MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

AUDITED CONSOLIDATED FINANCIAL STATEMENTS

Years Ended December 31, 2022 and 2021

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

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UHY LLP Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Midwest BankCentre, Inc.

Opinion

We have audited the accompanying consolidated financial statements of Midwest BankCentre, Inc. and Subsidiaries, 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 Midwest BankCentre, Inc. and Subsidiaries as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Internal Control Over Financial Reporting

We also have audited in accordance with auditing standards generally accepted in the United States of America, Midwest BankCentre, Inc.'s internal control over financial reporting as of December 31, 2022, based on the criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 17, 2023 expressed an unmodified opinion.

Basis for Opinion

We conducted our audits 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 Consolidated Financial Statements section of our report. We are required to be independent of Midwest BankCentre, Inc. and Subsidiaries and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated 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, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Responsibilities of Management for the Consolidated Financial Statements (Continued)

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Midwest BankCentre, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with 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 consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Midwest BankCentre, Inc. and Subsidiaries' ability to continue as a going concern for a reasonable period of time.

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

UHY LLP

St. Louis, Missouri
March 17, 2023

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	December 31,	
ASSETS	**2022**	**2021**
Cash and cash equivalents:		
Cash and due from banks	$ 22,512,614	$ 24,079,538
Banks–interest bearing balances	60,617,648	89,878,900
Total cash and cash equivalents	83,130,262	113,958,438
Investment securities	285,594,290	297,066,642
Loans:		
Loans, net	2,010,657,245	1,806,871,231
Loans held for sale	433,895	5,111,623
Total loans, net	2,011,091,140	1,811,982,854
Premises and equipment, net	14,402,180	15,897,917
Operating lease right-of-use assets	7,644,651	–
Bank owned life insurance	71,901,336	70,319,582
Goodwill	17,342,753	17,342,753
Core deposits intangibles, net	133,281	676,450
Other assets	65,004,628	45,521,318
Total assets	$ 2,556,244,521	$ 2,372,765,954
LIABILIIES AND STOCKHOLDERS' EQUITY		
Liabilities:		
Deposits:		
Demand	$ 516,143,659	$ 547,110,836
Interest-bearing demand	372,266,512	313,572,644
Money market	461,002,461	414,353,168
Savings	303,468,438	308,646,477
Time – over $250,000	134,965,983	92,645,978
Time – $250,000 and under	330,020,162	205,296,871
Total deposits	2,117,867,215	1,881,625,974
FHLB advances and other borrowings	128,127,002	202,300,432
Subordinated debentures, net	67,466,577	67,239,206
Operating lease liabilities	7,669,108	–
Other liabilities	34,113,393	21,626,433
Total liabilities	2,355,243,295	2,172,792,045
Stockholders' equity:		
Common stock, $6.67 par value; 6,000,000 shares authorized 1,942,655 shares issued at December 31, 2022 and 2021, respectively	12,951,066	12,951,066
Capital surplus	9,478,764	9,499,496
Retained earnings	208,458,637	191,819,386
Accumulated other comprehensive (loss) income	(11,384,686)	2,977,126
	219,503,781	217,247,074
Treasury stock, at cost, 182,290 and 173,273 shares at December 31, 2022 and 2021, respectively	(18,502,555)	(17,273,165)
Total stockholders' equity	201,001,226	199,973,909
Total liabilities and stockholders' equity	$ 2,556,244,521	$ 2,372,765,954

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31,	
	2022	**2021**
Interest income:		
Interest and fees on loans	$ 81,834,814	$ 69,322,110
Interest and dividends on investment securities		
U.S. Treasury and agencies	1,814,482	1,589,646
Mortgage–backed securities	1,359,095	2,352,525
States and political subdivisions	602,763	522,760
Other securities	4,325,478	3,788,910
Interest on banks–interest bearing balances	355,421	51,835
Total interest income	90,292,053	77,627,786
Interest expense:		
Interest on deposits	9,604,558	4,062,747
Interest on other borrowed funds	5,285,519	5,737,592
Total interest expense	14,890,077	9,800,339
Net interest income	75,401,976	67,827,447
Provision for loan losses	5,230,395	2,433,738
Net interest income after provision for loan losses	70,171,581	65,393,709
Noninterest income:		
Service charges on deposit accounts	2,631,409	2,523,356
Mortgage banking revenue	2,178,216	6,259,279
SBA revenue	1,166,810	71,223
Bank owned life insurance	1,581,754	2,652,617
Debit card fees	2,287,006	2,483,232
Gains on sales of investment securities	–	271,384
Other	2,149,496	2,017,538
Total noninterest income	11,994,691	16,278,629
Noninterest expense:		
Salaries	28,761,207	29,876,540
Employee benefits	5,224,556	4,863,693
Outside fees	4,982,610	5,443,565
Occupancy	4,046,570	4,508,100
Equipment	977,723	1,151,951
Insurance	1,452,689	1,405,245
Software	1,867,996	1,797,620
Marketing	1,260,991	1,251,586
Charitable contributions	1,533,935	280,070
Debit card expense	811,529	1,203,435
Other	6,356,753	5,546,497
Total noninterest expense	57,276,559	57,328,302
Income before taxes	24,889,713	24,344,036
Income taxes	3,448,782	3,140,247
Net income	$ 21,440,931	$ 21,203,789

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31,	
	2022	2021
Net income	$ 21,440,931	$ 21,203,789
Other comprehensive loss:		
Unrealized loss on securities available–for–sale, net tax benefit of $6,125,370 and $1,244,031, respectively	(19,227,983)	(3,905,102)
Unrealized gain on Bank swap derivatives, net of tax expense of $1,401,381 and $700,420, respectively	4,399,036	2,198,669
Reclassification adjustment for realized gain included in net income, net of tax expense of $0 and $65,566, respectively	–	(205,818)
Reclassification adjustment for realized interest expense on Bank SWAP derivatives included in net income, net of tax expense (benefit) of $148,813 and ($76,090), respectively	467,135	(238,853)
Other comprehensive loss, net of tax	(14,361,812)	(2,151,104)
Total comprehensive income	$ 7,079,119	$ 19,052,685

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

Years Ended December 31, 2022 and 2021

	Common Stock						
	Shares	Par Value	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total
Balance at January 1, 2021	1,942,655	$ 12,951,066	$ 9,657,600	$ 175,423,618	$ 5,128,230	$ (16,137,586)	$ 187,022,928
Net income	–	–		21,203,789	–	–	21,203,789
Purchase of treasury stock (11,234 shares)	–	–	–	–	–	(1,383,472)	(1,383,472)
Issuance of treasury stock for director fees (1,940 shares)	–	–	30,423	–	–	186,457	216,880
Options exercised (7,100 shares)	–	–	(207,927)	–	–	61,436	(146,491)
Stock based compensation expense	–	–	19,400	–	–	–	19,400
Cash dividends – $2.71 per share	–	–	–	(4,808,021)	–	–	(4,808,021)
Other comprehensive loss:							
Unrealized loss on investment securities available for sale	–	–	–	–	(4,110,920)	–	(4,110,920)
Unrealized gain on bank swap derivatives	–	–	–	–	1,959,816	–	1,959,816
Balance at December 31, 2021	1,942,655	$ 12,951,066	$ 9,499,496	$ 191,819,386	$ 2,977,126	$ (17,273,165)	$ 199,973,909
Net income	–	–		21,440,931	–	–	21,440,931
Purchase of treasury stock (11,577 shares)	–	–	–	–	–	(1,485,898)	(1,485,898)
Issuance of treasury stock for director fees (1,860 shares)	–	–	47,095	–	–	181,964	229,059
Options exercised (3,050 shares)	–	–	(90,240)	–	–	74,544	(15,696)
Stock based compensation expense	–	–	22,413	–	–	–	22,413
Cash dividends – $2.72 per share	–	–	–	(4,801,680)	–	–	(4,801,680)
Other comprehensive loss:							
Unrealized loss on investment securities available for sale	–	–	–	–	(19,227,983)	–	(19,227,983)
Unrealized gain on bank swap derivatives	–	–	–	–	4,866,171	–	4,866,171
Balance at December 31, 2022	1,942,655	$ 12,951,066	$ 9,478,764	$ 208,458,637	$ (11,384,686)	$ (18,502,555)	$ 201,001,226

See notes to consolidated financial statements.

MIDWEST BANKCENTRE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	Years Ended December 31, 2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 21,440,931	$ 21,203,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	5,230,395	2,433,738
Depreciation, amortization and accretion	3,358,189	3,863,719
Gain on sales of investment securities, net	–	(271,384)
Donation of premises	431,690	–
Loss on write down or disposal of premises and equipment	–	460,415
Originations of loans held for sale	(86,988,152)	(269,021,620)
Proceeds from sales of loans held for sale	93,810,726	303,980,141
Gains on sales of loans held for sale, net	(2,144,847)	(6,212,850)
Increase in cash surrender value of bank owned life insurance	(1,581,754)	(2,652,617)
Deferred income taxes	(1,741,896)	(1,654,285)
Stock based compensation expense	22,413	19,400
Stock issued for director fees	229,059	216,880
Other, net	4,429,744	8,970,193
Net cash provided by operating activities	36,496,498	61,335,519
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of investment securities	(69,403,669)	(98,986,579)
Proceeds from maturities, prepayments and calls of investment securities	54,611,915	81,047,359
Proceeds from sales of investment securities	–	6,647,345
Net proceeds (purchases) of Federal Home Loan Bank stock	1,327,300	(2,886,300)
Proceeds from bank owned life insurance	–	3,373,721
Net increase in loans	(209,041,504)	(39,159,057)
Proceeds from sale of foreclosed assets	25,096	15,000
Purchases of premises and equipment	(608,349)	(303,890)
Net cash used in investing activities	(223,089,211)	(50,252,401)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net increase in deposits	236,241,241	154,369,227
Net decrease in securities sold under agreements to repurchase	(34,173,430)	(21,064,175)
Repayments of FHLB borrowings	(40,000,000)	(81,808,000)
Issuance of subordinated debentures	–	35,000,000
Debt issuance cost	–	(653,663)
Dividends paid	(4,801,680)	(4,808,021)
Exercise of stock options	(15,696)	(146,491)
Purchases of treasury stock	(1,485,898)	(1,383,472)
Net cash provided by financing activities	155,764,537	79,505,405
Net (decrease) increase in cash and cash equivalents	(30,828,176)	90,588,523
Cash and cash equivalents, beginning of year	113,958,438	23,369,915
Cash and cash equivalents, end of year	$ 83,130,262	$ 113,958,438
SUPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Cash payments for:		
Interest	$ 13,534,624	$ 10,142,853
Income taxes	4,754,882	4,571,327
Non-cash investing activities:		
Transfer of loans to foreclosed assets	$ 25,096	$ –

See notes to consolidated financial statements.

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Midwest BankCentre, Inc. (the "Company," "we," "our," or "us") is a bank holding company headquartered in St. Louis, Missouri whose principal activity is the ownership and management of its wholly–owned subsidiaries, Midwest BankCentre (the "Bank"), Midwest BankCentre Insurance Agency, LLC ("MBCIA") and Rising Analytics, LLC. The Bank has branches located primarily in the St. Louis metropolitan area, and provides a full range of commercial, mortgage and consumer banking products and services. The Bank operates under a State Chartered Depository Trust Company and is a member of the Federal Reserve Bank. As a state bank member of the Federal Reserve, the Bank is subject to regulation by the State of Missouri Division of Finance, the Federal Reserve, and the Federal Deposit Insurance Corporation.

