2022

HEARTLAND
BancCorp

Parent Company of Heartland Bank
& TransCounty Title Agency

ANNUAL REPORT

Our Impacts

Consolidated Financial Statements

Our Team

Take stock in your community

HLAN | Heartland BancCorp is currently quoted on the OTCQX market under the symbol HLAN.

To learn more about Heartland BancCorp shares, please visit ir.Heartland.Bank or call (614) 337-4600.

You may also contact Heartland Planning Associates at (614) 392-5303 or consult your financial advisor.

Additional information, including analyst reports, can be found here:
OTCmarkets.com/Stock/HLAN/Research

Statements made on the OTC website are a reflection of past performance of the bank and holding company and should not be considered a projection of future performance. Investments involve varying degrees of risk, including possible loss of principal. Funds held in corporate stock are not considered a deposit of the bank or bank holding company, not guaranteed by the bank or holding company and are not insured by the FDIC or any government agency and may lose value. Information provided on these websites is not a part of this annual report and therefore is not incorporated by reference into this annual report.

This Annual Report contains statements about future events that constitute forward-looking statements. Forward-looking statements may be identified by reference to a future period or periods or by the use of the words "believe," "expect," "anticipate," "intend," "estimate," "assume," "will," "should," "plan," and other similar terms or expressions. Forward-looking statements should not be relied on because they involve known and unknown risks, uncertainties and other factors, some of which are beyond the control of the Company. These risks, uncertainties and other factors may cause the actual results, performance, and achievements of the Company to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. Factors that could cause such differences include, but are not limited to, general economic conditions, changes in interest rates, regulatory considerations, competition, and the receipt of required regulatory or shareholder approvals. Any forward-looking statements contained in this Annual Report are made as of the date hereof, and we undertake no duty, and specifically disclaim any duty, to update or revise any such statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

A message from the CEO

Dear Valued Shareholders,

I am pleased to report that 2022 was another banner year for Heartland Bancorp and its wholly owned subsidiary, Heartland Bank. Strategy and balance are key words that I would use to describe our response to the business environment over the past year. We were able to achieve balance sheet growth in both deposits and loans while mitigating the impact of a rapidly increasing rate environment, unparalleled in history. We added expertise to our board of directors by welcoming Lieutenant Governor Jon Husted, and continued to enhance our BancCorp operations. Announcements were made regarding organic branch expansions into two new markets, identified below, and we were able to continue increasing our dividend to further create shareholder value. I am very proud of our growing team for achieving these accomplishments and stellar results.

Coming into this year from a post Covid-19 environment, we expected a backdrop of high inflation, which would in turn cause the Federal Reserve to act aggressively to balance market forces and reduce inflation. We implemented a strategy in the 1st quarter to complement the Fed's eventual actions and remain disciplined on loan pricing, pushing loan growth into to the second half of 2022 to take advantage of higher market rates. After a quiet Q1 and Q2, we achieved more than 20% loan growth in the latter half of the year. In addition, due to our disciplined approach to excess liquidity during the pandemic, we were able to ladder into higher rates in the investment portfolio, creating additional return. We are still in a very uncertain rate environment as Fed actions have slowed inflation but not as effectively as desired.

Your board of directors was active again this year, adding to our ranks and continuing to prepare the company for the possibility of an eventual public listing. Lieutenant Governor Jon Husted was elected to our board in May and has been a great resource for the board on governmental issues, policy and development strategies across the state of Ohio. Banking is a highly regulated industry, and his insights on government organization and programs have been very valuable.

Our geographic expansion strategy has not changed in recent years, although the economy may dictate a pause based on the current trajectory. We announced our entrance into Delaware County with the purchase of a site on US Rt. 23, just south of Downtown Delaware, which we hope to be operational by early fall of 2023. We also secured a branch location in the Cincinnati community of Kenwood in the Redstone office complex. That location celebrated their grand opening in January of 2023. We have also been engaged with our league of investment bankers in exploring possible acquisitions both in and around our market areas.

Your board of directors continues to focus on delivering top-level shareholder value. In January of 2023, the board increased cash dividends by 10% for the 7th consecutive year. HLAN has been paying quality dividends to its shareholders for 120 consecutive quarters, or 30 years. Our share price fared well, gaining 3.1% in share price during 2022, while most markets experienced a negative return. Unquestionably, we have loyal shareholders who understand and treasure value, and they are receiving just that from their investment in Heartland.

I would be remiss to not recognize our amazing associates and partners who create value for you, our shareholders, and make these returns possible. We continue to articulate the importance of Heartland's culture. Culture comes first as do our associates who, in turn, provide a meaningful and quality experience for our clients. I'd like to thank each and every one of them for their hard work and dedication to our team, communities, and you, our loyal shareholders.

Please share your Heartland story with others as that is our best source of new relationships, and I sincerely thank you for your continued support and patronage.

