TriCity Bankshares Corporation

2022

Annual Report

GET TO KNOW
Your Hometown bank.

Who We Are:

28 Branches

400 Bankers

$2.04
Billion in assets

Oak Creek, Wisconsin-based

What Others Say:

Forbes 2022
BEST-IN-STATE BANKS
POWERED BY STATISTA

Winner of Best-In-State Banks - Forbes, 2022

4.5 - Google

4.6 - iOS Platforms

TOP CHOICE AWARDS ★2022★
The Official Community Choice Awards
journal sentinel
WINNER

Winner of Best Bank & Best Mortgage Lending Company - Milwaukee Journal Sentinel Top Choice Awards, 2022

We Give Where We Live:

$72,000
raised during Children Wisconsin's Toy Drive, sponsored by Tri City

73,067 meals
donated during Feeding America Eastern Wisconsin "Stuff the Bus" event, sponsored by Tri City

$1 Million
invested back into the Milwaukee County Parks system from China Lights, presented by Tri City

95.2%
of Tri City loans are made in Southeastern Wisconsin

Dear Fellow Shareholders,

Sometimes, things don't always go according to plan. When we need to recalibrate, we often end up with something more meaningful. There is no doubt that 2022 proved to be a very challenging year, as our bank navigated through seven straight federal funds interest rate increases that moved rates to the highest level since 2007. We ended the year with persistently high inflation and indications the Federal Reserve planned to keep raising rates in attempts to slow inflation. The Federal Reserve Bank has been schooling us bankers for years; they had the tools and wisdom to manage the economy for 2% inflation. Did they not realize that lawmakers could shake things up with their power to approve trillions in stimulus money and additional trillions for infrastructure, health, and other spending? No combination of tools the Federal Reserve Bank had could counter and manage all those variables.

Under the backdrop of conflicting reports in all economic key metrics, talks of returning to 1970's era stagflation, and fear of an escalating war and lingering pandemic issues, our bank ended 2022 with:

- solid profitability, record loan growth, and continued deposit growth;
- board-approved plans to increase dividends;
- capital well above regulatory requirements;
- and excellent liquidity.

Tri City met its goals for low cost of funds, core deposit growth, as well as its goal for safe and sound loan growth. We added to, and strengthened, our senior and executive administration staff with talented, seasoned bankers.

Across the whole bank, our Leadership Team has promoted a culture where everyone works toward goals to achieve our vision of becoming "The Best Community Bank in the Country." Our high standards of excellence have aided our ability to attract very talented, experienced, dedicated, and loyal bankers. Of the many accomplishments last year, I'm proud that this team of forward-thinking bankers created a unique-to-the-banking-industry loan product: our Home Bank Equity Plan. This plan allows customers to use the equity in their home as if it is money in their own bank. With our product, there is a one-time closing with the loan customer having the ability to tailor and convert the home equity line to term loans or draw on the line as their financial needs change.

As we celebrate our 60th year in business in 2023, I'm confident that our bank's Senior Management Team and Board of Directors, with their decades of proven successful leadership, will endow the conservative safety and soundness standards to their successors. Our team of innovative and dedicated bankers will ensure our bank survives and prospers as one of the best community, full-service, nationally chartered, commercial banks.

In closing, I would like to express my appreciation and gratitude to the employees of Tri City National Bank and their families. Our bankers have worked together in these times of adversity with kindness and fortitude. I hope you are as appreciative of them as I am.

Sincerely,

Brian T. McGarry

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

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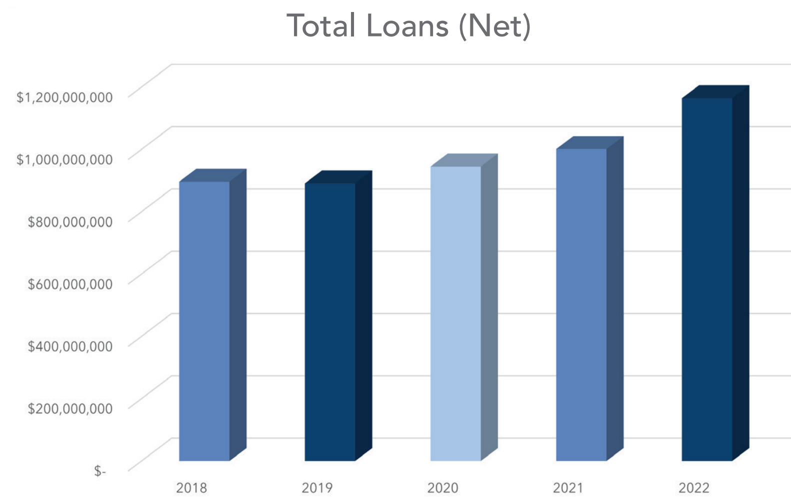
2022 Management Discussion and Analysis

2022 was another strong financial year for the Corporation. Every year brings new challenges, and management remains as vigilant as ever in its pursuit to be the best community bank in the country. During 2022, our customers began spending savings accumulated during the pandemic, in-branch transactions continued to decline, and digital transactions continued to increase. Monetary policy took center stage, as the Federal Reserve debated how to address higher-than-comfortable inflation. The Russia-Ukraine conflict caused substantial supply chain issues felt by our customers. The challenges in 2022 affected the Corporation, and the results you see within the reports to follow. However, the Corporation persevered through these challenges and remains well positioned to manage new challenges in 2023. In this report, Management provides a review of the financial results for 2022 and insight into what drove the metrics, as well as context around its ongoing investments into the future of the corporation to ensure its shareholders, employees, customers and communities remain strong.

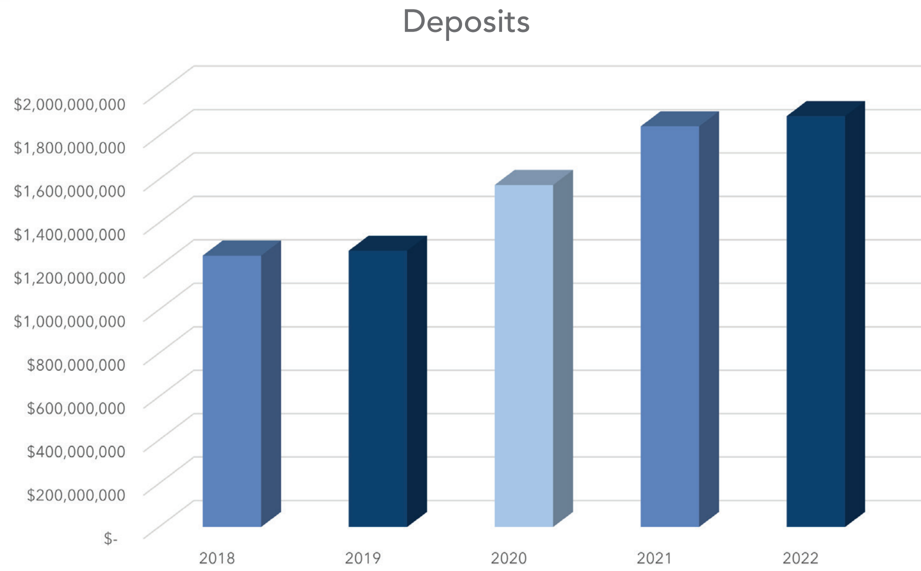
Balance Sheet



After multiple years of strong growth in assets, balance sheet growth leveled off in 2022. As a result of fast deposit growth in prior years, the corporation put focus on growing loans in 2022. As always, growing loans is done in a measured and controlled manner that doesn't jeopardize credit quality. The corporation had record loan growth in 2022, resulting in an increased loan-to-deposit ratio, from 54.3% in 2021 to 61.6% in 2022. Normalizing the loan-to-deposit ratio from historic lows during the pandemic was a key focus during 2022, as it allows the Corporation to be more profitable and increase capital levels. As a result of loan growth, security purchases slowed dramatically in 2022 compared to prior years. The Corporation saw a $25 million decline in the par value of securities due to less frequent purchases. Management expects this trend to continue in 2023, turning lower-yielding securities into higher-yielding loans.

