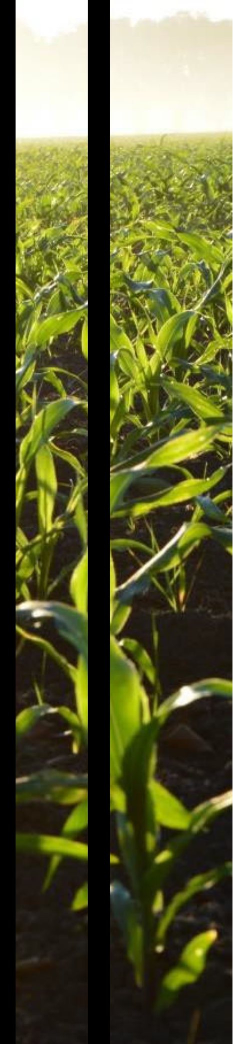
Annual Report 2022



KENBANCORP

KB
KENTLAND BANK

Today - Tomorrow - Together

KENBANCORP
Kentland, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2022, 2021 and 2020

CONTENTS

2022 ANNUAL REPORT

To: Our Shareholders
Our Customers
Our Communities

We are pleased to report that KenBancorp and its wholly-owned subsidiary Kentland Bank experienced another solid earnings year in 2022. On a comparison basis, earnings decreased 1.73% in 2022 to $4,136,768, equating to a Return on Average Equity of 9.79%, versus 8.74% in 2021. The Return on Average Assets remained the same in 2022 as 2021 at 1.19%.

Our credit quality remains very strong. This, coupled with our strong capital position, allowed the Board of Directors to declare a special dividend payable on January 3, 2023, of $25.00 per share once again. Please note this is in addition to a regular dividend of $8.50 per share. The total dividends declared in 2022 were $41.75 per share, an increase of $0.25 per share over 2021.

In the first half of 2022, the Bank's interest margins continued to be hampered by the effects of the Federal Government aid and stimulus money that was provided to businesses and consumers over the last couple of years. However, in the second half of the year, we saw gains in our net interest margins as loan growth accelerated. As always, quality loan growth will be the key to our future earnings potential.

With a couple of large bank failures over the past few weeks, the banking industry has been in the news headlines with concerns of the overall health of our financial infrastructure. Rest assured, Kentland Bank, like most community banks, are well capitalized and not involved in some of the risk lending practices these failed institutions embraced. Kentland Bank's past due and problem loan categories remain at historically low levels.

I would again like to thank our Bank Officers and Employees for their dedicated efforts over the past year. They represent community banking at its finest, helping our Bank, our Customers, and our Communities thrive!
Lastly, your Board of Directors remain committed to doing everything we can to enhance your shareholder value. We continue to look for innovative ways that will accomplish this without putting your investment at an unacceptable risk level. This is our primary duty to all shareholders, and we are mindful of the trust you have put in us.

Thank you all for your continued trust and support! We wish you and your family and businesses a prosperous 2023!

Mitchell H. Van Kley
Chairman of the Board

Special Disclaimer
This statement has not been reviewed or confirmed for accuracy or relevance by the Federal Deposit Insurance Corporation.

FINANCIAL HIGHLIGHTS

	2022	2021	% Change
PERFORMANCE DATA			
Net income	$ 4,136,768	4,209,582	(1.73%)
Per share	44.17	44.74	(1.28%)
Cash dividends declared	3,884,883	3,913,894	(0.74%)
Per share	41.75	41.50	0.60%
Book value per share, December 31	395.72	507.74	(22.06%)
PERFORMANCE RATIOS			
Return on average equity (1)	9.79%	8.74%	
Return on average assets	1.19%	1.19%	
BALANCE SHEET AT YEAR ENDS			
Total assets	$ 341,467,759	$ 355,931,633	
Loans (net)	172,888,920	161,125,449	
Total deposits	288,025,549	293,779,214	
Shareholders' equity	36,615,819	47,894,903	
BALANCE SHEET DAILY AVERAGES			
Total assets	$ 347,934,000	$ 352,798,000	
Loans (net)	160,360,000	162,330,000	
Total deposits	303,549,000	293,161,000	

(1) Calculated using simple average of consolidated equity.

FIVE YEAR RECORD

	Net Income		Dividends		Shareholders' Equity	
Year	Amount	Per Share	Amount	Per Share	Amount	Per Share
2018	5,482,385	60.26	4,559,580	50.00	43,006,826	471.32
2019	5,193,412	56.50	4,653,291	50.50	45,616,087	494.27
2020	4,229,274	45.33	3,827,909	41.00	48,448,632	518.49
2021	4,209,582	44.74	3,913,894	41.50	47,894,903	507.74
2022	4,136,768	44.17	3,884,883	41.75	36,615,819	395.72

KENBANCORP
TRANSACTION PRICE RANGES OF COMMON STOCK AND CASH DIVIDENDS

	As of	Transaction Price	Cash Dividend	Transaction Price	Cash Dividend
		2022		2021	
First Quarter	3/31	$ 530	$ -	$ 528	$ -
Second Quarter	6/30	539	8.25	539	8.00
Third Quarter	9/30	539	-	541	-
Fourth Quarter	12/31	553	33.50	551	33.50

KenBancorp's common stock is traded in the Newton County, Indiana area. The common stock of KenBancorp has never been actively traded, and there has never been an established market for the stock.

INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors
KenBancorp
Kentland, Indiana

Opinion

We have audited the consolidated financial statements of KenBancorp, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2022, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of KenBancorp as of December 31, 2022 and 2021, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2022, 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 Financial Statements section of our report. We are required to be independent of KenBancorp and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 KenBancorp's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(Continued)

Auditor’s Responsibilities for the Audit of the 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 KenBancorp’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 KenBancorp’s ability to continue as a going concern for a reasonable period of time.

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

Other Information

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

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

Crowe LLP

Crowe LLP

South Bend, Indiana
April 11, 2023

KENBANCORP
CONSOLIDATED BALANCE SHEETS
December 31, 2022 and 2021

	2022	2021
ASSETS		
Cash and due from financial institutions	$ 7,249,829	$ 72,817,823
Federal funds sold	96,921	34,516
Cash and cash equivalents	7,346,750	72,852,339
Interest earning deposits in other financial institutions	2,605,464	4,259,623
Available-for-sale (AFS) securities	134,686,370	97,263,691
Loans, net	172,888,920	161,125,449
Restricted equity securities - at cost	662,350	703,850
Premises and equipment - net	6,512,288	5,388,804
Other real estate owned - net	1,221,558	1,370,637
Bank owned life insurance	10,932,490	10,756,904
Accrued interest receivable and other assets	4,611,569	2,210,336
Total assets	$ 341,467,759	$ 355,931,633
LIABILITIES		
Deposits		
Demand, non-interest bearing	$ 100,926,507	$ 94,905,168
Interest-bearing transaction accounts	128,156,098	131,489,004
Time	58,942,944	67,385,042
Total deposits	288,025,549	293,779,214
Borrowings	12,947,000	10,000,000
Accrued interest payable and other liabilities	3,879,391	4,257,516
Total liabilities	304,851,940	308,036,730
SHAREHOLDERS' EQUITY		
Common stock, no par value: 1,000,000 shares authorized; 92,530 – 2022 and 94,330 – 2021 shares issued and outstanding	88,000	88,000
Additional paid-in capital	7,786,457	8,762,854
Retained earnings	37,488,303	37,236,418
Accumulated other comprehensive income (loss)	(8,746,941)	1,807,631
Total shareholders' equity	36,615,819	47,894,903
Total liabilities and shareholders' equity	$ 341,467,759	$ 355,931,633

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2022, 2021, and 2020

	2022	2021	2020
INTEREST INCOME			
Loans, including related fees	$ 8,930,132	$ 9,355,694	$ 10,057,359
Federal funds sold and other	255,806	79,076	39,987
Taxable securities	1,361,973	543,095	773,975
Nontaxable securities	1,416,614	1,444,984	1,278,650
Total interest income	11,964,525	11,422,849	12,149,971
INTEREST EXPENSE			
Deposits	737,816	742,030	1,091,312
Borrowings	44,280	107,978	98,728
Total interest expense	782,096	850,008	1,190,040
NET INTEREST INCOME	11,182,429	10,572,841	10,959,931
PROVISION (RECOVERY) FOR LOAN LOSSES	(51,134)	(349,491)	139,000
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	11,233,563	10,922,332	10,820,931
OTHER INCOME			
Service charges on deposit accounts	511,354	473,961	414,723
Security gains (losses)	-	-	(3,354)
Bank owned life insurance income	175,586	184,408	202,306
Other	1,014,174	884,548	866,575
Total other income	1,701,114	1,542,917	1,480,250
OTHER EXPENSES			
Salaries and employee benefits	4,965,726	4,747,747	4,654,682
Occupancy	592,103	466,491	548,242
Furniture and equipment	483,600	518,604	501,138
FDIC insurance	91,683	89,374	64,527
Other real estate owned, net	15,151	17,998	(37,385)
Other	2,088,752	1,858,797	1,726,404
Total other expenses	8,237,015	7,699,011	7,457,608
INCOME BEFORE INCOME TAXES	4,697,662	4,766,238	4,843,573
Income tax expense	560,894	556,656	614,299
NET INCOME	$ 4,136,768	$ 4,209,582	$ 4,229,274
EARNINGS PER SHARE	$ 44.17	$ 44.74	$ 45.33

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
Years ended December 31, 2022, 2021, and 2020

	2022	2021	2020
Net income	$ 4,136,768	$ 4,209,582	$ 4,229,274
Other comprehensive income (loss):			
Unrealized holding gains and (losses) on available-for-sale securities	(13,672,013)	(1,680,752)	2,314,190
Reclassification adjustments for (gains) and losses recognized in income	-	-	3,354
Net unrealized gains and (losses)	(13,672,013)	(1,680,752)	2,317,544
Tax effect	3,117,441	360,501	(494,428)
Total other comprehensive income (loss)	(10,554,572)	(1,320,251)	1,823,116
Comprehensive income (loss)	$ (6,417,804)	$ 2,889,331	$ 6,052,390

