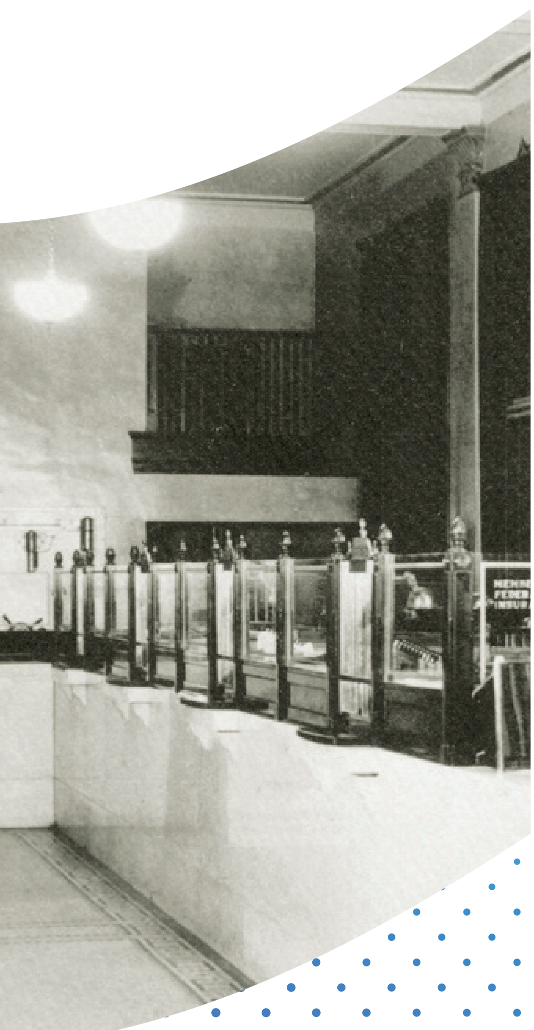
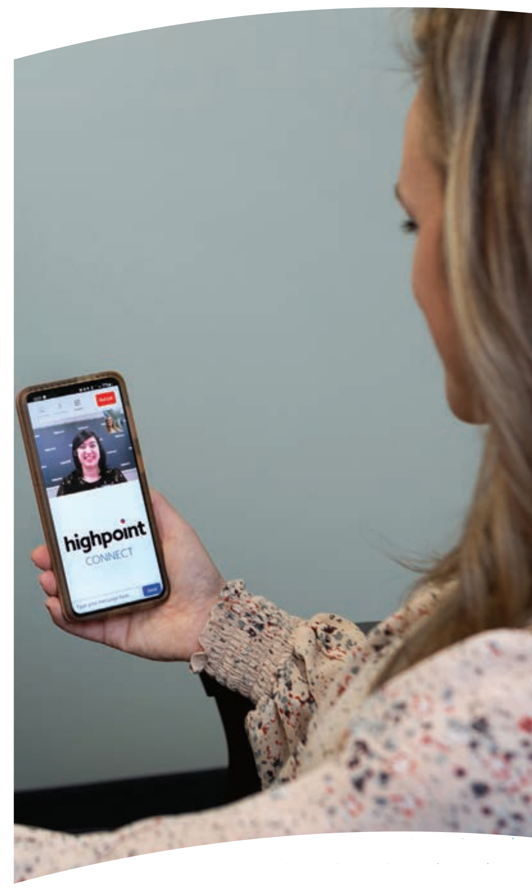
Stepping Up to a Better Way of Banking





HCB™

Table of Contents

Financial Highlights

AT YEAR-END	2021	2020	% CHANGE
Assets	$461,810	$395,059	17%
Deposits	400,845	333,606	20%
Loans, net	237,831	241,675	-2%
Investments	93,595	72,912	28%
Stockholders' Equity	35,358	35,759	-1%

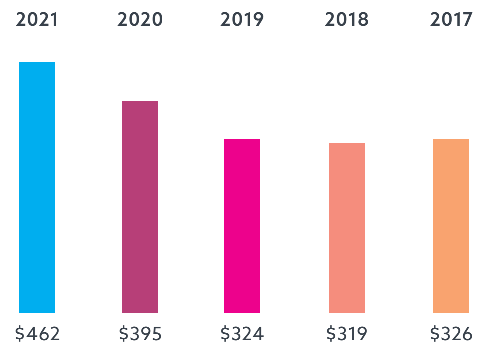
FOR THE YEAR	2021	2020	% CHANGE
Net income	$2,360	$2,708	-13%
Return on average assets	0.54%	0.75%	-28%
Return on average equity	6.56%	7.78%	-16%
Net charge-offs to avg loans	0.00%	0.00%	0%

PER SHARE	2021	2020	% CHANGE
Dividends per share	$0.86	$0.85	1%
Net income per share	2.24	2.54	-12%
Book value at year end	34.11	33.55	2%

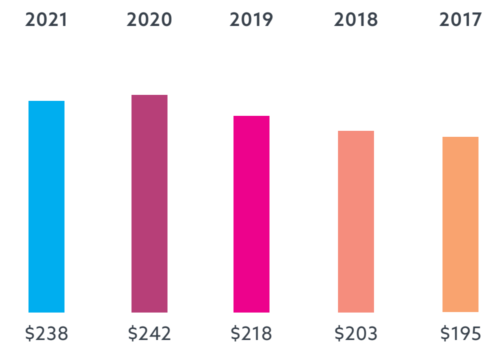
Dollar amounts in thousands, except per-share data

Key Graphs

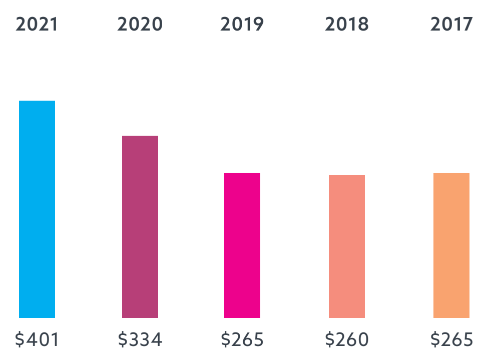
TOTAL ASSETS (MILLIONS)



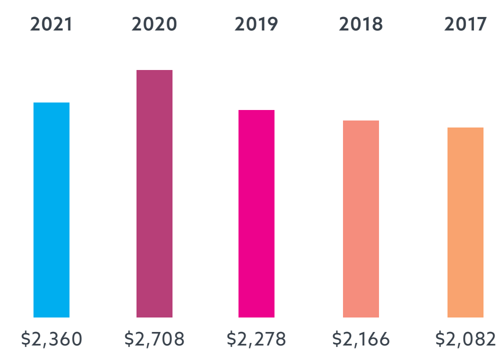
NET LOANS (MILLIONS)



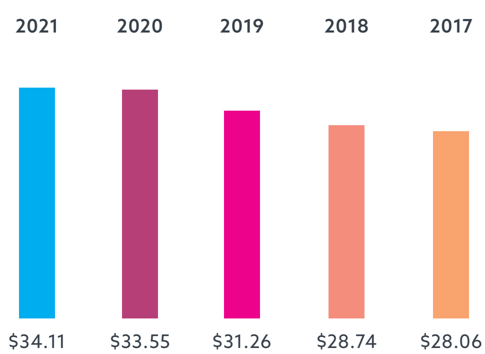
TOTAL DEPOSITS (MILLIONS)



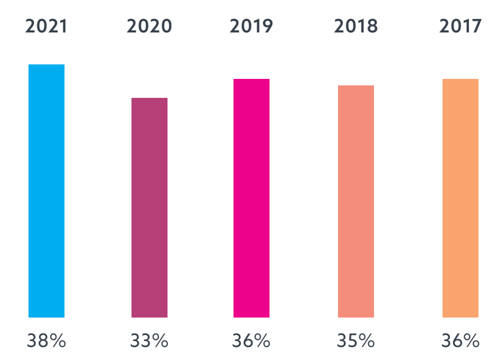
EARNINGS (THOUSANDS)



BOOK VALUE (PER SHARE, IN DOLLARS)



DIVIDEND PAYOUT RATIO



Business Banking Solutions

SINCE 1886

BUSINESS CHECKING AND SAVINGS

Every business needs the basics, and our flexible business checking and savings products are designed to help your business prosper and grow. Need assistance with anything? Our friendly, knowledgeable staff is ready to answer any questions you may have.

BUSINESS LOAN SERVICES

Is your business reaching an all-time high? Or you have a plan to help it get there? At Highpoint Community Bank, we know that capital is fundamental to the success of your business. Whether you are starting your own business, purchasing equipment, building, renovating, or purchasing commercial real estate, we are ready to help finance your business needs.

Business Loans include:

- REAL ESTATE LENDING
- LINES OF CREDIT
- TERM LOANS

SBA LENDING

Small businesses are the biggest economic drivers in the communities we serve, and we help do everything we can to help them thrive. Highpoint Community Bank is ready to help your business grow with Small Business Administration (SBA) loans.

DIGITAL SERVICES

Our digital banking services can help you successfully manage your business' cash flow across a variety of platforms, giving you the ability to bank through your phone, tablet or laptop. Saving you time on your banking experience is a top priority at Highpoint Community Bank.

Digital services include:

- ONLINE AND MOBILE BUSINESS EBANKING
- BILL PAY & AUTOBOOKS
- MOBILE DEPOSIT
- POSITIVE PAY
- ACH ORIGINATION

Personal Banking

At Highpoint Community Bank, we believe in giving you the highest level of professional service, because we're more than your banker, we're your neighbor. Whether you need help opening your first savings account, a little guidance when balancing the checkbook, or access to the latest mobile and online tools, we're here to help.

Personal banking services include:

- Checking & Savings – we offer a variety of accounts based on your personal needs.
- Card Options – we have the cards that best fit your lifestyle.
- Personal Loans – we are here to help with a variety of products to meet your needs with great rates and fast personal service.
- Highpoint Club – designed for individuals 50 years of age and above.

HOME FINANCING MADE EASY

Our competitive mortgage rates make for lower monthly payments, faster payoffs, and lower costs over the life of your loan. You can choose from a variety of loan products to best fit your needs.

