Tri-County Bancorp, Inc.

Tri-County Bank

Years Ended December 31, 2023 and 2022

Consolidated Financial Statements

TRI-COUNTY BANCORP, INC.

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Independent Auditor's Report

To the Board of Directors
Tri-County Bancorp, Inc.

Opinion

We have audited the consolidated financial statements of Tri-County Bancorp, Inc. and its subsidiary (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and the related consolidated statements of income, comprehensive income (loss), stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Emphasis of Matter

As described in Note 1 to the consolidated financial statements, the Company adopted the provisions of ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326)*: *Measurement of Credit Losses on Financial Instruments*, as of January 1, 2023. The Company adopted using the modified retrospective method such that prior period amounts are not adjusted and continue to be reported in accordance with previously applicable generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Tri-County Bancorp, Inc. and its subsidiary as of December 31, 2022 were audited by other auditors, who expressed an unmodified opinion on those statements on March 16, 2023.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Plante & Moran, PLLC

March 21, 2024

TRI-COUNTY BANCORP, INC.

Consolidated Balance Sheets

	December 31	
	2023	2022
ASSETS		
Cash and due from banks	$ 8,288,309	$ 7,531,348
Federal funds sold	181,000	75,000
Cash and cash equivalents	**8,469,309**	**7,606,348**
Certificates of deposit	-	248,000
Investment securities		
Available-for-sale	132,162,675	133,497,647
Held-to-maturity	314,544	458,661
Restricted investments	1,382,000	1,382,000
Loans, net of allowance for credit losses of $3,967,984 and $3,243,258 at December 31, 2023 and 2022, respectively	379,775,071	355,100,671
Accrued interest receivable	3,286,234	2,766,892
Premises and equipment, net	7,181,884	6,919,209
Bank owned life insurance	10,931,892	10,649,602
Deferred tax asset, net	3,115,000	3,750,000
Other assets	1,210,291	1,432,051
Total assets	**$ 547,828,900**	**$ 523,811,081**
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Noninterest-bearing	$ 171,945,914	$ 186,261,327
Interest-bearing	286,625,548	267,360,878
Total deposits	**458,571,462**	**453,622,205**
Borrowed funds	34,500,000	24,000,000
Accrued interest payable and other liabilities	852,599	605,772
Total liabilities	**493,924,061**	**478,227,977**
Commitments and contingencies (Notes 11, 12, 13, 14, and 16)		
Stockholders' equity		
Common stock, no par value: 4,000,000 shares authorized, 1,002,420 and 1,010,675 shares issued and outstanding at December 31, 2023 and 2022, respectively	7,051,011	7,627,495
Retained earnings	58,156,328	52,366,793
Accumulated other comprehensive loss	(11,302,500)	(14,411,184)
Total stockholders' equity	**53,904,839**	**45,583,104**
Total liabilities and stockholders' equity	**$ 547,828,900**	**$ 523,811,081**

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

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Income

	Year Ended December 31	
	2023	**2022**
Interest income		
Loans (including fees)	$ 22,762,535	$ 17,959,564
Investments	2,166,608	2,158,705
Federal funds sold	7,805	40,811
Total interest income	**24,936,948**	**20,159,080**
Interest expense		
Deposits	5,100,848	1,176,835
Borrowed funds	543,214	81,068
Total interest expense	**5,644,062**	**1,257,903**
Net interest income	**19,292,886**	**18,901,177**
Provision for credit losses	488,032	955,804
Net interest income, after credit loss expense	**18,804,854**	**17,945,373**
Noninterest income		
Service charges on deposit accounts	1,370,867	1,249,445
Net gain on sale of loans	106,054	376,343
Other	455,249	542,472
Total noninterest income	**1,932,170**	**2,168,260**
Noninterest expenses		
Compensation and benefits	5,997,129	5,993,699
Occupancy and equipment	1,040,638	1,054,575
Foreclosed assets	5,086	43,235
Data processing	786,051	744,573
Other	2,554,779	2,345,659
Total noninterest expenses	**10,383,683**	**10,181,741**
Income before income taxes	**10,353,341**	**9,931,892**
Income taxes	2,089,000	1,999,000
Net income	**$ 8,264,341**	**$ 7,932,892**

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

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Comprehensive Income (Loss)

	Year Ended December 31	
	2023	**2022**
Net income	**$ 8,264,341**	**$ 7,932,892**
Other comprehensive income (loss)		
Available-for-sale securities		
Unrealized holding gains (losses) arising during the year	3,935,043	(17,056,049)
Reclassification adjustment for net realized losses included in net income	-	33,982
Other comprehensive income (loss) before income tax (expense) benefit	**3,935,043**	**(17,022,067)**
Income tax (expense) benefit related to other comprehensive income (loss)	(826,359)	3,574,634
Other comprehensive income (loss)	**3,108,684**	**(13,447,433)**
Comprehensive income (loss)	**$ 11,373,025**	**$ (5,514,541)**

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

Consolidated Statements of Stockholders' Equity

	Common Stock		Retained	Accumulated Other Comprehensive	
	Shares	Amount	Earnings	Loss	Total
Balances, January 1, 2022	**1,007,479**	**$ 7,400,136**	**$ 46,230,795**	**$ (963,751)**	**$ 52,667,180**
Comprehensive loss	-	-	7,932,892	(13,447,433)	(5,514,541)
Dividends ($1.76 per share)	-	-	(1,796,894)	-	(1,796,894)
Issuance of common stock	25,371	1,789,550	-	-	1,789,550
Redemption of common stock	(22,175)	(1,562,191)	-	-	(1,562,191)
Balances, December 31, 2022	**1,010,675**	**7,627,495**	**52,366,793**	**(14,411,184)**	**45,583,104**
Change in accounting principle, net of tax (Note 1)	-	-	(383,505)	-	(383,505)
Comprehensive income	-	-	8,264,341	3,108,684	11,373,025
Dividends ($2.08 per share)	-	-	(2,091,301)	-	(2,091,301)
Issuance of common stock	16,474	1,147,249	-	-	1,147,249
Redemption of common stock	(24,729)	(1,723,733)	-	-	(1,723,733)
Balances, December 31, 2023	**1,002,420**	**$ 7,051,011**	**$ 58,156,328**	**$ (11,302,500)**	**$ 53,904,839**

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

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2023	**2022**
Cash flows from operating activities		
Net income	$ 8,264,341	$ 7,932,892
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	349,822	361,306
Amortization of goodwill	65,683	65,684
Net amortization of premiums on investment securities	377,676	430,212
Net loss on sale of investment securities	-	33,982
Mortgage servicing rights amortization	215,100	238,160
Provision for credit losses	488,032	955,804
Net gain on sale of loans	(106,054)	(376,343)
Foreclosed asset losses	6,417	34,792
Loss on sale and disposal of equipment	13,673	2,573
Increase in cash surrender value of bank owned life insurance	(282,290)	(258,833)
Deferred income tax benefit	(191,000)	(92,000)
Originations of mortgage loans held for sale	(4,887,700)	(12,781,099)
Proceeds from mortgage loan sales	4,993,754	13,606,743
Changes in operating assets and liabilities which (used) provided cash		
Accrued interest receivable	(519,342)	(297,884)
Other assets	(58,858)	(507,220)
Accrued interest payable and other liabilities	233,827	487,967
Net cash provided by operating activities	**8,963,081**	**9,836,736**
Cash flows from investing activities		
Net activity in certificates of deposit	248,000	990,000
Activity in held-to-maturity securities		
Maturities, prepayments and calls	144,117	1,465,293
Activity in available-for-sale securities		
Purchases	-	(28,925,381)
Sales, maturities, prepayments and calls	4,892,339	12,905,234
Purchase of restricted investments	-	(370,300)
Loan principal originations, net	(26,528,580)	(100,671,283)
Purchases of premises and equipment	(626,170)	(141,059)
Proceeds from sale of equipment	-	12,500
Proceeds from sale of foreclosed assets	988,702	194,465
Net cash used in investing activities	**(20,881,592)**	**(114,540,531)**

(continued)

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

TRI-COUNTY BANCORP, INC.

