ANNUAL REPORT 2022

ALLENDALE BANCORP, INC.

TABLE OF CONTENTS

LOCATIONS

301 East Main Street
Allendale, IL 62410
618.299.4411

1515 West Ninth Street
Mt. Carmel, IL 62863
618.263.6511

200 West Church Street
West Salem, IL 62476
618.456.8884

1500 West Main Street
Carmi, IL 62821
618.380.9500

Board of Directors Listed From Left To Right:

Seated:	Robert J. Coleman - Chairman of the Board
	Donald W. Price - President
	Shane E. Gray - Vice Chairman
Standing:	Bryan K. Loeffler - Secretary/Treasurer
	Michael E. White - Director
	Michael A. Dunkel - Director
	Philip G. Hipsher - Director

"Real community banks like The First National Bank of Allendale are focused on the fair, honest, and personalized delivery of quality financial services. They avoid complexity and concentrate on the things that they do best. They stay independent and local and small enough to really know their customers. And they are there for the long term (like 116 years). Congratulations to my favorite Real Community Bank on another successful year!" -Robert J. Coleman, Chairman of the Board of Directors

EXECUTIVE MANAGEMENT GROUP

Executive Management Group Listed From Left To Right:

Seated: Elizabeth Fiero
Donald Price
Dean Ackerman

Standing: Rodney Loeffler
Tamara McFarland
Kristin Schrader
David Guinnip
Katherine Clark

"In 2022, FNB delivered a strong financial performance along with continuing our history of personalized customer service, providing a positive workplace for our employees and support for our local communities. I would like to thank our customers and shareholders for their continued support and confidence. All of these result in a strong foundation for the Bank and I am optimistic that 2023 will be even better!" -Tamara McFarland, Senior Vice President, Chief Financial Officer & Cashier

Corporate Profile

Allendale Bancorp, Inc. is a one-bank holding company whose wholly-owned subsidiary is The First National Bank of Allendale. The stock of Allendale Bancorp, Inc. is held by 268 shareholders, a high percentage of whom live in Wabash County, Illinois and the surrounding area. The holding company and the bank have no other corporate affiliations.

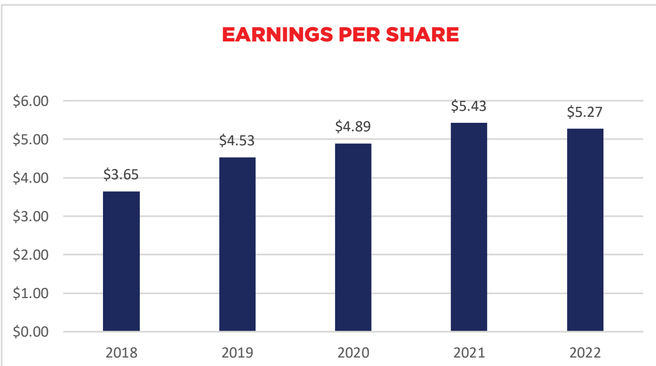
Corporate Direction Statement

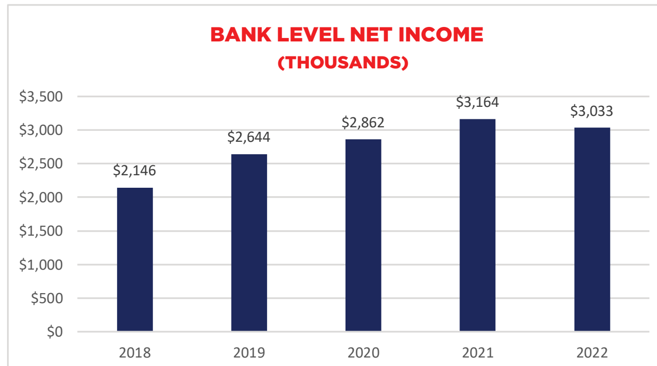
Within the constraint of economic prudence, the bank will continue to 1) explore new market opportunities 2) expand services and products, and 3) improve its technology and market position, with the goal of becoming the dominant bank in its markets while remaining the friendly and responsive bank that people prefer.

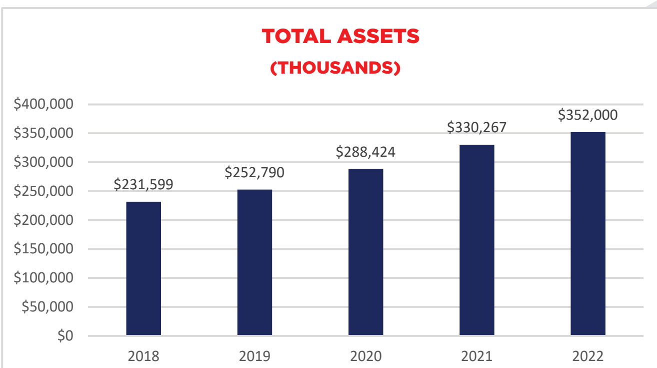
Corporate Value Statement

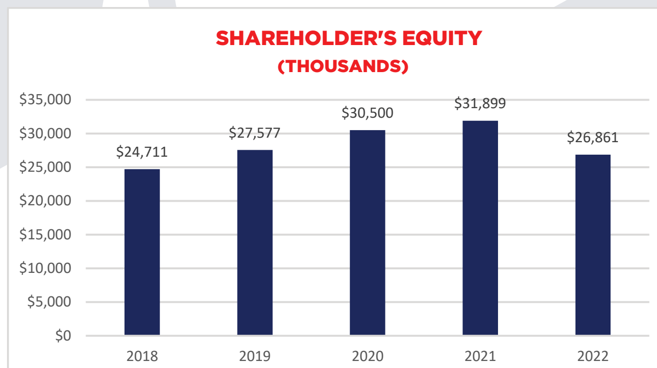
The Bank is commited to providing its customers with superior service, its shareholders with enhanced value, its communities with economic opportunity, and its staff with rewarding and enjoyable employment.

