# TriCity Bankshares Corporation

# 2023 Annual Report

# TriCity Bankshares Corporation

Dear Fellow Shareholders,

"Imagine" writing a letter to our shareholders after another year of significant local, national, and global challenges that affected all financial institutions.

Should the letter focus on the bank's many successes to strengthen and grow during times of uncertainty? Should it detail the specifics of how our bank again weathered a financial storm? Should it review the bank's proven, conservative strategies?

Imagine a bank with the goal of being the best, full-service, nationally chartered commercial bank in the country. And imagine, despite macroeconomic headwinds, making significant progress on that goal.

Imagine the strength of a bank with strong core deposits, and a cost of funds that – by design – is among the lowest in the country. And imagine those low-cost deposits are reinvested in the community with sound loan underwriting principles, with loan losses that make the bank an envy among peers.

Imagine a bank that continues to build a leadership team of individuals that understand the bank's many strengths and work passionately to achieve the bank's goals.

Imagine the failure of three, regional banks that failed because they did not have sound liquidity planning and compare that bank to one that remained strong and secure.

Imagine the opportunity – your opportunity – to invest in a bank that will always work to protect and increase the value of your investment. Imagine that investment is detailed in the enclosed financial reports and confirm you have invested in a safe bank, a sound bank, a bank with a vision to provide opportunities for individuals, families, and businesses to thrive in Southeastern Wisconsin.

Imagine that your investment, paired with the work of local, community bankers, makes financial dreams come true.

Imagine no more.

Thank you for being on our team. Together, we will build our founder's dream.

Sincerely,

Brian T. McGarry

**Brian T. McGarry**
Chairman of the Board and Chief Executive Officer
Tri City Bankshares Corporation

# 2023
# HIGHLIGHTS

**375** BANKERS ACROSS **28** BRANCHES. MANAGING **$2.08** BILLION IN ASSETS, MAKING TRI CITY THE LARGEST BANK HEADQUARTERED IN MILWAUKEE COUNTY.

**Winner of three Top Choice Awards from the Milwaukee Journal Sentinel:**

- Best Bank
- Best Mortgage Lending Company
- Best Financial Planning Services

## WE GIVE WHERE WE LIVE

**49K+**
ATTENDEES AT ZOO FAMILY FREE DAYS SPONSORED BY TRI CITY

**112K+**
ATTENDEES AT CHINA LIGHTS PRESENTED BY TRI CITY

**9.5K+**
ITEMS DONATED TO MILWAUKEE DIAPER MISSION

**95.2%**
OF TRI CITY LOANS ARE MADE IN SOUTHEASTERN WISCONSIN


**75+**
COMMUNITY ORGANIZATIONS RECEIEVED FINANCIAL SUPPORT

# WHAT OTHERS SAY

## GOOGLE REVIEWS

★★★★½

**4.5** on Google Business across 1,000+ reviews!

★★★★★

"Karyn and Adam epitomize customer service and the values Tri City National Bank stands for. They helped me with some timely transactions that reduced my stress. Rarely do I hear someone say 'Yes' when asked for help. Keep up the great personal service."

★★★★★

"I truely enjoy going to this bank. I'm always treated respectfully and with a smile. I have never had an issue with any transaction here. Their accuracy and thoroughness really stands out. On occasion there are new faces but everyone of them have turned out the same way, great! Customer service isn't dead here."

★★★★★

"This branch is personal, friendly and quick. As my banking needs have grown, I can't imagine working with a different team. The staff takes a genuine personal interest, are knowledgeable, and always go the extra mile. As my kids would say, '10 out of 10, would recommend!'"

★★★★★

"I have had such service from this bank, I just had to write a review. The people there are so friendly and professional, especially Farron. When I come in she greets me by name before I say a word. She is very friendly, knowledgeable and handles all my questions with professionalism. It's people like her that make this my bank."

★★★★★

"I have been banking here for over a decade and I cannot say enough about the awesome staff and services! I recommend Tri City whenever I get the chance. Shari is amazing and always so friendly! Keep up the good work!'

## COMMUNITY REINVESTMENT ACT

We're routinely reviewed as part of the Community Reinvestment Act (CRA), recently earning an OUTSTANDING rating from the Office of the Comptroller of the Currency - the highest possible!


REVITALIZE MILWAUKEE

Every year, our hometown bankers participate in Revitalize Milwaukee's Block Build MKE event, providing life-changing home repairs for deserving neighborhood residents.

HUNGER TASK FORCE

Our team packaged 460 stock boxes at the Hunger Task Force, providing meals to home-bound senior citizens in Southeastern Wisconsin.

# IN THE NEWS

MKE EXECUTIVE LIFE/STYLE

## Lakshmy Nair

PRESIDENT, TRI CITY NATIONAL BANK

BY STEVE JAGLER
PHOTO COURTESY OF TRI CITY NATIONAL BANK

**Industry:**
Banking.

**City of residence:**
Menomonee Falls.

**Family:**
Husband Madhu.

**Education:**
Master of science degree in mathematics, University of Kerala (India); master of science in computer science, University of Wisconsin-Milwaukee; and Graduate School of Banking, UW-Madison.

**Favorite vacation destination:**
I grew up in a city near the Arabian sea, so anything near the ocean or on a beach always brings good memories.

**Favorite leisure activity:**
I love the serenity of walking in nature — even better if it's near the lakeshore.

**Favorite Wisconsin restaurants:**
Kanpai and Harbor House.

**Favorite book:**

**What do you like most about Milwaukee?**

Milwaukee has everything big cities offer that makes your life rich and colorful, both culturally and professionally. We have a vibrant community and an ethnic diversity typically found in much bigger cities. When you couple those qualities with a pace that provides a work/life balance, you have the great city we are lucky to call home.

**Tell us what you think about MKE's short- and long-term future – what excites you?**

There is growth and excitement in many corners of our community. We see it regularly in the loans we issue at Tri City, both for businesses and individuals. We are beginning to think bigger, build bigger, and others around the country are taking notice. You see Milwaukee's name on more "best of" lists, and both political parties chose us for recent national conventions. Milwaukee's future is bright.

**What do you think is a MKE hidden treasure?**

In an interesting way, Lake Michigan is a hidden treasure. I think we sometimes take for granted that we live by one of the best freshwater sources in the world. It's incredibly visible, but at the same time, overlooked by Milwaukeeans. Visitors are often stunned by the great "third coast" views, and that reminds me of what a

## MKELIFESTYLE MAGAZINE EXECUTIVE PROFILE ON PRESIDENT LAKSHMY NAIR.

Lakshmy Nair was named President of Tri City National Bank in December 2022. Since that time, she has been profiled in MKElifestyle magazine (shown here), been profiled in the Milwaukee Business Journal, as well as being named one of the Business Journal's "business leaders you should watch" in 2024.

## NORTHCOTT NEIGHBORHOOD HOUSE AND TRI CITY NATIONAL BANK HOLD COAT DRIVE.

Tri City donated $2,500 and joined forces with Northcott Neighborhood House for a coat drive benefiting those in need.

## SENIOR VICE PRESIDENT IVAN GAMBOA NAMED POWER BROKER BY THE MILWAUKEE BUSINESS JOURNAL

## SENIOR VICE PRESIDENT JOE PORTER NAMED BIZTIMES NOTABLE COMMERCIAL BANKER

# Financial Performance Highlights

- The Corporation has continued its annual growth, with 2023 marking the highest total asset level in the history of the Corporation. (see Figure 1.1)

- Macroeconomic conditions during 2023 brought challenges in lending. Market rates increased dramatically, both in amount and speed. Loan demand softened in 2023 compared to prior years. Despite these factors, the Corporation was able to maintain loan levels throughout the year. (see Figure 1.2)

- The Corporation, and banking industry at large, were challenged by shifting deposit levels. Institutions saw deposits leave for higher money market rates, and the Corporation was not immune to this market force. The influx of deposits gained during the pandemic began to ease, as customers began to move deposits in search of higher rates. However, the Corporation took a proactive approach to raising deposit rates, creating competitive certificate of deposit (CD) specials that reduced the impact of deposit losses. The Corporation has seen steady deposit balances since the second quarter of 2023 as a result. Net Interest Income was stable in 2023 despite the Federal Reserve rapidly tightening and raising rates across the entire U.S. Treasury Curve. (see Figure 1.3)


Figure 1.1

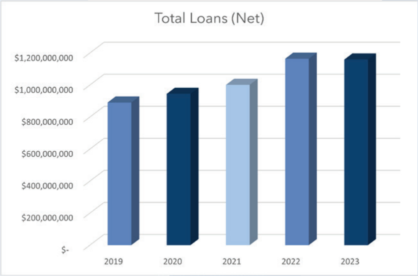


Figure 1.2

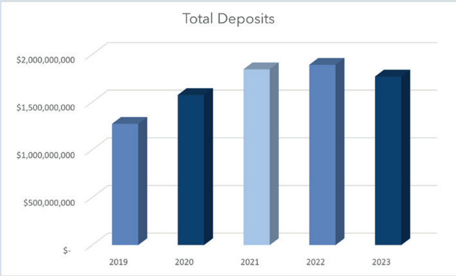


Figure 1.3

- The Corporation is well positioned to maintain Net Interest Income in a variety of interest rate scenarios. Asset Liability management practices and partners are as robust -- and as important -- as ever. A prolonged inverted yield curve provides challenges to banks, but the Corporation is well positioned to benefit from a higher interest rate environment in the long term. (see Figure 2.1)

- The Corporation has always taken a simple approach to its balance sheet structure: it takes local deposits and lends them to local businesses. This simple approach prevents unnecessary risk taking that can cause long-term trouble for financial institutions.

- The Corporation's focus on Core Operating Income is unchanged. The Corporation maintains consistent Core Operating Income in all macroeconomic environments. In 2023, the industry faced challenges unseen in some time. The Corporation was able to maintain a level of Core Operating Income consistent with prior years due to its conservative lending practices, solid core deposit base, and liquidity position. (see Figure 2.2)

- Tier 1 Capital is of the upmost importance to the Corporation. The Corporation has been able to maintain capital ratios to be considered Well Capitalized by regulators. It is important for the Corporation to maintain capital levels that support future growth opportunities and provide a cushion for the unforeseen. (see Figure 2.3)

# Financial Performance Highlights

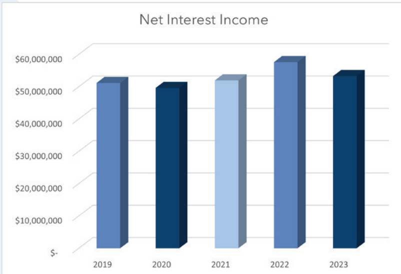


Figure 2.1

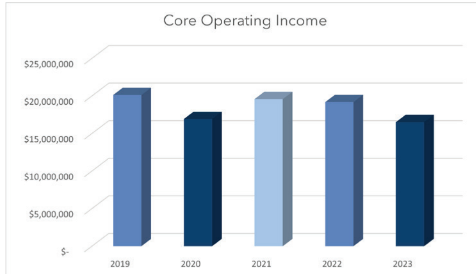


Figure 2.2


Figure 2.3

- The Corporation has always fostered a strong credit quality culture. Prudent underwriting principles are applied to each new loan, meeting the Corporation's high lending standards.

- Nonaccrual loans remain at very low levels despite a rapid raise in loan rates throughout 2023. (see Figure 3.1)

- For the fifth consecutive year, the Corporation has had negative charge offs on loans. (see Figure 3.2)

- Past due loans greater than 30 days also remain at historically low levels. An active approach is taken with customers who may be late on a payment, so that the Corporation is appropriately protected. (see Figure 3.3)

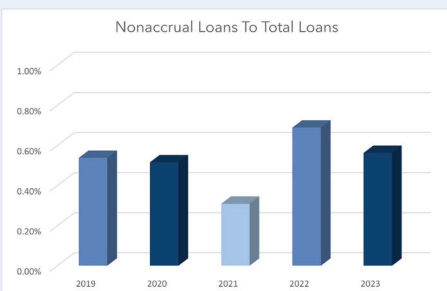


Figure 3.1

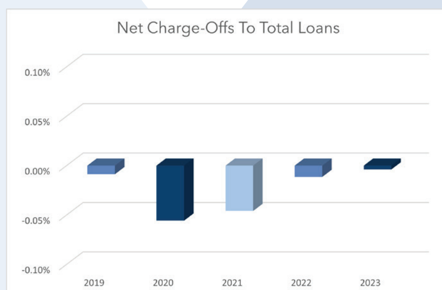


Figure 3.2

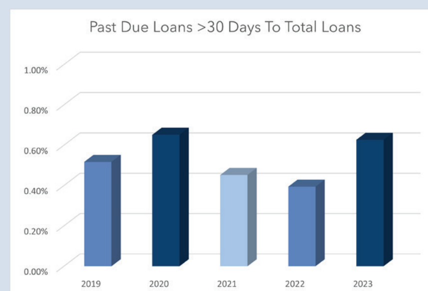


Figure 3.3

## CHANGE IN STATE TAX LAW IMPACT

On July 1, 2023, the Wisconsin State Budget was signed into law and included language that provides financial institutions with an exemption from state taxable income for interest, fees, and penalties earned on Wisconsin-based business purpose or agriculture purpose loans for $5 million or less, effective January 1, 2023. The impact to the Corporation is the elimination of state income tax expense as of January 1, 2023. The Corporation continues to recognize federal tax expense. However, the elimination of state income tax expense also caused a valuation allowance to be recorded for state-related deferred tax assets. This resulted in a one-time tax expense of $7.3 million recorded as of July 1, 2023. Of this expense, $6.3 million relates to the state tax effect on unrealized losses on securities stranded in other comprehensive income. The $6.3 million stranded in other comprehensive income will be recognized as an income tax benefit on a security-by-security basis as the related securities mature or are sold. Driven primarily by this one-time tax expense, total income tax expense for 2023 was $8.4 million, an increase of $5.1 million, compared to 2022. The effective tax rate increased from 15.6% in 2022 to 56.5% in 2023.

