Friendship BanCorp

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2023 and 2022

Contents

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Independent Auditor's Report

Board of Directors
Friendship BanCorp
Friendship, Indiana

Opinion

We have audited the consolidated financial statements of Friendship BanCorp and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' 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 Friendship BanCorp and subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their 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 Audit of the Consolidated Financial Statements" section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 1 to the consolidated financial statements, in 2023, the Company changed its method of account for credit losses on financial instruments due to the adoption of Accounting Standards Codification Topic 326: *Financial Instruments – Credit Losses*. Our opinion is not modified with respect to this matter.

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 these consolidated financial statements are 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.

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.

FORVIS, LLP

Indianapolis, Indiana
April 29, 2024

Friendship BanCorp
Consolidated Balance Sheets
December 31, 2023 and 2022

	December 31, 2023	December 31, 2022
Assets		
Cash and due from banks	$ 8,860,932	$ 8,594,780
Federal funds sold	147,926	263,534
Cash and cash equivalents	9,008,858	8,858,314
Interest-bearing time deposits	2,901,150	2,377,392
Investment securities:		
Equity securities	2,241,672	2,125,961
Available-for-sale securities	169,179,617	170,997,236
Held-to-maturity securities (fair value $37,631,008 and $34,953,609, respectively)	40,086,920	38,236,692
Loans	293,654,711	291,742,825
Allowance for credit losses	(3,468,976)	(2,933,232)
Loans, net	290,185,735	288,809,593
Premises and equipment	10,310,028	10,228,002
Restricted equity investments	2,435,650	1,985,650
Cash surrender value of life insurance policies	7,565,223	7,422,034
Goodwill	1,567,953	1,873,203
Intangible assets	-	64,524
Other assets	8,603,497	9,500,939
Total assets	$ 544,086,303	$ 542,479,540
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Noninterest-bearing	$ 65,656,055	$ 73,955,451
Interest-bearing	402,439,906	414,593,814
Total deposits	468,095,961	488,549,265
Federal funds purchased	9,132,000	2,386,000
Borrowings	30,539,948	20,000,000
Accrued interest payable and other liabilities	3,225,274	2,834,839
Total liabilities	510,993,183	513,770,104
Shareholders' Equity		
Common stock, no par value 4,000,000 shares authorized; 3,418,759 and 3,436,846 shares issued and outstanding in 2023 and 2022, respectively	2,897,949	2,913,624
Retained earnings	43,950,380	43,878,538
Accumulated other comprehensive loss	(13,755,209)	(18,082,726)
Total shareholders' equity	33,093,120	28,709,436
Total liabilities and shareholders' equity	$ 544,086,303	$ 542,479,540

Friendship BanCorp
Consolidated Statements of Income
Years Ended December 31, 2023 and 2022

	2023	2022
Interest Income		
Loans	$ 16,322,762	$ 14,621,264
Securities		
Taxable	3,455,021	3,078,096
Nontaxable	711,616	582,306
Other	400,204	250,068
Total interest income	20,889,603	18,531,734
Interest Expense		
Deposits	4,777,016	1,676,634
Borrowings	1,631,396	230,924
Total interest expense	6,408,412	1,907,558
Net Interest Income	14,481,191	16,624,176
Provision (Credit) for Credit Losses	-	(100,000)
Net Interest Income After Provision (Credit) for Credit Losses	14,481,191	16,724,176
Noninterest Income		
Service charges and fees	1,249,231	1,286,424
Insurance revenues	2,415,930	2,420,916
Net gain on sale of loans	194,488	119,181
Gain on equity securities	127,673	104,814
Trust and investment product fees	75,525	67,490
Interchange income	1,362,421	1,300,769
Other income	549,455	452,112
Total noninterest income	5,974,723	5,751,706
Noninterest Expense		
Salaries and employee benefits	9,707,923	9,996,881
Net occupancy and equipment	1,162,850	1,222,026
Data processing fees	2,367,072	2,145,519
Advertising	377,012	397,009
Professional services	320,558	298,373
Office operations	280,566	306,697
Loan services	427,984	541,672
FDIC insurance	283,500	162,500
Other	764,927	871,701
Total noninterest expense	15,692,392	15,942,378
Income before income taxes	4,763,522	6,533,504
Income tax expense	820,453	1,254,273
Net income	$ 3,943,069	$ 5,279,231
Earnings per share	$ 1.15	$ 1.52
Average shares outstanding	3,423,318	3,464,504

Friendship BanCorp

Consolidated Statements of Comprehensive Income (Loss)

Years Ended December 31, 2023 and 2022

	2023	2022
Net Income	$ 3,943,069	$ 5,279,231
Other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities	5,788,388	(21,905,941)
Reclassification adjustment for realized losses on sales of available-for-sale securities	-	16,332
Tax effect	(1,460,871)	5,386,475
Total other comprehensive income (loss)	4,327,517	(16,503,134)
Comprehensive income (loss)	$ 8,270,586	$ (11,223,903)

Friendship BanCorp

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2023 and 2022

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2022	$ 2,982,574	$ 43,532,526	$ (1,579,592)	$ 44,935,508
Net income	-	5,279,231	-	5,279,231
Repurchase of common stock (81,332 shares)	(68,950)	(2,167,471)	-	(2,236,421)
Other comprehensive loss	-	-	(16,503,134)	(16,503,134)
Cash dividend ($0.80 per share)	-	(2,765,748)	-	(2,765,748)
Balance at December 31, 2022	2,913,624	43,878,538	(18,082,726)	28,709,436
Cumulative effect of change in accounting principle - ASC 326	-	(599,413)	-	(599,413)
Balance at January 1, 2023 (as adjusted for change in accounting principle)	2,913,624	43,279,125	(18,082,726)	28,110,023
Net income	-	3,943,069	-	3,943,069
Repurchase of common stock (18,492 shares)	(15,675)	(533,351)	-	(549,026)
Other comprehensive income	-	-	4,327,517	4,327,517
Cash dividend ($0.80 per share)	-	(2,738,463)	-	(2,738,463)
Balance at December 31, 2023	$ 2,897,949	$ 43,950,380	$ (13,755,209)	$ 33,093,120

Friendship BanCorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2023 and 2022

	2023	2022
Operating Activities		
Net income	$ 3,943,069	$ 5,279,231
Items not requiring (providing) cash:		
Provision (credit) for credit losses	-	(100,000)
Depreciation and amortization	552,754	625,116
Net amortization and accretion of securities	164,086	351,798
Net loss on sale of available-for-sale securities	-	16,332
Net realized loss on sale of repossessed assets	10,466	1,290
Deferred income taxes	25,420	98,991
Earnings on life insurance policies	(199,726)	(188,107)
Net gain on sale of loans	(194,488)	(119,181)
Gain from equity securities	(127,673)	(104,814)
Amortization of intangible assets	32,381	185,714
Changes in:		
Accrued interest and other assets	37,200	(8,839)
Accrued expenses and other liabilities	367,828	209,453
Net cash provided by operating activities	4,611,317	6,246,984
Investing Activities		
Available-for-sale securities:		
Maturities, prepayments and calls	12,439,691	7,508,213
Proceeds from sales	-	4,576,000
Purchases	(4,788,221)	(45,028,030)
Held-to-maturity securities:		
Maturities, prepayments and calls	1,508,000	730,000
Purchases	(3,567,777)	(4,816,997)
Net change in equity securities	11,962	(456,701)
Proceeds from sales of equity securities	-	68,329
Loan originations and payments, net	(2,142,713)	(20,151,573)
Proceeds from sale of premises and equipment	-	4,570
Purchases of premises and equipment	(634,780)	(1,034,579)
Net change in interest-bearing deposits	(523,758)	2,183,779
Proceeds from redemption of stock in Federal Home Loan Bank	-	161,900
Purchase of stock in Federal Home Loan Bank	(450,000)	(164,400)
Proceeds from sale of other real estate	141,668	116,910
Net cash provided by (used in) investing activities	1,994,072	(56,302,579)
Financing Activities		
Net change in deposits	(20,453,304)	(7,842,249)
Net change in federal funds purchased	6,746,000	2,386,000
Proceeds from Federal Home Loan Bank advances	143,039,948	55,000,000
Repayment of Federal Home Loan Bank advances	(132,500,000)	(35,000,000)
Proceeds from other borrowings	-	-
Cash dividends paid	(2,738,463)	(2,765,748)
Repurchases of common stock	(549,026)	(2,236,421)
Net cash provided by (used in) financing activities	(6,454,845)	9,541,582
Increase (Decrease) in Cash and Cash Equivalents	150,544	(40,514,013)
Cash and Cash Equivalents, Beginning of Year	8,858,314	49,372,327
Cash and Cash Equivalents, End of Year	$ 9,008,858	$ 8,858,314
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest paid on deposits and borrowings	$ 6,120,787	$ 1,876,859
Income taxes	885,000	1,160,000
Supplemental Disclosure of Noncash Investing Activities		
Loans transferred to repossessed assets	$ 152,134	$ 12,000