Consolidated Statements of Cash Flows

	Year Ended December 31	
	2023	**2022**
Cash flows from financing activities		
Acceptances of deposits, net	$ 4,949,257	$ 38,523,867
Net change in overnight borrowings	14,500,000	8,000,000
Proceeds from FHLB advances	12,000,000	16,000,000
Repayments of FHLB advances	(16,000,000)	-
Proceeds from issuance of common stock	1,147,249	1,789,550
Common stock repurchased and redeemed	(1,723,733)	(1,562,191)
Cash dividends paid	(2,091,301)	(1,796,894)
Net cash provided by financing activities	**12,781,472**	**60,954,332**
Net increase (decrease) in cash and cash equivalents	**862,961**	**(43,749,463)**
Cash and cash equivalents, beginning of year	7,606,348	51,355,811
Cash and cash equivalents, end of year	**$ 8,469,309**	**$ 7,606,348**

(concluded)

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 ***Tri-County Bancorp, Inc.,*** a registered bank holding company (the "Company"), and its wholly owned subsidiary, Tri-County Bank (the "Bank"). All significant intercompany accounts and transactions have been eliminated in consolidation.

The Company is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its twelve branches located in Sanilac, Lapeer, Macomb, St. Clair, and Tuscola counties in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the local economic environment.

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, agricultural, and consumer loans. The Bank does not have any significant concentrations to any one industry, customer, or depositor.

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

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. Material estimates that are particularly susceptible to significant change in the near term relate to the determination of the allowance for credit losses and the valuation of investment securities.

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 Company and the Bank 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 FDIC insured limits or are not insured. Management does not believe the Company is exposed to any significant interest, credit, or other financial risk as a result of these deposits.

Certificates of Deposit

Certificates of deposit held by the Bank are those with original maturities of more than three months. Certificates of deposit are carried at cost. These deposits in other financial institutions may exceed insured limits. Management believes the Bank is not exposed to any significant interest rate or other financial risk on these deposits.

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:

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

<u>Level 2:</u> 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.

<u>Level 3:</u> 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 income (loss). Interest income includes amortization of purchase premiums or discounts. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the investment securities. Premiums on callable debt securities are amortized to their earliest call date. Gains or losses on the sale of debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

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

Prior to the adoption of ASU 2016-13, declines in the fair value of held to maturity and available for sale securities below their cost that were deemed other than temporary were reflected in earnings as realized losses. In estimating other-than-temporary impairment losses prior to January 1, 2023, management considered (1) the length of time and the extent to which the fair value had been less than amortized cost, (2) the financial condition and near-term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery of its amortized cost basis. Any impairment resulting from other factors was included in accumulated other comprehensive income (loss).

Allowance for Credit Losses - Available-for-Sale Securities

In estimating the allowance for credit losses of available-for-sale debt securities in an unrealized loss position, management first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For debt securities available-for-sale that do not meet this criteria, management evaluates whether the decline in fair value has resulted from credit losses or other factors. Management also considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income (loss).

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

Accrued interest receivable on available-for-sale debt securities totaled $548,557 at December 31, 2023, and is excluded from the estimate of credit losses.

Allowance for Credit Losses - Held-to-Maturity Securities

Held-to-maturity debt securities are measured on a collective basis by major security type for expected credit losses, if any. Management classifies the held-to-maturity portfolio into major security types. The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Accrued interest receivable on held-to-maturity debt securities totaled $2,128 at December 31, 2023 and is excluded from the estimate of credit losses. The Bank's held-to-maturity debt securities consist of four securities, all of which are issued by local municipal entities and have a long history of no credit losses.

Restricted Investments

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.

The Bank is also a member of the Federal Reserve Bank System ("FRB"). The amount of the required investment is determined by the FRB at the time the Bank becomes a member. The amount of the investment may be adjusted thereafter and is carried at cost.

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, the allowance for credit losses, and any deferred fees or costs on originated loans. Accrued interest receivable totaled $2,735,549 at December 31, 2023, and was reported in accrued interest receivable on the consolidated balance sheet and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. 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.

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. Personal 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 credit losses. The interest on these loans is accounted for on the 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.

Nonperforming loans are comprised of those loans accounted for on a nonaccrual basis and accruing loans contractually past due 90 days or more as to interest or principal payments.

Allowance for Credit Losses

The allowance for credit losses ("allowance") is a valuation account that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loan losses are charged off against the allowance when management determines the loan balance to be uncollectible. Expected recoveries do not exceed the aggregate of amounts previously charged-off and expected to be charged-off. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Historical credit loss experience provides the basis for the estimation of expected credit losses. Qualitative adjustments are made to historical loss information that may increase or reduce reserve levels and include adjustments for the nature and volume of the Bank's financial assets, the existence, growth, and effect of any concentrations of credit, the volume and severity of past due financial assets, the volume of nonaccrual assets, and the volume and severity of adversely classified or graded assets, the value of the underlying collateral for loans that are not collateral-dependent, the Bank's lending policies and procedures, including changes in underwriting standards and practices for collections, write-offs, and recoveries and the quality of the Bank's credit review function.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Company has identified the following portfolio segments:

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.

Agricultural: Agricultural loans generally possess a lower inherent risk of loss than other portfolio segments as crops are insured, in most cases, at a substantial portion of the crop's expected income, and real estate loans are generally secured by farmland. Economic and environmental trends determined by commodity prices and crop yields can significantly impact the quality of these loans.

Residential Construction: Residential 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. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. 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 portfolios are usually comprised of a large number of small loans scheduled to be amortized over a specific period. 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.

The weighted average remaining maturity ("WARM") methodology is used to calculate the allowance for credit losses for all loan pools. Under this methodology, the Bank calculates by each segment described above an estimated lifetime loss rate and the remaining life of the loan by considering the Bank's historical loss data as well as peer group data based on peer groups that are specifically identified by the Bank. Additionally, the allowance for credit losses calculation includes subjective adjustments to the historical loss factors for qualitative risk considerations that are likely to cause estimated credit losses to differ from historical experience as described above.