The year ended with deposits up $47 million over the prior year, which was driven by in-branch and commercial banking sales teams. As rates rise, deposits are expected to come under pressure in 2023. The Corporation is preparing for potential deposit runoff in search of higher rates. It is not often that the Corporation is forced to compete with U.S. Treasuries on yield for deposits, but with the current inverted yield curve, it is the reality all banks are facing. The Corporation maintains a core deposit funding base philosophy that is not as rate sensitive as other types of funding; however, the Corporation acknowledges this unique interest rate environment and will adjust deposit rates as needed to maintain its core deposit base. Certificate of Deposit accounts lacked consumer appeal over the last few years but are expected to make a comeback as the fight for core deposits intensifies. The Corporation is well equipped to adjust to higher interest rates from the historically low-rate environment over the last decade due to its core deposit funding base.

Tier 1 capital continued to grow in 2022, ending at 10.1%, up from the prior year of 9.4%. Capital is of utmost importance to the Corporation, as it provides the strategic cushion needed in times of uncertainty. Book capital lowered in 2022 due to a large, unrealized loss position in the security portfolio. This is an accounting loss and temporary in nature. As the premium on securities amortizes down to the par value, the loss will dissipate, regardless of how rates move. The Corporation categorizes its securities as "available for sale," meaning it is required to mark the portfolio to fair value each month. This is the most transparent way to account for securities and allows the most flexibility for the Corporation. As a result of the quick rise in interest rates, it may make financial sense to sell securities at a loss to reinvest at higher rates with a very short payback period. The Corporation will closely monitor its security portfolio and market rates throughout 2023 to take advantage of opportunities.



Asset Liability Management

On a monthly basis, the Corporation models its balance sheet in different rate environments, which includes shocks, gradual changes, and non-parallel twists of the yield curve. This data is collected and used to make decisions on balance sheet structure, duration of securities purchases, and loan terms. The Corporation is funded almost entirely by local, core deposits, so the characteristics and behaviors of these deposits have been studied and assumptions made on how behaviors could change in different rate environments over time. All of this is incorporated into the modeling of the balance sheet and monitored very closely by an Asset Liability Committee comprised of Directors of the Corporation. The Corporation maintains a conservative approach to interest rate risk and liquidity management. Liquidity is forecasted and stress tested each month to ensure the Corporation can successfully navigate uncertain economic times.

Income Statement

Interest Income from loans increased by $2.1 million in 2022 from the prior year, which was primarily driven by commercial loans. Due to the increase in loans occurring in the fourth quarter of 2022, most of the benefit of increased interest income will be seen in 2023 from the aforementioned growth. Investment security income increased by $3.8 million in 2022 over the prior year, driven by higher par value and a higher rate environment. Total Interest Income increased as rates increased during 2022 and is expected to continue increasing into 2023. Total interest expense increased by $1 million year-over-year with most of the increase occurring in the fourth quarter of 2022. This is a line item that will most certainly increase in 2023 as the fight over deposits intensifies. The Corporation is well positioned to control its cost of funding due to its core deposit base and low average balance in accounts. The vast majority of the Corporations deposit accounts are below $250,000, making them less susceptible to runoff.

Non-Interest Income increased by $0.165 million, in part due to increased service charges collected on deposit accounts increasing by $0.567 million. The Corporation's data analytics department studied the profitability of its accounts and used the analyzed data to adjust the fee structure to ensure profitability. These changes will continue to be made in 2023 and beyond to ensure the Corporation remains competitive and profitable in its deposit offerings. The increase in service charges was offset by lower activity in gain on sale of retail mortgage loans. This activity slowed dramatically in 2022 compared to its peak in 2021, which resulted in a reduction of $2.2 million from 2021. The retail mortgage team is currently focusing on making enhancements to the customer application process. This investment will benefit the Corporation in future years when the demand for home mortgages returns.

Non-Interest Expense increased in 2022 due to continued investment back into the Corporation, specifically in technology and staffing. The Corporation renovated its corporate headquarters and operations center to help with collaboration and support employee attraction and retention. The Corporation chose to close four in-grocery-store locations in 2022 that will reduce operational expenses into 2023. The decision to close these locations was carefully studied. The impacted locations had very low transactions as more and more consumers use other forms of banking, including mobile and online channels. The Corporation will continue to evaluate its branch footprint on a regular basis to ensure non-interest expense is invested in the most profitable manner.

Net Income was up $2.1 million year-over-year; however, the Corporation judges itself by its core income as shown in the adjacent graph. Although net income increased, core income was relatively flat year over year. The majority of the non-core income in 2022 was associated with loan purchase accounting originating when the Corporation acquired the failed Bank of Elmwood in 2009. 2022 was the last year for loan purchase accounting with no future income statement impacts.

This report contains statements that may constitute forward-looking statements that speak of the Corporation's plans, goals, beliefs or expectations, refer to estimates or use similar terms. Forward-looking statements are subject to significant risks and uncertainties. The Corporation's actual results may differ materially from the results discussed in such forward-looking statements.

TriCity Bankshares Corporation

Selected Financial Data

	For the Year Ended December, 31				
	2018	2019	2020	2021	2022
Results of Operations					
Interest income	$ 51,298,986	$ 53,452,565	$ 51,067,127	$ 52,878,074	$ 59,453,479
Interest expense	1,878,617	2,296,014	1,446,834	943,952	1,860,863
Net interest income	49,420,369	51,156,551	49,620,293	51,934,122	57,592,616
Provision for loan losses ("PLL")	-	-	1,500,000	-	-
Net interest income after PLL	49,420,369	51,156,551	48,120,293	51,934,122	57,592,616
Core noninterest income	15,721,859	15,430,526	17,341,854	17,839,230	15,842,595
Non-core noninterest income	1,106,574	3,002,577	1,029,396	268,441	2,429,879
Core noninterest expense	44,006,958	46,067,993	48,136,600	49,930,269	53,192,736
Non-core noninterest expense	728,278	1,069,131	1,619,796	1,869,312	1,974,000
Income before income taxes	21,513,566	22,452,530	16,735,147	18,242,212	20,698,354
Income taxes	4,552,500	3,729,500	2,518,795	2,883,643	3,232,798
Net income	$ 16,961,066	$ 18,723,030	$ 14,216,352	$ 15,358,569	$ 17,465,556
Balance Sheet Data					
Assets	$ 1,406,431,804	$ 1,466,800,227	$ 1,796,413,636	$ 2,054,498,528	$ 2,038,496,442
Security investments	371,017,618	383,295,527	558,509,399	820,639,129	691,594,252
Total loans	907,464,082	902,066,127	958,247,553	1,014,652,367	1,177,931,968
Allowance for loan losses	(10,994,385)	(11,072,956)	(13,106,919)	(13,572,773)	(13,707,262)
Total loans, net	896,469,697	890,993,171	945,140,634	1,001,079,594	1,164,224,706
Deposits	1,249,302,645	1,271,749,600	1,574,587,154	1,844,378,881	1,891,340,898
Borrowings	-	-	-	-	-
Total Tier One capital	159,342,248	173,434,722	183,020,518	193,748,531	205,871,138
Total stockholders' equity	153,014,924	174,466,438	191,103,531	191,631,640	128,570,287
Net loans to deposits	71.76%	70.06%	60.02%	54.28%	61.56%
Per Share Data					
Earnings per share	$ 1.90	$ 2.10	$ 1.60	$ 1.72	$ 1.96
Cash dividends paid	$ 0.48	$ 0.52	$ 0.52	$ 0.52	$ 0.60
Book value per share	$ 17.18	$ 19.59	$ 21.46	$ 21.52	$ 14.44
Shares outstanding	8,904,915	8,904,915	8,904,915	8,904,915	8,904,915
Performance Ratios					
Return on average assets	1.22%	1.30%	0.87%	0.78%	0.86%
Return on average equity	11.43%	11.43%	7.78%	8.03%	10.91%
Interest on earning assets	3.91%	4.02%	3.39%	2.91%	3.11%
Cost of funds	0.14%	0.17%	0.10%	0.05%	0.10%
Net interest margin	3.77%	3.85%	3.30%	2.86%	3.02%
Core noninterest income to average assets	1.13%	1.07%	1.06%	0.91%	0.78%
Core noninterest expense to average assets	3.16%	3.20%	2.94%	2.55%	2.62%
Efficiency Ratio	67.56%	69.18%	71.89%	71.56%	72.43%
Capital Ratios					
Total equity to total assets	10.88%	11.89%	10.64%	9.33%	6.31%
Tier One capital ratio	11.33%	11.82%	10.19%	9.43%	10.10%
Asset Quality Ratios					
Nonaccrual loans to total loans	0.47%	0.54%	0.52%	0.31%	0.69%
Past due loans >30 days to total loans	0.58%	0.52%	0.65%	0.45%	0.39%
Net charge-offs to total loans	-0.03%	-0.01%	-0.06%	-0.05%	-0.01%
Other real estate owned to total assets	0.01%	0.00%	0.00%	0.00%	0.00%
Allowance for loan losses to total loans	1.21%	1.23%	1.37%	1.34%	1.16%