Friendship BanCorp

Notes to Consolidated Financial Statements

Years Ended December 31, 2023 and 2022

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include Friendship BanCorp (Company) and its wholly owned subsidiary, The Friendship State Bank, with its wholly owned subsidiaries, Friendship Financial Services, LLC and Friendship Portfolio Management, Inc. and its wholly owned subsidiary, Friendship Real Estate Holdings, Inc., together referred to as "the Bank". Intercompany transactions and balances are eliminated upon consolidation.

Nature of Operations

The Bank is primarily engaged in providing a variety of deposit and lending services to individual customers in southeastern Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area. Friendship Financial Services, LLC is a full service insurance agency and sells those products, as agent, to its customers.

Basis of Presentation

During 2023 the Board of Directors authorized a two-for-one stock split of the shares of common stock. The stock split entitled each shareholder of record to receive one additional share of common stock for each share of common stock owned and was paid on November 2, 2023. Upon completion of the stock split, outstanding shares increased from approximately 1.7 million shares to approximately 3.4 million shares.

All share and per share amounts herein give effect to the stock split and have been adjusted retroactively for all periods presented.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for credit losses.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in other institutions, federal funds sold and interest-bearing demand deposits.

Interest-bearing Time Deposits in Banks

Interest-bearing time deposits mature within five years and are carried at cost.

Investment Securities

Debt securities held by the Bank generally are classified and recorded in the financial statements as follows:

Classified as	Description	Recorded at
Held to maturity (HTM)	Certain debt securities that management has the positive intent and ability to hold to maturity	Amortized cost
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in earnings
Available for sale	Securities not classified as HTM or trading	Fair value, with urealized gains and losses excluded from earnings and reported in other comprehensive income

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, identified as the call date as to premiums and maturity date as to discounts. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities (excluding restricted equity investments) are measured at fair value with changes in fair value recognized in net income.

In 2022, declines in the fair value of individual held-to-maturity and available-for-sale securities below their cost that were other than temporary resulted in write-downs of the individual securities to their fair value. The Company monitored the investment security portfolio for impairment on an individual security basis and had a process in place to identify securities that could potentially have a credit impairment that is other than temporary. This process involves analyzing the length of time and the extent to which the fair value has been less than the amortized cost basis, the market liquidity for the security, the financial condition and near-term prospects of the issuer, expected cash flows, and the Company's intent and ability to hold the investment for a period of time sufficient to recover the temporary loss. The ability to hold was determined by whether it was more likely than not that the Company would be required to sell the security before its anticipated recovery. A decline in value due to a credit event that was considered other than temporary was recorded as a loss in noninterest income. See "Allowance for Credit Losses" within this Note 1 for the applicable accounting policies that became effective upon adoption of ASU 2016-13 on January 1, 2023.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses and any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as an adjustment over the respective term of the loan.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. 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 collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these 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. Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within Ripley, Dearborn, Ohio, and Switzerland counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the area. The Company considers loans with credit scores below 660 to be subprime. Subprime loans make up approximately 15% and 16% of the loan portfolio at December 31, 2023 and 2022, respectively.

Allowance for Credit Losses

The Company adopted Accounting Standards Update (ASU) No. 2016-13 *Financial Instruments—Credit Losses (Topic 326)* using the modified retrospective method for financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for the year beginning January 1, 2023 are presented under ASU No. 2016-13, while prior period amounts are reported in accordance with the previously applicable accounting standards.

<u>Available-for-sale securities</u>
For available for sale securities in an unrealized loss position, the Company first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income.

For securities available for sale that do not meet the above criteria, the Company evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Company considers the extent to which fair value is less than amortized cost and adverse conditions related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of the cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income, net of tax. These securities are either explicitly or implicitly guaranteed by the U.S. government, are highly rated by major agencies and have a long history of no credit losses.

Held-to-Maturity Securities

Expected credit losses on held-to-maturity (HTM) debt securities are measured on a collective basis by major security type. Accrued interest receivable on HTM securities totaled $412,000 at December 31, 2023 and is excluded from the estimate of credit losses. The HTM securities portfolio consists of taxable and nontaxable municipal securities from local governmental entities.

The estimate of expected credit losses considers historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. Management concluded that no allowance for credit losses was required on HTM securities at January 1, 2023 and December 31, 2023.

Loans

The allowance for credit losses (ACL) is a valuation allowance that is deducted from the loans' amortized cost basis to present the net amount expected to be collected on the loans. Management's determination of the adequacy of the ACL is based on the assessment of the expected credit losses on loans over the expected life of the loan. The ACL is increased by provision expense and decreased by charge-offs, net of recoveries of amounts previously charged off and expected to be charged off. The Company made the policy election to exclude accrued interest receivable on loans from the estimate of credit losses.

Management estimates the ACL balance using relevant available information from both internal and external sources, relating to past events, current conditions and reasonable and supportable forecasts. Historical credit loss experience of a defined peer group, by affiliate, paired with economic forecasts provide the basis for the quantitatively modeled estimates of expected credit losses. The Company adjusts its quantitative model, as necessary, to reflect conditions not already considered by the quantitative model. These adjustments are commonly known as the qualitative factors.

The ACL is measured on a collective (pool) basis when similar risk characteristics exist. The Company uses the average historical loss method to measure the quantitative portion of the ACL over the forecast and reversion periods.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancellable by the Company.

A loan for which the terms have been modified resulting in a concession and for which the borrower is experiencing financial difficulties is considered within the determination of the ACL using the same method as all other loans held for investment, except when the value of a concession cannot be measured using a method other than the discounted cash flow method.

When the value of a concession is measured using the discounted cash flow method, the ACL is determined by discounting the expected future cash flows at the original interest rate of the loan.

Unfunded Commitments
The Company estimates expected credit losses over the contractual period in which the Company is exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Company. The ACL on unfunded commitments is adjusted through the provision for credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life consistent with the related ACL methodology.

Prior to the implementation of ASU 2016-13, the Company evaluated the allowance for loan losses using the probable incurred methodology set forth below.

The allowance for loan losses was established as losses were estimated to have occurred through a provision for loan losses charged to income. Loan losses were charged against the allowance when management believed the uncollectibility of a loan balance was confirmed. Subsequent recoveries, if any, were credited to the allowance.

The allowance for loan losses was evaluated on a regular basis by management and was based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation was inherently subjective as it required estimates that were susceptible to significant revision as more information becomes available.

The allowance consisted of allocated and general components. The allocated component related to loans that were classified as impaired. For those loans that were classified as impaired, an allowance was established when the discounted cash flows (or collateral value or observable market price) of the impaired loan was lower than the carrying value of that loan. The general component covered nonimpaired loans and was based on historical charge-off experience by segment.

The historical loss experience was determined by portfolio segment and was based on the actual loss history experienced by the Bank over the prior three years. Management believed the three-year historical loss experience methodology was appropriate in the prevailing economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that were not fully reflected in the historical loss or risk rating data.