Our principal business activity has been lending to and accepting deposits from individuals, businesses, municipalities and other entities. We have derived income principally from interest charged on loans and, to a lesser extent, from interest and dividends earned on investment securities. We have also derived income from noninterest sources, such as: fees received in connection with various lending and deposit services; residential mortgage loan originations, sales and servicing; and, from time to time, gains on sales of assets. Our principal expenses include interest expense on deposits and borrowings, operating expenses, such as salaries and employee benefits, occupancy and equipment expenses, data processing costs, professional fees and other noninterest expenses, provisions for loan losses and income tax expense.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and conform to reporting practices within the banking industry. Management of the Company has made a number of estimates and assumptions related to the reporting of assets and liabilities to prepare the consolidated financial statements in conformity with GAAP. Actual results may differ from those estimates. In the opinion of management, all adjustments, consisting of normal recurring accruals considered necessary for a fair presentation of the results of operations for annual periods presented herein, have been included.

Certain reclassifications of 2021 amounts have been made to conform to the 2022 presentation but do not have an effect on net income or shareholders' equity.

Principles of Consolidation

The consolidated financial statements include the accounts of Midwest BankCentre, Inc. and its wholly–owned subsidiaries, Midwest BankCentre, Midwest BankCentre Insurance Agency, LLC and Rising Analytics, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash on hand, amounts due from banks, which includes amounts on deposit with the Federal Reserve, interest-bearing deposits with banks or other financial institutions and federal funds sold. The Bank considers all short–term investments with an original maturity of three months or less to be cash equivalents. The Company's cash deposits in financial institutions are insured by FDIC insurance, which is subject to certain limitations and conditions.

Investment Securities

The Bank classifies its debt investment securities as available for sale or held to maturity at the time of purchase. Securities held to maturity are those debt instruments which the Bank has the positive intent and ability to hold until maturity. Securities held to maturity are recorded at costs, adjusted for the amortization of premiums or accretion of discounts. All other debt securities are classified as available for sale. As of December 31, 2022 and 2021, all investment securities were classified as available for sale. Securities available for sale are recorded at fair value with unrealized gains and losses, net of related tax effect, included in other comprehensive income (loss). The related accumulated unrealized holding gains and losses are reported as a separate component of stockholders' equity until realized.

Purchase premiums are amortized over the estimated life or to the earliest call date and purchase discounts are accreted over the estimated life or to the earliest call date of the related investment security as an adjustment to yield using the effective interest method. Unamortized premiums, unaccreted discounts, and early payment premiums are recognized in interest income upon disposition of the related security. Interest and dividend income are recognized when earned. Realized gains and losses from the sale of available-for-sale securities are determined using the specific identification method and are included in noninterest income. Also, when applicable, realized gains and losses are reported as a reclassification adjustment, net of tax, in other comprehensive income (loss).

On a quarterly basis, the Bank makes an assessment to determine whether there have been any events or circumstances to indicate that a security for which there is an unrealized loss is impaired on an other than temporary basis. This determination requires significant judgment. A decline in the fair value of held–to–maturity and available–for–sale securities below their cost that are deemed to be other than temporary is reflected in earnings as realized losses or in other comprehensive income (loss), depending on whether the Bank intends to sell the security or more likely than not will be required to sell the security before recovery. If the Bank intends to sell the security or more likely than not will be required to sell the security before recovery, the other–than–temporary impairment is recognized in earnings equal to the entire difference between the investment's amortized cost basis and its fair value at the balance sheet date. If the Bank does not intend to sell the security and it is not more likely than not that the entity will be required to sell the security before recovery, the other–than–temporary impairment is separated into (a) the amount representing the credit loss and (b) the amount related to all other factors. The amount of total other–than–temporary impairment related to the credit loss is recognized in earnings. The amount of total other–than–temporary impairment related to other factors shall be recognized in other comprehensive income (loss), net of the related tax effect. In estimating other–than–temporary impairment losses, management considers (1) the severity and duration of the impairment, (2) the financial condition and near–term prospects of the issuer, and (3) the intent and ability of the Bank to hold the security for a period of time sufficient for a recovery in value.

Nonmarketable Equity Securities

Nonmarketable equity securities include the Bank's required investments in the stock of the Federal Home Loan Bank of Des Moines ("FHLB") and the Federal Reserve Bank ("FRB"). The Bank is a member of the FHLB system as well as its regional FRB. Members of the FHLB are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock and FRB stock are both carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash dividends and stock dividends are reported as income. These stocks are included in other assets on the consolidated balance sheets.

Loans and Allowance for Loan Losses

Loans

The Bank grants commercial and industrial, secured by real estate, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial loans made throughout the greater St. Louis metropolitan area. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate economic sector and other current economic conditions.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal amount outstanding, net of the allowance for loan losses and net deferred loan fees and unearned discounts. Interest income on loans generally is accrued on a simple interest basis.

Unearned discounts on installment loans are recognized as income over the term of the loans using a method that approximates the interest method.

Loan and commitment fees on commercial and consumer loans, net of costs, are deferred and recognized in income over the term of the loan or commitment as an adjustment of yield.

Classifications of Loan Portfolio

<u>Consumer</u>

Individual consumer loans are credits extended to individuals for household, family, and other personal expenditures that do not meet the definition of a "loan secured by real estate" and include both secured and unsecured loans to individuals. Collateral would normally be marketable securities, bank deposits or other personal vehicles or assets. When collateralized, loan to value ratios are generally within industry norms.

Mortgage one to four family loans are open–end and closed–end loans secured by real estate as evidenced by mortgages or other liens on:

- Nonfarm property containing 1–4 dwelling units (including vacation homes) or more than four dwelling units if each is separated from other units by dividing walls that extend from ground to roof (e.g., row houses, townhouses, or the like).

- Mobile homes where (a) state laws define the purchase or holding of a mobile home as the purchase or holding of real property and where (b) the loan to purchase the mobile home is secured by that mobile home as evidenced by a mortgage or other instrument on real property.

- Individual condominium dwelling units and loans secured by an interest in individual cooperative housing units, even if in a building with five or more dwelling units.

- Housekeeping dwellings with commercial units combined where use is primarily residential and where only 1–4 family dwelling units are involved.

Home equity loans consist of revolving, open–end loans secured by 1–4 family residential properties and extended under lines of credit. These lines of credit, commonly known as home equity lines, are typically secured by a junior lien and are usually accessible by check or credit card. In addition, loans secured by junior liens are included in this category. These credits are closed–end loans secured by junior (i.e., other than first) liens on 1–4 family residential properties.

<u>Secured by Real Estate</u>

Commercial real estate loans are loans secured by real estate as evidenced by mortgages or other liens on nonfarm nonresidential properties, excluding owner–occupied real estate loans. Included in this category are all other nonfarm residential loans secured by real estate as evidenced by mortgages (FHA and conventional), specifically:

- Nonfarm properties with 5 or more dwelling units in structures (including apartment buildings and apartment hotels) used primarily to accommodate households on a more or less permanent basis.
- 5 or more-unit housekeeping dwellings with commercial units combined where use is primarily residential.
- Cooperative–type apartment buildings containing 5 or more dwelling units.

Loan to value ratios are generally within regulatory guidelines.

Owner–occupied real estate loans are loans secured by owner–occupied nonfarm nonresidential properties. Loans in this category are those nonfarm nonresidential property loans for which the primary source of repayment is the cash flow from the ongoing operations and activities conducted by the party, or an affiliate of the party, who owns the property. For loans secured by owner–occupied nonfarm nonresidential properties, the primary source of repayment is not derived from third party, nonaffiliated, rental income associated with the property (i.e., any such rental income is less than 50 percent of the source of repayment) or the proceeds of the sale, refinancing, or permanent financing of the property. Loans included in this category include credits secured by hospitals, golf courses, recreational facilities, and car washes unless the property is owned by an investor who leases the property to the operator who, in turn, is not related to or affiliated with the investor. Also included are loans secured by churches unless the property is owned by an investor who leases the property to the congregation. Loan to value ratios are generally within regulatory guidelines.

Real estate construction loans are loans made to finance (a) land development (i.e., the process of improving land – laying sewers, water pipes, etc.) preparatory to erecting new structures or (b) the on–site construction of industrial, commercial, residential, or farm buildings. For purposes of this item, "construction" includes not only construction of new structures, but also additions or alterations to existing structures and the demolition of existing structures to make way for new structures. Also included in this category are the following:

- Loans secured by vacant land, except land known to be used or usable for agricultural purposes, such as crop and livestock production.
- Loans secured by real estate with the proceeds being used to acquire and improve developed and undeveloped property.
- Loans made under Title I or Title X of the National Housing Act that conform to the definition of construction stated above and that are secured by real estate.

Loan to value ratios are generally within regulatory guidelines.

Commercial and Industrial

Commercial and industrial loans include loans for commercial, industrial, and professional purposes including:

- mining, oil– and gas–producing, and quarrying companies;
- manufacturing companies of all kinds, including those which process agricultural commodities;
- construction companies;
- transportation and communications companies and public utilities;
- wholesale and retail trade enterprises and other dealers in commodities;
- cooperative associations including farmers' cooperatives;
- service enterprises such as hotels, motels, laundries, automotive service stations, and nursing homes and hospitals operated for profit;
- insurance agents;
- practitioners of law, medicine, and public accounting;
- loans for the purpose of financing capital expenditures and current operations;
- loans to business enterprises guaranteed by the Small Business Administration (SBA);
- loans made to finance construction that do not meet the definition of a “loan secured by real estate”;
- dealer flooring or floor–plan loans;
- overnight lending for commercial and industrial purposes;
- SBA Loans, including (PPP) Payment Protection Program Loans.

Credits are typically collateralized by business equipment, inventory, accounts receivable and other business assets. Loan to value ratios are ordinarily between 60% – 80% at origination depending on collateral securing the debt.

Loans Held for Sale

Loans held for sale include fixed rate residential mortgage loans. These loans are typically classified as held for sale upon origination based upon management’s intent to sell the production of these loans. They are carried at the lower of aggregate cost or fair value. Fair value is determined based on prevailing market prices for loans with similar characteristics or on sale contract prices, which represent the estimated exit price. Declines in fair value below cost are recognized as a reduction to mortgage banking revenue. Deferred fees and costs related to these loans are not amortized but are recognized as part of the cost basis of the loan at the time it is sold. Gains or losses on sales are recognized upon sale.

Nonaccrual Loans

The accrual of interest on impaired loans is discontinued (non–accrual status) when, in the opinion of management, the collection of interest on a loan is unlikely or when either principal or interest is past due over ninety days, unless certain conditions exist. When interest accrual is discontinued, all unpaid interest accrued during the current year is reversed against current period earnings and interest accrued relating to the prior year(s) is charged against the valuation reserve. Interest is included in income only after all previous loan charge–offs have been recovered and is recorded only as received. Generally, loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due pursuant to the contractual terms of the loan agreement. Included in impaired loans are all non–accrual loans, as well as loans whose terms have been modified in a troubled debt restructuring. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting the 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 the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan–by–loan basis for commercial and industrial, secured by real estate loans and consumer loans, by, among other factors, the fair value of the collateral if the loan is collateral dependent.

Troubled Debt Restructurings

A loan is accounted for as a troubled debt restructuring if the Bank, for economic or legal reasons related to the borrowers' financial difficulties, grants a concession to the borrower that it would not otherwise consider. A troubled debt restructuring typically involves a modification of terms such as a reduction of the stated interest rate or face amount of the loan, a reduction of accrued interest, or an extension of the maturity date at a stated interest rate lower than the current market rate for a new loan with similar risk. The Bank measures the impairment loss of a troubled debt restructuring based on the difference between the original loan's carrying amount and the present value of expected future cash flows discounted at the original, contractual rate of the loan. Commercial and industrial, secured by real estate, and consumer loans whose terms have been modified in a troubled debt restructuring with impairment charges are generally placed on non–accrual status.