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2022, 2021, and 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balances at January 1, 2020	$ 88,000	$ 7,519,006	$ 36,704,315	$ 1,304,766	$ 45,616,087
Net income	-	-	4,229,274	-	4,229,274
Other comprehensive income	-	-	-	1,823,116	1,823,116
Cash dividends ($41.00 per share)	-	-	(3,827,909)	-	(3,827,909)
Issuance of common stock (1,283 shares)	-	678,523	-	-	678,523
Purchase & retirement of stock (131 shares)	-	-	(70,459)	-	(70,459)
Balances at December 31, 2020	88,000	8,197,529	37,035,221	3,127,882	48,448,632
Net income	-	-	4,209,582	-	4,209,582
Other comprehensive loss	-	-	-	(1,320,251)	(1,320,251)
Cash dividends ($41.50 per share)	-	-	(3,913,894)	-	(3,913,894)
Issuance of common stock (1,064 shares)	-	565,325	-	-	565,325
Purchase & retirement of stock (175 shares)	-	-	(94,491)	-	(94,491)
Balances at December 31, 2021	88,000	8,762,854	37,236,418	1,807,631	47,894,903
Net income	-	-	4,136,768	-	4,136,768
Other comprehensive loss	-	-	-	(10,554,572)	(10,554,572)
Cash dividends ($41.75 per share)	-	-	(3,884,883)	-	(3,884,883)
Issuance of common stock (1,364 shares)	-	727,215	-	-	727,215
Purchase & retirement of stock (3,164 shares)	-	(1,703,612)	-	-	(1,703,612)
Balances at December 31, 2022	$ 88,000	$ 7,786,457	$ 37,488,303	$ (8,746,941)	$ 36,615,819

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2022, 2021 and 2020

	2022	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,136,768	$ 4,209,582	$ 4,229,274
Adjustments to reconcile net income to net cash from operating activities:			
Provision (recovery) for loan losses	(51,134)	(349,491)	139,000
Depreciation	406,656	341,697	375,572
Security (gains) losses	-	-	3,354
Net amortization (accretion) on securities	342,989	409,214	385,780
Income earned on bank owned life insurance	(175,586)	(184,408)	(202,306)
Gain on writedown on other real estate owned	(33,970)	(47,241)	(98,129)
Change in:			
Interest receivable and other assets	(2,401,233)	(86,480)	429,271
Interest payable and other liabilities	2,796,190	(563,840)	(52,414)
NET CASH FROM OPERATING ACTIVITIES	5,020,680	3,729,033	5,209,402
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest earning deposits	1,654,159	984,142	1,306,235
Proceeds from maturities, calls, and principal repayments of securities	10,711,857	24,753,973	32,020,381
Purchase of securities	(62,147,218)	(28,989,754)	(36,209,474)
Redemption of Federal Home Loan Bank stock	41,500	-	-
Proceeds from sales of other real estate owned	183,049	98,938	395,638
Loans made to customers, net of principal repayments	(11,712,337)	9,995,302	4,154,326
Premises and equipment expenditures, net	(1,530,140)	(1,481,253)	(1,111,795)
NET CASH (USED IN) FROM INVESTING ACTIVITIES	(62,799,130)	5,361,348	555,311
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	(5,753,665)	23,047,787	23,927,964
Dividends paid	(3,944,077)	(3,860,486)	(3,765,083)
Proceeds from federal funds purchased	2,947,000	-	-
Proceeds from Federal Home Loan Bank advances	10,000,000	-	5,000,000
Repayments of Federal Home Loan Bank advances	(10,000,000)	-	-
Proceeds from issuance and sale of stock	727,215	565,325	678,523
Purchase and retirement of stock	(1,703,612)	(94,491)	(70,459)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(7,727,139)	19,658,135	25,770,945
NET CHANGE IN CASH AND CASH EQUIVALENTS	(65,505,589)	28,748,516	31,535,658
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	72,852,339	44,103,823	12,568,165
CASH AND CASH EQUIVALENTS END OF YEAR	$ 7,346,750	$ 72,852,339	$ 44,103,823
Cash paid during the year for:			
Interest	$ 819,881	$ 837,508	$ 1,349,934
Income taxes	325,000	1,132,000	470,000
Supplemental noncash disclosures:			
Transfers from loans to other real estate owned	$ -	$ -	$ 114,080

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of KenBancorp (the Company) and its wholly owned subsidiaries Kentland Risk Management and Kentland Bank (the Bank) and its wholly owned subsidiary Kentland Investment, Inc., Kentland Portfolio, LLC, Kentland Holdings, Inc. and Kentland Funding Corp. Intercompany balances and transactions are eliminated in consolidation. The Company generates the majority of its commercial, mortgage and installment loans and receives deposits from customers located primarily in the Newton, Jasper and Tippecanoe counties, Indiana and Iroquois and Vermillion counties, Illinois market areas. Although the overall loan portfolio is diversified, a substantial portion of the debtors' ability to honor their contracts is dependent upon the agriculture industry. A majority of the Bank's loans are secured by specific items of collateral including business and consumer assets and real property.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through April 11, 2023, which is the date the financial statements were available to be issued.