A loan was considered impaired when, based on current information and events, it was probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment included payment status, collateral value and the probability of collecting scheduled principal and interest payments when due, based on the loan's current payment status and the borrower's financial condition, including available sources of cash flows. Loans that experienced insignificant payment delays and payment shortfalls generally were not classified as impaired. Management determined the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment was measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan was collateral dependent.

Groups of loans with similar risk characteristics were collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Bank did not separately identify individual consumer and residential loans for impairment measurements, unless such loans were the subject of a restructuring agreement due to financial difficulties of the borrower.

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The Bank evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2023 and 2022.

Restricted Equity Investments

Restricted equity investments include Federal Home Loan Bank (FHLB) of Indianapolis stock, Federal Reserve Bank (FRB) stock and Independent Community Bancorp stock. Independent Community Bancorp stock is carried at cost. Restricted stock is periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Cash Surrender Value of Life Insurance Policies

The Bank 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 contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Goodwill and Other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired business, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but are tested for impairment at least annually. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements.

Intangible assets with definite useful lives were amortized over their estimated useful lives to their estimated residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets. Intangible assets were amortized on an accelerated method over their estimated useful lives, which ranged from 1 to 6 years.

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. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenues. The Company determines deferred income taxes using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax basis of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

Deferred tax assets are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50 percent; the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50 percent likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

The Company would recognize interest and penalties on income taxes as a component of income tax expense, if applicable.

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.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on securities available-for-sale which is recognized as a separate component of equity.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Revenue Recognition

A description of the Company's significant revenue streams accounted for under Topic 606 are as follows:

Service charges and fees. The Company generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time. Deposit services revenue is recorded in service charges on deposit accounts income statement line item.

Interchange income. The Company's debit and credit card revenue primarily consists of debit and credit card interchange income. Interchange income represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized. Revenue is collected and recognized daily through the payment network settlement process.

Insurance revenues. The Company earns its revenues for brokerage services through commissions and fees. Commission rates and fees vary in amount and depend on a number of factors, such as the type of insurance or reinsurance coverages provided, the particular insurer or reinsurer selected, the capacity in which the broker acts and negotiates with clients. For the majority of insurance and brokerage arrangements, advice and services provided, which culminate in the placement of an effective policy, are considered a single performance obligation. Revenues for the brokerage activities, such as installments on agency bill, direct bill and contingent revenue, are generally recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the client.

Adoption of New Accounting Standards

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. ASU 2016-13 significantly changes how entities measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard replaced the existing "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, applies to (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees.

Credit losses relating to available-for-sale debt securities are recorded through an allowance for credit losses. The ASU also simplifies the accounting model for purchased credit-impaired ("PCI") debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for credit losses. Entities apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective, i.e., modified retrospective approach.

The CECL model represents a significant change from existing practice. The Company adopted ASU 2016-13 effective January 1, 2023. The implementation of the new standard resulted in a $658,768 increase in the balance of the Company's allowance for credit losses (ACL), a $150,158 increase in the allowance for losses on loan commitments and a reduction in retained earnings, net of tax, of $599,413.

In March 2022, the FASB approved ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326)*, *Troubled Debt Restructurings and Vintage Disclosures*, which eliminated the accounting guidance for troubled debt restructurings (TDRs) by creditors, while enhancing disclosure requirements for certain loan refinancings and restructurings by creditors when a borrower is experiencing financial difficulty. ASU 2022-02 became effective for the Company upon adoption of ASU 2016-13 on January 1, 2023. The adoption of the ASU did not have a material effect on the consolidated financial statements.

Subsequent Events

Subsequent events have been evaluated through April 29, 2024, which is the date the consolidated financial statements were available to be issued.

Note 2: Restriction on Cash and Due From Banks

Cash and cash equivalents consist of cash on hand and in other institutions and federal funds sold.

At December 31, 2023, the Company's cash accounts exceeded federally insured limits by approximately $2,483,000. Additionally, the Company has $284,000 on deposit with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis as of December 31, 2023, which is not federally insured.

Note 3: Investment Securities

Equity securities are carried at fair value, with the changes in fair value recognized in noninterest income in the consolidated statements of income.

Information on equity securities was as follows at December 31, 2023 and 2022:

	2023	2022
Equity securities	$ 2,165,291	$ 2,054,650
Mutual funds	76,381	71,311
	$ 2,241,672	$ 2,125,961

	2023	2022
Unrealized gains recognized on equity securities still held at year end	$ 172,232	$ 112,053

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2023 and 2022 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2023				
U.S. Treasury and government agency	$ 145,884,495	$ 13,172	$ (12,452,513)	$ 133,445,154
Mortgage-backed securities - residential - Government Sponsored Entities (GSE)	38,804,546	71,381	(5,580,678)	33,295,249
Corporate debt	2,745,350	-	(306,136)	2,439,214
	$ 187,434,391	$ 84,553	$ (18,339,327)	$ 169,179,617

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2022				
U.S. Treasury and government agency	$ 153,265,868	$ -	$ (17,224,982)	$ 136,040,886
Mortgage-backed securities - residential - Government Sponsored Entities (GSE)	39,031,093	-	(6,355,158)	32,675,935
Corporate debt	2,743,437	-	(463,022)	2,280,415
	$ 195,040,398	$ -	$ (24,043,162)	$ 170,997,236

The amortized cost, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-Maturity Securities				
December 31, 2023				
State and political subdivisions	$ 40,086,920	$ 237,485	$ (2,693,397)	$ 37,631,008
December 31, 2022				
State and political subdivisions	$ 38,236,692	$ 72,001	$ (3,355,084)	$ 34,953,609

The Company had no sales of securities during the year ended December 31, 2023. Proceeds from sales of available for sale securities totaled $4,576,000 during the year ended December 31, 2022, and resulted in gross realized losses of $16,332.

Certain investments in debt securities at December 31, 2023 and 2022, were reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of available-for-sale investments at December 31, 2023 and 2022, was $163,979,438 and $170,997,236, which is approximately 97 percent and 100 percent, respectively, of the fair value of the Company's total available for sale investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for the Company's securities are not credit related.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2023 and 2022:

	December 31, 2023					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	$ 151,664	$ (513)	$ 131,677,001	$ (12,452,000)	$ 131,828,665	$ (12,452,513)
Mortgage-backed securities - residential (GSE)	7,207	(86)	29,704,352	(5,580,592)	29,711,559	(5,580,678)
Corporate debt	-	-	2,439,214	(306,136)	2,439,214	(306,136)
Total temporarily impaired securities	$ 158,871	$ (599)	$ 163,820,567	$ (18,338,728)	$ 163,979,438	$ (18,339,327)

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	$ 40,133,273	$ (2,417,955)	$ 95,907,613	$ (14,807,027)	$ 136,040,886	$ (17,224,982)
Mortgage-backed securities - residential (GSE)	20,661,442	(4,006,191)	12,014,493	(2,348,967)	32,675,935	(6,355,158)
Corporate debt	2,280,415	(463,022)	-	-	2,280,415	(463,022)
Total available for sale securities	63,075,130	(6,887,168)	107,922,106	(17,155,994)	170,997,236	(24,043,162)
Held-to-maturity						
State and political subdivisions	19,575,199	(1,064,482)	11,516,770	(2,290,602)	31,091,969	(3,355,084)
Total temporarily impaired securities	$ 82,650,329	$ (7,951,650)	$ 119,438,876	$ (19,446,596)	$ 202,089,205	$ (27,398,246)

U.S. Treasury, Government Agencies and Mortgage-Backed Securities

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company determined that no credit loss provision was required at December 31, 2023.

Corporate Debt Securities

The unrealized losses on the Company's investments in corporate debt securities were caused by interest rate changes and illiquidity. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company determined that no credit loss provision was required at December 31, 2023.