# Selected Financial Data

| Results of Operations | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---|---|---|---|---|
| Interest Income | $53,452,565 | $51,067,127 | $52,878,074 | $59,453,479 | $68,733,641 |
| Interest Expense | $2,296,014 | $1,446,834 | $943,952 | $1,860,863 | $15,453,609 |
| Net Interest Income | $51,156,551 | $49,620,293 | $51,934,122 | $57,592,616 | $53,280,032 |
| Provision (recapture) for credit losses on loans (PCL) | - | $1,500,000 | - | - | $(455,211) |
| Net Interest Income after PCL | $51,156,551 | $48,120,293 | $51,934,122 | $57,592,616 | $53,735,243 |
| Core noninterest income | $15,430,526 | $17,341,854 | $17,839,230 | $15,842,595 | $14,925,145 |
| Non-core noninterest income | $3,002,577 | $1,029,396 | $268,441 | $2,429,879 | - |
| Core noninterest expense | $46,067,993 | $48,136,600 | $49,930,269 | $53,192,736 | $52,150,358 |
| Non-core noninterest expense | $1,069,131 | $1,619,796 | $1,869,312 | $1,974,000 | $1,672,838 |
| Income before income tax expense | $22,452,530 | $16,735,147 | $18,242,212 | $20,698,354 | $14,837,192 |
| Deferred tax adjustment from change in tax law | - | - | - | - | $7,336,616 |
| Income taxes | $3,729,500 | $2,518,795 | $2,883,643 | $3,232,798 | $1,042,561 |
| Total income tax expense | $3,729,500 | $2,518,795 | $2,883,643 | $3,232,798 | $8,379,177 |
| Net income | $18,723,030 | $14,216,352 | $15,358,569 | $17,465,556 | $6,458,015 |
| Balance Sheet Data | | | | | |
| Assets | $1,466,800,227 | $1,796,413,636 | $2,054,498,528 | $2,038,496,442 | $2,078,743,388 |
| Security investments | $383,295,527 | $558,509,399 | $820,639,129 | $691,594,252 | $608,976,750 |
| Total loans | $902,066,127 | $958,247,553 | $1,014,652,367 | $1,177,931,968 | $1,173,609,721 |
| Allowance for credit losses on loans | $(11,072,956) | $(13,106,919) | $(13,572,773) | $(13,707,262) | $(14,579,234) |
| Total loans, net | $890,993,171 | $945,140,634 | $1,001,079,594 | $1,164,224,706 | $1,159,030,487 |
| Deposits | $1,271,749,600 | $1,574,587,154 | $1,844,378,881 | 1,891,340,898 | $1,768,372,171 |
| Borrowings | - | - | - | - | $150,000,000 |
| **Total Tier One capital** | **$173,434,722** | **$183,020,518** | **$193,748,531** | **$205,871,138** | **$205,917,612** |
| **Total stockholders' equity** | **$174,466,438** | **$191,103,531** | **$191,631,640** | **$128,570,287** | **$143,512,850** |
| Net loans to deposits | 70.06% | 60.02% | 54.28% | 61.56% | 65.54% |
| Per Share Data | | | | | |
| Earnings per share | $2.10 | $1.60 | $1.72 | $1.96 | $0.73 |
| Cash dividends paid | $0.52 | $0.52 | $0.52 | $0.60 | $0.72 |
| Book value per share | $19.59 | $21.46 | $21.52 | $14.44 | $16.12 |
| Shares outstanding | $8,904,915 | $8,904,915 | $8,904,915 | $8,904,915 | $8,904,915 |
| Performance Ratios | | | | | |
| Return on average assets | 1.30% | 0.87% | 0.78% | 0.85% | 0.32% |
| Return on average equity | 11.43% | 7.78% | 8.03% | 10.91% | 4.75% |
| Interest on earning assets | 4.02% | 3.39% | 2.91% | 3.11% | 3.71% |
| Cost of funds | 0.17% | 0.10% | 0.05% | 0.10% | 0.84% |
| Net interest margin | 3.85% | 3.30% | 2.86% | 3.02% | 2.88% |
| **Core noninterest income to average assets** | **1.07%** | **1.06%** | **0.91%** | **0.77%** | **0.75%** |
| **Core noninterest expense to average assets** | **3.20%** | **2.94%** | **2.55%** | **2.59%** | **2.61%** |
| Efficiency Ratio | 69.18% | 71.89% | 71.56% | 72.43% | 76.46% |
| Captial Ratios | | | | | |
| **Total equity to total assets** | **11.89%** | **10.64%** | **9.33%** | **6.31%** | **6.90%** |
| **Tier One capital ratio** | **11.82%** | **10.19%** | **9.43%** | **10.10%** | **9.91%** |
| Asset Quality Ratios | | | | | |
| Nonaccrual loans to total loans | 0.54% | 0.52% | 0.31% | 0.69% | 0.56% |
| Past due loans >30 days to total loans | 0.52% | 0.65% | 0.45% | 0.39% | 0.63% |
| Net charge-offs to total loans | -0.01% | -0.06% | -0.05% | -0.01% | 0.00% |
| Other real estate owned to total assets | 0.00% | 0.00% | 0.00% | 0.00% | 0.00% |
| Allowance for credit losses to total loans | 1.23% | 1.37% | 1.34% | 1.16% | 1.24% |

## Independent Auditors' Report

To the Board of Directors and Stockholders of
Tri City Bankshares Corporation

### *Opinion*

We have audited the consolidated financial statements of Tri City Bankshares Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years 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 Corporation as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Corporation's internal control over financial reporting as of December 31, 2023, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 28, 2024 expressed an unmodified opinion on the effectiveness of the Corporation's internal control over financial reporting.

### *Emphasis of Matter - Change in Accounting Principle*

As discussed in Note 1 to the consolidated financial statements, the Corporation has changed its method of accounting for the recognition and measurement of credit losses as of January 1, 2023 due to the adoption of ASC 326, *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

### *Basis for Opinion*

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

### *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 financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

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

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

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

Baker Tilly US, LLP

Milwaukee, Wisconsin
March 28, 2024

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED BALANCE SHEETS

As of December 31, 2023 and 2022

***ASSETS***

| | 2023 | 2022 |
|---|---|---|
| Cash and due from banks | $ 193,710,617 | $ 51,082,746 |
| Federal funds sold | 1,066,930 | 2,102,042 |
| Total Cash and Cash Equivalents | 194,777,547 | 53,184,788 |
| Securities available for sale, at fair value | 608,976,750 | 691,594,252 |
| Loans, less allowance for credit losses of $14,579,234 and $13,707,262 as of 2023 and 2022, respectively *(1)* | 1,159,030,487 | 1,164,224,706 |
| Premises and equipment - net | 19,940,303 | 20,361,893 |
| Right of use lease asset | 12,134,163 | 12,716,723 |
| Bank owned life insurance | 44,961,864 | 43,984,163 |
| Accrued interest receivable and other assets | 38,922,274 | 52,429,917 |
| **TOTAL ASSETS** | $ 2,078,743,388 | $ 2,038,496,442 |

***LIABILITIES AND STOCKHOLDERS' EQUITY***

| | 2023 | 2022 |
|---|---|---|
| **LIABILITIES** | | |
| Deposits | | |
| Demand | $ 402,043,867 | $ 506,586,090 |
| Interest bearing | 1,248,144,306 | 1,335,663,988 |
| Certificates of deposit | 118,183,998 | 49,090,820 |
| Total Deposits | 1,768,372,171 | 1,891,340,898 |
| Short-term borrowings | 150,000,000 | - |
| Lease liability | 12,134,163 | 12,716,723 |
| Accrued interest payable and other liabilities | 4,724,204 | 5,868,534 |
| Total Liabilities | 1,935,230,538 | 1,909,926,155 |
| **STOCKHOLDERS' EQUITY** | | |
| Cumulative preferred stock, $1 par value 200,000 shares authorized, no shares issued | - | - |
| Common stock, $1 par value, 15,000,000 shares authorized, 8,904,915 shares issued and outstanding in 2023 and 2022 | 8,904,915 | 8,904,915 |
| Additional paid-in-capital | 26,543,470 | 26,543,470 |
| Accumulated other comprehensive loss | (62,404,762) | (77,300,851) |
| Retained earnings | 170,469,227 | 170,422,753 |
| Total Stockholders' Equity | 143,512,850 | 128,570,287 |
| **TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY** | $ 2,078,743,388 | $ 2,038,496,442 |

*(1) The Corporation adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior acccounting standard.*

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **INTEREST INCOME** | | |
| Loans | $ 53,703,270 | $ 45,161,811 |
| Investment securities | | |
| Taxable | 10,485,788 | 11,117,716 |
| Tax exempt | 1,760,621 | 2,193,406 |
| Federal funds sold and due from banks | 2,764,636 | 961,220 |
| Other | 19,326 | 19,326 |
| Total interest income | 68,733,641 | 59,453,479 |
| **INTEREST EXPENSE** | | |
| Deposits | 10,054,654 | 1,850,802 |
| Other borrowings | 5,398,955 | 10,061 |
| Total interest expense | 15,453,609 | 1,860,863 |
| Net interest income before provision for (recapture of) credit losses | 53,280,032 | 57,592,616 |
| Provision for (recapture of) credit losses *(1)* | (455,211) | - |
| Net interest income after provision for (recapture of) credit losses | 53,735,243 | 57,592,616 |
| **NONINTEREST INCOME** | | |
| Service charges on deposits | 4,376,178 | 4,216,476 |
| Debit card interchange | 5,027,638 | 5,369,297 |
| ATM | 667,443 | 671,731 |
| Merchant services | 721,090 | 796,665 |
| Loan servicing income | 470,040 | 555,510 |
| Net gain on sale of loans | 464,262 | 516,254 |
| Increase in bank owned life insurance | 977,701 | 943,853 |
| Bank owned life insurance death benefits | - | 472,260 |
| Non-accretable loan discount | - | 1,957,619 |
| Other income | 2,220,793 | 2,772,809 |
| Total noninterest income | 14,925,145 | 18,272,474 |
| **NONINTEREST EXPENSES** | | |
| Salaries and employee benefits | 30,606,225 | 30,285,648 |
| Net occupancy costs | 4,406,964 | 4,290,519 |
| Furniture and equipment expenses | 2,888,971 | 2,785,719 |
| Data processing and telecommunications expense | 4,632,754 | 6,112,462 |
| Professional fees | 2,912,268 | 2,763,971 |
| Advertising and promotional | 1,132,220 | 1,168,531 |
| FDIC and other regulatory assessments | 1,170,872 | 890,418 |
| New Markets Tax Credits investment amortization | 1,672,838 | 1,974,000 |
| Office supplies | 615,792 | 729,418 |
| Other expense | 3,784,292 | 4,166,050 |
| Total noninterest expense | 53,823,196 | 55,166,736 |
| Total income before taxes | 14,837,192 | 20,698,354 |
| Less: Income tax expense | 8,379,177 | 3,232,798 |
| **NET INCOME** | $ 6,458,015 | $ 17,465,556 |

*(1) The Corporation adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior acccounting standard.*

See accompanying notes to consolidated financial statements

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| NET INCOME | $ 6,458,015 | $ 17,465,556 |
| Other comprehensive income (loss), net of tax: | | |
| Securities available for sale: | | |
| Net unrealized holding gains (loss) arising during the period | 18,787,868 | (103,842,196) |
| Reclassification adjustment for (gains) loss in net income | 454,151 | 509,338 |
| Tax effect | (4,345,930) | 28,148,898 |
| Total other comprehensive income (loss), net of tax: | 14,896,089 | (75,183,960) |
| COMPREHENSIVE INCOME (LOSS) | $ 21,354,104 | $ (57,718,404) |

See accompanying notes to consolidated financial statements

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2023 and 2022

| | Common Stock | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings | Total |
|---|---|---|---|---|---|
| **BALANCES** - January 1, 2022 | $ 8,904,915 | 26,543,470 | (2,116,891) | 158,300,146 | 191,631,640 |
| Net income | - | - | - | 17,465,556 | 17,465,556 |
| Total other comprehensive loss | - | - | (75,183,960) | - | (75,183,960) |
| Cash dividends - ($0.60 per share) | - | - | - | (5,342,949) | (5,342,949) |
| **BALANCES** - December 31, 2022 | 8,904,915 | 26,543,470 | (77,300,851) | 170,422,753 | 128,570,287 |
| Net income | - | - | - | 6,458,015 | 6,458,015 |
| Total other comprehensive income | - | - | 14,896,089 | - | 14,896,089 |
| Cash dividends - ($0.72 per share) | - | - | - | (6,411,541) | (6,411,541) |
| **BALANCES** - December 31, 2023 | $ 8,904,915 | $ 26,543,470 | $ (62,404,762) | $ 170,469,227 | $ 143,512,850 |