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

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

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): Loans classified as special mention (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 portfolios are 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 portfolios is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

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, reasonable and supportable forecasts, 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 examinations.

Prior to the adoption of ASU 2016-13, the allowance for loan losses (the "allowance") was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information became available.

The allowance consisted of specific, general, and unallocated components. The specific component related to loans that were classified as either doubtful, substandard, or special mention. For such loans that were also classified as impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan were lower than the carrying value of that loan. The general component covered non-classified loans and was based on historical loss experience adjusted for qualitative factors.

A loan was considered impaired when, based on current information and events, it was probable that the Company would 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 included payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined 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 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 was measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral, typically less estimated selling costs, if the loan was collateral dependent.

Prior to the adoption of ASU 2016-13, a troubled debt restructuring of a loan was undertaken to improve the likelihood that the loan would be repaid in full under the modified terms in accordance with a reasonable repayment schedule. All modified loans were evaluated to determine whether the loan should be reported as a troubled debt restructuring (TDR). A loan was a TDR when the Company, for economic or legal reasons related to the borrower's financial difficulties, granted a concession to the borrower by modifying or renewing a loan under terms that the Company would not otherwise consider. To make this determination, the Company would determine whether (a) the borrower was experiencing financial difficulties and (b) the Company granted the borrower a concession. This determination required consideration of all of the facts and circumstances surrounding the modification. An overall general decline in the economy or some level of deterioration in a borrower's financial condition did not inherently mean the borrower was experiencing financial difficulties and was classified as impaired.

Some of the factors considered by management when determining whether a borrower was experiencing financial difficulties were the following: (1) is the borrower currently in default on any of its debts; (2) has the borrower declared or is the borrower in the process of declaring bankruptcy; and (3) absent the current modification, would the borrower likely default.

The accounting guidance for troubled debt restructurings by creditors in *Subtopic 310-40, Receivables – Troubled Debt Restructurings by Creditors* was eliminated upon the Company's adoption of *ASU No. 2022-02 Financial Instruments – Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures.*

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, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

The allowance for credit losses on off-balance-sheet credit exposures is a liability account, calculated in accordance with ASC 326, representing expected credit losses over the contractual period for which the Bank is exposed to credit risk resulting from a contractual obligation to extend credit. No allowance is recognized if the Bank has the unconditional right to cancel the obligation. Adjustments to the allowance are reported in the consolidated statement of income as a component of credit loss expense. For the period of exposure, the estimate of expected credit losses considers both the likelihood that funding will occur and the amount expected to be funded over the estimated remaining life of the commitment or other off-balance-sheet exposure. The likelihood and expected amount of funding are based on historical utilization rates. The amount of the allowance represents management's best estimate of expected credit losses on commitments expected to be funded over the contractual life of the commitment. Estimating credit losses on amounts expected to be funded uses the same methodology as described for loans as if such commitments were funded.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income. There were no loans held for sale as of December 31, 2023 or 2022.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Bank, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Bank does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity. Other than servicing, as disclosed in Note 5, the Bank has no substantive continuing involvement related to these loans. The Bank sold to an unrelated third party residential mortgage loans with proceeds of $4,993,754 and $13,606,743 in 2023 and 2022, respectively, which resulted in net gains of $106,054 and $376,343 in 2023 and 2022, respectively. Servicing fee income earned on such loans was $312,719 and $325,902 for 2023 and 2022, respectively, and is included in other noninterest income on the consolidated statements of income.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type.

Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income. Capitalized servicing rights are reported in other assets on the consolidated balance sheets.

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

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 expenses from foreclosed assets in the consolidated statements of income. Foreclosed assets were $101,420 at December 31, 2022. There were no foreclosed assets at December 31, 2023.

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 2 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 reviews these assets for impairment whenever events or circumstances indicate the related carrying amount may not be recoverable.

Goodwill

Goodwill, which is included in other assets, amounted to $76,146 and $141,829 at December 31, 2023 and 2022, respectively, consists of amounts paid in excess of the fair value of assets acquired and liabilities assumed in connection with a business combination. The Company amortizes goodwill on a straight line basis over 10 years. Goodwill is also tested for impairment when a triggering event occurs that indicates that the fair value of the Company may be below its carrying amount. Goodwill is tested for impairment at the Company level. Goodwill amortization, which is recorded in other noninterest expenses, is insignificant in 2023 and 2022.

Bank-Owned Life Insurance

The Company holds life insurance policies purchased on the lives of key members of management. In the event of death of one of these individuals, the Company, 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 consolidated 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.

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.

Common Stock

Shares of common stock are purchased and redeemed in the ordinary course of business. The cost of common shares purchased and redeemed has been charged entirely to common stock.

Share-Based Compensation Plans

Compensation expense relating to share-based compensation plans is based on the fair value of the awards granted and is recognized on a straight-line basis over the requisite service period of each award.

Reclassification

Certain amounts as reported in the 2022 consolidated financial statements have been reclassified to conform with the 2023 presentation.

Subsequent Events

In preparing these consolidated financial statements, the Company has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2023, the most recent consolidated balance sheet presented herein, through March 21, 2024, the date these consolidated financial statements were available to be issued. No such significant events or transactions were identified.

Adoption of New Accounting Standards

Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses (Accounting Standards Codification ("ASC") Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss ("CECL") methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to certain off-balance sheet credit exposures not accounted for as insurance (including loan commitments, standby letters of credit, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. Prior to ASU No. 2016-13, GAAP required an "incurred loss" methodology for recognizing credit losses that delayed recognition until it was probable a loss had been incurred. Under the incurred loss approach, entities were limited to a probable initial recognition threshold when credit losses were measured; an entity generally only considered past events and current conditions when measuring the incurred loss. ASC 326 also updated the accounting for available-for-sale debt securities to require credit losses to be presented as an allowance rather than as a write-down on available-for-sale debt securities management does not intend to sell or believes that it is more likely than not they will be required to sell as well as other changes.

The Company adopted ASC 326 on January 1, 2023, using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for reporting periods beginning after January 1, 2023, are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP.

On March 31, 2022, the Financial Accounting Standards Board ("FASB") issued ***ASU 2022-02 Financial Instruments-Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures***. The amendments eliminate certain troubled debt restructuring ("TDR") recognition and measurement guidance previously in effect, and consideration of the TDRs similar to other modified loans under CECL is now required. ASU 2022-02 also requires enhancements to vintage loan disclosures, requiring detail be provided on current-period gross write-offs and disclosure of the amortized cost basis of financing receivables by credit quality indicators and by loan portfolio class of the gross charge-off based on year of origination. As a nonpublic business entity, the vintage loan disclosures are not applicable to the Company's financial statements. ASU 2022-02 was effective for fiscal years beginning after December 15, 2022, including interim periods within those years, and was adopted prospectively by the Company as of January 1, 2023, with no material impact to the financial statements.

