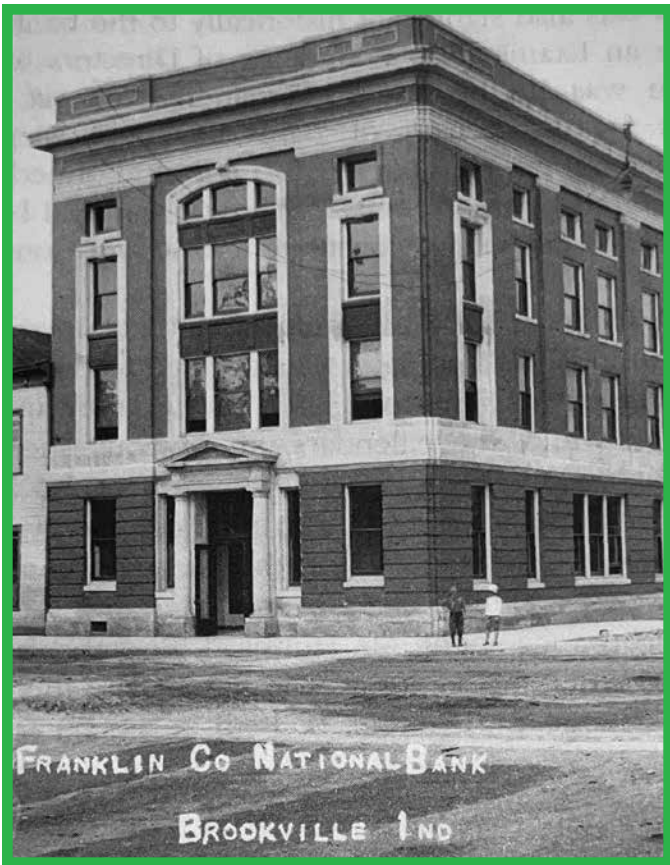


# PROUD TO BE A COMMUNITY BANK



2022 Annual Report



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# BEING A COMMUNITY BANK MEANS:

For over 120 years, we have been proud to be a community bank, serving the friends and neighbors around us.

What do community banks do better than national banks?

- **Make a huge, local economic impact** – small businesses are the lifeblood of every community. Community banks not only employ local people, they also provide financial support for small businesses, which create 64% of all new jobs and employ over 61.7 million people, according to the US Chamber of Commerce.
- **Deliver a better banking experience** – The Federal Reserve Small Business Credit Survey has reported that customers are 18% more satisfied with loans from a community bank than a large, national bank.
- **Keep local dollars local** – Community banks are more responsible with money. According to The Institute of Local Self-Reliance, the nation's largest 20 "megabanks" devote only 18 percent of their commercial loan portfolios to small business.
- **Provide friendly, personal service** – Community banks are built on personal connections and friendly personal service. To a lot of customers, there's still a big value in seeing a smiling, local face when they enter an FCN branch, and we feel the same way.



**Building Stronger Communities.**

# LOCAL CONTROL

One of the biggest benefits of banking with a community bank is that loan approvals and other key decisions are made locally by people who live in the community. Local control often means that community banks can approve loans and provide services that big banks can't. Or won't. In fact, at many giant banks, loan approvals are performed by a computer.



In 2022, the FCN team continued its commitment to maintaining close, face-to-face relationships with customers, giving us a deeper understanding of what they need. Our loan approvals are done by people, who take the time to get to know each customer personally.

## Brookville

Susan Ball  
Paula Ballinger  
Terri Bishop  
Victoria Browning  
Sherry Burkhart  
Tim Burton  
Kevin Campbell  
Sandra Cates  
Thomas Cates  
Jimmy Clark  
James Clark  
Jennifer Combs  
Mason Couch  
Katie Deaton  
Renee DeFossett  
Nicole Eckstein  
Liz Eggleston  
Madison Gambrel  
Grant Gardner  
Kelsey Gerndt  
David Hampton  
Mark Hildebrand  
Laura Hildebrand  
Julie Hodge  
Jennifer Hoff  
Haley Hokey  
Tom Horninger  
Ashley Hunt  
Cathy Hunt  
Allison Jackson  
Kim Johnson  
Karen Johnson  
Cheryl Kaiser  
Rhonda Kerr  
Kylee Kuehn  
Mariah Kunkel  
Kris Lacy

Melody Lake  
Sheri Ledars  
Julie Lee  
Breanna Lindner  
Jake Linkel  
Vicki Lintz  
Matthew Loeffler  
Terra Loeffler  
Jaclyn Ludwick  
Esther Lynch  
Rachel McGee  
Tenia McIntyre  
Shannon Meyer  
Jackie Mills  
Hilary Mitchell  
Ginney Mofield  
Katie Nichols  
Rebecca Noble  
John Nunier  
Nick Pflum  
Karen Phelps  
Nick Phelps  
Roger Potraffke  
Vickie Prybyla  
Marian Ratz  
Nick Rauch  
Ellen Rauen  
Annette Rees  
Donald Riffle  
Wesley Roberts  
Sheryl Sams  
Rebecca Schwab  
Mary Shepard  
Beth Siebert  
Renee Simmermeyer  
Jennifer Spahn  
Karen Steiner  
Annette Stinger

Kay Weber  
Cierra Williams  
Tony Windle  
Manda Wolf  
Rita Wray  
Brent Young  
**Connersville**  
Pamela Gramman  
Cheyenne Harmeyer  
Rebekah Holbrook  
Carol Hunter  
Dorothy James  
Chloe Lea  
Jillian Rose  
Debbie Spann

**Batesville**  
Carah Allen  
Theresa Boyce  
Stephanie Gunter  
Wendy Havens  
Kathy Hayes  
Lea Hornberger  
Haze Kidd  
Millie Koehne  
Geoffrey Marks  
Meg Noble-Rauch  
Ann Roell  
Kimberly Stock

**Sunman**  
Julie Baker  
Lori Elrod  
Faith Freyer  
Carla Hacker  
Kevin Meyer  
Bonnie Mills  
Paula Reed  
Andrea Rennekamp

Austin Shreve  
Gracie Simmermeyer  
**Harrison**  
Jennifer Campbell  
Taiyler Cornelius  
Riley Eckstein  
Stacy Grimmeissen  
Karmen Hallon  
Gwen Hessler  
Susan Hoffman  
Jill Hundley  
Stacey Johnson  
Linda Koon  
Tricia Moore  
Deborah Wesley  
Cynthia Wuestefeld

**Lawrenceburg**  
April Berne  
Mary Brown  
Sue Buehler  
Miranda Davies  
Janet Faller  
Mary Kay Fey  
Shelly Fischer  
Ray Gruner  
Teresa Harris  
Debra Huffman  
Alivia McMillin  
Jennifer Mohr  
Connie Nagele  
Madison Nixon  
Becky Stutz  
Diana Sunderman  
Rebecca Turner  
Lisa Widener  
Karen Woeste

# INVESTING IN LOCAL BUSINESSES

We believe we have an obligation to make every effort to build stronger communities, and that includes working closely with local businesses. The shop owners, farmers, contractors, and most other small business in our communities need a true financial partner to succeed. Who better to fill this role than a community bank like FCN?

Throughout 2022, FCN strengthened its commitment to being here for our small business partners. We were honored to be there for those who needed capital to give their businesses a boost. We're proud that commercial deposits were then turned into loans to help other businesses, farms, and individuals in each FCN community.



# BEING ACTIVE IN OUR COMMUNITIES



The success of local banks is directly tied to the health of their local communities. When the community thrives, the bank does as well. Which is why you see community banks sponsoring little league teams, local fundraisers, non-profit organizations, and local 4-H fairs. Local banks rely on their communities as much as the people rely on them.

Last year, FCN and our team members broadened our reach into our communities. We found various local sports teams such as Batesville Archery, Franklin County Sheep and Goat Club, Connersville Track Team, Dillsboro Baseball, and Cincinnati Future Stars Baseball. These teams and organizations helped with shred days at each branch and FCN donated to their organization in return. We participated in clean up main street for Earth Day, as well as sponsoring the Fayette County and Franklin County 4-H fairs.

# YOUR COMMUNITIES ARE OUR COMMUNITIES

Dear Shareholders,

FCN Bank began 2022 after a year reporting record earnings. The strong operating performance in 2021 can be attributed to our participation in the federal government's COVID Loan Relief programs and the continued boom in the home lending market. Income from the Payroll Protection Loan Program alone contributed over \$1.7 million to earnings in 2021. As 2022 progressed and the U.S. moved forward from the pandemic, the economy began experiencing strong inflationary pressures due to shortages in key industries, robust demand in the consumer sector and a strong labor market. In response, the Federal Reserve Bank began increasing interest rates rapidly to reign-in inflation.

During the pandemic of 2020 and 2021, performance of many banks throughout the country, including FCN, was boosted by the residential mortgage lending boom, COVID relief programs, and the large influx of cash from government economic stimulus initiatives. As we entered 2022, prices began to accelerate, the labor market tightened and later in the year the Federal Reserve Bank responded by aggressively increasing interest rates. The higher interest rates flipped residential mortgage lending activity to a near record low level, and there was no extraordinary income from pandemic relief programs. As a result, FCN experienced a drop in net income from \$8.3 million in 2021 to \$6.3 million in 2022. The net earnings per share dropped from \$4.80 to \$3.65 during this same time period.

The slowdown of home lending activity in 2022 resulted in a drop in revenue from secondary market activities of \$2.2 million. By early 2022, FCN had the last of its Payroll Protection Loans paid off. This program contributed nearly \$1.7 million in income for the Bank in 2021 was not continued or extended by the government.

Operating expenses were also impacted by our current economic environment. FCN continues to operate in a very challenging labor market. Competition for workers coupled with inflationary pressures caused FCN and many regional and community banks in our area to increase compensation for hourly and salaried employees. Inflation continues to pressure many of our general and administrative expenses as well.

Another significant impact of the high interest rate environment has been the impact on the Bank's investment portfolio. As of December 31, 2022, the Corporation reported an Unrealized Loss on investments of \$44.1 million. While this market adjustment has resulted in a significant drop in the Bank's equity position, these losses are not included in the calculation for regulatory capital. The Bank's regulatory capital ratio at year-end 2022 was 9.55% which is still considered well capitalized.

While the Bank struggled with these challenges, there were also many highlights as well. Commercial and Commercial Real Estate lending activity was exceptionally strong. In spite of the drop in residential loan originations, commercial lending activity drove a 27% growth in total net loans. The loan portfolio in 2022 grew from \$332 million to \$424 million. Loan quality remains very strong. Deposits during 2022 also grew by \$33 million. As the rise in interest rates began to accelerate, the Bank experienced a shift from non-maturity interest bearing deposits into CDs. FCN also welcomed many new deposit customers during this time.

While the years of the pandemic and the economic environment of last year have made this period very challenging, the hard work and dedication of our employees have been unwavering. We are proud of the job they have done for FCN and for the time and investment that they have made serving and building our communities. It is our people that make FCN Bank a special place to work and an asset for our communities.

Lastly, thank you for our continued commitment and investment in FCN Bank.