See accompanying notes to consolidated financial statements

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

| | 2023 | 2022 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net Income | $ 6,458,015 | $ 17,465,556 |
| Adjustments to reconcile net income to net cash flows from operating activities: | | |
| Depreciation | 2,170,768 | 2,058,494 |
| Amortization and accretion of servicing rights, premiums, discounts and New Market Tax Credit investments | 5,406,374 | 3,509,815 |
| Net gain on sale of loans | (464,262) | (516,254) |
| Provision for (recapture of) credit losses *(1)* | (455,211) | - |
| Expense for deferred income taxes | 7,217,495 | 617,208 |
| Proceeds from sales of loans held for sale | 12,895,665 | 24,651,030 |
| Originations of loans held for sale | (12,547,879) | (23,882,870) |
| Loss on sale of securities available for sale | 454,151 | 509,338 |
| Gain on sale of Visa Class B shares | - | (878,746) |
| Increase in bank owned life insurance | (977,701) | (943,853) |
| Gain on bank owned life insurance death benefits | - | (472,260) |
| Gain on disposal of premises and equipment | (47,967) | (12,534) |
| Right of use lease asset amortization | 582,560 | 710,133 |
| Net change in: | | |
| Accrued interest receivable and other assets | 232,892 | (929,147) |
| Lease liability | (582,560) | (710,133) |
| Accrued interest payable and other liabilities | (991,398) | 1,801,970 |
| Net cash flows from operating activities | 19,350,942 | 22,977,747 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Activity in available for sale securities: | | |
| Maturities, prepayments and calls | 67,993,629 | 112,538,575 |
| Purchases | (2,978,589) | (116,577,088) |
| Proceeds from sale | 32,833,026 | 21,163,447 |
| Proceeds from sale of Visa Class B shares | - | 878,746 |
| Net decrease (increase) in loans | 5,649,430 | (160,310,507) |
| Purchase of premises and equipment | (1,758,660) | (5,177,216) |
| Proceeds from sales of premises and equipment | 57,449 | 84,033 |
| Proceeds from bank owned life insurance death benefits | - | 1,732,820 |
| Investment in FHLB Chicago | (174,200) | (1,205,200) |
| Net cash provided by (used in) investing activities | 101,622,085 | (146,872,390) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Net (decrease) increase in deposits | (122,968,727) | 46,962,017 |
| Net increase in borrowings | 150,000,000 | - |
| Dividends paid | (6,411,541) | (5,342,949) |
| Net cash flows provided by financing activities | 20,619,732 | 41,619,068 |
| Net change in cash and cash equivalents | 141,592,759 | (82,275,575) |
| CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR | 53,184,788 | 135,460,363 |
| **CASH AND CASH EQUIVALENTS - END OF YEAR** | $ 194,777,547 | $ 53,184,788 |

*(1) The Corporation adopted Accounting Standards Update 2016-13 as of January 1, 2023. The 2022 amounts presented are calculated under the prior acccounting standard.*

See accompanying notes to consolidated financial statements

**TRI CITY BANKSHARES CORPORATION**

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2023 and 2022

(continued)

| | 2023 | 2022 |
|---|---|---|
| SUPPLEMENTAL CASH FLOW DISCLOSURES | | |
| Cash paid for interest | $ 14,920,975 | $ 1,867,881 |
| Cash paid for income taxes | 2,135,397 | 2,450,000 |
| SUPPLEMENTAL NON-CASH DISCLOSURES | | |
| Mortgage servicing rights resulting from sales of loans | 116,476 | 226,694 |
| Change in lease liability due to remeasurement or obtaining right of use lease assets | - | (1,140,678) |
| Security sales settled in subsequent period | - | 3,774,073 |

## NOTE 1 - Summary of Significant Accounting Policies

The consolidated financial statements of Tri City Bankshares Corporation (the "Corporation") include the accounts of its wholly owned subsidiary, Tri City National Bank (the "Bank") (collectively, the “Corporation”). The Bank includes the accounts of its wholly owned subsidiaries, Tri City Capital Corporation, a Nevada investment subsidiary, Title Service of Southeast Wisconsin, Inc., a title company subsidiary, TCNB Whole Health Investment Fund LLC, TCNB Aurora Investment Fund LLC, TCNB Fire Loan Pool IF LLC, TCNB FCI Loan Pool IF LLC, TCNB Notre Dame IF LLC and TCNB St. Marcus IF LLC, subsidiaries to facilitate tax credit investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (“U.S. GAAP”) and conform to general practices within the banking industry.

The Corporation grants commercial, real estate and installment loans and accepts deposits primarily in Southeastern Wisconsin. The Corporation is subject to competition from other financial institutions and nonfinancial institutions providing financial products. Additionally, the Corporation is subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

*Use of Estimates*

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of income and expenses during the reporting period. 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, deferred taxes, credit losses on securities and fair values of financial instruments.

*Cash and Cash Equivalents*

For purposes of reporting cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. The Corporation maintained amounts due from banks that exceeded federally insured limits as of December 31, 2023. The Corporation has not experienced any losses in such accounts.

*Securities*

Securities are classified as available for sale when the Corporation intends to hold them for an indefinite period of time but not necessarily to maturity. Securities available for sale are accounted for on a trade date basis and carried at fair value, with unrealized holding gains and losses excluded from net income and reported in accumulated other comprehensive income (loss), net of tax. Gains and losses on sales are recorded on the trade date and determined using the specific identification method. The Corporation records net gains (losses) on the sale of securities within other income on the consolidated statements of income.

The Corporation held an equity investment of Visa Class B shares which were carried at their historical cost basis of zero in 2022. These shares did not have a readily determinable market value due to certain restrictions and ongoing matters associated with the investee. During 2022, the Corporation sold all of its 4,026 Visa Class B shares to a third-party, resulting in a net pre-tax gain of $878,746. This gain is included within other income on the consolidated statements of income.

*Allowance for Credit Losses – Available for Sale Securities*

For available for sale debt securities in an unrealized loss position, the Corporation 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 these criteria regarding intent or requirement to sell is met, the security’s amortized cost basis is written down to fair value through income. For debt securities available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management considers, among other factors, (1) the extent to which fair value is less than amortized cost, (2) the financial condition and near-term prospects of the issuer, including any changes in the rating of the security by a rating agency, and (3) adverse conditions specifically related to the security. 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 loss, net of tax.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Allowance for Credit Losses – Available for Sale Securities (continued)*

Changes in the allowance for credit losses on investments are recorded as a provision for, or recapture of, credit loss expense. Losses are charged against the allowance when management believes the security is uncollectible or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on available for sale securities total $2,135,376 as of December 31, 2023 and is excluded from the estimate of credit losses.

*Loans Held for Investment*

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of unpaid principal, reduced by an allowance for credit losses and any deferred fees or costs in originating loans. Interest income is accrued and credited to income on a daily basis based on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the loan yield using an effective interest method. The accrual of interest income on loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payment of interest or principal when they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Cash collections are credited to the loan receivable balance and no interest income is recognized on those loans until the principal balance is current. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Consistent with regulatory guidance, charge-offs are taken when specific loans, or portions thereof, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The Corporation's policy is to promptly charge these loans off in the period the uncollectible loss amount is reasonably determined. The Corporation promptly charges-off commercial and real estate loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. All consumer loans 120 days or more past due and all other loans with principal and interest 180 days or more past due are reviewed for potential charge-off at least quarterly.

Occasionally, the Corporation modifies loans to borrowers experiencing financial difficulty by granting concessions that include principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged off against the allowance for credit losses. Loans to borrowers experiencing financial difficulty that were modified may be on accrual or non-accrual status based upon the performance of the borrower and management's assessment of collectability.

In some cases, the Corporation provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted. See Note 5 for additional information on loans to borrowers experiencing financial difficulty that were modified during the year ended December 31, 2023.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Loans Acquired Through Purchase*

In the year ended December 31, 2022 , the Corporation held loans acquired through purchase. Loans acquired through the completion of a purchase, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Corporation will be unable to collect all contractually-required payments receivable, are initially recorded at fair value with no valuation allowance. Loans are evaluated individually at the date of acquisition to determine if there is evidence of deterioration of credit quality since origination. Loans where there is evidence of deterioration of credit quality since origination may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the "non-accretable difference," are not recognized as a yield adjustment, a loss accrual or a valuation allowance. Non-accretable discount may be taken to non-interest income if a loan pays-off, if the non-accretable discount is greater than a charge-off taken or if the expected remaining cash flows exceed the remaining fair value of the loan. Subsequent decreases to the expected cash flows will generally result in a change in the allowance for loan losses. Subsequent increases in cash flows result in a change in the allowance for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable discount to accretable discount with a positive impact on interest income. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the "accretable yield," is recognized as interest income on a level-yield method over the life of the loan. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as a change in the allowance for loan losses. If the Corporation does not have the information necessary to reasonably estimate expected cash flows, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

*Loans Held for Sale*

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized gains or losses are recognized through a valuation allowance by charges to income. All sales are made without recourse. The Corporation had no loans held for sale as of December 31, 2023 or 2022.

*Allowance for Credit Losses on Loans*

The allowance for credit losses on loans reflects management's best estimate of the lifetime credit losses in the loan portfolio at the balance sheet date. The estimated lifetime credit losses are the product of multiplying the Corporation's estimate of probability of default, loss given default, and the individual loan level exposure at default on a discounted basis. The Corporation estimates the lifetime expected credit loss using prepayment assumptions over the projected lifetime cash flow of these loans. Actual credit losses, net of recoveries, are deducted from the allowance for credit losses on loans. A provision for credit losses is recorded to maintain the allowance for credit losses on loans to a level that, in management's judgment, is appropriate to absorb the expected lifetime losses in the loan portfolio.

The Corporation applies a methodology that is designed to assess the appropriateness of the allowance for credit losses on loans within the Corporation's loan portfolio. The methodology measures the allowance for credit losses on a collective (segment) basis when similar characteristics exist, typically based on collateral type and source of repayment. The portfolio segments identified by the Corporation are commercial, construction and land development, commercial real estate, residential real estate, multifamily, and installment and consumer. These segments are further disaggregated, when appropriate, based on characteristics such as primary industry and occupancy classification that reflect a subset of risk characteristics that differ from the broader segment.

The methodology applied to the segments identified in the Corporation's loan portfolio focuses on the evaluation of several factors, including but not limited to: evaluation of facts and issues related to specific loans, management's ongoing review and grading of the loan portfolio, consideration of historical loan loss and delinquency experience in each segment, trends in past due and nonaccrual loans, the level of potential problem loans, the risk characteristics of the various classifications of loans, changes in the size and character of the loan portfolio, concentrations of loans to specific borrowers or industries, existing economic conditions and economic forecasts, the fair value of underlying collateral, and other quantitative and qualitative factors which could affect potential credit losses. A portion of the allowance for credit losses on loans is comprised of adjustments for qualitative factors not reflected in the quantitative model. Accrued interest receivable on loans totals $3,265,330 as of December 31, 2023 and is excluded from the estimate of credit losses.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Allowance for Credit Losses on Loans (continued)*

The Corporation individually analyzes loans that do not share similar risk characteristics to other loans in the portfolio. Generally, nonaccrual loans are individually analyzed as such loans are considered to have unique risk characteristics. The allowance for credit losses on loans attributable to the loan is allocated based on management's estimate of the borrower's ability to repay the loan given the availability of collateral, other sources of cash flows, and evaluation of legal options available to the Corporation. The amount of expected loss is measured based upon the present value of expected discounted future cash flows, the fair value of the underlying collateral less applicable selling costs, or the observable market price of the loan. If foreclosure is probable or the loan is collateral dependent, impairment is measured using the fair value of the loan's collateral, less applicable selling costs.

Management believes that the allowance for credit losses on loans is appropriate. While management uses currently available information to recognize losses on loans, future adjustments to the allowance for credit losses may be necessary based on updated appraisals, updated commercial customer financial statements, rapidly deteriorating cash flow, and changes in economic conditions that affect our customers. In addition, various regulatory agencies periodically review the allowance for credit losses. These agencies may suggest additions to the allowance for credit losses based on their judgments of collectability based on information available to them at the time of their examination.

*Allowance for Credit Losses on Unfunded Commitments*

The Corporation is exposed to credit risk via contractual obligations to extend credit, unless that obligation is unconditionally cancellable by the Corporation. The Corporation analyzes estimated expected credit losses over the contract period in which the Corporation is exposed to credit risk. This analysis includes consideration of the likelihood that funding will occur, an estimate of expected credit losses on commitments expected to be funded over its estimated life and historical losses, among other factors. Based on this analysis, the Corporation determined estimated credit losses on unfunded commitments were immaterial and did not record a related allowance for credit losses on unfunded commitments as of December 31, 2023.