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

Cash Flows: Cash and cash equivalents include cash on hand, demand deposits in other institutions and daily federal funds sold. Cash flows are reported net for customer loan and deposit transactions, time deposits with other institutions and short-term borrowings with maturities of 90 days or less.

Securities: Available-for-sale securities are those which management may decide to sell before maturity. They are reported at fair value, with unrealized gains or losses included in other comprehensive income. Premiums and discounts are recognized as interest income using the level yield method. Premiums are amortized to the earliest call date, while discounts are amortized to maturity. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future are reported at the principal balance outstanding net of unearned interest, deferred loan fees and costs and an allowance for loan losses. Interest on loans is accrued over the term of the loans based on the principal balance outstanding, except where substantial doubt exists as to the collectability of a loan, in which case the accrual of interest is discontinued. Loan fees, net of certain direct loan origination costs, are deferred and recognized into interest income over the term of the loan using the level yield method. Payment Protection Plan (PPP) loans fees received from the SBA are deferred and recognized into interest income over the life of the loan on a straight-line basis or until the loans are forgiven.

For all classes of financing receivables, interest income is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the 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 received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance For Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the balance of a loan to be uncollectible and is confirmed. Charge-offs of the commercial, agriculture, and real estate portfolio segments are recognized when the loss is confirmed and the amount of the charge-off is the difference in the recorded investment in the loan and the discounted collateral value or the discounted future cash flows, whichever is deemed to be the most likely source of repayment. Loans in the installment and other portfolio segments are typically charged-off no later than 120 days past due. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component covers loans collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and adversely classified loans; trends in volume and terms of loans; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial; Agriculture; Real Estate; Installment; and Other.

Each of these portfolio segments has different risk characteristics and the allowance for loan loss methodology addresses these risks as follows:

Commercial loans include those secured by pledged assets of the customer’s business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer’s ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer’s ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Real estate loans are those that are secured by residential property. This portfolio segment includes fixed and adjustable-rate mortgage loans that provided for the full amortization of principal and home equity lines of credit. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Company seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Installment and Other portfolio segments include consumer installment loans and leases. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less costs to sell. If fair value declines, a valuation allowance is recorded through expense and included with other real estate owned expenses. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated on the straight-line method over asset useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease.

Bank Owned Life Insurance: 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.

Restricted Equity Securities: Restricted equity includes Federal Home Loan Bank (FHLB) stock and Farmer Mac stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

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

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans and commercial 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.

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

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

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

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive (loss) income. Other comprehensive income (loss) includes unrealized gains and losses on securities available for sale, which are also recognized as separate components of equity.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Earnings per share are calculated based on the weighted average number of shares outstanding during the year. The weighted average number of shares used was 93,665 in 2022, 94,098 in 2021, 93,301 in 2020.

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

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. These restrictions pose no practical limit on the ability of the Bank or holding company to pay dividends at historical levels.

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

Revenue from Contracts with Customers: Revenue from contracts with customers includes service charges on deposits, interchange fees and other income. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company’s progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Service charges on deposits: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include fees for services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer’s request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customer’s account balance.

Interchange Fees (included in Other income): The Company earns interchange fees from credit and debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Other income: The Company earns fees for transaction-based services, such as check cashing, purchasing checks and money order and wire transfers. Fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer’s request. The Company did not finance sales of other real estate owned so gains and losses are recognized when the sale is completed.

(Continued)

NOTE 2 - SECURITIES

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

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency	$ 67,701,417	$ -	$ (3,504,659)	$ 64,196,758
Municipal bonds	422,000	46,947	-	468,947
States and political subdivisions	63,710,481	76,339	(7,340,688)	56,446,132
Mortgage-backed investments, residential	14,218,794	715	(644,976)	13,574,533
	$ 146,052,692	$ 124,001	$ (11,490,323)	$ 134,686,370

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency	$ 19,114,630	$ -	$ (282,828)	$ 18,831,802
Municipal bonds	450,000	91,060	-	541,060
States and political subdivisions	62,116,145	2,399,964	(213,502)	64,302,607
Mortgage-backed investments, residential	13,277,225	327,783	(16,786)	13,588,222
	$ 94,958,000	$ 2,818,807	$ (513,116)	$ 97,263,691

The fair value of securities available-for-sale at year-end, by contractual maturity is shown below. Securities not due at a single maturity, primarily mortgage-backed investments, are shown separately.

	December 31, 2022	
	Amortized Cost	Fair Value
Due in one year or less	$ 10,907,601	$ 10,764,163
Due after one year through five years	62,200,217	58,784,132
Due after five years through ten years	6,015,473	5,694,483
Due after ten years	52,710,607	45,869,059
Mortgage-backed	14,218,794	13,574,533
	$ 146,052,692	$ 134,686,370

Proceeds from the sale of securities was $0 for 2022, 2021, and 2020. Gross gains from sales of securities were $0 for 2022, 2021, and 2020, respectively. There were no realized gains or losses in 2022 and 2021. Realized gains and losses in 2020 were from calls.