Allowance for Loan Losses

The allowance for loan losses is increased by a provision for loan losses charged to expense and reduced by loans charged off, net of recoveries. The allowance is maintained at a level considered adequate to provide for potential loan losses based on management's evaluation of the anticipated impact on the loan portfolio of current economic conditions, changes in the character and size of the portfolio, past and expected future loss experience and other pertinent factors.

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

Management determines the allowance for loan losses by portfolio segment, which includes consumer loans, secured by real estate loans and commercial and industrial loans.

The allowance consists of specific and unallocated components. The specific component relates to loans that are classified as doubtful or substandard. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating specific and general losses in the portfolio.

Loans, or portions of loans, are charged off to the extent deemed uncollectible. Loan charge–offs reduce the allowance for loan losses, and recoveries of loans previously charged off are added back to the allowance. Commercial and industrial, secured by real estate, and consumer loans are generally written down to estimated collectible balances when they are placed on non–accrual status. Consumer loans and related accrued interest are normally written down to the fair value of related collateral (or are charged off in full if there is no associated collateral) once the loans are more than 120 days delinquent.

Loans Acquired Through Transfer

Acquired loans are initially measured at fair value as of the acquisition date without carryover of historical allowance for loan losses.

For loans that meet the criteria stipulated in Accounting Standards Codification (ASC) 310–30, the Company recognizes the accretable yield, which is defined as the excess of all cash flows expected at acquisition over the initial fair value of the loan, as interest income on a level–yield basis over the expected remaining life of the loan. The excess of the loan’s contractually required payments over the cash flows expected to be collected is the nonaccretable difference. The nonaccretable difference is not recognized as an adjustment of yield, a loss accrual, or a valuation allowance. Decreases in the expected cash flows in subsequent periods require the establishment of an allowance for loan losses. Improvements in expected cash flows in future periods result in a reduction of the nonaccretable discount, with such amount reclassified as part of the accretable yield and subsequently recognized in interest income over the remaining lives of the acquired loans on a level–yield basis if the amount and timing of future cash flows is reasonably estimable.

Acquired loans that met the criteria for nonaccrual of interest prior to the acquisition are considered performing upon acquisition, regardless of whether the customer is contractually delinquent, if the Company can reasonably estimate the timing and amount of the expected cash flows on such loans and if the Company expects to fully collect the new carrying value of the loans. As such, the Company may no longer consider the loan to be nonaccrual or nonperforming and may accrue interest on these loans, including the impact of any accretable yield. As such, charge–offs on acquired loans are first applied to the nonaccretable difference and then to any allowance for loan losses recognized subsequent to acquisition.

For loans that meet the criteria stipulated in the ASC 310–20, the Company shall amortize/accrete into interest income the premium/discount determined at the date of purchase on a level–yield basis over the life of the loan. Subsequent to the acquisition date, the methods utilized to estimate the required allowance for loan losses are similar to originated loans.

Loans accounted for under ASC 310–20 are placed on nonaccrual status when past due in accordance with the Company's nonaccrual policy.

An acquired loan may be resolved either through receipt of payment (in full or in part) from the borrower, the sale of the loan to a third party, or foreclosure of the collateral. In the event of a sale of the loan, a gain or loss on sale is recognized and reported within noninterest income based on the difference between the sales proceeds and the carrying amount of the loan. In other cases, individual loans are removed from the pool based on comparing the amount received from its resolution (fair value of the underlying collateral less costs to sell in the case of a foreclosure) with its outstanding balance. Any difference between these amounts is recorded as a charge–off through the allowance for loan losses. Acquired loans subject to modification are not removed from the pool even if those loans would otherwise be deemed troubled debt restructurings as the pool, and not the individual loan, represents the unit of account. For the loans acquired in 2015 and 2016 the following is a summary of activity in loans over the two years ended December 31, 2022:

	Contractual amount due	Valuation adjustment	Net loans acquired
Balance at January 1, 2021	$ 9,050,223	$ 504,123	$ 8,546,100
Accretion of purchased discount	–	(149,791)	149,791
Payments/renewals	(2,003,234)	–	(2,003,234)
Charge–offs	(14,569)	–	(14,569)
Balance at December 31, 2021	$ 7,032,420	$ 354,332	$ 6,678,088
Accretion of purchased discount	–	(180,493)	180,493
Payments/renewals	(1,299,040)	–	(1,299,040)
Charge–offs	–	–	–
Balance at December 31, 2022	$ 5,733,380	$ 173,839	$ 5,559,541

Premises and Equipment

Premises, furniture and equipment are stated at cost less accumulated depreciation. Depreciation expense is computed principally on an accelerated or straight–line method and are based on estimated useful lives of the assets. Estimated useful lives of premises and equipment range from 15 to 39 years and 3 to 15 years, respectively. Maintenance and repairs are charged to operating expenses as incurred, while improvements and major renewals that extend the useful life of assets are capitalized and depreciated over the estimated remaining useful life. Land is carried at cost.

Goodwill and Intangible Assets

Goodwill resulting from a business combination is generally determined as the excess of the fair value of consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill acquired in a business combination and determined to have an indefinite useful life is not amortized but tested for impairment at least annually or more frequently if events and circumstances exist that indicate that a goodwill impairment test should be performed. The Company performed its most recent annual goodwill impairment test as of November 30, 2022 and concluded that no impairment existed as of that date. No events or circumstances since the November 30, 2022 annual impairment test were noted that would indicate it was more likely than not a goodwill impairment exists.

Intangible assets included a core deposit premium relating to the Bank's assumption of certain deposit liabilities in the Southern Bancshares, Inc. acquisition. This core deposit intangible of $4,169,060 was being amortized on a straight–line basis over 7.5 years. The amortization of the core deposit premium was $463,200 and $555,840 for the years ended December 31, 2022 and 2021, respectively, and was fully amortized in 2022. At December 31, 2022 and 2021, the gross carrying value was zero and $463,200, respectively.

Intangible assets include a core deposit premium relating to the Bank's assumption of certain deposit liabilities in the Bremen Bancorp, Inc. acquisition. This core deposit intangible of $639,750 is being amortized on a straight–line basis over 8 years. The amortization of the core deposit premium was $79,969 for the years ended December 31, 2022 and 2021, and will be $79,969 in 2023 and $53,312 in 2024 when it will be fully amortized. At December 31, 2022 and 2021, the gross carrying amount was $133,281 and $213,250, respectively.

Noninterest Income

Noninterest income is comprised of revenue from contracts with customers. Generally, income is recognized when the transaction is complete, and the customer received the goods or service. For that revenue (excluding certain revenue associated with financial instruments, transferring and servicing of financial assets and other specific revenue transactions), the Company applies the following five-step approach when recognizing revenue: (i) identify the contract with the customer, (ii) identify the performance obligations, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations, and (v) recognize revenue when (or as) the performance obligation is satisfied. The Company's contracts with customers are generally short term in nature, with a duration of one year or less, and most contracts are cancellable by either the Company or its customer without penalty.

Foreclosed Assets

Foreclosed assets consist of property that has been repossessed. Collateral obtained through foreclosure is comprised of commercial and residential real estate and other non–real estate property, including automobiles. The assets are initially recorded at the lower of the related loan balance or fair value of the collateral less estimated selling costs, with any valuation adjustments charged to the allowance for loan losses. Fair values are estimated primarily on appraisals when available or quoted market prices of liquid assets. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. These appraisals may be adjusted by management for qualitative factors such as economic conditions and estimated costs to sell. Subsequently, foreclosed assets are valued at the lower of the amount recorded at acquisition date or the current fair value less estimated costs to sell. Foreclosed assets of $654,000 and $904,000 are included in other assets on the consolidated balance sheets at December 31, 2022 and 2021, respectively. At December 31, 2022, such foreclosed assets included one land development loan. Further valuation adjustments on these assets, gains and losses realized on sales, and net operating expenses are recorded in other non–interest expense.

Derivatives

Derivative contracts are offered to customers to assist in hedging their risks of adverse changes in interest rates and foreign exchange rates. The Bank serves as an intermediary between its customers and the markets. Each contract between the Bank and its customers is offset by a contract between the Bank and a counterparty. These contracts do not qualify for hedge accounting. They are carried at fair value, with unrealized gains and losses recorded in other non–interest income.

The Bank has entered into interest rate swap contracts (swap agreements) as an interest rate risk management strategy in accordance with the guidance provided within ASU 2017.12 Derivatives and Hedging (Topic 815) – Targeted Improvements to Accounting for Hedging Activities. Derivatives designated as cash flow hedges are accounted for at fair value. The change in fair value is recorded as a component of other comprehensive income (loss) in stockholders' equity. Amounts recorded in other comprehensive income (loss) are subsequently reclassified into interest expense when the underlying transaction affects earnings. The swap agreements are accounted for on an accrual basis, with the net interest differential being recognized as an adjustment to interest income or interest expense of the related asset or liability.

Asset Impairment Assessments

The Company reviews long–lived assets, such as fixed assets, intangibles and purchased intangibles subject to amortization, for impairment whenever events or changes in circumstances indicate that the carrying value of such assets may not be fully recoverable. Recoverability of assets to be held and used is measured by a comparison of carry amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized in the amount by which the carrying amount of the asset exceeds the fair value of the asset. Assets to be disposed of are separately presented in the balance sheet and reported at the lower of the carrying amount or fair value less costs to sell and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale are presented separately in the appropriate asset and liability sections of the consolidated balance sheet.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase generally mature within thirty days from the transaction date, with the exception of some agreements which mature in one year or less. Securities sold under agreements to repurchase are included in other borrowed funds on the consolidated balance sheet.

Subordinated Debentures

Debt issuance costs related to a recognized debt liability are presented in the consolidated balance sheet as a direct deduction from the carrying amount of the debt liability.

Off–Balance Sheet Financial Instruments

In the ordinary course of business, the Bank has entered into off–balance sheet financial instruments consisting of commitments to extend credit, and commitments under commercial and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they become payable.

Stock–Based Compensation

Compensation cost for stock options granted on or after January 1, 2006 is calculated using the Black–Scholes option–pricing model.

Treasury Stock

Purchases of the Company's common stock are recorded at cost as treasury stock. Upon re–issuance for acquisitions, exercises of stock–based awards or other corporate purposes, treasury stock is reduced based upon the average cost basis of shares held. Fair value of the re–issued shares in excess of the average cost of treasury stock is recorded as capital surplus.

Income Taxes

Income taxes are provided based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income taxes are provided for temporary differences between the financial reporting basis and income tax basis of the Company's assets and liabilities, net operating losses, and tax credit carryforwards. Deferred tax assets and liabilities are measured using the enacted tax rates that are expected to apply to taxable income when such assets and liabilities are anticipated to be settled or realized. The effect on deferred tax assets and liabilities of a change in tax rates is recognized as tax expense or benefit in the period that includes the enactment date of the change. In determining the amount of deferred tax assets to recognize in the consolidated financial statements, the Company evaluates the likelihood of realizing such benefits in future periods. A valuation allowance is provided if it is more likely than not that all or some portion of the deferred tax asset will not be realized. The Company recognizes interest and penalties related to income taxes within income tax expense in the consolidated statements of income.

The Company and its subsidiaries file a consolidated federal income tax return.

Concentration of Credit

The Bank's loans, commitments, and commercial and standby letters of credit have been granted primarily to customers in the St. Louis metropolitan area, and St. Charles and Jefferson counties in Missouri. Although the Bank has a diversified loan portfolio, a substantial portion of its customers' ability to service their loans is dependent upon the real estate economic sector. Most of these customers are depositors of the Bank. Investments in state and municipal securities also involve governmental entities within the Bank's market area. Commercial and standby letters of credit were granted primarily to commercial borrowers.