*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 isolated from the Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

*Mortgage Servicing Rights*

The Corporation records a mortgage servicing right ("MSR") asset when it continues to service borrower payments and perform maintenance activities on loans sold to secondary market investors. In the period in which the loan is sold to the secondary market investors, loan servicing income is increased by the value of the initial MSR.

The Corporation initially records servicing rights at the time of the sale of the loans to the secondary market investors. The Corporation uses the amortization method for the subsequent measurement of its MSR assets. Under the amortization method, the Corporation amortizes the value of its MSR assets in proportion to and over the expected life of the loan on a per loan basis. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the MSR assets and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount exceeds fair value. The fair value of the MSR asset is determined by using a discounted cash flow model, which estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, expected prepayment speeds and discount rates.

As of December 31, 2023 and 2022, the Corporation services real estate loans for investors in the secondary market, which are not included in the accompanying consolidated balance sheets, of approximately $267 million and $281 million, respectively. The related MSR assets were $1,861,838 and $2,074,526 as of December 31, 2023 and 2022, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. No valuation allowance was required as of December 31, 2023 and 2022, respectively.

*Premises and Equipment - Net*

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Provisions for depreciation are computed on straight-line methods over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and 15 to 40 years for buildings and lease-hold improvements. Repairs and maintenance costs are expensed as incurred.

## NOTE 1 - Summary of Significant Accounting Policies (cont.)

*New Markets Tax Credits*

As part of its Community Reinvestment Act responsibilities and due to their favorable economics, the Corporation invests in tax credit-motivated projects primarily in the markets it serves. These projects are directed at tax credits issued under the federal New Markets Tax Credits program. As a result of the transactions, the Corporation has several Investment Fund subsidiaries. The Investment Fund subsidiaries are a limited partner in several community development entities ("CDEs"). The Corporation is not the general partner, does not have controlling ownership and is not the primary beneficiary in any of these limited partnerships and thus, the limited partnerships have not been consolidated. These investments are accounted for using the equity method of accounting and are evaluated for impairment at the end of each reporting period (see Note 7 – New Market Tax Credits - Variable Interest Entities).

*Federal Reserve Bank and FHLB Chicago Stocks*

The Corporation is required to maintain Federal Reserve Bank ("FRB") and Federal Home Loan Bank of Chicago ("FHLB Chicago") stock as a member of both the FRB and FHLB Chicago, in amounts as required by these institutions. These equity securities are restricted in that they can only be sold back to the respective member institutions or another member institution at par. Therefore, they are less liquid than other investments and their fair value is equal to cost. The Corporation meets the minimum amount required by current regulations and the institutions.

*Off-Balance Sheet Financial Instruments*

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded, or related fees are incurred or received.

*Derivative Financial Instruments*

The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value primarily offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds and guarantees.

As of December 31, 2023 and 2022, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was $16.6 million and $29.4 million, respectively. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. These commercial borrower swaps were reported on the consolidated balance sheets as a derivative asset and liability of $438,313 and $2,321,077 in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2023 and 2022, respectively. As of December 31, 2023 and 2022, no interest rate swaps were in default and therefore all values for the commercial borrower swaps are recorded on a gross basis on the consolidated balance sheets.

The offsetting interest rate swaps with a third party are collateralized by the pledge of security investments totaling $649,941 and $812,397 as of December 31, 2023 and 2022, respectively.

*Advertising Costs*

All advertising costs incurred by the Corporation are expensed in the period in which they are incurred and recorded in noninterest expense.

## NOTE 1 - Summary of Significant Accounting Policies (cont.)

*Income Taxes*

The Corporation files a consolidated federal income tax return and combined state income tax returns. Income tax expense is recorded based on the liability method. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. The differences relate principally to the allowance for credit losses on loans, mortgage servicing rights, new markets tax credits investments, premises and equipment, and FICA payroll taxes. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. The Corporation also accounts for the uncertainty in income taxes related to the recognition and measurement of a tax position taken or expected to be taken in an income tax return. The Corporation follows the applicable accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to the uncertainty in these income tax positions. It is the Corporation's policy to include interest and penalties in tax expense.

*Earnings Per Share*

Basic earnings per share is computed based upon the weighted average number of common shares outstanding during each year. The Corporation had no potentially dilutive shares outstanding during the periods ended December 31, 2023 and 2022.

*Segment Reporting*

The Corporation has determined that it has one reportable segment - community banking. The Corporation offers a range of financial products and services to external customers, including accepting deposits and originating residential, consumer and commercial loans. Revenues for each of these products and services are disclosed in the consolidated statements of income.

*Employee Benefit Plan*

The Corporation has established a defined contribution 401(k) profit-sharing plan for qualified employees. The Corporation's policy is to fund contributions as accrued.

*Bank Owned Life Insurance*

The Corporation is the owner and primary beneficiary of life insurance policies on certain employees. Bank owned life insurance is reported at the cash surrender value of the policies. The earnings on the policies are recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Corporation intends to hold these policies and, accordingly, the Corporation has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

*Lease Reporting*

The Corporation leases various banking facilities under operating lease agreements in accordance with Topic 842 - Leases. The Corporation has elected to apply the practical expedient to account for lease and non-lease components in contracts in which the Corporation is a lessee as a single lease component. The Corporation reports right of use lease assets representing our right to use an underlying asset for the lease term, and reports lease liabilities representing our obligation to make lease payments arising from the lease.

Lease assets and liabilities are determined based on the present value of remaining minimum lease payments, including all extension options, discounted using the Corporation's incremental borrowing rate as of the date of adoption, and any subsequent lease extensions or commencements. Since the rates inherent in the leases are generally not available, the Corporation uses the FHLB Chicago advance fixed rate for the appropriate lease term as the discount rate. Disclosures regarding the Corporation's leasing activity are presented in Note 14 – Leases.

## NOTE 1 - Summary of Significant Accounting Policies (cont.)

*Revenue Recognition*

The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in non-interest income within the consolidated statements of operations are as follows:

- ***Service charges on deposits*** - Service charges on deposits consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as wire transfer fees and statement rendering fees are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as non-interest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

- ***Debit Card Interchange Income -*** The Corporation earns interchange fees from debit cardholder transactions conducted through VISA payment network. 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.

- ***ATM Income -*** The Corporation earns income on automated teller machine ("ATM") transactions. This income includes fees when noncustomers use the Corporation's ATM network, when the Corporation's customers use other ATM networks and interchange income on transaction activity that occurs on the Corporation's ATM network. Income from these activities are recognized concurrently when the transactions occurs.

- ***Merchant Services Income*** - The Corporation earns merchant services income for selling and servicing merchant card processing to customers. The Corporation uses a third party to process the credit/debit cards at point of sale. The Corporation receives monthly payments for servicing the merchant terminals, which is earned over the course of the month, representing the period over which the Corporation satisfies the performance obligation. A per transaction fee and a percent of the overall transaction amount makes up the monthly merchant service fee collected from each customer. In addition, merchant services sell merchant terminal machines which is recognized at the time of sale.

- ***Gain/Losses on Sale of OREO –*** The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present. No gains or losses on sale of OREO were recorded in 2023 or 2022.

- ***Other Non-Interest Income*** – The main items in this revenue category are other loan closing related fees, prepayment fees and title fees which are all recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Also included in other income are financial advisory fees which are contractually agreed with each customer and earned over time as the Corporation provides the contracted monthly or quarterly services.

*Subsequent Events*

Subsequent events were evaluated through March 28, 2024, the date the consolidated financial statements were available to be issued.

**NOTE 1 - Summary of Significant Accounting Policies (cont.)**

*Accounting Pronouncements Adopted*

*Financial Instruments – Credit Losses: Troubled Debt Restructurings ("TDRs")*

In March 2022, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2022-02, *Financial Instruments – Credit Losses (Topic 326), Troubled Debt Restructurings and Vintage Disclosures*. The ASU eliminates the accounting and disclosure requirements for TDRs upon adoption of ASU 2016-13 and aligns the guidance for modifications to loans with troubled borrowers with that of non-troubled borrowers. The ASU requires new disclosures related to modifications with borrowers that are experiencing financial difficulties and requires public business entities to disclose current period gross writeoffs by year of origination for financing receivables and net investments in leases within the scope of Subtopic 326-20, *Financial Instruments – Credit Losses – Measured at Amortized Cost*. The Corporation has adopted this guidance effective January 1, 2023 under a prospective approach. The adoption of the new standard did not have a material impact on the Corporations' consolidated operations, financial position or cash flows, but resulted in the replacement of TDR disclosures with disclosures related to modifications of loans to borrowers experiencing financial difficulty. See Note 5 – Loans for required disclosures.

*Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments*

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments* (CECL). ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. In November 2019, the FASB issued ASU 2019-10 which amends the effective date of ASU 2016–13. The Corporation adopted this guidance effective January 1, 2023, using a model that reflects credit losses over the instruments' remaining expected life and considers portfolio characteristics, risk-grading, economic outlook and key methodology assumptions. At January 1, 2023, the adoption of ASU 2016-13 resulted in an increase to the allowance for credit losses on loans of $1,286,810. No allowance for credit losses on available for sale securities was recorded as the Corporation concluded credit losses did not exist on January 1, 2023. Additionally, the estimated expected credit losses on unfunded commitments was determined by the Corporation to be immaterial and no related allowance for credit losses on unfunded commitments was recorded. The table below illustrates the impact of the adoption of ASU 2016-13 on the allowance for credit losses on loans:

| | December 31, 2022 | January 1, 2023 | |
|---|---|---|---|
| | Allowance for Loan Losses Ending Balance | CECL Day 1 Adjustment | Allowance for Credit Losses Beginning Balance |
| Commercial | $ 139,962 | $ (53,881) | $ 86,081 |
| Real Estate | | | |
| Construction | 327,110 | 349,249 | 676,359 |
| Commercial | 11,105,056 | (3,589,451) | 7,515,605 |
| Residential | 1,178,498 | 1,845,189 | 3,023,687 |
| Multifamily | 935,716 | 2,732,541 | 3,668,257 |
| Installment and other | 20,920 | 3,163 | 24,083 |
| Totals | $ 13,707,262 | $ 1,286,810 | $ 14,994,072 |

## NOTE 1 - Summary of Significant Accounting Policies (cont.)

*Accounting Pronouncements for Future Adoption*

*Income Taxes – Improvements to Income Tax Disclosures*

In December 2023, the FASB issued ASU 2023-09, *Income Taxes (Topic 740): Improvements to Income Tax Disclosures.* The ASU is designed to improve transparency and effectiveness of income tax information through improvements to income tax disclosures primarily related to the rate reconciliation and income taxes paid information. The amendments in this update are effective for fiscal years beginning after December 15, 2025, and are to be applied on a prospective basis. Early adoption is permitted. The Corporation is currently evaluating the impact on its disclosures.

*Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method*

In March 2023, the FASB issued ASU 2023-02, *Investments – Equity Method and Joint Ventures (Topic 323): Accounting for Investments in Tax Credit Structures Using the Proportional Amortization Method.* The amendments in this update allows reporting entities to elect to account for their tax equity investments, regardless of the tax credit program from which the income tax credits are received, using the proportional amortization method if certain conditions are met. Reporting entities may elect to apply the proportional amortization method on a tax-credit-program-by-tax-credit-program basis. The amendments require that a reporting entity electing to apply the proportional amortization method disclose certain information in annual and interim reporting periods. The amendments in this update are effective for fiscal years beginning on or after December 15, 2024, including interim periods within those fiscal years. Early adoption of the standard is permitted and the amendments are applied on either a modified retrospective or retrospective basis. The Corporation is currently evaluating the impact on its results of operations, financial position, and disclosures.

## NOTE 2 - Fair Value of Financial Instruments

The accounting guidance for fair value measurements and disclosures establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy favors the transparency of inputs to the valuation of an asset or liability as of the measurement date and thereby favors use of Level 1 if appropriate information is available, otherwise Level 2, and finally Level 3 if a Level 2 input is not available. The three levels are defined as follows.

- Level 1 — Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Corporation can participate.
- Level 2 — Fair value is based upon quoted prices for similar (i.e., not identical) assets and liabilities in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — Fair value is based upon financial models using primarily unobservable inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input within the valuation hierarchy that is significant to the fair value measurement.

*Securities available for sale* - The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, management utilizes independent third-party valuation analysis to support these estimates and judgments in determining fair value. The subsequent table presents, for the periods noted, the Corporation's fair value of securities available for sale in accordance with the fair value hierarchy described above.

*Individually evaluated loans* - The Corporation does not record loans held for investment at fair value on a recurring basis. However, from time to time, a particular loan may be considered individually evaluated and an allowance for credit losses established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered individually evaluated. Once a loan is identified as individually evaluated, management measures impairment in accordance with relevant accounting guidance. The fair value of individually evaluated loans is estimated using either the fair value of collateral method or the present value of future cash flows method. Those individually evaluated loans requiring an allowance represent loans for which the fair value of the expected repayments or collateral does not exceed the recorded investments in such loans. For individually evaluated loans, the significant unobservable inputs include the present value of expected future cash flows discounted at the loans effective interest rate, the underlying collateral for collateral-dependent loans, or the estimated liquidity of the note, resulting in an average discount of approximately 40.8% as of December 31, 2023 and 25.8% as of December 31, 2022 for those individually evaluated loans requiring an allowance. The Corporation records these individually evaluated loans as nonrecurring level 3 in the fair value hierarchy.