The cumulative effect adjustment of the CECL adoption included an increase in the allowance for credit losses of $472,449, which included a $373,235 decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the consolidated balance sheet, with the $99,214 tax impact portion being recorded as part of the net deferred tax asset in other assets on the consolidated balance sheet. The adjustment of the CECL adoption included an additional allowance for credit losses on unfunded commitments of $13,000, which included a $10,270 decrease to the retained earnings account to reflect the cumulative effect of adopting CECL on the consolidated balance sheet, with the $2,730 tax impact portion being recorded as part of the net deferred tax asset in other assets on the consolidated balance sheet.

	Pre-Adoption Allowance	Impact of Adoption	Post-Adoption Allowance	Cumulative Effect on Retained Earnings
Assets:				
Allowance for credit losses on loans				
Commercial and industrial	$ 568,646	$ (12,866)	$ 555,780	$ (10,164)
Commercial real estate	1,882,536	303,190	2,185,726	239,520
Agricultural	595,579	(45,447)	550,132	(35,903)
Residential construction	46,940	(16,668)	30,272	(13,168)
Residential real estate	111,714	249,034	360,748	196,737
Consumer and other	37,843	(4,794)	33,049	(3,787)
Total	**$ 3,243,258**	**$ 472,449**	**$ 3,715,707**	**$ 373,235**
Liabilities:				
Allowance for credit losses on off-balance-sheet credit exposures	$ -	$ 13,000	$ 13,000	$ 10,270

2. FAIR VALUE MEASUREMENTS

The Company utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. The Company only has securities available-for-sale which are recorded at fair value on a recurring basis. Additionally, from time to time, the Company may be required to record at fair value other assets on a nonrecurring basis, such as investment securities held-to-maturity, individually evaluated loans, foreclosed assets, mortgage servicing rights, goodwill and certain other assets and liabilities. 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 and liabilities recorded at fair value which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities

The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

Individually Evaluated Loans

The fair value of individually evaluated loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available for similar loans and collateral underlying such loans. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Individually evaluated loans are evaluated on a quarterly basis for additional impairment and adjusted in accordance with the allowance policy.

Foreclosed Assets

Upon transfer from the loan portfolio, foreclosed assets are adjusted to and subsequently carried at the lower of carrying value or fair value less costs to sell. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price or a current appraised value, the Company classifies the foreclosed asset as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company classifies the foreclosed asset as nonrecurring Level 3.

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

Assets Recorded at Fair Value on a Recurring Basis

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

	Assets at Fair Value			
2023	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities available-for-sale				
U.S. Treasury and federal agency	$ -	$ 53,460,472	$ -	$ 53,460,472
Government sponsored enterprises	-	29,333,274	-	29,333,274
Corporate bonds	-	1,314,858	-	1,314,858
Mortgage-backed securities	-	11,167,846	-	11,167,846
Collateralized mortgage obligations	-	3,561,839	-	3,561,839
States and municipal	-	33,324,386	-	33,324,386
Total assets at fair value	**$ -**	**$ 132,162,675**	**$ -**	**$ 132,162,675**

	Assets at Fair Value			
2022	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities available-for-sale				
U.S. Treasury and federal agency	$ -	$ 55,313,750	$ -	$ 55,313,750
Government sponsored enterprises	-	28,564,062	-	28,564,062
Corporate bonds	-	1,237,008	-	1,237,008
Mortgage-backed securities	-	12,429,076	-	12,429,076
Collateralized mortgage obligations	-	3,839,956	-	3,839,956
States and municipal	-	32,113,795	-	32,113,795
Total assets at fair value	**$ -**	**$ 133,497,647**	**$ -**	**$ 133,497,647**

Assets Recorded at Fair Value on a Nonrecurring Basis

Assets recorded at fair value on a nonrecurring basis for which impairment was recognized in the current period consist only of impaired loans.

Individually evaluated loans, which are measured for impairment using the fair value of collateral for collateral dependent loans, had carrying amounts of $110,505 and $157,749 as of December 31, 2023 and 2022, resulting in a specific allocation to the allowance for credit losses of $24,576 and $26,790 as of December 31, 2023 and 2022, respectively.

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

2023	**Level 3 Instruments**			
Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Weighted Average and/or Range**
Individually evaluated loans	$ 85,929	Discounted Appraisal Value	Discount Applied Collateral Appraisal	0% - 25%

2022	**Level 3 Instruments**			
Instrument	**Fair Value**	**Valuation Technique**	**Unobservable Input**	**Weighted Average and/or Range**
Impaired loans	$ 130,959	Discounted Appraisal Value	Discount Applied Collateral Appraisal	0% - 25%

3. INVESTMENT SECURITIES

The amortized cost and fair value of available-for-sale and held-to-maturity securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

2023	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
States and municipal	$ 314,544	$ 12	$ 26,980	$ 287,576
Available-for-sale				
U.S. Treasury and federal agency	$ 57,462,837	$ -	$ 4,002,365	$ 53,460,472
Government sponsored enterprises	32,400,879	-	3,067,605	29,333,274
Corporate bonds	1,500,000	-	185,142	1,314,858
Mortgage-backed securities	12,831,404	-	1,663,558	11,167,846
Collateralized mortgage obligations	3,888,749	-	326,910	3,561,839
States and municipal	38,386,245	361	5,062,220	33,324,386
Total available-for-sale	**$ 146,470,114**	**$ 361**	**$ 14,307,800**	**$ 132,162,675**

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
States and municipal	$ 458,661	$ 23	$ 47,744	$ 410,940
Available-for-sale				
U.S. Treasury and federal agency	$ 60,724,912	$ -	$ 5,411,162	$ 55,313,750
Government sponsored enterprises	32,413,618	-	3,849,556	28,564,062
Corporate bonds	1,500,000	-	262,992	1,237,008
Mortgage-backed securities	14,493,489	-	2,064,413	12,429,076
Collateralized mortgage obligations	4,179,778	-	339,822	3,839,956
States and municipal	38,428,332	-	6,314,537	32,113,795
Total available-for-sale	**$ 151,740,129**	**$ -**	**$ 18,242,482**	**$ 133,497,647**

Investment securities with carrying values of approximately $80,670,000 and $25,500,000 at December 31, 2023 and 2022, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

Notes to Consolidated Financial Statements

The amortized cost and fair value of held-to-maturity and available-for-sale debt securities grouped by contractual maturity at December 31, 2023, are summarized as follows:

	Maturing				Securities	
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Due After Ten Years	With Variable Monthly Payments Or No Contractual Maturity	Total
Held-to-maturity						
States and municipal	$ 61,544	$ 253,000	$ -	$ -	$ -	$ 314,544
Available-for-sale						
U.S. Treasury and federal agency	14,084,524	43,378,313	-	-	-	57,462,837
Government sponsored enterprises	3,000,000	27,410,929	1,989,950	-	-	32,400,879
Corporate bonds	-	-	1,000,000	500,000	-	1,500,000
Mortgage-backed securities	-	-	-	-	12,831,404	12,831,404
Collateralized mortgage obligations	-	-	-	-	3,888,749	3,888,749
States and municipal	-	8,291,296	28,716,730	1,378,219	-	38,386,245
Total available-for-sale	**17,084,524**	**79,080,538**	**31,706,680**	**1,878,219**	**16,720,153**	**146,470,114**
Total amortized cost	**$ 17,146,068**	**$ 79,333,538**	**$ 31,706,680**	**$ 1,878,219**	**$ 16,720,153**	**$146,784,658**
Total fair value	**$ 16,673,570**	**$ 72,404,799**	**$ 27,116,014**	**$ 1,526,183**	**$ 14,729,685**	**$132,450,251**

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 and collateralized mortgage obligations are not reported by a specific maturity group.