Sincerely,

Kenneth T. Wanstrath  
Chairman, Board of Directors



Thomas D. Horninger  
President & CEO



# BOARD OF DIRECTORS



## FRONT ROW

Kevin D. Lyons  
*President & Partner, Hawk Insurance Agency*

Thomas D. Horninger  
*President & CEO, FCN Bank, N.A.*

Kenneth T. Wanstrath  
*President, New Point Stone*

David Lorey  
*Entrepreneur*



## DEARBORN COUNTY ADVISORY BOARD

Dan Hummel  
Charles Brandel  
David Lorey  
Dr. Dennis Richter  
Ken Wanstrath  
Tom Horninger

## DIRECTORS EMERITUS

Fred Chappelow  
James A. Hyde  
Jane C. Ludwig  
Donald R. Smith  
Keith L. Tebbe

## BACK ROW

Dr. K. Andrew Yaryan  
*Owner, Yaryan Eye Care Center*

Devin W. Listerman  
*VP - National Division, Helio Service Partners*

Arthur K. Hildebrand  
*President of FCN Banc Corp. and  
President & CEO, FCN Bank, N.A. - Retired*

Ronald J. Knueven  
*CPA & Shareholder, RBSK Partners, PC*

Brad M. Tebbe  
*Owner, Brad M. Tebbe CPA, LLC*

Dr. Dennis Richter  
*Retired Optometrist*

## FCN BANC CORP OFFICERS

Kenneth T. Wanstrath, *Chairman*  
Thomas D. Horninger, *President*  
Raymond W. Gruner, *Secretary*  
April A. Berne, *Treasurer*

# HIGHLIGHTS

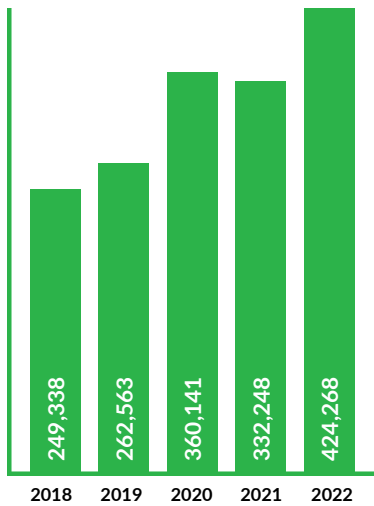
## FCN Banc Corp. Financial Highlights

For the years ended December 31, 2022 and 2021

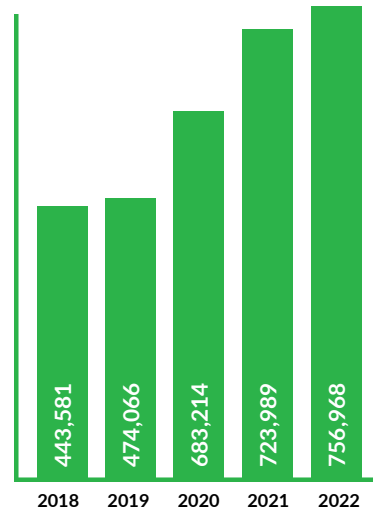
(In thousands, except per share data)

<b>Earnings &amp; Dividends</b>	<b>2022</b>	<b>2021</b>	<b>% Change</b>
Net Income	6,308	8,332	-24.29%
Cash Dividends Declared	2,642	2,518	4.92%
<b>Per Share</b>			
Earnings	3.65	4.80	-23.96%
Cash Dividends Declared	1.52	1.44	5.56%
Year-End Book Value	23.85	43.05	-44.61%
Year-End Market Price	35.50	46.80	-24.15%
<b>At Year-End</b>			
Assets	756,968	723,989	4.56%
Loans and Leases	424,268	332,248	27.70%
Deposits	657,735	624,641	5.30%
Shareholders' Equity	41,082	74,776	-45.06%
<b>Key Ratios</b>			
Return on Average Assets (ROA)	0.85%	1.18%	-28.06%
Return on Average Equity (ROE)	10.89%	11.29%	-3.56%
Net Interest Margin	3.00%	2.94%	2.01%
Efficiency Ratio	70.90%	60.14%	17.90%
Average Shareholders' Equity to Average Assets	7.82%	10.49%	-25.40%
<b>Actuals</b>			
Number of Shares	1,772,846	1,736,899	-0.81%

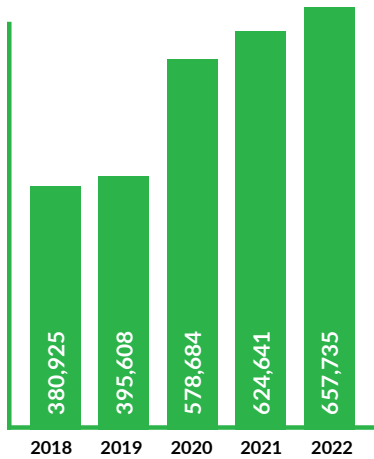
# GRAPHS



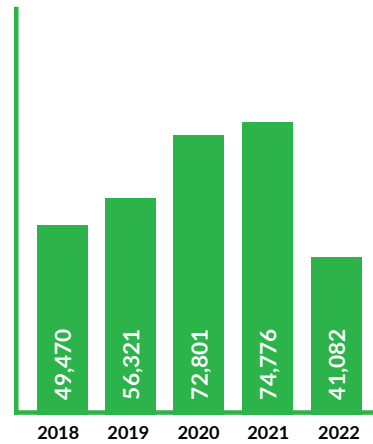
**NET LOANS**  
(In thousands)



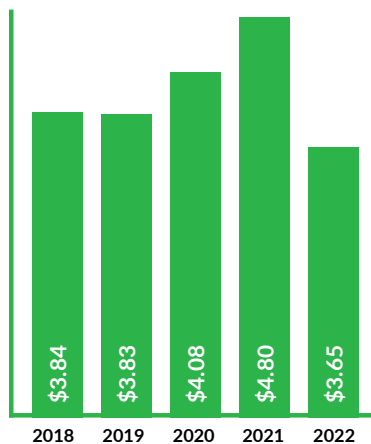
**TOTAL ASSETS**  
(In thousands)



**TOTAL DEPOSITS**  
(In thousands)



**SHAREHOLDERS' EQUITY**  
(In thousands)



**EARNINGS PER SHARE**

## INDEPENDENT AUDITORS' REPORT

Board of Directors and Shareholders  
FCN Banc Corp.  
Brookville, Indiana

### Opinion

We have audited the accompanying consolidated financial statements of FCN Banc Corp. which comprise the consolidated statements of financial condition as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), shareholders' 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 FCN Banc Corp. as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of FCN Banc Corp. 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.

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 FCN Banc Corp.'s ability to continue as a going concern within one year after the date that the consolidated financial statements are available to be issued.

### Auditors' 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 auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgement 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 judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of FCN Banc Corp.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about FCN Banc Corp.'s ability to continue as a going concern for a reasonable period of time.

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

*Clark, Schaefer, Hackett & Co.*

Cincinnati, Ohio  
March 14, 2023

# CONSOLIDATED STATEMENTS OF FINANCIAL CONDITION

December 31, 2022 and 2021 (In thousands, except per share data)

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
Cash and due from banks	\$ 16,684	\$ 5,654
Interest-bearing deposits in other financial institutions	812	8,018
Cash and cash equivalents	<u>17,496</u>	<u>13,672</u>
Investment securities designated as available for sale – fair value	222,287	270,650
Investment securities designated as held to maturity – amortized cost	45	95
Mortgage-backed securities designated as available for sale – fair value	40,253	61,394
Loans held for sale - at lower of cost or fair value	839	4,496
Loans receivable - net	424,268	332,248
Office premises and equipment - net	11,788	11,848
Real estate acquired through foreclosure	-	40
Federal Reserve and Federal Home Loan Bank stock - at cost	2,249	2,015
Accrued interest receivable on loans	1,439	905
Accrued interest receivable on investments and interest-bearing deposits	1,504	1,604
Accrued interest receivable on mortgage-backed securities	78	110
Bank owned life insurance	15,656	15,309
Prepaid expenses and other assets	3,294	3,496
Goodwill	5,692	5,692
Prepaid income taxes	-	12
Deferred income taxes, net	<u>10,080</u>	<u>403</u>
Total assets	<u><b>\$756,968</b></u>	<u><b>\$723,989</b></u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Deposits		
Non-interest bearing	\$145,826	\$137,251
Interest bearing	<u>511,909</u>	<u>487,390</u>
Total deposits	657,735	624,641
Repurchase agreements	18,390	19,728
Advances from the Federal Home Loan Bank	35,000	-
Other advances	-	-
Accrued interest payable	836	628
Investments payable	9	14
Dividends payable	659	647
Accrued income taxes	5	-
Deferred income taxes	-	-
Operating lease liability	-	-
Other liabilities	<u>3,252</u>	<u>3,555</u>
Total liabilities	<u>715,886</u>	<u>649,213</u>
Shareholders' equity		
Common stock - \$6.25 par value, 10,000,000 shares authorized; 1,820,144 and 1,834,197 shares issued at December 31, 2022 and 2021, respectively	11,364	11,464
Additional paid-in capital	7,628	8,276
Retained earnings - restricted	58,994	55,328
Treasury shares - at cost, 95,298 and 97,298 shares at December 31, 2022 and 2021, respectively	<u>(2,024)</u>	<u>(2,103)</u>
Accumulated other comprehensive income (loss)	<u>(34,880)</u>	<u>1,811</u>
Total shareholders' equity	41,082	74,776
Total liabilities and shareholders' equity	<u><b>\$ 756,968</b></u>	<u><b>\$723,989</b></u>

# CONSOLIDATED STATEMENTS OF INCOME

For the years ended December 31, 2022 and 2021 (In thousands, except per share data)

	2022	2021
Interest income		
Loans	\$16,845	\$16,057
Investment securities	4,625	4,060
Mortgage-backed securities	892	959
Interest-bearing deposits and other	<u>222</u>	<u>176</u>
Total interest income	<u>22,584</u>	<u>21,252</u>
Interest expense		
Deposits	3,014	2,768
FHLB advances	310	353
Short-term borrowings	<u>244</u>	<u>45</u>
Total interest expense	<u>3,568</u>	<u>3,166</u>
Net interest income	19,016	18,086
Provision for losses on loans	<u>100</u>	<u>240</u>
Net interest income after provision for losses on loans	<u>18,916</u>	<u>17,846</u>
Noninterest income (expense)		
Service charges on deposit accounts	379	330
Loss on sale of investments and mortgage-backed securities	(148)	-
Gain on sale of loans	512	2,326
Service charges on sold loans	403	792
Loss on sale of premises and equipment	(2)	-
Gain (loss) on sale of real estate acquired through foreclosure	(39)	18
ATM/Interchange fees	1,495	1,205
Increase in cash surrender value of bank owned life insurance	346	649
Other operating	<u>919</u>	<u>871</u>
Total noninterest income	<u>3,865</u>	<u>6,191</u>
Noninterest expense		
Employee compensation and benefits	9,513	8,635
Occupancy and equipment	717	878
Equipment expense	528	510
Audit and examination fees	550	484
Software maintenance fees	1,291	899
FDIC premium	240	184
Marketing	386	327
Other operating	<u>2,998</u>	<u>2,682</u>
Total noninterest expense	<u>16,223</u>	<u>14,599</u>
Income before income taxes	<u>6,558</u>	<u>9,438</u>
Income taxes		
Current	173	1,045
Deferred	<u>77</u>	<u>61</u>
Total income taxes	<u>250</u>	<u>1,106</u>
NET INCOME	<u>\$ 6,308</u>	<u>\$ 8,332</u>
Basic earnings per share	<u>\$3.65</u>	<u>\$4.80</u>
Weighted-average shares outstanding	<u>1,728,644</u>	<u>1,736,899</u>

# CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/(LOSS)

For the years ended December 31, 2022 and 2021 (In thousands)

	2022	2021
Net income	\$ 6,308	\$ 8,332
Other comprehensive income (loss), net of tax:		
Unrealized holding gains (losses) on securities during the year, net of tax benefit of \$(9,737) and \$(1,019) for the years ended December 31, 2022 and 2021, respectively	(36,808)	(3,839)
Reclassification adjustment for realized losses (gains) included in income, net of tax benefit of \$(31) and \$0 for the years ended December 31, 2022 and 2021, respectively	<u>117</u>	<u>-</u>
Other comprehensive loss	<u>(36,691)</u>	<u>(3,839)</u>
Comprehensive income/(loss)	<u><u>\$(30,383)</u></u>	<u><u>\$4,493</u></u>

# CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

For the years ended December 31, 2022 and 2021 (In thousands, except per share data)

	Common shares outstanding	Treasury shares	Common stock	Additional paid-in capital	Retained earnings	Treasury stock	Accumulated other comprehensive income (loss)	Total
Balance at December 31, 2020	1,736,899	97,298	\$11,464	\$8,276	\$49,514	\$(2,103)	\$5,650	\$72,801
Net income	-	-	-	-	8,332	-	-	8,332
Unrealized losses on securities designated as available for sale, net of recognized sales and related tax effects	-	-	-	-	-	-	(3,839)	(3,839)
Cash dividends of \$1.44 per share	-	-	-	-	(2,518)	-	-	(2,518)
Balance at December 31, 2021	<u>1,736,899</u>	<u>97,298</u>	<u>\$11,464</u>	<u>\$8,276</u>	<u>\$55,328</u>	<u>\$(2,103)</u>	<u>\$1,811</u>	<u>\$74,776</u>
Net income	-	-	-	-	6,308	-	-	6,308
Purchase of treasury shares	(14,053)	14,053	-	-	-	(669)	-	(669)
Retire treasury shares	-	(16,053)	(100)	(648)	-	748	-	-
Unrealized losses on securities designated as available for sale, net of recognized sales and related tax effects	-	-	-	-	-	-	(36,691)	(36,691)
Cash dividends of \$1.52 per share	-	-	-	-	(2,642)	-	-	(2,642)
Balance at December 31, 2022	<u>1,722,846</u>	<u>95,298</u>	<u>\$11,364</u>	<u>\$7,628</u>	<u>\$58,994</u>	<u>\$(2,024)</u>	<u>\$(34,880)</u>	<u>\$41,082</u>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021 (In thousands)

	2022	2021
Cash flows from operating activities:		
Net earnings for the year	\$ 6,308	\$ 8,332
Adjustments to reconcile net earnings to net cash from operating activities:		
Depreciation	624	550
Amortization	374	422
Amortization of premiums on investments and mortgage-backed securities, net	1,375	1,666
Amortization of deferred loan origination fees	282	(280)
Loss on sale of investments and mortgage-backed securities	148	-
Loans originated for sale in the secondary market	(14,831)	(57,024)
Proceeds from sale of loans in the secondary market	19,000	66,672
Gain on sale of loans	(512)	(2,326)
Gain on bank owned life insurance death benefits	-	(308)
Earnings on cash surrender value of life insurance	(347)	(341)
Provision for losses on loans	100	240
Loss on disposal of premises and equipment	2	-
(Gain) loss on sale of real estate acquired through foreclosure	40	(18)
Deferred taxes	77	61
Effects of change in operating assets and liabilities:		
Accrued interest receivable on loans	(534)	502
Accrued interest receivable on investments	100	(487)
Accrued interest receivable on mortgage-backed securities	32	25
Prepaid expenses and other assets	(174)	(1,028)
Accrued interest payable	208	(123)
Other liabilities	(303)	65
Income taxes		
Current	17	(187)
Net cash provided by (used in) operating activities	<u>\$ 11,986</u>	<u>\$ 16,413</u>
Cash flows from investing activities:		
Purchase of investment securities designated as available for sale	(11,380)	(113,244)
Purchase of investment securities designated as held to maturity	(5)	(1)
Proceeds from sale of investment securities designated as available for sale	14,761	-
Maturities of investment securities designated as available for sale	3,261	13,763
Purchase of mortgage-backed securities designated as available for sale	(2,983)	(32,031)
Proceeds from sale of mortgage-backed securities designated as available for sale	5,004	-
Principal repayments on mortgage-backed securities	12,923	26,711
Loan disbursements	(89,475)	(132,920)
Principal repayments on loans	(2,925)	160,724
Purchases of and additions to office premises and equipment	(566)	(3,596)
Proceeds from sale of real estate acquired through foreclosure	-	130
Purchase of Federal Reserve Bank Stock and FHLB Stock	(407)	(323)
Proceeds from sale of FHLB Stock	173	-
Proceeds from bank owned life insurance death benefits	-	909
Net cash used in investing activities	<u>\$ (71,619)</u>	<u>\$ (79,878)</u>
Net cash used in operating and investing activities (carried forward)	<u>\$ (59,633)</u>	<u>\$ (63,465)</u>

# CONSOLIDATED STATEMENTS OF CASH FLOWS

For the years ended December 31, 2022 and 2021 (In thousands)

	2022	2021
Net cash used in operating and investing activities (brought forward)	\$ <u>(59,633)</u>	\$ <u>(63,465)</u>
Cash flows from financing activities:		
Net increase in deposit accounts	33,094	45,957
Net (decrease) increase in short-term borrowings	(1,338)	3,780
Proceeds from Federal Home Loan Bank advances	130,000	-
Repayment of Federal Home Loan Bank advances	(95,000)	(6,000)
Repayment of other advances	-	(3,250)
Dividends on common stock	(2,630)	(2,466)
Purchase of treasury shares	(669)	-
Net cash provided by financing activities	<u>63,457</u>	<u>38,021</u>
Net change in cash and cash equivalents	3,824	(25,444)
Cash and cash equivalents at beginning of year	<u>13,672</u>	<u>39,116</u>
Cash and cash equivalents at end of year	<u>\$ 17,496</u>	<u>\$ 13,672</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Income taxes	<u>\$ 170</u>	<u>\$ 1,323</u>
Interest on deposits and borrowings	<u>\$ 3,360</u>	<u>\$ 3,289</u>
Supplemental disclosure of noncash investing and financing activities:		
Transfers from loans to real estate acquired through foreclosure	<u>\$ -</u>	<u>\$ 131</u>
Recognition of mortgage servicing rights	<u>\$ 186</u>	<u>\$ 636</u>
Dividends declared but unpaid	<u>\$ 659</u>	<u>\$ 647</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES

FCN Banc Corp. (the “Corporation”) is a bank holding company whose activities are primarily limited to holding the common shares of FCN Bank, NA, a nationally-chartered bank (the “Bank”). The Bank conducts a general banking business in southeast Indiana and southwest Ohio which consists of attracting deposits from the general public and applying those funds to the origination of loans for residential, consumer and commercial purposes. The Bank’s wholly-owned subsidiary, FCN Holdings, Inc., was incorporated in 2002 for the primary purpose of managing a significant portion of the Bank’s investment portfolio. In 2016, FCN Risk Management, Inc. was created as a wholly-owned subsidiary of the Corporation in order to provide property, casualty and liability insurance coverage to the Corporation.

The Bank’s profitability is significantly dependent on its net interest income, which is the difference between interest income generated from interest-earning assets (i.e. loans and investments) and the interest expense paid on interest-bearing liabilities (i.e. customer deposits and borrowed funds). Net interest income is affected by the relative amount of interest-earning assets and interest-bearing liabilities and the interest received or paid on these balances. The level of interest rates paid or received by the Bank can be significantly influenced by a number of environmental factors, such as governmental monetary policy, that are outside of management’s control.

### 1. Basis of Presentation

The financial information presented herein has been prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) as contained in the Accounting Standards Codification (ASC) issued by the Financial Accounting Standards Board (FASB) and with general practices within the financial services industry.

### 2. Use of Estimates

In preparing consolidated financial statements in accordance with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and revenues and expenses during the reporting period. A significant estimate is the allowance for loan losses. Actual results could differ from such estimates.

The following is a summary of the Corporation’s significant accounting policies, which have been consistently applied in the preparation of the accompanying consolidated financial statements.

### 3. Principles of Consolidation

The consolidated financial statements of the Corporation include the accounts of both wholly-owned subsidiaries, the Bank and FCN Risk Management, Inc. The Bank’s consolidated financial statements include its wholly-owned subsidiary, FCN Holdings, Inc. All significant intercompany balances and transactions have been eliminated.

### 4. Investment and Mortgage-Backed Securities

The Corporation accounts for investment and mortgage-backed securities in accordance with Standards for “Accounting for Investments in Debt Securities,” which requires that investments be classified as held to maturity, trading, or available for sale. These classifications are to be reassessed at each reporting date.

Securities classified as held to maturity are carried at cost only if the Corporation has the positive intent and ability to hold these securities to maturity. Securities designated as available for sale are carried at fair value with resulting unrealized gains or losses recorded to shareholders’ equity, net of applicable taxes. At December 31, 2022 and 2021, substantially all of the Bank’s securities were classified as available for sale. Premiums or discounts associated with the purchase of investment securities are amortized or accreted using the interest method to arrive at periodic interest income at a constant effective yield on the net investment.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

Realized gains and losses on sales are recorded on the trade date and determined using the specific identification method.

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

### 5. Loans Receivable

Loans held in portfolio are stated at the principal amount outstanding, adjusted for net deferred loan origination fees and the allowance for loan losses. Interest is accrued as earned, unless the collectability of the loan is in doubt. Uncollectible interest on loans that are contractually past due is charged off, or an allowance is established based on management’s periodic evaluation. The allowance is established by a charge to interest income equal to all interest previously accrued, and income is subsequently recognized only to the extent that cash payments are received until, in management’s judgment, the borrower’s ability to make periodic interest and principal payments has returned to normal, in which case the loan is returned to accrual status. If the ultimate collectability of the loan is in doubt, in whole or in part, all payments received on nonaccrual loans are applied to reduce principal until such doubt is eliminated.

Loans held for sale are carried at the lower of cost or fair value, determined in the aggregate. In computing cost, deferred loan origination fees are deducted from the principal balances of the related loans. Fair value is determined by reference to price quotations of government-sponsored enterprises in the secondary mortgage market. There were approximately \$839,000 and \$4,496,000 in loans held for sale at December 31, 2022 and 2021, respectively. These loans were settled within 30 days of these consolidated financial statements without fluctuation in their fair value.

The Bank accounts for mortgage servicing rights in accordance with the provisions of “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” which requires the Bank recognize as separate assets, rights to service mortgage loans for others, regardless of how those servicing rights are acquired. These standards require an entity to choose either the amortization method or the fair value measurement method for measuring each class of separately recognized servicing assets and servicing liabilities. The Bank has chosen to measure servicing assets using the amortization method.

The Bank added new mortgage servicing rights of approximately \$186,000 and \$636,000 and recorded amortization related to mortgage servicing rights totaling approximately \$376,000 and \$424,000 for the years ended December 31, 2022 and 2021, respectively. The carrying value of the Bank’s mortgage servicing rights totaled approximately \$1,730,000 and \$1,920,000 at December 31, 2022 and 2021, respectively. The fair value of the Bank’s mortgage servicing rights totaled approximately \$2,500,000 and \$1,900,000 as of December 31, 2022 and 2021, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 6. Loan Origination Fees

The Bank accounts for loan origination fees in accordance with U.S. GAAP whereas origination fees received from loans, net of certain direct origination costs, are deferred and amortized to interest income using the interest method, giving effect to actual loan prepayments. Additionally, this standard generally limits the definition of loan origination costs to the direct costs attributable to originating a loan, i.e. principally actual personnel costs. Fees received for loan commitments that are expected to be drawn upon, based on the Bank's experience with similar commitments, are deferred and amortized over the life of the loan using the level-yield method. Fees for other loan commitments are deferred and amortized over the loan commitment period on a straight-line basis.