The amortized cost and fair value of the investment securities portfolio at December 31, 2023, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties: Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-sale	
	Amortized Cost	Fair Value
Within one year	$ 10,527,526	$ 10,312,520
One to five years	121,673,756	111,407,884
Five to ten years	16,428,563	14,163,964
	148,629,845	135,884,368
Mortgage-backed securities - residential (GSE)	38,804,546	33,295,249
Totals	$ 187,434,391	$ 169,179,617

	Held-to-Maturity	
	Amortized Cost	Fair Value
Within one year	$ 1,267,571	$ 1,258,073
One to five years	7,293,184	7,141,625
Five to ten years	16,000,363	15,097,942
After ten years	15,525,802	14,133,368
Totals	$ 40,086,920	$ 37,631,008

The Company monitors the credit quality of debt securities held-to-maturity through the use of credit ratings. The Company monitors the credit ratings on a monthly basis and the credit quality indicators were updated at December 31, 2023. The following table summarizes the amortized cost of debt securities held-to-maturity at December 31, 2023, aggregated by credit quality indicator.

December 31, 2023	Held-to-Maturity Municipal Securities
AAA/AA/A	$ 21,499,001
Not rated	18,587,919
Total	$ 40,086,920

Note 4: Loans and Allowance for Credit Losses

Categories of loans at December 31, 2023 and 2022 include:

	2023	2022
Commercial	$ 5,354,700	$ 5,188,122
Agricultural	30,178,026	31,174,383
Real estate	246,664,334	245,292,720
Consumer	11,457,651	10,087,600
Total loans	$ 293,654,711	$ 291,742,825

Certain directors and executive officers of the Company, including their families and companies in which they are the principal owners, were customers of and had other transactions with the Company. Total loans to these persons were $1,231,886 and $1,393,197 at December 31, 2023 and 2022, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at December 31, 2023 and 2022 were $87,599,776 and $88,899,353, respectively. At December 31, 2023 and 2022, the mortgage-servicing rights recorded are immaterial to the consolidated financial statements.

The Company adopted ASU 2016-13 effective January 1, 2023, which required implementation of the current expected credit loss (CECL) model in estimating the allowance for credit losses (ACL) valuation account.. The implementation of the new standard resulted in a $658,768 increase in the balance of the Company's allowance for credit losses (ACL) and a $150,158 increase in the allowance for losses on loan commitments.

The following tables present the activity in the allowance for credit losses by portfolio segment, including the changes to the amounts of the ACL allocated to the individual loan categories at January 1, 2023 as a result of the adoption of ASU 2016-13, for the years ended December 31, 2023 and 2022:

	December 31, 2023				
	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance for credit losses:					
Beginning balance, prior to adoption of ASC 326	$ 357,722	$ 272,300	$ 2,118,049	$ 185,161	$ 2,933,232
Impact of adopting ASC 326	(276,145)	133,257	662,925	138,731	658,768
Provision (credit)	(8,340)	87,360	(246,960)	167,940	-
Loans charged-off	(15,503)	-	(47,707)	(171,444)	(234,654)
Recoveries	5,185	-	53,957	52,488	111,630
Ending Balance	$ 62,919	$ 492,917	$ 2,540,264	$ 372,876	$ 3,468,976

	December 31, 2022				
	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 363,514	$ 282,986	$ 2,249,876	$ 221,584	$ 3,117,960
Provision (credit)	(1,778)	(10,686)	(84,078)	(3,458)	(100,000)
Loans charged-off	(4,835)	-	(78,745)	(96,999)	(180,579)
Recoveries	821	-	30,996	64,034	95,851
Ending Balance	$ 357,722	$ 272,300	$ 2,118,049	$ 185,161	$ 2,933,232

The following table presents the amortized cost basis of collateral dependent loans by class as of December 31, 2023:

	Real estate	Vehicles	Total
Commercial	$ 45,602	$ -	$ 45,602
Real estate	2,583,344	-	2,583,344
Consumer	-	52,577	52,577
	$ 2,628,946	$ 52,577	$ 2,681,523

The following table presents the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022:

	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance Balances:					
Individually evaluated for impairment	$ 16,000	$ -	$ 227,000	$ 5,000	$ 248,000
Collectively evaluated for impairment	341,722	272,300	1,891,049	180,161	2,685,232
Total allowance for loan losses	$ 357,722	$ 272,300	$ 2,118,049	$ 185,161	$ 2,933,232
Loan Balances:					
Individually evaluated for impairment	$ 130,265	$ 921,653	$ 2,722,565	$ 43,703	$ 3,818,186
Collectively evaluated for impairment	5,057,857	30,252,730	242,570,155	10,043,897	287,924,639
Total loan balances	$ 5,188,122	$ 31,174,383	$ 245,292,720	$ 10,087,600	$ 291,742,825

Risk characteristics of each loan portfolio segment are described as follows:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Borrowers may be subject to adverse economic conditions that can lead to decreases in product demand; increasing material or other production costs; interest rate increases that could have an adverse impact on profitability; nonpayment of credit that has been extended under normal vendor terms for goods sold or services extended; interruption related to the importing or exporting of production materials or sold products.

Agricultural

Agricultural loans are typically secured by crops or other farm equipment. These loans are subject to risks which could cause poor operating performance of the borrower, such as adverse weather conditions; fluctuation of price of agricultural commodities; and the general economy.

<u>Real Estate</u>

Real estate loans are generally secured by 1-4 family residences, multifamily residences, or farm real estate, and are generally owner occupied. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. These loans are subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers' ability to maintain payments in the event of incremental rate increases on adjustable-rate mortgages.

<u>Consumer</u>

Consumer loans generally consist of loans secured by personal property or unsecured loans such as credit cards. Repayment of these loans is primarily dependent on the personal income of the borrowers, who are subject to adverse employment conditions in the local economy, which may lead to higher unemployment.

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and conform to the Bank's policy.

Pass (1-4) Loans of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

Special Mention (5) A special mention asset has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the Bank'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. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) Loans in this category are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. Such loans have a distinct potential for loss; however, an individual loan's potential for loss does not have to be distinct for the loan to be rated substandard.

The following are examples of situations that might cause a loan to be graded a “6”:
.
Cash flow deficiencies (losses) jeopardize future loan payments.

Sale of noncollateral assets has become a primary source of loan repayment.

The relationship has deteriorated to the point that sale of collateral is now the Company’s primary source of repayment, unless this was the original source of loan repayment.

The borrower is bankrupt or for any other reason future repayment is dependent on court action.

Doubtful (7) A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.
A doubtful loan has a high probability of total or substantial loss. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual accounting treatment will be required for doubtful loans.

Loss (8) Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

The following tables present the credit risk profile of the Company’s loan portfolio based on rating category and payment activity as of December 31, 2023 and 2022:

	December 31, 2023				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 4,951,454	$ 353,410	$ 49,836	$ -	$ 5,354,700
Agricultural	29,628,575	-	549,451	-	30,178,026
Real estate					
Construction	25,539,491	-	31,933	-	25,571,424
Commercial	39,227,506	65,000	886,327	-	40,178,833
Residential	180,201,581	-	712,496	-	180,914,077
Consumer	11,457,651	-	-	-	11,457,651
Total	$ 291,006,258	$ 418,410	$ 2,230,043	$ -	$ 293,654,711

	December 31, 2022				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 4,568,749	$ 581,658	$ 37,715	$ -	$ 5,188,122
Agricultural	30,015,649	259,494	899,240	-	31,174,383
Real estate					
Construction	23,104,002	-	48,053	-	23,152,055
Commercial	40,844,576	1,340,704	446,217	-	42,631,497
Residential	178,531,390	171,091	806,687	-	179,509,168
Consumer	10,027,269	34,270	26,061	-	10,087,600
Total	$ 287,091,635	$ 2,387,217	$ 2,263,973	$ -	$ 291,742,825

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant changes were made to either during the past year.