As of the year ended December 31, 2023 and 2022, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in any amount greater than 10% of stockholders' equity.

Gross realized losses from calls, maturities, and sales amounted to $33,982 in 2022, which resulted in reclassifications from accumulated other comprehensive income (loss) to noninterest expense. There were no gross realized gains or losses from calls, maturities, and sales in 2023.

The following table summarizes debt securities available-for-sale in an unrealized loss position for which an allowance for credit losses has not been recorded at December 31, 2023, aggregated by major security type and length of time in a continuous unrealized loss position:

	Less Than 12 Months		Over 12 Months		Total	
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
Securities available-for-sale						
U.S. Treasury and federal agency	$ -	$ -	$ 53,460,472	$ 4,002,365	$ 53,460,472	$ 4,002,365
Government sponsored enterprises	-	-	29,333,274	3,067,605	29,333,274	3,067,605
Corporate bonds	-	-	1,314,858	185,142	1,314,858	185,142
Mortgage-backed securities	-	-	11,167,846	1,663,558	11,167,846	1,663,558
Collateralized mortgage obligations	-	-	3,561,839	326,910	3,561,839	326,910
States and municipal	-	-	33,004,024	5,062,220	33,004,024	5,062,220
Total securities available-for-sale	**$ -**	**$ -**	**$ 131,842,313**	**$ 14,307,800**	**$131,842,313**	**$ 14,307,800**

As of December 31, 2023, the Corporation's security portfolio consisted of 133 securities of which 130 were in an unrealized loss position.

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, 2022 is as follows:

	Less Than 12 Months		Over 12 Months			Total
	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Loss	Fair Value	Gross Unrealized Losses
Securities held-to-maturity						
States and municipal	$ 120,019	$ 643	$ 282,899	$ 47,101	$ 402,918	$ 47,744
Securities available-for-sale						
U.S. Treasury and federal agency	8,720,156	371,757	46,593,594	5,039,405	55,313,750	5,411,162
Government sponsored enterprises	-	-	28,564,062	3,849,556	28,564,062	3,849,556
Corporate bonds	858,282	141,718	378,726	121,274	1,237,008	262,992
Mortgage-backed securities	2,484,447	193,879	9,944,629	1,870,534	12,429,076	2,064,413
Collateralized mortgage obligations	3,598,554	323,621	241,402	16,201	3,839,956	339,822
States and municipal	12,748,163	2,144,962	19,365,632	4,169,575	32,113,795	6,314,537
Total securities available-for-sale	**$ 28,409,602**	**$ 3,175,937**	**$ 105,088,045**	**$ 15,066,545**	**$133,497,647**	**$ 18,242,482**

As of December 31, 2022, the Corporation's security portfolio consisted of 137 securities of which 136 were in an unrealized loss position.

Allowance for Credit Losses - Available-for-Sale Securities

As of December 31, 2023, no allowance for credit losses has been recognized on available-for-sale securities in an unrealized loss position as management does not believe any of the securities are impaired due to reasons of credit quality. This is based upon management's analysis of the underlying risk characteristics, including credit ratings, and other qualitative factors related to our available for sale securities and in consideration of our historical credit loss experience and internal forecasts. The issuers of these securities continue to make timely principal and interest payments under the contractual terms of the securities. Furthermore, management does not have the intent to sell any of the securities classified as available for sale in the table above and believes that it is more likely than not that we will not have to sell any such securities before a recovery of cost. The unrealized losses are due to increases in market interest rates over the yields available at the time the underlying securities were purchased. The fair value is expected to recover as the securities approach their maturity date or repricing date or if market yields for such investments decline.

Notes to Consolidated Financial Statements

Allowance for Credit Losses - Held-to-Maturity Securities

The allowance for credit losses on held-to-maturity securities is a contra-asset valuation account that is deducted from the amortized cost basis of held-to-maturity securities to present the net amount expected to be collected. Management measures expected credit losses on held-to-maturity securities on a collective basis by major security type with each type sharing similar risk characteristics, and considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. With regard to securities issued by local municipal entities, management considers (i) whether issuers continue to make timely principal and interest payments under the contractual terms of the securities, (ii) internal forecasts and (iii) whether or not such securities are guaranteed or pre-refunded by the issuers.

The Company monitors the credit quality of debt securities held-to-maturity through review of the annual financial statements, ongoing interest payments, and their historical experience with applicable municipal entities. At December 31, 2023, the Company had no securities held-to-maturity that were past due 30 days or more as to principal or interest payments. The Company had no securities held-to-maturity classified as nonaccrual for 2023. As of December 31, 2023, no allowance for credit losses has been recognized on held-to-maturity securities.

4. LOANS AND ALLOWANCE FOR CREDIT LOSSES

The Bank grants commercial and industrial, commercial real estate, agricultural, residential construction, residential real estate and consumer and other loans to customers located primarily in the Sanilac, Lapeer, Macomb, St. Clair, and Tuscola counties of Michigan. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate values and general economic conditions in this region. Substantially all of the consumer, agricultural, commercial real estate, and residential loans are secured by various items of property, while commercial and industrial loans are secured primarily by business assets and personal guarantees; a portion of loans are unsecured.

Loans are summarized by portfolio segment as follows at December 31:

	2023	2022
Commercial and industrial	$ 57,097,649	$ 17,536,051
Commercial real estate	185,961,368	230,152,744
Agricultural	91,540,892	89,915,675
Residential construction	2,472,698	3,193,200
Residential real estate	41,994,524	13,261,644
Consumer and other	4,675,924	4,284,615
Total loans	383,743,055	358,343,929
Allowance for credit losses	(3,967,984)	(3,243,258)
Loans, net	**$ 379,775,071**	**$ 355,100,671**

With the adoption of ASC 326 in 2023, the loan segments were reallocated based on the new methodology used.

Notes to Consolidated Financial Statements

The following table summarizes the activity related to the allowance for credit losses for 2023 under the CECL methodology:

	Commercial and Industrial	Commercial Real Estate	Agricultural	Residential Construction	Residential Real Estate	Consumer and Others	Total
Allowance for credit losses:							
Balance at beginning of year prior to adoption of ASC 326	$ 568,646	$ 1,882,536	$ 595,579	$ 46,940	$ 111,714	$ 37,843	$ 3,243,258
Impact of adopting ASC 326	(12,866)	303,190	(45,447)	(16,668)	249,034	(4,794)	472,449
Credit loss expense	206,104	93,539	(96,163)	(17,131)	243,710	57,973	488,032
Loans charged off	(97,020)	(101,391)	-	-	-	(37,344)	(235,755)
Balance at end of year	**$ 664,864**	**$ 2,177,874**	**$ 453,969**	**$ 13,141**	**$ 604,458**	**$ 53,678**	**$ 3,967,984**

Prior to the adoption of ASC 326 on January 1, 2023, the Bank calculated the allowance for credit losses under the incurred loss methodology. The following tables are disclosures related to the allowance for loan losses for 2022.