Sincerely,

G. Scott McComb
Chairman, President & CEO

Financial Highlights

Your community bank in review - a condensed version of an outstanding 2022 for financial position and community impact.

Financial data as of 12/31/2022 or for the year ending 12/31/2022

4.03% 2022 | **3.56%** 2021
Net Interest Margin

FTE Average **296**
Revenue per FTE **$231,000**
127 | 169
People Portfolio

13.6% ROATCE

23% Core Loan Growth
excluding PPP

$523M | $478.9M
2022 | 2021
9% Demand Deposits Growth

6% Operating Revenue Growth

Efficiency Ratio **64.7%**

8% Heartland Planning Associates Revenue Growth

$ in 000s	2022	2021	% Change
Total Assets	$ 1,663,126	$ 1,469,109	13%
Total Deposits	$ 1,456,570	$ 1,256,045	16%

Congratulations
G. Scott McComb!
Elected to the ICBA Services Network Board of Directors
Elected Chairman of the USI Alliance Board of Directors

We were honored to be named in the
2023 OTCQX BEST 50 Companies
BEST 50 OTCQX 2023
Ranking 36th out of the 600+ company stocks trading on the OTCQX
based on an equal weighting of one-year total return and average daily dollar trading volume in 2022

Expansion in 2022

After planting roots in a small Licking County farming community in 1911, Heartland has continued to spread community banking one branch at a time! Although the look and feel of the newer locations is vastly different from those that anchored the organization, the Heartland family welcomes visitors and clients and remains true to providing value, service and a personalized community banking experience.

Hello Cincinnati!

7755 Montgomery Rd., Suite 180 • Cincinnati, OH 45236

Located at 7755 Montgomery Rd., Suite 180, this branch focuses on business development and represents the first in-state location outside of Heartland's Central Ohio footprint.

Community banking is all about communities. Heartland's 19th branch expands Heartland's reach into the diverse and eclectic Cincinnati region. Look for us in the Redstone building in the Kenwood community.

Digging into Delaware!

1754 Columbus Pike • Delaware, OH 45015

With an anticipated early fall 2023 open date, the plans for the 20th branch include a community room, night drop, drive-thru and ATM. Located in the Delaware Community Plaza, the site offers easy access to the branch and to other local retail establishments.

Partnering once again with Lincoln Construction, Heartland eagerly anticipates bringing its own style of community banking to this thriving neighborhood just north of Columbus.

Another Year of Achievement

Changes in Financial Condition:

Total assets at December 31, 2022, were $1.66 billion, an increase of 13% compared to $1.47 billion at December 31, 2021. Net loans held for investment increased $230.2 million, or 20%, to $1.39 billion at December 31, 2022, compared to $1.16 billion at December 31, 2021. All lines of business contributed to this increase, with the largest component in 1-4 family residential loans, which increased $139.1 million, or 43%, followed by commercial real estate, owner-occupied loans, which increased $37.6 million, and nonowner-occupied loans, which increased $32.7 million. The 2022 and 2021 results were impacted by Heartland's participation in round two of the Paycheck Protection Program (PPP) along with PPP forgiveness from rounds one and two, which decreased commercial loan balances in 2022 by a net total of approximately $27 million. A highlight for 2022 was record setting core loan growth of $257.2 million, or 23%, excluding PPP loans.

Nonperforming assets consisting of nonaccrual loans, loans past due 90+ days and still accruing, and Other Real Estate Owned ("OREO") totaled $1.0 million, or 0.06%, of total assets at December 31, 2022, a decrease of $0.6 million from 2021. Net charge-offs decreased during 2022 to $0.29 million, which was a $0.81 million decrease compared to 2021. The allowance for loan loss at December 31, 2022, now covers nonaccrual loans by 2,370.1%, up from 924.9% at December 31, 2021.

Heartland BancCorp funds earning asset growth through its deposit relationships. Deposits increased $200.5 million, or 16%, to $1.46 billion at December 31, 2022, due to strong execution of deposit growth strategies along with a renewed interest in certificates of deposits due to increasing market rates. Deposit balances for the year included growth of $44.1 million in demand deposits, $20.7 million in savings and money market deposits and $135.7 million in time deposits. A key element of Heartland's deposit strategy continues to focus on growing commercial and retail transaction accounts. At December 31, 2022, Heartland's deposit portfolio consisted of demand deposits representing 36% of total deposits, savings deposits of 42% and certificates of deposit comprising 22% of total deposits.

Total shareholders' equity decreased $9.2 million, or 6.0%, to $143.9 million at December 31, 2022, due to the impact of higher market rates on the bond portfolio market value. The Federal Reserve raised short-term interest rates by a cumulative 4.25% during 2022, which led to lower bond values and caused a $22.5 million reduction in accumulated other comprehensive income (loss). Based upon total shares outstanding, the book value of shareholders' equity decreased 6.3% to $71.63 per share at December 31, 2022. Heartland Bank and Heartland BancCorp met all regulatory capital levels to be considered well-capitalized for 2022 and 2021 (see Note 13 to the Consolidated Financial Statements). In 2022, Heartland BancCorp paid dividends of $2.76 per share, representing a dividend yield of 2.94% on the closing stock price of $93.80 per share on December 31, 2022.