Our home equity loans and lines of credit allow you to put your homes value to work for you. Our products allow you to borrow up to 89.99% of the equity in your home and provide competitive rates and payments.

BANKING ANYWHERE AND ANYTIME

Our digital services make your banking experience convenient and easy, so you can bank your way.

Digital Services include:

- ONLINE BANKING
- MOBILE BANKING
- BILL PAY
- E-STATEMENTS

Wealth Management & Insurance Services

The Wealth Management Department at Highpoint Community Bank has delivered protective Trust Services, reliable Investment Services, and problem-free Estate Settlement for nearly 60 years.

Our Wealth Management services include:

- INVESTMENT MANAGEMENT
- PERSONAL TRUST ADMINISTRATION
- ESTATE ADMINISTRATION
- INDIVIDUAL RETIREMENT ACCOUNT (IRA)
- ASSET PROTECTION & RISK MANAGEMENT
- INVESTMENT & RETIREMENT PLANNING
- CERTIFIED FINANCIAL PLANNING
- ASSET ACCUMULATION

Financial planning, whether for your family or your business, is all about making sure that today's obligations are met and tomorrow's goals become reality. Your plan for ensuring that the financial resources are available when they're needed, regardless of what the future may bring, starts with a solid foundation.

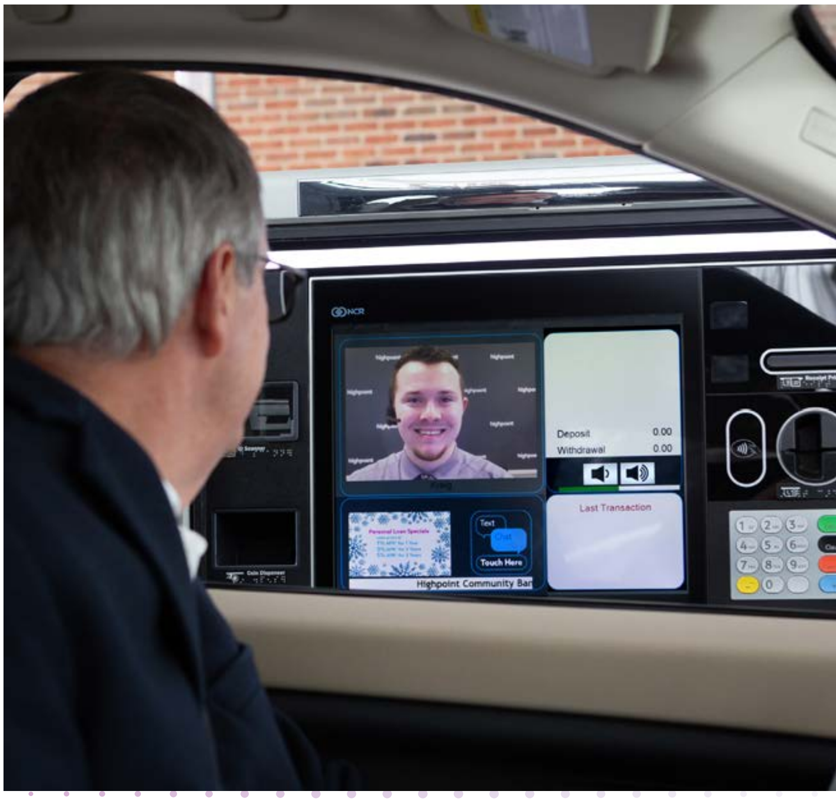
Our Insurance Services include:

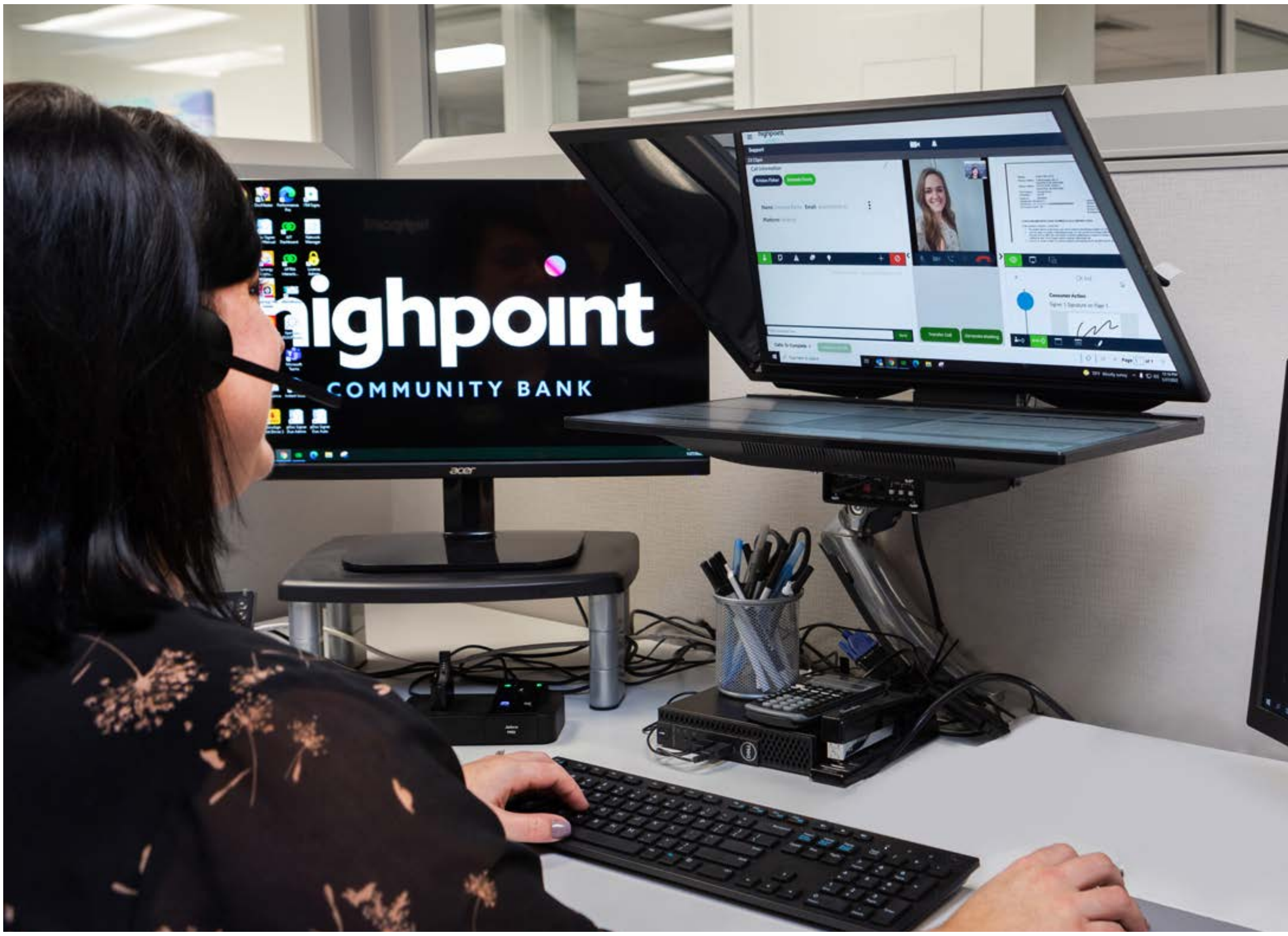
- LIFE INSURANCE WITH LIVING BENEFITS
- HEALTH INSURANCE
- DISABILITY INSURANCE
- LONG TERM CARE
- EDUCATION PLANNING
- TAX STRATEGIES
- EMPLOYEE BENEFITS
- BUSINESS OWNER STRATEGIES
- EXECUTIVE BENEFITS
MORTGAGE & LOAN INSURANCE

