HCB Financial Corp.

2022 ANNUAL REPORT

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To our shareholders

From the desk of Mark A. Kolanowski

On behalf of our directors and officers, it is my pleasure to present to you the HCB Financial Corp. 2022 Annual Report. To summarize the year for you, I would say we executed extremely well in terms of our strategic objectives. We made significant investments to benefit the bank in the future and produced what has turned out to be the best financial outcome that we have seen in our 136-year history. For the twelve months ended December 31, 2022, net income was $3,062,536 or $2.95 per common share. This equates to a 30 percent improvement over our 2021 earnings of $2,360,364 or $2.24 per share.

As you will see in reviewing our financial highlights, we achieved record balance sheet levels in assets, deposits and loans in 2022. During the year, total assets increased 2% to $472,144,492. Total deposits rose 4% to $418,738,791 and net loans increased by 31% to $311,223,552. Shareholders' equity had a year-end balance of $32,917,878, which is a 7% decrease from the prior year-end. This was due to an unrealized loss reflected in the mark-to-market adjustment on our available for sale securities portfolio.

The main reason for our record performance this past year can be attributed to a 16% or $1,790,946 improvement in our net interest income after provision for loan losses. Rapidly rising interest rates on our excess liquidity from deposit growth produced significant income from our federal funds account. This was a welcomed, but short term boost to our bottom line. Helping significantly in the long term will be the loan growth that occurred throughout the year. This growth was driven primarily from the establishment of a loan production office in Kalamazoo and expanding our commercial loan presence in Kent County. While the growth is clearly reflected on our balance sheet for year-end 2022, we expect to see the full effect of our success from these markets on the income statement in years to come.

Along with the aforementioned expansion into new markets, we further invested in our future by adding and promoting talented leaders to our team. While we have heard about the difficulty most businesses have faced attracting and retaining talented workers throughout the year, we have experienced great success in building our team. I'm excited to share with you some of the recent leadership developments that have taken place at HCB.

In September we announced the addition of Nathan E. Tagg and Chad R. Paalman to the board of directors for both Highpoint Community Bank and HCB Financial Corp. Nathan and Chad are filling vacancies created by the retirements of Archie A. Warner in December 2021 and James H. Fisher this past December. Nathan is an attorney with Tripp, Tagg, and Storrs Attorneys at Law. He has practiced in numerous counties throughout the State of Michigan in areas including estate planning, estate administration, business law, contracts, and succession planning. Chad is the CEO and co-founder of NuWave Technology Partners with offices in Grand Rapids and Kalamazoo. Additionally, he is the co-founder of Prescott, a governance, compliance, and risk management firm where he also serves on the board of directors.

We had several talented bankers join our officer team during the course of the year. In January, Eric D. Drogosch joined us as Assistant Vice President, Business Development Officer. Eric has a Bachelor of Arts in Economics & Management from Albion College and has worked in the West Michigan banking industry since 2011. In April, Lanny L. Scoby joined us as Senior Vice President, Market President-Kalamazoo Region, along with Scott J. McAllister as Vice President, Credit Manager. Lanny has a Bachelor of Science in Business Administration from Central Michigan University. He has over 30 years of banking experience in a variety of roles, giving him a broad scope of knowledge. Scott has both a Bachelor of Business Administration and a Master of Business Administration from Grand Valley State University. Scott has over 20 years of experience in credit administration in both the banking and retail sectors. In May Jeffrey R. Steeby joined us as Senior Vice President, Wealth Management. Jeff has a Bachelor of Business Administration from Western Michigan University and a Master of Business Administration from Wayne State University. Jeff is a CERTIFIED FINANCIAL PLANNER™ professional and brings over 30 years of trust and investment/wealth management experience to our team.

Finally, we had the pleasure of announcing several promotions from within our already talented team. In February, Khaja (Jay) Ahmed was promoted to Senior Vice President and Market President-Kent County. Jay started his HCB career as a Credit Department Manager in March 2013 after several years of prior management and financial services experience. He was promoted to Assistant Vice President in January 2014, Vice President in January 2015, and Senior Vice President in 2021. Timothy S. Tierney was elevated to Executive Vice President, Retail Banking. Tim joined the HCB Team in June 2021 as our Senior Vice President, Retail Banking. Tim supports all aspects of the bank's strategic initiatives for retail banking including branch administration, branch/retail operations, product development, consumer lending and marketing. Rebecca L. Mead was named Assistant Vice President, Cash Management. Becky started with HCB as a part-time Teller in September 2012. She was promoted to a full-time Customer Service Specialist in 2014, Management Trainee in 2015, Hastings Branch Manager in 2018 and Cash Management Officer in 2019. Becky was recently honored as the 2022 recipient of the Community Bankers of Michigan Rising Star Award. Emily L. Lambert was promoted to Commercial Processing/Loss Mitigation Officer. Emily started with HCB as a part-time Teller in Hastings in July 2001. She has worked both on the retail and operations side of the bank in various roles before taking on her new responsibilities. These latter three promotions were announced in December and effective January 1st of this year.