Earnings Summary:

Heartland BancCorp has a 30+ year history of strong, consistent financial performance, and 2022 was no exception. Net income for 2022 decreased 3% to $18.1 million, or $8.90 per diluted share, compared to $18.6 million, or $9.17 per diluted share in 2021 due to a year-over-year reduction in PPP revenue. Return on average assets and tangible common equity were 1.20% and 13.69% respectively for 2022, compared to 1.23% and 13.97% for 2021.

Positive results for 2022 included net loan growth of $230.2 million, or 20%. Core loans, excluding PPP loans, increased by $257.2 million, or 23%, representing the highest growth pace in 29 years at Heartland. Deposit balances increased by $200.5 million, or 16%. The mortgage banking segment contributed significant revenues, with residential real estate loan production of $257.0 million for the year, resulting in $1.5 million of revenue from gains on sales of mortgage loans and original mortgage servicing rights (OMSRs). Heartland's portfolio of mortgage loans serviced for others ended the year at $365.3 million, down from $374.9 million at December 31, 2021. Loan servicing portfolios added a total of $1.5 million in pretax pre-provision net revenue.

Operating revenue (net interest income plus noninterest income) was up compared to the prior year by $3.6 million, or 6%. Operating revenue included $0.6 million in PPP loan fees in 2022 compared to $3.8 million in 2021. Excluding PPP impact, operating revenue increased $6.8 million, or 11%, in 2022. The rapid increase in mortgage rates caused a reduction in mortgage refinance activity and gains on loan sales in 2022. Higher market rates, combined with strong loan growth, led to a 47 basis-point increase in net interest margin to 4.03% for 2022.

Operating expense increased $4.5 million, or 11%, in 2022 due to increased compensation costs resulting from mortgage and commercial lender commissions along with a year-over-year reduction in PPP benefit. Salary and employee benefit costs were reduced by $1.5 million of deferred costs in 2021 related to loans originated from Heartland's participation in round two of the Paycheck Protection Program (PPP). Excluding the PPP impact, core operating expenses increased $3.0 million, or 7%, in 2022. Operating leverage (growth in revenue divided by growth in operating expense) was negative at .8 times, and core operating leverage, excluding PPP impact, was positive 2.3 times.

Net charge-offs for 2022 were $0.29 million compared to $1.10 million in 2021. Loan loss provision was $1.9 million for 2022, unchanged from 2021.

Results of Operation:

Net interest income increased 13% to $57.0 million, compared to $50.5 million in 2021. Average earning assets remained flat at $1.4 billion in 2022 and 2021, resulting from an $84.2 million, or 7%, increase in average loan balances offset by a $78.3 million, or 71%, reduction in average interest earning cash balances. The consolidated full-year net interest margin increased 47 basis points to 4.03% in 2022 compared to 3.56% for the full year of 2021. Amortization of net deferred PPP fees and costs recognized in interest income during 2022 was $0.5 million compared to $2.9 million in 2021.

Provision for loan loss expense was $1.9 million in 2022 and 2021. For 2022, net charge-offs totaled $0.29 million, or .02% of average loans compared to $1.10 million, or .10% of average loans, in 2021. The allowance as a percent of loans was 1.18% at December 31, 2022, compared to 1.28% at December 31, 2021.

Total noninterest income was $11.4 million for 2022 compared to $14.3 million for 2021, representing a decrease of $2.9 million, or 20%, year-over-year. This decrease was driven by declines of $3.2 million, or 68%, in gains on sales of loans and OMSRs and $0.2 million in gains on sales of securities, partially offset by an increase of $0.7 million in service charges on deposit accounts. TransCounty Title Agency contributed $2.0 million in noninterest income for 2022, a decrease of $0.6 million, or 23%, compared to $2.6 million in 2021.

Total noninterest expense was $44.2 million for 2022 compared to $39.7 million in 2021, representing a $4.5 million, or 11.3%, increase year-over-year. Total full-time equivalent employees ended 2022 at 292 compared to 295 at year end 2021.

Salaries and benefits were driven by higher compensation costs in the commercial and mortgage divisions due to strong loan originations, a reduction of $1.5 million in deferred PPP loan origination costs and wage pressures caused by low unemployment and elevated inflation. Software and data processing fees increased $0.3 million, or 9%, in 2022 due to continued investment in technology solutions to enhance efficiency and improve customer experience. TransCounty Title Agency contributed $1.8 million in operating costs in 2022, a decrease of $0.4 million, or 18%, compared to $2.2 million in 2021.