(Continued)

NOTE 2 - SECURITIES (Continued)

Securities with a fair value of approximately $15,391,000 at year-end 2022 and $20,685,000 at year-end 2021 were pledged to secure FHLB advances.

At year-end 2022 and 2021 there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year-end 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2022						
U.S. Treasury and Agency	$ 46,905,238	$ (1,379,513)	$17,291,520	$(2,125,146)	$ 64,196,758	$(3,504,659)
States and political subdivisions	28,177,853	(2,018,527)	21,338,518	(5,322,161)	49,516,371	(7,340,688)
Mortgage-backed investments, residential	11,546,063	(615,873)	977,356	(29,103)	12,523,419	(644,976)
Total	$ 86,629,154	$ (4,013,913)	$39,607,394	$(7,476,410)	$126,236,548	$(11,490,323)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2021						
U.S. Treasury and Agency	$ 16,975,054	$ (241,613)	$ 1,458,785	$ (41,215)	$18,433,839	$ (282,828)
States and political subdivisions	15,790,181	(158,018)	1,965,676	(55,484)	17,755,857	(213,502)
Mortgage-backed investments, residential	1,109,646	(16,768)	2,665	(18)	1,112,311	(16,786)
Total	$ 33,874,881	$ (416,399)	$ 3,427,126	$ (96,717)	$37,302,007	$ (513,116)

Unrealized losses on investments have not been recognized into income because the issuer(s) are of high credit quality (rated AA or higher or issued by U.S. government agencies). These securities are currently performing. Management does not intend to sell, and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the investments approach their maturity date and/or market rates decline.

(Continued)

NOTE 3 - LOANS

Loans are comprised of the following classifications:

	2022	2021
Commercial	$ 105,816,966	$ 95,352,514
Agricultural	50,916,683	48,864,629
Real estate	7,394,544	7,267,947
Installment	3,370,277	3,919,309
Lease receivables and other, net	7,009,135	7,414,410
Subtotal	174,507,605	162,818,809
Less: Allowance for loan losses	(1,618,685)	(1,693,360)
	$ 172,888,920	$ 161,125,449

Included in the loan portfolio are loans made to officers, directors, principal shareholders, and their associates. At December 31, 2022 and 2021, such loans totaled $0.

Included in the commercial loan segment are loans originated as part of the Paycheck Protection Program (PPP), which are excluded from the allowance calculation as they are fully guaranteed loans. At December 31, 2022 and 2021, such loans totaled $1,001,000 and $1,880,000, respectively.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2022, 2021 and 2020:

December 31, 2022	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,095,822	$ 321,630	$ 89,074	$ 55,718	$ 82,281	$ 48,835	$ 1,693,360
Provision for loan losses	(85,941)	12,940	61,845	(8,315)	17,172	(48,835)	(51,134)
Loans charged-off	-	-	-	(5,594)	(23,997)	-	(29,591)
Recoveries	200	-	-	5,850	-	-	6,050
Total ending allowance balance	$ 1,010,081	$ 334,570	$ 150,919	$ 47,659	$ 75,456	$ -	$ 1,618,685

December 31, 2021	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,121,362	$ 620,544	$ 128,237	$ 71,871	$ 90,659	$ 34,148	$ 2,066,821
Provision for loan losses	(38,068)	(298,914)	(39,163)	10,382	1,585	14,687	(349,491)
Loans charged-off	-	-	-	(31,598)	(9,963)	-	(41,561)
Recoveries	12,528	-	-	5,063	-	-	17,591
Total ending allowance balance	$ 1,095,822	$ 321,630	$ 89,074	$ 55,718	$ 82,281	$ 48,835	$ 1,693,360

December 31, 2020	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,043,934	$ 698,305	$ 113,558	$ 67,097	$ 64,122	$ (15,387)	$ 1,971,629
Provision for loan losses	78,157	(77,761)	39,440	4,610	45,019	49,535	139,000
Loans charged-off	(12,528)	-	(24,761)	(15,123)	(19,575)	-	(71,987)
Recoveries	11,799	-	-	15,287	1,093	-	28,179
Total ending allowance balance	$ 1,121,362	$ 620,544	$ 128,237	$ 71,871	$ 90,659	$ 34,148	$ 2,066,821

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2022 and 2021:

2022	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 63,439	$ -	$ -	$ -	$ 63,439
Collectively evaluated for impairment	1,010,081	334,570	87,480	47,659	75,456	-	1,555,246
Total ending allowance balance	$ 1,010,081	$ 334,570	$ 150,919	$ 47,659	$ 75,456	$ -	$ 1,618,685

	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Loans:							
Loans individually evaluated for impairment	$ 141,965	$ -	$ 154,388	$ 5,586	$ -	$ -	$ 301,939
Loans collectively evaluated for impairment	105,675,001	50,916,683	7,240,156	3,364,691	7,009,135	-	174,205,666
Total ending loans balance	$105,816,966	$ 50,916,683	$ 7,394,544	$ 3,370,277	$ 7,009,135	$ -	$ 174,507,605