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, 2022 and 2021, 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 (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2022 and 2021 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, 2022, 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, 2023 expressed an unmodified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the 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 Financial Statements

Management is responsible for the preparation and fair presentation of the 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 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 for a period of within one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the 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 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 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 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, 2023

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED BALANCE SHEETS

As of December 31, 2022 and 2021

ASSETS

	2022	2021
Cash and due from banks	$ 51,082,746	$ 134,568,580
Federal funds sold	2,102,042	891,783
Total Cash and Cash Equivalents	53,184,788	135,460,363
Securities available for sale, at fair value	691,594,252	820,639,129
Loans, less allowance for loan losses of $13,707,262 and $13,572,773 as of 2022 and 2021, respectively	1,164,224,706	1,001,079,594
Premises and equipment - net	20,361,893	17,314,670
Right of use lease asset	12,716,723	14,567,534
Bank owned life insurance	43,984,163	44,300,870
Accrued interest receivable and other assets	52,429,917	21,136,368
TOTAL ASSETS	$ 2,038,496,442	$ 2,054,498,528

LIABILITIES AND STOCKHOLDERS' EQUITY

	2022	2021
LIABILITIES		
Deposits		
Demand	$ 506,586,090	$ 498,794,405
Interest bearing	1,335,663,988	1,289,460,638
Certificates of deposit	49,090,820	56,123,838
Total Deposits	1,891,340,898	1,844,378,881
Lease liability	12,716,723	14,567,534
Accrued interest payable and other liabilities	5,868,534	3,920,473
Total Liabilities	1,909,926,155	1,862,866,888
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 2022 and 2021	8,904,915	8,904,915
Additional paid-in-capital	26,543,470	26,543,470
Accumulated other comprehensive loss	(77,300,851)	(2,116,891)
Retained earnings	170,422,753	158,300,146
Total Stockholders' Equity	128,570,287	191,631,640
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,038,496,442	$ 2,054,498,528

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2022 and 2021

	2022	2021
INTEREST INCOME		
Loans	$ 45,161,811	$ 42,999,130
Investment securities		
Taxable	11,117,716	7,550,556
Tax exempt	2,193,406	2,072,203
Federal funds sold and due from banks	961,220	236,859
Other	19,326	19,326
Total Interest Income	59,453,479	52,878,074
INTEREST EXPENSE		
Deposits	1,850,802	943,946
Other borrowings	10,061	6
Total Interest Expense	1,860,863	943,952
Net Interest Income before Provision for Loan Losses	57,592,616	51,934,122
Provision for loan losses	-	-
Net Interest Income after Provision for Loan Losses	57,592,616	51,934,122
NONINTEREST INCOME		
Service charges on deposits	4,216,476	3,649,467
Debit card interchange	5,369,297	5,580,096
ATM	671,731	744,807
Merchant services	796,665	818,178
Loan servicing income	555,510	1,287,103
Net gain on sale of loans	516,254	2,763,600
Increase in bank owned life insurance	943,853	988,212
Bank owned life insurance death benefits	472,260	2,715
Non-accretable loan discount	1,957,619	265,726
Other income	2,772,809	2,007,767
Total Noninterest Income	18,272,474	18,107,671
NONINTEREST EXPENSES		
Salaries and employee benefits	30,285,648	28,998,329
Net occupancy costs	4,290,519	4,220,419
Furniture and equipment expenses	2,785,719	2,799,693
Data processing and telecommunications expense	6,112,462	6,077,802
Professional fees	2,763,971	1,900,795
Advertising and promotional	1,168,531	1,084,450
FDIC and other regulatory assessments	890,418	836,855
New Markets Tax Credits investment amortization	1,974,000	1,869,312
Office supplies	729,418	741,891
Other expense	4,166,050	3,270,035
Total Noninterest Expense	55,166,736	51,799,581
Total Income before Taxes	20,698,354	18,242,212
Less: Income tax expense	3,232,798	2,883,643
NET INCOME	$ 17,465,556	$ 15,358,569

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2022 and 2021

	2022	2021
NET INCOME	$ 17,465,556	$ 15,358,569
Other comprehensive (loss) income, net of tax:		
Securities available for sale:		
Net unrealized holding (loss) gains arising during the period	(103,842,196)	(14,047,003)
Reclassification adjustment for (gains) loss in net income	509,338	28,248
Tax effect	28,148,898	3,818,851
Total Other Comprehensive (Loss) Income, net of tax:	(75,183,960)	(10,199,904)
COMPREHENSIVE (LOSS) INCOME	$ (57,718,404)	$ 5,158,665

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
BALANCES - January 1, 2021	$ 8,904,915	26,543,470	8,083,013	147,572,133	191,103,531
Net income	-	-	-	15,358,569	15,358,569
Total Other Comprehensive Loss	-	-	(10,199,904)	-	(10,199,904)
Cash dividends - ($0.52 per share)	-	-	-	(4,630,556)	(4,630,556)
BALANCES - December 31, 2021	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