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2023 and 2022:

	December 31, 2023					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	$ 24,733	$ -	$ -	$ 24,733	$ 5,329,967	$ 5,354,700
Agricultural	118,785	-	-	118,785	30,059,241	30,178,026
Real estate						
Construction	142,912	-	-	142,912	25,428,512	25,571,424
Commercial	-	-	-	-	40,178,833	40,178,833
Residential	1,988,407	573,256	383,763	2,945,426	177,968,651	180,914,077
Consumer	111,623	42,081	-	153,704	11,303,947	11,457,651
Total	$ 2,386,460	$ 615,337	$ 383,763	$ 3,385,560	$ 290,269,151	$ 293,654,711

	December 31, 2022					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	$ 12,691	$ -	$ -	$ 12,691	$ 5,175,431	$ 5,188,122
Agricultural	-	143,627	-	143,627	31,030,756	31,174,383
Real estate						
Construction	220,907	-	-	220,907	22,931,148	23,152,055
Commercial	-	-	-	-	42,631,497	42,631,497
Residential	2,658,450	929,071	75,089	3,662,610	175,846,558	179,509,168
Consumer	202,236	7,027	8,593	217,856	9,869,744	10,087,600
Total	$ 3,094,284	$ 1,079,725	$ 83,682	$ 4,257,691	$ 287,485,134	$ 291,742,825

The Bank had no loans greater than 90 days past due and still accruing interest as of December 31, 2023. The Bank had one loan totaling $13,600 greater than 90 days past due and still accruing interest as of December 31, 2022.

The following table presents the Company's nonaccrual loans at December 31, 2023 and 2022:

	December 31, 2023	December 31, 2022
Real estate		
Residential	$ 419,804	$ 61,459
Consumer	-	8,593
Total nonaccrual loans	$ 419,804	$ 70,052

Nonaccrual loans with an allowance for credit losses totaled $158,000 at December 31, 2023.

The following table presents impaired loans as of and for the year ended December 31, 2022:

	As of and for the year ended December 31, 2022				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ 9,691	$ 9,691	$ -	$ 28,616	$ 962
Agricultural	921,653	921,653	-	856,744	46,182
Real estate					
Construction	-	-	-	-	-
Commercial	446,217	446,217	-	315,019	16,287
Residential	1,608,343	1,608,343	-	1,434,809	79,070
Consumer	20,259	20,259	-	16,595	1,740
Total	3,006,163	3,006,163	-	2,651,783	144,241
Impaired loans with a specific valuation allowance:					
Commercial	120,574	120,574	16,000	113,878	9,287
Agricultural	-	-	-	-	-
Real estate					
Construction	48,053	48,053	23,000	52,816	3,252
Commercial	244,000	244,000	150,000	254,273	14,969
Residential	375,952	375,952	54,000	280,047	13,827
Consumer	23,444	23,444	5,000	4,689	1,507
Total	812,023	812,023	248,000	705,703	42,842
Total impaired loans	$ 3,818,186	$ 3,818,186	$ 248,000	$ 3,357,486	$ 187,083

The Bank had no material loans whose terms were modified due to the financial difficulties of the borrower during the year ended December 31, 2023. The Bank restructured two residential real estate loans totaling $237,000 in troubled debt restructurings during the year ended December 31, 2022. The restructurings included changes to the loan term and interest rates, without any adjustment to the principal balances of the loans.

The Company did not have any loans modified for borrowers experiencing financial difficulties during the year ended December 31, 2023, that subsequently defaulted.

The Company did not have any loans modified in troubled debt restructurings prior to January 1, 2023, that subsequently defaulted during the years ended December 31, 2023 and 2022.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2023	2022
Land	$ 2,699,735	$ 2,699,735
Buildings and improvements	10,792,307	10,455,949
Furniture and equipment	4,379,565	4,320,879
Construction in process	167,033	53,451
	18,038,640	17,530,014
Less accumulated depreciation	(7,728,612)	(7,302,012)
Net premises and equipment	$ 10,310,028	$ 10,228,002

Note 6: Goodwill and Other Intangible Assets

The carrying amount of goodwill at December 31, 2023 and 2022 is presented below:

	2023	2022
Balance, beginning of year	$ 1,873,203	$ 1,873,203
Sale of Insurance Agency subsidiary crop books of business	(305,250)	-
Balance, end of year	$ 1,567,953	$ 1,873,203

Goodwill is evaluated on an annual basis for impairment. No goodwill impairment loss was recorded during the years ended December 31, 2023 and 2022.

The Company had intangible assets related to its investment in Friendship Financial Services, LLC. The unamortized balance of the intangible assets related to two books of business was eliminated upon the Company's sale of those assets in 2023. The remaining balance of intangible assets was fully amortized, in accordance with its original amortization schedule, in 2023.

The unamortized carrying value of intangible assets totaled $64,524 at December 31, 2022.

Amortization expense for the years ended December 31, 2023 and 2022 was $32,381 and $186,000, respectively. The Company had no remaining intangible assets other than goodwill at December 31, 2023.

Note 7: Deposits

Categories of deposits at December 31, 2023 and 2022 include:

	2023	2022
Demand deposits	$ 208,356,212	$ 259,411,929
Savings and money market accounts	114,728,265	141,260,098
Certificates and other time deposits of $250,000 or more	60,303,297	29,699,506
Other certificates and time deposits	84,708,187	58,177,732
	$ 468,095,961	$ 488,549,265

At December 31, 2023, the scheduled maturities of time deposits were as follows:

Maturing year ending Decmber 31,	
2024	$ 138,575,062
2025	2,566,792
2026	2,077,369
2027	1,032,234
2028	760,027
	$ 145,011,484

Deposits from related parties totaled approximately $8,211,280 and $7,760,659 at December 31, 2023 and 2022, respectively.

Note 8: Borrowings

The Bank had Federal Home Loan Bank (FHLB) advances outstanding totaling $20,000,000 at both December 31, 2023 and 2022. The Bank's advances at December 31, 2023, have a weighted-average interest rate of 5.49% and are scheduled to mature in 2024. The Bank's advances at December 31, 2022 had a weighted-average interest rate of 4.35% and were scheduled to mature in 2023. The Bank’s advances are subject to restrictions or penalties in the event of prepayment.

The Bank also has a line of credit agreement with the FHLB which allows the Bank to borrow up to $6,000,000, which is scheduled to mature in February 2024. The Bank had $5,539,948 in outstanding borrowings on the line of credit, at an interest rate of 5.76%, at December 31, 2023.

These borrowings from the FHLB are secured by a pledge of certain U.S. Government agency securities with a fair value totaling $98,420,076 and $40,891,008 at December 31, 2023 and 2022, respectively.

The Bank had borrowings outstanding at December 31, 2023 from the Federal Reserve Bank totaling $5,000,000, with an interest rate of 5.50% and scheduled to mature in January 2024. The borrowing was collateralized by a pledge of investment securities with a fair value of $30,564,394 as of December 31, 2023.

The Bank had unsecured federal funds purchased from the Bankers Bank of Wisconsin totaling $9,132,000 with an interest rate of 6.50% at December 31, 2023. There was no outstanding balance on this line of credit as of December 31, 2022.