### 7. Allowance for Loan Losses

It is the Bank's policy to provide valuation allowances for estimated losses on loans based on past loss experience, trends in the level of delinquent and problem loans, adverse situations that may affect the borrower's ability to repay, the estimated value of any underlying collateral and current economic conditions in the primary lending area. When the collection of a loan becomes doubtful, or otherwise troubled, the Bank records a loan loss provision equal to the difference between the present value of expected future cash flows or fair value of the property securing the loan and the loan's carrying value. Major loans and major lending areas are reviewed periodically to determine potential problems. The allowance for loan losses is increased by charges to earnings and decreased by charge-offs (net of recoveries).

The Bank accounts for impaired loans in accordance with ASC 320. These standards require that impaired loans be measured based upon the present value of expected future cash flows discounted at the loan's effective interest rate or, as an alternative, at the loan's observable market price or fair value of the collateral for collateral dependent loans. The Bank's current procedures for evaluating impaired loans result in carrying such loans at the lower of cost or fair value. A reserve is created for a collateral dependent loan if the valuation is less than the loan's carrying value.

A loan is defined as impaired when, based on current information and events, it is probable that the bank will be unable to collect all amounts due according to the contractual terms of the loan agreement. In applying the provisions of this standard, the Bank considers its investment in one-to-four-family residential loans and consumer installment loans to be homogeneous and therefore excluded from separate identification for evaluation of impairment. With respect to the Bank's investment in nonresidential and multi-family residential real estate loans and commercial loans, and its evaluation of impairment thereof, such loans are generally collateral dependent and, as a result, are carried as a practical expedient at the lower of cost or fair value of the underlying collateral.

Loans which are more than 90 days delinquent are considered to constitute more than a minimum delay in repayment and are evaluated for impairment under these standards at that time. Loans more than 90 days delinquent are generally classified as non-accrual.

The allowance for impaired loans is included in the Bank's general allowance for credit losses. The provision necessary to increase this allowance is included in the Bank's overall provision for losses on loans.

### 8. Real Estate Acquired Through Foreclosure

Real estate acquired through foreclosure is carried at the lower of the loan's unpaid principal balance (cost) or fair value less estimated selling expenses at the date of acquisition. In determining the lower of cost or fair value at acquisition, adjustments are charged to the allowance for loan losses. All subsequent adjustments to fair value are included in the statement of earnings, while costs relating to development and improvement of property are capitalized. Costs relating to holding real estate acquired through foreclosure, net of rental income, are charged against earnings as incurred.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 9. Investment in Federal Home Loan Bank and Federal Reserve Bank Stock

The Bank is required, as a condition of membership in the Federal Home Loan Bank of Indianapolis (FHLB), to maintain an investment in FHLB common stock. The stock is redeemable at par and, therefore, its cost is equivalent to its redemption value. The Bank's ability to redeem FHLB shares is dependent on the redemption practices of the FHLB of Indianapolis. At December 31, 2022, the FHLB of Indianapolis placed no restrictions on redemption of shares in excess of a member's required investment in the stock. Both cash and stock dividends are reported as income.

The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

### 10. Office Premises and Equipment

Office premises and equipment are carried at cost and include expenditures which extend the useful lives of existing assets. Maintenance, repairs and minor renewals are expensed as incurred. For financial reporting, depreciation and amortization are provided on the straight-line and accelerated methods over the useful lives of the assets, estimated to be twenty-five to forty years for buildings, five to thirty-nine years for building improvements, five to fifteen years for furniture and equipment and three years for software. An accelerated depreciation method is used for tax reporting purposes.

### 11. Goodwill and Intangible Assets

The Bank recorded goodwill from an acquisition completed in February 2020, totaling \$3.6 million. Pursuant to accounting standards for "Goodwill and Intangible Assets" goodwill is subject to an impairment evaluation. Management has determined that no impairment charge related to goodwill was necessary for the years ended December 31, 2022 and 2021. The acquisition in 2020 was structured as a stock sale, and therefore the goodwill created is not tax deductible.

Goodwill arising from business combinations represents the value attributable to unidentifiable intangible elements in the business acquired. Goodwill recorded by the Bank in connection with its acquisitions relates to the inherent value in the business acquired and this value is dependent upon the Bank's ability to provide quality, cost-effective services in a competitive market place. As such, goodwill value is supported ultimately by revenue that is driven by the volume of business transacted. A decline in earnings as a result of a lack of growth or the inability to deliver cost-effective services over sustained periods can lead to impairment of goodwill that could adversely impact earnings in future periods. Goodwill is not amortized but is tested for impairment when indicators of impairment exist, or at least annually, to determine the reasonableness of the recorded amount. The balance of goodwill at December 31, 2022 and 2021 was \$5,692,000 and \$5,692,000, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 12. Income Taxes

The Corporation accounts for income taxes pursuant to standards for “Accounting for Income Taxes.” In accordance with these standards, a deferred tax liability or deferred tax asset is computed by applying the current statutory tax rates to net taxable or deductible temporary differences between the tax basis of an asset or liability and its reported amount in the consolidated financial statements that will result in net taxable or deductible amounts in future periods. Deferred tax assets are recorded only to the extent that the amount of net deductible temporary differences or carry forward attributes may be utilized against current period earnings, carried back against prior years’ earnings, offset against taxable temporary differences reversing in future periods, or utilized to the extent of management’s estimate of future taxable income. Deferred tax liabilities are provided on the total amount of net temporary differences taxable in the future. Deferral of income taxes results primarily from the different methods of accounting for certain retirement plans, mortgage servicing rights, general loan loss allowances and goodwill. Additional temporary differences result from depreciation computed using accelerated methods for tax purposes. The Corporation’s policy with regard to interest and penalty is to recognize interest through interest expense and penalties through other expense. In evaluating the Corporation’s tax provisions and accruals, future taxable income, and the reversal of temporary differences, interpretations and tax planning strategies are considered. The Corporation believes their estimates are appropriate based on current facts and circumstances, and no significant interest or penalties relating to income taxes were incurred for the years ended December 31, 2022 or 2021. The Corporation is no longer subject to U.S. federal, state and local income tax examinations by tax authorities for tax years ended before December 31, 2018.

A tax position is recognized as a benefit only if it is “more likely than not” that the tax position would be sustained in a tax examination, with a tax examination being presumed to occur. The amount recognized is the largest amount of tax benefit that is greater than 50% likely of being realized on examination. For tax positions not meeting the “more likely than not” test, no tax benefit is recorded. There are no uncertain tax positions as of December 31, 2022 and December 31, 2021.

### 13. Retirement Plans

Profit sharing plan expense is the amount of contributions by the Corporation. Deferred compensation and supplemental retirement plan expense is recognized over years of service.

### 14. Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents includes cash and due from banks and interest-bearing deposits in other financial institutions with original maturities of less than 90 days. Certificates of deposits in other financial institutions mature within five years and are carried at cost.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## 15. Fair Value of Financial Instruments

Standards for “Disclosures about Fair Value of Financial Instruments” require disclosures of fair value of financial instruments, both assets and liabilities, whether or not recognized in the consolidated statements of financial condition, for which it is practicable to estimate that value. For financial instruments where quoted market prices are not available, fair values are based on estimates using present value and other valuation methods.

The methods used are greatly affected by the assumptions applied, including the discount rate and estimates of future cash flows. Therefore, the fair values presented may not represent amounts that could be realized in an exchange for certain financial instruments.

The following methods and assumptions were used by the Corporation in estimating its fair value disclosures for financial instruments at December 31, 2022 and 2021:

Cash and cash equivalents: The carrying amounts presented in the consolidated statements of financial condition for cash and cash equivalents are deemed to approximate fair value.

Investment and mortgage-backed securities: For investment and mortgage-backed securities, fair value is deemed to equal the quoted market price.

Loans receivable and loans held for sale: The loan portfolio has been segregated into categories with similar characteristics, such as 1-4 family residential, multi-family residential, nonresidential real estate and consumer. These loan categories were further delineated into fixed-rate and adjustable-rate loans. The fair values for the resultant loan categories were computed via discounted cash flow analysis, using current interest rates offered for loans with similar terms to borrowers of similar credit quality.

Federal Reserve and Federal Home Loan Bank stock: The carrying amounts presented in the consolidated statements of financial condition are deemed to approximate fair value.

Interest Receivable/Payable: The fair values of interest receivable/payable approximate carrying values.

Mortgage Servicing Rights: The Bank accounts for mortgage servicing rights in accordance with the provisions of “Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities,” which requires that the Bank recognize as separate assets, rights to service mortgage loans for others, regardless of how those servicing rights are acquired. An institution that acquires mortgage servicing rights through either the purchase or origination of mortgage loans and sells those loans with servicing rights retained must allocate some of the cost of the loans to mortgage servicing rights. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Deposits: The fair value of non-interest bearing and interest-bearing demand and savings accounts is deemed to approximate the amount payable on demand at December 31, 2022 and 2021. Fair values for fixed-rate certificates of deposit have been estimated using a discounted cash flow calculation using the interest rates currently offered for deposits of similar remaining maturities.

Short-term borrowings: The actual interest rates at December 31, 2022 and 2021, approximate market rates and, thus, the carrying value closely approximates fair value.

Federal Home Loan Bank advances and other advances: The fair value of Federal Home Loan Bank advances and other advances have been estimated using discounted cash flow analysis, based on the interest rates currently offered for advances of similar remaining maturities.

Commitments to extend credit: For fixed-rate and adjustable-rate loan commitments, the fair value estimate considers the difference between current levels of interest rates and committed rates. At December 31, 2022 and 2021, the fair value of loan commitments was not material.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 15. Fair Value of Financial Instruments (continued)

Based on the foregoing methods and assumptions, the carrying value and fair value of the Corporation's financial instruments are as follows at December 31:

	Carrying value	2022 Fair value	Carrying value	2021 Fair value
		(In thousands)		
Financial assets				
Cash and cash equivalents	\$ 17,496	\$ 17,496	\$ 13,672	\$ 13,672
Investment and mortgage-backed securities	262,585	262,585	332,139	332,139
Loans receivable, including loans held for sale	425,107	412,356	336,744	341,188
Federal Reserve and Federal Home Loan Bank stock	2,249	2,249	2,015	2,015
Interest receivable	3,021	3,021	2,619	2,619
Mortgage servicing rights	1,730	2,500	1,920	1,900
Financial liabilities				
Interest payable	\$ 836	\$ 836	\$ 628	\$ 628
Deposits	657,735	541,767	624,641	625,503
Short-term borrowings	18,390	18,390	19,728	19,728
Advances from the Federal Home Loan Bank and other advances	35,000	35,000	-	-

Accounting Standards for Fair Value Measurements defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

- Level 1      Quoted prices in active markets for identical assets or liabilities.
- Level 2      Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3      Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 13. Fair Value of Financial Instruments (continued)

Fair value methods and assumptions are set forth below for each type of financial instrument. Following is a description of the valuation methodologies used for instruments measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Investments: Fair value on available for sale securities were based upon a market approach. Securities which are fixed income instruments that are not quoted on an exchange, but are traded in active markets, are valued using prices obtained from our custodian, which used third party data service providers. Available for sale securities includes U.S. agency securities, municipal bonds, corporate investments, student loan-backed securities, and mortgage-backed agency securities.

Impaired Loans: The Bank is predominately an asset based lender with real estate serving as collateral on a substantial majority of loans. Loans which are deemed to be impaired are primarily valued on a nonrecurring basis at the fair values of the underlying real estate collateral. Such fair values are obtained using independent appraisals, which the Corporation considers to be Level 2 inputs.

Real Estate Acquired Through Foreclosure: Real estate acquired through foreclosure is adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent appraisals, which the Corporation considers to be Level 2 inputs.