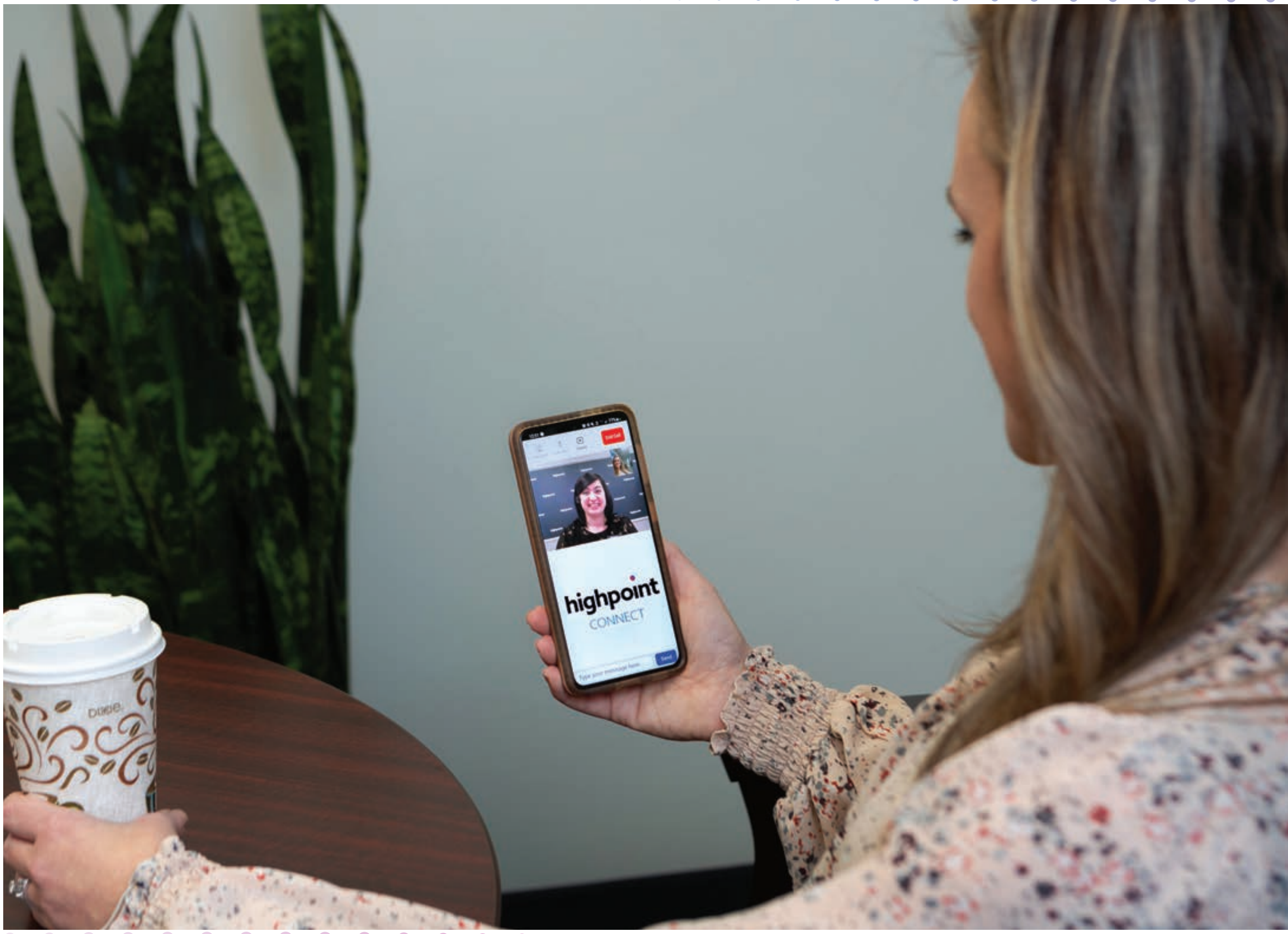
Digital Services

HIGH-TECH WITH A PERSONAL TOUCH

At Highpoint Community Bank, we understand the importance of personalized service while offering technological advances that make banking with us modern, fast, easy, and safe. Highpoint Connect Video Banking and our Interactive Teller Machines (ITMs) provide the convenience you need with the service you have come to expect from a community bank.




highpoint
COMMUNITY BANK


highpoint
CONNECT

Elevating the Communities We Serve For Over 135 Years

Highpoint Community Bank (HCB) was founded as Hastings City Bank in 1886 with the original mission of meeting the financial needs of the families and businesses in Barry County, Michigan. The bank holds state bank charter #11, the second oldest in Michigan. It is a subsidiary of HCB Financial Corp., a single bank holding company. Today, we have grown from a single office started with $50,000 in capital to a seven office financial services company with assets over $400 million. Our original intentions of the bank still hold true today even as we have expanded into Allegan, Calhoun, Eaton and Kent counties. We continue to meet the financial needs of the communities we serve by offering a full range of loan, deposit, trust and investment products.

OUR BANK IS RATED 5-STARS BY BAUER
www.bauerfinancial.com
AWARDED DECEMBER 2021

WEST MICHIGAN'S BEST AND BRIGHTEST COMPANIES TO WORK FOR
WINNER 2021


LIVE UNITED


HAVE A SLICE
CELEBRATE TWICE!
135
150
highpoint
COMMUNITY BANK


highpoint
COMMUN


HAVE A SLICE
CELEBRATE TWICE

DIRECTORS

Joseph J. Babiak, Jr.
President and C.E.O.
Hastings Mutual
Insurance Company

Brian N. Calley
President and C.E.O.
Small Business
Association of Michigan

James H. Fisher
Of Counsel,
Dickinson Wright

Matthew R. Garber
Physician and Director
of Hospitalist Program
Spectrum Health Pennock

Joan M. Heffelbower
Retired, Chief Financial
Officer Highpoint
Community Bank

Barbara L. Hunt
Accounting Manager
Bethany Christian Services

Mark A. Kolanowski
President and C.E.O.
Highpoint Community Bank

W. Scott McKeown
Retired Partner
McKeown & Kraai, PLC

OFFICERS

Mark A. Kolanowski
President and C.E.O.

Robert G. Ranes, Jr.
Senior Vice President,
Lending

Randoulph L. Teegardin
Senior Vice President,
Wealth Management

Timothy S. Tierney
Senior Vice President,
Retail Banking

Richard L. Zwiernikowski, Jr.
Senior Vice President
and C.F.O.

Khaja (Jay) Ahmed
Senior Vice President,
Credit

Amanda M. Bechler-Currier
Vice President, Controller,
Compliance Officer

Jane M. DeBat
Vice President,
Retail Bank Services

Barbara L. Denny
Vice President,
Retail Lending

Linda G. Engle
Vice President, Business
Development Director

Kimberly G. Finkbeiner
Vice President, Operations

Julie E. Palmatier
Vice President, Human
Resources Director

Ashley E. Van Alstine
Vice President, Retail Banking,
Branch Administration

Karen S. Scoby
Assistant Vice President,
Business Development Officer

Dawn N. Braden
Retail Operations
Manager, BSA Officer

Peggy F. Day
Loan Operations Manager

Amanda L. Eavey
Electronic Banking Officer

Kristen D. Fisher
Senior Branch Manager,
Middleville

Rebecca L. Gaylor
Cash Management Officer

Robert S. Pawloski
Senior Branch Manager,
Caledonia and Wayland

Kara K. Risner
Branch Manager/Security
Officer, Hastings

Valorie K. Vaughan
Branch Manager, Marshall

Serving West Michigan

Highpoint Community Bank, a subsidiary of HCB Financial Corp., operates seven full-service banking offices and two ITM locations.

VISIT US ONLINE ANYTIME AT:
HighpointCommunityBank.com

1. HASTINGS
150 West Court Street
Hastings, MI 49058
269-945-2401
888-422-2280

2. MIDDLEVILLE
435 Arlington Street
Middleville, MI 49333
269-795-3338

3. BELLEVUE
111 East Capital Avenue
Bellevue, MI 49021
269-763-9418

4. NASHVILLE
310 North Main Street
Nashville, MI 49073
517-852-0790

5. CALEDONIA
9265 Cherry Valley SE
Caledonia, MI 49316
616-891-0010

6. WAYLAND
156 West Superior Street
Wayland, MI 49348
269-792-6201

7. MARSHALL
124 West Michigan Avenue
Marshall, MI 49068
269-558-0994

8. STATE STREET ITM
1330 West State Street
Hastings, MI 49058

9. DELTON ITM
10199 South M-43 Highway
Delton, MI 49046

150 West Court Street | Hastings, Michigan 49058
269-945-2401 | Toll-Free 888-422-2280
highpointcommunitybank.com

Follow us

HCB FINANCIAL CORP.
ANNUAL REPORT

2021

HCB Financial Corp.

"NO MATTER HOW YOU CHOOSE TO BANK WITH US, YOU CAN COUNT ON THE HIGH LEVEL OF PERSONAL SERVICE THAT SETS US APART FROM THE REST."

To our shareholders

FROM THE DESK OF MARK A. KOLANOWSKI

It is my pleasure to present to you the HCB Financial Corp. 2021 Annual Report. The report reflects positive operating results along with a continued investment in the future of our independently owned and operated community bank. Net income generated in 2021 was $2,360,364 or $2.24 per average outstanding share. Total assets at year-end were $461,810,300, 17% greater than they were one year ago. Total deposits increased 20% with a 2021 year-end balance at $400,844,739. Total loans recorded at year-end were $237,830,734. Shareholders' equity had a year-end balance of $35,357,699, which is a modest decrease from the prior year-end. This was due in part to our successful repurchase and retirement of 29,400 shares of our stock during the year. Our year-end 2021 book value per share was $34.11, compared to $33.55 from the prior year-end.

We are pleased with the progress and performance we achieved in 2021. While net income was below our record-setting level of 2020, it far exceeded our internal projections for the year. We participated in another round of the Paycheck Protection Program (PPP), assisting 717 customers in receiving funds. Aside from PPP, we had solid loan activity throughout the year. However, we saw nearly $10 million in prescribed PPP loan forgiveness take place, resulting in a decrease in year-end outstanding loans. As expected, mortgage originations slowed from prior year highs with a shortage in available inventory. This contributed to our decline in non-interest income. Loan quality remains strong with very little delinquency or charge-off activity. This has led to a significant drop in our loan loss provision expense for the year. Deposit activity was significant for the second consecutive year, with growth occurring in both retail and commercial core deposit accounts.

Aside from our financial achievements, our team remains focused on making the Highpoint banking experience the best banking experience you can imagine. This is the commitment driving every aspect of our business. Working on no less than 48 action areas this past year, we have touched upon everything from expanding our service access points to enhancing our product lineup. Customers can now receive face-to-face customer service in any of our offices, through our interactive teller machines (ITMs), or online with the Highpoint Connect virtual banking center. No matter how you choose to bank with us, you can count on the high level of personal service that sets us apart from the rest.

2021 was a time for celebration as we marked our 135th year of community banking. While the pandemic may have limited some of our anniversary activities, it by no means prohibited us from honoring this historic achievement. Not many around us have the opportunity to reflect upon such a long and rich history, so we made every effort to commemorate, celebrate and simply enjoy every minute that we could. We celebrated with the community by hosting an open-air concert in downtown Hastings last summer. We made October 26th, exactly 135 years to the day of our bank being chartered, a special day for our employees, customers, and shareholders. We held special events in all of our offices and finished with an open house celebration in Hastings. We believe that staying true to our original mission of meeting the financial needs of the communities we serve while offering an exceptional customer experience has been the key to our success in this ever-changing world of banking.

There are many important changes within our leadership that I wish to bring to your attention. We congratulated several officers and one board member for their successful careers and service to HCB upon their retirements. We also welcomed new officers to HCB, promoted existing bank officers and added next generation leaders to our officer team.

Those announcing retirements in 2021 included Carol A. Svihl, Trust Officer, with 7 years of service; Timothy P. Kelly, Assistant Vice President and Business Development Officer, with 8 years of service; Nancy A. Goodin, Vice President and Marketing Director, with 17 years of service; Archie A. Warner, Board of Directors, with 26 years of service; and Karla J. KruKo, Branch Manager, with 43 years of service. We are thrilled for our colleagues as they begin their new chapter in life and especially grateful for their service.