Accounting Guidance Adopted in 2022

FASB ASU 2016-02, "Leases (Topic 842)" – On January 1, 2022, the Company adopted Financial Accounting Standards Board (the "FASB") ASU No. 2016-02, "*Leases (Topic 842)*" and all subsequent amendments that modified Topic 842. Under the new standard, lessees are required to recognize leases on-balance sheet and to disclose key information about leasing arrangements, including recognition of (1) a right-of-use ("ROU") asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term;

and (2) a lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis, for all leases with a term longer than 12 months at commencement date. Under the new standard, leases are classified as either finance or operating, with classification affecting the pattern and classification of expense recognition in the statement of income. Lessor accounting is largely unchanged under the new standard.

The Company adopted the new standard under a modified retrospective adoption approach, applying the new standard to all existing leases in effect at the adoption date and new leases going forward. Consequently, financial information will not be updated, and the disclosures required under the new standard will not be provided for dates and periods prior to January 1, 2022. The Company elected the "package of practical expedients", which allows us not to reassess under the new standard our prior conclusions about lease identification, lease classification and initial direct costs. The Company also elected to separate the lease components from the non-lease components and exclude the non-lease components from the ROU asset and lease liability.

At the date of adoption, the Company recorded approximately $8,498,433 on its consolidated balance sheet to reflect the ROU assets and associated lease liabilities related to non-cancelable operating lease agreements for banking centers and operating facilities. The Company has made an accounting policy election to use the US Treasury risk-free rate as the discount rate to calculate the present value of remaining lease payments. The adoption of this guidance did not have a material effect on its consolidated statement of income.

Accounting Guidance Issued But Not Yet Adopted

FASB ASU 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments" – In June 2016, the FASB issued ASU No. 2016-13, "Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments ("CECL")." The objective of this update is to improve financial reporting by providing timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The ASU requires an organization to measure all expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions and other organizations will use forward-looking information to better understand their credit loss estimates. This update became effective for the Company on January 1, 2023. The Company is finalizing the economic forecasts and certain other key assumptions used in our CECL model and methodologies; however, we expect our allowance for credit losses for loans ("ACL") to increase by $100,175 and our reserve for unfunded commitments to increase by $374,132. These estimates are subject to change based on continued refinement and validation of the model and methodologies as well as changes in forecasted macroeconomic conditions. Ongoing impacts of the CECL methodology will be dependent upon changes in economic conditions and forecasts, originated and acquired loan portfolio composition, portfolio duration, and other factors.

NOTE 2 — CASH AND DUE FROM BANKS

The Bank is required to maintain cash reserves based on the level of certain of its deposits. This reserve may be met by funds on deposit with the Federal Reserve Bank ("FRB") and cash on hand. In response to the COVID pandemic, the FRB lowered the reserve requirement ratios to 0% effective March 26, 2020, and therefore, the Bank had no required reserve balance at December 31, 2022 and 2021.

NOTE 3 — INVESTMENT SECURITIES

Investment securities available for sale at December 31, 2022 and 2021 were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
Available–for–sale:				
U.S. Treasuries and agencies	$ 133,547,290	$ 144,887	$ (11,934,434)	$ 121,757,743
Mortgage–backed securities - agency	11,266,884	-	(1,023,043)	10,243,841
Collateralized mortgage obligations	37,588,447	-	(1,489,895)	36,098,552
State and political subdivisions	34,497,479	52,680	(1,995,776)	32,554,383
Corporate debt	90,295,301	43	(7,088,514)	83,206,830
Time deposits	1,732,941	-	-	1,732,941
Total	$ 308,928,342	$ 197,610	$ (23,531,662)	$ 285,594,290
December 31, 2021				
Available–for–sale:				
U.S. Treasuries and agencies	$ 120,032,135	$ 717,305	$ (1,083,919)	$ 119,665,521
Mortgage–backed securities - agency	12,344,836	595,228	(35,005)	12,905,059
Collateralized mortgage obligations	55,145,266	1,058,651	(65,805)	56,138,112
State and political subdivisions	24,687,019	538,365	(106,745)	25,118,639
Corporate debt	80,390,189	1,353,521	(952,295)	80,791,415
Time deposits	2,447,896	-	-	2,447,896
Total	$ 295,047,341	$ 4,263,070	$ (2,243,769)	$ 297,066,642

The following is a summary of the amortized cost and fair value of investment securities available–for–sale, by maturity, at December 31, 2022. Securities with hard call dates and prefunded dates are shown accordingly. Securities that paydown each month, mortgage-backed and collateralized mortgage obligations are presented by their estimated maturity date.

	Amortized Cost	Fair Value
Within one year	$ 22,888,206	$ 22,641,143
After one but within five years	140,129,506	129,587,242
After five but within ten years	131,502,824	119,410,831
After ten years	14,407,806	13,955,074
	$ 308,928,342	$ 285,594,290

At December 31, 2022 and 2021, investment securities with carrying values of $128,176,186 and $163,213,697, respectively, were pledged to secure public deposits, repurchase agreements and other borrowings.

Information pertaining to securities with gross unrealized losses at December 31, 2022 and 2021, 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:						
U.S. Treasuries and agencies	$ 30,050,046	$ (1,721,513)	$ 85,683,370	$ (10,212,921)	$ 115,733,416	$ (11,934,434)
Mortgage–backed securities - agency	8,899,465	(782,906)	1,344,377	(240,137)	10,243,842	(1,023,043)
Collateralized mortgage obligations	33,313,091	(1,233,412)	2,785,461	(256,483)	36,098,552	(1,489,895)
State and political subdivisions	20,674,980	(1,111,401)	7,463,451	(884,375)	28,138,431	(1,995,776)
Corporate debt	50,416,923	(3,516,822)	28,289,901	(3,571,692)	78,706,824	(7,088,514)
	$ 143,354,505	$ (8,366,054)	$ 125,566,560	$ (15,165,608)	$ 268,921,065	$ (23,531,662)
December 31, 2021:						
U.S. Treasuries and agencies	$ 65,497,952	$ (970,260)	$ 4,886,341	$ (113,659)	$ 70,384,293	$ (1,083,919)
Mortgage–backed Securities - agency	-	-	978,327	(35,005)	978,327	(35,005)
Collateralized mortgage obligations	2,108,746	(36,562)	1,078,991	(29,243)	3,187,737	(65,805)
State and political subdivisions	3,307,803	(57,415)	1,940,188	(49,330)	5,247,991	(106,745)
Corporate debt	28,259,364	(931,325)	2,979,030	(20,970)	31,238,394	(952,295)
	$ 99,173,865	$ (1,995,562)	$ 11,862,877	$ (248,207)	$ 111,036,742	$ (2,243,769)

Management evaluates securities for other–than–temporary impairment at least annually and more frequently when economic or market conditions warrant such evaluation. Consideration is given to (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near–term prospects of the issuer, and (3) the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient to allow for any anticipated recovery in fair value.

At December 31, 2022, investment securities available for sale with unrealized losses have depreciated 8.0% from the their amortized cost basis. These unrealized losses relate principally to current interest rates for similar types of securities. In analyzing an issuer’s financial condition, management considers whether the securities are issued by the federal government or its agencies, whether downgrades by bond agencies have occurred, and the results of reviews of the issuer’s financial condition. There were no other-than-temporary impairment losses recognized during the years ended December 31, 2022 and 2021.

There were no securities sold in 2022. Proceeds from the sale of securities were $6,647,345 in 2021. There were gross gains of $271,384 and no losses resulting in a net gain of $271,384 for 2021.

NOTE 4 — LOANS

The following table presents loans outstanding by portfolio class at December 31, 2022 and 2021:

	2022	2021
Commercial and industrial:		
Real estate construction	$ 92,125,328	$ 97,187,034
Commercial and industrial	537,371,273	515,641,274
Total commercial and industrial loans	629,496,601	612,828,308
Secured by real estate		
Owner–occupied real estate	305,668,255	292,035,479
Commercial real estate	758,898,318	633,687,819
Total loans secured by real estate loans	1,064,566,573	925,723,298
Consumer		
Mortgage 1–4 family	221,211,783	201,075,120
Home equity	39,232,591	33,870,844
Individual	82,676,470	60,253,160
Total consumer loans	343,120,844	295,199,124
Total loans, gross	2,037,184,018	1,833,750,730
Less: Allowance for loan losses	(26,092,878)	(21,767,876)
Total loans, net	$2,011,091,140	$1,811,982,854

There were $433,895 and $5,111,623 of loans held for sale included in mortgage 1–4 family loans as of December 31, 2022 and 2021, respectively. During 2021 and 2020, the Bank originated Paycheck Protection Program (“PPP”) loans of $284,984,000 with origination fees received of $10,322,000, in aggregate. As of December 31, 2022 and 2021, there were approximately $947,000 and $34,811,000 of PPP loans, respectively, included in commercial and industrial loans that were still outstanding and approximately $30,000 and $1,027,000 of gross fees, respectively, that had not been recognized.

There were loans of $863,245,000 and $815,088,000 pledged at the FHLB as collateral for borrowings and letters of credit obtained to secure public deposits at December 31, 2022 and 2021, respectively. There were $54,558,519 and $81,798,075 of loans pledged to the FRB at December 31, 2022 and 2021, respectively.

Allowance for Loan Losses

The following table presents, by loan portfolio segment, a summary of changes in the allowance for loan losses for the years ended December 31, 2022 and 2021:

	Commercial & Industrial	Secured By Real Estate	Consumer	Total
December 31, 2022				
Balance, beginning of year	$ 7,011,970	$ 8,779,796	$ 5,976,110	$ 21,767,876
Provision for loan losses	2,609,979	818,969	1,801,447	5,230,395
Recoveries	19,010	13,678	292,759	325,447
Charge-offs	(16,114)	(254,794)	(959,932)	(1,230,840)
Balance, end of year	$ 9,624,845	$ 9,357,649	$ 7,110,384	$ 26,092,878
December 31, 2021				
Balance, beginning of year	$ 6,713,676	$ 7,252,421	$ 5,792,930	$ 19,759,027
Provision for loan losses	371,681	1,527,375	534,682	2,433,738
Recoveries	58,377	–	102,917	161,294
Charge-offs	(131,764)	–	(454,419)	(586,183)
Balance, end	$ 7,011,970	$ 8,779,796	$ 5,976,110	$ 21,767,876

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method at December 31, 2022 and 2021. Loans evaluated include loans on non–accrual status with balances exceeding $500,000, which are individually evaluated for impairment, and other impaired loans deemed to have similar risk characteristics, which are collectively evaluated.