Fair value measurements for certain assets measured at fair value on a recurring basis:

		Fair Value Measurements (In thousands)		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
<b>December 31, 2022</b>	<b>Total</b>			
Securities available for sale				
U.S. Government treasuries	\$ 1,186	-	\$ 1,186	-
U.S. Government agency obligations	53,028	-	53,028	-
State and municipal obligations	165,770	-	165,770	-
Corporate debt obligations	-	-	-	-
Asset-backed securities	2,246	-	2,246	-
U.S. Government agency participation certificates	35,440	-	35,440	-
CMO's and REMIC's	4,814	-	4,814	-
Other securities	56	-	56	-
<b>December 31, 2021</b>	<b>Total</b>	<b>(Level 1)</b>	<b>(Level 2)</b>	<b>(Level 3)</b>
Securities available for sale				
U.S. Government treasuries	\$ 250	-	\$ 250	-
U.S. Government agency obligations	55,774	-	55,774	-
State and municipal obligations	210,570	-	210,570	-
Corporate debt obligations	2,465	-	2,465	-
Asset-backed securities	1,529	-	1,529	-
U.S. Government agency participation certificates	48,504	-	48,504	-
CMO's and REMIC's	12,890	-	12,890	-
Other securities	62	-	62	-

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 15. Fair Value of Financial Instruments (continued)

Fair value measurements for certain assets measured at fair value on a non recurring basis:

	Total	Fair Value Measurements (In thousands)		
		Quoted prices in active markets for identical assets (Level 1)	Significant other observable inputs (Level 2)	Significant other unobservable inputs (Level 3)
<b>December 31, 2022</b>				
Collateral dependent impaired loans	\$1,028	-	1,028	-
<b>December 31, 2021</b>				
Collateral dependent impaired loans	\$2,184	-	2,184	-
Foreclosed assets	40	-	40	-

### 16. Bank-Owned Life Insurance

The Bank has purchased life insurance policies on certain key executives. Bank-owned life insurance is recorded at its cash surrender value, or the amount that can be realized.

### 17. Advertising

Advertising costs are expensed when incurred. The Corporation's advertising expense totaled approximately \$386,000 and \$327,000 for the years ended December 31, 2022 and 2021, respectively.

### 18. Earnings Per Share

Basic earnings per share are computed based upon the weighted-average common shares outstanding during the year. Weighted-average common shares outstanding totaled 1,728,644 and 1,736,899 for the years ended December 31, 2022 and 2021, respectively.

Diluted earnings per share are computed by taking into consideration common shares outstanding and dilutive potential common share equivalents. The Corporation had no dilutive or potentially dilutive securities during the years ended December 31, 2022 and 2021.

### 19. Concentrations

The Corporation may at times maintain deposits in other financial institutions which exceed federally insured limits. The Corporation has not experienced any losses in such accounts and management does not believe it is exposed to significant risk on cash and cash equivalents. No deposit amounts in other financial institutions exceeded federally insured limits at December 31, 2022.

The Bank grants mortgage and other loans to customers located primarily in the south-eastern counties of Indiana and the south-western counties of Ohio. As such, a substantial portion of its debtors' ability to repay their loans is dependent upon the financial and economic health of the regional economy.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE A - SUMMARY OF ACCOUNTING POLICIES (CONTINUED)

### 20. Subsequent Events

The Corporation has evaluated subsequent events for recognition and disclosure through March 14, 2023, which is the date the consolidated financial statements were available to be issued.

As of January 1, 2023, the Bank adopted ASU 2016-13, "Financial Instruments-Credit Losses: Measurement of Credit Losses of Financial Instruments (Topic 326)", which changes the impairment model for most financial assets. This ASU is intended to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments held by financial institutions and other organizations. The underlying premise of the ASU is that financial assets measured at amortized cost should be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The allowance for credit losses should reflect management's current estimate of credit losses that are expected to occur over the remaining life of a financial asset. The income statement will be affected for the measure of credit losses for newly recognized financial assets, as well as the expected increases or decreases of expected credit losses that have taken place during the period. The adoption of the standard will result in an \$800,000 increase in Allowance for Credit Losses (Allowance for Loan Loss) with an offset to equity, net of applicable taxes.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair value of investment securities at December 31, 2022 and 2021 are as follows (In thousands):

	2022			Estimated fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
<b>Available for sale:</b>				
U.S. Government treasuries	\$ 1,228	\$ -	\$ 42	\$ 1,186
U.S. Government agency obligations	59,749	-	6,721	53,028
State and municipal obligations	197,410	-	31,639	165,771
Corporate debt obligations	1,000	-	40	960
Asset-backed securities	1,326	-	40	1,286
Other securities	40	16	-	56
Total securities available for sale	<u>260,753</u>	<u>16</u>	<u>38,482</u>	<u>222,287</u>
<b>Held to maturity:</b>				
Investment in Section 42 housing	45	-	-	45
Total securities held to maturity	<u>45</u>	<u>-</u>	<u>-</u>	<u>45</u>
Total investment securities	<u>\$260,798</u>	<u>\$16</u>	<u>\$38,482</u>	<u>\$222,332</u>
	2021			Estimated fair value
	Amortized cost	Gross unrealized gains	Gross unrealized losses	
<b>Available for sale:</b>				
U.S. Government agency obligations	\$ 250	\$ -	\$ -	\$ 250
U.S. Government agency obligations	56,821	-	1,047	55,774
State and municipal obligations	207,418	3,968	816	210,570
Corporate debt obligations	2,497	9	41	2,465
Asset-backed securities	1,538	-	9	1,529
Other securities	40	22	-	62
Total securities available for sale	<u>268,564</u>	<u>3,999</u>	<u>1,913</u>	<u>270,650</u>
<b>Held to maturity:</b>				
Investment in Section 42 housing	95	-	-	95
Total securities held to maturity	<u>195</u>	<u>-</u>	<u>-</u>	<u>95</u>
Total investment securities	<u>\$268,659</u>	<u>\$3,999</u>	<u>\$1,913</u>	<u>\$270,745</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The amortized cost and estimated fair value of investment securities by term to maturity at December 31 are shown below.

	2022		2021	
	Amortized cost	Fair value	Amortized cost	Fair value
	(In thousands)			
Due in one year or less	\$ 7,550	\$ 7,183	\$ 3,210	\$ 3,224
Due after one year to five years	63,826	57,215	60,716	60,352
Due after five years to ten years	27,434	25,460	36,462	37,265
Due after ten years	161,988	132,474	168,271	169,904
	<u>\$260,798</u>	<u>\$222,332</u>	<u>\$268,659</u>	<u>\$270,745</u>

The amortized cost, gross unrealized gains, gross unrealized losses and estimated fair values of mortgagebacked securities at December 31, 2022 and 2021 are presented below.

	2022			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
<b>Available for sale:</b>				
U.S. Government agency participation certificates	\$40,824	-	\$5,384	\$35,440
CMOs and REMICs	5,100	-	287	4,813
	<u>\$45,924</u>	<u>-</u>	<u>\$5,671</u>	<u>\$40,253</u>
Total mortgage-backed securities				

	2021			
	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
	(In thousands)			
<b>Available for sale:</b>				
U.S. Government agency participation certificates	\$48,470	\$524	\$490	\$48,504
CMOs and REMICs	12,694	196	-	12,890
	<u>\$61,164</u>	<u>\$720</u>	<u>\$490</u>	<u>\$61,394</u>
Total mortgage-backed securities				

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

The amortized cost and estimated fair value of mortgage-backed securities at December 31, by contractual terms to maturity, are shown below. Expected maturities will differ from contractual maturities because borrowers may generally prepay obligations without prepayment penalties.

	2022		2021	
	Amortized cost	Fair value	Amortized cost	Fair value
(In thousands)				
Due within one year	\$ 1,698	\$ 1,646	\$ 5,023	\$ 5,056
Due after one year to five years	9,907	9,328	31,569	32,109
Due after five years to ten years	34,319	29,279	23,505	23,170
Due after ten years	-	-	1,067	1,059
Total mortgage-backed securities	<u>\$45,924</u>	<u>\$40,253</u>	<u>\$61,164</u>	<u>\$61,394</u>

The tables below indicate the length of time individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021:

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
(Dollars in thousands)									
December 31, 2022									
U.S. Government agency obligations	2	\$ 2,277	\$ 227	47	\$ 51,222	\$ 6,519	49	\$ 53,499	\$ 6,746
State and municipal obligations	107	43,048	3,616	247	118,104	28,042	354	161,152	31,658
Corporate debt obligations	1	187	2	5	2,059	78	6	2,246	80
Mortgage backed securities	48	13,753	823	22	26,498	4,846	70	40,251	5,669
Total temporarily impaired securities	<u>158</u>	<u>\$59,265</u>	<u>\$4,668</u>	<u>321</u>	<u>\$197,883</u>	<u>\$39,485</u>	<u>479</u>	<u>\$257,148</u>	<u>\$44,153</u>

Description of securities	Less than 12 months			12 months or longer			Total		
	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses	Number of investments	Fair value	Unrealized losses
(Dollars in thousands)									
December 31, 2021:									
U.S. Government agency obligations	38	\$ 48,595	\$ 825	8	\$ 7,180	\$ 222	46	\$ 55,775	\$ 1,047
State and municipal obligations	124	75,531	765	7	3,028	51	131	78,559	816
Corporate debt obligations	1	499	1	2	960	40	3	1,459	41
Asset-backed securities	1	897	2	2	406	7	3	1,303	9
Mortgage backed securities	21	31,148	455	2	1,675	35	23	32,823	490
Total temporarily impaired securities	<u>185</u>	<u>\$156,670</u>	<u>\$2,048</u>	<u>21</u>	<u>\$13,249</u>	<u>\$355</u>	<u>206</u>	<u>\$169,919</u>	<u>\$2,403</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE B - INVESTMENT AND MORTGAGE-BACKED SECURITIES (CONTINUED)

In 2022, proceeds from sale of securities available for sale were \$19.8 million. Gross losses of \$148,000 were realized in 2022 for sales of investment securities. There were no sales of securities during 2021.

The fair values are expected to recover as securities approach their maturity dates. The Corporation has evaluated these securities and has determined that the decline in their values is attributable to changes in interest rates and not credit quality.

Securities with a carrying value of \$24,096,281 and \$25,111,231 were pledged at December 31, 2022 and 2021, respectively to collateralize certain deposits and for other purposes as permitted or required by law.

## NOTE C - LOANS RECEIVABLES

Loans receivable at December 31, 2022 and 2021 consist of the following (In thousands):

	<u>2022</u>	<u>2021</u>
Construction	\$ 37,052	\$ 19,278
Farmland	26,045	23,193
1-4 family residential	118,800	118,973
Multi-family residential	47,102	20,598
Nonfarm nonresidential	126,432	86,198
Commercial	60,741	55,302
Consumer	14,024	14,596
	<u>430,196</u>	<u>338,138</u>
Allowance for loan loss	(4,957)	(5,201)
Deferred loan fees	(971)	(689)
<b>Total net loans</b>	<b><u>\$424,268</u></b>	<b><u>\$332,248</u></b>
Loans held for sale	\$ 839	\$ 4,496
Loans receivable – net	<u>424,268</u>	<u>332,248</u>
<b>Total net loans</b>	<b><u>\$425,107</u></b>	<b><u>\$336,744</u></b>

The balance of loans receivable on January 1, 2021 was \$365,923,000.