Note 9: Income Taxes

The provision for income taxes for the years ended December 31, 2023 and 2022, includes these components:

	2023	2022
Taxes currently payable	$ 795,033	$ 1,155,282
Deferred income taxes	25,420	98,991
Income tax expense	$ 820,453	$ 1,254,273

A reconciliation of the federal income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2023	2022
Computed at statutory rate (21%)	$ 1,000,340	$ 1,372,036
Increase (decrease) resulting from:		
Tax exempt interest	(149,439)	(110,815)
State income taxes, net	-	38,962
Income tax credits	(2,907)	(10,658)
Bank-owned life insurance	(41,942)	(36,068)
Other	14,401	816
Actual income tax expense	$ 820,453	$ 1,254,273

The tax effects of temporary differences related to deferred taxes were as follows:

	2023	2022
Deferred tax assets		
Allowance for loan losses	$ 812,254	$ 703,303
Deferred compensation	351,926	324,434
Unrealized losses on available-for-sale securities	4,499,564	5,960,436
Other	190,865	210,406
Deferred tax assets	5,854,609	7,198,579
Deferred tax liabilities		
Depreciation	(195,844)	(204,547)
Goodwill	(414,477)	(420,909)
Mortgage servicing rights	(84,759)	(107,906)
Prepaid expenses	(49,073)	(51,065)
Cash basis adjustments	(44,889)	(62,574)
Federal Home Loan Bank stock dividends	(19,872)	(20,180)
Other	(47,157)	(56,080)
Deferred tax liabilities	(856,071)	(923,261)
Net deferred tax asset	$ 4,998,538	$ 6,275,318

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2023.

Note 10: Commitments and Contingencies

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend loans and unused credit lines to customers. The Bank’s exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Bank uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

Off-balance-sheet commitments are as follows at December 31, 2023 and 2022:

	2023	2022
Commitments to extend credit	$ 8,642,000	$ 7,641,000
Unused lines of credit	31,733,000	28,394,000
Standby letters of credit	494,000	506,000
Total	$ 40,869,000	$ 36,541,000

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

The Company and Bank are subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

Note 11: Benefit Plans

The Company sponsors a defined-contribution 401(k) plan, which covers substantially all employees. Eligible employees can elect to defer up to 15 percent of their salary, not to exceed IRS limitations. The Company matches one half of employee contributions up to six percent of their salaries. Employer's contributions are 100% vested after five years of service. The Plan included an employee stock ownership option. The Company's total 401(k) contributions charged to expense in 2023 and 2022 were $131,472 and $142,216, respectively.

Participants receive distributions from the plan of their vested shares of Company common stock subsequent to the end of their employment. The Company is required to redeem the shares of Company common stock that have been distributed from the plan at current market value, upon request of the participants receiving such distributions.

With the dissolution of the ESOP, all shares were fully distributed to the Company's beneficiaries on December 31, 2022. There were no shares subject to the put option at December 31, 2023.

In addition, the Company has entered into deferred compensation, salary continuation agreements that provide benefits to certain directors and officers or their beneficiaries. The benefits expected to be paid are being accrued to date of full eligibility. Benefit payments under the agreements may be accelerated upon death, disability or termination by the Company prior to full eligibility. The salary continuation plan was frozen in 2007. During 2021 the Company implemented a SERP plan for certain employees. The expense incurred for the deferred compensation plan in 2023 and 2022 was $229,859 and $246,978, respectively, resulting in a deferred compensation liability of $1,171,703 and $1,046,927 as of year-end 2023 and 2022, respectively.

Note 12: Stock Options

Options to buy stock are granted to directors, officers and employees under the Employee Stock Option Plan, which provides for issue of up to 200,000 options. The maximum option term is ten years. At December 31, 2023, options to purchase 171,006 shares of stock remain for future grants under this plan.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. The risk-free rate of interest for the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. There were no grants in 2023 or 2022.

There were no options granted or exercised during the years ended December 31, 2023 and 2022. There were no option grants outstanding in the plan at December 31, 2023 and 2022.

Note 13: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2023 and 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2023, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios are as follows (table amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2023						
Total Capital (to Risk-Weighted Assets)	$ 48,811	16.7%	$ 23,431	8.0%	$ 29,289	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 45,192	15.4%	$ 17,573	6.0%	$ 23,431	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 45,192	15.4%	$ 13,180	4.5%	$ 19,038	6.5%
Tier I Leverage Capital (to Average Total Assets)	$ 45,192	8.1%	$ 22,263	4.0%	$ 27,828	5.0%
As of December 31, 2022						
Total Capital (to Risk-Weighted Assets)	$ 47,615	16.3%	$ 23,362	8.0%	$ 29,202	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 44,682	15.3%	$ 17,521	6.0%	$ 23,362	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 44,682	15.3%	$ 13,141	4.5%	$ 18,981	6.5%
Tier I Leverage Capital (to Average Total Assets)	$ 44,682	7.9%	$ 22,635	4.0%	$ 28,294	5.0%

Without prior approval, current regulations allow the Bank to pay dividends not exceeding net profits (as defined) for the current year, plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 2.50% at December 31, 2023.

The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Note 14: Disclosures about Fair Value of Assets and Liabilities

Fair value is the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities.

Level 2 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 for substantially the full term of the assets of liabilities.

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities.

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale and Equity Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities relationship to other benchmark quoted investment securities.

Level 2 securities include U.S. Government-sponsored agencies, mortgage-backed securities and corporate debt. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities' relationship to other benchmark quoted investment securities.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
December 31, 2023				
Equity securities	$ 2,165,291	$ 2,165,291	$ -	$ -
Mutual funds	76,381	76,381	-	-
Total equity securities	$ 2,241,672	$ 2,241,672	$ -	$ -
Available-for-sale securities:				
U.S. Treasury and government agency	$ 133,445,154	$ -	$ 133,445,154	$ -
Mortgage-backed - residential	33,295,249	-	33,295,249	-
Corporate debt	2,439,214	-	2,439,214	-
Total investment securities available-for-sale	$ 169,179,617	$ -	$ 169,179,617	$ -

	Fair Value	Fair Value Measurements Using Level 1	Level 2	Level 3
December 31, 2022				
Equity securities	$ 2,054,650	$ 2,054,650	$ -	$ -
Mutual funds	71,311	71,311	-	-
Total equity securities	$ 2,125,961	$ 2,125,961	$ -	$ -
Available-for-sale securities:				
U.S. Treasury and government agency	$ 136,040,886	$ -	$ 136,040,886	$ -
Mortgage-backed - residential	32,675,935	-	32,675,935	-
Corporate debt	2,280,415	-	2,280,415	-
Total investment securities available-for-sale	$ 170,997,236	$ -	$ 170,997,236	$ -

Nonrecurring Measurements

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Collateral Dependent Loans

The estimated fair value of collateral-dependent loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent loans are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by management. Appraisals are reviewed for accuracy and consistency by management. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by management by comparison to historical results.

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2023 and 2022:

	Fair Value	Fair Value Measurements Using		
		Level 1	Level 2	Level 3
December 31, 2023				
Collateral dependent loans	$ 36,041	$ -	$ -	$ 36,041
December 31, 2022				
Collateral dependent loans	$ 448,481	$ -	$ -	$ 448,481

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Range)
December 31, 2023				
Collateral dependent loans	$ 36,041	Sales comparison approach	Marketability discount	25% (25%)
December 31, 2022				
Collateral dependent loans	$ 448,481	Sales comparison approach	Marketability discount	0 - 61% (48%)

Attachment B

Management Representation Letter

Representation of:
Friendship BanCorp
5908 E Main ST
Friendship, IN 47021

Provided to:
FORVIS, LLP
Certified Public Accountants
201 N. Illinois Street, Suite 700
Indianapolis, Indiana 46204

The undersigned ("We") are providing this letter in connection with FORVIS' audit of our consolidated financial statements as of and for the year ended December 31, 2023 and 2022.

Our representations are current and effective as of the date of FORVIS' report: April 29, 2024.

Our engagement with FORVIS is based on our contract for services dated: December 1, 2023.

Our Responsibility & Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the consolidated financial statements subject to FORVIS' report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

Confirmation of Matters Specific to the Subject Matter of FORVIS' Report

We confirm, to the best of our knowledge and belief, the following:

Broad Matters

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America.

2. We acknowledge our responsibility for the design, implementation, and maintenance of:

    a. Internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

    b. Internal control to prevent and detect fraud.

3. We have provided you with:

    a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the consolidated financial statements, such as financial records and related data, documentation, and other matters.

b. Additional information that you have requested from us for the purpose of the audit.

c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.

d. All minutes of stockholders' and directors' meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the Board of Directors, if applicable, and maintained as part of our records.

e. All significant contracts.