Our Annual Meeting will be held on Wednesday, April 19, 2023 at 1:00 p.m. in the Main Office of Highpoint Community Bank. Whether you are able to attend or not, please complete and return the enclosed proxy in advance of the meeting. This will allow us to tally the votes prior to the meeting and proceed without undue delay. Our directors, officers and I look forward to seeing as many of you there as possible.

Yours truly,

Mark A. Kolanowski

Mark A. Kolanowski
President and Chief Executive Officer

Financial Highlights

AT YEAR-END	2022	2021	% CHANGE
Assets	$472,144	$461,810	2%
Deposits	$418,739	$400,845	4%
Loans, net	$311,224	$237,831	31%
Investments	$98,706	$93,595	5%
Stockholder's Equity	$32,918	$35,358	-7%

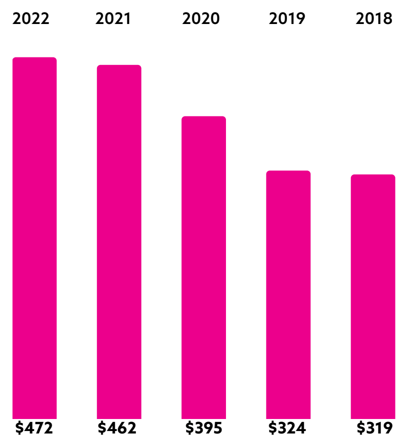
FOR THE YEAR	2022	2021	% CHANGE
Net income	$3,063	$2,360	30%
Return on average assets	0.64%	0.54%	18%
Return on average equity	9.18%	6.56%	40%
Net charge-offs to avg loans	0.00%	0.00%	0%

PER SHARE	2022	2021	% CHANGE
Dividends per share	$0.91	$0.86	6%
Net income per share	2.95	2.24	32%
Book value at year end	31.76	34.11	-7%

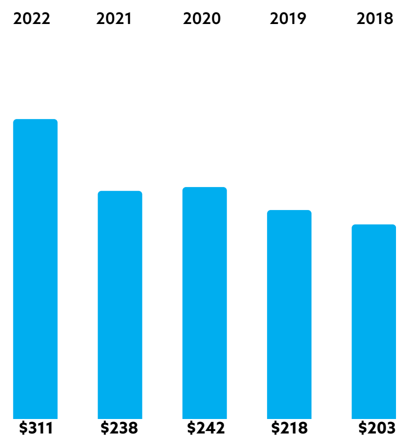
Dollar amounts in thousands, except per-share data.

Key Graphs

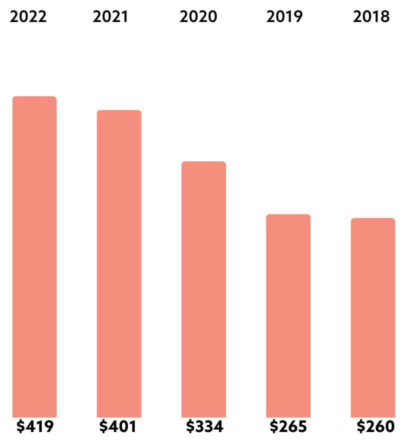
TOTAL ASSETS (MILLIONS)



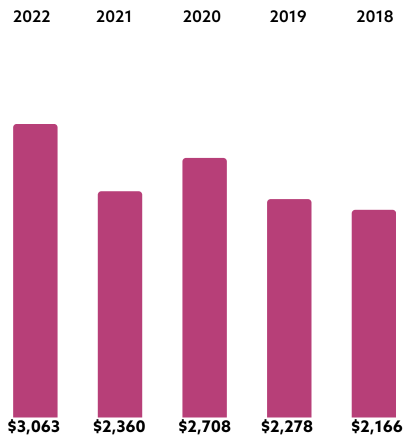
NET LOANS (MILLIONS)