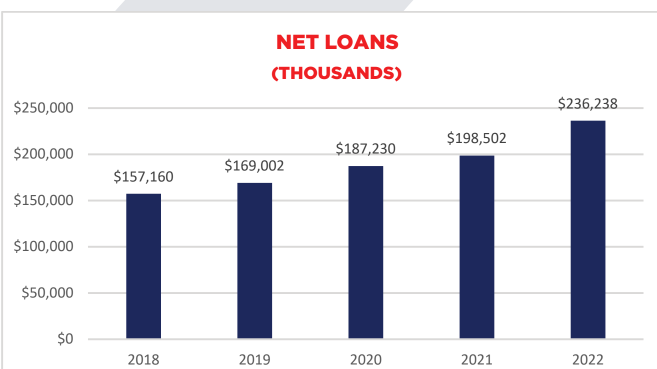
FINANCIAL HIGHLIGHTS

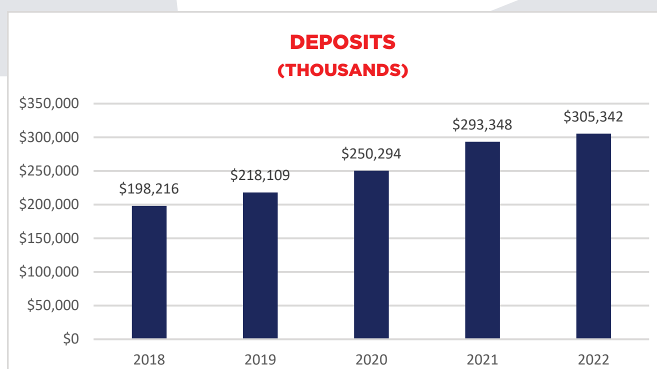




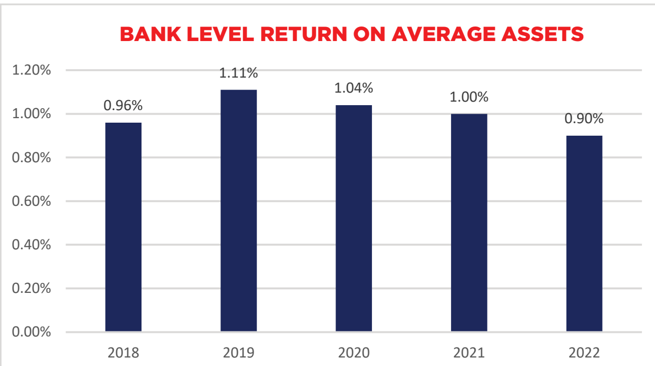


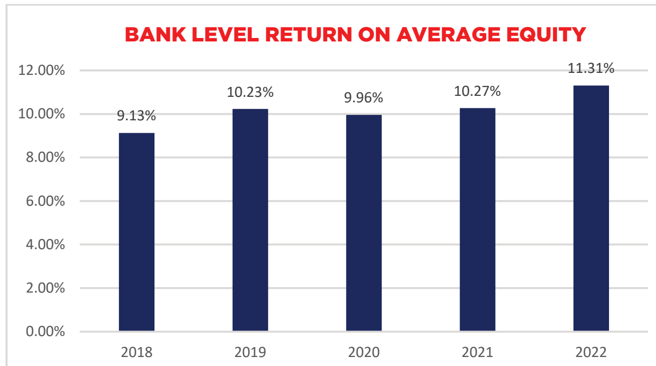


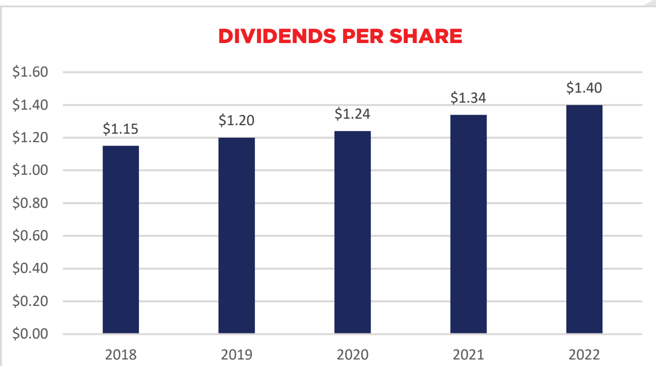


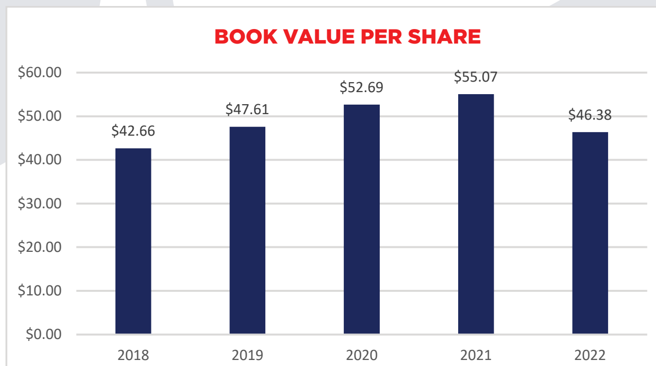


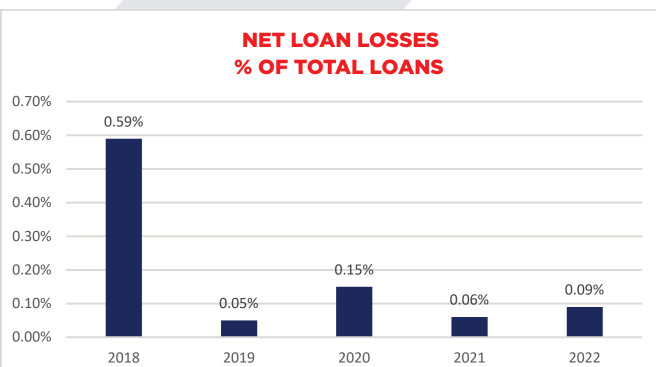
FINANCIAL HIGHLIGHTS

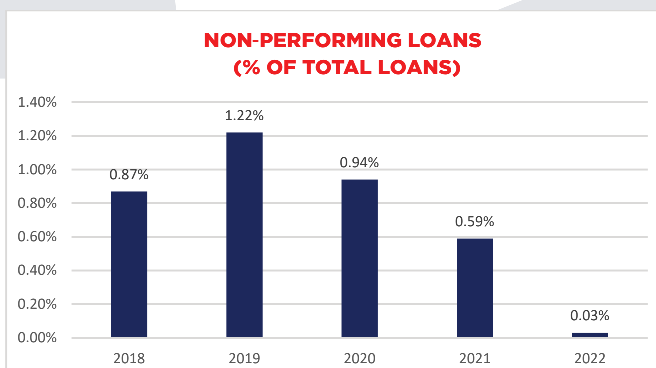












PRESIDENT'S LETTER TO SHAREHOLDERS

Dear Shareholders & Friends,

On behalf of our directors, officers, and employees, it is my pleasure to present you with the Allendale Bancorp, Inc. 2022 Annual Report.

In 2022 we returned to a more normal business environment. The effects of the COVID-19 pandemic on our staff and our business culture began to wane, creating the path back to traditional business practices. The last few years have taught us that together we can accomplish almost anything. Community banks across the country demonstrated the ability to persevere through difficult times. The First National Bank of Allendale was no exception.

Early in the year, we announced the purchase of certain assets and assumption of certain liabilities belonging to Wabash Savings Bank in Mt. Carmel. Regulators from the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Insurance Corporation have approved this transaction. Final approval from the Illinois Department of Financial and Professional Regulation is expected soon. We look forward to merging the two oldest financial institutions in Wabash County and our ability to offer new products and services to the Wabash Savings Bank customers.

In the third quarter of 2022, the Bank again underwent a very successful Safety and Soundness examination, which was conducted by the OCC. We continue to enjoy a very health and collaborative relationship with our regulatory agencies, which will only help in moving us forward into the next year.

Donald W. Price
President & CEO

PRESIDENT'S LETTER TO SHAREHOLDERS

Financial Highlights

For the fiscal year ended December 31, 2022, Allendale Bancorp, Inc. reported net earnings exceeding $3 million for the second consecutive year. 2022 earnings were $3,033,059, as compared to $3,144,552 in 2021. Fees from SBA PPP lending activity were realized almost entirely in 2021: $998,000 in 2021, compared to just $1,203 in 2022. Net income per share was $5.24, compared to $5.43 in 2021.

As of December 31, 2022, total consolidated assets surpassed $350 million for the first time in the bank's history. Assets grew by $24.8 million, or 7.9%. The main drivers of this growth were an increase in total deposits of $12.0 million, or 4.1%, and $14 million in borrowings from the Federal Home Loan Bank.   Increased lending activity generated loan growth of 14.8% from the prior year. Year-end loan balances reached an all-time high of $238.6 million, amounting to a year-over-year growth rate of 18.8%. Shareholders' equity of $26.9 million decreased $5.0 million from 2021, or 16%. This results from an increase year over year in unrealized losses in our securities portfolio due to an increased interest rate environment. Net unrealized losses on securities were $6.9 million at December 31, 2022. Management has the ability to hold these securities to recovery or maturity.

Interest income for 2022 was $11.8 million, an increase of $989,000 or 9.1%. Loan growth referenced above has been centered in the areas of agricultural and commercial real estate. We continue to benefit from our loan production office in White County. The outstanding balance from loans generated from this office now exceeds $50 million. Despite this continued loan growth, we continue to adhere to conservative underwriting practices. Past due and non-performing loans remain at historic lows. Our focus will remain on building and maintaining strong relationships with our customers in the communities we serve.

The current state of the economy, with inflation at a rate not seen in many years, has prompted the Fed to initiate an unprecedented pace of interest rate increases. Interest expense increased 38.5% in 2022, from $1.3 million to $1.8 million. This increase can be attributed to rising offering rates of deposit products and additional borrowing to fund loan growth. Overall, our balance sheet has been structured as asset sensitive, resulting in a repricing of loans and investments that outpaces the increase of interest expense. Net interest income increased $456 thousand, or 4.8%.

