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First Quarter Financial Report 2024



April 25, 2024

To Our Shareholders:

We are pleased to enclose a check representing the regular cash dividend of \$.26 per share on your HCB Financial Corp. common stock. This dividend reflects an increase of \$.05 per share over the regular dividend paid in recent quarters. It is payable today to shareholders of record at the close of business on April 1, 2024.

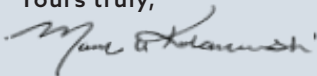
Our net income for the first three months of 2024 was \$1,418,000 or \$1.37 per common share. One year ago, we reported first quarter earnings of \$870,000 or \$.84 per share, making for a year-to-year earnings increase of 63%. Net interest income for the quarter increased 14% to \$4,031,000. Non-interest income, which partially included some non-recurring income, also improved for the quarter by 36%. Credit quality has remained exceptionally strong, leading to a nominal \$24,000 increase in our loan loss reserve account.

Over the past twelve months, total assets increased by 25% to \$599,528,000 along with a 27% increase in total deposits. Total loans decreased 6% to \$315,967,000 from a record high of \$335,014,000 set at quarter end one year ago. Loan growth has slowed primarily in our municipal and mortgage portfolios, while the commercial portfolio has experienced continued growth. During the quarter, shareholders' equity rose from the prior year by 14% to \$38,057,000, bringing the book value per share to \$37.14. We carry all of our securities with a "mark-to-market" designation, so you will see the tax-effected impact of any unrealized loss or gain reflected in the shareholders' equity numbers we report.

As the financials indicate, we have seen significant year-over-year growth in both our balance sheet and earnings. The balance sheet growth has been driven primarily from an increase in deposits. While some of this growth we deem to be temporary, we have also seen solid growth in our core deposit relationships. There are two main contributing factors driving our improved earnings for the quarter. First, the loan growth generated over the last two years from expanding our presence in Kent County and entering the Kalamazoo market has added higher yielding commercial loans to our loan portfolio mix. Second, a sharp increase in short-term interest rates has allowed us to turn the aforementioned deposit growth into a meaningful earning asset.

Should you have any questions on our performance, we hope that you will contact any director or senior officer to discuss them. We are always pleased to hear from you.

Yours truly,



Mark A. Kolanowski
President and CEO

HCB FINANCIAL CORP:

(Unaudited) Dollars in thousands, except per share data.

| Financial Highlights | Year-to-Date March 2024 | Year-to-Date March 2023 | % Change |
|----------------------------------|----------------------------|----------------------------|-------------|
| Interest Income (inc. loan fees) | \$5,985 | \$4,166 | 44% |
| Interest Expense | 1,930 | 380 | 408% |
| Loan Loss Provision | <u>24</u> | <u>244</u> | <u>-90%</u> |
| Net Interest Income | \$4,031 | \$3,542 | 14% |
| Non-Interest Income | 927 | 684 | 36% |
| Other Non-Interest Expense | 3,386 | 3,327 | 2% |
| Federal Income Tax Provision | <u>154</u> | <u>29</u> | <u>431%</u> |
| Net Income after Tax | <u>\$1,418</u> | <u>\$870</u> | <u>63%</u> |

Per Share Data

| | | | |
|---|-----------|-----------|-----|
| Average Outstanding Shares | 1,034,764 | 1,036,600 | |
| Outstanding Shares End of Period | 1,024,664 | 1,036,600 | |
| Net Income per Average Outstanding Shares | 1.37 | .84 | 63% |
| Dividends per Average Outstanding Shares | .26 | .21 | 24% |
| Book Value per Outstanding Shares End of Period | 37.14 | 32.28 | 15% |

Balance Sheet Highlights

(Unaudited) Dollars in thousands, except per share data.

| | | | |
|-------------------------|-----------|-----------|-----|
| Assets | \$599,528 | \$479,680 | 25% |
| Loans (gross) | \$315,967 | \$335,014 | -6% |
| Deposits | \$545,680 | \$431,341 | 27% |
| Interest Earning Assets | \$580,216 | \$463,248 | 25% |
| Shareholders Equity | \$38,057 | \$33,457 | 14% |