We were fortunate to add two talented bankers to our officer team during the course of the year. Timothy S. Tierney joined us in June as Senior Vice President of Retail Banking. Tim brings an extensive background in banking, with proven leadership skills in sales, consumer lending and operations.

In July, Robert S. Pawloski joined us and serves as the Senior Branch Manager covering the Caledonia and Wayland branches. Not only is Bob an experienced and skilled community banker, but he is also well known and respected within the communities he serves.

There are very few things I enjoy more in my position than being able to recognize the outstanding performance of my HCB teammates. As such, I am pleased to share the following internal promotions: Julie E. Palmatier was named Vice President and Human Resources Director in January 2021. Julie joined HCB in 2008 as Assistant Vice President of Human Resources. Khaja (Jay) Ahmed was elevated to Senior Vice President of Credit in August of last year. Jay started his HCB career in 2013 as Credit Department Manager. Ashley E. Van Alstine was promoted to Vice President of Retail Banking/Branch Administration. Ashley started with HCB in 2000 in our part-time student program and has accepted various positions and new responsibilities throughout her career. Kara K. Risner was appointed officer status as Branch Manager/Security Officer in our Hastings office. Kara joined HCB in 2013 as a Teller in our Wayland office. Amanda L. Eavey was also appointed officer status as our Electronic Banking Officer. She joined HCB and the operations staff in 2015. The latter three promotions were all announced in December and effective January 1st of this year.

Our Annual Meeting will be held on Wednesday, April 20, 2022, at 1:00 p.m. in the Main Office of Highpoint Community Bank. We will also be providing an option for virtual attendance. It is important that your shares are represented and voted at the meeting. Whether you plan to attend or not, please complete and return the enclosed proxy prior to the meeting. This allows us to tally the votes prior to the meeting and proceed without delay. On behalf of the Board of Directors and all of us at HCB, thank you for your ongoing support.

Yours truly,

Mark A. Kolanowski
President and Chief Executive Officer

plante moran

Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report

To the Board of Directors
HCB Financial Corp.

Opinion

We have audited the consolidated financial statements of HCB Financial Corp. (the "Company"), which comprise the consolidated balance sheets as of December 31, 2021 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of HCB Financial Corp. as of December 31, 2020 were audited by other auditors, who expressed an unmodified opinion on those statements on February 17, 2021.

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

To the Board of Directors
HCB Financial Corp.

In performing an audit in accordance with GAAS, we:

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

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

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

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

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

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

Other Information

Management is responsible for the other information included in the annual report. The other information comprises the letter to shareholders, financial highlights, and key graphs, but does not include the consolidated financial statements and our auditor's report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

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

Plante & Moran, PLLC

February 16, 2022

HCB Financial Corp.
Consolidated Balance Sheets
December 31, 2021 and 2020

	2021	2020
Assets		
Cash and cash equivalents:		
Cash and due from banks	$ **113,237,586**	$ 63,645,439
	113,237,586	63,645,439
Interest-bearing time deposits in other financial institutions	**6,947,000**	9,674,000
Securities available-for-sale	**85,067,281**	61,656,748
Restricted investment in Federal Home Loan Bank stock	**1,580,800**	1,580,800
Loans, net of allowance of $2,074,621 at 2021 and $1,927,917 at 2020	**237,830,734**	241,675,448
Premises and equipment, net	**7,556,683**	8,203,325
Other real estate owned, net	**266,261**	-
Bank owned life insurance	**6,779,812**	6,617,717
Accrued interest receivable and other assets	**2,544,143**	2,005,692
Total assets	$ **461,810,300**	$ 395,059,169
Liabilities and Stockholders' Equity		
Liabilities:		
Deposits:		
Non-interest-bearing	$ **86,527,888**	$ 70,938,547
Interest-bearing	**314,316,851**	262,667,321
	400,844,739	333,605,868
Federal Home Loan Bank advances	**24,000,000**	24,000,000
Accrued interest payable and other liabilities	**1,607,862**	1,694,140
Total Liabilities	**426,452,601**	359,300,008
Stockholders' equity:		
Common stock, no par value - 1,500,000 shares authorized; issued and outstanding of 1,036,600 at 2021 and 1,066,000 at 2020	**1,579,112**	1,623,800
Capital surplus	**2,529,905**	2,601,641
Retained earnings	**30,772,443**	30,026,991
Accumulated other comprehensive income	**476,239**	1,506,729
Total stockholders' equity	**35,357,699**	35,759,161
Total liabilities and stockholders' equity	$ **461,810,300**	$ 395,059,169

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Income
Years ended December 31, 2021 and 2020

	2021	2020
Interest income		
Loans, including fees	$ **10,829,940**	$ 10,909,494
Investment securities:		
Taxable	**750,403**	809,867
Tax-exempt	**457,928**	397,517
Federal funds sold and other	**296,829**	310,651
	12,335,100	12,427,529
Interest expense		
Deposits	**608,655**	763,980
Federal Home Loan Bank advances	**467,301**	470,314
	1,075,956	1,234,294
Net interest income	**11,259,144**	11,193,235
Provision for loan losses	**150,000**	610,000
Net interest income after provision for loan losses	**11,109,144**	10,583,235
Other income		
Service charges and fees	**1,606,912**	1,482,942
Wealth management income	**544,842**	468,577
Net (loss) gain on securities	**(695)**	2,809
Net gain on sale of loans	**505,292**	761,635
Earnings from bank owned life insurance	**162,095**	547,275
Other income	**281,863**	196,759
	3,100,309	3,459,997
Other expenses		
Salaries and employee benefits	**6,406,942**	6,126,430
Occupancy and equipment	**1,458,422**	1,528,019
Data processing	**1,986,386**	1,958,054
Professional fees	**486,461**	440,478
FDIC Insurance	**111,400**	55,200
Other operating expenses	**1,245,478**	1,066,333
	11,695,089	11,174,514
Income before federal income taxes	**2,514,364**	2,868,718
Federal income taxes	**154,000**	161,000
Net income	$ **2,360,364**	$ 2,707,718
Basic and Diluted earnings per share	$ **2.24**	$ 2.54

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2021 and 2020

	2021	2020
Net income	**$ 2,360,364**	$ 2,707,718
Available-for-sale securities		
Unrealized holding gains/(losses) arising during the year	**(1,305,113)**	820,476
Reclassification adjustment for net realized (gains)/losses included in net income (A)	**695**	(2,809)
Defined Benefit Plans		
Net unrealized loss on defined benefit plan	**-**	(16,050)
Other comprehensive income/(loss) before income tax	**(1,304,418)**	801,617
Income tax benefit/(expense) related to other comprehensive income/(loss) (B)	**273,928**	(168,340)
Other comprehensive income/(loss)	**(1,030,490)**	633,277
Comprehensive Income	**$ 1,329,874**	$ 3,340,995

(A) - Included in net gain (loss) on securities

(B) - Federal Income Tax benefit/(expense) in 2021 and 2020 includes $146 and ($590) related to reclassification adjustments

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2021 and 2020

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 1,623,800	$ 2,601,641	$ 28,225,373	$ 873,452	$ 33,324,266
Net income	-	-	2,707,718	-	2,707,718
Other comprehensive income	-	-	-	633,277	633,277
Dividends declared - $.85 per share	-	-	(906,100)	-	(906,100)
Balance at December 31, 2020	1,623,800	2,601,641	30,026,991	1,506,729	35,759,161
Net income	**-**	**-**	**2,360,364**	**-**	**2,360,364**
Stock repurchase	**(44,688)**	**(71,736)**	**(712,264)**	**-**	**(828,688)**
Other comprehensive income /(loss)	**-**	**-**	**-**	**(1,030,490)**	**(1,030,490)**
Dividends declared - $.86 per share	**-**	**-**	**(902,648)**	**-**	**(902,648)**
Balance at December 31, 2021	**$ 1,579,112**	**$ 2,529,905**	**$ 30,772,443**	**$ 476,239**	**$ 35,357,699**

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Net income	**$ 2,360,364**	$ 2,707,718
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	**150,000**	610,000
Depreciation	**691,372**	706,933
Net amortization of securities	**280,494**	92,721
Earnings on bank owned life insurance, net	**(162,095)**	(547,275)
Loans originated for sale	**(13,150,025)**	(19,373,420)
Proceeds from sale of loans	**13,655,317**	20,135,055
Net gain on sales of loans	**(505,292)**	(761,635)
Net loss (gain) on securities	**695**	(2,809)
Net loss on disposal of assets	**105**	-
Proceeds from AMT refund	**-**	1,116,643
Net change in:		
Accrued interest receivable and other assets	**(264,522)**	491,655
Accrued interest payable and other liabilities	**(24,453)**	43,976
Net cash from operating activities	**3,031,960**	5,219,562
Cash flows for investing activities		
Net change in interest-bearing deposits in other financial institutions	**2,727,000**	4,913,000
Activity in available-for-sale securities:		
Sales	**1,027,800**	-
Maturities, prepayments, calls	**11,993,021**	9,133,772
Purchases	**(38,016,961)**	(18,408,465)
Activity in held-to-maturity securities:		
Maturities, prepayments, calls	**-**	30,000
Loan originations and payments, net	**3,694,714**	(23,786,745)
Purchases of premises and equipment, net	**(461,096)**	(260,426)
Proceeds from sales of assets	**150,000**	-
Proceeds from bank owned life insurance	**-**	725,058
Net cash for investing activities	**(18,885,522)**	(27,653,806)
Cash flows from financing activities		
Net change in deposits	**67,238,871**	68,199,259
Common stock repurchased	**(828,688)**	-
Cash dividends paid	**(964,474)**	(831,480)
Net cash from financing activities	**65,445,709**	67,367,779
Net change in cash and cash equivalents	**49,592,147**	44,933,535
Cash and cash equivalents at beginning of year	**63,645,439**	18,711,904
Cash and cash equivalents at end of year	**$ 113,237,586**	$ 63,645,439
Supplemental disclosures of cash flow information		
Cash paid for interest	**$ 1,128,102**	$ 1,227,620
Cash paid for income taxes	**445,000**	200,000
Supplemental non-cash disclosures		
Dividends declared and not paid	**$ 300,614**	$ 362,440
Transfer of bank premises to other real estate owned	**266,261**	-

See accompanying notes

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations: HCB Financial Corp. (the Company) is a bank holding company headquartered in Hastings, Michigan. The Company's wholly owned subsidiary, Highpoint Community Bank, (the Bank) operates seven full-service banking offices in and around Barry County. The Bank offers a variety of deposit and lending services.