The market value of Heartland BancCorp shares increased 3.1% during 2022 to $93.80 per share at December 31, 2022.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2022 and 2021

FORVIS

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Independent Auditor's Report

Board of Directors and Audit Committee
Heartland BancCorp
Whitehall, Ohio

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the financial statements of Heartland BancCorp, which comprise the balance sheets as of December 31, 2022 and 2021, and the related statements of income, comprehensive income (loss), shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements. In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Heartland BancCorp as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited Heartland BancCorp's internal control over financial reporting as of December 31, 2022, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Heartland BancCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2022, based on COSO.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audits of the Financial Statements and Internal Control over Financial Reporting" section of our report. We are required to be independent of Heartland BancCorp 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 opinions.

Responsibilities of Management for the Consolidated Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of effective internal control over financial reporting relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error. Management also is responsible for its assessment about the effectiveness of internal control over financial reporting, included in the accompanying Management Report. 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 Heartland BancCorp's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

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 about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness 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 to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- 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 consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland BancCorp's ability to continue as a going concern for a reasonable period of time.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management, and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Heartland BancCorp's internal control over financial reporting included controls over the preparation of financial statements in accordance with accounting principles generally accepted in the United States of America and with the Parent Company-Only Financial Statements for Small Holding Companies (Form FR Y-9SP). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention or timely detection and correction of unauthorized acquisition, use, or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

FORVIS, LLP

Indianapolis, Indiana
March 10, 2023

Heartland BancCorp
Consolidated Balance Sheets
December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	2022	2021
Assets		
Cash and cash equivalents	$ 22,883	$ 64,884
Available-for-sale securities	152,492	156,505
Held-to-maturity securities, fair value of $5 and $49 at December 31, 2022 and 2021, respectively	5	49
Loans held for sale	1,345	4,648
Loans, net of allowance for loan losses of $16,591 and $14,965 at December 31, 2022 and 2021, respectively	1,387,842	1,157,619
Premises and equipment	30,476	29,410
Nonmarketable equity securities	6,627	6,024
Mortgage servicing rights, net	3,173	3,096
Foreclosed assets held for sale	5	5
Goodwill	12,389	12,389
Intangible assets	765	990
Deferred income taxes	7,516	1,404
Life insurance assets	19,790	18,120
Accrued interest receivable and other assets	17,818	13,966
Total assets	$ 1,663,126	$ 1,469,109
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	$ 523,036	$ 478,893
Savings, NOW and money market	609,676	588,959
Time	323,858	188,193
Total deposits	1,456,570	1,256,045
Repurchase agreements	5,213	9,032
Other borrowed funds	16,000	12,000
Subordinated debt	24,693	24,651
Interest payable and other liabilities	16,742	14,223
Total liabilities	1,519,218	1,315,951
Shareholders' Equity		
Common stock, without par value; authorized 20,000,000 shares; issued 2022 - 2,099,587 shares, 2021 - 2,094,787 shares	61,998	61,231
Retained earnings	107,165	94,638
Accumulated other comprehensive income/(loss)	(20,261)	2,283
Treasury stock at cost, 2022 - 90,612 and 2021 - 90,612 shares	(4,994)	(4,994)
Total shareholders' equity	143,908	153,158
Total liabilities and shareholders' equity	$ 1,663,126	$ 1,469,109

Heartland BancCorp
Consolidated Statements of Income
Years Ended December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	2022	2021
Interest Income		
Loans	$ 57,920	$ 51,307
Securities		
Taxable	2,498	1,676
Tax-exempt	2,346	2,356
Other	333	169
Total interest income	63,097	55,508
Interest Expense		
Deposits	4,447	3,254
Borrowings	1,659	1,748
Total interest expense	6,106	5,002
Net Interest Income	56,991	50,506
Provision for Loan Losses	1,920	1,920
Net Interest Income After Provision for Loan Losses	55,071	48,586
Noninterest Income		
Service charges	3,631	2,911
Gains on sale of loans and originated mortgage servicing rights	1,520	4,743
Loan servicing fees, net	1,505	1,353
Title insurance income	1,177	1,434
Net realized gain on sales of available-for-sale securities	—	223
Increase in cash value of life insurance	409	399
Other	3,139	3,235
Total noninterest income	11,381	14,298
Noninterest Expense		
Salaries and employee benefits	28,344	23,592
Net occupancy and equipment expense	3,920	3,916
Software and data processing fees	3,662	3,363
Professional fees	1,044	1,132
Marketing expense	1,012	1,049
Printing and office supplies	323	329
State financial institution tax	1,129	1,104
FDIC insurance premiums	369	400
Other	4,423	4,841
Total noninterest expense	44,226	39,726
Income Before Income Tax	22,226	23,158
Provision for Income Taxes	4,155	4,565
Net Income	$ 18,071	$ 18,593
Basic Earnings Per Share	$ 9.00	$ 9.30
Diluted Earnings Per Share	$ 8.90	$ 9.17

