 5,042,826 | $ - | $ - | $ - | $ 5,042,826 |
| Commercial real estate | 2,915,355 | 56,281 | - | - | 2,971,636 |
| Real estate construction | 1,306,031 | 64,522 | - | - | 1,370,553 |
| Residential real estate | 27,848,391 | 286,708 | 20,065 | - | 28,155,164 |
| Consumer and other | 4,303,534 | 46,774 | - | 9,560 | 4,359,868 |
| **Total** | **$ 41,416,137** | **$ 454,285** | **$ 20,065** | **$ 9,560** | **$ 41,900,047** |

## Notes to Consolidated Financial Statements

The following table presents information related to impaired loans as of December 31:

| 2022 | Loan Balance | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **Loans with no related allowance recorded** | | | | | |
| Residential real estate | $ 569,570 | $ 569,570 | $ - | $ 518,438 | 26,806 |
| **Loans with an allowance recorded** | | | | | |
| Commercial and industrial | 7,201 | 7,201 | 7,201 | 8,520 | 459 |
| **Total impaired loans** | | | | | |
| Commercial and industrial | 7,201 | 7,201 | 7,201 | 8,520 | 459 |
| Residential real estate | 569,570 | 569,570 | - | 518,438 | 26,806 |
| **Total** | **$ 576,771** | **$ 576,771** | **$ 7,201** | **$ 526,958** | **$ 27,265** |

| 2021 | Loan Balance | Unpaid Principal Balance | Related Allowance | Average Recorded Investment | Interest Income Recognized |
|---|---|---|---|---|---|
| **Loans with no related allowance recorded** | | | | | |
| Residential real estate | $ 467,305 | $ 467,305 | $ - | $ 482,795 | $ 29,115 |
| **Loans with an allowance recorded** | | | | | |
| Commercial and Industrial | 9,840 | 9,840 | 6,000 | 11,109 | 619 |
| Residential real estate | 60,879 | 60,879 | 17,000 | 61,112 | 4,253 |
| Consumer and other | 9,560 | 9,560 | 5,000 | 10,702 | 372 |
| **Total impaired loans** | | | | | |
| Commercial and Industrial | 9,840 | 9,840 | 6,000 | 11,109 | 619 |
| Residential real estate | 528,184 | 528,184 | 17,000 | 543,907 | 33,368 |
| Consumer and other | 9,560 | 9,560 | 5,000 | 10,702 | 372 |
| **Total** | **$ 547,584** | **$ 547,584** | **$ 28,000** | **$ 565,718** | **$ 34,359** |

The Bank does not have material commitments to lend additional funds to borrowers with loans whose terms have been modified in troubled debt restructurings or whose loans are on nonaccrual.

A summary of loans that were modified in troubled debt restructurings during 2022, is as follows:

| | Troubled Debt Restructurings | | |
|---|---|---|---|
| | Number of Loans | Pre-Modification Outstanding Recorded Investment | Post-Modification Outstanding Recorded Investment |
| Residential real estate | 1 | $ 96,000 | $ 96,000 |

All modifications during 2022 consisted of debt consolidation.

There were no troubled debt restructurings during 2021. TDRs that defaulted during 2022 and 2021 were not significant.

## 5. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts at December 31:

| | 2022 | 2021 |
|---|---|---|
| Land and improvements | $ 136,403 | $ 136,403 |
| Buildings and improvements | 3,479,216 | 3,450,716 |
| Furniture and equipment | 751,734 | 747,064 |
| Total | 4,367,353 | 4,334,183 |
| Less accumulated depreciation | 1,452,259 | 1,256,239 |
| **Premises and equipment, net** | **$ 2,915,094** | **$ 3,077,944** |

Depreciation expense was $196,020 and $196,505 for 2022 and 2021, respectively.

## 6. DEPOSITS

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2022, and thereafter, are summarized as follows:

| Year | Amount |
|---|---|
| 2023 | $ 13,792,123 |
| 2024 | 1,733,315 |
| 2025 | 1,368,292 |
| 2026 | 830,508 |
| 2027 | 1,579,276 |
| Thereafter | 19,317 |
| **Total** | **$ 19,322,831** |