	Commercial Industrial	Secured By Real Estate	Consumer	Total
December 31, 2022				
Allowance for loan losses:				
Individually evaluated for impairment	$ 1,333,361	$ 2,135,350	$ 963,930	$ 4,432,641
Collectively evaluated for impairment	8,291,484	7,222,299	6,146,454	21,660,237
Balance, end of year	$ 9,624,845	$ 9,357,649	$ 7,110,384	$ 26,092,878
Loans outstanding, net of allowance:				
Individually evaluated for impairment	$ 20,520,450	$ 25,425,092	$ 6,002,051	$ 51,947,593
Collectively evaluated for impairment	599,351,306	1,029,783,832	330,008,409	1,959,143,547
Balance, end of year	$ 619,871,756	$1,055,208,924	$ 336,010,460	$ 2,011,091,140

	Commercial Industrial	Secured By Real Estate	Consumer	Total
December 31, 2021				
Allowance for loan losses:				
Individually evaluated for impairment	$ 896,285	$ 1,525,600	$ 856,406	$ 3,278,291
Collectively evaluated for impairment	6,115,685	7,254,196	5,119,704	18,489,525
Balance, end of year	$ 7,011,970	$ 8,779,796	$ 5,976,110	$ 21,767,876
Loans outstanding, net of allowance:				
Individually evaluated for impairment	$ 10,306,838	$ 27,114,476	$ 5,377,436	$ 42,798,750
Collectively evaluated for impairment	595,509,500	889,829,026	283,845,578	1,769,184,104
Balance, end of year	$ 605,816,338	$ 916,943,502	$ 289,223,014	$ 1,811,982,854

Troubled Debt Restructurings ("TDR")

When the Bank modifies a loan, management evaluates any possible impairment based on the present value of expected future cash flows, discounted at the contractual interest rate of the original loan agreement, except when the sole (remaining) source of repayment for the loan is in operation or liquidation of the collateral. In these cases, management uses the current fair value of the collateral, less selling costs, instead of discounted cash flows. If management determines that the value of the modified loan is less than the recorded investment in the loan (net of previous charge–offs, deferred loan fees or costs and unamortized premium or discount), impairment is recognized by class of loan, as applicable, through an allowance estimate or a charge–off to the allowance. Segment and class status is determined by the loan's classification at origination.

At December 31, 2022 and 2021, the Company had TDR's of $547,104 and $678,170, respectively, of which $363,279 and $488,143 were included in nonaccrual loans and $183,825 and $190,027 were still accruing interest, respectively. There were no TDRs that occurred during the years ended December 31, 2022 and 2021 and there were no TDRs for which there was a payment default within twelve months following the modification during the years ended December 31, 2022 and 2021.

Impaired Loans

Impaired loans include loans on nonaccrual status and loans whose terms have been modified in a troubled debt restructuring. The following table summarizes impaired loans at December 31, 2022 and 2021:

	2022	2021
Nonaccrual loans	$ 8,203,334	$ 5,664,080
Loans modified under TDR and still accruing interest	183,825	190,027
Total impaired loans	$ 8,387,159	$ 5,854,107

For the years presented there were no commitments to lend additional funds for these impaired loans.

The following table presents additional information about impaired loans by loan class at December 31, 2022 and 2021, segregated between loans for which an allowance for loan losses has been provided and loans for which no allowance has been provided:

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Interest Income Recognized
December 31, 2022				
With no related allowance recorded				
Commercial Real Estate	$ –	$ –	$ –	$ –
Owner–Occupied Real Estate	–	–	–	–
Construction Real Estate	–	–	–	–
Commercial and Industrial	–	–	–	–
Mortgage 1–4 Family	–	–	–	–
Home Equity	–	–	–	–
Individual	–	–	–	–
	–	–	–	–
With an allowance recorded				
Commercial Real Estate	2,288,565	2,288,565	126,694	18,583
Owner–Occupied Real Estate	2,836,735	2,836,735	855,599	139,179
Construction Real Estate	585,004	585,004	59,301	29,100
Commercial and Industrial	35,850	35,850	2,609	7,369
Mortgage 1–4 Family	2,322,271	2,322,271	208,989	91,517
Home Equity	278,629	278,629	34,744	16,450
Individual	40,105	40,105	38,430	6,384
	8,387,159	8,387,159	1,326,366	308,582
	$ 8,387,159	$ 8,387,159	$ 1,326,366	$ 308,582
December 31, 2021				
With no related allowance recorded				
Commercial Real Estate	$ –	$ –	$ –	$ –
Owner–Occupied Real Estate	–	–	–	–
Construction Real Estate	–	–	–	–
Commercial and Industrial	–	–	–	–
Mortgage 1–4 Family	–	–	–	–
Home Equity	–	–	–	–
Individual	–	–	–	–
	–	–	–	–
With an allowance recorded				
Commercial Real Estate	975,618	975,618	59,700	72,090
Owner–Occupied Real Estate	270,315	270,315	27,032	20,084
Construction Real Estate	417,629	417,629	91,810	15,811
Commercial and Industrial	2,004,140	2,004,140	221,941	102,360
Mortgage 1–4 Family	1,819,773	1,819,773	165,197	75,653
Home Equity	361,838	361,838	48,105	19,133
Individual	4,794	4,794	46,612	398
	5,854,107	5,854,107	660,397	305,529
	$ 5,854,107	$ 5,854,107	$ 660,397	$ 305,529

The average recorded investment of impaired loans during the years ended December 31, 2022 and 2021 was $6,669,296 and $6,705,336, respectively. No interest was recognized on nonaccrual loans during their period of impairment.

The aging status of the recorded investment in loans by portfolio as of December 31, 2022 and 2021 was as follows:

	Current or Less Than 30 Days Past Due	30–89 Past Due	90 Days Past Due And Still Accruing	Non–Accrual	Total
December 31, 2022					
Commercial Real Estate	$ 754,727,750	$ 1,593,985	$ 471,843	$ 2,104,740	$ 758,898,318
Owner–Occupied Real Estate	302,831,520	–	–	2,836,735	305,668,255
Construction Real Estate	91,540,324	–	–	585,004	92,125,328
Commercial and Industrial	535,648,688	818,402	868,333	35,850	537,371,273
Mortgage 1–4 Family	216,241,781	2,576,397	71,334	2,322,271	221,211,783
Home Equity	38,504,734	449,228	–	278,629	39,232,591
Individual	81,250,574	868,230	517,561	40,105	82,676,470
	$2,020,745,371	$ 6,306,242	$ 1,929,071	$ 8,203,334	$ 2,037,184,018
December 31, 2021					
Commercial Real Estate	$ 629,395,752	$ 3,506,476	$ –	$ 785,591	$ 633,687,819
Owner–Occupied Real Estate	291,765,164	–	–	270,315	292,035,479
Construction Real Estate	96,769,405	–	–	417,629	97,187,034
Commercial and Industrial	513,204,164	392,198	40,772	2,004,140	515,641,274
Mortgage 1–4 Family	197,137,249	1,895,676	222,422	1,819,773	201,075,120
Home Equity	32,941,630	538,627	28,749	361,838	33,870,844
Individual	60,054,228	193,810	328	4,794	60,253,160
	$1,821,267,592	$ 6,526,787	$ 292,271	$ 5,664,080	$ 1,833,750,730

Credit Quality Indicators

The following table presents information about the credit quality of the loan portfolio, by class, using the Bank's internal rating system as an indicator. The internal rating system is a series of grades reflecting management's risk assessment, based on its analysis of the borrower's financial condition. Credit risk grades are reviewed continuously by management based on a variety of sources, including, but not limited to, financial information, collateral valuation updates, and market information. As this information becomes available management analyzes the resulting ratings, as well as other external statistics and factors, to track loan performance. The "average or lower risk" category represents a range of loan grades that are comprised of loans with minimal risk at the lower end of the grading system to higher, though still acceptable, risk at the upper range end. Movement of risk through the various grade levels in the "average or lower risk" category is monitored for early identification of credit deterioration. The "watch" rating is attached to loans where the borrower exhibits material negative financial trends due to borrower specific or systemic conditions that, if left uncorrected, threaten its capacity to meet its debt obligations. The borrower is believed to have sufficient financial flexibility to react to and resolve its negative financial situation. The watch list rating is a transitional grade that is closely monitored for improvement or deterioration. The "substandard" rating is applied to loans where the borrower exhibits well–defined weaknesses that jeopardize its continued performance and are of a severity that the distinct possibility of default exists. The "doubtful" rating is applied to loans when collection is highly questionable and improbable, but its classification as an estimated loss is deferred until a more exact status can be determined. A "loss" rating is a loan considered uncollectible and of such little value that its continuance as an active bank asset is not warranted.

	Commercial Real Estate	Owner–Occupied Real Estate	Real Estate Construction	Commercial and Industrial	Mortgage 1–4 Family	Home Equity	Individual	Total
December 31, 2022								
Average or lower risk	$ 510,455,021	$ 177,116,682	$ 28,693,125	$ 360,861,091	$ 214,292,272	$ 37,416,378	$ 58,100,205	$1,386,934,774
Higher than average risk	238,373,726	111,060,702	55,334,842	162,753,732	1,782,599	875,976	23,687,433	593,869,010
Watch	5,600,671	13,781,610	7,512,357	6,794,474	1,291,604	169,075	–	35,149,791
Substandard	4,468,900	3,709,261	585,004	6,961,976	3,845,308	771,162	888,832	21,230,443
Doubtful	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–
	$ 758,898,318	$ 305,668,255	$ 92,125,328	$ 537,371,273	$ 221,211,783	$ 39,232,591	$ 82,676,470	$2,037,184,018
December 31, 2021								
Average or lower risk	$ 391,273,297	$ 164,495,984	$ 33,805,453	$ 364,728,449	$ 193,531,630	$ 31,332,090	$ 47,320,107	$1,226,487,010
Higher than average risk	228,063,834	113,250,107	62,963,952	140,127,331	2,681,322	1,435,551	12,664,582	561,186,679
Watch	10,856,854	10,809,815	–	3,026,782	1,334,807	207,422	–	26,235,680
Substandard	3,493,834	3,479,573	417,629	7,758,712	3,527,361	895,781	268,471	19,841,361
Doubtful	–	–	–	–	–	–	–	–
Loss	–	–	–	–	–	–	–	–
	$ 633,687,819	$ 292,035,479	$ 97,187,034	$ 515,641,274	$ 201,075,120	$ 33,870,844	$ 60,253,160	$1,833,750,730

Loans Held for Sale

In addition to the portfolio of loans which are intended to be held to maturity, the Bank historically originates loans which it intends to sell in secondary markets. Loans classified as held for sale primarily consist of fixed rate residential mortgages. These loans are sold in the secondary market, generally within three months of origination. The following table presents information about loans held for sale at December 31, 2022 and 2021:

	2022	2021
Balance outstanding at end of year		
Residential mortgage loans, at cost	$ 433,895	$ 5,111,623
Valuation allowance	–	—
Total loans held for sale, at lower of cost or fair value	$ 433,895	$ 5,111,623
Net gains on sales of loans held for sale during the year	$ 2,144,847	$ 6,212,850

Residential Mortgage Loan Servicing

At December 31, 2022 and 2021, the Bank serviced residential mortgage loans for others (primarily for Federal Home Loan Mortgage Corporation and the Federal Home Loan Bank of Des Moines) with unpaid principal balances of $19,002,019 and $15,629,073, respectively. The carrying value of the mortgage servicing rights is not material to the financial statements and are not included in the consolidated balance sheets.

United States Small Business Administration ("SBA") Loan Servicing

At December 31, 2022 and 2021, the Company serviced SBA loans with unpaid principal balances of $13,561,729 and $513,163, respectively. At December 31, 2022 and 2021, SBA loan servicing rights of $254,628 and $9,619, respectively are reflected in other assets in the consolidated balance sheets.

NOTE 5 — PREMISES AND EQUIPMENT, NET

A summary of premises and equipment at December 31, 2022 and 2021 is as follows:

	2022	2021
Land	$ 4,704,408	$ 4,818,994
Land improvements	1,577,476	1,577,476
Buildings and improvements	27,876,857	29,300,368
Vaults	364,937	364,937
Furniture and equipment	14,606,737	15,206,625
Software	4,115,332	4,084,195
Fixed assets in process	548,411	58,275
	53,794,158	55,410,870
Less: Accumulated depreciation	(39,391,978)	(39,512,953)
	$ 14,402,180	$ 15,897,917

Depreciation expense for the years ended December 31, 2022 and 2021 was $1,672,396 and $1,734,369, respectively.