The Corporation participated in the Paycheck Protection Program (“PPP”), administered by the Small Business Administration (SBA), in assisting its borrowers with additional liquidity. At December 31, 2021 PPP loans, net of unearned fees of approximately \$38,000 totaled approximately \$1,023,000. The unearned fees were accreted to interest income based upon forgiveness by the SBA in 2022.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

The risk characteristics applicable to each segment of the loan portfolio are described as follows:

**Construction Loans.** Construction financing is generally considered to involve a higher degree of risk of loss than long-term financing on improved, occupied real estate. Risk of loss on a construction loan depends largely upon the accuracy of the initial estimate of the property's value at completion of construction and the estimated cost (including interest) of construction. During the construction phase, a number of factors could result in delays and cost overruns. If the estimate of construction costs proves to be inaccurate, we may be required to advance funds beyond the amount originally committed to permit completion of the building. If the estimate of value proves to be inaccurate, we may be confronted, at or before the maturity of the loan, with a building having a value which is insufficient to assure full repayment. If we are forced to foreclose on a building before or at completion due to a default, there can be no assurance that we will be able to recover all of the unpaid balance of, and accrued interest on, the loan as well as related foreclosure and holding costs.

**Farmland (Agricultural) Loans.** Payments on agricultural loans are typically dependent on the profitable operation or management of the related farm property. The success of the farm may be affected by many factors outside the control of the borrower, including adverse weather conditions that prevent the planting of a crop or limit crop yields, declines in market prices for agricultural products and the impact of government regulations. In addition, many farms are dependent on a limited number of key individuals whose injury or death may significantly affect the successful operation of the farm. If the cash flow from a farming operation is diminished, the borrower's ability to repay the loan may be impaired. For large loan relationships, crop insurance is required when the crops are the Bank's primary collateral.

**1-4 Family Residential.** Residential real estate loans are secured by 1-4 family residences and are generally owner-occupied. The Bank generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels. Repayment can also be impacted by changes in property values of residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

**Multi-Family Real Estate.** Loans secured by multi-family and nonresidential real estate generally have larger balances and involve a greater degree of risk than 1-4 family residential mortgage loans. Of primary concern in multi-family and nonresidential real estate lending is the borrower's creditworthiness and the feasibility and cash flow potential of the project. Payments on loans secured by income properties often depend on successful operation and management of the properties. As a result, repayment of such loans may be subject to a greater extent than residential real estate loans to adverse conditions in the real estate market or the economy. To monitor cash flows on income properties, we require borrowers, co-borrowers and loan guarantors of large loan relationships to provide annual financial statements and/or tax returns. In reaching a decision on whether to make a multi-family and nonresidential real estate loan, we consider the net operating income of the property, the borrower's expertise, credit history and profitability and the value of the underlying property. We have generally required that the properties securing these real estate loans have debt service coverage ratios (the ratio of earnings before debt service to debt service) of at least 1.20x. Environmental surveys and inspections are generally required for large loans.

**Nonfarm Nonresidential Real Estate.** Nonfarm nonresidential real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Nonfarm nonresidential real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. The characteristics of properties securing the Bank's Nonfarm nonresidential real estate portfolio are diverse, but with geographic location almost entirely in the Bank's market area. Management monitors and evaluates Nonfarm nonresidential real estate loans based on cash flows of borrowers, geography and risk grade criteria.

**Commercial.** Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrowers to collect amounts due from its customers.

**Consumer.** Consumer loans consist of two segments - automobile loans and home equity loans. Automobile loans are generally secured by the automobile being financed or other personal assets. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market area, such as unemployment levels, and secondarily on the collateral securing the loan. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

The allowance for credit losses and Recorded Investment in Loans Receivable at December 31, 2022 and December 31, 2021 is as follows (In thousands):

	December 31, 2022							
	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
<b>Allowance for loan losses:</b>								
Beginning Balance	94	412	948	160	1,266	2,252	69	5,201
Provision	-	-	(84)	-	(234)	361	57	100
Charge-offs	-	-	-	-	-	(382)	(2)	(384)
Recoveries	-	-	11	-	-	28	1	40
Ending Balance	<u>94</u>	<u>412</u>	<u>875</u>	<u>160</u>	<u>1,032</u>	<u>2,259</u>	<u>125</u>	<u>4,957</u>
<b>Ending Balance:</b>								
Individually evaluated for impairment	-	-	73	-	166	226	55	520
<b>Ending Balance:</b>								
Collectively evaluated for impairment	94	412	802	160	866	2,033	70	4,437
<b>Loans receivable:</b>								
Ending balance	37,052	26,045	118,800	47,102	126,432	60,741	14,024	430,196
<b>Ending Balance:</b>								
Individually evaluated for impairment	-	116	1,006	-	2,516	4,760	162	8,560
<b>Ending Balance:</b>								
Collectively evaluated for impairment	37,052	25,929	117,794	47,102	123,916	55,981	13,862	421,636

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

	December 31, 2021							
	Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
<b>Allowance for loan losses:</b>								
Beginning Balance	44	1,013	939	63	857	1,863	34	4,813
Provision	50	(601)	(30)	97	434	250	40	240
Charge-offs	-	-	-	-	(25)	-	(6)	(31)
Recoveries	-	-	39	-	-	139	1	179
Ending Balance	<u>94</u>	<u>412</u>	<u>948</u>	<u>160</u>	<u>1,266</u>	<u>2,252</u>	<u>69</u>	<u>5,201</u>
<b>Ending Balance:</b>								
Individually evaluated for impairment	-	-	146	-	400	716	-	1,262
<b>Ending Balance:</b>								
Collectively evaluated for impairment	94	412	802	160	866	1,536	69	3,939
<b>Loans receivable:</b>								
Ending balance	19,278	23,193	118,973	20,598	86,198	55,302	14,596	338,138
<b>Ending Balance:</b>								
Individually evaluated for impairment	-	301	2,349	-	5,174	6,083	5	13,912
<b>Ending Balance:</b>								
Collectively evaluated for impairment	19,278	22,892	116,624	20,598	81,024	49,219	14,591	324,226

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

### Credit Risk Profile Categories

The Corporation assigns credit risk grades to evaluated loans using grading standards employed by regulatory agencies. The following are the Bank's internally assigned grades:

**Pass.** Loans in this category carry lower-risk attributes and currently have a minimal likelihood of loss. These loans represent the Corporation's standard or average loans that require a normal amount of supervision.

**Special mention.** Assets in this category have potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the asset or in the institution's credit position at some future date. Special mention assets are not adversely classified and do not expose the institution to sufficient risk to warrant adverse classification.

**Substandard.** An asset classified substandard is protected inadequately by the current net worth and paying capacity of the obligor, or by the collateral pledged, if any. Assets so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected. Any loan 90 days past due will automatically be classified substandard.

**Doubtful.** An asset classified doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

The following table summarizes the credit risk profile by internally assigned grade at December 31, 2022 and December 31, 2021 (In thousands):

		December 31, 2022							
		Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
<b>Grade:</b>									
Pass		37,052	26,045	118,285	47,102	119,987	55,491	13,837	417,799
Special mention		-	-	345	-	4,481	489	27	5,342
Substandard		-	-	170	-	1,964	4,761	160	7,055
Doubtful		-	-	-	-	-	-	-	-
<b>Total</b>		<u>37,052</u>	<u>26,045</u>	<u>118,800</u>	<u>47,102</u>	<u>126,432</u>	<u>60,741</u>	<u>14,024</u>	<u>430,196</u>

		December 31, 2021							
		Construction	Farmland	1-4 Family Residential	Multi-family Residential	Nonfarm nonresidential	Commercial	Consumer	Total
<b>Grade:</b>									
Pass		19,278	21,028	117,226	20,598	78,355	48,792	14,531	319,808
Special mention		-	1,988	679	-	3,285	427	65	6,444
Substandard		-	177	1,068	-	4,558	6,083	-	11,886
Doubtful		-	-	-	-	-	-	-	-
<b>Total</b>		<u>19,278</u>	<u>23,193</u>	<u>118,973</u>	<u>20,598</u>	<u>86,198</u>	<u>55,302</u>	<u>14,596</u>	<u>338,138</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

The following tables summarize loans by delinquency and nonaccrual status at December 31, 2022 and December 31, 2021 (in thousands except for days past due):

### December 31, 2022

	30-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual	Recorded Investment 90 Days and Accruing
<b>Real Estate:</b>							
Construction	-	-	-	37,052	37,052	-	-
Farmland	-	-	-	26,045	26,045	-	-
1-4 family residential	66	170	236	118,564	118,800	170	-
Multi-family residential	-	-	-	47,102	47,102	-	-
Nonfarm nonresidential	-	139	139	126,293	126,432	139	-
Commercial	175	160	335	60,406	60,741	160	-
Consumer	7	-	7	14,017	14,024	-	-
<b>Total</b>	<u>248</u>	<u>469</u>	<u>717</u>	<u>429,479</u>	<u>430,196</u>	<u>469</u>	<u>-</u>

### December 31, 2021

	30-89 Days Past Due	Over 90 Days Past Due	Total Past Due	Current	Total Loans	Nonaccrual	Recorded Investment 90 Days and Accruing
<b>Real Estate:</b>							
Construction	-	-	-	19,278	19,278	-	-
Farmland	-	-	-	23,193	23,193	-	-
1-4 family residential	182	468	650	118,323	118,973	33	435
Multi-family residential	-	-	-	20,598	20,598	-	-
Nonfarm nonresidential	145	171	316	85,882	86,198	171	-
Commercial	1,653	-	1,653	53,649	55,302	-	-
Consumer	60	-	60	14,536	14,596	-	-
<b>Total</b>	<u>2,040</u>	<u>639</u>	<u>2,679</u>	<u>335,459</u>	<u>338,138</u>	<u>204</u>	<u>435</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

The following tables summarize impaired loans at December 31, 2022 and December 31, 2021 (In thousands):

December 31, 2022

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance recorded:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	116	161	-	208	21
1-4 family residential	219	262	-	519	17
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	658	856	-	918	28
Commercial	2,257	2,257	-	1,697	156
Consumer	-	-	-	-	-
<b>Total</b>	<u>3,250</u>	<u>3,536</u>	<u>-</u>	<u>3,342</u>	<u>222</u>
<b>Loans with an allowance recorded:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
1-4 family residential	787	787	73	1,159	31
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	1,858	1,857	166	2,926	96
Commercial	2,503	2,503	226	3,725	115
Consumer	162	163	55	84	10
<b>Total</b>	<u>5,310</u>	<u>5,310</u>	<u>520</u>	<u>7,894</u>	<u>252</u>
<b>Total impaired loans:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	116	161	-	208	21
1-4 family residential	1,006	1,049	73	1,678	48
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	2,516	2,713	166	3,844	124
Commercial	4,760	4,760	226	5,422	271
Consumer	162	163	55	84	10
<b>Total</b>	<u>8,560</u>	<u>8,846</u>	<u>520</u>	<u>11,236</u>	<u>474</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

December 31, 2021

	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
<b>Loans with no related allowance recorded:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	301	347	-	398	43
1-4 family residential	819	862	-	639	39
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	1,179	1,377	-	1,007	42
Commercial	1,137	1,137	-	3,435	55
Consumer	-	-	-	13	-
<b>Total</b>	<u>3,436</u>	<u>3,723</u>	<u>-</u>	<u>5,492</u>	<u>179</u>
<b>Loans with an allowance recorded:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	-	-	-	277	-
1-4 family residential	1,530	1,530	146	1,544	68
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	3,995	3,995	400	2,692	227
Commercial	4,946	4,946	716	2,695	164
Consumer	5	5	-	3	-
<b>Total</b>	<u>10,476</u>	<u>10,476</u>	<u>1,262</u>	<u>7,211</u>	<u>459</u>
<b>Total impaired loans:</b>					
<b>Real Estate:</b>					
Construction	-	-	-	-	-
Farmland	301	347	-	675	43
1-4 family residential	2,349	2,392	146	2,183	107
Multi-family residential	-	-	-	-	-
Nonfarm nonresidential	5,174	5,372	400	3,699	269
Commercial	6,083	6,083	716	6,130	219
Consumer	5	5	-	16	-
<b>Total</b>	<u>13,912</u>	<u>14,199</u>	<u>1,262</u>	<u>12,703</u>	<u>638</u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE C - LOANS RECEIVABLES (CONTINUED)

During the year ended December 31, 2022, the Bank had recorded impaired loans of real estate collateral of nonfarm non-residential loans of \$222,000, 1-4 family residential loans of \$101,000 and security agreement collateral of commercial loans of \$1,029,000. During the year ended December 31, 2021, the Bank had recorded impaired loans of real estate collateral of nonfarm non-residential loans of \$171,000, 1-4 family residential loans of \$636,000 and security agreement collateral of commercial loans of \$2,017,000.