**NOTE 2 - Fair Value of Financial Instruments (cont.)**

*Mortgage servicing rights* - The fair value of MSRs is estimated using third-party information for selected asset price tables for servicing cost and servicing fees applied to the Corporation's portfolio of serviced loans and is categorized as level 2 in the fair value hierarchy.

*Interest rate swaps* – Values of these instruments are obtained through an independent pricing source utilizing information which may include market observed quotations for swaps, LIBOR rates, forward rates and rate volatility and are categorized as level 2 in the fair value hierarchy.

The methods described above may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Further, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair values of the same financial instruments as of the reporting date.

Financial instruments measured at fair value on a recurring basis for 2023 and 2022 are summarized below:

| **Assets** | Balance at 12/31/2023 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Securities available for sale | | | | |
| Obligations of state and political subdivision | $ 139,880,867 | $ - | $ 139,880,867 | $ - |
| Collateralized mortgage obligations | 140,020,782 | - | 140,020,782 | - |
| Mortgage-backed securities | 314,551,231 | - | 314,551,231 | - |
| U.S. GSE agencies | 14,523,870 | - | 14,523,870 | - |
| Total securities available for sale | $ 608,976,750 | $ - | $ 608,976,750 | $ - |
| Interest rate swaps - other assets | $ 438,313 | $ - | $ 438,313 | $ - |
| **Liabilities** | | | | |
| Interest rate swaps - other liabilities | $ 438,313 | $ - | $ 438,313 | $ - |

| **Assets** | Balance at 12/31/2022 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Securities available for sale | | | | |
| Obligations of state and political subdivision | $ 147,583,592 | $ - | $ 147,583,592 | $ - |
| Collateralized mortgage obligations | 155,054,105 | - | 155,054,105 | - |
| Mortgage-backed securities | 357,186,550 | - | 357,186,550 | - |
| U.S. GSE agencies | 31,770,005 | - | 31,770,005 | - |
| Total securities available for sale | $ 691,594,252 | $ - | $ 691,594,252 | $ - |
| Interest rate swaps - other assets | $ 2,321,077 | $ - | $ 2,321,077 | $ - |
| **Liabilities** | | | | |
| Interest rate swaps - other liabilities | $ 2,321,077 | $ - | $ 2,321,077 | $ - |

## NOTE 2 - Fair Value of Financial Instruments (cont.)

Financial instruments measured at fair value on a non-recurring basis for 2023 and 2022 are summarized below:

| | Balance at 12/31/2023 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Individually evaluated loans with a related allowance, net | $ 372,614 | $ - | $ - | $ 372,614 |

| | Balance at 12/31/2022 | Level 1 | Level 2 | Level 3 |
|---|---|---|---|---|
| Impaired loans with a related allowance, net | $ 2,733,999 | $ - | $ - | $ 2,733,999 |

The estimated fair values of financial instruments as of December 31:

| | | 2023 | | 2022 | |
|---|---|---|---|---|---|
| | Fair Value Hierarchy | Carrying Amount | Estimated Fair Value | Carrying Amount | Estimated Fair Value |
| **FINANCIAL ASSETS** | | | | | |
| Cash and due from banks | 1 | $ 193,710,617 | $ 193,710,617 | $ 51,082,746 | $ 51,082,746 |
| Federal funds sold | 2 | 1,066,930 | 1,066,930 | 2,102,042 | 2,102,042 |
| Available for sale securities | 2 | 608,976,750 | 608,976,750 | 691,594,252 | 691,594,252 |
| Federal reserve stock | 2 | 322,100 | 322,100 | 322,100 | 322,100 |
| FHLB Chicago stock | 2 | 3,120,700 | 3,120,700 | 2,946,500 | 2,946,500 |
| Loans held for investment | 3 | 1,159,030,487 | 1,132,738,826 | 1,164,224,706 | 1,117,059,706 |
| Bank owned life insurance | 2 | 44,961,864 | 44,961,864 | 43,984,163 | 43,984,163 |
| Mortgage servicing rights, net | 2 | 1,861,838 | 3,104,229 | 2,074,526 | 3,106,563 |
| Interest rate swaps | 2 | 438,313 | 438,313 | 2,321,077 | 2,321,077 |
| Accrued interest receivable | 2 | 5,400,706 | 5,400,706 | 5,533,275 | 5,533,275 |
| **FINANCIAL LIABILITIES** | | | | | |
| Deposits | 2 | $ 1,768,372,171 | $ 1,766,498,920 | $ 1,891,340,898 | $ 1,888,836,898 |
| Interest rate swaps | 2 | 438,313 | 438,313 | 2,321,077 | 2,321,077 |
| Accrued interest payable | 2 | 563,357 | 563,357 | 30,723 | 30,723 |

The estimated fair value of fee income on letters of credit outstanding as of December 31, 2023 and December 31, 2022 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2023 and December 31, 2022.

## NOTE 3 - Cash and Due from Banks

The Corporation is generally required to maintain vault cash and reserve balances with the FRB based upon a percentage of deposits. The reserve requirements were set at zero as of December 31, 2023 or December 31, 2022.

## NOTE 4 - Available for Sale Securities

The following table presents the amortized costs and fair values of available for sale securities as of December 31:

| | 2023 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Obligations of states and political subdivisions | $ 159,843,297 | $ 4,633 | $ (19,967,063) | $ 139,880,867 |
| Collateralized mortgage obligations | 162,763,221 | - | (22,742,439) | 140,020,782 |
| Mortgage-backed securities | 358,370,535 | - | (43,819,304) | 314,551,231 |
| U.S. GSE agencies | 15,000,000 | - | (476,130) | 14,523,870 |
| Totals | $ 695,977,053 | $ 4,633 | $ (87,004,936) | $ 608,976,750 |

| | 2022 | | | |
|---|---|---|---|---|
| | Amortized Cost | Unrealized Gains | Unrealized Losses | Fair Value |
| Obligations of states and political subdivisions | $ 173,171,629 | $ 2,988 | $ (25,591,025) | $ 147,583,592 |
| Collateralized mortgage obligations | 180,780,051 | - | (25,725,946) | 155,054,105 |
| Mortgage-backed securities | 410,732,085 | 4,455 | (53,549,990) | 357,186,550 |
| U.S. GSE agencies | 33,000,000 | - | (1,229,995) | 31,770,005 |
| Totals | $ 797,683,765 | $ 7,443 | $ (106,096,956) | $ 691,594,252 |

The amortized cost and fair value of available for sale securities as of December 31, 2023, by contractual maturity are shown below. Expected maturities will differ from contractual maturities for collateralized mortgage obligations and mortgage-backed securities because borrowers or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

| | 2023 | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Due within one year or less | $ 5,741,639 | $ 5,661,799 |
| Due after one year but less than 5 years | 32,071,284 | 30,066,791 |
| Due after 5 years but less than 10 years | 71,896,821 | 63,563,292 |
| Due over 10 years | 65,133,553 | 55,112,855 |
| | 174,843,297 | 154,404,737 |
| Collateralized mortgage obligations | 162,763,221 | 140,020,782 |
| Mortgage backed securities | 358,370,535 | 314,551,231 |
| Totals | $ 695,977,053 | $ 608,976,750 |

Available for sale securities with an amortized cost of $520,829,998 and $234,953,676 at December 31, 2023 and December 31, 2022, respectively, were pledged as collateral on borrowings, public deposits and for other purposes as required or permitted by law.

The following table presents the proceeds from sales of securities and the associated gains and losses recorded within noninterest expense on the consolidated statements of income:

| | 2023 | 2022 |
|---|---|---|
| Proceeds | $ 32,833,026 | $ 21,163,447 |
| Gross gains | 25,931 | 39,067 |
| Gross losses | 480,082 | 548,405 |

**NOTE 4 - Available for Sale Securities (cont.)**

The following table presents the portion of the Corporation's available for sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position as of December 31:

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Continuous unrealized losses existing for 12 months or less | | Continuous unrealized losses existing for greater than 12 months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of states and political subdivisions | $ - | $ - | $ 137,508,111 | $ (19,967,063) | $ 137,508,111 | $ (19,967,063) |
| Collateralized mortgage obligations | 2,811,370 | (6,328) | 137,209,412 | (22,736,111) | 140,020,782 | (22,742,439) |
| Mortgage-backed securities | 101,225 | (804) | 314,450,006 | (43,818,500) | 314,551,231 | (43,819,304) |
| U.S. GSE agencies | - | - | 14,523,870 | (476,130) | 14,523,870 | (476,130) |
| Totals | $ 2,912,595 | $ (7,132) | $ 603,691,399 | $ (86,997,804) | $ 606,603,994 | $ (87,004,936) |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Continuous unrealized losses existing for 12 months or less | | Continuous unrealized losses existing for greater than 12 months | | Total | |
| | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses | Fair Value | Unrealized Losses |
| Obligations of states and political subdivisions | $ 31,921,157 | $ (2,183,447) | $ 113,880,722 | $ (23,407,578) | $ 145,801,879 | $ (25,591,025) |
| Collateralized mortgage obligations | 55,413,692 | (5,026,669) | 99,640,414 | (20,699,277) | 155,054,106 | (25,725,946) |
| Mortgage-backed securities | 47,535,270 | (3,397,039) | 306,741,783 | (50,152,951) | 354,277,053 | (53,549,990) |
| U.S. GSE agencies | 31,770,005 | (1,229,995) | - | - | 31,770,005 | (1,229,995) |
| Totals | $ 166,640,124 | $ (11,837,150) | $ 520,262,919 | $ (94,259,806) | $ 686,903,043 | $ (106,096,956) |

The Corporation reviews its investment portfolio on a quarterly basis for indications of impairment due to credit and noncredit-related factors. This review includes analyzing the extent to which the fair value has been lower than the amortized cost, the market liquidity for the investment, the financial condition and near-term prospects of the issuer, including any specific events which may influence the operations of the issuer, and the Corporation's intent and ability to hold the investment for a period of time sufficient to allow for any anticipated recovery in fair value.

As of December 31, 2023, the Corporation did not consider the unrealized losses on its securities available for sale to be attributable to credit-related factors. The Corporation's investments are issued by U.S. government agencies, which are implicitly guaranteed by the U.S. government, state or local governments with a history of no credit losses and no recent significant changes to financial condition or ratings of securities by ratings agencies. The unrealized losses on impaired securities are the result of changes in interest rates. As a result, there was no allowance for credit losses required on available for sale securities in an unrealized loss position as of December 31, 2023. For the ended December 31, 2022, the Corporation did not believe any other-than-temporary impairments existed and therefore did not recognize any impairment losses on its investment securities.

## NOTE 5 – Loans

Major classifications of loans are as follows as of December 31:

| | 2023 | 2022 |
|---|---|---|
| Commercial | $ 26,842,334 | $ 31,757,343 |
| Real Estate | | |
| Construction | 46,948,758 | 42,688,121 |
| Commercial | 654,788,064 | 663,735,054 |
| Residential | 193,495,674 | 177,842,551 |
| Multifamily | 247,208,907 | 258,391,072 |
| Installment and other | 4,325,984 | 3,517,827 |
| | 1,173,609,721 | 1,177,931,968 |
| Less: | | |
| Allowance for loan losses | (14,579,234) | (13,707,262) |
| Net loans | $ 1,159,030,487 | $ 1,164,224,706 |

The Corporation participated in the CARES Act PPP loan program administered by the SBA. The Corporation originated no PPP loans to customers in 2023 or 2022. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by loan forgiveness from the SBA so long as certain criteria are met. PPP loans have a two year or up to five year maturity and an interest rate of 1% throughout the term of the loan, with payments deferred until forgiveness proceeds are received from the SBA or ten months after the end of the covered period. During the year ended December 31, 2022, a total of 119 PPP loans totaling $6.7 million had been forgiven and repaid by the SBA. The Corporation had no remaining PPP loans outstanding as of December 31, 2022. No allowance for credit losses on loans was allocated to the PPP loan portfolio due to the Corporation complying with the lender obligations that ensure SBA guarantee.

The Corporation received a processing fee from the SBA ranging from 1% to 5% depending on the size of the PPP loan. The Corporation generated no gross processing fees from the SBA for the PPP loan originations during the years ended December 31, 2023 or 2022. There were no net deferred PPP origination fees recognized in loan interest income on the consolidated statements of income during the year ended December 31, 2023, compared to $238,708 in 2022. There were no remaining unamortized net deferred PPP origination fees as of December 31, 2022.