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Comprehensive Income/(Loss
Years Ended December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	2022	2021
Net Income	$ 18,071	$ 18,593
Other Comprehensive Loss:		
Unrealized loss on available-for-sale securities, net of tax benefit of ($5,993) and $(523) for 2022 and 2021, respectively	(22,544)	(1,968)
Less reclassification adjustment for realized gains included in net income, net of taxes of $47 for 2021	—	(176)
Other comprehensive loss	(22,544)	(2,144)
Comprehensive Income/(Loss)	$ (4,473)	$ 16,449

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	Common Stock			Accumulated Other		
	Shares	Amount	Retained Earnings	Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, December 31, 2020	1,992,875	$ 60,402	$ 81,061	$ 4,427	$ (4,994)	$ 140,896
Net income			18,593			18,593
Other comprehensive loss				(2,144)		(2,144)
Dividends on common stock, $2.51 per share			(5,016)			(5,016)
Stock option expense		138				138
Stock options exercised	11,300	691				691
Balance, December 31, 2021	2,004,175	$ 61,231	$ 94,638	$ 2,283	$ (4,994)	$ 153,158
Net income			18,071			18,071
Other comprehensive loss				(22,544)		(22,544)
Dividends on common stock, $2.76 per share			(5,544)			(5,544)
Stock option expense		515				515
Stock options exercised	4,800	252				252
Balance, December 31, 2022	2,008,975	$ 61,998	$ 107,165	$ (20,261)	$ (4,994)	$ 143,908

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	2022	2021
Operating Activities		
Net income	$ 18,071	$ 18,593
Items not requiring (providing) cash		
Depreciation and amortization	1,913	1,955
Provision for loan losses	1,920	1,920
Amortization of premiums and discounts on securities	872	1,093
Amortization of purchase accounting adjustments	236	129
Accretion of loan fees, net	(299)	(2,751)
Deferred income taxes	(119)	121
Net realized gain on sale of available-for-sale securities	—	(223)
Stock option expense	515	138
Tax benefit related to stock options exercised	30	51
Gain on sale of loans	(1,219)	(3,868)
Increase in cash surrender value of life insurance assets	(409)	(399)
Changes in		
Receivables due from loan sales	3,303	(266)
Interest receivable	(862)	866
Other assets	(3,068)	(211)
Interest payable and other liabilities	2,359	712
Net cash provided by operating activities	23,243	17,860
Investing Activities		
Net change in interest bearing time deposits	—	277
Purchase of available-for-sale securities	(35,047)	(48,861)
Proceeds from maturities of available-for-sale securities	9,652	30,760
Proceeds from sales of available-for-sale securities	—	2,386
Proceeds from maturities of held-to-maturity securities	44	153
Purchase of nonmarketable equity securities	(603)	(7)
Net change in loans	(230,681)	(31,180)
Purchase of premises and equipment	(2,990)	(1,227)
Proceeds from sale of premises and equipment	53	124
Purchase of life insurance	(1,261)	(253)
Net cash used in investing activities	(260,833)	(47,828)

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Cash Flows (Continued
Years Ended December 31, 2022 and 2021
(Table dollar amounts in thousands, except share data)

	2022	2021
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 64,860	$ 112,221
Net increase/(decrease) in certificates of deposit	135,710	(168,786)
Net decrease in repurchase agreements	(3,819)	(1,600)
Proceeds from other borrowed funds	4,000	—
Repayment of other borrowed funds	—	(32,553)
Proceeds from issuance of subordinated notes, net	—	(100)
Proceeds from stock options exercised	252	691
Dividends paid	(5,414)	(4,895)
Net cash provided by/(used in) financing activities	195,589	(95,022)
Decrease in Cash and Cash Equivalents	(42,001)	(124,990)
Cash and Cash Equivalents, Beginning of Year	64,884	189,874
Cash and Cash Equivalents, End of Year	$ 22,883	$ 64,884
Supplemental Cash Flows Information		
Interest paid	$ 6,316	$ 5,212
Income taxes paid (net of refunds)	$ 4,030	$ 4,842
Supplemental disclosure of noncash investing and financing activities		
Right of use asset obtained in exchange for lease liability	$ 1,777	$ —

See Notes to Consolidated Financial Statements

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

Nature of Operations

Heartland BancCorp ("Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, Heartland Bank (the "Bank") and TransCounty Title Agency, LLC along with the Bank's wholly-owned subsidiaries, Heartland Mortgage Corporation (inactive), Heartland Investments, Inc. (inactive) and Heartland Insurance Services, LLC (inactive). The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in central Ohio and Greater Cincinnati. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes examinations by those regulatory authorities on an 18-month cycle.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, TransCounty Title Agency, LLC and Heartland Insurance Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change include the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, other-than-temporary impairments (OTTI) and fair values of financial instruments.