Principles of Consolidation: The consolidated financial statements include the accounts and operations of HCB Financial Corp. and its wholly owned subsidiaries, Highpoint Community Bank, Highpoint Insurance Services, HCB Real Estate Holdings, LLC and Court Street Financial, Inc. All significant inter-company balances and transactions have been eliminated in consolidation.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through February 16, 2022, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and future results could differ.

Cash Flows: Cash and cash equivalents include cash, deposits with other financial institutions and federal funds sold. Net cash flows are reported for customer loan and deposit transactions and for interest bearing time deposits with other financial institutions.

Cash and Cash Equivalents: The Company maintains deposit accounts with other financial institutions which generally exceed federally insured limits or are uninsured.

Interest-Bearing Time Deposits in other Financial Institutions: Interest-bearing time deposits in other financial institutions consist of fully insured certificates of deposits with $2,482,000 maturing within 1 year, $4,217,000 maturing within 2-5 years and $248,000 maturing within 6-10 years.

Restricted Investments: The Bank is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted periodically by the FHLB.

Securities: Debt securities are classified as held-to-maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available-for-sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premium or discount. Purchase premiums and discounts on noncallable debt securities are recognized into income over the term of the securities. Premiums on callable debt securities are amortized against income over the period until the earlier of the first call date or maturity. Gains and losses on sales are based on the amortized cost of the security sold. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least an annual basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs, and an allowance for loan losses. The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets.

Interest income is reported on the interest method. Interest income on loans is generally discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not received, for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans held for sale are reported at the lower of cost or market, on an aggregate basis. Mortgage loans held for sale are generally sold with servicing rights retained; the carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses, increased by the provision for loan losses and decreased by charge-offs less recoveries. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged off. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Commercial and commercial real estate loans are individually evaluated for impairment if outstanding loans to a borrower are, in aggregate, over $150,000 and the risk rating assigned to a loan is substandard or lower. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported net at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are also considered impaired and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component of the Allowance for Loan Losses covers non-impaired loans and large groups of homogeneous loans and is based on historical loss experience, adjusted for current risk factors. The following portfolio segments have been identified and the risk factors listed below are considered in determining the allowance for loan loss:

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Residential real estate loans are evaluated for impairment using various economic indicators. Environmental factors that may impact collateral value on residential real estate loans include data on average local home sales, national and local economic conditions, and local employment rates. These factors are used to calculate an adjustment for current economic conditions. Other residential real estate loans with additional risk factors are loans where the payment is more than 30 days past due.

Commercial loans are evaluated for impairment using the following risk classification codes assigned to commercial credits internally:

- Risk Ratings 1-5 are considered to be within an acceptable risk tolerance to the bank.
- Risk Rating 6 is considered special mention. Loans in this category are included on the watch list, have identifiable weaknesses. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.
- Risk Rating 7 is considered substandard. Loans in this category are considered very high risk, are included on the watch list, have well-defined weaknesses, normal repayment is in jeopardy, and are reviewed quarterly for impairment.
- Risk Rating 8 is considered impaired non-accrual. Loans in this category have all substandard characteristics plus the loans are in non-accrual status. These loans have significant weaknesses making full collection of interest unlikely.
- Risk Rating 9 is considered doubtful. Loans in this category possess all substandard and non-accrual characteristics and have significant weaknesses making full collection through payment or liquidation questionable and improbable.
- Risk Rating 10 is considered loss. Loans are charged-off in a timely manner, as collection is highly unlikely.

These risk codes are reviewed and adjusted as appropriate in several circumstances. A formal loan review process is conducted on loans above various dollar thresholds based on the type of collateral securing the credit. The loan reviewer will either affirm that the risk rating is appropriate or recommend a change. Risk codes are also adjusted upon loan renewals, additional requests, and upon receipt of knowledge that an event has caused a change in apparent risk of an individual credit. In addition, business loan charge-offs are evaluated annually to assess the likelihood of deteriorating to charge-off before the determination that an allocated reserve is required. That additional loss factor is applied to non-impaired loans with a 5 and 6 rating. Any loans that are not individually evaluated for impairment are assigned an additional risk factor if they become past due by 30 days or more.

Consumer loans are both secured and unsecured and an additional risk factor is applied to loans that are past due by 30 days or more.

Bank-Owned Life Insurance: The Company has purchased life insurance policies on certain key executives. Bank owned life insurance is recorded at the amount that can be realized under the insurance contracts at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts that are probable at settlement.

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

Servicing Rights: Mortgage servicing rights are held at amortized cost. Servicing rights represent the fair value of retained servicing rights on loans sold. Servicing assets are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

groupings of the underlying loans as to interest rates and then, secondarily, as to prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance to the extent that fair value is less than the capitalized amount.

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees total $121,000 and $115,000 for the years ended December 31, 2021 and 2020, respectively. Late fees and ancillary fees related to loan servicing are not material.

Premises and Equipment: Land is stated at cost. Premises and equipment are stated at cost, less accumulated depreciation. The provision for depreciation is computed principally using the straight-line method over the estimated lives of the related assets. Expenditures for normal repair and maintenance are charged to expenses as incurred.

Other Real Estate Owned: Real estate properties acquired through or in lieu of loan foreclosure are initially recorded at the fair value less estimated selling cost at the date of foreclosure. Any write-downs, based on the asset's fair value at the date of acquisition, are charged to the allowance for loan losses. If fair value declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Post Retirement Benefit: The Bank sponsors a post retirement benefit plan that provides medical and life insurance benefits to eligible retirees, who retired prior to 2004, for life. At year-end 2021, the plan provided benefits to 9 participants. At year-end 2021 and 2020, the accrued benefit obligation recognized in the consolidated balance sheet was $73,000 and $108,000, respectively. Additional disclosures related to the post retirement health care plan are not material to the financial statements.

Income Taxes: Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

A tax position is recognized as a benefit only if it is "more likely than not" that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the "more likely than not" test, no tax benefit is recorded.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Earnings Per Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period, which were 1,052,387 and 1,066,000 for year-end 2021 and 2020. There were no potentially dilutive common stock equivalents for 2021 or 2020.

Off-Balance Sheet Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and standby letters of credit, issued to meet customer financing needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Comprehensive Income: Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available for sale and changes in the funded status of the Company's post retirement benefit plans, which are also recognized as separate components of equity.

Loss Contingencies: Loss contingencies, including claims and legal actions arising in the ordinary course of business, are recorded as liabilities when the likelihood of loss is probable and an amount or range of loss can be reasonably estimated. Management does not believe there are such matters that will have a material effect on the financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the bank to the holding company or by the holding company to shareholders.

Revenue Recognition: ASC Topic 606, Revenue from Contracts with Customers, provides the guidance used to recognize revenue from contracts with customers for transfers of goods or services and transfers of non-financial assets, unless those contracts are within the scope of other guidance. The Company’s principal revenue streams that are within the scope of ASC Topic 606 include service charges and fees and trust income. These revenues are generally recognized immediately upon the completion of the service or over time as services are performed. Any services performed over time generally require that the Company renders services each period, for example monthly, therefore the Company measures progress in completing these services based upon the passage of time.

Reclassifications: Certain items in the prior year financial statements were reclassified to conform to the current presentation.

New Accounting Principles: The Financial Accounting Standards Board (“FASB”) issued ASU No. 2016-13, Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. This ASU provides financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date by replacing the incurred loss impairment methodology in current generally accepted accounting principles (GAAP) with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. The new guidance attempts to reflect an entity’s current estimate of all expected credit losses and broadens the information that an entity must consider in developing its expected credit loss estimate for assets measured either collectively or individually to include forecasted information, as well as past events and current conditions. There is no specified method for measuring expected credit losses, and an entity may apply methods that reasonably reflect its expectations of the credit loss estimate. Although an entity may still use its current systems and methods for recording the allowance for credit losses, under the new rules, the inputs used to record the allowance for credit losses generally will need to change to appropriately reflect an estimate of all expected credit losses and the use of reasonable and supportable forecasts. Additionally, credit losses on available-for-sale debt securities will have to be presented as an allowance rather than as a write-down. This ASU is effective January 1, 2023 for the Company. Management is currently evaluating the impact of this new ASU on its consolidated financial statements which may be significant.

NOTE 2 - SECURITIES

The fair value of available-for-sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

Available-for-sale

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Govt and federal agency	**$ 11,884,904**	**$ 76,306**	**$ 147,695**	**$ 11,813,515**
State and municipal	**50,341,588**	**904,460**	**155,216**	**51,090,832**
Mortgage-backed, residential	**10,335,051**	**95,680**	**79,627**	**10,351,104**
Corporate	**10,659,903**	**17,369**	**97,230**	**10,580,042**
Certificates of Deposit	**1,243,000**	**-**	**11,212**	**1,231,788**
Total	**$ 84,464,446**	**$ 1,093,815**	**$ 490,980**	**$ 85,067,281**
2020				
U.S. Government and federal agency	$ 9,792,971	$ 186,076	$ 10,144	$ 9,968,903
State and municipal	33,816,881	1,482,166	-	35,299,047
Mortgage-backed, residential	13,149,870	184,445	3,568	13,330,747
Corporate	2,989,774	68,277	-	3,058,051
Total	$ 59,749,496	$ 1,920,964	$ 13,712	$ 61,656,748

The fair value of debt securities and carrying amount, if different, at year-end 2021 by contractual maturity were as follows: Securities not due at a single maturity date, primarily consisting of mortgage-backed securities, are shown separately.