	Commercial and Industrial	Commercial Real Estate	Agricultural	Residential Construction	Residential Real Estate	Consumer and Others	Total
Allowance for loan losses:							
Balance at beginning of year	$ 731,736	$ 1,313,851	$ 571,765	$ 63,617	$ 114,942	$ 31,391	$ 2,827,302
Provision for loan losses	351,352	567,795	37,442	(16,677)	(3,228)	19,120	955,804
Loans charged off	(514,442)	-	(13,628)	-	-	(12,990)	(541,060)
Recoveries	-	890	-	-	-	322	1,212
Balance at end of year	**$ 568,646**	**$ 1,882,536**	**$ 595,579**	**$ 46,940**	**$ 111,714**	**$ 37,843**	**$ 3,243,258**
Allowance for loan losses attributable to:							
Individually evaluated for impairment	$ 26,790	$ -	$ -	$ -	$ -	$ -	$ 26,790
Collectively evaluated for impairment	541,856	1,882,536	595,579	46,940	111,714	37,843	3,216,468
Total allowance for loan losses	**$ 568,646**	**$ 1,882,536**	**$ 595,579**	**$ 46,940**	**$ 111,714**	**$ 37,843**	**$ 3,243,258**
Recorded investment in loans:							
Individually evaluated for impairment	$ 62,268	$ 72,321	$ -	$ -	$ 23,160	$ -	$ 157,749
Collectively evaluated for impairment	17,473,783	230,080,423	89,915,675	3,193,200	13,238,484	4,284,615	358,186,180
Total loans ending balance	17,536,051	230,152,744	89,915,675	3,193,200	13,261,644	4,284,615	358,343,929
Accrued interest receivable	16,406	789,988	1,346,466	8,671	42,288	17,905	2,221,724
Total recorded investment in loans	**$17,552,457**	**$230,942,732**	**$ 91,262,141**	**$ 3,201,871**	**$ 13,303,932**	**$4,302,520**	**$360,565,653**

Prior to the adoption of ASU 2016-13, loans were considered impaired when, based on current information and events, it was probable that the Bank would be unable to collect all amounts due in accordance with the original contractual terms of the loan agreements. Impaired loans include loans on nonaccrual status and accruing troubled debt restructurings. When determining if the Bank would be able to collect all principal and interest payments due in accordance with the contractual terms of the loan agreement, the Bank considered the borrowers capacity to pay, which included such factors as the borrower's current financial statements, an analysis of global cash flow sufficient to pay all debt obligations, and an evaluation of secondary sources of repayment, such as guarantor support and collateral value. The table below include all loans deemed impaired, whether or not individually assessed for impairment. If a loan was deemed impaired, a specific valuation allowance was allocated, if necessary, so that the loan was reported net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment was expected solely from the collateral. Interest payments on impaired loans were typically applied to principal unless collectability of the principal amount was reasonably assured, in which case interest was recognized on a cash basis.

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022:

	Loan Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Commercial and industrial	$ 72,321	$ 72,321	$ -	$ 106,611	$ 2,018
Residential real estate	23,160	23,160	-	24,023	1,438
Total	**95,481**	**95,481**	**-**	**130,634**	**3,456**
Loans with an allowance recorded					
Commercial and industrial	62,268	62,268	26,790	211,232	3,611
Total impaired loans					
Commercial and industrial	62,268	62,268	26,790	211,232	5,629
Commercial real estate	72,321	72,321	-	106,611	1,438
Residential real estate	23,160	23,160	-	24,023	-
Total	**$ 157,749**	**$ 157,749**	**$ 26,790**	**$ 341,866**	**$ 7,067**

Non-accrual loans and loans past due over 89 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans. Impaired loans include commercial loans that are individually evaluated for impairment and deemed impaired (i.e., individually classified impaired loans). The sum of non-accrual loans and loans past due over 90 days still on accrual will differ from the total impaired loan amount.

Notes to Consolidated Financial Statements

The following table presents the amortized cost basis of loans on nonaccrual status and loans past due over 90 days still accruing as of December 31, 2023:

	Nonaccrual with no Allowance for Credit Loss	Nonaccrual with an Allowance for Credit Loss	Loans Past Due Over 90 Days or More Still Accruing
Commercial and industrial	$ 85,929	$ 20,837	$ -
Residential real estate	-	-	32,105
Consumer and other	-	3,739	-
Total	**$ 85,929**	**$ 24,576**	**$ 32,105**

The following table presents nonaccrual loans as of December 31, 2022:

Commercial and industrial	$ 99,111
Commercial real estate	35,478
Residential real estate	23,160
Total	**$ 157,749**

The following table shows an aging analysis of the amortized cost of the loan portfolio by class of loans as of December 31:

2023	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Past Due	Total Loans
Commercial and industrial	$ 57,097,649	$ -	$ -	$ -	$ 57,097,649
Commercial real estate	185,961,368	-	-	-	185,961,368
Agricultural	91,540,892	-	-	-	91,540,892
Residential construction	2,472,698	-	-	-	2,472,698
Residential real estate	41,898,094	64,325	32,105	96,430	41,994,524
Consumer and other	4,672,600	3,324	-	3,324	4,675,924
Total	**$ 383,643,301**	**$ 67,649**	**$ 32,105**	**$ 99,754**	**$ 383,743,055**

2022	Current	30-89 Days Past Due	More Than 90 Days Past Due	Total Past Due	Total Loans
Commercial and industrial	$ 17,525,583	$ 10,468	$ -	$ 10,468	$ 17,536,051
Commercial real estate	230,152,744	-	-	-	230,152,744
Agricultural	89,915,675	-	-	-	89,915,675
Residential construction	3,193,200	-	-	-	3,193,200
Residential real estate	13,125,776	135,868	-	135,868	13,261,644
Consumer and other	4,275,311	9,304	-	9,304	4,284,615
				-	
Total	**$ 358,188,289**	**$ 155,640**	**$ -**	**$ 155,640**	**$ 358,343,929**

For borrowers that are in financial distress, the Bank may provide relief to the borrower by modifying the loan through principal forgiveness, term extension, interest rate reduction or an other-than-significant payment delay. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. In some cases, the Bank provides multiple types of concessions on one specific loan. If after the initial concession is granted, the borrower continues to experience financial distress an additional modification may be granted. There were no loans modified due to financial distress in 2023 or 2022. Additionally, there were no such modifications that had payment defaults during 2023 and 2022.