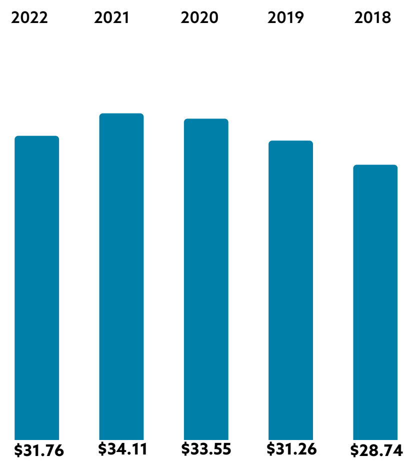
TOTAL DEPOSITS (MILLIONS)



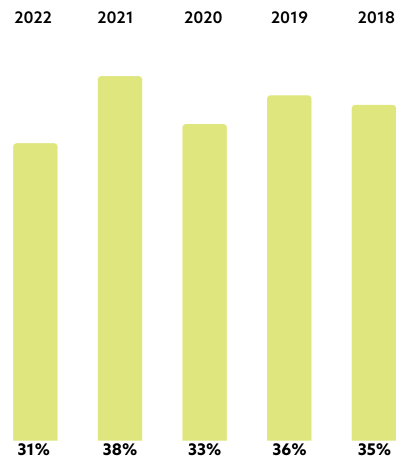
EARNINGS (THOUSANDS)



BOOK VALUE (PER SHARE, IN DOLLARS)



DIVIDEND PAYOUT RATIO



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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 sheet as of December 31, 2022 and 2021 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 Audits of the 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 Audits 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 audits 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 audits in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 financial statements.
- Obtain an understanding of internal control relevant to the audits 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

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 15, 2023

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HCB Financial Corp.
Consolidated Balance Sheets
December 31, 2022 and 2021

		2022		2021
Assets				
Cash and cash equivalents	**$**	**44,453,796**	$	113,237,586
Interest-bearing time deposits in other financial institutions		**4,465,000**		6,947,000
Securities available-for-sale		**92,729,412**		85,067,281
Restricted investment in Federal Home Loan Bank stock		**1,512,100**		1,580,800
Loans, net of allowance of $2,153,266 at 2022 and $2,074,621 at 2021		**311,223,552**		237,830,734
Premises and equipment, net		**6,800,670**		7,556,683
Other real estate owned, net		**277,074**		266,261
Bank owned life insurance		**6,944,051**		6,779,812
Accrued interest receivable and other assets		**3,738,837**		2,544,143
Total assets	**$**	**472,144,492**	$	461,810,300
Liabilities and Stockholders' Equity				
Liabilities:				
Deposits:				
Non-interest-bearing	**$**	**98,599,623**	$	86,527,888
Interest-bearing		**320,139,168**		314,316,851
		418,738,791		400,844,739
Federal Home Loan Bank advances		**19,000,000**		24,000,000
Accrued interest payable and other liabilities		**1,487,823**		1,607,862
Total liabilities		**439,226,614**		426,452,601
Stockholders' equity:				
Common stock, no par value - 1,500,000 shares authorized; issued and outstanding of 1,036,600 in 2022 and 2021		**1,579,112**		1,579,112
Capital surplus		**2,529,905**		2,529,905
Retained earnings		**32,891,673**		30,772,443
Accumulated other comprehensive (loss)/income		**(4,082,812)**		476,239
Total stockholders' equity		**32,917,878**		35,357,699
Total liabilities and stockholders' equity	**$**	**472,144,492**	$	461,810,300

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Income
Years ended December 31, 2022 and 2021

	2022	2021
Interest income		
Loans, including fees	**$ 10,738,225**	$ 10,829,940
Investment securities:		
Taxable	**905,657**	750,403
Tax-exempt	**885,239**	457,928
Federal funds sold and other	**1,541,248**	296,829
	14,070,369	12,335,100
Interest expense		
Deposits	**639,923**	608,655
Federal Home Loan Bank advances	**460,356**	467,301
	1,100,279	1,075,956
Net interest income	**12,970,090**	11,259,144
Provision for loan losses	**70,000**	150,000
Net interest income after provision for loan losses	**12,900,090**	11,109,144
Other income		
Service charges and fees	**1,671,478**	1,606,912
Wealth management income	**621,320**	544,842
Net loss on securities	**-**	(695)
Net gain on sale of loans	**87,250**	505,292
Earnings from bank owned life insurance	**164,239**	162,095
Other income	**225,233**	281,863
	2,769,520	3,100,309
Other expenses		
Salaries and employee benefits	**6,896,469**	6,406,942
Occupancy and equipment	**1,536,545**	1,458,422
Data processing	**2,149,851**	1,986,386
Professional fees	**536,600**	486,461
FDIC Insurance	**132,000**	111,400
Other operating expenses	**1,145,609**	1,245,478
	12,397,074	11,695,089
Income before federal income taxes	**3,272,536**	2,514,364
Federal income taxes	**210,000**	154,000
Net income	**$ 3,062,536**	$ 2,360,364
Basic and Diluted earnings per share	**$ 2.95**	$ 2.24