4. We acknowledge the entity does not meet the definition of a "public business entity" under generally accepted accounting principles.

5. We have responded fully and truthfully to all your inquiries.

U.S. Department of Housing & Urban Development (HUD)

6. We do not meet the definition of a "large supervised lender" or "nonsupervised lender" as defined by the U.S. Department of Housing and Urban Development (HUD) and are thererfore not subject to the audit requirements applicable to those lenders

Misappropriation, Misstatements, & Fraud

7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:

   a. Misappropriation of assets.

   b. Misrepresented or misstated assets, liability, or equity.

8. We have no knowledge of fraud or suspected fraud affecting the entity involving:

   a. Management or employees who have significant roles in internal control over financial reporting, or

   b. Others when the fraud could have a material effect on the financial statements.

9. We understand that the term “fraud” includes misstatements arising from fraudulent financial reporting and misstatements arising from misappropriation of assets. Misstatements arising from fraudulent financial reporting are intentional misstatements, or omissions of amounts or disclosures in consolidated financial statements to deceive financial statement users. Misstatements arising from misappropriation of assets involve the theft of an entity’s assets where the effect of the theft causes the consolidated financial statements not to be presented in conformity with accounting principles generally accepted in the United States of America.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, former employees, customers, analysts, regulators, suppliers, or others.

11. We have assessed the risk that the consolidated financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.

12. We have no knowledge of illegal acts that may materially misstate the consolidated financial

statements.

Ongoing Operations

13. We have evaluated whether there are conditions or events known or reasonably knowable, considered in the aggregate, that raise substantial doubt about the entity's ability to continue as a going concern within one year of the date of this letter without consideration of potential mitigating effects of management's plans not yet fully implemented and concluded substantial doubt does not exist.

14. We acknowledge the current economic volatility presents difficult circumstances and challenges for our industry. Entities are potentially facing declines in the fair values of investments and other assets, declines in the volume of business, constraints on liquidity, difficulty obtaining financing or bonding, significant credit quality problems, including significant volatility in the values of real estate and other collateral supporting loans, etc. We understand the values of the assets and liabilities recorded in the consolidated financial statements could change rapidly, resulting in material future adjustments to assets values, the allowance for loan losses, capital, etc., that could negatively impact the entity's ability to meet regulatory capital requirements or maintain sufficient liquidity.

    We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the entity's consolidated financial statements. Further, management and governance are solely responsible for all aspects of managing the entity, including questioning the quality and valuation of investments and other assets; loan underwritten practices, reviewing credit monitoring and loan workout activities, reviewing allowance for loan losses; evaluating capital needs and liquidity plans; etc..

Related Parties

15. We have disclosed to you the identity of all of the entity's related parties and all the related-party relationships of which we are aware.

    In addition, we have disclosed to you all related-party transactions and amounts receivable from or payable to related parties of which we are aware, including any modifications during the year that were made to related-party transaction agreements which existed prior to the beginning of the year under audit, as well as new related-party transaction agreements that were executed during the year under audit.

    Related-party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

16. We understand that the term related party refers to:

    - Affiliates
    - Entities for which investments are accounted for by the equity method
    - Trusts for the benefits of employees, such as pension and profit-sharing trusts that are managed by or under the trusteeship of management
    - Principal owners and members of their immediate families
    - Management and members of their immediate families
    - Any other party with which the entity may deal if one party can significantly influence the management or operating policies of the other to an extent that one of the transacting parties might be prevented from fully pursuing its own separate interests.

Another party is also a related party if it can significantly influence the management or operating policies of the transacting parties or if it has an ownership interest in one of the transacting parties and can significantly influence the other to an extent that one or more of the transacting parties might be prevented from fully pursuing its own separate interests.

The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

17. The following transactions, entered into by the entity with entities that are related parties, were conducted on terms equivalent to those prevailing in an arm's-length transaction

    a. Related party loans and deposits are disclosed in Notes 4 and 7 to the consolidated financial statements, respectively.

18. Loans to executive officers have been properly accounted for and disclosed.

Litigation, Laws, Rulings & Regulations

19. We are not aware of any pending or threatened litigation or claims whose effects should be considered when preparing the financial statements. We have not sought or received attorney's services related to pending or threatened litigation or claims during or subsequent to the audit period. Also, we are not aware of any litigation or claims, pending or threatened, for which legal counsel should be sought.

20. We have provided you with all examination reports, agreements and related correspondence from regulatory agencies and any related findings.

21. We have no knowledge of communications, other than those specifically disclosed, from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the consolidated financial statements.

22. We have disclosed to you all known instances of violations or noncompliance or possible violations or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements or as a basis for recording a loss contingency.

23. There are no regulatory examinations currently in progress for which we have not received examination reports.

24. We have no reason to believe the entity owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

25. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations:

Nonattest Services

26. You have provided nonattest services, including the following, during the period of this engagement:

- All federal and state income tax returns preparation

27. With respect to these services:

    a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

    b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.

    c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.

    d. We have evaluated the adequacy of the services performed and any findings that resulted.

    e. Established and maintained internal controls, including monitoring ongoing activities.

    f. We have received the deliverables from you and have stored these deliverables in information systems controlled by us. We have taken responsibility for maintaining internal control over these deliverables.

Consolidated Financial Statements & Reports

28. With regard to other information that is presented in the form of our annual report:

    a. We have provided you with the final draft of the annual report.

Transactions, Records & Adjustments

29. All transactions have been recorded in the accounting records and are reflected in the consolidated financial statements.

30. The entity has appropriately reconciled its general ledger accounts to their related supporting information. All related reconciling items considered to be material were identified and included on the reconciliations and were appropriately adjusted in the consolidated financial statements. All intracompany (and intercompany) accounts have been eliminated or appropriately measured and considered for disclosure in the consolidated financial statements.

31. We have everything we need to keep our books and records.

32. We have disclosed any significant unusual transactions the entity has entered into during the period, including the nature, terms, and business purpose of those transactions.

33. We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the entity’s accounts.

34. There are no uncorrected misstatements or omitted disclosures.

Financial Institution Matters

35. We have informed you of the existence of any of the following unusual transactions:

    a. Large loans with unusual repayment terms, e.g., material loans that are subject to unusual interest rates or extended due dates.

    b. Sales of assets, *i.e.*, loans, investments, real estate owned, mortgage servicing rights, etc., with rights of return.

c. Any sales of real estate owned for which formal title has not passed or adequate down payments have not been received.

d. Sales of loans for which servicing rights were retained.

e. Hedging activities.

f. Acquisition development and construction (ADC) lending arrangements whereby the entity shares in expected profits or operations of the project above a reasonable rate of return.

36. We have disclosed to you all of our:

    a. Nonperforming assets.

    b. Intentions to foreclose or repossess property.

37. We are not aware of conditions or events occurring since notification of our prompt corrective action classification that would change that classification.

38. No notification of any unfavorable findings or suspension from loan purchasers or investors of serviced loans have been received within the past year.

39. Adequate provisions for credit losses have been made at least quarterly based on management's evaluation of the loan portfolio and prevailing and anticipated economic conditions.

40. All impaired and restructured loans, including loan modifications with borrowers experiencing financial difficulty, have been identified, evaluated, and properly recorded and disclosed in accordance with accounting principles generally accepted in the United States.

41. Mortgage loan securities held for delivery against commitments are valued at the lower of cost or market.

42. All loans held for sale have been properly classified and recorded in our consolidated financial statements. We have the intent and ability to hold loans not classified as held for sale (portfolio loans) for the foreseeable future.

43. We have evaluated the cash flow for loans purchased at a discount due to credit quality and appropriately recognized changes in expected cash flow.

44. We plan on holding all life insurance policies owned by the entity until death of the insured.

Accounting & Disclosures

45. All transactions entered into by the entity are final. We are not aware of any unrecorded transactions, side agreements, or other arrangements (either written or oral) that are in place.