If a borrower is experiencing financial difficulty, the Bank may consider, in certain circumstances, modifying the terms of their loan in a troubled debt restructuring (TDR) to maximize collection of amounts due. Within each of the Bank's loan classes, TDRs typically involved either a reduction of the stated interest rate of the loan or an extension of the loan's maturity date(s) with a stated rate lower than the current market rate for a new loan with similar risk. Modifying the terms of loans may result in an increase or decrease in the Allowance for Loan and Lease Losses (ALLL) depending upon the terms modified, the method used to measure the ALLL for a loan prior to modification, and whether any charge-offs were recorded on the loan before or at the time of modification.

At December 31, 2022 and 2021, the Bank had \$4.0 million and \$5.2 million in TDRs, respectively which are included as impaired loans.

During the year ended December 31, 2022, the Bank had no new TDR's. During the year ended December 31, 2021, the Bank had 3 new TDR's totaling \$621,000. The recorded investment totaled \$621,000 at the time of restructure and totaled \$623,000 immediately following. Of the 3 new troubled debt restructurings in 2021, all were maturity extensions.

The Bank considers TDRs that become 90 days past due under the modified terms in the year following restructuring as subsequently defaulted. There were no such instances of subsequently defaulted TDR's in 2022 or 2021.

The Bank's lending efforts have historically focused on 1-4 family residential and nonfarm nonresidential real estate, which comprised approximately \$245.2 million, or 57%, of the total loan portfolio at December 31, 2022, and \$205.2 million, or 61%, of the total loan portfolio at December 31, 2021. The vast majority of these loans have been underwritten on the basis of no more than a 90% loan-to-value ratio, which has historically provided the Bank with adequate collateral coverage in the event of default. The Bank, as with any lending institution, is subject to the risk that real estate values could deteriorate in its primary lending area of southeast Indiana, thereby impairing collateral values.

In the normal course of business, the Bank has made loans to its directors, officers and their related business interests. In the opinion of management, such loans are consistent with sound lending practices and are within applicable regulatory lending limitations.

The following is an analysis of the activity of such loans for the years ended December 31, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Balance, beginning of the year	\$1,421,000	\$3,658,000
Loans originated	313,000	-
Repayments	(427,000)	(2,237,000)
Balance, end of year	<u>\$1,307,000</u>	<u>\$1,421,000</u>

The Bank has sold whole loans and participating interests in loans in the secondary market, generally retaining servicing on the loans sold. Loans sold and serviced for others totaled approximately \$231.9 million and \$240.0 million at December 31, 2022 and 2021, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE D - OFFICE PREMISES AND EQUIPMENT

Office premises and equipment, including construction in process, is comprised of the following at December 31:

	2022	2021
	(In thousands)	
Land and land improvements	\$ 6,014	\$ 6,014
Buildings and improvements	8,577	8,510
Furniture and equipment	<u>4,716</u>	<u>4,490</u>
	19,307	19,014
Less accumulated depreciation and amortization	<u>(7,519)</u>	<u>(7,166)</u>
	<u>\$ 11,788</u>	<u>\$ 11,848</u>

## NOTE E - LEASE

The Corporation accounts for leases in accordance with ASC 842 which requires leases with durations greater than twelve months to be recognized on the balance sheet. The Corporation did not have any leases outstanding at December 31, 2022 nor are they contemplating any leases in 2023.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE F - DEPOSITS

Deposits consist of the following major classifications at December 31:

Deposit type and weighted-average interest rate	2022	2021
	(In thousands)	
Interest-bearing demand accounts		
2022 - 1.52%	\$196,957	\$220,886
2021 - 0.24%		
Savings accounts		
2022 - 0.28%	131,540	136,757
2021 - 0.14%		
Non-interest bearing accounts	<u>145,826</u>	<u>137,251</u>
Total demand and savings accounts	<u>\$474,323</u>	<u>\$494,894</u>
Certificates of deposit, including individual retirement accounts:		
Original maturities of:		
12 months and less		
2022 - 1.70%	25,054	31,043
2021 - 0.37%		
15 months to 18 months		
2022 - 2.57%	64,892	1,592
2021 - 0.62%		
21 months to 30 months		
2022 - 2.49%	27,277	14,667
2021 - 0.72%		
More than 30 months		
2022 - 2.28%	<u>66,189</u>	<u>82,445</u>
2021 - 1.98%		
Total certificates of deposit	<u>\$183,412</u>	<u>\$129,747</u>
Total deposits	<u><b>\$657,735</b></u>	<u><b>\$624,641</b></u>

The Dodd-Frank Wall Street Reform and Consumer Protection Act permanently raised the standard maximum deposit insurance amount to \$250,000. Certain deposits with balances greater than \$250,000 are not federally insured. At December 31, 2022 and 2021, the Bank had certificate of deposit accounts with balances greater than \$250,000 totaling approximately \$51.3 million and \$21.8 million, respectively.

In the ordinary course of business, the Bank maintains deposit accounts for some officers, directors, and other related interests. The aggregate dollar amount of related party deposits totaled \$2.7 million and \$3.5 million at December 31, 2022 and 2021, respectively.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE F - DEPOSITS (CONTINUED)

Interest expense on deposits for the year ended December 31 is summarized as follows:

	2022	2021
	(In thousands)	
Interest-bearing demand accounts	\$ 871	\$ 468
Savings accounts	194	185
Certificates of deposit	<u>1,948</u>	<u>2,115</u>
	<u>\$3,013</u>	<u>\$2,768</u>

Maturities of outstanding certificates of deposit at December 31 are summarized as follows:

	2022
	(In thousands)
2023	\$ 77,953
2024	64,631
2025	25,584
2026	10,889
2027 and thereafter	<u>4,355</u>
	<u>\$183,412</u>

## NOTE G - REPURCHASE AGREEMENTS

Securities sold under agreements to repurchase consist of obligations of the Bank to other parties and mature within one day from the transaction date. Information concerning securities sold under agreements to repurchase is summarized as follows:

	2022	2021
	(In thousands)	
Average balance during the year	\$17,226	\$17,028
Average interest rate during the year	1.09%	0.25%
Maximum month-end balance during the year	\$21,382	\$20,539
Year-end balance	\$18,390	\$19,728
Obligations of investment securities underlying the agreements at year end:		
Book value	\$27,902	\$25,040
Fair value	\$24,096	\$25,111

These agreements may be terminated by either the Bank or other party on terms ranging from one to five days.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE H - INCOME TAXES

The provision for income taxes differs from that computed at the statutory corporate tax rate for the year ended December 31 as follows:

	2022		2021	
	(In thousands)			
Federal income taxes computed at the statutory rate based on income less captive insurance income	\$1,245	21.0%	\$1,863	21.0%
Increase (decrease) in taxes resulting from:				
Tax-exempt interest	(821)	(13.8%)	(750)	(8.5%)
Non-taxable income on bank owned life insurance	(73)	(1.2%)	(72)	(0.8%)
State income taxes, net of federal benefits	20	0.1%	126	0.6%
Nondeductible merger fees	-	-	-	-
Other	(121)	(2.1%)	(61)	(0.7%)
Income tax provision per consolidated financial statements	<u>\$250</u>	<u>4.0%</u>	<u>\$1,106</u>	<u>11.6%</u>

The composition of the Corporation's net deferred tax asset at December 31 is as follows:

	2022	2021
	(In thousands)	
Deferred tax assets:		
Retirement expense	\$ 365	\$ 375
General loan loss allowance	1,154	1,200
Deferred loan fees	233	167
Unrealized losses on AFS securities	9,268	-
Other	27	22
Total deferred tax assets	<u>11,047</u>	<u>1,764</u>
Deferred tax liabilities:		
FHLB stock dividends	(28)	(32)
Captive insurance	(168)	(175)
Mortgage servicing rights	(418)	(466)
Unrealized (gains) on AFS securities	-	(482)
Book versus tax depreciation	(348)	(200)
Other	(5)	(6)
Total deferred tax liabilities	<u>(967)</u>	<u>(1,361)</u>
Net deferred income tax asset	<u>\$ 10,080</u>	<u>\$ 403</u>

Management believes that it is more likely than not that the results of future operations will generate sufficient taxable income to realize reported deferred taxes, therefore, a valuation allowance is not deemed necessary.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE I - BENEFIT PLANS

The Corporation sponsors a postretirement plan (the "Plan") covering certain directors of the Bank. Based upon calculations received from the benefit plan administrators, the Bank recorded expense of approximately \$73,000 and \$80,000 for the years ended December 31, 2022 and 2021, respectively.

The Bank has a contributory 401(k) plan covering substantially all employees. Contributions to the plan are voluntary and are subject to matching by the Bank. The Bank's expense related to the 401(k) plan totaled approximately \$198,000 and \$163,000 for the years ended December 31, 2022 and 2021, respectively.

The Corporation has a deferred compensation plan that covers certain directors and is recorded in other liabilities on the consolidated statements of financial condition. Under the plan, the Corporation pays each participant, or their beneficiary, an amount deferred over 15 years, beginning upon the individual's termination of service. The cash payouts and required increase in accrual for the deferred compensation for the year ended December 31, 2021 were \$45,000 and \$45,000, respectively, resulting in a deferred compensation liability of \$696,000. The cash payouts and required increase in accrual for the deferred compensation for the year ended December 31, 2022 were \$45,000 and \$61,000, respectively, resulting in a deferred compensation liability of \$713,000. Accrual of this liability is based on individual discount rates by participant ranging from 6.50 - 10.00%. Income tax deductions are allowable only as retirement benefits are paid. The Corporation has a rabbi trust to fund the obligations of this deferred compensation plan. The trust holds assets consisting of cash and FCN Banc Corp stock. In accordance with the accounting guidance for rabbi trust arrangements, the assets of the trust and the obligations of the plan are reported on the Corporation's consolidated statements of financial condition. The cash is held in other assets while the stock is designated as treasury shares. If the trust assets earn interest or dividends from the invested assets, the Corporation would record earnings in the same period. Therefore, the assets are reported at fair value with any subsequent changes in fair value recorded in the Consolidated Statements of Income. At December 31, 2022 and 2021, the trust asset balances were \$722,000 and \$703,000, respectively.

The Corporation has a supplemental executive retirement plan (SERP) that covers certain directors and certain executive officers and is recorded in other liabilities on the statements of financial condition. Under the plan, the Corporation pays each participant, or their beneficiary, a fixed retirement benefit over 10 years for directors and 20 years for executive officers, beginning upon the individual's retirement. A liability is accrued for the obligation under these plans, with a balance of \$727,000 and \$778,000 as of December 31, 2022 and 2021, respectfully. Accrual of this liability is based on individual discount rates by participant ranging from 6.00 - 10.00%. Income tax deductions are allowable only as retirement benefits are paid. Cash payouts under the plan totaled approximately \$105,000 and \$105,000 for the years ended December 31, 2022 and 2021, respectfully. Expense under the plan totaled approximately \$54,000 and \$58,000 for the year ended December 31, 2022 and 2021, respectfully.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE J - COMMITMENTS

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers, including commitments to extend credit. Such commitments involve, to varying degrees, elements of credit and interest-rate risk in excess of the amount recognized in the consolidated statement of financial condition. The contract or notional amounts of the commitments reflect the extent of the Bank's involvement in such financial instruments.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit is represented by the contractual notional amount of those instruments. The Bank uses the same credit policies in making commitments and conditional obligations as those utilized for onbalance-sheet instruments.