NOTE 6 — LEASES

The Company determines if a lease is present at the inception of an agreement. Operating leases are capitalized at commencement and are discounted using the US Treasury risk-free rate unless the lease defines an implicit rate within the contract. For operating leases existing prior to January 1, 2022, the rate for the remaining lease term as of January 1, 2022 was used.

The operating lease ROU assets represent the Company's right to use an underlying asset for the lease term, and the operating lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and operating lease liabilities are recognized on the lease commencement date based on the present value of lease payments over the lease term. No significant judgments or assumptions were involved in developing the estimated operating lease liabilities as the Company's operating lease liabilities largely represent future rental expenses associated with operating leases and the US Treasury risk-free rate.

The Company has operating leases for banking centers and operating facilities. Our leases have remaining lease terms of 7 months to 24 years, some of which may include options to extend the lease terms for up to an additional 10 years. The options to extend are included if they are reasonably certain to be exercised.

The following table summarizes supplemental balance sheet and cash flow information related to leases:

	December 31, 2022
Lease balances:	
Operating lease right-of-use assets	$ 7,644,651
Operating lease liabilities	$ 7,669,108
Supplemental Information:	
Weighted average remaining lease term	16.55 years
Weighted average discount rate	1.68%
Cash Flow Information:	
Operating cash flows from operating leases	$ 975,204
Right-of-use assets obtained in exchange for lease obligations	$ 8,498,433

The components of lease expense (included in occupancy expense in the consolidated statements of income) for the year ended December 31, 2022 was as follows:

	Year Ended December 31, 2022
Operating lease cost	$ 999,661
Income from subleases	(26,774)
Net lease cost	$ 972,887

The projected future minimum rental payments under the terms of the operating leases are as follows:

	Amount
2023	$ 622,502
2024	602,115
2025	611,172
2026	614,117
2027	588,553
Thereafter	5,803,018
Total future minimum lease payments	8,841,477
Less imputed interest	(1,172,369)
Total operating lease liabilities	$ 7,669,108

As a lessor, the Company leases office space and parking lot space to outside parties. Revenues recorded in connection with these leases and reported in occupancy expense in our consolidated statements of income were $262,996 and $297,646 during the years ended December 31, 2022 and 2021, respectively.

NOTE 7 — DERIVATIVE INSTRUMENTS

Interest Rate Swap Contracts

The Bank entered into interest rate swap contracts sold to commercial customers who wish to modify their interest rate sensitivity. These swaps are offset by contracts simultaneously purchased by the Company from other financial dealer institutions with mirror-image terms. Because of the mirror-image terms of the offsetting contracts, in addition to collateral provisions which mitigate the impact of non-performance risk, changes in the fair value subsequent to initial recognition have a minimal to no effect on earnings. These derivative contracts do not qualify for hedge accounting.

The notional amounts of these customer derivative instruments and offsetting counterparty derivative instruments was $46,073,763 and $48,597,155 at December 31, 2022 and 2021, respectively, with a weighted-average remaining term of 6.42 years and 7.57 years, respectively. The fair value of the customer derivative instruments and the offsetting counterparty derivative instruments was $6,098,338 and $1,744,719 at December 31, 2022 and 2021, respectively, which are included in other assets and other liabilities, respectively, on the consolidated balance sheets. Changes in the fair value of the customer derivative instruments and offsetting counterparty derivative instruments was $9,184,307 and $807,138 for the years ended December 31, 2022 and 2021, respectively, and are recorded in other noninterest expense in the consolidated statements of income. For the derivative asset, interest is accrued using fixed rates as defined in the agreements, and for the derivative liability, interest is charged using a variable rate based on one-month LIBOR plus basis points.

Cash Flow Hedges

In March 2020, the Company entered into two interest rate swap agreements with a total notional amount of $40,000,000 for a period of seven years. The swap agreements, of which $20,000,000 matures on March 23, 2027 and $20,000,000 matures on April 28, 2027, have a fixed rate of interest of 0.81% and the Bank received interest at a variable rate equal to the 3-month LIBOR rate through July 2022 and receives interest at a variable rate equal to the 3-month SOFR rate thereafter.

In May 2020, the Company entered into an interest rate swap agreement with a notional amount of $20,000,000 for a period of seven years. The swap agreement matures on July 1, 2027 and has a fixed rate of interest of 0.615% and the Bank received interest at a variable rate equal to the 3-month LIBOR rate through July 2022 and receives interest at a variable rate equal to the 3-month SOFR rate thereafter.

Cash flow hedges are accounted for at fair value. The effective portion of the change in the cash flow hedge’s gain or loss is reported as a component of other comprehensive loss. As of December 31, 2022 and 2021, the unrealized gain, net of tax, in other comprehensive loss for the cash flow hedges was $4,866,171 and $1,959,816, respectively. The fair value of the cash flow hedges was $8,322,599 and $1,906,234 at December 31, 2022 and 2021, respectively, and is included in other assets on the consolidated balance sheets. Related to the swaps identified above, during the next twelve months the Company estimates that an additional $2,497,135 will be reclassified as a reduction to interest expense.

NOTE 8 — TIME DEPOSITS

At December 31, 2022, the scheduled maturities of time deposits are as follows:

Year ending December 31,	Amount
2023	$ 291,403,038
2024	120,174,622
2025	44,640,844
2026	4,654,091
2027	4,113,550
	$ 464,986,145

NOTE 9 — FHLB ADVANCES AND OTHER BORROWINGS

The following table summarizes our FHLB advances and other borrowings at December 31, 2022 and 2021:

	2022	2021
Securities sold under agreements to repurchase	$ 33,127,002	$ 67,300,432
FHLB advances	95,000,000	135,000,000
Total FHLB advance and other borrowings	$ 128,127,002	$ 202,300,432

Securities sold under agreements to repurchase generally mature within one year. The repurchase agreements are secured by U.S. government agency securities and State and Municipal securities. Securities sold under agreements to repurchase were collateralized by pledged securities of $46,077,587 and $77,907,091 at December 31, 2022 and 2021, respectively. Summarized below is information on securities sold under repurchase agreements at December 31, 2022 and 2021:

	2022	2021
Average Balance During the Year	$ 60,642,591	$ 82,727,648
Average Interest Rate During the Year	0.47%	0.09%
Maximum Month–End Balance During the Year	$ 80,169,835	$ 97,165,399

FHLB advances are under a master borrowing agreement which assigns all investments in FHLB stock as well as qualifying first mortgage loans and qualifying commercial real estate loans as collateral to secure the amounts borrowed. FHLB advances are under different terms and bear a weighted–average interest rate of 3.30% and 1.18% at December 31, 2022 and 2021, respectively. The Bank had the additional capacity to borrow funds from the FHLB of up to $353,862,151 at December 31, 2022.

At December 31, 2022, the scheduled maturities of FHLB borrowings are as follows:

Year ending December 31,	Amount
Overnight	$ –
2023	60,000,000
2024	10,000,000
2025	15,000,000
2026	10,000,000
	$ 95,000,000

The Bank had the capacity to borrow funds from the Federal Reserve Bank of up to $42,267,664 at December 31, 2022. The Holding Company had the capacity to borrow funds from Midwest Independent Bank of up to $10,000,000 at December 31, 2022 on a line of credit at a floating rate with the prime rate minus .25% quoted in the Wall Street Journal and a floor of 3.25%. The line is currently set to mature on June 1, 2023. The loan is secured with Midwest BankCentre stock and includes loan covenants relating to the bank maintaining a "well capitalized" regulatory status and meeting certain credit and performance ratios.

NOTE 10 — SUBORDINATED DEBENTURES

The following table summarizes the Company's subordinated debt at December 31, 2022 and 2021:

	2022	2021
Subordinated debentures	$ 68,250,000	$ 68,250,000
Less: Unamortized debt issuance costs	(783,423)	(1,010,794)
Total subordinated debt	$ 67,466,577	$ 67,239,206

On July 7, 2020 and July 24, 2020, the Company issued, through a private placement, $33,250,000 aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and qualified institutional buyers ("QIB"). Unless earlier redeemed, the notes mature on July 15, 2030 and bear interest at a fixed rate of 5.75% per year, from and including July 7, 2020, up to July 15, 2025. From and including July 15, 2025 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 567.5 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest. The value of the subordinated debentures was reduced by $600,488 of debt issuance costs, which are being amortized on a straight-line basis through the redemption option of the subordinated debentures, of which $120,585 was amortized as an adjustment to interest expense in both 2022 and 2021.

On June 7, 2021, the Company issued, through a private placement, $35,000,000 aggregate principal amount of fixed-to-floating rate subordinated notes to certain accredited investors and QIB. Unless earlier redeemed, $25,000,000 of the notes mature on June 15, 2031 and bear interest at a fixed rate of 3.625% per year, from and including June 7, 2021, up to June 15, 2026. From and including June 15, 2026 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 295 basis points, payable quarterly in arrears. Unless earlier redeemed,

$10,000,000 of the notes mature on June 15, 2036 and bear interest at a fixed rate of 4.00% per year, from and including June 7, 2021, up to June 15, 2031. From and including June 15, 2031 to the maturity date or early redemption date, the interest rate shall reset quarterly to an interest rate per annum equal to the then current three-month SOFR rate plus 267 basis points, payable quarterly in arrears. The subordinated notes are unsecured and may be redeemed on or after the fifth anniversary of the issue date, in whole at any time or in part upon any interest payment date, at an amount equal to 100% of the outstanding principal amount being redeemed plus accrued but unpaid interest. The value of the subordinated debentures was reduced by $653,663 of debt issuance costs, which are being amortized on a straight-line basis through the redemption option of the subordinated debentures, of which $111,286 and $64,917 was amortized as an adjustment to interest expense in 2022 and 2021, respectively.

All of the subordinated debentures mentioned above may be included in Tier II capital (with certain limitations applicable) under current regulatory guidelines and interpretations.

NOTE 11 — ACCUMULATED OTHER COMPREHENSIVE (LOSS) INCOME

The following table summarizes the components of accumulated other comprehensive (loss) income at December 31, 2022 and 2021:

	2022	2021
Unrealized (losses) gains on investment securities available-for-sale	$ (23,334,052)	$ 2,019,301
Unrealized gains on cash flow swaps	8,322,599	1,906,234
Income tax effect	3,626,767	(948,409)
Accumulated other comprehensive (loss) income	$ (11,384,686)	$ 2,977,126

NOTE 12 — INCOME TAXES

The components of income taxes for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Current	$ 5,190,678	$ 4,794,532
Deferred	(1,741,896)	(1,654,285)
	$ 3,448,782	$ 3,140,247

Income tax expense differs from the federal statutory rates for the years ended December 31, 2022 and 2021 for the reasons shown in the following table:

	2022	2021
Income taxes at effective statutory rate of 21%	$ 5,226,840	$ 5,112,248
Missouri bank tax, net of federal benefit	(42,074)	(12,345)
Tax–exempt interest income	(31,304)	(80,962)
Bank owned life insurance	(332,168)	(557,050)
Federal tax credits	(1,480,021)	(1,491,865)
Other, net	107,509	170,221
	$ 3,448,782	$ 3,140,247

Deferred tax assets, net in the accompanying consolidated balance sheets at December 31, 2022 and 2021 include the following amounts of deferred tax assets and liabilities:

	2022	2021
Deferred tax assets:		
Allowance for loan losses	$ 6,342,321	$ 5,266,813
Credit marks on loans	42,254	85,732
Net operating loss carryforward	802,603	868,021
Tax credits	28,800	28,800
Accrued incentive units	2,167,802	2,177,168
Securities available-for-sale-other	3,626,767	–
Operating lease liabilities	1,864,108	–
Deferred loan fees, net	647,382	494,072
Other	1,857,714	1,207,532
Deferred tax assets	$ 17,379,751	$ 10,128,138
Deferred tax liabilities:		
Deferred loan costs, net	(819,441)	(595,658)
Depreciation and amortization	(105,080)	(172,802)
Core deposit intangible	(32,396)	(163,669)
Operating lease right-of-use assets	(1,858,163)	–
Securities available-for-sale-other	–	(948,409)
Deferred tax liabilities	$ (2,815,080)	$ (1,880,538)
Net deferred tax assets	$ 14,564,671	$ 8,247,600

Net deferred tax assets are included in other assets in the consolidated balance sheets. Income taxes currently payable at December 31, 2022 and 2021 are $1,059,430 and $623,632, respectively, and are included in other liabilities on the consolidated balance sheets.