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Comprehensive Income
Years ended December 31, 2022 and 2021

		2022		2021
Net income	**$**	**3,062,536**	$	2,360,364
Available-for-sale securities				
Unrealized holding losses arising during the year		**(5,770,950)**		(1,305,113)
Reclassification adjustment for net realized losses included in net income (A)		**-**		695
Other comprehensive loss before income tax		**(5,770,950)**		(1,304,418)
Income tax benefit related to other comprehensive loss (B)		**1,211,899**		273,928
Other comprehensive loss		**(4,559,051)**		(1,030,490)
Comprehensive Income/(Loss)	**$**	**(1,496,515)**	$	1,329,874

(A) - Included in net loss on securities

(B) - Federal Income Tax benefit in 2022 and 2021 includes $0 and $146 related to reclassification adjustments

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Stockholders' Equity
Years Ended December 31, 2022 and 2021

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2021	$ 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 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
Net income	**-**	**-**	**3,062,536**	**-**	**3,062,536**
Stock repurchase	**-**	**-**	**-**	**-**	**-**
Other comprehensive loss	**-**	**-**	**-**	**(4,559,051)**	**(4,559,051)**
Dividends declared - $.91 per share	**-**	**-**	**(943,306)**	**-**	**(943,306)**
Balance at December 31, 2022	**$ 1,579,112**	**$ 2,529,905**	**$ 32,891,673**	**$ (4,082,812)**	**$ 32,917,878**

See accompanying notes

HCB Financial Corp.
Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021

	2022	2021
Cash flows from operating activities		
Net income	$ 3,062,536	$ 2,360,364
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	70,000	150,000
Depreciation	690,025	691,372
Net amortization of securities	268,808	280,494
Earnings on bank owned life insurance, net	(164,239)	(162,095)
Loans originated for sale	(3,243,200)	(13,150,025)
Proceeds from sale of loans	3,330,450	13,655,317
Net gain on sale of loans	(87,250)	(505,292)
Net loss on securities	-	695
Net loss on disposal of assets	5,444	105
Net loss on transfer of property to other real estate owned	59,000	-
Net change in:		
Accrued interest receivable and other assets	283,467	(264,522)
Accrued interest payable and other liabilities	(171,870)	(24,453)
Net cash from operating activities	4,103,171	3,031,960
Cash flows for investing activities		
Net change in interest-bearing deposits in other financial institutions	2,482,000	2,727,000
Activity in available-for-sale securities:		
Sales	-	1,027,800
Maturities, prepayments, calls	15,537,564	11,993,021
Purchases	(29,239,453)	(38,016,961)
Net change in FHLB Stock	68,700	-
Loan originations and payments, net	(73,462,818)	3,694,714
Purchases of premises and equipment, net	(275,530)	(461,096)
Proceeds from sales of assets	-	150,000
Net cash for investing activities	(84,889,537)	(18,885,522)
Cash flows from financing activities		
Net change in deposits	17,894,052	67,238,871
Repayments of Federal Home Loan Bank advances	(5,000,000)	-
Common stock repurchased	-	(828,688)
Cash dividends paid	(891,476)	(964,474)
Net cash from financing activities	12,002,576	65,445,709
Net change in cash and cash equivalents	(68,783,790)	49,592,147
Cash and cash equivalents at beginning of year	113,237,586	63,645,439
Cash and cash equivalents at end of year	$ 44,453,796	$ 113,237,586
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 1,111,649	$ 1,128,102
Cash paid for income taxes	342,300	445,000
Supplemental non-cash disclosures		
Dividends declared and not paid	$ 352,444	$ 300,614
Transfer of bank premises to other real estate owned	336,073	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 six full-service banking offices and one loan production office 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 15, 2023, 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 $496,000 maturing within 1 year, $3,969,000 maturing within 2-5 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. The capital stock is carried at cost and evaluated for impairment on an annual basis.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) 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,

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

estimated net servicing revenues. Impairment is evaluated based on the fair value of the assets, using 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 $122,000 and $121,000 for the years ended December 31, 2022 and 2021, 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 2022, the plan provided benefits to 8 participants. At year-end 2022 and 2021, the accrued benefit obligation recognized in the consolidated balance sheet was $78,000 and $73,000, 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 1,036,600 and 1,052,387 for year-end 2022 and 2021. There were no potentially dilutive common stock equivalents for 2022 or 2021.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, which is also recognized as a 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.