	Available-for-sale	
	Amortized Cost	Fair Value
Due in one year or less	**$ 11,882,111**	**$ 11,950,333**
Due after one through five years	**46,567,562**	**46,968,752**
Due after five through ten years	**14,797,722**	**14,911,430**
Due after ten years	**882,000**	**885,662**
Mortgage-backed, residential	**10,335,051**	**10,351,104**
	$ 84,464,446	**$ 85,067,281**

NOTE 2 - SECURITIES (Continued)

Securities pledged at year-end 2021 and 2020 had a carrying amount of $4,591,000 and $3,508,000 respectively, and were pledged to secure public deposits and other purposes as required or permitted by law.

Securities with unrealized losses at year-end 2021 and 2020, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less than 12 Months		12 Months or More		Total	
2021	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**	**Fair Value**	**Unrealized Loss**
U.S. Govt. and federal agency	**$ 5,024,845**	**$ 64,984**	**$ 2,917,289**	**$ 82,711**	**$ 7,942,134**	**$ 147,695**
State and municipal	**11,638,982**	**152,265**	**359,004**	**2,951**	**11,997,986**	**155,216**
Mortgage-backed, residential	**6,930,304**	**79,627**	**-**	**-**	**6,930,304**	**79,627**
Corporate	**7,366,405**	**97,230**	**-**	**-**	**7,366,405**	**97,230**
Certificates of Deposit	**1,231,788**	**11,212**	**-**	**-**	**1,231,788**	**11,212**
	$ 32,192,324	**$ 405,318**	**$ 3,276,293**	**$ 85,662**	**$ 35,468,617**	**$ 490,980**
2020						
U.S. Govt. and federal agency	$ 3,989,856	$ 10,144	$ -	$ -	$ 3,989,856	$ 10,144
State and municipal	-	-	-	-	-	-
Mortgage-backed, residential	2,010,156	3,568	-	-	2,010,156	3,568
Corporate	-	-	-	-	-	-
	$ 6,000,012	$ 13,712	$ -	$ -	$ 6,000,012	$ 13,712

Unrealized losses have not been recognized into income because the securities are of high credit quality, management does not intend to sell and it is not likely that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates. The fair value is expected to recover as the securities approach their maturity date and/or market rates decline.

Sales of available-for-sale securities were as follows:

	2021	2020
Proceeds	**$ 1,027,800**	$ -
Gross gains	**-**	-
Gross losses	**(864)**	-

During 2021, two securities were called resulting in a gain of $169. In 2020, one security was called resulting in a gain of $2,809.

NOTE 3 - LOANS

Loans at year-end were as follows:

	2021	2020
Residential real estate:		
Residential mortgages	**$ 77,225,675**	$ 83,849,476
Home equity loans	**7,748,096**	8,777,213
Commercial:		
Real estate secured	**57,958,377**	58,991,447
Non-real estate secured	**27,509,392**	34,374,183
Municipal loans	**60,256,176**	47,240,897
Consumer	**9,207,639**	10,370,149
Subtotal	**239,905,355**	243,603,365
Allowance for loan losses	**(2,074,621)**	(1,927,917)
	$ 237,830,734	$ 241,675,448

Mortgage loans serviced for others are not reported as assets. Such loans aggregated to $49,249,000 and $49,148,000 at year-end 2021 and 2020, respectively. Mortgage loans originated for sale, but not yet delivered are included in residential mortgages and were $580,000 and $911,000 at year-end 2021 and 2020. Capitalized mortgage servicing rights were $358,000 and $351,000 at year-end 2021 and 2020, respectively and is included in accrued interest receivable and other assets.

Certain directors and executive officers of the Company, including their associates, were loan customers of the Bank during 2021 and 2020. The outstanding loan balances for these persons at December 31, 2021 and 2020 amounted to $1,376,000 and $1,607,000, respectively. During 2021, new loans to these persons amounted to $100,000 and payments amounted to $331,000, compared to new loans of $867,000 and payments of $1,112,000 during 2020.

Activity in the allowance for loan losses for 2021 and 2020, by portfolio segment, was as follows:

December 31, 2021	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	**$ 606,925**	**$ 1,243,708**	**$ 77,284**	**$ 1,927,917**
Provision for loan losses	**54,635**	**127,125**	**(31,760)**	**150,000**
Loans charged-off	**-**	**-**	**(17,172)**	**(17,172)**
Recoveries	**-**	**-**	**13,876**	**13,876**
Ending balance:	**$ 661,560**	**$ 1,370,833**	**$ 42,228**	**$ 2,074,621**

December 31, 2020	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses:				
Beginning balance	$ 376,944	$ 834,135	$ 97,581	$ 1,308,660
Provision for loan losses	229,881	409,573	(29,454)	610,000
Loans charged-off	-	-	(2,712)	(2,712)
Recoveries	100	-	11,869	11,969
Ending balance:	$ 606,925	$ 1,243,708	$ 77,284	$ 1,927,917

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2021 and 2020:

December 31, 2021	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses				
Individually evaluated for impairment	**$ 252,315**	**$ 157,685**	**$ 7,265**	**$ 417,265**
Collectively evaluated for impairment	**409,245**	**1,213,148**	**34,963**	**1,657,356**
Ending allowance balance attributable to loans	**$ 661,560**	**$ 1,370,833**	**$ 42,228**	**$ 2,074,621**
Loan balances				
Individually evaluated for impairment	**$ 447,936**	**$ 234,456**	**$ 9,402**	**$ 691,794**
Collectively evaluated for impairment	**84,525,835**	**145,489,489**	**9,198,237**	**239,213,561**
Total ending loan balances	**$ 84,973,771**	**$ 145,723,945**	**$ 9,207,639**	**$ 239,905,355**
December 31, 2020				
Allowance for loan losses				
Individually evaluated for impairment	$ 247,355	$ 167,645	$ 36,800	$ 451,800
Collectively evaluated for impairment	359,570	1,076,063	40,484	1,476,117
Ending allowance balance attributable to loans	$ 606,925	$ 1,243,708	$ 77,284	$ 1,927,917
Loan balances:				
Individually evaluated for impairment	$ 594,811	$ 261,953	$ 41,009	$ 897,773
Collectively evaluated for impairment	92,031,878	140,344,574	10,329,140	242,705,592
Total ending loan balances	$ 92,626,689	$ 140,606,527	$ 10,370,149	$ 243,603,365

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2021 and 2020:

December 31, 2021

	Unpaid Principal Balance	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Recognized**
With no related allowance recorded:						
Residential real estate						
Residential mortgages	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**
Commercial						
Real estate secured	**-**	**-**	**-**	**-**	**-**	**-**
Non-real estate secured	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**2,137**	**2,137**	**-**	**2,484**	**87**	**1**
Subtotal	**2,137**	**2,137**	**-**	**2,484**	**87**	**1**
With related allowance recorded:						
Residential real estate						
Residential mortgages	**447,936**	**447,936**	**252,315**	**377,090**	**21,798**	**1,786**
Home equity loans	**-**	**-**	**-**	**-**	**-**	**-**
Commercial						
Real estate secured	**234,456**	**234,456**	**157,685**	**243,748**	**12,352**	**688**
Non-real estate secured	**-**	**-**	**-**	**-**	**-**	**-**
Consumer	**7,265**	**7,265**	**7,265**	**7,854**	**81**	**3**
Subtotal	**689,657**	**689,657**	**417,265**	**628,692**	**34,231**	**2,477**
Total	**$ 691,794**	**$ 691,794**	**$ 417,265**	**$ 631,176**	**$ 34,318**	**$ 2,478**

NOTE 3 - LOANS (Continued)

December 31, 2020	**Unpaid Principal Balance**	**Recorded Investment**	**Allowance for Loan Losses Allocated**	**Average Recorded Investment**	**Interest Income Recognized**	**Cash Basis Interest Recognized**
With no related allowance recorded:						
Residential real estate						
Residential mortgages	$ 55,088	$ 55,088	$ -	$ 55,524	$ 3,546	$ -
Home equity loans	-	-	-	-	-	-
Commercial						
Real estate secured	-	-	-	-	-	-
Non-real estate secured	-	-	-	-	-	-
Consumer	4,209	4,209	-	5,166	414	8
Subtotal	59,297	59,297	-	60,690	3,960	8
With related allowance recorded:						
Residential real estate						
Residential mortgages	539,723	539,723	247,355	546,301	25,753	2,155
Home equity loans	-	-	-	-	-	-
Commercial						
Real estate secured	261,953	261,953	167,645	272,889	14,094	800
Non-real estate secured	-	-	-	-	-	-
Consumer	36,800	36,800	36,800	41,853	272	6
Subtotal	838,476	838,476	451,800	861,043	40,119	2,961
Total	$ 897,773	$ 897,773	$ 451,800	$ 921,733	$ 44,079	$ 2,969

The recorded investment in loans excludes accrued interest receivable and loan origination fees, net due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs.