Non-interest income for 2022 was $1.1 million, compared to $1.3 million in 2021. While increases were realized in the areas of service charges and interchange fees from debit card use, rising interest rates have impacted 1-4 mortgage lending. Refinance activity steadily declined throughout the year. Gain on sale of loans for 2022 was $126 thousand, compared to $359 thousand in 2021.

Financial Highlights Continued

Non-interest expense amounted to $6.9 million, a 4.5% increase over non-interest expense of $6.6 million the prior year. Additional personnel expense is the main contributor to this increase. Our overhead expenses continue to be well-managed and rank below those of peer banks our size.

In 2022, the company increased its dividend by 6¢ per share, or 4.48%. The board of directors recognizes the importance of driving long-term value to shareholders and acknowledges the importance of the dividend as part of that value. The increase reflects the strong financial condition of the bank and confidence in our growth strategy.

The bank serves a critical role in the lives and work of individuals, families, businesses, charitable and civic organizations, and our local communities. In 2022, The First National Bank of Allendale again supported a wide range of non-profit organizations throughout the communities we serve. Below is a listing of organizations to which we have provided financial assistance:

Allendale Jr. High Class Trip
Allendale Ruritan Club
Allendale School Cheerleaders
Carmi Bulldog Booster Club
Carmi Bulldogs Swim Team
Carmi Chamber Golf Tournament
Carmi High School
City of Mt. Carmel Fireworks
Edward County Quilts
Edwards County 4-H
Edwards County Ag in the Classroom
Edwards County Sheriff's Department
Edwards County Sports Boosters
Guardian Center
Keensburg Christian Church 5-K
Lancaster Christian School
MCHS After Prom
MCHS Sports Boosters
MCHS Cheerleaders
MCHS FFA
MCHS Football
MCHS Golf
MCHS Music Boosters
MCHS Tennis
MCJHS 8th Grade Dance
Mt. Carmel Area Economic Alliance
Mt. Carmel C.E.O. Class
Mt. Carmel Elementary Book Blast
Mt. Carmel Kiwanis Club
Mt. Carmel Lions Club
Mt. Carmel Mens' Golf Club
Mt. Carmel Shop With a Fireman
Mt. Carmel Soccer Association
NCOE FFA Alumni Ronald McDonald House
Saline County Stockmen's Association
St. Francisville Fireworks
St. Francisville UMC Food Drive
St. Mary's School
The Lunch Wagon
Wabash Area Development
Wabash County Chamber Scholarship
Wabash County HERO Foundation
Wabash County Merchants Association
Wabash County Operation Share
Wabash County Shelter Buddies
Wabash County Youth Baseball & Softball
Wabash General Hospital Foundation
Wabash Rally Against Cancer
Wabash Valley Arts Council
Wabash Valley College
Wabash Valley Sharks
Wabash Valley Shrine Club
Wabash Valley Youth In Action
Wee Kare Pre-school
West Salem Athletic Association
West Salem Development 5-K
West Salem Development Association
West Salem Fireworks
West Salem Grade School
White County 4 Good on the Go
White County 4-H
White County Archery
White County Farm to Table
White County Historical Society
WVC Fall Orientation
WVC Foundation
WVC Rotaract
WVC Student Senate

Financial Highlights Continued

As we complete our 116th year in business and look forward to 2023, we will continue to adapt and meet our customers where they are, either face to face or in the digital world of online/mobile banking. We're excited to rollout a newly designed website with interfaces that allow for online account opening, loan applications, and online chat capabilities with our customer service representatives.

In addition, efforts will be placed in formalizing succession of key personnel due to upcoming retirements. Emphasis on conservative growth will continue as we develop the optimal organizational chart that allows for asset growth to $500 million and beyond. We look forward to navigating these challenges and feel optimistic in regards to the future of this company.

We are appreciative to our employees for their dedication and commitment to serving our customers and communities. We are equally appreciative to our shareholders for their continued support as we grow the bank.

Best wishes for a prosperous and healthy 2023.

Sincerely,

Donald W. Price

Donald W. Price
President and Chief Executive Officer

KEMPER
CPA GROUP LLP
Certified Public Accountants and Consultants

Independent Auditor's Report

To the Board of Directors and Stockholders
Allendale Bancorp, Inc.
Allendale, Illinois

Opinion

We have audited the accompanying consolidated financial statements of Allendale Bancorp, Inc. (a corporation) and Subsidiaries (Bank), which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allendale Bancorp, Inc. and Subsidiaries as of December 31, 2022 and 2021, 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 audit in accordance with auditing standards generally accepted in the United States of America. 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 Allendale Bancorp, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes 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 financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Allendale Bancorp, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

7200 Eagle Crest Blvd. ■ Evansville, IN 47715-8154
Phone: (812) 421-8000 Fax: (812) 421-2292 kempercpa.com

To the Board of Directors and Stockholders
Allendale Bancorp, Inc.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the 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 Allendale Bancorp, Inc. and Subsidiaries' 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 financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Allendale Bancorp, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

To the Board of Directors and Stockholders
Allendale Bancorp, Inc.

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.

Kemper CPA Group, LLP

Evansville, Indiana
March 3, 2023

Certified Public Accountants and Consultants

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2022	2021
Cash and Cash Equivalents		
Cash	$ 4,637,786	$ 2,990,868
Due from banks, non-interest bearing	1,411,027	1,225,353
Total Cash and Cash Equivalents	6,048,813	4,216,221
Due from banks, interest bearing	5,306,259	11,301,893
Debt Securities available-for-sale	83,731,788	101,096,083
Loans receivable, net of allowance for loan losses of $2,371,672 in 2022 and $2,305,554 in 2021	236,238,409	198,501,668
Accrued interest receivable	2,744,443	2,289,825
Premises and equipment, net	4,614,514	4,564,769
Federal Home Loan Bank stock, restricted, at cost	1,167,694	435,411
Other stock, restricted, at cost	157,850	157,850
Bank owned life insurance	6,726,445	6,574,497
Other assets	5,117,162	1,129,269
Total Assets	$ 351,853,377	$ 330,267,486
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$ 112,064,678	$ 106,900,693
Savings and NOW deposits	126,332,535	132,519,904
Time deposits	66,906,664	53,927,836
Total deposits	305,303,877	293,348,433
Accrued expenses and other liabilities	2,522,435	2,297,060
Federal Home Loan Bank advances	17,165,945	2,723,139
Total Liabilities	324,992,257	298,368,632
Stockholders' Equity		
Common stock, $1 par value; 1,000,000 shares authorized and 579,198 issued and outstanding	579,198	579,198
Additional paid-in capital	1,668,119	1,668,119
Retained earnings	31,513,275	29,291,093
Accumulated other comprehensive income, net of income tax	(6,899,472)	360,444
Total Stockholders' Equity	26,861,120	31,898,854
Total Liabilities and Stockholders' Equity	$ 351,853,377	$ 330,267,486

See accompanying notes.

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2022	2021
Interest Income		
Loans, including fees	$ 9,973,331	$ 9,411,259
Investment securities	1,698,716	1,393,495
Federal funds sold	141,195	19,284
Total Interest Income	11,813,242	10,824,038
Interest Expense		
Deposits	1,635,313	1,202,451
Other borrowed funds	150,393	72,802
Total Interest Expense	1,785,706	1,275,253
Net Interest Income	10,027,536	9,548,785
Provision for Loan Losses	(250,000)	(75,000)
Net Interest Income after Provision for Loan Losses	9,777,536	9,473,785
Noninterest Income		
Service charges on deposit accounts	309,484	274,545
ATM interchange fees	453,282	420,100
Other income	30,661	0
Life insurance	207,437	247,202
Gain on sale of loans	125,762	358,920
Total Noninterest Income	1,126,626	1,300,767
Noninterest Expenses		
Salaries and employee benefits	3,997,868	3,728,425
Occupancy	737,460	677,735
FDIC deposit insurance fees	89,739	77,031
Director fees	181,200	181,300
Professional and consulting fees	339,878	342,401
Repairs and maintenance	183,224	182,180
Depreciation	339,352	341,586
Data processing fees	382,494	436,245
Other expense	660,912	640,391
Total Noninterest Expenses	6,912,127	6,607,294
Income before Income Taxes	3,992,035	4,167,258
Income Tax Expense	958,976	1,022,706
NET INCOME	$ 3,033,059	$ 3,144,552
Earnings per share	$ 5.24	$ 5.43
Weighted average shares outstanding	579,198	579,198

See accompanying notes.