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.

Litigation: From time to time, we may be involved in various legal proceedings that are incidental to our business. In the opinion of management, we are not a party to any legal proceedings that are material to our financial condition, either individually or in the aggregate.

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

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Govt and federal agency	$ 13,656,906	$ -	$ 991,549	$ 12,665,357
State and municipal	60,414,816	156,699	2,539,925	58,031,590
Mortgage-backed, residential	11,494,704	3,471	761,685	10,736,490
Corporate	9,606,101	-	868,560	8,737,541
Certificates of Deposit	2,725,000	-	166,566	2,558,434
Total	$ 97,897,527	$ 160,170	$ 5,328,285	$ 92,729,412
2021				
U.S. Government 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

The fair value of debt securities and carrying amount, if different, at year-end 2022 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	$ 16,656,400	$ 16,527,845
Due after one through five years	47,659,841	44,880,490
Due after five through ten years	17,666,982	16,172,429
Due after ten years	4,419,600	4,412,158
Mortgage-backed, residential	11,494,704	10,736,490
	$ 97,897,527	$ 92,729,412

NOTE 2 - SECURITIES (Continued)

Securities pledged at year-end 2022 and 2021 had a carrying amount of $7,893,000 and $4,591,000 respectively, and were pledged to secure public deposits and other purposes as required or permitted by law.

Securities with unrealized losses at year-end 2022 and 2021, 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	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
2022						
U.S. Govt. and federal agency	**$ 4,942,908**	**$ 154,529**	**$ 7,722,449**	**$ 837,020**	**$ 12,665,357**	**$ 991,549**
State and municipal	**31,894,677**	**720,592**	**17,302,373**	**1,819,333**	**49,197,050**	**2,539,925**
Mortgage-backed, residential	**5,234,177**	**185,972**	**5,107,170**	**575,713**	**10,341,347**	**761,685**
Corporate	**1,998,265**	**201,389**	**6,739,276**	**667,171**	**8,737,541**	**868,560**
Certificates of Deposit	**1,445,855**	**36,145**	**1,112,579**	**130,421**	**2,558,434**	**166,566**
	$ 45,515,882	**$ 1,298,627**	**$ 37,983,847**	**$ 4,029,658**	**$ 83,499,729**	**$ 5,328,285**
2021						
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

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:

	2022	2021
Proceeds	**$ -**	$ 1,027,800
Gross gains	**-**	-
Gross losses	**-**	(864)

In 2021, two securities were called resulting in a gain of $169.

NOTE 3 - LOANS

Loans at year-end were as follows:

	2022	2021
Residential real estate:		
Residential mortgages	**$ 73,283,155**	$ 77,225,675
Home equity loans	**7,694,069**	7,748,096
Commercial:		
Real estate secured	**123,765,835**	57,958,377
Non-real estate secured	**23,399,829**	27,509,392
Municipal loans	**75,727,007**	60,256,176
Consumer	**9,506,923**	9,207,639
Subtotal	**313,376,818**	239,905,355
Allowance for loan losses	**(2,153,266)**	(2,074,621)
	$ 311,223,552	$ 237,830,734

Mortgage loans serviced for others are not reported as assets. Such loans aggregated to $46,800,000 and $49,249,000 at year-end 2022 and 2021, respectively. Mortgage loans originated for sale, but not yet delivered are included in residential mortgages and were $0 and $580,000 at year-end 2022 and 2021. Capitalized mortgage servicing rights were $322,000 and $358,000 at year-end 2022 and 2021, respectively and are 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 2022 and 2021. The outstanding loan balances for these persons at December 31, 2022 and 2021 amounted to $3,221,000 and $1,376,000, respectively. During 2022, new loans to these persons amounted to $329,000 and payments amounted to $62,000, compared to new loans of $100,000 and payments of $331,000 during 2021. Existing loans to new directors and executive officers in 2022 amounted to $1,578,000

Activity in the allowance for loan losses for 2022 and 2021, by portfolio segment, was as follows:

December 31, 2022	**Residential Real Estate**	**Commercial**	**Consumer**	**Total**
Allowance for loan losses:				
Beginning balance	**$ 661,560**	**$ 1,370,833**	**$ 42,228**	**$ 2,074,621**
Provision for loan losses	**(236,859)**	**326,644**	**(19,785)**	**70,000**
Loans charged-off	**-**	**-**	**(5,359)**	**(5,359)**
Recoveries	**-**	**-**	**14,004**	**14,004**
Ending balance:	**$ 424,701**	**$ 1,697,477**	**$ 31,088**	**$ 2,153,266**