2021	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 2,500	$ -	$ -	$ -	$ 2,500
Collectively evaluated for impairment	1,095,822	321,630	86,574	55,718	82,281	48,835	1,690,860
Total ending allowance balance	$ 1,095,822	$ 321,630	$ 89,074	$ 55,718	$ 82,281	$ 48,835	$ 1,693,360

	Commercial	Agricultural	Real Estate	Installment	Lease Receivables and Other	Unallocated	Total
Loans:							
Loans individually evaluated for impairment	$ 147,007	$ -	$ 157,715	$ 11,113	$ -	$ -	$ 315,835
Loans collectively evaluated for impairment	95,205,507	48,864,629	7,110,232	3,908,196	7,414,410	-	162,502,974
Total ending loans balance	$ 95,352,514	$ 48,864,629	$ 7,267,947	$ 3,919,309	$ 7,414,410	$ -	$ 162,818,809

(Continued)

NOTE 3 - LOANS (Continued)

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

2022	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$ 141,278	$ 141,965	$ -	$ 145,109	$ 782	$ 12,883
Commercial real estate	-	-	-	-	-	-
Real estate	28,053	29,210	-	31,074	282	2,042
Installment	5,578	5,586	-	7,879	9	376
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	174,909	176,761	-	184,062	1,073	15,301
With an allowance recorded:						
Commercial	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Real estate	123,439	125,178	63,439	124,833	-	-
Installment	-	-	-	-	-	-
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	123,439	125,178	63,439	124,833	-	-
Total	$ 298,348	$ 301,939	$ 63,439	$ 308,895	$ 1,073	$ 15,301

2021	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$ 146,261	$ 147,007	$ -	$ 149,939	$ 782	$ 782
Commercial real estate	-	-	-	23,579	213	213
Real estate	140,354	141,496	-	165,506	120	120
Installment	10,909	11,113	-	13,228	10	10
Lease receivables and other, net	-	-	-	6,329	-	-
Subtotal	297,524	299,616	-	358,581	1,125	1,125
With an allowance recorded:						
Commercial	-	-	-	-	-	-
Commercial real estate	-	-	-	-	-	-
Real estate	15,495	16,219	2,500	17,784	162	162
Installment	-	-	-	10,920	-	-
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	15,495	16,219	-	28,704	162	162
Total	$ 313,019	$ 315,835	$ 2,500	$ 387,285	$ 1,287	$ 1,287

For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

(Continued)

NOTE 3 - LOANS (Continued)

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

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2022:

December 31, 2022	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Commercial	$ -	$ 100,929
Commercial real estate	-	-
Agriculture	-	-
Residential real estate	123,439	10,133
Installment	-	6,551
Lease Receivable and other, net	-	219,392
Total	$ 123,439	$ 337,005

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2021:

December 31, 2021	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Commercial	$ -	$ -
Commercial real estate	7,800	41,852
Agriculture	-	-
Residential real estate	123,438	-
Installment	-	-
Lease Receivable and other, net	-	111,714
Total	$ 131,238	$ 153,566

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2022 and 2021 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2022						
Commercial	$ -	$ -	$ 100,929	$ 100,929	$ 105,716,037	$ 105,816,966
Agriculture	-	-	-	-	50,916,683	50,916,683
Real estate	16,190	-	133,552	149,742	7,244,802	7,394,544
Installment	4,724	154	6,551	11,429	3,358,848	3,370,277
Lease Receivable and other, net	117,887	56,794	219,392	394,073	6,615,062	7,009,135
Total	$ 138,801	$ 56,948	$ 460,424	$ 656,173	$ 173,851,432	$ 174,507,605

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2021						
Commercial	$ 423,855	$ -	$ 49,652	$ 473,507	$ 94,879,007	$ 95,352,514
Agriculture	-	-	-	-	48,864,629	48,864,629
Real estate	-	-	123,438	123,438	7,144,509	7,267,947
Installment	12,006	13,793	-	25,799	3,893,510	3,919,309
Lease Receivable and other, net	-	-	111,714	111,714	7,302,696	7,414,410
Total	$ 435,861	$ 13,793	$ 284,804	$ 734,458	$ 162,084,351	$ 162,818,809

There were no new modifications that were classified as troubled debt restructurings in 2022, 2021 or 2020.