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2022	2021
Net income	$ 3,033,059	$ 3,144,552
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on debt securities available for sale:		
Unrealized holding losses arising during the period, net of deferred tax benefit (expense) of ($3,027,825) in 2022 and $158,182 in 2021	(7,259,916)	(985,315)
Other comprehensive income (loss), net of income tax	(7,259,916)	(985,315)
Total comprehensive income	$ (4,226,857)	$ 2,159,237

See accompanying notes.

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For Years Ended December 31, 2022 and 2021

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2021	$579,198	$1,668,119	$26,922,667	$ 1,345,759	$30,515,743
Comprehensive income:					
Net income			3,144,552		3,144,552
Other comprehensive income				(985,315)	(985,315)
Total comprehensive income					2,159,237
Cash dividends declared			(776,126)		(776,126)
Balance at December 31, 2022	$579,198	$1,668,119	$29,291,093	$ 360,444	$31,898,854
Comprehensive income:					
Net income			3,033,059		3,033,059
Other comprehensive income				(7,259,916)	(7,259,916)
Total comprehensive income					(4,226,857)
Cash dividends declared			(810,877)		(810,877)
Balance at December 31, 2022	$579,198	$1,668,119	$31,513,275	$ (6,899,472)	$26,861,120

See accompanying notes.

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	2021
Cash flows from operating activities:		
Net income	$ 3,033,059	$ 3,144,552
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	250,000	75,000
Depreciation and amortization	346,167	345,939
Net amortization on securities available-for-sale	813,153	894,612
Bank owned life insurance income	(151,948)	13,887
(Increase) decrease in		
Accrued interest receivable	(454,618)	33,343
Other assets	(808,703)	178,842
Increase (decrease) in		
Other liabilities	225,375	(323,143)
Total adjustments	219,426	1,218,480
Net cash provided by operating activities	3,252,485	4,363,032
Cash flows from investing activities:		
Net increase in interest bearing deposits	5,995,634	6,802,833
Proceeds from sales and maturities of available-for-sale debt securities	12,772,750	13,217,458
Purchases of available-for-sale debt securities	(6,667,530)	(53,252,638)
Purchase of Federal Reserve Bank stock	(732,283)	0
Net (increase) decrease in loans receivable	(37,986,741)	(11,345,465)
Purchases of premises and equipment	(377,411)	(96,015)
Net cash used in investing activities	(26,995,581)	(44,673,827)
Cash flows from financing activities:		
Net increase (decrease) in demand, savings and NOW deposit accounts	(1,035,069)	51,141,643
Net increase (decrease) in other time deposits	12,978,828	(8,099,126)
Additional Federal Home Loan Bank advances	14,442,806	0
Payments on Federal Home Loan Bank advances	0	(1,838,376)
Cash dividends	(810,877)	(776,126)
Net cash provided by financing activities	25,575,688	40,428,015
Net increase in cash and cash equivalents	1,832,592	117,220
Cash and cash equivalents, beginning of year	4,216,221	4,099,001
Cash and cash equivalents, end of year	$ 6,048,813	$ 4,216,221
Interest paid	$ 1,741,479	$ 1,347,146
Income taxes paid	$ 1,029,432	$ 875,000

See accompanying notes.

Note 1 – Nature of Operations and Significant Accounting Policies

Allendale Bancorp, Inc. (the "Bancorp") and its wholly-owned subsidiary, First National Bank of Allendale (the "Bank" and together with Bancorp) provide various banking and other financial services to their customers. The Bank's customers include individuals and commercial enterprises within its principal market area consisting of Wabash, Lawrence, White and Edwards Counties in Illinois. The Bank operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Bank maintains correspondent banking relationships. Note 4 discusses the types of securities the Bank invests in. Note 5 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

The accounting and reporting policies and practices of the Bank conform with accounting principles generally accepted in the United States of America. The following is a summary of the Bank's significant accounting policies.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bancorp and the Bank as well Allendale Holdings, LLC. Allendale Holdings, LLC is a Limited Liability Company that the Bank wholly owns.

In consolidation, all significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Use of Estimates (Concluded)

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

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.

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet. Such items along with net income are components of comprehensive income.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, non-interest bearing (including cash items in process of clearing); interest-bearing deposits in banks with an original maturity of 90 days or less, and federal funds sold. Generally federal funds are sold for one-day periods.

The Bank considers all non-interest bearing deposits in other banks and federal funds sold to be cash and cash equivalents. The Bank has deposit accounts with several financial institutions. The accounts are insured by the FDIC up to $250,000 per bank at December 31, 2022 and 2021. At December 31, 2022 and 2021 the Bank had approximately $757,000 and $750,000 in excess of the FDIC insurance limit, respectively.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Investment Securities

Debt securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Bank's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Gains and losses realized on sales of investment debt securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities, and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Restricted stock is stock from the Federal Home Loan Bank of St. Louis (“FHLB”), which is restricted as to its marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank’s investment in this stock is carried at cost. A determination as to whether there has been an impairment of restricted stock investments is performed on a quarterly basis and includes a review of the current financial condition of the issuer.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability 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 include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines 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 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.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Continued)

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment.

Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Continued)

Current economic conditions take into account the average unemployment rate for Wabash County, Illinois and for the nation, with the most significance given to the Wabash County data. The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Management considers loans impaired when, based on current information, it is probable that the Bank will not collect all principal and interest payments according to contractual terms.

Loans are evaluated for impairment in accordance with the Bank's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Bank is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Concluded)

All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Valuation of long-lived assets

The Bank accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets, which range from 5 to 10 years for bank equipment and 39 years for bank buildings. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Bank Owned Life Insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policy is classified in noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Foreclosed Properties

Foreclosed properties include properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of this property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred. There were no foreclosed properties at December 31, 2022 and 2021.

Revenue Recognition:

In the ordinary course of business, the Bank recognizes income from various revenue generating activities. Certain revenues are generated from contracts with customers where such revenues are recognized when, or as, services or products are transferred to customers for amounts to which the Bank expects to be entitled. Certain specific policies related to revenue recognition from contracts with customers include:

Service Fees

Service fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

ATM Interchange Fees

ATM interchange fees revenue includes interchange fees from ATM cards processed through card association networks, and other transaction fees. The Bank records interchange fees as services are provided.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

Note 1 – Nature of Operations and Significant Accounting Policies (Concluded)

Income Taxes (Concluded)

In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Bank's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2019.

Fair Value Measurements

The Bank follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Date of Management's Review

The Bank has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 3, 2023, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

Note 2 – Compensating Balances

Compensating balance arrangements exist with various corresponding banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to $0 at December 31, 2022 and 2021.

Note 3 – Certificates of Deposit

The Bank had certificates of deposits totaling $3,750,000 and $3,500,000 at December 31, 2022 and 2021, in the accompanying financial statements. The certificates bear interest at rates ranging from 0.50% to 3.10% and have maturities ranging from March 2023 to April 2027, with penalties for early withdrawal. Any penalties for early withdrawal would not have material effect on the financial statements.