**NOTE 5 – Loans (cont.)**

The following table presents the contractual aging of the recorded investment in loans as of December 31:

| | 2023 | | | | | |
|---|---|---|---|---|---|---|
| | Current | Days Past Due | | | | Total |
| | Loans | 30-59 | 60-89 | Over 90 | Total | Loans |
| Commercial | $ 26,684,452 | $ 157,882 | $ - | $ - | $ 157,882 | $ 26,842,334 |
| Real Estate | | | | | | |
| Construction | 46,948,758 | - | - | - | - | 46,948,758 |
| Commercial | 654,788,064 | - | - | - | - | 654,788,064 |
| Residential | 186,317,771 | 1,396,665 | 193,827 | 5,587,411 | 7,177,903 | 193,495,674 |
| Multifamily | 247,208,907 | - | - | - | - | 247,208,907 |
| Installment and other | 4,304,078 | 21,906 | - | - | 21,906 | 4,325,984 |
| Total loans | 1,166,252,030 | 1,576,453 | 193,827 | 5,587,411 | 7,357,691 | 1,173,609,721 |
| Purchase credit-deteriorated loans | - | - | - | - | - | - |
| Total loans, excluding purchase credit-deteriorated loans | $ 1,166,252,030 | $ 1,576,453 | $ 193,827 | $ 5,587,411 | $ 7,357,691 | $ 1,173,609,721 |

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Current | Days Past Due | | | | Total |
| | Loans | 30-59 | 60-89 | Over 90 | Total | Loans |
| Commercial | $ 31,757,343 | $ - | $ - | $ - | $ - | $ 31,757,343 |
| Real Estate | | | | | | |
| Construction | 42,425,919 | 262,202 | - | - | 262,202 | 42,688,121 |
| Commercial | 663,557,510 | 105,798 | - | 71,746 | 177,544 | 663,735,054 |
| Residential | 173,643,609 | 3,579,089 | 141,265 | 478,588 | 4,198,942 | 177,842,551 |
| Multifamily | 258,391,072 | - | - | - | - | 258,391,072 |
| Installment and other | 3,506,083 | 7,589 | - | 4,155 | 11,744 | 3,517,827 |
| Total loans | 1,173,281,536 | 3,954,678 | 141,265 | 554,489 | 4,650,432 | 1,177,931,968 |
| Purchase credit-deteriorated loans | (2,569,497) | (22,815) | - | - | (22,815) | (2,592,312) |
| Total loans, excluding purchase credit-deteriorated loans | $ 1,170,712,039 | $ 3,931,863 | $ 141,265 | $ 554,489 | $ 4,627,617 | $ 1,175,339,656 |

Commercial loans deemed to be inadequately collateralized and past due 90 days or more for principal or interest are placed in a non-accrual status. Residential real estate loans are not subject to these guidelines if well-secured, as deemed by the Senior Loan Committee, and in the process of collection.

**NOTE 5 – Loans (cont.)**

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing by class of loans as of December 31:

| | 2023 | |
|---|---|---|
| | Nonaccrual | Past due 90 days or more and accruing |
| Commercial | $ 48,246 | $ - |
| Real Estate | | |
| Construction | - | - |
| Commercial | - | - |
| Residential | 6,555,853 | - |
| Multifamily | - | - |
| Installment and other | - | - |
| Total Loans | 6,604,099 | - |
| Purchase Credit Impaired Loans: | | |
| Commercial | - | - |
| Real Estate | | |
| Construction | - | - |
| Commercial | - | - |
| Residential | - | - |
| Multifamily | - | - |
| Installment and other | - | - |
| Total Purchased Credit-Impaired Loans | - | - |
| Total Loans, excluding Purchase Credit Impaired Loans | $ 6,604,099 | $ - |

| | 2022 | |
|---|---|---|
| | Nonaccrual | Past due 90 days or more and accruing |
| Commercial | $ - | $ - |
| Real Estate | | |
| Construction | - | - |
| Commercial | 1,203,420 | - |
| Residential | 6,914,302 | - |
| Multifamily | - | - |
| Installment and other | - | 4,155 |
| Total Loans | 8,117,722 | 4,155 |
| Purchase Credit Impaired Loans: | | |
| Commercial | - | - |
| Real Estate | - | - |
| Construction | - | - |
| Commercial | - | - |
| Residential | (17,986) | - |
| Multifamily | - | - |
| Installment and other | - | - |
| Total Purchased Credit-Impaired Loans | (17,986) | - |
| Total Loans, excluding Purchase Credit Impaired Loans | $ 8,099,736 | $ 4,155 |

## NOTE 5 – Loans (cont.)

Management uses an internal asset classification system as part of managing overall credit quality as a means of identifying problem and potential problem assets. A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at a future date. An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets that do not currently expose the Corporation to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that may or may not be within the control of the customer are classified as "Pass." Residential Real Estate and Installment and Other loans are not rated and are included in groups of homogeneous loans with similar risk and loss characteristics. The following table presents the risk category of loans by class of loans based on the most recent analysis performed by origination year as of December 31, 2023:

| | | | Term Loans Amortized Cost Basis by Origination Year | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rev Loans Converted to Term | Rev Loans Amortized Cost Basis | 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total |
| Commercial: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Pass | $ - | $ 1,756,935 | $ 6,852,343 | $ 7,462,383 | $ 4,129,213 | $ 721,719 | $ 222,882 | $ 5,613,417 | $ 26,758,892 |
| Special mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | 35,196 | - | 48,246 | - | - | - | 83,442 |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Total commercial | $ - | $ 1,756,935 | $ 6,887,539 | $ 7,462,383 | $ 4,177,459 | $ 721,719 | $ 222,882 | $ 5,613,417 | $ 26,842,334 |
| Construction Real Estate: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Pass | $ - | $ 5,988,432 | $ 8,781,550 | $ 21,285,805 | $ 6,943,311 | $ 577,708 | $ 458,908 | $ 2,113,044 | $ 46,148,758 |
| Special mention | - | - | - | - | 800,000 | - | - | - | 800,000 |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Total construction real estate | $ - | $ 5,988,432 | $ 8,781,550 | $ 21,285,805 | $ 7,743,311 | $ 577,708 | $ 458,908 | $ 2,113,044 | $ 46,948,758 |
| Commercial Real Estate: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Pass | $ 760,366 | $ 15,281,687 | $ 48,488,143 | $ 170,162,631 | $ 128,201,894 | $ 71,754,731 | $ 67,796,767 | $ 133,074,511 | $ 634,760,364 |
| Special mention | - | - | - | - | 9,852 | - | 3,231,793 | - | 3,241,645 |
| Substandard | - | 750,000 | - | 3,422,387 | 823,528 | - | 8,019,693 | 3,770,447 | 16,786,055 |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Total commercial real estate | $ 760,366 | $ 16,031,687 | $ 48,488,143 | $ 173,585,018 | $ 129,035,274 | $ 71,754,731 | $ 79,048,253 | $ 136,844,958 | $ 654,788,064 |
| Multifamily Real Estate: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Pass | $ - | $ 1,334,897 | $ 20,931,707 | $ 126,229,019 | $ 36,670,447 | $ 9,109,587 | $ 12,531,694 | $ 40,401,556 | $ 247,208,907 |
| Special mention | - | - | - | - | - | - | - | - | - |
| Substandard | - | - | - | - | - | - | - | - | - |
| Doubtful | - | - | - | - | - | - | - | - | - |
| Total multifamily real estate | $ - | $ 1,334,897 | $ 20,931,707 | $ 126,229,019 | $ 36,670,447 | $ 9,109,587 | $ 12,531,694 | $ 40,401,556 | $ 247,208,907 |
| Residential Real Estate: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Performing | $ 904,452 | $ 26,821,411 | $ 29,486,501 | $ 41,125,777 | $ 30,159,107 | $ 13,061,417 | $ 7,908,339 | $ 38,377,269 | $ 186,939,821 |
| Nonperforming | - | 129,664 | - | - | - | 5,377,411 | 85,596 | 963,182 | 6,555,853 |
| Total residential real estate | $ 904,452 | $ 26,951,075 | $ 29,486,501 | $ 41,125,777 | $ 30,159,107 | $ 18,438,828 | $ 7,993,935 | $ 39,340,451 | $ 193,495,674 |
| Installment & Other: | | | | | | | | | |
| Risk rating | | | | | | | | | |
| Performing | $ 88,315 | $ 162,478 | $ 3,021,374 | $ 881,307 | $ 54,987 | $ 77,281 | $ 11,379 | $ 117,178 | $ 4,325,984 |
| Nonperforming | - | - | - | - | - | - | - | - | - |
| Total installment & other | $ 88,315 | $ 162,478 | $ 3,021,374 | $ 881,307 | $ 54,987 | $ 77,281 | $ 11,379 | $ 117,178 | $ 4,325,984 |

**NOTE 5 – Loans (cont.)**

The following table presents the gross charge offs by origination year at December 31, 2023:

| | Rev Loans Amortized Cost Basis | Gross Charge Offs Amortized Cost Basis by Origination Year 2023 | 2022 | 2021 | 2020 | 2019 | Prior | Total |
|---|---|---|---|---|---|---|---|---|
| Commercial | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| Real Estate | | | | | | | | |
| Construction | - | - | - | - | - | - | - | - |
| Commercial | - | - | - | - | - | - | 512 | 512 |
| Residential | | | | | | | | |
| Multifamily | - | - | - | - | - | - | - | - |
| Installment and other | - | - | - | - | - | - | 3,690 | 3,690 |
| Total gross charge offs | $ - | $ - | $ - | $ - | $ - | $ - | $ 4,202 | $ 4,202 |

The following table presents the risk category of loans by class of loans based on the most recent analysis performed and the contractual aging as of December 31, 2022:

| | 2022 Pass | Special Mention | Substandard | Doubtful | Total |
|---|---|---|---|---|---|
| Commercial | $ 31,684,946 | $ 8,099 | $ 64,298 | $ - | $ 31,757,343 |
| Real Estate | | | | | |
| Construction | 42,688,121 | - | - | - | 42,688,121 |
| Commercial | 649,886,133 | 2,251,562 | 11,597,359 | - | 663,735,054 |
| Multifamily | 258,391,072 | - | - | - | 258,391,072 |
| Total | $ 982,650,272 | $ 2,259,661 | $ 11,661,657 | $ - | $ 996,571,590 |
| | | | | | |
| Current | $ 982,282,272 | $ 2,259,661 | $ 11,589,911 | $ - | $ 996,131,844 |
| 30-59 | 368,000 | - | - | - | 368,000 |
| 60-89 | - | - | - | - | - |
| Over 90 | - | - | 71,746 | - | 71,746 |
| Total | $ 982,650,272 | $ 2,259,661 | $ 11,661,657 | $ - | $ 996,571,590 |

The following table presents the recorded investment in residential real estate and installment and other loan classes based on payment activity as of December 31, 2022:

| | 2022 Performing | Nonperforming | Total |
|---|---|---|---|
| Residential Real Estate | $ 170,928,249 | $ 6,914,302 | $ 177,842,551 |
| Installment & Other | 3,513,672 | 4,155 | 3,517,827 |
| Totals | $ 174,441,921 | $ 6,918,457 | $ 181,360,378 |

**NOTE 5 – Loans (cont.)**

The Corporation has identified $6.6 million of loans as individually evaluated as of December 31, 2023, compared to $14.0 million of loans as impaired as of December 31, 2022. The Corporation evaluates loans placed on the watch list for impairment. A summary of the details regarding individually evaluated loans as of December 31 follows:

| | | 2023 |
|---|---|---|
| Loans for which there was a related allowance for credit loss | $ | 629,028 |
| Individually evaluated loans with no related allowance | | 6,000,320 |
| Total individually evaluated loans | $ | 6,629,348 |

| | | 2022 |
|---|---|---|
| Loans for which there was a related allowance for loan loss | $ | 3,686,213 |
| Impaired loans with no related allowance | | 10,318,512 |
| Total impaired loans | $ | 14,004,725 |

The Corporation had no residential real estate loans for which foreclosure proceedings have commenced as of December 31, 2023, compared to residential real estate loans with a carrying value of $388,948 as of December 31, 2022.