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2023:

	Risk Rating				
	Pass	Special Mention (or Watch)	Substandard	Doubtful	Total
Commercial credit risk profile by risk rating					
Commercial and industrial	$ 56,708,795	$ -	$ 388,854	$ -	$ 57,097,649
Commercial real estate	185,367,296	386,501	207,571	-	185,961,368
Agricultural	90,654,731	-	886,161	-	91,540,892
Total	**$ 332,730,822**	**$ 386,501**	**$ 1,482,586**	**$ -**	**$ 334,599,909**

Notes to Consolidated Financial Statements

The following table shows homogeneous loans allocated by payment activity as of December 31, 2023:

	Consumer Credit Risk Profile by Payment Activity			
	Residential Construction	Residential Real Estate	Consumer and Other	Total
Payment activity				
Performing	$ 2,472,698	$ 41,962,419	$ 4,672,185	$ 49,107,302
Non-performing	-	32,105	3,739	35,844
Total	**$ 2,472,698**	**$ 41,994,524**	**$ 4,675,924**	**$ 49,143,146**

The following table shows the loans allocated by management's internal risk ratings as of December 31, 2022:

	Risk Rating				
	Pass	Special Mention (or Watch)	Substandard	Doubtful	Total
Commercial credit risk profile by risk rating					
Commercial and industrial	$ 17,536,051	$ -	$ -	$ -	$ 17,536,051
Commercial real estate	229,570,351	390,668	191,725	-	230,152,744
Agricultural	88,532,268	-	1,383,407	-	89,915,675
Total	**$ 335,638,670**	**$ 390,668**	**$ 1,575,132**	**$ -**	**$ 337,604,470**

The following table shows homogeneous loans allocated by payment activity as of December 31, 2022:

	Consumer Credit Risk Profile by Payment Activity			
	Residential Construction	Residential Real Estate	Consumer and Other	Total
Payment activity				
Performing	$ 3,193,200	$ 13,238,484	$ 4,284,615	$ 20,716,299
Non-performing	-	23,160	-	23,160
Total	**$ 3,193,200**	**$ 13,261,644**	**$ 4,284,615**	**$ 20,739,459**

Notes to Consolidated Financial Statements

5. SERVICING

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2023 and 2022, approximated $121,753,000 and $135,814,000, respectively; such loans are not included on the accompanying consolidated balance sheets.

The fair value of mortgage servicing rights was $1,843,000 and $1,764,400 at December 31, 2023 and 2022, respectively. The fair value of servicing rights was determined using discount rates of 5.72% and 5.97% at December 31, 2023 and 2022, respectively, and average prepayment speeds ranging from 4.80% to 9.70% and 5.0% to 10.0% at December 31, 2023 and 2022, respectively.

The following summarizes the carrying value and the changes therein of mortgage servicing rights included in other assets on the accompanying consolidated balance sheets at December 31:

	2023	2022
Mortgage servicing rights		
Balance at beginning of year	$ 807,905	$ 886,188
Mortgage servicing rights originated	57,025	159,877
Mortgage servicing rights amortized	(215,100)	(238,160)
Balance at end of year	**$ 649,830**	**$ 807,905**

There were no valuation allowances related to mortgage servicing rights as of December 31, 2023 and 2022.

6. PREMISES AND EQUIPMENT

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

	2023	2022
Land	$ 2,058,020	$ 2,012,558
Buildings and improvements	6,732,916	6,564,496
Furniture and equipment	5,060,055	5,027,100
Construction in process	72,798	3,224
Total	13,923,789	13,607,378
Less accumulated depreciation	6,741,905	6,688,169
Premises and equipment, net	**$ 7,181,884**	**$ 6,919,209**

Depreciation expense was $349,822 and $361,306 for 2023 and 2022, respectively.

7. DEPOSITS

The following is a summary of the distribution of deposits at December 31:

	2023	2022
Interest-bearing		
Money market and NOW accounts	$ 105,786,206	$ 108,375,547
Savings	104,401,757	113,297,567
Time, $250,000 and over	17,106,216	3,314,884
Other time	59,331,369	42,372,880
Total interest-bearing	286,625,548	267,360,878
Noninterest-bearing demand	171,945,914	186,261,327
Total deposits	**$ 458,571,462**	**$ 453,622,205**

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2023, are summarized as follows:

Year	Amount
2024	$ 59,838,632
2025	7,592,328
2026	4,308,249
2027	3,118,527
2028	1,579,849
Total	**$ 76,437,585**

8. BORROWED FUNDS

At December 31, 2023, the Bank has approximately $24,000,000 available under a long-term line of credit with the Federal Home Loan Bank. Under the terms of this agreement, the Bank may borrow at a mutually agreed-upon interest rate at the time of borrowing. The Federal Home Loan Bank ("FHLB") borrowings are collateralized by a blanket lien on all qualified 1-to-4 family whole mortgage loans and U.S. government agency securities with a combined carrying value of approximately $30,306,000.

The FHLB advances and their contractual maturities are as follows at December 31:

		2023	2022
Fixed rate advances:			
January 6, 2023	4.19%	$ -	$ 13,000,000
January 18, 2023	4.35%	-	3,000,000
January 2, 2024	5.54%	2,000,000	-
March 17, 2028	3.80%	10,000,000	-
Total FHLB advances		**$ 12,000,000**	**$ 16,000,000**

The Bank may also borrow funds on a short-term basis with the Federal Reserve, through the FRB Discount Window advance program. FRB Discount Window advances generally mature within one to four days from the transaction date. Advances through the FRB Discount Window amounted to $22,500,000 and $8,000,000 at December 31, 2023 and 2022, respectively. The borrowings are collateralized by U.S. Treasury and government agency securities with a carrying value of approximately $89,700,000.

The Bank also has a $5,000,000 line-of-credit available from another financial institution. Under the terms of this agreement, the Bank may borrow at a mutually agreed upon interest rate at the time of the borrowing. No such borrowings were outstanding at December 31, 2023 and 2022.

9. FEDERAL INCOME TAXES

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

	2023	2022
Currently payable	$ 2,280,000	$ 2,091,000
Deferred benefit	(191,000)	(92,000)
Income taxes	**$ 2,089,000**	**$ 1,999,000**

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

	2023	2022
Income tax provision at statutory rate	$ 2,174,000	$ 2,086,000
Effect of tax-exempt interest income	(28,000)	(30,000)
Other - net	(57,000)	(57,000)
Income tax expense	**$ 2,089,000**	**$ 1,999,000**

Significant components of the Company's deferred income tax asset, included in other assets in the accompanying consolidated balance sheets, are comprised of the following amounts at December 31:

	2023	2022
Deferred tax assets		
Allowance for credit losses	$ 833,000	$ 681,000
Accrued vacation	26,000	26,000
Unrealized loss on available-for-sale securities	3,005,000	3,831,000
Other	2,000	2,000
Total deferred tax assets	**3,866,000**	**4,540,000**
Deferred tax liabilities		
Premises and equipment	404,000	394,000
Mortgage servicing rights	136,000	170,000
Intangible assets	16,000	30,000
Allowance for credit loss recapture	102,000	131,000
Other	93,000	65,000
Total deferred tax liabilities	**751,000**	**790,000**
Net deferred tax asset	**$ 3,115,000**	**$ 3,750,000**

The Company concluded that there are no significant uncertain tax positions requiring recognition in these consolidated financial statements based on the evaluation performed for 2020 through 2023, the years which remain subject to examination by major tax jurisdictions as of December 31, 2023. The Company 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 change in the next 12 months. The Company does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2023 and 2022, and it is not aware of any claims for such amounts by federal or state income tax authorities.