December 31, 2021				
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

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, 2022 and 2021:

December 31, 2022	Residential Real Estate	Commercial	Consumer	Total
Allowance for loan losses				
Individually evaluated for impairment	$ 113,892	$ 136,108	$ 6,752	$ 256,752
Collectively evaluated for impairment	310,809	1,561,369	24,336	1,896,514
Ending allowance balance attributable to loans	$ 424,701	$ 1,697,477	$ 31,088	$ 2,153,266
Loan balances				
Individually evaluated for impairment	$ 432,804	$ 322,575	$ 6,752	$ 762,131
Collectively evaluated for impairment	80,544,420	222,570,096	9,500,171	312,614,687
Total ending loan balances	$ 80,977,224	$ 222,892,671	$ 9,506,923	$ 313,376,818
December 31, 2021				
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

The following table presents information related to impaired loans by class of loans as of and for the year ended December 31, 2022 and 2021:

December 31, 2022

	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	-	-	-	-	-	-
Subtotal	-	-	-	-	-	-
With related allowance recorded:						
Residential real estate						
Residential mortgages	432,804	432,804	113,892	438,535	21,093	1,724
Home equity loans	-	-	-	-	-	-
Commercial						
Real estate secured	322,575	322,575	136,108	333,900	19,177	1,340
Non-real estate secured	-	-	-	-	-	-
Consumer	6,752	6,752	6,752	7,843	114	5
Subtotal	762,131	762,131	256,752	780,278	40,384	3,069
Total	$ 762,131	$ 762,131	$ 256,752	$ 780,278	$ 40,384	$ 3,069

NOTE 3 - LOANS (Continued)

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

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, 2022 and December 31, 2021:

	2022		**2021**	
	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	**119,016**	**-**	-	-
Non-real estate secured	**-**	**-**	-	-
Municipal loans	**-**	**-**	-	-
Consumer	**-**	**-**	-	500
	$ 119,016	**$ -**	$ -	$ 500

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, 2022 and 2021:

December 31, 2022	30 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due
Residential real estate				
Residential mortgages	$ 18,580	$ -	$ 18,580	$ 73,264,575
Home equity loans	-	-	-	7,694,069
Commercial				
Real estate secured	-	119,016	119,016	123,646,819
Non-real estate secured	-	-	-	23,399,829
Municipal loans	-	-	-	75,727,007
Consumer	5,493	-	5,493	9,501,430
	$ 24,073	$ 119,016	$ 143,089	$ 313,233,729
December 31, 2021				
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

Troubled Debt Restructurings:

The Company has allocated $187,000 and $417,000 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021. Of these reserves, $150,000 and $380,000 represent reserves on collateral dependent troubled debt restructures. The outstanding balance of such loans was $526,000 and $568,000 at year-end 2022 and 2021. The Company committed to lending no additional amounts, as of December 31, 2022 and 2021 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 2022 and 2021, there were no loans that were modified.

There were no troubled debt restructurings in payment default within twelve months following the modification during the year ending December 31, 2022 or December 31, 2021. 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)

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 and 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 2022 and 2021.

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, 2022	Pass	Special Mention	Substandard	Impaired Non-Accrual	Total
Residential real estate					
Residential mortgages	**$ 72,831,771**	**$ 451,384**	**$ -**	**$ -**	**$ 73,283,155**
Home equity loans	**7,694,069**	**-**	**-**	**-**	**7,694,069**
Commercial					
Real estate secured	**122,975,438**	**467,822**	**203,559**	**119,016**	**123,765,835**
Non-real estate secured	**23,166,979**	**232,850**	**-**	**-**	**23,399,829**
Municipal loans	**75,727,007**	**-**	**-**	**-**	**75,727,007**
Consumer	**9,495,825**	**11,098**	**-**	**-**	**9,506,923**
Total	**$ 311,891,089**	**$ 1,163,154**	**$ 203,559**	**$ 119,016**	**$ 313,376,818**

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

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment are summarized as follows:

	2022	2021
Land	**$ 1,208,168**	$ 1,368,875
Buildings	**9,492,432**	10,098,065
Furniture and equipment	**4,307,659**	4,271,949
	15,008,259	15,738,889
Less: Accumulated depreciation	**(8,207,589)**	(8,182,206)
	$ 6,800,670	$ 7,556,683

NOTE 5 - DEPOSITS

Time deposits of $250,000 or more were $2,108,000 and $2,957,000 at year-end 2022 and 2021, respectively. Scheduled maturities of all time deposits for the next five years and thereafter are as follows:

2023	$ 16,110,978
2024	2,234,793
2025	532,127
2026	228,048
2027	925,985
Thereafter	-

The Company held deposits of approximately $2,147,000 and $3,060,000 for related parties at December 31, 2022 and 2021, respectively.