Note 4 – Debt Securities Available-for-Sale

The amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2022 and 2021 are as follows:

December 31, 2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$49,567,276	$ 54,656	$ 5,288,971	$ 44,332,961
U.S. government and agency securities	12,630,637	1,325	980,530	$ 11,651,432
Mortgage backed securities	31,461,172	3,639	3,717,416	27,747,395
Total available-for-sale securities	$93,659,085	$ 59,620	$ 9,986,917	$ 83,731,788

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$51,601,710	$ 1,040,055	$ 268,610	$ 52,373,155
U.S. government and agency securities	12,340,039	121,825	59,065	12,402,799
Mortgage backed securities	36,635,708	166,262	481,841	36,320,129
Total available-for-sale securities	$100,577,457	$ 1,328,142	$ 809,516	$101,096,083

Note 4 – Debt Securities Available-for-Sale (Continued)

	December 31, 2022		December 31, 2021	
Available-for-Sale	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,263,014	$ 4,223,191	$ 4,010,984	$ 4,060,683
Due from one to five years	15,838,340	15,000,592	14,769,277	14,986,616
Due in more than five to ten years	16,264,494	14,935,267	14,600,720	15,084,622
Due after ten years	25,832,064	21,825,342	30,560,768	30,644,033
Subtotal	62,197,912	55,984,392	63,941,749	64,775,954
Mortgage backed securities	31,461,173	27,747,396	36,635,708	36,320,129
Total	$93,659,085	$ 83,731,788	$100,577,457	$101,096,083

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2022						
Available-for-sale securities	$ 3,247,816	$ (28,555)	$ 79,145,827	$ (9,958,362)	$ 82,393,643	$ (9,986,917)
December 31, 2021						
Available-for-sale securities	$ 0	$ 0	$ 60,100,169	$ (809,516)	$ 60,100,169	$ (809,516)

The bonds in an unrealized loss position at December 31, 2022 and 2021 were temporarily impaired due to the current interest rate environment and not increased credit risk. In estimating other-than-temporary impairment losses, the Bank considers, among other things (i) the length of time and the extent of which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery of fair value. All securities owned by the Bank are payable at par at maturity. At December 31, 2022, the 274 debt securities with unrealized losses have depreciated 11.12% from the Bank's amortized cost basis.

Note 4 – Debt Securities Available-for-Sale (Concluded)

At December 31, 2021 there were 152 debt securities with unrealized losses that had depreciated 1.37% from the Bank's amortized cost basis.

Included in the investment portfolio at December 31, 2022 and 2021 are securities valued at approximately $66,600,600 and $57,900,000, respectively, which are pledged to secure public deposits, and for other purposes required or permitted by law.

Note 5 – Loans and Allowance for Loan Losses

Loans consist of the following at December 31, 2022 and 2021:

	2022	2021
Construction Real Estate	$ 3,978,964	$ 3,377,388
Commercial Real Estate	84,387,497	62,784,337
Other Real Estate		
Residential Real Estate	62,445,331	53,757,386
Commercial and Industrial	68,058,664	62,556,140
Consumer and Installment	19,329,596	17,827,286
Leases	410,029	504,685
Total Loans	238,610,081	200,807,222
Less: Allowance for Loan Loss	(2,371,672)	(2,305,554)
Net Loans	$ 236,238,409	$ 198,501,668

The Bank's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

Note 5 – Loans and Allowance for Loan Losses (Continued)

As of December 31, 2022 and 2021, the real estate loan portfolio constituted 63% and 60%, respectively of the total loan portfolio. This can be broken down further into the following categories: 2% and 2% construction, 35% and 31% commercial real estate and 26% and 27% residential real estate loans, as a percent of total loans for December 31, 2022 and 2021, respectively. The Bank's construction loans are secured by real property where the loan funds will be used to acquire land and to construct or to improve existing residential or commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 12 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.25 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 3 to 5 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Bank also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 29% and 31% of the loan portfolio at December 31, 2022 and 2021, respectively. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Note 5 – Loans and Allowance for Loan Losses (Continued)

The following tables show the allowance for loan losses and the recorded investment in loans for the years ended December 31, 2022 and 2021:

Loans by Segment as of December 31, 2022	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 3,720	$ 838,597	$ 1,061,559	$ 383,908	$ 0	$ 17,770	$ 2,305,554
Charge-offs	0	(96,922)	0	(151,429)	0	0	(248,351)
Recoveries	0	2,680	16,212	45,577	0	0	64,469
Provision	24,509	192,570	(187,858)	158,223	76,836	(14,280)	250,000
Ending Balance	$ 28,229	$ 936,925	$ 889,913	$ 436,279	$ 76,836	$ 3,490	$ 2,371,672
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 1,500	$ 0	$ 0	$ 0	$ 0	$ 1,500
Ending Balance, Collectively Evaluated for Impairment	$ 28,229	$ 935,425	$ 889,913	$ 436,279	$ 76,836	$ 3,490	$ 2,370,172
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 3,978,964	$ 146,832,828	$ 68,058,664	$ 19,329,596	$ 410,029		$ 238,610,081
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 68,974	$ 0	$ 6,464	$ 0		$ 75,438
Ending Balance, Collectively Evaluated for Impairment	$ 3,978,964	$ 146,763,854	$ 68,058,664	$ 19,323,132	$ 410,029		$ 238,534,643
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Loans by Segment as of December 31, 2021	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 3,872	$ 801,421	$ 849,084	$ 422,602	$ 0	$ 258,571	$ 2,335,550
Charge-offs	0	(113,525)	(295)	(96,979)	0	0	(210,799)
Recoveries	0	2,101	35,949	67,753	0	0	105,803
Provision	(152)	148,600	176,821	(9,468)	0	(240,801)	75,000
Ending Balance	$ 3,720	$ 838,597	$ 1,061,559	$ 383,908	$ 0	$ 17,770	$ 2,305,554
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 19,933	$ 250,000	$ 15,397	$ 0	$ 0	$ 285,330
Ending Balance, Collectively Evaluated for Impairment	$ 3,720	$ 818,664	$ 811,559	$ 368,511	$ 0	$ 17,770	$ 2,020,224
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 3,377,388	$ 116,541,723	$ 62,556,140	$ 17,827,286	$ 504,685		$ 200,807,222
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 290,596	$ 593,319	$ 66,263	$ 0		$ 950,178
Ending Balance, Collectively Evaluated for Impairment	$ 3,377,388	$ 116,251,127	$ 61,962,821	$ 17,761,023	$ 504,685		$ 199,857,044
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit quality indicators as of December 31, 2022 and 2021 are as follows:

The Bank's internally assigned grade:

Pass – Credits will range from minimal risk to average risk to acceptable risk. At a minimum, these borrowers will have satisfactory asset quality and liquidity, adequate debt capacity and coverage, and good management. A year of losses or fluctuating earnings may be reflected but borrowers have sufficient strength and financial flexibility to offset these events. Performance is generally in accordance with company projections.

Watch – Credits have specific weaknesses which can be corrected and are not seriously harmful to the Bank's overall position in the credit. These borrowers have limited additional debt capacity, modest coverage and average or below average asset quality, margins, and market share. Some management weaknesses or a lack of depth exists. A lack of current financial statement/information may limit the Bank's ability to assess repayment. Insufficient support in the credit file or other technical exceptions which may impair the credit file or other technical exceptions which may impair the credit-worthiness of the borrower may exist. Inconsistent or declining trends, strained cash flow, and/or high leverage may be evident and indicate an above-average risk. Adverse outside events or a management change may also indicate above-average risk. Also, the borrower may be performing as agreed but may be adversely affected by developing problems. Additional monitoring may be required.

Special Mention – Credits to borrowers who exhibit potential weaknesses or downward trends deserving Bank management's close attention. Loans in this category are currently protected but may impair the Bank's credit position if not corrected in a timely manner. A weak or speculative market or economic conditions exist which may, in the future, adversely affect the obligor. No loss of principal or interest is expected but these borrowers are potentially weak and maintain a marginal position. Adverse trends in operating results and/or financial ratios are of a magnitude and degree that warrant this rating. Improper control over collateral, lack of proper documentation, and/or a notable deviation from Bank policy or prudent lending practices may be present. The borrower could be in a turnaround situation. Any credit categorized as Special Mention by regulatory authorities would be classified by the Bank as special mention.