## 7. FEDERAL INCOME TAXES

Significant components of the Corporation's deferred income tax assets and liabilities presented in the accompanying consolidated balance sheets (measured at a 21% tax rate) within assets (2022) and other liabilities (2021) are comprised of the following amounts as of December 31:

| | 2022 | 2021 |
|---|---|---|
| **Deferred tax assets** | | |
| Allowance for loan losses | $ 79,000 | $ 79,000 |
| PPP deferred loan fees | 1,000 | 14,000 |
| Unrealized loss on available-for-sale securities | 999,000 | 43,000 |
| **Total deferred tax assets** | **1,079,000** | **136,000** |
| **Deferred tax liabilities** | | |
| Prepaid expenses | 8,000 | 2,000 |
| Depreciation | 193,000 | 214,000 |
| Accretion | 12,500 | 7,500 |
| FHLB stock dividends | 4,000 | 4,000 |
| **Total deferred tax liabilities** | **217,500** | **227,500** |
| **Net deferred tax asset (liability)** | **$ 861,500** | **$ (91,500)** |

The provision for federal income taxes consists of the following components for the years ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Currently payable | $ 142,000 | $ 158,000 |
| Deferred expense (benefit) | 3,000 | (33,000) |
| **Income tax expense** | **$ 145,000** | **$ 125,000** |

A reconciliation between federal income tax expense reported and the amount computed by applying the statutory federal income tax rate of 21% to income before federal income taxes is as follows for the years ended December 31:

| | 2022 | 2021 |
|---|---|---|
| Income tax provision at statutory rate | $ 189,000 | $ 182,000 |
| Effect of tax-exempt interest income | (29,000) | (37,000) |
| Other - net | (15,000) | (20,000) |
| **Income tax expense** | **$ 145,000** | **$ 125,000** |

The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for the years 2019 through 2022, the years which remain subject to examination by major tax jurisdictions as of December 31, 2022. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly increase in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2022 or 2021, and it is not aware of any claims for such amounts by federal or state income tax authorities.

## 8. RELATED PARTY TRANSACTIONS

***Loans***

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated approximately $1,457,000 and $1,841,000 as of December 31, 2022 and 2021, respectively.

***Deposits***

Deposits of Corporation directors, executive officers and their affiliates were approximately $1,240,000 and $1,400,000 as of December 31, 2022 and 2021, respectively.

## 9. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including requirements for collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2022 and 2021, the following financial instruments were outstanding whose contract amounts represent credit risk:

| | Contract Amount | |
|---|---|---|
| | **2022** | **2021** |
| Unfunded commitments under lines of credit | $ 5,079,000 | $ 5,097,000 |
| Commitments to grant loans | 506,000 | 785,000 |

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

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

## 10. REGULATORY REQUIREMENTS

***Capital Requirements***

The Bank is subject to various regulatory capital requirements, including restriction on dividends, administered by the federal banking agencies. Failure to meet minimum capital requirements, including restrictions on dividends, can initiate certain mandatory and possibly additional discretionary actions by regulators, that if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act.* The final rule became effective on January 1, 2020 and was elected by the Bank as of December 31 , 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the *Coronavirus Aid, Relief, and Economic Security (CARES) Act,* and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31 , 2020, 7.5% for calendar year 2021 , and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

| | Actual | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|
| **December 31, 2022** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| (Dollars in thousands) | | | | |
| Tier 1 (Core) Capital to Leverage Assets | $ 10,353 | 9.90 % | $ 9,410 | 9.00 % |

| | Actual | | Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions | |
|---|---|---|---|---|
| **December 31, 2021** | **Amount** | **Ratio** | **Amount** | **Ratio** |
| (Dollars in thousands) | | | | |
| Total Capital to Leverage Assets | $ 10,051 | 9.18 % | $ 9,302 | 8.50 % |

***Restrictions on Cash and Amounts Due from Banks***

Banks are generally required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. There was no required reserve balance at December 31, 2022 or 2021.

***Restrictions on Dividends, Loans and Advances***

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

## 11. CONTINGENCIES

***Litigation***

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

## Notes to Consolidated Financial Statements

***Environmental Issues***

As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2022.

## 12. EMPLOYEE BENEFIT PLANS

The Bank sponsors a profit sharing plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees of the Bank are covered under the Plan. Contributions to the Plan are discretionary, and amounted to $30,000 in both 2022 and 2021.

## 13. SUPPLEMENTAL CASH FLOWS INFORMATION

***Other Cash Flow Information***

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

| | **2022** | **2021** |
|---|---|---|
| Interest | $ 144,367 | $ 164,281 |
| Income taxes | $ 208,876 | $ 88,433 |

## 14. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation’s primary revenue streams to service charges on deposit accounts. The Bank earns fees from its deposit customers for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, including these for services such as ATM fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which primarily relate to monthly account maintenance, are earned over the course of the month, which represents the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are deducted from the customer's account balance.

As it relates to other real estate owned for which the Bank finances the sale of property to the buyer, the Bank would assess whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction is probable. Once these criteria are met, the other real estate asset would be derecognized and the gain or loss on sale would be recorded.

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