NOTE 6 - FEDERAL HOME LOAN BANK ADVANCES

Advances from the Federal Home Loan Bank were $19,000,000 and $24,000,000 at year-end 2022 and 2021, respectively. The weighted average fixed interest rate of outstanding advances was 1.77% and 1.92% at year-end 2022 and 2021, respectively.

Advances are payable at maturity dates, or prior with penalty for prepayment. The advances were collateralized by $64,946,000 and $61,674,000 of first mortgage loans under a blanket lien arrangement at year-end 2022 and 2021, respectively.

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

2023	$ -
2024	-
2025	-
2026	7,000,000
2027	-
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 2022 and 2021.

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 $89,000 and $76,000 to the plan during 2022 and 2021, 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 $250,000 and $220,000 during 2022 and 2021, respectively, related to the profit-sharing plan, which includes contributions to the ESOP of $140,000 and $130,000 in 2022 and 2021, respectively.

NOTE 8 - FEDERAL INCOME TAXES

The provision for income taxes is summarized as follows:

	Year ended December 31 2022	2021
Current	**$ 129,000**	$ 281,000
Deferred	**81,000**	(127,000)
	$ 210,000	$ 154,000

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 2022	2021
Deferred income tax assets:		
Allowance for loan losses in excess of deductible amounts	**$ 388,000**	$ 371,000
Post retirement benefits	**17,000**	16,000
Accrued liabilities	**174,000**	172,000
Deferred loan fees	**4,000**	160,000
Unrealized losses/(gains) on securities	**1,085,000**	(127,000)
Other	**2,000**	2,000
	1,670,000	594,000
Deferred income tax liabilities:		
Prepaid expenses	**(65,000)**	(63,000)
Book-tax basis differences on property and equipment	**(344,000)**	(393,000)
Mortgage servicing rights	**(68,000)**	(76,000)
Other	**(23,000)**	(23,000)
	(500,000)	(555,000)
Net deferred income tax assets	**$ 1,170,000**	$ 39,000

At December 31, 2022 and December 31, 2021 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 2022 or 2021. The Company is subject to U.S. federal income tax and is no longer subject to examination by taxing authorities for years before 2018.

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 2022	2021
Taxes at statutory rate	**$ 687,000**	$ 528,000
Effect of tax-exempt interest	**(460,000)**	(351,000)
Effect of BOLI income	**(34,000)**	(34,000)
Other	**17,000**	11,000
	$ 210,000	$ 154,000

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, 2022 and 2021, the Bank had commitments to fund loans to customers and available unused lines of credit of $23,659,000 and $19,870,000, respectively. Commitments under outstanding standby letters of credit amounted to $728,000 and $728,000 at December 31, 2022 and 2021, 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, 2022 and December 31 2021, 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 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the 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**
2022						
Total capital to risk-weighted assets:	**$ 39,121**	**13.81%**	**$ 29,738**	**10.50%**	**$ 28,322**	**10.00%**
Tier 1 (core) capital to risk-weighted assets:	**36,968**	**13.05**	**24,074**	**8.50**	**22,658**	**8.00**
Common Tier 1 to risk-weighted assets (CET1):	**36,968**	**13.05**	**19,825**	**7.00**	**18,409**	**6.50**
Tier 1 (core) capital to average assets:	**36,968**	**7.75**	**19,073**	**4.00**	**23,841**	**5.00**
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

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. Both observable and unobservable inputs may be used to determine the fair value of positions classified as Level 3 assets. As a result, the unrealized gains and losses for these assets presented in the tables within this schedule may include changes in fair value that were attributable to both observable and unobservable inputs.

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:

2022	**Carrying Value**	**Level 1**	**Level 2**	**Level 3**
U.S. Govt and federal agency	**$ 12,665,357**	**$ 1,940,625**	**$ 10,724,732**	**$ -**
State and municipal	**58,031,590**	**-**	**23,778,423**	**34,253,167**
Mortgage-backed, residential	**10,736,490**	**-**	**10,736,490**	**-**
Corporate	**8,737,541**	**-**	**8,737,541**	**-**
Certificate of Deposit	**2,558,434**	**-**	**2,558,434**	**-**
Available-for-sale securities	**$ 92,729,412**	**$ 1,940,625**	**$ 56,535,620**	**$ 34,253,167**

2021				
U.S. Govt and federal agency	$ 11,813,515	$ 1,069,375	$ 10,744,140	$ -
State and municipal	51,090,832	-	24,134,964	26,955,868
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	$ 57,042,038	$ 26,955,868

There were no realized gains or losses on the sale of Level 3 assets for the years ended December 31, 2022 or 2021, which would be reported in the net gain on sale of available-for-sale securities.