When the Company acquired Bremen Bancorp, Inc., it acquired federal and state net operating loss carryforwards that are subject to the provisions of Internal Revenue Code Section 382. Such loss carryforwards will expire between 2032 and 2036. The Company's income tax returns are available for examination for the statutory period.

NOTE 13 — EMPLOYEE BENEFIT PLAN

The Bank has a 401(k) plan which covers substantially all full–time employees of the Bank. The Bank's contribution is discretionary and determined annually. Total contributions were $833,372 and $870,770 for years ended December 31, 2022 and 2021, respectively.

NOTE 14 — STOCK–BASED COMPENSATION

The Company has a stock option plan. Under the plan, the Company may grant options for up to 243,000 shares of common stock. The exercise price of each option is equal to the market price of the Company's stock on the date of the grant as defined by the agreement. The maximum term of the option is ten years and the options vest over three years. Vested options may be exercised by the individual at any time before the expiration of the grant.

In determining compensation cost, the Black–Scholes option–pricing model is used to estimate the fair value of options on the date of grant. The Black–Scholes model is a closed–end model that uses the following model assumptions:

- Expected volatility is based on the historical volatility of the Company's stock. The Company uses historical exercise behavior and other factors to estimate the expected term of the options, which represents the period of time that the options granted are expected to be outstanding. The risk–free rate for the expected term is based on the U.S. Treasury zero coupon spot rates in effect at the time of the grant.

Below are the fair values of stock options granted using the Black–Scholes option–pricing model, including the model assumptions for those grants for the years ended December 31, 2022 and 2021.

	2022	2021
Weighted average per share fair value at grant date	$ 9.47	$ 4.69
Assumptions:		
Dividend yield	2.11%	1.67%
Volatility	3.72%	3.70%
Risk–free interest rate	2.88%	1.64%
Expected term	10 years	10 years

A summary of the Company's nonvested shares at December 31, 2022 and 2021 and changes during the year are as follows:

	Number of Shares	Weighted–Average Grant Date Fair Value
Nonvested at January 1, 2021	8,600	$ 3.29
Granted	5,100	$ 4.69
Exercised	(1,500)	$ 4.63
Vested	(3,200)	$ 4.00
Nonvested at December 31, 2021	9,000	$ 3.60
Granted	5,100	$ 9.47
Exercised	(600)	$ 3.25
Forfeited	(300)	$ 0.86
Vested	(3,800)	$ 3.96
Nonvested at December 31, 2022	9,400	$ 6.75

A summary of the Company's stock options outstanding as of December 31, 2022 and 2021, and changes during each year are as follows:

	Number Shares	Weighted Average Exercise Price	Weighted–Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2021	29,100	$ 95.39		
Granted	5,100	$ 121.91		
Exercised	(7,100)	$ 92.09		
Forfeited	–	$ –		
Outstanding at December 31, 2021	27,100	$ 101.24	6.64 years	$ 739,491
Exercisable at December 31, 2021	18,100	$ 94.41	5.27 years	$ 617,541
Outstanding at January 1, 2022	27,100	$ 101.24		
Granted	5,100	$ 128.19		
Exercised	(3,050)	$ 93.58		
Forfeited	(300)	$ 109.20		
Outstanding at December 31, 2022	28,850	$ 106.73	6.67 years	$ 674,995
Exercisable at December 31, 2022	19,450	$ 98.60	5.35 years	$ 613,232

Additional information about stock options for the years ended December 31, 2022 and 2022 is presented below:

	2022	2021
Intrinsic value of options exercised	$ 105,355	$ 220,165
Cash received from options exercised	$ 72,407	$ 49,245
Tax benefit realized from options exercised	$ 25,454	$ 53,192

As of December 31, 2022, there was $49,012 of unrecognized compensation cost (net of estimated forfeitures) related to unvested options and stock awards, which is expected to be recognized over a weighted average period of 2.10 years.

For the years ended December 31, 2022 and 2021, the Bank recognized $22,413 and $19,400, respectively, as compensation cost and recorded related tax benefits of $5,569 and $3,402, respectively.

The Bank adopted an Equity Participation Plan (the Plan) in 2004. The Plan calls for awarding of “performance units” to certain employees of the Bank. Under the Plan, the Bank may grant rights up to 10 percent of outstanding shares of common stock. The value of the unit is based on book value with a multiple based on a combination of years of service and age. The accrued liability associated with the Plan is $8,918,533 and $8,998,292 as of December 31, 2022 and 2021, respectively. Compensation cost associated with the Plan was $2,780,945 and $3,587,542 for the years ended December 31, 2022 and 2021, respectively.

NOTE 15 — PER SHARE INFORMATION

The Company's net book value per share was $114.18 and $113.02 at December 31, 2022 and 2021, respectively, based upon the shares outstanding at those dates (issued and outstanding less treasury shares). Tangible book value per share, which adjusts total stockholders' equity by the balance of intangible assets, was $104.10 and $102.82 at December 31, 2022 and 2021, respectively.

Earnings per share ("EPS") are calculated utilizing the two-class method. Basic EPS is calculated by dividing earnings available to common stockholders by the weighted average number of common shares outstanding. Diluted EPS is calculated by dividing earnings available to common stockholders by the weighted average number of shares adjusted for the dilutive effect of common stock awards. Presented below are the calculations for basic and diluted EPS for the years ended December 31, 2022 and 2021:

	2022	2021
Net income available to stockholders	$ 21,440,931	$ 21,203,789
Weighted–average shares outstanding	1,765,571	1,774,619
Effect of dilutive shares:		
Stock option plan	4,152	4,726
Total weighted–average diluted shares	$ 1,769,723	$ 1,779,345
Basic EPS	$ 12.14	$ 11.95
Diluted EPS	$ 12.12	$ 11.92

NOTE 16 — CAPITAL REQUIREMENTS

The Company is not subject to any separate capital requirements from those of the Bank. The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's consolidated financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action provisions, the Company must meet specific capital guidelines that involve quantitative measures of the Company's assets, liabilities, and certain off–balance sheet items as calculated under regulatory accounting practices. The Company's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Company to maintain minimum amounts and ratios of total and Tier I Capital to risk–weighted assets, Tier I Capital to average assets, and Common Equity Tier I Capital to risk weighted assets. Management believes, as of December 31, 2022 and 2021, the Company meets all capital adequacy requirements to which it is subject.

As of December 31, 2022, the most recent notification from the Federal Reserve System categorized the Company as Well Capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

The Company's actual capital amounts and ratios are also presented in the following table.

	Actual			For Capital Adequacy Purposes			To Be Well Capitalized Under Prompt Corrective Action		
	Amount	Ratio		Amount	Ratio		Amount	Ratio	
December 31, 2022									
Total capital (to risk–weighted assets):									
Consolidated	$ 287,949,000	12.3	%	$ 187,306,720	≥ 8.0	%	N/A	N/A	
Bank	$ 287,913,000	12.3	%	$ 187,282,320	≥ 8.0	%	$234,102,900	≥ 10.0	%
Tier I Capital (to risk–weighted assets):									
Consolidated	$ 194,389,000	8.3	%	$ 140,480,040	≥ 6.0	%	N/A	N/A	
Bank	$ 261,820,000	11.2	%	$ 140,461,740	≥ 6.0	%	$187,282,320	≥ 8.0	%
Tier I Capital (to average assets):									
Consolidated	$ 194,389,000	7.9	%	$ 99,049,520	≥ 4.0	%	N/A	N/A	
Bank	$ 261,820,000	10.6	%	$ 99,003,320	≥ 4.0	%	$123,754,150	≥ 5.0	%
Common Equity Tier I Capital (to risk-weighted assets):									
Consolidated	$ 194,389,000	8.3	%	$ 105,360,030	≥ 4.5	%	N/A	N/A	
Bank	$ 261,820,000	11.2	%	$ 105,346,305	≥ 4.5	%	$152,166,885	≥ 6.5	%
December 31, 2021									
Total capital (to risk–weighted assets):									
Consolidated	$ 269,594,000	12.8	%	$ 169,154,320	≥ 8.0	%	N/A	N/A	
Bank	$ 267,335,000	12.6	%	$ 169,129,360	≥ 8.0	%	$211,411,700	≥ 10.0	%
Tier I Capital (to risk–weighted assets):									
Consolidated	$ 180,587,000	8.5	%	$ 126,865,740	≥ 6.0	%	N/A	N/A	
Bank	$ 245,567,000	11.6	%	$ 126,847,020	≥ 6.0	%	$169,129,360	≥ 8.0	%
Tier I Capital (to average assets):									
Consolidated	$ 180,587,000	7.9	%	$ 91,790,720	≥ 4.0	%	N/A	N/A	
Bank	$ 245,567,000	10.7	%	$ 91,745,160	≥ 4.0	%	$114,681,450	≥ 5.0	%
Common Equity Tier I Capital (to risk-weighted assets):									
Consolidated	$ 180,587,000	8.5	%	$ 95,149,305	≥ 4.5	%	N/A	N/A	
Bank	$ 245,567,000	11.6	%	$ 95,135,265	≥ 4.5	%	$137,417,605	≥ 6.5	%

NOTE 17 — FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair value of an asset or liability is the exchange price that would be received by selling that asset or paid in transferring that liability (exit price) in an orderly transaction occurring in the principal market (or most advantageous market in the absence of a principal market) for such asset or liability. ASC Topic 820, Fair Value Measurement, establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

- Level 1 – Unadjusted quoted prices for identical assets or liabilities in active markets.
- Level 2 – Significant other observable inputs other than Level 1, including quoted prices for similar assets and liabilities in active markets, quoted prices in less active markets, or other observable inputs that can be corroborated by observable market data.
- Level 3 – Significant unobservable inputs that reflect a company's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

Estimated fair values have been determined by management using available market information and appropriate valuation methodologies. However, considerable judgment is required in interpreting market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts that the Bank could realize in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Company used the following methods and significant assumptions to estimate the fair value of each type of financial instrument:

Cash and cash equivalents – The carrying amounts are a reasonable estimate of fair value.

Investment securities, available–for–sale – The fair value of Level 1 available–for–sale securities are based on unadjusted, quoted prices from exchanges in active markets. The fair value of Level 2 available–for–sale securities are based on an independent pricing service for identical assets or significantly similar securities. The pricing service uses a variety of techniques to arrive at fair value including market maker bids, quotes and pricing models. The inputs to the pricing models include recent trades, benchmark interest rates, spreads and actual and projected cash flows.

Changes in fair value are recorded in other comprehensive income. The fair values of securities are priced by a third–party pricing service, which are based on observable market inputs. Valuation methods and inputs, by class of security:

- *U.S. government and federal agency obligations* - U.S. treasury bills, bonds and notes are valued using data from active market makers and inter–dealer brokers.