Cash Equivalents

At December 31, 2022, the Company's cash accounts did not exceed federally insured limits.

Additionally, approximately $5,551,000 of cash is held by the Federal Reserve Bank of Cleveland and Federal Home Loan Bank of Cincinnati as of December 31, 2022, which is not federally insured.

Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income. Held-to-maturity debt securities, which include any

security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For 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. For equity securities, the entire amount of impairment is recognized through earnings. The Company recognized no other-than temporary impairment in 2022 and 2021.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent securities the Company routinely sells to certain treasury management customers and then repurchases these securities the next day. Securities sold under repurchase agreements are reflected as secured borrowings in the consolidated balance sheets at the amount of cash received in connection with each transaction.

Loans

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

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan. For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. For all loan classes, past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

For all loan classes, all interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Loans Acquired in Business Combinations

Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be purchased credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit risk grade and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30).

These loans are initially measured at fair value based upon expected cash flows without anticipation of prepayments and includes estimated future credit losses expected to be incurred over the life of the loans. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying ASC 310-30, loans acquired in business combinations are individually evaluated for the initial fair value measurement. Accordingly, allowances for credit losses related to these loans are not carried over at the acquisition date.

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable portion of the fair value discount or premium. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans. Acquired loans not accounted for under ASC 310-30 are accounted for under ASC 310-20, which allows the fair value adjustment to be accreted into income over the remaining life of the loans.

Allowance for Loan Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the un-collectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established if the discounted cash flows, underlying collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

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

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collateral dependent. Interest income on impaired loans is recognized on a cash basis after all past due and current principal payments have been made.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower. In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring ("TDR") has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the borrower's ability to repay in line with the borrower's current financial status, and the restructuring of the loan may include a transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan is accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan. With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the method for determining the amount of impaired loans for each portfolio segment of troubled debt restructurings is the same as detailed previously.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with loan servicing fees on the income statement. 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.

Servicing fee income, which is reported on the income statement as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Premises and Equipment

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

Nonmarketable Equity Securities

Nonmarketable equity securities consist of common stock in the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB). The FRB and FHLB stocks are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If the fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized but tested for impairment at least annually. If the implied fair value of goodwill is lower than the carrying amount, a goodwill impairment is identified and recorded to expense. Subsequent increases in goodwill value are not recognized in the financial statements. The Company completed its most recent annual goodwill impairment test as of December 31, 2022 and concluded goodwill is not impaired. Changes in goodwill are further described in Note 6, Goodwill.

Company-owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company-owned life insurance is recorded at the amount that can be realized under the insurance contract at the balance sheet date, which is the cash surrender value adjusted for other charges or other amounts due that are probable at settlement.

Stock Options

At December 31, 2022, the Company has a share-based employee compensation plan, which is described more fully in Note 16.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Income Taxes

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

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

The Company files consolidated income tax returns with its subsidiaries in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to tax authorities for years before 2019. As of December 31, 2022, the Company had no uncertain income tax positions.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Comprehensive Income/(Loss)

Comprehensive income/(loss) consists of net income and other comprehensive loss, net of applicable income taxes. Other comprehensive loss includes unrealized loss on available-for-sale securities.

Accumulated Other Comprehensive Income/(Loss)

Accumulated other comprehensive income/(loss) consists of unrealized loss on available-for-sale securities, net of applicable income taxes.

Marketing Costs

Marketing costs are expensed as incurred.

(Table dollar amounts in thousands, except share data)

Revenue From Contracts With Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The majority of the Company's revenues come from interest and dividend income on loans, investment securities, and other financial instruments that are outside the scope of ASC 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; and charged on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers.

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

Financial Planning and Wealth Advisory. The Company offers financial planning, wealth management, insurance, and investment advisory services through LPL. Payments in connection with these services are governed by written agreements. Fees paid to The Company by LPL in accordance with the services provided are recognized when performance obligations are satisfied. This revenue is included in other income on the consolidated statements of income.

Title Insurance Services. The Company provides residential and commercial title insurance services through its subsidiary, Trans County Title Agency. The Company's primary relationships for title services are with real estate agents, lenders, attorneys and builders. Fees for title insurance and ancillary services such as closing services, title searches and lien searches are recognized when services are rendered, and performance obligations are satisfied. This revenue is included in title insurance income on the consolidated statements of income.

Interchange Income. The Company earns interchange fees from debit and credit cardholder transactions conducted through the Visa payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder. This revenue is included in service charges on the consolidated statements of income.

Fair Value of Financial Instruments

The Company has adopted ASU 2016-01 "Financial Instruments", which requires the use of an exit price to measure fair value for disclosure purposes and clarifies that entities should not make use of practicability exception in determining the fair value of loans. Accordingly, the Company modified the calculation used to determine the disclosed fair value of loans held for investments as part of adopting this standard.