Note 5 – Loans and Allowance for Loan Losses (Continued)

Substandard – Credits have well-defined weaknesses which jeopardize repayment. These credits are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. Although loss does not have to exist in any one asset, there is a possibility of a partial loss of interest and/or principal which will occur if deficiencies are not corrected. It is not necessary for a loan to have an identifiable loss in order to be rated Substandard. A credit may be current and supported by collateral or a contingent obligor but the rating may still be warranted. Characteristics of this type of credit would include: reliance on a secondary source of repayment, significant deterioration in financial condition or cash flow, questionable repayment capacity based on delinquency status, and/or poor performance. Any credit classified as substandard by the regulatory authorities and any consumer loan 90 days or more past due would be classified by the Bank as substandard.

Doubtful – Credits have the traits mentioned in the Substandard category in addition to weaknesses which make collection or liquidation in full highly questionable or improbable. If serious problems exist and the potential for loss of principal is likely, the Bank would classify the credit as doubtful. The possibility of loss is extremely likely, but is not identified at this point because of pending factors. These factors could include: merger and/or acquisition, liquidation procedures, a capital injection, perfecting liens on additional collateral, and/or refinancing plans. Management has demonstrated a history of failing to meet agreements. Any credit classified as doubtful by the regulatory authorities would also be classified by the Bank as doubtful.

Loss – Credits are generally uncollectible and are no longer considered a bankable asset. This rating does not mean a loan has no recovery or salvage value. However, it is not practicable or desirable to defer writing off the loss credit even though partial recovery may occur. Loans do not remain as booked assets while long-term recoveries are attempted. Credits in this category should be accompanied with a recommendation for charge-off. In order to affect timely recognition of loan losses, credits with this rating should normally be charged off when identified. As such, the Loss rating is a one-time designation. This category should include consumer credits 120 days or more past due. As of December 31, 2022 and 2021, the Bank had no loans with a loss rating that had not been charged off. As such, this category has not been included in the table below.

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2022

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$ 1,320,131	$ 2,500,593	$ 56,448,425	$ 61,262,940	$ 25,181,561
Watch	158,240	0	2,060,440	819,251	175,230
Special Mention	0	0	0	0	218,538
Substandard	0	0	0	363,140	303,303
Doubtful	0	0	0	0	0
Total	$ 1,478,371	$ 2,500,593	$ 58,508,865	$ 62,445,331	$ 25,878,632

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2022 (Concluded)

	Commercial and Industrial	Consumer and Installment: Automobile	Consumer and Installment: Other	Financing Leases
Grade:				
Pass	$ 66,234,660	$ 7,966,493	$ 11,343,197	$ 410,029
Watch	1,133,333	8,513	0	0
Special Mention	0	0	0	0
Substandard	690,671	0	11,393	0
Doubtful	0	0	0	0
Total	$ 68,058,664	$ 7,975,006	$ 11,354,590	$ 410,029

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022, and 2021

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2021

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$1,350,237	$ 2,027,151	$ 45,448,734	$ 47,433,810	$23,659,179
Watch	0	0	0	0	0
Special Mention	0	0	0	0	0
Substandard	0	0	0	0	0
Doubtful	0	0	0	0	0
Total	$1,350,237	$ 2,027,151	$ 45,448,734	$ 47,433,810	$23,659,179

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2021 (Concluded)

		Consumer and Installment		
	Commercial and Industrial	Automobile	Other	Financing Leases
Grade:				
Pass	$ 62,556,140	$ 6,971,427	$ 10,855,859	$ 504,685
Watch	0	0	0	0
Special Mention	0	0	0	0
Substandard	0	0	0	0
Doubtful	0	0	0	0
Total	$ 62,556,140	$ 6,971,427	$ 10,855,859	$ 504,685

Note 5 – Loans and Allowance for Loan Losses (Continued)

Information on impaired loans for the years ended December 31, 2022 and 2021 are as follows:

Impaired loans as of December 31, 2022	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Other real estate:					
Commercial	$ 0	$ 0	$ 0	$ 0	$ 0
Residential	33,824	33,824	0	55,197	0
Commercial and Industrial	0	0	0	23,278	0
Consumer and Installment:					
Automobile	0	0	0	23,391	0
Other	6,464	6,464	0	1,616	0
With an Allowance:					
Other real estate:					
Residential	35,150	35,150	1,500	98,927	0
Commercial	0	0	0	0	0
Commercial and Industrial	0	0	0	43,244	0
Consumer and Installment:					
Automobile	0	0	0	11,241	0
Other	0	0	0	12,806	0
Total:					
Construction real estate	$ 0	$ 0	$ 0	$ 0	$ 0
Other real estate	$ 68,974	$ 68,974	$ 1,500	$ 154,124	$ 0
Commercial and Industrial	$ 0	$ 0	$ 0	$ 66,522	$ 0
Consumer and Installment	$ 6,464	$ 6,464	$ 0	$ 49,054	$ 0
Financing leases	$ 0	$ 0	$ 0	$ 0	$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Impaired loans as of December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Other real estate:					
Commercial	$ 176,819	$ 176,819	$ 0	$ 188,069	$ 0
Residential	68,844	68,844	0	130,629	0
Commercial and Industrial	0	0	0	0	0
Consumer and Installment:					
Automobile	1,095	1,095	0	25,632	
Other	39,771	39,771	0	9,943	0
With an Allowance:					
Other real estate:					
Residential	44,933	44,933	19,933	143,749	0
Commercial	0	0	0	0	0
Commercial and Industrial	593,319	593,319	250,000	618,069	0
Consumer and Installment:					
Automobile	0	0	0	0	0
Other	25,397	25,397	15,397	25,397	0
Total:					
Construction real estate	$ 0	$ 0	$ 0	$ 0	$ 0
Other real estate	$ 290,596	$ 290,596	$ 19,933	$ 462,447	$ 0
Commercial and Industrial	$ 593,319	$ 593,319	$ 250,000	$ 618,069	$ 0
Consumer and Installment	$ 66,263	$ 66,263	$ 15,397	$ 60,972	$ 0
Financing leases	$ 0	$ 0	$ 0	$ 0	$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Age analysis tables of past due loans as of December 31, 2022 and 2021 are as follows:

December 31, 2022	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	0	$ 1,478,371	$ 1,478,371
Other	0	0	0	0	2,500,593	2,500,593
Other real estate:						
Farmland	0	0	0	0	58,508,865	58,508,865
Residential	421,122	0	68,973	490,095	61,955,236	62,445,331
Other	7,049	0	0	7,049	25,871,583	25,878,632
Commercial	9,951	30,478	0	40,429	68,018,235	68,058,664
Consumer:						
Automobile	108,653	33,387	0	142,040	7,832,966	7,975,006
Other	79,383	45,554	6,464	131,401	11,223,189	11,354,590
Leases	0	0	0	0	410,029	410,029
Total	$ 626,158	$ 109,419	$ 75,437	$ 811,014	$ 237,799,067	$ 238,610,081

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	$ 0	$ 1,350,237	$ 1,350,237
Other	0	0	0	0	2,027,151	2,027,151
Other real estate:						
Farmland	0	0	0	0	45,448,734	45,448,734
Residential	163,316	69,584	166,590	399,490	47,034,320	47,433,810
Other	0	0	0	0	23,659,179	23,659,179
Commercial	62,304	0	93,113	155,417	62,400,723	62,556,140
Consumer:						
Automobile	36,530	0	56,060	92,590	6,878,837	6,971,427
Other	46,012	171	102,666	148,849	10,707,010	10,855,859
Leases	0	0	0	0	504,685	504,685
Total	$ 308,162	$ 69,755	$ 418,429	$ 796,346	$ 200,010,876	$ 200,807,222

Note 5 – Loans and Allowance for Loan Losses (Concluded)

Nonaccrual Loans

The following table represents the total recorded investment in loans on nonaccrual at December 31, 2022 and 2021. The balances are presented by class of loan.