46. Except as reflected in the consolidated financial statements, there are no:

    a. Plans or intentions that may materially affect carrying values or classifications of assets, liability, or equity.

    b. Material transactions omitted or improperly recorded in the financial records.

    c. Material unasserted claims or assessments that are probable of assertion or other gain/loss contingencies requiring accrual or disclosure in accordance with Accounting Standards

Codification (ASC) Topic 450*, Contingencies*, including those arising from environmental remediation obligations.

d. Events occurring subsequent to the balance sheet date through the date of this letter, which is the date the consolidated financial statements were available to be issued, requiring adjustment or disclosure in the consolidated financial statements.

e. Agreements to purchase assets previously sold.

f. Arrangements with financial institutions involving compensating balances or other arrangements involving restrictions on cash balances, lines of credit or similar arrangements.

g. Guarantees, whether written or oral, under which the entity is contingently liable.

h. Known or anticipated asset retirement obligations.

47. Except as disclosed in the consolidated financial statements, the entity has:

    a. Satisfactory title to all recorded assets, and those assets are not subject to any liens, pledges, or other encumbrances.

    b. Complied with all aspects of contractual agreements, for which noncompliance would materially affect the consolidated financial statements.

Estimates

48. We have identified all accounting estimates that could be material to the consolidated financial statements and we confirm the appropriateness of the methods and the consistency in their application, the accuracy and completeness of data and the reasonableness of significant assumptions used by us in making the accounting estimates, including those measured at fair value reported in the consolidated financial statements.

49. Significant estimates that may be subject to a material change in the near term have been properly disclosed in the consolidated financial statements. We understand that “near term” means the period within one year of the date of the consolidated financial statements. In addition we have no knowledge of concentrations, which refer to volumes of business revenues, loans, investments, or deposits, existing at the date of the consolidated financial statements that would make the entity vulnerable to the risk of severe impact in the near term that have not been properly disclosed in the consolidated financial statements.

Fair Value

50. With respect to the fair value measurements of financial and nonfinancial assets and liabilities, if any, recognized in the consolidated financial statements or disclosed in the notes thereto:

    a. The underlying assumptions are reasonable and they appropriately reflect management’s intent and ability to carry out its stated course of action.

    b. The measurement methods and significant assumptions used in determining fair value are appropriate in the circumstances for financial statement measurement and disclosure purposes and have been consistently applied.

    c. The significant assumptions appropriately reflect market participant assumptions.

d. The disclosures related to fair values are complete, adequate, and in conformity with U.S. GAAP.

e. There are no subsequent events that require adjustments to the fair value measurements and disclosures included in the consolidated financial statements.

Off-Balance Sheet Risk

51. The following information about financial instruments with off-balance sheet risk and financial instruments with concentrations of credit risk have been properly disclosed in the consolidated financial statements:

a. The extent, nature, and terms of financial instruments with off-balance sheet risk.

b. The amount of credit risk of financial instruments with off-balance sheet risk and information about the collateral supporting such consolidated financial statements.

c. Significant concentrations of credit risk arising from all financial instruments and information about the collateral of such financial instruments.

d. The common activity, region, or characteristic that identified the concentration.

e. The maximum loss that could result if the counterparties completely failed to perform their obligations and any collateral for the amounts due were worthless.

f. The entity's policy of requiring collateral to minimize the risk, the nature of this collateral, and information about the entity's access to collateral.

Goodwill

52. Management, using its best estimates based on reasonable and supportable assumptions and projections, tests goodwill for impairment at least annually or more frequently if events or changes in circumstances would more likely than not reduce the fair value of reporting units below their carrying amounts. Management acknowledges that the entity has properly tested goodwill for impairment and impairment losses have been recorded when required.

53. Our qualitative assessment to test goodwill for impairment as of 2022, included the evaluation of macroeconomic and general economic conditions, industry and market conditions, and the entity's 2022 operating results and whether there had been any significant adverse changes since 2021. We concluded that it was not more likely than not that the carrying value of the asset exceeded the fair value. Accordingly, we concluded that further quantitative analysis and testing was not required, and there was no impairment of goodwill.

Investments

54. With respect to debt securities:

a. All securities are properly classified as held-to-maturity, available-for-sale, or trading based upon our intent.

b. For held-to-maturity debt securities:

i. We have the ability to hold all securities to their maturity.

ii. For impaired securities, *i.e.*, fair value below amortized cost, we have evaluated whether we intend to sell the security.

(a)) For securities we do not intend to sell, we have evaluated whether:

(i) It is more likely than not that we will be required to sell the security before recovery of its amortized cost.

(ii) We expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

iii. Securities that have declines in fair value due to credit risk have credit losses appropriately reflected through an allowance.

c. For available-for-sale debt securities:

i. We have evaluated whether we expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

ii. For impaired securities, *i.e.*, fair value below amortized cost, we have determined whether the impairment is due to credit-related factors or noncredit-related factors:

(a) For impairment that is not credit-related:.

(i) We expect to recover the entire amortized cost basis of the debt security, including comparing the present value of cash flows expected to be collected from the security with the amortized cost basis of the security.

(ii) We evaluated whether we intend to sell the security and, if we do not intend to sell, whether it is more likely than not that we will be required to sell the security before recovery of its amortized cost basis.

(b) Impairment that is credit related is recognized as an allowance for credit losses (ACL) on the balance sheet, limited to the amount by which the amortized cost basis exceeds the fair value, with a corresponding adjustment to earnings.

Long-Lived Assets to Be Held & Used

55. We have reviewed long-lived assets and certain identifiable intangibles to be held and used for impairment whenever events or changes in circumstances have indicated that the carrying amount of the assets might not be recoverable and have appropriately recorded the adjustment.

Tax Matters

56. We understand the potential penalties for failure to disclose reportable tax transactions to the taxing authorities and have fully disclosed to FORVIS any and all known reportable tax transactions.

57. The calculations of current and deferred tax expense (benefit) and related current and deferred tax assets and liabilities have been determined based on appropriate provisions of applicable enacted tax laws and regulations.

Shareholder Matters

58. Except as disclosed in the consolidated financial statements, there are no equity repurchase options or agreements, or equity reserved for options, warrants, conversions, or other requirements.

Topic 326, Financial Instruments – Credit Losses

59. In connection with the adoption of ASU 2022-02, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instrument*s, we represent the following:

    a. We have adopted the standard using a modified retrospective approach for all financial assets measured at amortized costs.

    b. For available-for-sale debt securities, for which an other-than-temporary impairment had been recognized before the effective date, if any, we have applied the prospective transition approach with amounts previously recognized in accumulated other comprehensive income as of the date of adoption that relate to improvements in cash flows expected to be collected. These amounts will continue to be accreted income over the remaining life of the asset. Recoveries of amounts previously written off relating to improvements in cash flows after the date of adoption are recorded in earnings when received.

    c. We have made the following elections to:

        i. Not measure an allowance for credit losses on accrued interest receivable amounts by writing off the uncollectible accrued interest receivable balance in a timely manner and have made the appropriate disclosures.

        ii. Write off accrued interest amounts by reversing interest income and have made the appropriate disclosures.

        iii. Present accrued interest receivable balances separately from the associated financial assets on the balance sheet.

        iv. Use, as a practical expedient, the fair value of the collateral at the reporting date to estimate credit losses for financial assets where repayment is expected to be provided substantially through the operation or sale of the collateral and when the borrower is experiencing financial difficulty.

    d. We have adjusted historical loss information to reflect the current conditions and reasonable and supportable forecast not already reflected in the historical loss information.

    e. We have developed our estimate of expected credit losses based on the amortized cost basis, excluding purchase accounting adjustments for acquired loans and net deferred fees and costs for internally generated loans.

    f. We have elected to revert to historical loss information at the input level following the reasonable and supportable forecast period, which we assume to be eight quarters.

DocuSigned by:

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4/29/2024

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4/29/2024

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