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 17,465,556	$ 15,358,569
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	2,058,494	1,949,780
Amortization and accretion of servicing rights, premiums, discounts and PPP origination fees	1,535,815	2,755,762
Net gain on sale of loans	(516,254)	(2,763,600)
Expense for deferred income taxes	617,208	373,951
Proceeds from sales of loans held for sale	24,651,030	102,934,914
Originations of loans held for sale	(23,882,870)	(100,451,181)
Loss on sale of securities available for sale	509,338	28,248
Gain on sale of Visa Class B shares	(878,746)	-
Increase in bank owned life insurance	(943,853)	(988,212)
Gain on bank owned life insurance death benefits	(472,260)	(2,715)
Net change in fair value of mortgage servicing rights	-	(180,000)
Gain on disposal of premises and equipment	(12,534)	(1,500)
Right of use lease asset amortization	710,133	731,009
Net change in:		
Accrued interest receivable and other assets	1,044,853	3,710,664
Lease liability	(710,133)	(731,009)
Accrued interest payable and other liabilities	1,801,970	(2,852,923)
Net cash flows from operating activities	22,977,747	19,871,757
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, prepayments and calls	112,538,575	156,338,677
Purchases	(116,577,088)	(448,663,245)
Proceeds from sale	21,163,447	3,269,215
Proceeds from sale of Visa Class B shares	878,746	-
Net increase in loans	(160,310,507)	(53,530,007)
Purchase of premises and equipment	(5,177,216)	(3,238,369)
Proceeds from sales of premises and equipment	84,033	1,500
Proceeds from bank owned life insurance death benefits	1,732,820	1,122,715
Investment in FHLB Chicago	(1,205,200)	(238,100)
Net cash used in investing activities	(146,872,390)	(344,937,613)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	46,962,017	269,791,727
Dividends paid	(5,342,949)	(4,630,556)
Net cash flows provided by financing activities	41,619,068	265,161,171
Net change in cash and cash equivalents	(82,275,575)	(59,904,686)
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	135,460,363	195,365,049
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 53,184,788	$ 135,460,363

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2022 and 2021

(continued)

	2022	2021
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	$ 1,867,881	$ 964,336
Cash paid for income taxes	2,450,000	2,825,000
SUPPLEMENTAL NON-CASH DISCLOSURES		
Mortgage servicing rights resulting from sales of loans	226,694	881,917
Change in lease liability due to remeasurement or obtaining right of use lease assets	(1,140,678)	(361,054)
Security sales settled in subsequent period	3,774,073	-

See accompanying notes to consolidated financial statements

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 and TCNB Notre Dame 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 loan losses, deferred taxes, other than temporary impairment of 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, 2022. 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.

Declines in the fair value of securities below their cost that are other-than-temporary due to credit issues are reflected as "Other than temporary impairment of securities" in the consolidated statements of income. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive loss, net of tax.

The Corporation held an equity investment of Visa Class B shares which were carried at their historical cost basis of zero in 2022 and 2021, respectively. These shares did not have a 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.

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

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 loan 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 impaired 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 on impaired loans 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. Generally, a troubled debt restructuring (“TDR”) includes a loan modification where a borrower is experiencing financial difficulty and the Corporation grants a concession to that borrower that the Corporation would not otherwise consider except for the borrower’s financial difficulties. All TDRs are classified as impaired loans. TDRs may be on accrual or non-accrual status based upon the performance of the borrower and management’s assessment of collectability. TDRs deemed non-accrual may return to accrued status based on performance in accordance with terms of the restructuring, generally 6 months.

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.

The COVID-19 pandemic has negatively impacted the global and United States economies. In response to the crisis, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act includes provisions to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. In addition, the Consolidated Appropriations Act (“CAA”) was signed into law on December 27, 2020 which in part addressed additional COVID-19 pandemic responses and relief. Some of the CARES Act and CAA provisions applicable to and implemented by the Corporation in 2022 and 2021 include, but are not limited to:

- Accounting for Loan Modifications – The CARES Act, along with regulatory guidance from federal banking agencies, provides that a financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. Modifications in the scope of the exemption include forbearance agreements, interest rate modifications, repayment plan changes and any other similar arrangements that would delay payments of principal or interest. This relief is allowable on modifications on loans which were not more than 30 days past due as of December 31, 2019, and that occur after March 1, 2020, and before the earlier of January 1, 2022. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic (see Note 5 – Loans).
- Paycheck Protection Program – The CARES Act established the Paycheck Protection Program (“PPP”), an expansion of the Small Business Administration’s 7(a) loan program and the Economic Injury Disaster Loan Program (“EIDL”), administrated directly by the Small Business Administration (“SBA”) (see Note 5 – Loans).

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

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, 2022. Loans held for sale were $478,600 as of December 31, 2021.

Allowance for Loan Losses

The allowance for loan losses reflects management's best estimate of the probable and inherent losses on loans and is based on a risk model developed and implemented by management and approved by the Corporation's Board of Directors.

The allowance for loan losses is a valuation allowance for probable and inherent losses incurred in the loan portfolio. Management maintains allowances for loan losses at levels deemed adequate to absorb estimated probable credit losses inherent in the loan portfolio. The adequacy of the allowance is determined based on periodic evaluations of the loan portfolios and other relevant factors. The allowance is comprised of both a specific component and a general component. Even though the entire allowance is available to cover losses on any loan, specific allowances are provided on impaired loans pursuant to accounting standards. The general allowance is based on historical loss experience, adjusted for qualitative and environmental factors.

In determining the general allowance management has segregated the loan portfolio by loan class. For each class of loan, a historical loss factor is computed. In determining the appropriate period of activity to use in computing the historical loss factor management reviews trends in net charge-off ratios. It is management's intention to utilize a period of activity that is most reflective of current experience. Changes in the historical period are made when there is a distinct change in the trend of net charge-off experience. Management adjusts the historical loss factors for the impact of the following qualitative factors: asset quality, changes in volume and terms, policy changes, ability of management, economic trends, industry conditions, changes in credit concentrations and competitive/legal factors. In determining the impact, if any, of an individual qualitative factor, management compares the current underlying facts and circumstances surrounding a particular factor with those in the historical periods, adjusting the historical loss factor in a directionally consistent manner with changes in the qualitative factor. Management separately evaluates both the Corporation's historical portfolio as well as acquired loans that have renewed and are eligible to be considered as part of the general allowance.

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

Allowance for Loan Losses (continued)

Specific allowances are determined as a result of the impairment process. When a loan is identified as impaired it is evaluated for loss using either the fair value of collateral method or the present value of cash flows method. If the present value of expected cash flows or the fair value of collateral exceeds the Corporation’s carrying value of the loan, no loss is anticipated, and no specific reserve is established. However, if the Corporation’s carrying value of the loan is greater than the present value of expected cash flows or fair value of collateral, a specific reserve is established. In either situation, loans identified as impaired are excluded from the calculation of the general reserve.

The allowance for loan losses is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. The adequacy of the allowance for loan losses is reviewed and approved by the Corporation's Board of Directors on a quarterly basis. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may suggest additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been 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, 2022 and 2021, the Corporation services real estate loans for investors in the secondary market, which are not included in the accompanying consolidated balance sheets, of approximately $281 million and $296 million, respectively. The related MSR assets were $2,074,526 and $2,247,087 as of December 31, 2022 and 2021, 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, 2022 and 2021, 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.

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).

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

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, 2022 and 2021, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was $29.4 million and $30.1 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 $2,321,077 and $1,203,144 in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2022 and 2021, respectively. As of December 31, 2022 and 2021, 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 $812,397 and $2,030,434 as of December 31, 2022 and 2021, 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.

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 loan losses, 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.

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

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, 2022 and 2021.

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.

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.

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

Revenue Recognition (continued)

- ***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 2022 or 2021.

- ***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, 2023, the date the consolidated financial statements were available to be issued.

Accounting Pronouncements for Future Adoption

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

In March 2022, the FASB issued 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 is not expected to have a material impact on the Corporations' consolidated operations, financial position or cash flows, but will result in the replacement of TDR disclosures with disclosures related to modifications of loans to borrowers experiencing financial difficulty.

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

Accounting Pronouncements for Future Adoption (cont.)