The following table presents the amortized cost basis of individually evaluated collateral-dependent loans by class of loans as of December 31, 2023. All collateral-dependent loans as of December 31, 2023 are secured by residential real estate.

| | | Residential Real Estate |
|---|---|---|
| Commercial | $ | - |
| Real Estate | | |
| Construction | | - |
| Commercial | | - |
| Residential | | 5,530,948 |
| Multifamily | | - |
| Installment and other | | - |
| Total | | 5,530,948 |

**NOTE 5 – Loans (cont.)**

The following table presents loans individually evaluated for impairment by class of loans as of December 31, 2022:

| | 2022 | | | |
|---|---|---|---|---|
| | Unpaid Principal Balance | Partial Charge-offs | Recorded Investment | Allowance For Loan Losses Allocation |
| **Loans with no related allowance recorded:** | | | | |
| Commercial | $ - | $ - | $ - | $ - |
| Real Estate | | | | |
| Construction | 430,152 | - | 430,152 | - |
| Commercial | 442,600 | - | 442,600 | - |
| Residential | 9,757,527 | 320,773 | 9,436,754 | - |
| Multifamily | - | - | - | - |
| Installment and other | 9,006 | - | 9,006 | - |
| Total | 10,639,285 | 320,773 | 10,318,512 | - |
| **Loans with a related allowance recorded:** | | | | |
| Commercial | - | - | - | - |
| Real Estate | | | | |
| Construction | - | - | - | - |
| Commercial | 2,039,227 | 262,603 | 1,776,624 | 874,625 |
| Residential | 1,909,589 | - | 1,909,589 | 77,589 |
| Multifamily | - | - | - | - |
| Installment and other | - | - | - | - |
| Total | 3,948,816 | 262,603 | 3,686,213 | 952,214 |
| Total Impaired Loans | $ 14,588,101 | $ 583,376 | $ 14,004,725 | $ 952,214 |

## NOTE 5 – Loans (cont.)

The following table presents the activity in the allowance for credit losses by portfolio class for each of the years ended December 31:

| | 2023 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial | Construction Real Estate | Commercial Real Estate | Residential Real Estate | Multifamily Real Estate | Installment & Other | Total |
| **Allowance for credit losses:** | | | | | | | |
| December 31, 2022 balance | $ 139,962 | $ 327,110 | $ 11,105,056 | $ 1,178,498 | $ 935,716 | $ 20,920 | $ 13,707,262 |
| Cumulative effect of CECL adoption | (53,881) | 349,249 | (3,589,451) | 1,845,189 | 2,732,541 | 3,163 | 1,286,810 |
| January 1, 2023 balance | 86,081 | 676,359 | 7,515,605 | 3,023,687 | 3,668,257 | 24,083 | 14,994,072 |
| Charge-offs | - | - | (512) | - | - | (3,690) | (4,202) |
| Recoveries | - | - | 13,538 | 29,317 | 1,511 | 209 | 44,575 |
| Provision (recapture) | (13,927) | 151,524 | (176,737) | 1,534 | (448,692) | 31,087 | (455,211) |
| Ending Balance | $ 72,154 | $ 827,883 | $ 7,351,894 | $ 3,054,538 | $ 3,221,076 | $ 51,689 | $ 14,579,234 |
| **Loans:** | | | | | | | |
| Recorded Investment | $ 26,842,334 | $ 46,948,758 | $ 654,788,063 | $ 193,495,673 | $ 247,208,907 | $ 4,325,986 | $ 1,173,609,721 |
| Allowance for credit losses: | | | | | | | |
| Individually evaluated for credit losses | - | - | 256,414 | - | - | - | 256,414 |
| Collectively evaluated for credit losses | 72,154 | 827,883 | 7,095,480 | 3,054,538 | 3,221,076 | 51,689 | 14,322,820 |
| Total allowance for credit losses | 72,154 | 827,883 | 7,351,894 | 3,054,538 | 3,221,076 | 51,689 | 14,579,234 |
| Ending Balance | $ 26,770,180 | $ 46,120,875 | $ 647,436,169 | $ 190,441,135 | $ 243,987,831 | $ 4,274,297 | $ 1,159,030,487 |
| **Ending Balance:** | | | | | | | |
| Individually evaluated for credit losses | $ - | $ - | $ 629,028 | $ 6,000,320 | $ - | $ - | $ 6,629,348 |
| Collectively evaluated for credit losses | 26,842,334 | 46,948,758 | 654,159,035 | 187,495,353 | 247,208,907 | 4,325,986 | 1,166,980,373 |
| Purchase credit-impaired: | | | | | | | |
| Individually evaluated for credit losses | - | - | - | - | - | - | - |
| Collectively evaluated for credit losses | - | - | - | - | - | - | - |
| Total ending balance | $ 26,842,334 | $ 46,948,758 | $ 654,788,063 | $ 193,495,673 | $ 247,208,907 | $ 4,325,986 | $ 1,173,609,721 |

| | 2022 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Commercial | Construction Real Estate | Commercial Real Estate | Residential Real Estate | Multifamily Real Estate | Installment & Other | Total |
| **Allowance for credit losses:** | | | | | | | |
| Beginning Balance | $ 145,140 | $ 459,241 | $ 11,494,922 | $ 766,790 | $ 659,679 | $ 47,001 | $ 13,572,773 |
| Charge-offs | - | - | (6,780) | (41,784) | - | (585) | (49,149) |
| Recoveries | - | - | 7,550 | 171,050 | 5,038 | - | 183,638 |
| Provision and re-allocations | (5,178) | (132,131) | (390,636) | 282,442 | 270,999 | (25,496) | - |
| Ending Balance | $ 139,962 | $ 327,110 | $ 11,105,056 | $ 1,178,498 | $ 935,716 | $ 20,920 | $ 13,707,262 |
| **Loans:** | | | | | | | |
| Recorded Investment | $ 31,757,343 | $ 42,688,121 | $ 663,735,054 | $ 177,842,551 | $ 258,391,072 | $ 3,517,827 | $ 1,177,931,968 |
| Allowance for credit losses: | | | | | | | |
| Individually evaluated for credit losses | - | - | 874,625 | 77,589 | - | - | 952,214 |
| Collectively evaluated for credit losses | 139,962 | 327,110 | 10,230,431 | 1,100,909 | 935,716 | 20,920 | 12,755,048 |
| Total allowance for credit losses | 139,962 | 327,110 | 11,105,056 | 1,178,498 | 935,716 | 20,920 | 13,707,262 |
| Ending Balance | $ 31,617,381 | $ 42,361,011 | $ 652,629,998 | $ 176,664,053 | $ 257,455,356 | $ 3,496,907 | $ 1,164,224,706 |
| **Ending Balance:** | | | | | | | |
| Individually evaluated for credit losses | $ - | $ 430,152 | $ 2,219,225 | $ 10,727,705 | $ - | $ 9,006 | $ 13,386,088 |
| Collectively evaluated for credit losses | 31,757,343 | 42,252,483 | 661,515,829 | 164,528,020 | 258,391,072 | 3,508,821 | 1,161,953,568 |
| Purchase credit-impaired: | | | | | | | |
| Individually evaluated for credit losses | - | - | - | 618,637 | - | - | 618,637 |
| Collectively evaluated for credit losses | - | 5,486 | - | 1,968,189 | - | - | 1,973,675 |
| Total ending balance | $ 31,757,343 | $ 42,688,121 | $ 663,735,054 | $ 177,842,551 | $ 258,391,072 | $ 3,517,827 | $ 1,177,931,968 |

## NOTE 5 – Loans (cont.)

Certain directors and executive officers of the Corporation, and their related interests, had loans outstanding in the aggregate amounts of $3.0 million and $3.5 million as of December 31, 2023 and 2022, respectively. During 2023 repayments totaled $0.5 million. Certain affiliated parties of the Corporation are investors in loan participations of the Corporation. The outstanding balance of loan participations with affiliated parties totaled $1.0 million and $1.2 million as of December 31, 2023 and 2022, respectively. The participations represent investments by the affiliated parties in a portion of the affiliated party loans aggregate amounts described above.

Residential and commercial real estate loans approximating $253.8 million and $2.9 million as of December 31, 2023 and 2022, respectively, were pledged as collateral on lines of credit, public deposits and for other purposes as required or permitted by law.

Under ASU 2022-02, effective January 1, 2023, loan modifications are reported if concessions have been granted to borrowers that are experiencing financial difficulty. Information on these loan modifications originated after the effective date is presented according to the new accounting guidance. Reporting periods prior to the adoption of ASU 2022-02 present information on TDRs under the previous disclosure requirements and are no longer required to be presented. See Note 1 and disclosures hereafter in this Note 5 for the Corporation's accounting policy for loan modifications.

During the year ended December 31, 2023, loan modifications granted to borrowers experiencing financial difficulty were not material.

## NOTE 6 - Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation as of December 31 and are summarized as follows:

| | 2023 | 2022 |
|---|---|---|
| Land | $ 6,427,044 | $ 6,427,044 |
| Buildings and leasehold improvements | 37,979,261 | 37,531,475 |
| Furniture and equipment | 21,372,970 | 20,147,735 |
| Total | 65,779,275 | 64,106,254 |
| Less: Accumulated depreciation | (45,838,972) | (43,744,361) |
| Net Premises and Equipment | $ 19,940,303 | $ 20,361,893 |

## NOTE 7 – New Markets Tax Credits - Variable Interest Entities

The Corporation invests in CDEs that are designed to generate a return primarily through the realization of New Markets Tax Credits. The CDEs are formed as limited partnerships and limited liability companies in which the Corporation invests as a limited partner/investor member through equity contributions. The economic performance of the CDEs, which are variable interest entities ("VIEs"), is subject to the performance of their underlying loans. The Corporation has determined that it is not the primary beneficiary of any CDE as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying loans or to affect their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

As of December 31, 2023 and 2022, the carrying amounts of these investments in CDEs that generate the tax credits, included in accrued interest receivable and other assets in the consolidated balance sheets, totaled $5.9 million and $3.4 million, respectively. The risk of loss in these investments is tied to the ability of the CDE to operate in compliance within the rules and regulations necessary for the qualification of the tax credits generated by equity investments. As of December 31, 2023 and 2022 there are no compliance issues associated with these entities.

## NOTE 8 – Accrued Interest Receivable and Other Assets

A summary of accrued interest receivable and other assets as of December 31 is as follows:

| | 2023 | 2022 |
|---|---|---|
| Accrued interest receivable | $ 5,400,706 | $ 5,533,275 |
| Federal Reserve Bank stock | 322,100 | 322,100 |
| Mortgage servicing rights | 1,861,838 | 2,074,526 |
| Interest rate swaps | 438,313 | 2,321,077 |
| Investment in New Markets Tax Credit CDEs | 5,855,904 | 3,371,342 |
| Investment in FHLB Chicago stock | 3,120,700 | 2,946,500 |
| Security investment maturity receivable | 72,063 | 3,718,073 |
| Current income taxes | 1,313,247 | 339,518 |
| Deferred income taxes | 26,058,741 | 30,285,566 |
| Deferred income tax valuation allowance | (7,336,615) | - |
| Prepaid expenses and other assets | 1,815,277 | 1,517,940 |
| Total | $ 38,922,274 | $ 52,429,917 |

## NOTE 9 - Deposits

The distribution of deposits as of December 31 is as follows:

| | 2023 | 2022 |
|---|---|---|
| Noninterest bearing demand accounts | $ 402,043,867 | $ 506,586,090 |
| Interest bearing demand accounts | 657,669,575 | 686,729,729 |
| Money Market accounts | 297,818,614 | 303,816,619 |
| Savings accounts | 292,656,117 | 345,117,640 |
| Certificates of Deposit | 118,183,998 | 49,090,820 |
| Total | $ 1,768,372,171 | $ 1,891,340,898 |

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was $23,927,469 and $6,125,266 as of December 31, 2023 and 2022, respectively.

Scheduled maturities of time deposits as of December 31 are:

| | 2023 | 2022 |
|---|---|---|
| Due within one year | $ 103,769,376 | $ 29,268,488 |
| After one year but within two years | 6,640,635 | 9,540,272 |
| After two years but within three years | 2,690,583 | 2,836,687 |
| After three years but within four years | 3,898,096 | 3,251,563 |
| After four years but within five years | 1,185,308 | 4,193,810 |
| Total | $ 118,183,998 | $ 49,090,820 |

Deposits from the Corporation’s directors and related parties as of December 31, 2023 and December 31, 2022 amounted to $15.8 million and $12.4 million, respectively.

## NOTE 10 – Accrued Interest Payable and Other Liabilities

A summary of accrued interest payable and other liabilities as of December 31 is as follows:

| | 2023 | 2022 |
|---|---|---|
| Accrued interest payable | $ 563,357 | $ 30,723 |
| Real estate and personal property taxes payable | 827,859 | 769,759 |
| Medical and dental self insurance reserves | 795,129 | 436,252 |
| Interest rate swaps | 438,313 | 2,321,077 |
| Other liabilities | 2,099,546 | 2,310,723 |
| Total | $ 4,724,204 | $ 5,868,534 |

## NOTE 11 - Other Borrowings

The Corporation has the ability to borrow (purchase) federal funds of up to $65,000,000 under revolving lines-of-credit. Such borrowings bear interest at the lender bank's announced daily federal funds rate and mature daily. There were no federal funds purchased outstanding as of December 31, 2023 or 2022.

The Corporation may also borrow through the Federal Reserve Bank Discount Window short term funds up to the amount of U.S. Government sponsored entity securities or qualified municipal securities pledged. The Corporation pledged eligible securities totaling $4,933,320 and $4,834,034 and had the ability to borrow funds of up to $4,439,988 and $4,350,631 as of December 31, 2023 and 2022, respectively.

Additionally, the Corporation had the ability borrow through the Federal Reserve Bank's Bank Term Funding Program (BTFP) pursuant to the terms of the program, which was created in March 2023 and was closed to new borrowings in March 2024. Borrowings from the BTFP are collateralized by securities issued or fully guaranteed by certain U.S. government agencies with such assets valued at par value and may be paid at any time until the maturity date without penalty. All principal and interest is due upon maturity. In 2023, the Corporation pledged qualifying securities, and therefore had the ability to borrow funds of up to, an aggregate par value of $239,549,065 as of December 31, 2023. The Corporation had outstanding borrowings from the BTFP of $150,000,000 as of December 31, 2023, maturing in December 2024 at a fixed interest rate of 4.83%. Subsequently, on January 16, 2024, the Corporation refinanced the borrowings within the BTFP to reduce the fixed interest rate to 4.76% and extend the maturity date to January 2025.