The Company has allocated $0 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings with total balances of $147,551 and $161,675, respectively, as of December 31, 2022 and 2021. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The troubled debt restructurings described above increased the allowance for loan losses by $0 as of December 31, 2022, 2021, and 2020 and resulted in no additional provision in 2022, 2021 or 2020. There were not any loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2022, 2021, and 2020. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

(Continued)

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans in the Company's portfolio and is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged and are likely to have a loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

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

December 31, 2022	Pass	Special Mention	Substandard	Doubtful
Commercial	$ 104,384,651	$ 417,559	$ 1,014,756	$ -
Agriculture	50,719,485	-	197,198	-
Real estate	7,260,992	-	133,552	-
Installment	3,363,726	-	6,551	-
Lease receivables and other, net	6,789,743	-	219,392	-
Total	$ 172,518,597	$ 417,559	$ 1,571,449	$ -

December 31, 2021	Pass	Special Mention	Substandard	Doubtful
Commercial	$ 92,502,967	$ 1,309,672	$ 1,539,875	$ -
Agriculture	48,445,830	-	418,799	-
Real estate	7,144,509	-	123,438	-
Installment	3,919,309	-	-	-
Lease receivables and other, net	7,302,696	-	111,714	-
Total	$ 159,315,311	$ 1,309,672	$ 2,193,826	$ -

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	2022	2021
Land	$ 482,987	$ 482,987
Buildings and improvements	6,625,661	6,020,035
Furniture and equipment	2,530,604	3,875,846
Total	9,639,252	10,378,868
Accumulated depreciation	(3,126,964)	(4,990,064)
Net	$ 6,512,288	$ 5,388,804

The Company leases some equipment. Lease expense was $2,000 for 2022 $2,000 for 2021, and $59,000 for 2020.

NOTE 5 - DEPOSITS

Time deposits of $250,000 or more were $18,507,000 and $16,536,000 at year-end 2022 and 2021. Contractual maturities of time deposit accounts for the next five years:

2023	$ 26,968,458
2024	21,872,492
2025	3,488,722
2026	4,116,622
2027	2,496,650
Total	$ 58,942,944

Deposits held for officers, directors, principal shareholders, and their associated totaled $5,330,000 and $5,942,000 at December 31, 2022 and 2021, respectively.

NOTE 6 - BORROWINGS

A summary of the carrying value of the Corporation's borrowings at December 31, 2022 and 2021 is presented below:

	2022 Balance	2021 Balance
Federal Funds Purchased	$ 2,947,000	$ -
Federal Home Loan Bank (FHLB) Advances	10,000,000	10,000,000
	$ 12,947,000	$ 10,000,000

Federal funds purchased are generally due in one day and bear interest at market rates. FHLB advances are secured by a blanket pledge of eligible securities and mortgage loans and require monthly interest payments.

(Continued)

NOTE 6 – BORROWINGS (Continued)

The following fixed rate advance is outstanding at December 31, 2022 and 2021:

Maturity Date	Interest Rate	2022 Balance	2021 Balance
January 6, 2023	4.19%	$ 5,000,000	$ 5,000,000
December 14, 2027	3.74	5,000,000	5,000,000
		$ 10,000,000	$ 10,000,000

The advances are payable at their maturity, with a prepayment penalty for early payments.

The following schedule outlines required annual principal payments:

Due in 2023	$ 5,000,000
Due in 2027	5,000,000
Total	$ 10,000,000

In 2016, the Company obtained a $7.8 million unsecured line of credit at Banker's Bank with an interest rate of 4.5% and a balance of $0 as of December 31, 2022 and an interest rate of 0.25% and a balance of $0 as of December 31, 2021.

NOTE 7 - BENEFIT PLANS

The Bank maintains a 401(k) plan which covers substantially all employees and allows employee contributions. The Bank may elect to make annual contributions on behalf of the participants, as determined by the Board of Directors, and is required to match subject to certain limitations, elective employee contributions. Total annual expense for the plan was $183,278 for 2022, $190,055 for 2021 and $192,000 for 2020. Participants are able to direct all, or a portion of their contributions to be invested in company stock. Shares are purchased from the Holding Company at the current market price. During 2022, 2021 and 2020, the Plan acquired 1,023 shares for $546,035 shares for $362,877, and 909 shares for $480,357, respectively.

The Director Stock Purchase Plan allows each director to annually acquire up to 50 shares of Company stock at the current market price. During 2022, 2021 and 2020 directors acquired 341 , 381, and 374 shares per year, respectively, for an aggregate price of $181,180, $202,448, and $198,166, respectively.

NOTE 8 - INCOME TAXES

Income tax expense was as follows:

	2022	2021	2020
Income tax/(benefit):			
Current	$ 631,461	$ 396,110	$ 801,675
Deferred	(56,655)	167,283	(152,455)
Change in valuation allowance	(13,912)	(6,737)	(34,921)
Total	$ 560,894	$ 556,656	$ 614,299

(Continued)

NOTE 8 - INCOME TAXES (Continued)

The difference between the financial statement tax provision and the amount computed by applying the federal income tax rate of 21% to pretax income is reconciled as follows:

	2022	2021	2020
Income tax computed at statutory rate	$ 986,509	$ 1,000,910	$ 1,017,150
Effect of:			
Tax exempt income	(298,631)	(304,825)	(270,736)
State tax (net of Federal benefit)	23,950	24,029	24,676
Bank owned life insurance	(36,876)	(38,726)	(42,484)
Captive insurance	(125,815)	(125,438)	(114,636)
Other	11,757	706	329
Income tax expense	$ 560,894	$ 556,656	$ 614,299

Year-end deferred tax assets/(liabilities) are comprised of the following components:

	2022	2021
Deferred tax assets from:		
Allowance for loan losses	$ 272,090	$ 285,865
State net operating loss	38,433	52,344
Other real estate owned write-downs	22,369	36,483
Net unrealized loss on securities	2,619,381	-
Deferred Loan Fees	8,218	25,090
	2,960,491	399,782
Deferred tax liabilities for:		
Net unrealized gain on securities	-	(498,060)
Depreciation	(158,238)	(139,997)
FHLB stock dividends	(16,126)	(17,146)
Leases	(29,407)	(68,845)
REIT spillover dividend	(4,170)	(91,643)
Prepaid Expenses	(108,770)	(114,723)
Other	(2,336)	(2,020)
	(319,047)	(932,434)
Valuation allowance	(38,432)	(52,344)
	$ 2,603,012	$ (584,996)

The Company has an Indiana state tax operating loss carryforward of $992,758 which begins to expire in 2027. The Company maintains a valuation allowance as it does not anticipate generating taxable income in Indiana to utilize this carryforward prior to its expiration.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana and Illinois. The Company is no longer subject to examination by taxing authorities for years before 2019. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company did not have any amounts accrued for interest and penalties at December 31, 2022 and 2021.

(Continued)

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES

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

Financial instruments with off-balance-sheet risk were as follows at year end:

	2022		2021	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	$ -	$ 52,385,667	$ -	$ 45,403,935
Letters of Credit	-	296,652	-	240,662

Commitments to make loans are generally made for periods of 90 days or less. The Bank had $0 commitments to make loans at December 31, 2022 and 2021.

The Bank was not required to maintain a reserve at year-end 2022 and 2021 in the form of cash on hand or as a deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

NOTE 10 - CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision’s capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was fully phased in at 2.50% in 2022 and 2021. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution’s category.

(Continued)

NOTE 10 - CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS (Continued)

Actual and required capital amounts and ratios are presented below at year-end.

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2022						
Total Capital (to Risk Weighted Assets)	$ 45,225,000	18.95%	$ 19,090,000	8.0%	$ 23,863,000	10.0%
Common Tier 1 (CET1)	43,606,000	18.27	14,318,000	6.0	19,090,000	8.0
Tier 1 Capital (to Risk Weighted Assets)	43,606,000	13.13	13,284,000	4.0	16,605,000	5.0
Tier 1 Capital (to Average Assets)	43,606,000	18.27	10,738,000	4.5	15,511,000	6.5

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2021						
Total Capital (to Risk Weighted Assets)	$ 46,154,000	19.73%	$ 18,717,000	8.0%	$ 23,396,000	10.0%
Common Tier 1 (CET1)	44,461,000	19.00	14,038,000	6.0	18,717,000	8.0
Tier 1 Capital (to Risk Weighted Assets)	44,461,000	12.43	16,099,000	4.0	17,887,000	5.0
Tier 1 Capital (to Average Assets)	44,461,000	19.00	10,528,000	4.5	15,208,000	6.5

NOTE 11 - FAIR VALUE

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

> Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.
>
> Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.
>
> Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

NOTE 11 - FAIR VALUE (Continued)

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

Other Real Estate Owned: Nonrecurring adjustments to certain land development and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at December 31, 2022 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	$ -	$ 64,196,758	$ -	$ 64,196,758
Municipal bonds	-	468,947	-	468,947
States and political subdivisions	-	56,446,132	-	56,446,132
Mortgage-backed securities - residential	-	13,574,533	-	13,574,533
Total investment securities available-for-sale	$	$134,686,370	$	$134,686,370

NOTE 11 - FAIR VALUE (Continued)

	Fair Value Measurements at December 31, 2021 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	$ -	$ 18,831,802	$ -	$ 18,831,802
Municipal bonds	-	541,060	-	541,060
States and political subdivisions	-	64,302,607	-	64,302,607
Mortgage-backed securities - residential	-	13,588,222	-	13,588,222
Total investment securities available-for-sale	$ -	$ 97,263,691	$ -	$ 97,263,691

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

	Fair Value Measurements at December 31, 2022 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Residential real estate	-	-	61,739	61,739
Installment	-	-	-	-

	Fair Value Measurements at December 31, 2021 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Residential real estate	-	-	13,719	13,719
Installment	-	-	-	-

(Continued)

NOTE 11 - FAIR VALUE (Continued)

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $125,178 with a valuation allowance of $63,439 at December 31, 2022, resulting in a reduced provision for loan losses of $0 for the year ended December 31, 2022. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $16,219 with a valuation allowance of $2,500 at December 31, 2021, resulting in a reduced provision for loan losses of $2,829 for the year ended December 31, 2021.

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2022 and 2021:

2022	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – residential real estate	$ 61,739	Sales comparison approach	Adjustment for differences between the comparable sales and age of valuations	10-20%

2021	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – residential real estate	$ 13,719	Sales comparison approach	Adjustment for differences between the comparable sales and age of valuations	10-20%

KB
KENTLAND BANK

Today - Tomorrow - Together

Member FDIC

www.kentlandbank.com