Note 2: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2022:				
U.S. government agencies	$ 39,691	$ —	$ (6,680)	$ 33,011
Mortgage-backed securities of U.S. Government sponsored enterprises	21,843	1	(3,216)	18,628
State and political subdivisions	101,439	18	(14,438)	87,019
Corporate bonds	15,165	—	(1,331)	13,834
Totals	$ 178,138	$ 19	$ (25,665)	$ 152,492
December 31, 2021:				
U.S. government agencies	$ 16,452	$ 48	$ (470)	$ 16,030
Mortgage-backed securities of U.S. Government sponsored enterprises	23,154	193	(305)	23,042
State and political subdivisions	99,578	3,624	(256)	102,946
Corporate bonds	14,431	344	(288)	14,487
Totals	$ 153,615	$ 4,209	$ (1,319)	$ 156,505
Held-to-maturity Securities:				
December 31, 2022:				
State and political subdivisions	$ 5	$ —	$ —	$ 5
December 31, 2021:				
State and political subdivisions	$ 49	$ —	$ —	$ 49

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2022, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

(Table dollar amounts in thousands, except share data)

	Available-for-sale Amortized Cost	Available-for-sale Fair Value	Held-to-maturity Amortized Cost	Held-to-maturity Fair Value
Within one year	$ 1,967	$ 1,970	$ 5	$ 5
One to five years	8,305	8,196	—	—
Five to ten years	35,108	33,061	—	—
After ten years	110,915	90,637	—	—
	156,295	133,864	5	5
Mortgage-backed securities of U.S. Government sponsored entities	21,843	18,628	—	—
Totals	$ 178,138	$ 152,492	$ 5	$ 5

The carrying value, which equals fair value, of securities pledged as collateral, to secure public deposits and for other purposes, was $64,007,000 at December 31, 2022 and $105,830,000 at December 31, 2021.

No gains or losses resulting from sales of available-for-sale securities were realized for 2022. Gross gains of approximately $223,000 and no losses resulting from sales of available-for-sale securities were realized for 2021. The $223,000 net gain from the sales of available-for-sale securities were a reclassification from accumulated other comprehensive income and are included in the net gains on available-for-sale securities in the income statement for 2021. The related tax expense of approximately $47,000 was a reclassification from accumulated other comprehensive income and included in the provision for income tax in the income statement for 2021.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2022 and 2021 was $144,029,000 and $52,481,000, which is approximately 94% and 34%, respectively, of the Company's available-for-sale and held-to-maturity investment portfolio. These declines resulted from changes in market interest rates. Management believes the declines in fair value for these securities are temporary.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021:

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 23,161	$ (2,087)	$ 9,850	$ (4,593)	$ 33,011	$ (6,680)
Mortgage-backed securities of U.S. Government sponsored enterprises	6,575	(472)	11,966	(2,744)	18,541	(3,216)
State and political subdivisions	59,990	(6,029)	19,403	(8,409)	79,393	(14,438)
Corporate Bonds	7,136	(363)	5,948	(968)	13,084	(1,331)
Total temporarily impaired securities	$ 96,862	$ (8,951)	$ 47,167	$ (16,714)	$ 144,029	$ (25,665)

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 6,897	$ (93)	$ 5,060	$ (377)	$ 11,957	$ (470)
Mortgage-backed securities of U.S. Government sponsored enterprises	12,957	(259)	2,103	(46)	15,060	(305)
State and political subdivisions	16,558	(237)	2,263	(19)	18,821	(256)
Corporate Bonds	6,643	(288)	—	—	6,643	(288)
Total temporarily impaired securities	$ 43,055	$ (877)	$ 9,426	$ (442)	$ 52,481	$ (1,319)

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Mortgage-backed Securities of U.S. Government Sponsored Enterprises

The unrealized losses on the Company's investment in mortgage-backed securities of U.S. Government sponsored enterprises were caused by changes in interest rates. The Company expects to recover the amortized cost bases over the term of the securities. Because the decline in market value is attributable to changes in interest rates, and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investment to be other-than-temporarily impaired at December 31, 2022.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in interest rates and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Corporate Bonds

The unrealized losses on the Company's investments in securities of corporations were caused by changes in interest rates and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost bases of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2022	2021
Commercial	$ 162,718	$ 154,046
Commercial Real Estate:		
Owner occupied	326,005	288,575
NonOwner occupied	391,429	358,674
Residential Real Estate:		
1-4 Family	461,491	322,396
Home Equity	44,535	36,261
Consumer	18,255	12,632
Total loans	1,404,433	1,172,584
Less		
Allowance for loan losses	(16,591)	(14,965)
Net loans	$ 1,387,842	$ 1,157,619

The CARES Act approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The 2021 Consolidated Appropriations Act approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Company, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Company if the borrower's loan is not forgiven and is then not repaid by the customer. The Company earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan. The Company originated no PPP loans in 2022 and approximately $70,000,000 in PPP loans during 2021, of which approximately $677,000 and $27,626,000 were still outstanding at December 31, 2022 and 2021, respectively.