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848).* The ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. The Corporation has evaluated the impact of the ASU and it did not have a material impact on the operating results or financial position of the Corporation. The amendments in ASU 2020-04 are effective as of March 12, 2020 through December 31, 2022. In December 2022, the FASB issued ASU 2022-06, *Reference Rate Reform (Topic 848): Deferral of the Sunset Date of Topic 848*, which extends the sunset date of the optional guidance to December 31, 2024. The Corporation expects to apply the amendments prospectively for applicable loan and other contracts within the effective period of ASU 2020-04 and ASU 2022-06.

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*. 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. The adoption of this guidance resulted in an immaterial adjustment to the allowance for credit losses (formerly the allowance for loan losses). The Corporation is in the process of finalizing its operational and control structure supporting the process.

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.

Impaired 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 impaired and an allowance for loan 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 impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with relevant accounting guidance. The fair value of impaired loans is estimated using either the fair value of collateral method or the present value of cash flows method. Those impaired 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 impaired 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 25.8% as of December 31, 2022 and 22.9% as of December 31, 2021 for those impaired loans requiring an allowance. The Corporation records these impaired loans as nonrecurring level 3 in the fair value hierarchy. On December 31, 2022 and 2021, all of the impaired loans were evaluated based on the fair value of the collateral.

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.

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

Financial instruments measured at fair value on a recurring basis for 2022 and 2021 are summarized below:

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	$ -

Assets	Balance at 12/31/2021	Level 1	Level 2	Level 3
Securities available for sale				
Obligations of state and political subdivision	$ 179,710,031	$ -	$ 179,710,031	$ -
Collateralized mortgage obligations	204,484,542	-	204,484,542	-
Mortgage-backed securities	436,444,556	-	436,444,556	-
Total securities available for sale	$ 820,639,129	$ -	$ 820,639,129	$ -
Interest rate swaps - other assets	$ 1,203,144	$ -	$ 1,203,144	$ -
Liabilities				
Interest rate swaps - other liabilities	$ 1,203,144	$ -	$ 1,203,144	$ -

Financial instruments measured at fair value on a non-recurring basis for 2022 and 2021 are summarized below:

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

	Balance at 12/31/2021	Level 1	Level 2	Level 3
Impaired loans with a related allowance, net	$ 3,276,800	$ -	$ -	$ 3,276,800

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

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

		2022		2021	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS					
Cash and due from banks	1	$ 51,082,746	$ 51,082,746	$ 134,568,580	$ 134,568,580
Federal funds sold	2	2,102,042	2,102,042	891,783	891,783
Available for sale securities	2	691,594,252	691,594,252	820,639,129	820,639,129
Federal reserve stock	2	322,100	322,100	322,100	322,100
FHLB Chicago stock	2	2,946,500	2,946,500	1,741,300	1,741,300
Loans held for investment	3	1,164,224,706	1,117,059,706	1,001,079,594	998,595,587
Bank owned life insurance	2	43,984,163	43,984,163	44,300,870	44,300,870
Mortgage servicing rights, net	2	2,074,526	3,106,563	2,247,087	2,404,054
Interest rate swaps	2	2,321,077	2,321,077	1,203,144	1,203,144
Accrued interest receivable	2	5,533,275	5,533,275	4,871,991	4,871,991
FINANCIAL LIABILITIES					
Deposits	2	$ 1,891,340,898	$ 1,888,836,898	$ 1,844,378,881	$ 1,843,911,881
Interest rate swaps	2	2,321,077	2,321,077	1,203,144	1,203,144
Accrued interest payable	2	30,723	30,723	37,741	37,741

The estimated fair value of fee income on letters of credit outstanding as of December 31, 2022 and December 31, 2021 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2022 and December 31, 2021.

NOTE 3 - Cash and Due from Banks

The Corporation is required to maintain vault cash and reserve balances with the FRB based upon a percentage of deposits. There was no reserve requirement as of December 31, 2022 or December 31, 2021.

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:

	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

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 178,942,237	$ 2,304,791	$ (1,536,997)	$ 179,710,031
Collateralized mortgage obligations	206,296,330	1,339,364	(3,151,152)	204,484,542
Mortgage-backed securities	438,310,027	1,702,618	(3,568,089)	436,444,556
Totals	$ 823,548,594	$ 5,346,773	$ (8,256,238)	$ 820,639,129

The amortized cost and fair value of available for sale securities as of December 31, 2022, 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.

	2022	
	Amortized Cost	Fair Value
Due within one year or less	$ 5,404,953	$ 5,323,080
Due after one year but less than 5 years	37,924,726	36,247,016
Due after 5 years but less than 10 years	79,877,514	70,803,906
Due over 10 years	82,964,436	66,979,595
	206,171,629	179,353,597
Collateralized mortgage obligations	180,780,051	155,054,105
Mortgage backed securities	410,732,085	357,186,550
Totals	$ 797,683,765	$ 691,594,252

NOTE 4 - Available for Sale Securities (cont.)

Available for sale securities with an amortized cost of $234,953,676 and $202,018,092 at December 31, 2022 and December 31, 2021, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

The Corporation recorded net losses on the sale of securities within other income on the consolidated statements of income of $509,338 and $21,935 in 2022 and 2021, respectively.

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:

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)

2021	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	$ 55,206,115	$ (803,921)	$ 28,841,937	$ (733,076)	$ 84,048,052	$ (1,536,997)
Collateralized mortgage obligations	111,138,771	(2,422,942)	21,183,457	(728,210)	132,322,228	(3,151,152)
Mortgage-backed securities	323,758,472	(3,240,144)	13,728,236	(327,945)	337,486,708	(3,568,089)
Totals	$ 490,103,358	$ (6,467,007)	$ 63,753,630	$ (1,789,231)	$ 553,856,988	$ (8,256,238)

Management does not believe any individual unrealized loss as of December 31, 2022 represents other than temporary impairment. The Corporation held 325 investment securities that had unrealized losses existing for greater than 12 months as of December 31, 2022 and 51 as of December 31, 2021, respectively. Management believes the temporary impairment in fair value was caused by market fluctuation in interest rates. Management does not believe that the Corporation will experience any losses on these investments related to credit.

NOTE 5 – Loans

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

	2022	2021
Commercial	$ 31,757,343	$ 39,187,713
Real Estate		
Construction	42,688,121	48,259,758
Commercial	663,735,054	599,566,103
Residential	177,842,551	162,800,909
Multifamily	258,391,072	162,035,267
Installment and other	3,517,827	3,086,325
	1,177,931,968	1,014,936,075
Less:		
Deferred PPP loan fees	-	(283,708)
Allowance for loan losses	(13,707,262)	(13,572,773)
Net loans	$ 1,164,224,706	$ 1,001,079,594

The Corporation participated in the CARES Act PPP loan program administered by the SBA. The Corporation originated no PPP loans to customers in 2022, compared to 624 PPP loans totaling $38.1 million in 2021. 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, compared to the $6.7 million as of December 31, 2021 which are classified as Commercial loans. No allowance for loan loss 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 year ended December 31, 2022, compared to $2,356,269 in 2021. These processing fees were deferred, net of PPP loan origination costs of $458,290 which are recognized as a reduction in salaries and employee benefits on the consolidated statements of income during the year ended December 31, 2021. A total of $283,708 of the net deferred PPP origination fees were recognized in loan interest income on the consolidated statements of income during the year ended December 31, 2022, compared to $2,482,086 in 2021. There were no remaining unamortized net deferred PPP origination fees as of December 31, 2022, compared to $283,708 in 2021.

NOTE 5 – Loans (cont.)