At December 31, 2022, the Bank had outstanding commitments of approximately \$1.6 million to originate residential real estate loans. Additionally, the Bank had unused overdraft protection of approximately \$642,000 and unused lines of credit under residential loans and commercial loans of approximately \$45.4 million and \$60.4 million, respectively, at December 31, 2022. Of the approximately \$109.8 million in commitments, approximately \$97.3 million and \$12.5 million were variable and fixed, respectively.

The Bank had no commitments under financial standby letters of credit at December 31, 2022 and 2021. Financial standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE K - REGULATORY CAPITAL

The Bank is subject to the regulatory capital requirements of the Federal Deposit Insurance Corporation (the “FDIC”). Failure to meet minimum capital requirements can initiate certain mandatory – and possibly additional discretionary – actions by regulators that, if undertaken, could have a direct material effect on the Bank’s financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank’s assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank’s capital amounts and classifications are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

The FDIC has adopted risk-based capital ratio guidelines to which the Bank is subject. The guidelines establish a systematic analytical framework that makes regulatory capital requirements more sensitive to differences in risk profiles among banking organizations. Risk-based capital ratios are determined by allocating assets and specified off-balance sheet commitments to four risk-weighting categories, with higher levels of capital being required for the categories perceived as representing greater risk.

During the most recently completed exam, the Bank was notified by its primary regulator that it was categorized as “well-capitalized” under the regulatory framework for prompt corrective action. To be categorized as “wellcapitalized” the Bank must maintain minimum capital ratios as set forth in the table that follows.

As of December 31, 2022 and 2021, management believed that the Bank met all capital adequacy requirements to which it was subject.

2022:

	Actual		For capital adequacy purposes		To be “well-capitalized” under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity tier 1 (to risk-based capital)	\$68,069	13.65%	≥\$22,441	≥ 4.5%	≥\$32,415	≥ 6.5%
Total capital (to risk-weighted assets)	\$73,026	14.64%	≥\$39,895	≥ 8.0%	≥\$49,869	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$68,069	13.65%	≥\$29,921	≥ 6.0%	≥\$39,895	≥ 8.0%
Tier I leverage	\$68,069	9.55%	≥\$28,497	≥ 4.0%	≥\$35,621	≥ 5.0%

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE K - REGULATORY CAPITAL (CONTINUED)

2021:

	Actual		For capital adequacy purposes		To be "well-capitalized" under prompt corrective action provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity tier 1 (to risk-based capital)	\$65,072	16.03%	≥\$18,271	≥ 4.5%	≥\$26,392	≥ 6.5%
Total capital (to risk-weighted assets)	\$70,149	17.28%	≥\$32,482	≥ 8.0%	≥\$40,603	≥ 10.0%
Tier I capital (to risk-weighted assets)	\$65,072	16.03%	≥\$24,362	≥ 6.0%	≥\$32,482	≥ 8.0%
Tier I leverage	\$65,072	8.96%	≥\$29,056	≥ 4.0%	≥\$36,320	≥ 5.0%

The Bank's management believes that, under the current regulatory capital regulations, the Bank will continue to meet its minimum capital requirements in the foreseeable future. However, events beyond the control of the Bank, such as increased interest rates or a downturn in the economy in the Bank's primary market area, could adversely affect future earnings and, consequently, the ability to meet future minimum regulatory capital requirements.

## NOTE L - COMPREHENSIVE INCOME RECLASSIFICATION ADJUSTMENT

The following information discloses the reclassification adjustments for each component of accumulated other comprehensive income, including the income statement line items that affected, as of December 31, 2022:

Accumulated Other Comprehensive Income Components	Reclassification Amount (In thousands)	Affected Line Item in the Consolidated Statements of Income
December 31, 2022:		
Unrealized loss on available for sale securities	(148)	Loss on sale of investments and mortgage-backed securities
	<u>31</u>	Income taxes
Total reclassifications	<u><u>\$(117)</u></u>	

There were no sales of securities during the year ended December 31, 2021.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE M - REVENUE RECOGNITION

ASC 606 does not apply to revenue associated with financial instruments, including revenue from loans and securities. In addition, certain noninterest income streams such as fees associated with mortgage servicing rights, financial guarantees, derivatives, and certain credit card fees are also not in scope. ASC 606 is applicable to noninterest revenue streams such as trust and asset management income, deposit related fees, interchange fees, merchant income, and annuity and insurance commissions. Substantially all of the Corporation's revenue is generated from contracts with customers. Noninterest revenue streams in-scope of ASC 606 are discussed below.

The following presents noninterest income, segregated by revenue streams in-scope and out-of-scope of ASC 606, for the years ended December 31, 2022 and 2021:

	2022	2021
	(In thousands)	
Noninterest income (expense):		
In-scope of ASC 606:		
Service charges and fees	\$ 782	\$1,122
ATM/Interchange fees	1,495	1,205
Other	<u>919</u>	<u>871</u>
Total noninterest income in-scope of ASC 606	3,196	3,198
Total noninterest income out-of-scope of ASC 606:	669	2,993
Total noninterest income	<u>\$3,865</u>	<u>\$6,191</u>

**Service charges and fees.** Service charges consist of account analysis fees (i.e., net fees earned on analyzed business and public checking accounts), monthly service fees, and other deposit account related fees. The Corporation's performance obligation for account analysis fees and monthly service fees is generally satisfied, and the related revenue recognized, over the period in which the service is provided. Other deposit account related fees are largely transactional based, and therefore, the Corporation's performance obligation is satisfied, and related revenue recognized, at a point in time. Payment for service charges on deposit accounts is primarily received immediately or in the following month through a direct charge to customers' accounts.

**ATM/Interchange fees.** Fees, exchange, and other service charges are primarily comprised of debit and credit card income, ATM fees and other service charges. Debit and credit card income is primarily comprised of interchange fees earned whenever the Corporation's debit and credit cards are processed through card payment networks such as Mastercard. ATM fees are primarily generated when a Corporation cardholder uses a non-Corporation ATM or a non-Corporation cardholder uses a Corporation ATM. The Corporation's performance obligation for fees, exchange, and other service charges are largely satisfied, and related revenue recognized, when the services are rendered or upon completion. Payment is typically received immediately or in the following month.

**Other.** Other noninterest income consists of other recurring revenue streams such as net insurance premiums written for FCN Risk Management, trust department income, safety deposit box rental fees, check order fees, and other miscellaneous revenue streams. Net insurance premiums are those that are paid annually by the Corporation and its other subsidiaries to FCN Risk Management, after paying insurance claims and other changes. This revenue is recognized upon receipt of payment. Trust department income is fees earned for certain asset management services that are charged on a monthly basis and recognized upon receipt of payment. Safe deposit box rental fees are charged to the customer on an annual basis and recognized upon receipt of payment. Check order income mainly represents fees charged to customers for checks. The Corporation determined that since rentals and renewals occur fairly consistently over time, revenue is recognized on a basis consistent with the duration of the performance obligation.

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE N - CONDENSED FINANCIAL STATEMENTS OF FCN BANC CORP.

The following condensed financial statements summarize the financial position of FCN Banc Corp. as of December 31, 2022 and 2021, and the results of its operations and cash flows For the years ended December 31, 2022 and 2021.

**FCN Banc Corp.**  
**STATEMENTS OF FINANCIAL CONDITION**  
 Year ended December 31, 2022 and 2021  
 (In thousands)

<b>ASSETS</b>	<b>2022</b>	<b>2021</b>
Cash and cash equivalents	\$ 1,898	\$ 2,404
Investments, at fair value	717	250
Investment in FCN Bank	38,894	72,577
Prepaid expenses	652	653
Dividend receivable from FCN Bank	659	647
Other Assets	<u>4</u>	<u>-</u>
Total assets	<u><b>\$42,824</b></u>	<u><b>\$76,531</b></u>
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
Other advances	\$ -	\$ -
Dividends payable	659	647
Other liabilities	<u>1,084</u>	<u>1,108</u>
Total liabilities	<u>1,743</u>	<u>1,755</u>
Shareholders' equity		
Common stock	11,364	11,464
Additional paid-in capital	7,628	8,276
Retained earnings	58,993	55,328
Treasury shares	(2,024)	(2,103)
Unrealized (losses) gains on securities designated as available for sale, net	<u>(34,880)</u>	<u>1,811</u>
Total shareholders' equity	<u>41,081</u>	<u>74,776</u>
Total liabilities and shareholders' equity	<u><b>\$42,824</b></u>	<u><b>\$76,531</b></u>

# NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2022 and 2021

## NOTE O - CONDENSED FINANCIAL STATEMENTS OF FCN BANC CORP. (CONTINUED)

**FCN Banc Corp.**  
**STATEMENTS OF INCOME**  
Year ended December 31, 2022 and 2021  
(In thousands)

	2022	2021
Equity in earnings of FCN Bank	\$6,430	\$7,928
Fee income from subsidiary	20	647
General and administrative expenses	<u>(156)</u>	<u>(290)</u>
Earnings before income tax benefit	6,294	8,285
Income tax benefit	<u>14</u>	<u>47</u>
<b>NET INCOME</b>	<b><u>\$6,308</u></b>	<b><u>\$8,332</u></b>

**FCN Banc Corp.**  
**STATEMENTS OF CASH FLOWS**  
Year ended December 31, 2022 and 2021  
(In thousands)

	2022	2021
Cash flows provided by (used in) operating activities:		
Net income	\$ 6,308	\$ 8,332
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Undistributed earnings of consolidated subsidiary	(3,008)	(1,766)
Effect of changes in operating assets and liabilities:		
Other assets and liabilities	<u>(39)</u>	<u>(562)</u>
Net cash provided by (used in) operating activities	<u>3,261</u>	<u>6,004</u>
Cash flows used in investing activities		
Purchase of investment securities designated as available for sale	(717)	(250)
Maturity of investment securities designated as available for sale	250	-
Net cash used in investing activities	<u>(467)</u>	<u>(250)</u>
Cash flows provided by (used in) financing activities:		
Dividends on common stock	(2,631)	(2,466)
Repayments of other advances	-	(3,250)
Purchase of treasury shares	(669)	-
Repurchase of common stock	-	-
Net cash provided by (used in) financing activities	<u>(3,300)</u>	<u>(5,716)</u>
Net increase in cash and cash equivalents	(506)	38
Cash and cash equivalents at beginning of year	<u>2,404</u>	<u>2,366</u>
Cash and cash equivalents at end of year	<b><u>\$ 1,898</u></b>	<b><u>\$2,404</u></b>

# NOTES

# NOTES

# LOCATIONS



## MAIN OFFICE

501 Main St.  
Brookville, IN 47012  
765-647-4116

## BROOKVILLE DRIVE-UP

400 Main St.  
Brookville, IN 47012  
765-647-4116



## CONNERSVILLE

105 West 3rd St.  
Connersville, IN 47331  
765-825-7251



## BATESVILLE

1060 State Rd. 229 N.  
Batesville, IN 47006  
812-934-9078



## SUNMAN

226 N. Meridian St.  
Sunman, IN 47041  
812-623-8900



## HARRISON

590 Ring Rd.  
Harrison, OH 45030  
513-367-6111



## LAWRENCEBURG

595 W. Eads Parkway  
Lawrenceburg, IN 47025  
812-537-0940





[fcnbank.com](http://fcnbank.com)