	12/31/2022	12/31/2021
Other real estate:		
Residential	$ 68,974	$ 113,777
Farmland	0	0
Other	0	176,819
Commercial	0	593,319
Consumer:		
Automobile	0	1,095
Other	6,464	65,168
	$ 75,438	$ 950,178

At December 31, 2022 and 2021, there were no commitments to lend additional funds to borrowers whose loans have been modified.

Note 6 – Bank Premises and Equipment

Bank premises and equipment consisted of the following at December 31, 2022 and 2021:

	2022	2021
Cost:		
Land	$ 66,000	$ 66,000
Bank premises	6,853,035	6,640,019
Equipment	4,400,918	4,293,398
Total cost	11,319,953	10,999,417
Less accumulated depreciation	(6,705,439)	(6,434,648)
Net book value	$ 4,614,514	$ 4,564,769

Depreciation and amortization charged to operations amounts to $339,325 in 2022 and $341,586 in 2021.

Note 7 – Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of Chicago (FHLBC), the Bank is required to purchase a statutory amount of stock which is used to collateralize borrowings or advances from the FHLBC. All members must maintain a minimum amount of capital stock equal to the greater of 5% of borrowings from the FHLBC or the member's "floor" as established by the FHLBC. The floor represents the amount of capital stock held by each member at the close of business on July 23, 2008.

Beginning July 24, 2008, and to the extent that a member's required stock purchases to support advances exceed this floor, the member is able to redeem the incremental capital stock back to the FHLBC if the amount of borrowings no longer require it. At December 31, 2022 and 2021 advances from the FHLBC totaled $17,165,945 and $2,723,139, respectively. This stock is recorded at cost and does not have a readily determinable market value.

It is classified as a restricted investment because it can be sold back only to the FHLBC or to another member institution at its par value of $100 per share. None of this stock is pledged as collateral for FHLBC advances. For December 31, 2022 and 2021, the recorded investment in FHLBC capital stock totaled $1,167,694 and $435,411, respectively.

Note 8 – Deposits

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC insurance limit of $250,000 or more are totaled approximately $16,459,500 and $10,910,000 at December 31, 2022 and 2021, respectively, and are included in interest-bearing deposits in the consolidated balance sheet.

At December 31, 2022, the maturity distribution of certificates of deposits are as follows:

2023	$ 37,619,422
2024	15,780,055
2025	6,961,167
2026	3,293,299
2027	3,252,721
Total	$ 66,906,664

Note 9 – Borrowings

FHLB Advances

Federal Home Loan Bank (FHLB) advances consisted of the following at December 31,

	2022	2021
Seven advances payable at maturity, interest ranging from 2.46% to 4.54% are due monthly for the years ended December 31, 2022 and 2021. Notes are collateralized by 1-4 family residential real estate loans, commercial real estate and multifamily real estate and certain agriculture real estate loans. Due dates range from 2024 through 2032.	$17,165,945	$2,723,139

The advances are collateralized by certain loans receivable. The carrying amount of the loans pledged to the FHLB as of December 31, 2022 and 2021 was $106,386,000 and $93,593,000, respectively. At December 31, 2022 and 2021, the Bank has FHLB Letters of Credit securing Wabash County Treasurer, Wabash General Hospital, City of Mount Carmel, City of Mount Carmel Police Pension fund with deposits in the amount of $22,500,000. At December 31, 2021, the Bank has FHLB Letters of Credit securing the Wabash County Treasurer, Wabash General Hospital, City of Mount Carmel and City of Mount Carmel Firemen Pension Fund with deposits in the amount of $16,500,000.

At December 31, 2022 maturities of FHLB advances are as follows for the years ending:

2023	$ 0
2024	3,380,953
2025	2,781,847
2026	0
2027	0
Thereafter	11,003,145
	$ 17,165,945

Note 10 – Employee Benefits

The Bank provides a trustee profit-sharing plan to all full-time employees who have completed one year of service. Employees may participate by contributing a percentage of income as a savings supplement to the plan through payroll deductions. The Directors may change the amount provided at any time. Bank contributions to the plan for 2022 and 2021 were $169,004 and $167,128, respectively.

The Bank provides a supplemental executive retirement plan (SERP) for certain bank executives. The bank is using a cash value life insurance policy to finance the SERP agreement. Expenses under this plan were $121,728 and $131,482, respectively. Benefits paid from this plan as of December 31, 2022 and 2021 were $76,000.

Note 11 – Line of Credit

The Bank has a secure line of credit with the Federal Reserve Bank. The amount available for borrowing fluctuates monthly. The amount available at December 31, 2022 was $10,915,470. Under the agreement the Bank is required to pledge collateral to the Federal Reserve Bank. At December 31, 2022, the Bank has pledged consumer loans in the amount of $14,391,420 to secure this loan. There were no borrowings under this credit facility at December 31, 2022 and 2021. This line of credit can be used for overnight purchases and carries an interest rate of 3%.

Note 12 – Income Taxes

Significant components of the Bank's deferred tax assets and liabilities at December 31, 2022 and 2021 were as follows:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 600,205	$ 554,212
Director benefits payable	510,922	477,034
Net unrealized loss on securities available-for-sale	3,027,826	0
Other	33,056	33,413
	4,172,009	1,064,659
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	0	(158,181)
Accumulated depreciation	(293,604)	(288,251)
Prepaid expenses	(196,852)	(134,948)
	(490,456)	(581,380)
Net deferred tax asset (liability)	$ 3,681,553	$ 483,279

Note 12 – Income Taxes (Concluded)

The deferred tax asset is included in consolidated balance sheet in the other assets line.

Significant components of the provision for income taxes for the years ended December 31, 2022 and 2021 are as follows:

	2022	2021
Current tax provision		
Federal	$ 562,260	$ 630,036
State	361,582	375,326
	923,842	1,005,362
Deferred expense (benefit)	35,134	17,344
Total tax expense	$ 958,976	$ 1,022,706

The provision for income taxes differs from that computed by applying statutory rates to income before income tax expense, as indicated in the following analysis:

	2022	2021
Federal statutory income tax at statutory rates	$ 570,122	$ 638,244
State income tax expense at statutory rates	365,511	379,429
Adjustments related to:		
Tax exempt interest	(195,512)	(163,691)
Nondeductible expense	53,702	49,358
Other tax exempt income	(46,367)	(59,508)
Other differences	211,520	178,874
Total income tax expense	$ 958,976	$ 1,022,706

Note 13 – Stockholders' Equity

Restrictions on dividends:

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The bank had $6,704,439 available for dividends at December 31, 2022 without prior regulatory approval. The Bank paid approximately $810,877 and $776,126 in dividends in 2022 and 2021.

Note 13 – Stockholders' Equity (Continued)

Restrictions on dividends (Concluded):

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Bank may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Capital:

The Bank is subject to various regulatory capital requirements administered by 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 regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt correctible action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation 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 in the regulations) to average assets (as defined). Management believes, as of December 31, 2022, that the Bank meets all capital adequacy requirements to which it is subject.

As of August 15, 2022, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain total risk-based, Tier I risk-based, 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 institution's category.

Note 13 – Stockholders' Equity (Concluded)

Capital (Concluded):

The Bank's actual capital amounts and ratios at December 31, 2022 and 2021 are presented in the following table.

REGULATORY CAPITAL RATIOS

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022:						
Total Capital Tier I Capital (to Average Assets)	$32,999,000	9.53%	≥$15,579,765	≥4.5%	≥$22,504,105	≥6.5%
As of December 31, 2021:						
Total Capital Tier I Capital (to Average Assets)	$30,778,000	9.48%	≥$14,606,640	≥4.5%	≥$19,475,520	≥6.0%

Note 14 – Fair Value Financial Instruments

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Bank commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

Note 14 – Fair Value Financial Instruments (Continued)

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

> Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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 or liabilities.
>
> Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument’s level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are

Note 14 – Fair Value Financial Instruments (Continued)

generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Cash and Due From Banks

The carrying amounts reported on the Consolidated Balance Sheets for cash and due from banks approximate those assets' fair values.