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

	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-impaired loans	(2,569,497)	(22,815)	-	-	(22,815)	(2,592,312)
Total loans, excluding purchase credit-impaired Loans	$ 1,170,712,039	$ 3,931,863	$ 141,265	$ 554,489	$ 4,627,617	$ 1,175,339,656

	2021					
	Current	Days Past Due				Total
	Loans	30-59	60-89	Over 90	Total	Loans
Commercial	$ 39,167,965	$ 10,518	$ 9,230	$ -	$ 19,748	$ 39,187,713
Real Estate						
Construction	48,259,758	-	-	-	-	48,259,758
Commercial	599,316,826	-	-	249,277	249,277	599,566,103
Residential	158,646,860	3,598,976	197,518	357,555	4,154,049	162,800,909
Multifamily	162,035,267	-	-	-	-	162,035,267
Installment and other	2,915,357	152,420	-	18,548	170,968	3,086,325
Total loans	1,010,342,033	3,761,914	206,748	625,380	4,594,042	1,014,936,075
Purchase credit-impaired loans	(2,394,849)	(38,240)	-	(86,611)	(124,851)	(2,519,700)
Total loans, excluding purchase credit-impaired Loans	$ 1,007,947,184	$ 3,723,674	$ 206,748	$ 538,769	$ 4,469,191	$ 1,012,416,375

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:

	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

	2021	
	Nonaccrual	Past due 90 days or more and accruing
Commercial	$ -	$ -
Real Estate		
Construction	-	-
Commercial	1,519,408	249,277
Residential	1,613,084	-
Multifamily	-	-
Installment and other	-	18,548
Total Loans	3,132,492	267,825
Purchase Credit Impaired Loans:		
Commercial	-	-
Real Estate	-	-
Construction	-	-
Commercial	-	-
Residential	(78,262)	-
Multifamily	-	-
Installment and other	-	-
Total Purchased Credit-Impaired Loans	(78,262)	-
Total Loans, excluding Purchase Credit Impaired Loans	$ 3,054,230	$ 267,825

NOTE 5 – Loans (cont.)

Management uses an internal asset classification system 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 and are not included in the table below. The following tables present 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				
	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

	2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 39,114,015	$ -	$ 73,698	$ -	$ 39,187,713
Real Estate					
Construction	48,259,758	-	-	-	48,259,758
Commercial	561,733,453	4,961,748	32,870,902	-	599,566,103
Multifamily	162,035,267	-	-	-	162,035,267
Total	$ 811,142,493	$ 4,961,748	$ 32,944,600	$ -	$ 849,048,841
Current	$ 810,873,468	$ 4,961,748	$ 32,944,600	$ -	$ 848,779,816
30-59	10,518	-	-	-	10,518
60-89	9,230	-	-	-	9,230
Over 90	249,277	-	-	-	249,277
Total	$ 811,142,493	$ 4,961,748	$ 32,944,600	$ -	$ 849,048,841

NOTE 5 – Loans (cont.)

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		
	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

	2021		
	Performing	Nonperforming	Total
Residential Real Estate	$ 161,187,825	$ 1,613,084	$ 162,800,909
Installment & Other	3,067,777	18,548	3,086,325
Totals	$ 164,255,602	$ 1,631,632	$ 165,887,234

As of December 31, 2022, the Corporation has identified $14.0 million of loans as impaired, including $5.9 million of performing TDRs. As of December 31, 2021, the Corporation has identified $10.8 million of loans as impaired, including $7.6 million of performing TDRs. The Corporation evaluates loans placed on the watch list for impairment. A loan is identified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. A performing TDR consists of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis. A summary of the details regarding impaired loans as of December 31 follows:

	2022	2021
Loans for which there was a related allowance for loan loss	$ 3,686,213	$ 4,251,403
Impaired loans with no related allowance	10,318,512	6,541,135
Total Impaired Loans	$ 14,004,725	$ 10,792,538
Average quarterly balance of impaired loans	$ 12,857,391	$ 12,054,344
Related allowance for loan losses	952,214	974,602
Interest income recognized while impaired	263,353	369,543

As of December 31, 2022 and 2021, the Corporation had residential real estate loans in foreclosure with a carrying value of $388,690 and $104,969, respectively.

NOTE 5 – Loans (cont.)

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

	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

	2021			
	Unpaid Principal Balance	Partial Charge-offs	Recorded Investment	Allowance For Loan Losses Allocation
Loans with no related allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Real Estate				
Construction	6,853	-	6,853	-
Commercial	1,012,832	-	1,012,832	-
Residential	5,746,386	235,992	5,510,394	-
Multifamily	-	-	-	-
Installment and other	12,560	1,504	11,056	-
Total	6,778,631	237,496	6,541,135	-
Loans with a related allowance recorded:				
Commercial	-	-	-	-
Real Estate				
Construction	550,538	-	550,538	43,538
Commercial	2,383,907	200,087	2,183,821	838,021
Residential	1,577,243	60,199	1,517,044	93,044
Multifamily	-	-	-	-
Installment and other	-	-	-	-
Total	4,511,688	260,286	4,251,403	974,603
Total Impaired Loans	$ 11,290,319	$ 497,782	$ 10,792,538	$ 974,603

NOTE 5 – Loans (cont.)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio class and based on impairment method as of December 31:

2022	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for loan 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 loan losses:							
Individually evaluated for impairment	-	-	874,625	77,589	-	-	952,214
Collectively evaluated for impairment	139,962	327,110	10,230,431	1,100,909	935,716	20,920	12,755,048
Total allowance for loan 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 impairment	$ -	$ 430,152	$ 2,219,225	$ 10,727,705	$ -	$ 9,006	$ 13,386,088
Collectively evaluated for impairment	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 impairment	-	-	-	618,637	-	-	618,637
Collectively evaluated for impairment	-	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

2021	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for loan losses:							
Beginning Balance	$ 162,159	$ 860,713	$ 9,775,246	$ 1,515,138	$ 702,885	$ 90,778	$ 13,106,919
Charge-offs	-	-	(922)	(49,513)	-	(1,779)	(52,214)
Recoveries	44,735	-	28,912	402,203	5,038	37,180	518,068
Provision and re-allocations	(61,754)	(401,472)	1,691,686	(1,101,038)	(48,244)	(79,178)	-
Ending Balance	$ 145,140	$ 459,241	$ 11,494,922	$ 766,790	$ 659,679	$ 47,001	$ 13,572,773
Loans:							
Recorded Investment	$ 39,187,713	$ 48,259,758	$ 599,566,103	$ 162,800,909	$ 162,035,267	$ 3,086,325	$ 1,014,936,075
Allowance for loan losses:							
Individually evaluated for impairment	-	43,538	838,021	93,044	-	-	974,603
Collectively evaluated for impairment	145,140	415,703	10,656,901	673,746	659,679	47,001	12,598,170
Total allowance for loan losses	145,140	459,241	11,494,922	766,790	659,679	47,001	13,572,773
Ending Balance	$ 39,042,573	$ 47,800,517	$ 588,071,181	$ 162,034,119	$ 161,375,588	$ 3,039,324	$ 1,001,363,302
Ending Balance:							
Individually evaluated for impairment	$ -	$ 557,391	$ 3,196,653	$ 5,945,070	$ -	$ 11,056	$ 9,710,170
Collectively evaluated for impairment	39,187,713	47,694,972	596,106,612	154,606,372	162,035,267	3,075,269	1,002,706,205
Purchase credit-impaired:							
Individually evaluated for impairment	-	-	-	1,082,368	-	-	1,082,368
Collectively evaluated for impairment	-	7,395	262,838	1,167,099	-	-	1,437,332
Total ending balance	$ 39,187,713	$ 48,259,758	$ 599,566,103	$ 162,800,909	$ 162,035,267	$ 3,086,325	$ 1,014,936,075

NOTE 5 – Loans (cont.)