The Bank is a member of the FHLB Chicago. As a member, the Bank has the ability to borrow funds from FHLB Chicago pursuant to a variety of advance programs and the terms of an Advances, Collateral Pledge and Security Agreement between the parties. Any advance would be collateralized by first mortgage loans and securities pledged by the Bank, FHLB Chicago capital stock held by the Bank, and all deposit accounts held by the Bank at the FHLB Chicago. The Bank had the ability to borrow funds of up to $176,260,589 and $1,477,664 as of December 31, 2023 and 2022, respectively. The Bank had multifamily loans and securities of $221,319,406 and $1,519,159 pledged as collateral to FHLB Chicago as of December 31, 2023 and 2022, respectively. There were no borrowings outstanding from the FHLB Chicago as of December 31, 2023 and 2022, respectively.

## NOTE 12 - Income Taxes

Income tax expense (benefit) consists of the following components for the year ending December 31:

| | 2023 | 2022 |
|---|---|---|
| Current income taxes | | |
| Federal | $ 1,156,321 | $ 951,418 |
| State | 5,361 | 1,664,172 |
| Total current income taxes | 1,161,682 | 2,615,590 |
| Deferred income taxes | | |
| Federal | (275,834) | 705,266 |
| State | 7,493,329 | (88,058) |
| Total deferred income taxes | 7,217,495 | 617,208 |
| Total income taxes | $ 8,379,177 | $ 3,232,798 |

The net deferred income tax assets in the accompanying consolidated balance sheets include the following amounts of deferred income tax assets and liabilities as of December 31:

| | 2023 | 2022 |
|---|---|---|
| Deferred income tax assets: | | |
| Allowance for loan losses | $ 4,029,643 | $ 3,821,940 |
| Reserve for health plan | 114,303 | 75,268 |
| Non-accrual interest | 97,874 | 4,353 |
| Lease liability | 3,305,467 | 3,464,163 |
| Loss carryforwards | 719,887 | 23,679 |
| New Markets Tax Credit investments | 410,961 | 398,482 |
| Unrealized loss on securities available for sale | 23,699,740 | 28,941,468 |
| Other | 40,861 | 156,636 |
| Total deferred income tax assets before valuation allowance | 32,418,736 | 36,885,989 |
| Valuation allowance | (7,336,616) | - |
| Net deferred income tax assets | 25,082,120 | 36,885,989 |
| | | |
| Deferred income tax liabilities: | | |
| Loan acquisition fair market valuation | - | (244,048) |
| Depreciation | (1,521,500) | (1,451,269) |
| Right of use lease asset | (3,305,467) | (3,464,163) |
| Mortgage servicing rights | (507,184) | (565,122) |
| New Markets Tax Credit investments | (697,297) | (645,900) |
| Other | (328,546) | (229,921) |
| Total deferred income tax liabilities | (6,359,994) | (6,600,423) |
| Net deferred income tax asset (liability) | $ 18,722,126 | $ 30,285,566 |

The Corporation has state net operating loss carryforwards of approximately $9,884,000 and $379,000 as of December 31, 2023 and 2022, respectively. The net operating loss carryforwards begin to expire in 2031.

Realization of the deferred income tax asset over time is dependent upon the Corporation generating sufficient taxable income in future periods. In determining that realization of the deferred income tax asset recorded was more likely than not, the Corporation gave consideration to a number of factors including its recent earnings history, its expectations for earnings in the future, and where applicable, the expiration dates associated with tax carryforwards and tax law changes.

## NOTE 12 - Income Taxes (cont.)

A valuation allowance is required if it is more likely than not that some portion of the deferred tax asset will not be realized. On July 1, 2023, Wisconsin's Governor signed the State Budget, retroactive to January 1, 2023, which included language that provides financial institutions with an exemption from state income for interest, fees, and penalties earned on business or agriculture purpose loans where the borrower resides, or is located, in the state of Wisconsin and that are $5 million or less at the time of loan origination. The Corporation has earned significant revenue from eligible loans and expects to be in a taxable loss position for Wisconsin income tax purposes for the tax years beginning after December 31, 2022. As a result, the Corporation recorded a valuation allowance of $7,336,616 against all Wisconsin deferred tax assets as of December 31, 2023, for which realization cannot be considered more likely than not at this time, resulting in a corresponding increase in income tax expense. Of this valuation allowance, $6,325,477 related to the state income tax effect on unrealized losses on AFS securities, which became stranded in accumulated other comprehensive income. The Corporation will release the stranded income tax effect into income tax expense on a security-by-security basis as the underlying securities are disposed or mature. As of December 31, 2022, no valuation allowance was determined necessary.

A roll forward of the tax valuation allowance is as follows:

| | 2023 | 2022 |
|---|---|---|
| Tax valuation allowance as of January 1, 2023 | - | - |
| Provision for income taxes | 8,232,658 | - |
| Other comprehensive income | (896,042) | - |
| Tax valuation allowance as of December 31, 2023 | $ 7,336,616 | $ - |

A reconciliation of statutory federal income taxes based upon income before taxes to the provision for federal and state income taxes is as follows:

| | 2023 | | 2022 | |
|---|---|---|---|---|
| | Amount | % of Pretax Income | Amount | % of Pretax Income |
| Federal income taxes at statutory rate | $ 3,115,811 | 21.00% | $ 4,346,657 | 21.00% |
| Adjustments for: | | | | |
| Tax exempt interest on municipal obligations | (369,731) | -2.49% | (460,616) | -2.23% |
| Increase in taxes resulting from state income taxes, net of federal tax benefit | 942,510 | 6.35% | 1,216,802 | 5.88% |
| Wisconsin commercial loan exemption, net of federal benefit | (1,678,547) | -11.31% | - | 0.00% |
| Valuation allowance | 8,232,658 | 55.49% | - | 0.00% |
| Increase in cash surrender value of life insurance | (205,317) | -1.38% | (297,384) | -1.44% |
| New markets tax credits | (1,772,190) | -11.94% | (1,556,321) | -7.52% |
| Other - net | 113,983 | 0.77% | (16,340) | -0.08% |
| Income tax expense | $ 8,379,177 | 56.49% | $ 3,232,798 | 15.61% |

As of December 31, 2023 and 2022, the Corporation had no uncertain tax positions. The Corporation's policy is to record interest and penalties related to income tax liabilities in income tax expense. The Corporation, along with its subsidiaries, files U.S. federal and Wisconsin income tax returns. The Corporation's federal tax returns for 2019 and prior and its 2018 and prior year Wisconsin tax returns are no longer subject to examination by tax authorities.

## NOTE 13 - Employee Benefit Plan

The Corporation has a contributory defined-contribution 401(k) retirement plan. This plan covers substantially all employees who have attained the age of 21. Participants may contribute a portion of their compensation (up to IRS limits) to the plan. The Corporation may make regular and matching contributions to the plan each year. In 2023 and 2022, the Corporation provided a dollar-for-dollar match of employee contributions up to 5% of their compensation. The Corporation recorded contribution expense of $930,432 and $867,048 in 2023 and 2022, respectively.

## NOTE 14 – Leases

The Corporation leases various banking facilities under operating lease agreements from various companies. The majority of the agreements include renewal options. The Corporation includes lease renewal options in the lease term and determination of right of use lease assets and lease liabilities, given it is reasonably certain the Corporation will exercise the options. The discount rate used to capitalize the operating leases is the FHLB Chicago advance fixed rate as of commencement, or the date of any subsequent lease extension, considering the remaining lease term including all renewal options. The right of use lease asset and lease liability amount as of December 31, 2023 and 2022 is $12,134,163 and $12,716,723, respectively. The Corporation had no lease remeasurements in 2023. In 2022, the Corporation had two lease extension remeasurements, three lease termination remeasurements, and one lease modification remeasurement resulting in a change of $(1,140,678) to the right of use lease asset and lease liability. Right of use lease amortization in 2023 and 2022 was $582,560 and $710,133 respectively. As of December 31, 2023, the weighted-average remaining lease term is 19.7 years and the weighted average discount rate used in the determination of lease liabilities is 4.46%. As of December 31, 2022, the weighted-average remaining lease term is 20.4 years and the weighted average discount rate used in the determination of lease liabilities is 4.42%.

Rental amounts under the operating lease agreements are subject to annual escalation based upon increases in the Consumer Price Index. Aggregate rental expense under all leases amounted to $1,215,478 and $1,294,198 in 2023 and 2022 respectively, with no significant amounts associated with variable escalation adjustments. The rental expense amounts include $878,881 and $869,025 respectively, for four of the facilities leased from a company held by a major shareholder of the Corporation.

Contractual lease payment obligations, including all unexecuted options, for each of the next five years and thereafter, in addition to a reconciliation to the Corporation's lease liability are as follows as of December 31, 2023:

| | | |
|---|---|---|
| 2024 | $ | 1,132,353 |
| 2025 | | 1,056,279 |
| 2026 | | 1,009,300 |
| 2027 | | 1,009,300 |
| 2028 | | 1,009,300 |
| Thereafter | | 13,617,835 |
| Total lease payments | $ | 18,834,367 |
| Less interest | | (6,700,204) |
| Present value of lease payments | $ | 12,134,163 |

Contractual lease payments do not reflect annual escalation increases based on the Consumer Price Index.

Office space at certain facilities is leased to unrelated third parties under operating lease agreements. The terms of the agreements vary, with some being month to month arrangements, some including lessee renewal options, and some having fixed or variable Consumer Price Index escalation provisions. Rental income included in net occupancy costs was $1,054,263 and $945,264 for the years ended December 31, 2023 and 2022, respectively.

Contractual third party lessee payment obligations to the Corporation, excluding all unexecuted options, for each of the next five years and thereafter are as follows as of December 31, 2023:

| | | |
|---|---|---|
| 2024 | $ | 843,989 |
| 2025 | | 633,959 |
| 2026 | | 397,163 |
| 2027 | | 360,101 |
| 2028 | | 269,790 |
| Thereafter | | 997,330 |
| Total lessee payments | $ | 3,502,332 |

## NOTE 15 - Commitments and Contingencies

The Corporation is a party to 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, financial guarantees and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized on the consolidated balance sheets.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance sheet risk as of December 31, are as follows:

| | 2023 | 2022 |
|---|---|---|
| Financial instruments whose contract amounts represent credit risk: | | |
| Commitments to extend credit | $ 151,267,980 | $ 167,402,970 |
| Standby letters of credit | 5,805,556 | 4,672,396 |
| | $ 157,073,536 | $ 172,075,366 |

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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

During 2022, the Corporation entered into negotiations with a customer following the identification of fraudulent transactions processed through the customer’s account in the form of cashier’s checks. The transactions were initiated using fraudulent communications presented as originating from and in the name of the customer. As of December 31, 2022, the Corporation determined a net loss related to the matter was reasonably probable and estimable and recorded an accrued liability of $500,000 within accrued interest payable and other liabilities on the consolidated balance sheets. The matter was resolved in 2023 for a net loss consistent with the recorded accrued liability.

## NOTE 16 - Stockholders' Equity

Dividends declared by the Bank that exceed the retained net income for the most current year plus retained net income for the preceding two years must be approved by federal regulatory agencies.

Under Federal Reserve regulations, the Bank is limited as to the amount it may lend to its affiliates, including the Corporation. Such loans are required to be collateralized by investments defined in the regulations. In addition, the maximum amount available for transfer from the Bank to the Corporation in the form of loans is limited to 10% of the Bank's stockholders' equity in the case of any one affiliate or 20% in the case of all affiliates.

## NOTE 17 - Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory requirements administered by federal banking agencies.  The Corporation is a small bank holding company pursuant to Federal Reserve Bank regulations.  Management believes the Corporation has complied with all other reporting requirements.

**NOTE 17 - Regulatory Capital Requirements (cont.)**

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt correction action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary regulatory action, that if undertaken, could have a direct material effect on the Corporation's financial statements. Management believes as of December 31, 2023 the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the Bank's classification.

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 (the "CBLR framework"), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of June 30, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to Section 4012 of the 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 capital to quarterly average assets ("leverage") ratio. The net unrealized gain or loss on securities available for sale is not included in computing the leverage ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than the required minimums will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies' capital rules and 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. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of greater than 8%.

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 December 31, 2022 the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

Actual and required capital amounts and ratios as of December 31, 2023 and December 31, 2022 under the CBLR framework are presented below.

| | Actual | | To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2023** | | | | |
| Tier 1 capital (to quarterly average assets) | $ 205,464,169 | 10.3% | $ 180,250,350 | 9.0% |

| | Actual | | To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations | |
|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio |
| **As of December 31, 2022** | | | | |
| Tier 1 capital (to quarterly average assets) | $ 205,122,089 | 10.1% | $ 182,287,170 | 9.0% |

## NOTE 18 - Concentration of Credit Risk

Practically all of the Corporation's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area of Southeastern Wisconsin. Although the Corporation has a diversified loan portfolio, the ability of its debtors to honor its contracts is dependent on the economic conditions of this market area. The concentration of credit by type of loan is set forth in Note 5.