Federal Funds Sold

The carrying amounts reported on the Consolidated Balance Sheets for federal funds sold approximate those assets' fair values.

Available-for-sale-securities and Restricted Stock

Fair values for available-for-sale securities are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair value for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposits

The fair values disclosed for demand deposits are, by definition, equal to the amount payable on demand at the reporting date (that is, their carrying amounts). The carrying amounts of variable-rate, fixed-term money-market accounts and certificates of deposit approximate their fair values. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently offered on certificates to a schedule of aggregated expected monthly maturities on time deposits. The carrying amount of accrued interest payable approximates its fair value.

Accrued Interest

The carrying amounts of accrued interest approximate fair values.

Note 14 – Fair Value Financial Instruments (Continued)

Federal Home Loan Bank Advances

The fair value of Federal Home Loan Bank Advances are estimated using a discounted cash flow analysis.

The following tables set forth the Bank's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2022 and 2021.

	2022				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 6,048,813	$ 6,048,813	$ 6,048,813	$ 0	$ 0
Investment securities	83,731,788	83,731,788	0	83,731,788	0
Loans	236,238,409	245,706,559	0	0	245,706,559
Federal Home Loan Bank stock, restricted	1,167,694	1,167,694	0	1,167,694	0
Other stock, restricted	157,850	157,850	0	157,850	0
Financial Liabilities:					
Deposits	305,303,877	295,157,904	0	0	295,157,904
Federal Home Loan Bank Advances	17,165,945	17,167,922	0	17,167,922	0

	2021				
	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 4,216,221	$ 4,216,221	$ 4,216,221	$ 0	$ 0
Investment securities	101,096,083	101,096,083	0	101,096,083	0
Loans	198,501,668	201,197,520	0	0	201,197,520
Federal Home Loan Bank stock, restricted	435,411	435,411	0	435,411	0
Other stock, restricted	157,850	157,850	0	157,850	0
Financial Liabilities:					
Deposits	293,348,433	293,444,381	0	0	293,444,381
Federal Home Loan Bank Advances	2,723,139	2,722,959	0	2,722,959	0

Impaired Loans

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows (if used, such amounts are not included in the following tables), the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable.

Note 14 – Fair Value Financial Instruments (Concluded)

Impaired Loans (Concluded)

The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Discounts applied to appraisals have been in the range of 0% to 50%. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The following tables set forth the Bank's financial assets that were accounted for at fair value on a nonrecurring basis as of December 31, 2022 and 2021:

December 31, 2022	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 68,974	$ 0	$ 68,974	$ 0
Commercial and industrial	0	0	0	0
Consumer and installment	6,464	0	6,464	0
Total impaired loans	$ 75,438	$ 0	$ 75,438	$ 0

December 31, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 290,596	$ 0	$ 290,596	$ 0
Commercial and industrial	593,319	0	593,319	0
Consumer and installment	66,263	0	66,263	0
Total impaired loans	$ 950,178	$ 0	$ 950,178	$ 0

Note 15 – Transactions with Related Parties

Loans:

In the normal course of banking business, loans are made to officers and directors of the Bank, as well as to their affiliates.

Note 15 – Transactions with Related Parties

Loan (Concluded)

Such loans are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features. An analysis of the activity during 2022 and 2021 is as follows:

	2022	2021
Balance, January 1,	$ 6,169,207	$ 4,400,539
New loans	1,697,407	3,542,520
Less loan repayments	(2,159,168)	(1,773,852)
Balance, December 31	$ 5,707,446	$ 6,169,207

Deposits:

The deposits from related parties totaled $6,104,238 and $10,502,452 at December 31, 2022 and 2021, respectively.

Note 16 – Commitments and Contingencies

In the normal course of business, there are outstanding commitments, contingent liabilties and other financial instruments that are not reflected in the accompanying consolidated financial statements. These commitments to extend credit and standby letters of credit, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recongized in the balance sheet.

Outstanding standby letters of credit which are not reflected in the balance sheets were $4,124,765 on December 31, 2022 and $3,551,051 on December 31, 2021. The Bank evaluates each customer's creditworthiness on a case-by-case basis. As of December 31, 2022 and 2021, standby letters of credit of $1,422,111 and $3,113,246, respectively, were unsecured. The Bank has not had any standby letters of credit drawn upon as of December 31, 2022 and 2021. The Bank does not anticipate any material losses as a result of these transactions.

Note 17 – Merger of Bank

As of December 31, 2022, the Bank was in negotiations to be merged with Wabash Savings Bank. The transaction has been approved by the regulators, but not the State of Illinois. The Bank expects this transaction to be approved by the State during fiscal year 2023.

DIRECTORS, OFFICERS & EMPLOYEES

Directors
Allendale Bancorp, Inc. and
The First National Bank of Allendale

Robert J. Coleman
Retired Bank Executive
Chairman of the Board,
The First National Bank of Allendale

Michael A. Dunkel
Retired Businessman

Shane E. Gray
Businessman
President, Gray's Cabinet Co.
Farmer

Philip G. Hipsher
Certified Public Accountant
Treasurer,
Mt. Carmel Stabilization Group, Inc.

Bryan K. Loeffler
Self-employed Businessman

Donald W. Price
Bank Executive
President & CEO,
The First National Bank of Allendale

Michael E. White
Oil Producer, Geologist
President, W-Technologies, Inc.

Officers
Allendale Bancorp, Inc.

Robert J. Coleman
Chairman of the Board

Donald W. Price
President

Bryan K. Loeffler
Secretary/Treasurer

Officers
The First National Bank of Allendale

Robert J. Coleman
Chairman of the Board

Shane E. Gray
Vice Chairman of the Board

Donald W. Price
President & CEO

David R. Guinnip
Senior Vice President &
Senior Loan Officer

Tamara J. McFarland
Senior Vice President
Chief Financial Officer & Cashier

Kristin S. Schrader
Senior Vice President
Assistant Financial Officer &
Human Resources Manager

Dean H. Ackerman
Senior Vice President
White County Production Region

Katherine M. Clark
BSA Officer & Audit Manager

Mark S. Epperson
Vice President Commercial Lending

Rodney D. Loeffler
Vice President & Loan Officer

Gary A. Ritz
Vice President & Loan Officer

Alexis N. McFarland
Assistant Vice President & Loan
Officer

Sean J. Oglesby
IT Manager &
System Administrator

Elizabeth E. Fiero
Assistant Cashier &
Executive Assistant

Elizabeth A. Dunn
Assistant Vice President

Morganna P. Thread
Assistant Vice President
Credit Operations

Julia A. Tennes
Assistant Vice President &
Mortgage Loan Originator

Officers
The First National Bank of Allendale
(Concluded)

Sarah E. Ile
Assistant Vice President &
Mortgage Loan Officer

Rae Lynn Barbre
Assistant Vice President & Loan
Officer

Gloria R. Schnell
Assistant Cashier & Branch
Manager

Kimberly K. Reilly
Assistant Cashier

Laura J. Polston
Assistant Cashier

Heather N. McFarland
Assistant Cashier & Universal
Banker

Employees of The First National
Bank of Allendale

Mark Bader
Amy Bell
Lauren Berberich
Shelby Bozarth
Dee Breen
Phil Coleman
Cami Golden
Hailey Greifzu
Mary Harness
Tara Hayes
Debbie Hipsher
Marcerie Hocking
Kirby Hunt
Missy Judge
Halley Kocher
Chelsea Lee
Hunter Legg
Cortney Madden
Becky McDowell
Kaylen Miller
Amy Quillen
Megan Raber
Brooke Sanders
Bethany Smith
Christina Smith
Charles Stoltz
Jillian Wall
Brandy Wayland
Michelle Wyatt

ANNUAL REPORT | 2022

ALLENDALE BANCORP, INC.

Member FDIC

EQUAL HOUSING LENDER

fnba.bank