Non-accrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in non-accrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2021 and December 31, 2020:

	2021		**2020**	
	Non-Accrual	**Loans Past Due Over 90 Days Still Accruing**	**Non-Accrual**	**Loans Past Due Over 90 Days Still Accruing**
Residential real estate				
Residential mortgages	**$ -**	**$ -**	$ -	$ -
Home equity loans	**-**	**-**	-	-
Commercial				
Real estate secured	**-**	**-**	-	-
Non-real estate secured	**-**	**-**	-	-
Municipal loans	**-**	**-**	-	-
Consumer	**-**	**500**	14,553	-
	$ -	**$ 500**	$ 14,553	$ -

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans by class of loans as of December 31, 2021 and 2020:

December 31, 2021	**30 - 89 Days Past Due**	**Greater than 89 Days Past Due**	**Total Past Due**	**Loans Not Past Due**
Residential real estate				
Residential mortgages	**$ 213,377**	**$ -**	**$ 213,377**	**$ 77,012,298**
Home equity loans	**19,629**	**-**	**19,629**	**7,728,467**
Commercial				
Real estate secured	**-**	**-**	**-**	**57,958,377**
Non-real estate secured	**-**	**-**	**-**	**27,509,392**
Municipal loans	**-**	**-**	**-**	**60,256,176**
Consumer	**11,941**	**500**	**12,441**	**9,195,198**
	$ 244,947	**$ 500**	**$ 245,447**	**$ 239,659,908**
December 31, 2020				
Residential real estate				
Residential mortgages	$ 105,958	$ -	$ 105,958	$ 83,743,518
Home equity loans	10,782	-	10,782	8,766,431
Commercial				
Real estate secured	-	-	-	58,991,447
Non-real estate secured	-	-	-	34,374,183
Municipal loans	-	-	-	47,240,897
Consumer	796	14,553	15,349	10,354,800
	$ 117,536	$ 14,553	$ 132,089	$ 243,471,276

Troubled Debt Restructurings:

The Company has allocated $417,000 and $452,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2021 and 2020. Of these reserves, $380,000 and $408,000 represent reserves on collateral dependent troubled debt restructures. The outstanding balance of such loans was $568,000 and $635,000 at year-end 2021 and 2020. The Company committed to lending no additional amounts, as of December 31, 2021 and 2020 respectively, to customers with outstanding loans that are classified as troubled debt restructurings.

The modifications of the terms of such loans included one or a combination of the following: a reduction of the stated interest rate of the loan, an extension of the maturity date at a stated rate of interest lower than the market rate for new debt with similar risk, capitalization of interest due or a nominal principal advance to enhance collectability of the debt.

Modifications involving a reduction of the stated interest rate of the loan were for periods ranging from 12 months to 30 years. Modifications involving an extension of the maturity date were for periods ranging from 12 months to 30 years.

During 2021, there were no loans that were modified. During 2020, 1 consumer loan was modified. The pre-modification outstanding recorded investment on this modified loan was $3,000 and the post-modification outstanding recorded investment was $3,000. This troubled debt restructuring increased the allowance for loan losses by $0 and resulted in a charge-off of $0 during the year ending December 31, 2020

There were no troubled debt restructurings in payment default within twelve months following the modification during the year ending December 31, 2021 or December 31, 2020. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

NOTE 3 - LOANS (Continued)

Coronavirus Pandemic Response:

During 2020, the coronavirus outbreak resulted in widespread business and social disruption. In March 2020, this outbreak was declared a National Emergency by the United States federal government. Actions during 2020 included restrictions on business operations and even the closure of certain businesses.

The response to this matter and the economic disruption it had on our customers and their businesses had significant impact on us and our operations in 2020 and 2021, in particular, on our loan portfolios and the provision for loan losses, including:

- Increased provisions for loan losses and a notable increase in our allowance for loan losses at year-end 2020 as we expected credit losses had been incurred that had not yet been identified.
- The U.S. Treasury established a Paycheck Protection Loan Program (PPP) working through the Small Business Administration (SBA). Through this program, SBA guaranteed loans were extended to qualifying customers which, if used in accordance with PPP program requirements, will be forgiven and repaid by the SBA. During 2020, we originated approximately $34 million of PPP loans. At year-end 2020, approximately $18 million remained outstanding with the balance having been forgiven and repaid. During 2021, we originated an additional $21 million of PPP loans. At year-end 2021, approximately $8 million total PPP loans remained oustanding with the balance having been forgiven and repaid. These loans are included in non real-estate secured commercial loans in our loan footnote.
- In March 2020, banking regulatory agencies issued guidance which provided that short-term loan modifications granted to customers impacted by the Pandemic were not to be considered as Troubled Debt Restructurings (TDRs), as defined previously, nor designated as impaired. Also, in March 2020, the U.S. Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act which provided a statutory suspension of Generally Accepted Accounting Principles (GAAP) as it relates to the application of TDR accounting. This suspension was to remain available until the earlier of 60 days after the national emergency declared in March was terminated or December 31, 2020. This CARES Act relief has now been extended until January 1, 2022. Pursuant to this relief, during 2021 and 2020, the Bank modified the terms of customers' loans including providing for a deferral of payments and/or providing interest only payments. These loan modifications were not considered to be TDRs following that guidance. During 2021, the bank granted loan modifications to 2 customers whose principal balances were approximately $15,000 at year-end. At year-end none of these loans were still in deferred status. During 2020, there were 115 customers that were granted loan modifications whose principal balances were approximately $12 million at year-end. At year-end 2020, 4 of these loans with an outstanding balance of approximately $2 million remained in deferred status.

The long-term impact to our results of operations and financial position cannot be reasonably estimated at this time. The extent of the full economic impact of the coronavirus will depend on future developments, which are highly uncertain and cannot be predicted, including new information that may emerge concerning the severity of the virus's spread, the effectiveness of vaccines and vaccination programs and the actions required to contain it or treat its impacts.

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes credit relationships with an outstanding balance greater than $150,000 and non-homogeneous loans, such as commercial and commercial real estate loans. This analysis is performed annually, at renewals, and when new information on a credit is learned. The Company uses the following definitions for risk ratings:

Special Mention: Loans classified as special mention are included on the watch list, have identifiable weaknesses. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date. Special Mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Not rated loans that are past due 30-89 days are also included in this category.

Substandard: Loans classified as substandard are considered very high risk, included on watch list, have well-defined weaknesses, normal repayment is in jeopardy and they are reviewed quarterly for impairment. Not rated loans that are more than 89 days past due are included in this category.

Impaired Non-Accrual: Loans classified as impaired non-accrual are very high risk and are in non-accrual status. These loans have significant weaknesses making full collection of interest unlikely.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as impaired non-accrual, plus significant weaknesses making full collection through payment or liquidation questionable and improbable. The bank had no doubtful loans in 2021 and 2020.

Loans not meeting the criteria above, that are analyzed individually as part of the above described process, are considered to be pass rated loans. Municipal loans are primarily short-moderate term loans to municipalities related to maintenance or improvement projects that are funded by approved special tax assessments. The Company reviews updated financial information on long-term issues periodically. Groups of homogeneous loans and municipal loans are not rated and are listed as pass.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows:

December 31, 2021	Pass	Special Mention	Substandard	Impaired Non-Accrual	Total
Residential real estate					
Residential mortgages	$ 76,564,362	$ 661,313	$ -	$ -	$ 77,225,675
Home equity loans	7,728,467	19,629	-	-	7,748,096
Commercial					
Real estate secured	57,159,868	564,053	234,456	-	57,958,377
Non-real estate secured	27,185,396	323,996	-	-	27,509,392
Municipal loans	60,256,176	-	-	-	60,256,176
Consumer	9,185,796	21,343	500	-	9,207,639
Total	$ 238,080,065	$ 1,590,334	$ 234,956	$ -	$ 239,905,355

December 31, 2020	Pass	Special Mention	Substandard	Impaired Non-Accrual	Total
Residential real estate					
Residential mortgages	$ 83,226,067	$ 623,409	$ -	$ -	$ 83,849,476
Home equity loans	8,689,071	88,142	-	-	8,777,213
Commercial					
Real estate secured	55,447,353	3,282,141	261,953	-	58,991,447
Non-real estate secured	33,750,707	595,505	27,971	-	34,374,183
Municipal loans	47,240,897	-	-	-	47,240,897
Consumer	10,313,792	41,804	-	14,553	10,370,149
Total	$ 238,667,887	$ 4,631,001	$ 289,924	$ 14,553	$ 243,603,365

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	2021	2020
Land	**$ 1,368,875**	$ 1,785,136
Buildings	**10,098,065**	9,979,099
Furniture and equipment	**4,271,949**	4,160,526
	15,738,889	15,924,761
Less: Accumulated depreciation	**(8,182,206)**	(7,721,436)
	$ 7,556,683	$ 8,203,325

NOTE 5 - DEPOSITS

Time deposits of $250,000 or more were $2,957,000 and $4,535,000 at year-end 2021 and 2020, respectively. Scheduled maturities of all time deposits for the next five years and thereafter are as follows:

2022	$ 17,389,484
2023	6,295,066
2024	1,030,179
2025	464,184
2026	239,213
Thereafter	14,173

The Company held deposits of approximately $3,060,000 and $3,195,000 for related parties at December 31, 2021 and 2020, respectively.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were $24,000,000 and $24,000,000 at year-end 2021 and 2020, respectively. The weighted average fixed interest rate of outstanding advances was 1.92% and 1.92% at year-end 2021 and 2020, respectively.

Advances are payable at maturity dates, or prior with penalty for prepayment. The advances were collateralized by $61,674,000 and $68,297,000 of first mortgage loans under a blanket lien arrangement at year-end 2021 and 2020, respectively.

Scheduled maturities and required payments over the next five years and thereafter:

2022	$ 5,000,000
2023	-
2024	-
2025	-
2026	7,000,000
Thereafter	12,000,000

$12,000,000 of advances are “Putable” advances which provide the Federal Home Loan Bank (“FHLB”) the option to convert the entire advance to an Adjustable Rate Advance at certain dates beginning in 2023. The advances are fixed rate advances until that time. If the FHLB exercises its option, the Company may pay off the advance without penalty. These advances have final maturity dates in 2028 and 2029.

The Company's Federal Home Loan Bank Overdraft Line of Credit had a balance of $0 at year-end 2021 and 2020.

NOTE 7 - RETIREMENT PLAN

The Bank sponsors a 401(k) savings plan that allows eligible employees to contribute a percentage of their annual compensation. The Bank matches a portion of the participant's contribution, up to plan-specified maximums. The Bank contributed $76,000 and $78,000 to the plan during 2021 and 2020, respectively. The Bank may also elect to make a profit-sharing contribution to the Plan.

Additionally, retirement benefits are provided to substantially all employees under a discretionary profit-sharing and employee stock ownership plan (ESOP). The Bank recognized expense of $220,000 and $265,000 during 2021 and 2020, respectively, related to the profit-sharing plan, which includes contributions to the ESOP of $130,000 and $165,000 in 2021 and 2020, respectively.