- *Government–sponsored enterprise obligations* - Government–sponsored enterprise obligations are valued using cash flow valuation models. Inputs used are live market data, cash settlements, Treasury market yields, and floating rate indices such as LIBOR, Constant Maturity Treasury rates, and Prime.

- *State and municipal obligations* – A yield curve is generated and applied to bond sectors, and individual bond valuations are extrapolated. Inputs used to generate the yield curve are bellwether issue levels, established trading spreads between similar issuers or credits, historical trading spreads over widely accepted market benchmarks, new issue scales, and verified bid information. Bid information is verified by corroborating the data against external sources such as broker–dealers, trustees/paying agents, issuers, or non–affiliated bondholders.

- *Mortgage and asset–backed securities* – Collateralized mortgage obligations and other asset–backed securities are valued at the tranche level. For each tranche valuation, the process generates predicted cash flows for the tranche, applies a market based (or benchmark) yield/spread for each tranche, and incorporates deal collateral performance and tranche level attributes to determine tranche–specific spreads to adjust the benchmark yield. Tranche cash flows are generated from new deal files and prepayment/default assumptions. Tranche spreads are based on tranche characteristics such as average life, type, volatility, ratings, underlying collateral and performance, and prevailing market conditions. The appropriate tranche spread is applied to the corresponding benchmark, and the resulting value is used to discount the cash flows to generate an evaluated price.

Valuation of agency pass–through securities, typically issued under GNMA, FNMA, FHLMC, and SBA programs, are primarily derived from information from the To Be Announced ("TBA") market. This market consists of generic mortgage pools which have not been received for settlement. Snapshots of the TBA market, using live data feeds distributed by multiple electronic platforms, are used in conjunction with other indices to compute a price based on discounted cash flow models.

- *Other debt securities* – Other debt securities are valued using active markets and inter–dealer brokers as well as bullet spread scales and option adjusted spread. The spreads and models use yield curves, terms and conditions of the bonds, and any special features (e.g., call or put options and redemption features.)

Loans, net – The fair value of loans was estimated utilizing discounted cash flow calculations that applied interest rates currently being offered for similar loans to borrowers with similar risk profiles. The fair value of loans is also net of the allowance for loan losses and unearned income.

Impaired loans – Impaired loans are carried at the present value of estimated future cash flows using the loan's existing rate or the fair value of collateral if the loan is collateral dependent. Impaired loans are evaluated and valued at the time the loan is identified as impaired at the lower of cost or market value. For collateral dependent impaired loans, market value is measured based on the value of collateral securing these loans and is classified as Level 3 in the fair value hierarchy. These fair values are estimated primarily on appraisals which may utilize a single valuation approach or a combination of approaches including comparable sales and income approach.

Loans held for sale – The fair value of loans held for sale is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered for similar loans to borrowers with similar risk profiles.

Bank owned life insurance – Fair value is estimated using actuarial data based on mortality rates and effective annual interest rates.

Derivatives (Assets and Liabilities) – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments.

Deposits – The fair value for non–time deposits is by definition, equal to the amount payable on demand at the balance sheet date. The fair value for time deposits is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar time deposits.

FHLB advances and other borrowings – The carrying value of securities sold under repurchase agreements is a reasonable estimate of fair value. FHLB borrowings fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar borrowings.

Subordinated debentures, net – The fair value is estimated utilizing discounted cash flow calculations that apply interest rates currently being offered on similar instruments.

Assets and liabilities measured and recorded at fair value on a recurring and non-recurring basis at December 31, 2022 and 2021, are summarized below:

	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
December 31, 2022				
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities				
U.S. Treasuries and agencies	$ –	$ 121,757,743	$ –	$ 121,757,743
Mortgage–backed securities - agency	–	10,243,841	–	10,243,841
Collateralized mortgage obligations	–	36,098,552	–	36,098,552
State and political subdivisions	–	32,554,383	–	32,554,383
Corporate debt	–	83,206,830	–	83,206,830
Time deposits	–	1,732,941	–	1,732,941
	$ –	$ 285,594,290	$ –	$ 285,594,290
Interest rate swaps	$ –	$ 14,420,937	$ –	$ 14,420,937
Liabilities				
Interest rate swaps	$ –	$ (6,098,338)	$ –	$ (6,098,338)
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ –	$ –	$ 8,387,159	$ 8,387,159
Foreclosed assets	$ –	$ –	$ 654,000	$ 654,000
December 31, 2021				
Assets and liabilities measured at fair value on a recurring basis:				
Assets				
Investment securities				
U.S. Treasuries and agencies	$ –	$ 119,665,521	$ –	$ 119,665,521
Mortgage–backed securities - agency	–	12,905,059	–	12,905,059
Collateralized mortgage obligations	–	56,138,112	–	56,138,112
State and political subdivisions	–	25,118,639	–	25,118,639
Corporate debt	–	80,791,415	–	80,791,415
Time deposits	–	2,447,896	–	2,447,896
	$ –	$ 297,066,642	$ –	$ 297,066,642
Interest rate swaps	$ –	$ 3,650,954	$ –	$ 3,650,954
Liabilities				
Interest rate swaps	$ –	$ (1,744,719)	$ –	$ (1,744,719)
Assets measured at fair value on a non-recurring basis:				
Impaired loans	$ –	$ –	$ 5,854,107	$ 5,854,107
Foreclosed assets	$ –	$ –	$ 904,000	$ 904,000

The carrying values and estimated fair value of financial instruments not carried at fair value at December 31, 2022 and 2021 were as follows:

	2022		2021	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Assets:				
Cash and cash equivalents	$ 83,130,262	$ 83,130,262	$ 113,958,438	$ 113,958,438
Loans, net	2,010,657,245	1,963,004,668	1,806,871,231	1,803,980,237
Loans held for sale	433,895	433,895	5,111,623	5,111,623
Bank owned life insurance	71,901,336	71,901,336	70,319,582	70,319,582
Liabilities:				
Deposits	2,117,867,215	1,906,912,215	1,881,625,974	1,869,091,974
FHLB advances and other borrowings	128,127,002	125,683,000	202,300,432	202,751,000
Subordinated debentures, net	67,466,577	62,357,073	67,239,206	68,867,956

The fair value estimates presented herein are based on pertinent information available to management as of December 31, 2022 and 2021. Although management is not aware of any factors that would significantly affect the estimated fair value amounts, such amounts have not been comprehensively revalued for purposes of these consolidated financial statements since these dates.

NOTE 18 — COMMITMENTS AND CONTINGENCIES

In the normal course of business, the Bank makes various commitments and incurs certain contingent liabilities that are not presented in the accompanying consolidated financial statements. The commitments and contingent liabilities include commitments to extend credit and standby letters of credit. Commitments to extend credit aggregated $687,339,560 at December 31, 2022. Commitments under standby letters of credit aggregated $35,234,706 at December 31, 2022. The Bank does not anticipate any material losses as a result of the commitments and contingent liabilities. The Bank generally requires collateral or other security to support financial instruments with credit risk.

The Company is subject to certain claims and litigation in the normal course of business. In the opinion of management, the outcome of such matters will not have a material effect on the financial position of the Company.

NOTE 19 — RELATED PARTY TRANSACTIONS

Loans to executive officers, directors, stockholders, and companies in which they have beneficial ownership, for the years ended December 31, 2022 and 2021 were as follows:

	2022	2021
Balance, beginning	$ 25,453,227	$ 43,278,698
New loans and other additions	29,163,076	2,028,414
Repayments and other reductions	(9,343,684)	(19,853,885)
Balance, ending	$ 45,272,619	$ 25,453,227

Management believes all loans to directors and executive officers were made in the ordinary course of business on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the same time for comparable transactions with other customers, and did not, in the opinion of management, involve more than normal credit risk or present other unfavorable features.

The Bank held related party deposits of $27,400,000 and $18,500,000 at December 31, 2022 and 2021, respectively.

NOTE 20 — PARENT COMPANY ONLY FINANCIAL INFORMATION

The following tables present financial information for Midwest BankCentre, Inc. as of and for the years ended December 31, 2022 and 2021:

Condensed Balance Sheets

	December 31, 2022	December 31, 2021
Assets:		
Cash and cash equivalents	$ 1,902,970	$ 2,499,454
Other assets	1,100,445	1,145,963
Investment in subsidiaries	268,540,515	266,653,710
Total assets	$ 271,543,930	$ 270,299,127
Liabilities:		
Subordinated debentures, net	$ 67,466,577	$ 67,239,206
Other liabilities	3,076,127	3,086,012
Total liabilities	70,542,704	70,325,218
Stockholders' equity	201,001,226	199,973,909
Total liabilities and stockholders' equity	$ 271,543,930	$ 270,299,127

Condensed Statement of Income

	Years Ended December 31, 2022	Years Ended December 31, 2021
Income:		
Dividend from subsidiaries	$ 8,000,000	$ 6,500,000
Interest	4,115	3,705
Total income	8,004,115	6,503,705
Expense:		
Interest expense on borrowings	3,449,996	2,888,384
Other	214,411	257,024
Total expense	3,664,407	3,145,408
Income before income taxes and equity in undistributed income of subsidiaries	4,339,708	3,358,297
Income tax benefit	872,606	760,498
Income before equity in undistributed income of subsidiaries	5,212,314	4,118,795
Equity in undistributed income of subsidiaries	16,228,617	17,084,994
Net income	$ 21,440,931	$ 21,203,789

Condensed Statement of Cash Flows

	Years Ended December 31, 2022	2021
Cash flows from operating activities:		
Net income	$ 21,440,931	$ 21,203,789
Adjustments to reconcile net income to net cash provided by operating activities:		
Equity in undistributed income of subsidiaries	(16,228,617)	(17,084,994)
Amortization of subordinated debt issuance costs	231,871	185,502
Stock based compensation expense	22,413	19,400
Stock issued for director fees	229,059	216,880
Changes in:		
Other assets	45,518	(55,734)
Other liabilities	(14,385)	782,657
Total adjustments	(15,714,141)	(15,936,289)
Net cash provided by operating activities	5,726,790	5,267,500
Cash flows from investing activities:		
Capital injection to Bank	-	(33,000,000)
Capital injection to MBCIA	(20,000)	-
Net cash used in investing activities	(20,000)	(33,000,000)
Cash flows from financing activities:		
Issuance of subordinated debentures	-	35,000,000
Debt issuance cost	-	(653,663)
Dividends paid	(4,801,680)	(4,808,021)
Exercise of stock options	(15,696)	(146,491)
Purchase of treasury stock	(1,485,898)	(1,383,472)
Net cash (used in) provided by financing activities	(6,303,274)	28,008,353
Net (decrease) increase in cash and cash equivalents	(596,484)	275,853
Cash and cash equivalents, beginning of year	2,499,454	2,223,601
Cash and cash equivalents, end of year	$ 1,902,970	$ 2,499,454

NOTE 21 — SUBSEQUENT EVENTS

Management has evaluated subsequent events for recognition and disclosure through March 17, 2023, which is the date the financial statements were available to be issued.

As a result of recent events in the banking industry related to the closure and appointment of the FDIC as receiver of certain financial institutions, management evaluated its investment portfolio and determined the Bank has an investment in one corporate debt security associated with a financial institution in receivership with a book value of $4,000,000 as of February 28, 2023. Management is currently evaluating the value of the corporate debt security and determining whether the corporate debt security is impaired on an other than temporary basis by considering (1) the severity and duration of the impairment, (2) the financial condition and near–term prospects of the issuer, and (3) the intent and ability of the Bank to hold the security for a period of time sufficient for a recovery in value. While management's analysis continues as the events unfold, it is more likely than not management will record an other than temporary impairment loss in the first quarter of 2023.