10. 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 $2,190,000 and $2,680,000 at December 31, 2023 and 2022, respectively.

Deposits

Deposits of Company directors, executive officers and their affiliates were approximately $4,140,000 and $3,760,000 at December 31, 2023 and 2022, respectively.

11. 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, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2023	**2022**
Unfunded commitments under lines of credit	$ 35,121,014	$ 45,150,000
Commitments to grant loans	21,449,000	6,542,000
Commercial and standby letters of credit	673,498	437,500

The following table presents the balance and activity for the allowance for credit losses for unfunded commitments for 2023:

	Total Allowance for Credit Losses - Unfunded Commitments
Balance, December 31, 2022	$ -
Adjustment to allowance for unfunded commitments for adoption of ASU 2016-13	13,000
Provision for credit losses	-
Balance, December 31, 2023	**$ 13,000**

Unfunded commitments under commercial and consumer lines of credit, revolving lines 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 may be 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.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2023 and 2022.

12. DERIVATIVE FINANCIAL INSTRUMENTS

Interest Rate Risk Management – Derivative Instruments Not Designated As Hedging Instruments

Certain derivative instruments do not meet the criteria for hedging requirements. These derivative instruments are generally recognized on the consolidated balance sheets at fair value, with changes in fair value recorded in other noninterest income.

Derivative Loan Commitments

Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 60 days after inception of the rate lock.

Outstanding derivative loan commitments expose the Company to the risk that the price of the loans arising from exercise of the loan commitment might decline from inception of the rate lock to funding of the loan due to increases in mortgage interest rates. If interest rates increase, the value of these loan commitments decreases. Conversely, if interest rates decrease, the value of these loan commitments increases. The notional amount of mortgage loan commitments was overall insignificant at December 31, 2023 and 2022.

Forward Loan Sale Commitments

To protect against the price risk inherent in derivative loan commitments and mortgage loan held for sale, the Bank utilizes "best efforts" forward loan sale commitments to mitigate the risk of potential decreases in the values of loans that would result from the exercise of the derivative loan commitments.

With a "best efforts" contract, the Bank commits to deliver an individual mortgage loan of a specified principal amount and quality to an investor if the loan to the underlying borrower closes. Generally, the price the investor will pay the seller for an individual loan is specified prior to the loan being funded (e.g., on the same day the lender commits to lend funds to a potential borrower).

The Bank expects that these forward loan sale commitments will experience changes in fair value opposite to the change in fair value of derivative loan commitments. The notional amount of forward loan sale commitments was overall insignificant at December 31, 2023 and 2022.

The fair value of the rate lock loan commitments related to the origination of mortgage loans that will be held for sale and the forward loan sale commitments are deemed insignificant by management and, accordingly, are not recorded in these consolidated financial statements.

13. REGULATORY REQUIREMENTS

Capital Requirements

The Bank is subject to various regulatory capital requirements, including restrictions on dividends, administered by federal banking agencies. Failure to meet the minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulator that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy requirements 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 judgements by the regulators about components, risk weightings and other factors.

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, 2021 and was elected by the Bank as of December 31, 2021. In April 2021, 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 9% 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, 2023 and 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 and required capital amounts (in thousands) and ratios are presented below at year end.

	Actual		Minimum To Be Well Capitalized Under Corrective Action Provisions	
December 31, 2023	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)				
Tier 1 (Core) Capital to Average Assets				
Tri-County Bank	$ 64,878	11.92%	$ 48,987	9.00%

	Actual		Minimum To Be Well Capitalized Under Corrective Action Provisions	
December 31, 2022	**Amount**	**Ratio**	**Amount**	**Ratio**
(Dollars in thousands)				
Tier 1 (Core) Capital to Average Assets				
Tri-County Bank	$ 59,707	11.69%	$ 45,968	9.00%

Restrictions on Cash and Amounts Due from Banks

The Bank is 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, 2023 or 2022.

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 Company by the Bank and dividends that can be paid to the Company 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 Company would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

14. CONTINGENCIES

Litigation

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

Environmental Issues

As a result of acquiring real estate from foreclosure proceedings, the Company is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2023.

15. EMPLOYEE BENEFIT PLANS

ESOP Plan

The Company has an Employee Stock Ownership Plan ("ESOP") covering substantially all of its employees. Discretionary cash contributions to the Plan are recorded as compensation expense and were approximately $275,000 in 2023 and 2022. Distributions from the Plan may be in the form of whole shares of stock, cash, or a combination of both, based on the estimated fair value of the stock on the date of distribution. All ESOP shares are treated as issued and outstanding for earnings per share calculations. As of December 31, 2023 and 2022, the ESOP held 141,484 total shares, of which all shares were allocated.

401(k) Plan

The Bank sponsors a defined contribution savings plan qualified under Section 401(k) of the Internal Revenue Code. Substantially all full-time employees of the Bank are covered under the Plan. The Bank matches the employee contributions equally up to 5% of the participant's compensation. Contributions to the Plan were $113,472 and $107,053, respectively in 2023 and 2022.

16. SHARE-BASED COMPENSATION

Share-based compensation expense related to employee stock options is measured on the grant date, based on the fair value of the award calculated at that date, and is recognized over the employee's requisite service period, which generally is the options' vesting period. Fair value is calculated using the Black-Scholes option pricing model.

Under the Company's Employee Stock Option Plan, the Company may grant options to its directors, officers and employees for the purchase of up to a maximum lifetime limit of 10,000 shares of common stock per participant, and up to a maximum of 150,000 shares under this plan. The exercise of each option equals the market price of the Company's stock on the date of grant and an option's maximum term is ten years. The options are immediately vested upon grant date.

The expected volatility is based on the historical volatility of American Community Bankers' Association Index. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected term is based on historical exercise experience.

Prior to 2018, the Company's policy was to issue new shares upon performance of the Bank's return on average assets as defined in the Plan; during 2018 the Board of Directors elected to cease issuance of options in the future. A summary of the changes in the status of the Company's stock option plan is presented below.

As of December 31, 2023 and 2022, there were 1,500 common shares subject to option at a weighted average exercise price of $27.63 and an average remaining contractual term of 1.5 years and 2.5 years, respectively. There were no options granted, exercised, or forfeited in 2023 or 2022.

17. SUPPLEMENTAL CASH FLOWS INFORMATION

Other Cash Flows Information

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

	2023	2022
Interest	$ 5,377,308	$ 1,264,000
Income taxes	$ 2,314,061	$ 1,888,760

Non-Cash Investing Activities

Collateral repossessed on loans having carrying values in the amount of $893,699 and $330,677 on the date of transfer was transferred to foreclosed assets in 2023 and 2022, respectively.

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

A description of the Company's revenue streams accounted for under ASC 606 follows:

The Bank earns fees from its deposit customers for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Bank fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Bank satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance. The Bank also earns interchange fees from debit and credit cardholder transactions conducted through merchant payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.