The Corporation continues to evaluate purchased loans for impairment in accordance with U.S. GAAP. The purchased loans were considered impaired at the acquisition date if there was evidence of deterioration since origination and if it was probable that not all contractually required principal and interest payments would be collected. The difference between the contractually required payments at acquisition and the cash flow expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a change to the allowance for loan losses. Subsequent increases in cash flows will 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. Further, any excess of cash flows expected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows. The following table reflects the carrying value of all purchased loans as of December 31:

	2022		
	Contractually Required Payments Receivable		
	Credit Impaired	Non-Credit Impaired	Carrying Value of Purchased Loans
Loans with no related allowance recorded:			
Commercial	$ -	$ -	$ -
Real Estate			
Construction	35,916	-	5,486
Commercial	-	-	-
Residential	3,843,173	8,489,573	11,076,399
Multifamily	-	-	-
Installment and other	-	-	-
Total	$ 3,879,089	$ 8,489,573	$ 11,081,885

	2021		
	Contractually Required Payments Receivable		
	Credit Impaired	Non-Credit Impaired	Carrying Value of Purchased Loans
Loans with no related allowance recorded:			
Commercial	$ -	$ -	$ -
Real Estate			
Construction	37,825	-	7,395
Commercial	646,222	-	262,838
Residential	5,080,051	9,946,819	11,127,435
Multifamily	-	-	-
Installment and other	-	-	-
Total	$ 5,764,098	$ 9,946,819	$ 11,397,668

As of December 31, 2022, the estimated contractually required payments receivable on credit impaired and non-credit impaired loans was $3.9 million and $8.5 million, respectively. The cash flows expected to be collected related to principal as of December 31, 2022 on all purchased loans is $11.1 million. During 2022, the Corporation performed an analysis on the remaining purchased loans outstanding as part of an exercise to conclude the purchased loan accounting. This analysis identified approximately $1.0 million in excess non-accretable discount on performing purchased loans for which remaining expected cash flows exceeded remaining fair values of the purchased loans. The Corporation recognized this excess discount in non-accretable loan discount on the consolidated income statements. As a result, the remaining discount on purchased loans was $1.3 million as of December 31, 2022. These amounts are based upon the estimated fair values of the underlying collateral or discounted cash flows as of December 31, 2022.

NOTE 5 – Loans (cont.)

The change in the carrying amount of accretable yield for purchased loans was as follows for the years ended December 31:

	For the Year Ended December 31, 2022	2021
Beginning Balance	$ 1,068,853	$ 1,128,803
Additions	-	203,237
Accretion(1)	(1,068,853)	(263,187)
Ending Balance	$ -	$ 1,068,853

(1) Accretable yield is recognized in interest income as the purchased loans pay down, mature, renew or pay off.

Contractual maturities of loans with accretable yield range from 1 year to 30 years. Actual maturities may differ from contractual maturities because borrowers have the right to prepay or renew their loan prior to maturity or the loan may be charged off.

Certain directors and executive officers of the Corporation, and their related interests, had loans outstanding in the aggregate amounts of $3.5 million and $4.0 million as of December 31, 2022 and 2021, respectively. During 2022 repayments totaled $0.6 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 $1.2 million and $1.4 million as of December 31, 2022 and 2021, 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 $2.9 million and $2.2 million as of December 31, 2022 and 2021, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

NOTE 5 – Loans (cont.)

A TDR includes a loan modification where a borrower is experiencing financial difficulty and the Corporation grants a concession to that borrower that it would not otherwise consider except for the borrower's financial difficulties. Modifications include below market interest rates, interest-only terms, forgiveness of principal, or an exceptionally long amortization period. Most of the Corporation's modifications are below market interest rate concessions. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until it performs under the restructured terms for a sufficient period of time, generally six consecutive months at which time it is returned to accrual status.

In 2020, the CARES Act, along with regulatory guidance from federal banking agencies, provided that a financial institution may elect to exempt loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from consideration for TDR treatment. The Corporation elected this treatment for qualifying loan modifications in 2020. In December of 2020, the TDR moratorium was extended until January 2022. The Corporation provided no loan modifications in 2022 that would have been reviewed for TDR consideration, compared to 2021 where the Corporation provided loan modifications to 2 residential real estate loans totaling $260,000 and 4 commercial real estate loans totaling $12.0 million. As of December 31, 2022, no loans remained in a modified status, compared to 2021 when there were zero residential real estate loans and four commercial real estate loans remaining, totaling $12.0 million. All loans under a modification period are considered current for payment status.

The following is a summary of loans classified as TDRs as of December 31:

	2022		
	Number of Modifications	Total Trouble Debt Restructurings	Allowance For Loan Losses Allocation
Commercial	-	$ -	$ -
Real Estate			
Construction	2	430,152	-
Commercial	2	1,015,805	345,951
Residential	65	10,504,188	77,589
Multifamily	-	-	-
Installment & Other	1	9,006	-
Total Loans	70	$ 11,959,151	$ 423,540

	2021		
	Number of Modifications	Total Trouble Debt Restructurings	Allowance For Loan Losses Allocation
Commercial	-	$ -	$ -
Real Estate			
Construction	3	557,391	43,538
Commercial	3	1,677,244	333,412
Residential	87	6,487,578	93,044
Multifamily	-	-	-
Installment & Other	2	11,056	-
Total Loans	95	$ 8,733,269	$ 469,994

NOTE 5 - Loans (cont.)

There were no TDR's as of December 31, 2022 and two as of December 31, 2021 that defaulted during the period and were modified within the previous 12 months. TDR's in default are past due 90 days or more at the end of the period.

A summary of the type of modifications made on TDR's that occurred during 2022 and 2021 are noted in the table below.

	For the Year Ended December 31, 2022					
	Modification of Terms	Reduction of Interest Rate	Modification to Interest-only Payments	Forgiveness of Debt	Bankruptcy	Total
	Balance	Balance	Balance	Balance	Balance	Balance
Commercial	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	5,416,544	-	-	5,416,544
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	$ -	$ -	$ 5,416,544	$ -	$ -	$ 5,416,544
	Count	Count	Count	Count	Count	Count
Commercial	-	-	-	-	-	-
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	2	-	-	2
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	-	-	2	-	-	2

	For the Year Ended December 31, 2021					
	Modification of Terms	Reduction of Interest Rate	Modification to Interest-only Payments	Forgiveness of Debt	Bankruptcy	Total
	Balance	Balance	Balance	Balance	Balance	Balance
Commercial	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	115,727	115,727
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	$ -	$ -	$ -	$ -	$ 115,727	$ 115,727
	Count	Count	Count	Count	Count	Count
Commercial	-	-	-	-	-	-
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	2	2
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	-	-	-	-	2	2

NOTE 6 - Premises and Equipment

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

	2022	2021
Land	$ 6,427,044	$ 6,353,056
Buildings and leasehold improvements	37,531,475	34,879,872
Furniture and equipment	20,147,735	18,816,595
Total	64,106,254	60,049,523
Less: Accumulated depreciation	(43,744,361)	(42,734,853)
Net Premises and Equipment	$ 20,361,893	$ 17,314,670

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, 2022 and 2021, 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 $3.4 million and $5.3 million, respectively. The risk of loss in these investments is tied to the ability of the CDE to operate in compliance with the rules and regulations necessary for the qualification of the tax credits generated by equity investments. As of December 31, 2022 and 2021 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:

	2022	2021
Accrued interest receivable	$ 5,533,275	$ 4,871,991
Federal Reserve Bank stock	322,100	322,100
Mortgage servicing rights	2,074,526	2,247,087
Interest rate swaps	2,321,077	1,203,144
Investment in New Markets Tax Credit CDEs	3,371,342	5,345,342
Investment in FHLB Chicago stock	2,946,500	1,741,300
Security investment maturity receivable	3,718,073	371,051
Current income taxes	339,518	505,103
Deferred income taxes	30,285,566	2,753,876
Prepaid expenses and other assets	1,517,940	1,775,374
Total	$ 52,429,917	$ 21,136,368

NOTE 9 - Deposits

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

	2022	2021
Noninterest bearing demand accounts	$ 506,586,090	$ 498,794,405
Interest bearing demand accounts	686,729,729	658,139,580
Money Market accounts	303,816,619	297,059,387
Savings accounts	345,117,640	334,261,671
Certificates of Deposit	49,090,820	56,123,838
Total	$ 1,891,340,898	$ 1,844,378,881

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was $6,125,266 and $7,565,941 as of December 31, 2022 and 2021, respectively.