NOTE 8 - FEDERAL INCOME TAXES

The provision for income taxes is summarized as follows:

	Year ended December 31 2021	2020
Current	$ **281,000**	$ 398,000
Deferred	**(127,000)**	(237,000)
	$ **154,000**	$ 161,000

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Bank's deferred tax assets and liabilities are as follows:

	December 31 2021	2020
Deferred income tax assets:		
Allowance for loan losses in excess of deductible amounts	$ **371,000**	$ 340,000
Post retirement benefits	**16,000**	23,000
Accrued liabilities	**172,000**	130,000
Deferred Loan Fees	**160,000**	79,000
Other	**2,000**	2,000
	721,000	574,000
Deferred income tax liabilities:		
Prepaid expenses	**(63,000)**	(56,000)
Book-tax basis differences on property and equipment	**(393,000)**	(382,000)
Unrealized gains on securities	**(127,000)**	(401,000)
Mortgage servicing rights	**(76,000)**	(74,000)
Other	**(23,000)**	(23,000)
	(682,000)	(936,000)
Net deferred income tax assets/(liabilities)	$ **39,000**	$ (362,000)

At December 31, 2021 and December 31, 2020 there were no unrecognized tax benefits recorded. The Bank does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. There were no interest or penalties recorded during 2021 or 2020. The Company is subject to U.S. federal income tax and is no longer subject to examination by taxing authorities for years before 2017.

At December 31, 2019, the Company had $1,117,000 of alternative minimum tax credit (AMTC) carryforwards which were included in accrued interest receivable and other assets on the consolidated balance sheet. During 2020, the Company received a full refund of their AMTC carryforwards. In 2019, the Company generated a net operating loss of $152,000, which had an unlimited carryforward period. The Company was able to fully utilize this carryforward in 2020.

A reconciliation of the difference between federal income taxes and the amount computed by applying the statutory rate are as follows:

	Year ended December 31 2021	2020
Taxes at statutory rate	$ **528,000**	$ 602,000
Effect of tax-exempt interest	**(351,000)**	(329,000)
Effect of BOLI income	**(34,000)**	(115,000)
Other	**11,000**	3,000
	$ **154,000**	$ 161,000

NOTE 9 - LOAN COMMITMENTS AND STANDBY LETTERS OF CREDIT

Some financial instruments, such as loan commitments, credit lines, letters of credit, and overdraft protection, are issued to meet customer financing needs. These are agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, and usually have expiration dates. Commitments may expire without being used. Off-balance sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

At December 31, 2021 and 2020, the Bank had commitments to fund loans to customers and available unused lines of credit of $19,870,000 and $19,195,000, respectively. Commitments under outstanding standby letters of credit amounted to $728,000 and $728,000 at December 31, 2021 and 2020, respectively.

NOTE 10 – REGULATORY MATTERS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective 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 capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became fully effective for the Bank on January 1, 2019. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. The table below presents capital adequacy information including the 2.50% capital conservation buffer. Management believes, as of December 31, 2021 and December 31 2020, 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. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2021 and 2020, 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 institution's category.

Actual and required capital amounts (000's omitted) and ratios at year-end are presented below:

	Actual		Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Total capital to risk-weighted assets:	**$ 36,930**	**17.63%**	**$ 21,989**	**10.50%**	**$ 20,942**	**10.00%**
Tier 1 (Core) Capital to risk-weighted assets:	**34,855**	**16.64**	**17,801**	**8.50**	**16,754**	**8.00**
Common Tier 1 to risk-weighted assets (CET1):	**34,855**	**16.64**	**14,660**	**7.00**	**13,612**	**6.50**
Tier 1 (Core) Capital to average assets:	**34,855**	**7.68**	**18,148**	**4.00**	**22,685**	**5.00**
2020						
Total capital to risk-weighted assets:	$ 36,154	18.54%	$ 20,472	10.50%	$ 19,497	10.00%
Tier 1 (Core) Capital to risk-weighted assets:	34,226	17.55	16,572	8.50	15,598	8.00
Common Tier 1 to risk-weighted assets (CET1):	34,226	17.55	13,648	7.00	12,673	6.50
Tier 1 (Core) Capital to average assets:	34,226	8.81	25,242	4.00	19,417	5.00

NOTE 11 - FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Securities: The fair value for securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3). Discounted cash flows are calculated using spread to swap and Treasury curves that are updated to incorporate loss severities, volatility, credit spread and optionality. During times when trading is more liquid, broker quotes are used (if available) to validate the model. Rating agency and industry research reports as well as defaults and deferrals on individual securities are reviewed and incorporated into the calculations. The Company had no securities designated as Level 3 securities at year-end 2021 and 2020.

Impaired Loans: The fair value of collateral dependent impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate valuations. These valuations may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate valuations which are updated no less frequently than annually. These valuations may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Real estate owned properties are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Valuations for both collateral dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties), certified residential appraisers, state licensed appraisers or licensed realtors (for residential properties) whose qualifications and licenses have been reviewed and verified by the Company. Once received, an administrator level or higher reviews the assumptions and approaches utilized in the valuation as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry-wide statistics. On an annual basis, the Company compares the actual selling price of collateral that has been sold to the most recent valuation to determine what additional adjustment should be made to the valuation to arrive at fair value. The most recent analysis performed indicated that a discount of 20% should be applied.

NOTE 11 - FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis are summarized below:

Fair Value Measurements at December 31 using:

2021	Carrying Value	Level 1	Level 2	Level 3
U.S. Govt and federal agency	$ 11,813,515	$ 1,069,375	$ 10,744,140	$ -
State and municipal	51,090,832	-	51,090,832	-
Mortgage-backed, residential	10,351,104	-	10,351,104	-
Corporate	10,580,042	-	10,580,042	-
Certificate of Deposit	1,231,788	-	1,231,788	-
Available-for-sale securities	$ 85,067,281	$ 1,069,375	$ 83,997,906	$ -

2020	Carrying Value	Level 1	Level 2	Level 3
U.S. Govt and federal agency	$ 9,968,903	$ -	$ 9,968,903	$ -
State and municipal	35,299,047	-	35,299,047	-
Mortgage-backed, residential	13,330,747	-	13,330,747	-
Corporate	3,058,051	-	3,058,051	-
Asset-backed securities	-	-	-	-
Available-for-sale securities	$ 61,656,748	$ -	$ 61,656,748	$ -

Assets measured at fair value on a non-recurring basis are summarized below:

December 31, 2021	Level 1	Level 2	Level 3
Impaired Loans			
Residential mortgages	$ -	$ -	$ 133,180
Commercial			
Real estate secured	-	-	54,834
Non-real estate secured	-	-	-
Total impaired loans	-	-	188,014
Other Real Estate Owned			
Commercial real estate	-	-	-
Total impaired loans / other real estate owned	$ -	$ -	$ 188,014

NOTE 11 - FAIR VALUE (Continued)

December 31, 2020	Level 1	Level 2	Level 3
Impaired Loans			
Residential mortgages	$ -	$ -	$ 132,262
Commercial			
Real estate secured	-	-	94,308
Non-real estate secured	-	-	-
Total impaired loans	-	-	226,570
Other Real Estate Owned			
Commercial real estate	-	-	-
Total impaired loans / other real estate owned	$ -	$ -	$ 226,570

As discussed previously, the fair values of impaired loans carried at fair value are determined by third party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal. Quantitative information about level 3 fair value measurements is presented if there are large or complex classes of financial instruments measured at fair value on a non-recurring basis. No such information is deemed significant for 2021 or 2020.

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral dependent loans, a level 3 value, had a carrying amount of $568,000 prior to a valuation allowance of $380,000 at December 31, 2021, resulting in a reduction of allocation for loan losses of $0 for the year ending December 31, 2021. At December 31, 2020, impaired loans had a carrying amount of $635,000, prior to a valuation allowance of $408,000, resulting in a reduction of allocation for loan losses of $12,000 for the year ending December 31, 2020.

NOTE 11 - FAIR VALUE (Continued)

The methods and assumptions, not previously presented, used to estimate fair value are described as follows:

Carrying amount is the estimated fair value for cash and cash equivalents, interest-bearing deposits, short-term borrowings and accrued interest receivable and payable. The methods for determining the fair values for securities were described previously. For fixed and variable rate loans, fair value is based upon the exit price notion where projected cash flows are discounted using interest rates and credit adjustments from a market participants' perspective. For interest-bearing deposits and for deposits with infrequent repricing or repricing limits, fair value is based on discounted cash flows using current market rates applied to the estimated life. Fair value of debt is based on current rates for similar financing. The fair value of off-balance sheet items is not considered material.

The carrying amounts, estimated fair values of financial instruments and fair value level are summarized as follows:

		2021		2020	
	Fair Value Level	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:					
Cash and cash equivalents	1	**$ 113,237,586**	**$ 113,238,000**	$ 63,645,439	$ 63,645,000
Interest-bearing deposits	2	**6,947,000**	**7,024,000**	9,674,000	10,083,000
Securities - available-for-sale	2	**85,067,281**	**85,067,000**	61,656,748	61,657,000
Federal Home Loan Bank stock	3	**1,580,800**	**1,581,000**	1,580,800	1,581,000
Loans, net	3	**237,830,734**	**237,363,000**	241,675,448	243,063,000
Accrued interest receivable	2	**1,548,712**	**1,549,000**	1,478,010	1,478,000
Liabilities:					
Deposits (Non Time Deposits)	1	**$ 375,412,440**	**$ 375,412,000**	$ 303,968,770	$ 303,969,000
Time Deposits	2	**25,432,299**	**25,494,000**	29,637,098	29,750,000
Federal Home Loan Bank advances	2	**24,000,000**	**24,517,000**	24,000,000	25,479,000
Accrued interest payable	2	**42,809**	**43,000**	94,955	95,000

THIS PAGE INTENTIONALLY LEFT BLANK

highpoint
COMMUNITY BANK

150 West Court Street | Hastings, Michigan 49058
269-945-2401 | Toll-Free 888-422-2280
highpointcommunitybank.com

Follow us