The following table shows the change in fair value of Level 3 investments for the years ending December 31, 2022 and December 31, 2021:

Change in Fair Value of Level 3 Investments:	**2022**	2021
Balance, January 1	**$ 26,955,868**	$ 14,777,562
Total realized losses included in income	**-**	(695)
Total unrealized losses included in other comprehensive income	**(1,794,576)**	(291,167)
Net purchases, sales, calls and maturities	**9,091,875**	12,470,168
Balance, December 31	**$ 34,253,167**	$ 26,955,868

NOTE 11 - FAIR VALUE (Continued)

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

December 31, 2022	**Level 1**	**Level 2**	**Level 3**
Impaired Loans			
Residential mortgages	$ -	$ -	$ 238,057
Commercial			
Real estate secured	-	-	186,467
Non-real estate secured	-	-	-
Total impaired loans	-	-	424,524
Other Real Estate Owned			
Commercial real estate	-	-	-
Total impaired loans / other real estate owned	$ -	$ -	$ 424,524

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

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 2022 or 2021.

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 $645,000 prior to a valuation allowance of $220,000 at December 31, 2022, resulting in an increase of allocation for loan losses of $70,000 for the year ending December 31, 2022. At December 31, 2021, impaired loans had a carrying amount of $568,000, prior to a valuation allowance of $380,000, resulting in a reduction of allocation for loan losses of $0 for the year ending December 31, 2021.

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:

		2022		**2021**	
	Fair Value Level	**Carrying Amount**	**Estimated Fair Value**	**Carrying Amount**	**Estimated Fair Value**
Assets:					
Cash and cash equivalents	1	**$ 44,453,796**	**$ 44,454,000**	$ 113,237,586	$ 113,238,000
Interest-bearing deposits	2	**4,465,000**	**4,069,000**	6,947,000	7,024,000
Securities - available-for-sale	2	**58,476,245**	**58,476,000**	58,111,413	58,111,000
Securities - available-for-sale	3	**34,253,167**	**34,253,000**	26,955,868	26,956,000
Federal Home Loan Bank stock	3	**1,512,100**	**1,512,000**	1,580,800	1,581,000
Loans, net	3	**311,223,552**	**270,461,000**	237,830,734	237,363,000
Accrued interest receivable	2	**1,755,888**	**1,756,000**	1,548,712	1,549,000
Liabilities:					
Deposits (Non Time Deposits)	1	**$ 398,375,123**	**$ 363,110,000**	$ 375,412,440	$ 375,412,000
Time Deposits	2	**20,031,932**	**20,838,000**	25,432,299	25,494,000
Federal Home Loan Bank advances	2	**19,000,000**	**21,674,000**	24,000,000	24,517,000
Accrued interest payable	2	**31,439**	**31,000**	42,809	43,000

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Committed to Community

Throughout 2022 HCB employees gave back to the community in a variety of ways, sharing their time, talent, and resources to make our communities stronger.

Reaching New Heights

Highpoint Community Bank celebrated the grand opening of our new loan production office in Kalamazoo on August 24, 2022. This market is growing with strong demand for the kind of relationship-based community banking that we can offer.

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Small Business Association of Michigan

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Loss Mitigation Officer

Robert S. Pawloski
Senior Branch Manager,
Caledonia and Wayland

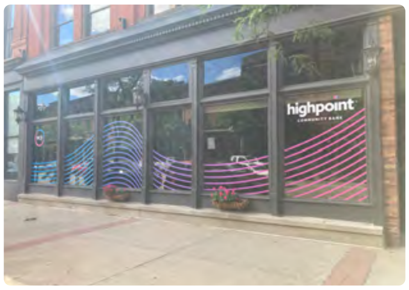
Valorie K. Vaughan
Branch Manager - Marshall

In memory of

Julie E. Palmatier
Vice President,
Human Resources Director

November 1, 1969 - December 7, 2022



Highpoint Community Bank, a subsidiary of HCB Financial Corp., operates 6 full-service banking offices, a loan production office, and two ITM locations.

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150 West Court Street

Caledonia
9265 Cherry Valley SE

Kalamazoo Loan Center
259 East Michigan Avenue
Suite 108-B

Middleville
435 Arlington Street

Wayland
156 West Superior Street

State St ITM
1330 West State Street

Nashville
310 North Main Street

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