Scheduled maturities of time deposits as of December 31 are:

	2022	2021
Due within one year	$ 29,268,488	$ 34,060,555
After one year but within two years	9,540,272	12,106,602
After two years but within three years	2,836,687	3,780,243
After three years but within four years	3,251,563	2,300,604
After four years but within five years	4,193,810	3,875,834
Total	$ 49,090,820	$ 56,123,838

Deposits from the Corporation’s directors and related parties as of December 31, 2022 and December 31, 2021 amounted to $12.4 million and $19.6 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:

	2022	2021
Accrued interest payable	$ 30,723	$ 37,741
Real estate and personal property taxes payable	769,759	795,331
Medical and dental self insurance reserves	436,252	443,108
Interest rate swaps	2,321,077	1,203,144
Security investment purchases payable	1,737	-
Other liabilities	2,308,986	1,441,149
Total	$ 5,868,534	$ 3,920,473

NOTE 11 - Other Borrowings

The Corporation has the ability to borrow (purchase) federal funds of up to $70,000,000 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, 2022 or 2021.

The Corporation may also borrow through the Federal Reserve Bank Discount Window short term funds up to the amount of $4,350,631 and $5,147,373 as of December 31, 2022 and 2021, respectively. These funds are secured by U.S. government sponsored entity securities or qualified municipal securities totaling $4,834,034 and $5,719,304 as of December 31, 2022 and 2021, respectively.

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 mortgage-backed 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 mortgage-backed securities of $1,519,159 and $2,045,308 pledged as collateral to FHLB Chicago as of December 31, 2022 and 2021, respectively.

NOTE 12 - Income Taxes

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

	2022	2021
Current income taxes		
Federal	$ 951,418	$ 978,701
State	1,664,172	1,530,991
Total current income taxes	2,615,590	2,509,692
Deferred income taxes		
Federal	705,266	469,651
State	(88,058)	(95,700)
Total deferred income taxes	617,208	373,951
Total income taxes	$ 3,232,798	$ 2,883,643

NOTE 12 - Income Taxes (cont.)

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:

	2022	2021
Deferred income tax assets:		
Allowance for loan losses	$ 3,821,940	$ 3,814,967
Reserve for health plan	75,268	113,610
Non-accrual interest	4,353	4,646
Lease liability	3,464,163	3,968,342
Loss carryforwards	23,679	26,310
Unrealized loss on securities available for sale	28,941,468	792,570
Other	156,636	30,430
Total deferred income tax assets	36,487,507	8,750,875
Deferred income tax liabilities:		
Loan acquisition fair market valuation	(244,048)	(261,544)
Depreciation	(1,451,269)	(756,218)
Right of use lease asset	(3,464,163)	(3,968,342)
Mortgage servicing rights	(565,122)	(612,129)
New Markets Tax Credit Investments	(247,418)	(316,652)
Other	(229,921)	(82,114)
Total deferred income tax liabilities	(6,201,941)	(5,996,999)
Net deferred income tax asset (liability)	$ 30,285,566	$ 2,753,876

The Corporation has state net operating loss carryforwards of approximately $379,000 and $422,000 as of December 31, 2022 and 2021, respectively. The net operating loss carryforwards 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.

NOTE 12 - Income Taxes (cont.)

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

	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal incomet taxes at statutory rate	$ 4,346,657	21.00%	$ 3,830,864	21.00%
Adjustments for:				
Tax exempt interest on municipal obligations	(460,616)	-2.23%	(435,163)	-2.39%
Increase in taxes resulting from state income taxes, net of federal tax benefit	1,216,802	5.88%	1,111,604	6.09%
Increase in cash surrender value of life insurance	(297,384)	-1.44%	(208,095)	-1.14%
New markets tax credits	(1,556,321)	-7.52%	(1,476,647)	-8.09%
Other - net	(16,340)	-0.08%	61,080	0.33%
Income tax expense	$ 3,232,798	15.61%	$ 2,883,643	15.80%

As of December 31, 2022 and 2021, 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 2018 and prior and its 2017 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 2022 and 2021, the Corporation provided a dollar-for-dollar match of employee contributions up to 5% of their compensation. The Corporation recorded contribution expense of $867,048 and $852,836 in 2022 and 2021, 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, 2022 and 2021 is $12,716,723 and $14,567,534, respectively. The Corporation had two lease extension remeasurements, three lease termination remeasurements, and one lease modification remeasurement in 2022, and three lease termination remeasurements in 2021, and one lease extension remeasurement and three lease termination remeasurements in 2021 resulting in a change of $(1,140,678) and $(361,054), respectively to the right of use lease asset and lease liability. Right of use lease amortization in 2022 and 2021 was $710,133 and $731,009 respectively. 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%. As of December 31, 2021, the weighted-average remaining lease term is 21.4 years and the weighted average discount rate used in the determination of lease liabilities is 3.63%.

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 $1,294,198 and $1,306,048 in 2022 and 2021 respectively, with no significant amounts associated with variable escalation adjustments. The rental expense amounts include $869,025 and $830,855 respectively, for four of the facilities leased from a company held by a major shareholder of the Corporation.

NOTE 14 – Leases (cont.)

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, 2022:

2023	$ 1,134,746
2024	1,132,353
2025	1,056,279
2026	1,009,300
2027	1,009,300
Thereafter	14,627,135
Total lease payments	$ 19,969,113
Less interest	(7,252,390)
Present value of lease payments	$ 12,716,723

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 $945,264 and $900,558 for the years ended December 31, 2022 and 2021, 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, 2022:

2023	$ 663,955
2024	473,070
2025	398,723
2026	212,158
2027	187,353
Thereafter	1,183,703
Total lessee payments	$ 3,118,962

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.

NOTE 15 - Commitments and Contingencies (cont.)

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:

	2022	2021
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 167,402,970	$ 152,604,914
Standby letters of credit	4,672,396	2,145,249
	$ 172,075,366	$ 154,750,163

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.

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.

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, 2022 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, 2022 and 2021, 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.

NOTE 17 - Regulatory Capital Requirements (cont.)

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 8.5% as of December 31, 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of greater than 7.5% as of December 31, 2021 and greater than 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2022 and December 31, 2021 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, 2022 and December 31, 2021 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, 2022				
Tier 1 capital (to quarterly average assets)	$ 205,122,089	10.1%	$ 182,287,170	9.0%

	Actual		To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio
As of December 31, 2021				
Tier 1 capital (to quarterly average assets)	$ 192,839,776	9.4%	$ 175,046,110	8.5%

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.

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