The risk characteristics of each loan portfolio segment are as follows:

Commercial (Non-Real Estate)

Commercial loans are based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as 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 incorporate a personal guarantee. 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 borrower to collect amounts due from its customers.

Commercial Real Estate

These loans are viewed as cash flow loans with a significant emphasis on the value of real estate securing the loan. Commercial 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. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type within the Company's market area. Management

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monitors and evaluates commercial real estate loans based on collateral, market area, risk grade criteria, and concentrations. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus higher risk non-owner-occupied loans.

Residential Real Estate and Consumer

With respect to residential loans that are secured by one- to-four family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if that maximum is exceeded. Home equity loans are typically secured by a subordinate interest in one-to-four family residences, and other consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. The security value can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2022 and 2021.

2022

		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
December 31, 2022:							
Allowance for loan losses:							
Balance, beginning of year	$ 2,770	$ 4,661	$ 4,702	$ 2,554	$ 214	$ 64	$ 14,965
Provision charged to expense	466	742	129	452	(33)	164	1,920
Losses charged off	(173)	—	—	—	—	(186)	(359)
Recoveries	6	1	—	—	12	46	65
Balance, end of year	$ 3,069	$ 5,404	$ 4,831	$ 3,006	$ 193	$ 88	$ 16,591
Ending balance: individually evaluated for impairment	$ 24	$ 1,532	$ —	$ —	$ —	$ —	$ 1,556
Ending balance: collectively evaluated for impairment	$ 3,045	$ 3,872	$ 4,831	$ 3,006	$ 193	$ 88	$ 15,035
Loans:							
Ending balance	$ 162,718	$ 326,005	$ 391,429	$ 461,491	$ 44,535	$ 18,255	$ 1,404,433
Ending balance: individually evaluated for impairment	$ 612	$ 7,738	$ 5,235	$ 1,517	$ 190	$ 2	$ 15,294
Ending balance: collectively evaluated for impairment	$ 162,106	$ 318,267	$ 386,194	$ 459,974	$ 44,345	$ 18,253	$ 1,389,139

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	2021						
		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
December 31, 2021:							
Allowance for loan losses:							
Balance, beginning of year	$ 3,399	$ 4,069	$ 3,844	$ 2,423	$ 249	$ 163	$ 14,147
Provision charged to expense	511	541	858	119	(42)	(67)	1,920
Losses charged off	(1,312)	—	—	—	(1)	(74)	(1,387)
Recoveries	172	51	—	12	8	42	285
Balance, end of year	$ 2,770	$ 4,661	$ 4,702	$ 2,554	$ 214	$ 64	$ 14,965
Ending balance: individually evaluated for impairment	$ 78	$ 538	$ —	$ 81	$ —	$ —	$ 697
Ending balance: collectively evaluated for impairment	$ 2,692	$ 4,123	$ 4,702	$ 2,473	$ 214	$ 64	$ 14,268
Loans:							
Ending balance	$ 154,046	$ 288,575	$ 358,674	$ 322,396	$ 36,261	$ 12,632	$ 1,172,584
Ending balance: individually evaluated for impairment	$ 723	$ 1,565	$ 4,796	$ 725	$ 178	$ 16	$ 8,003
Ending balance: collectively evaluated for impairment	$ 153,323	$ 287,010	$ 353,878	$ 321,671	$ 36,083	$ 12,616	$ 1,164,581

Internal Risk Categories

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

Excellent (1) loans are of superior quality with excellent credit strength and repayment ability proving a nominal credit risk.

Good (2) loans are of above average credit strength and repayment ability proving only a minimal credit risk.

Satisfactory (3) loans are of reasonable credit strength and repayment ability proving an average credit risk due to one or more underlying weaknesses.

Watch (4) borrowers in this grade are still considered acceptable from quality standpoint but have risk factors more substantial than for the typical satisfactory graded loan. Although identified weaknesses are present, performance on loans is acceptable with only moderate delinquency.

Special Mention (5) assets 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 an institution to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

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Substandard (6) loans are inadequately protected by the current sound worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected.

Doubtful (7) loans classified as doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current known facts, conditions and values, highly questionable and improbable.

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

The following tables present the credit risk profile of the Company's loan portfolio based on the Company's internal rating categories as of December 31, 2022 and 2021:

	2022						
		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
Pass	$ 149,411	$ 303,658	$ 372,643	$ 458,539	$ 43,911	$ 18,163	$ 1,346,325
Special mention	12,541	15,294	6,090	1,851	487	90	36,353
Substandard	766	7,053	12,696	1,101	137	2	21,755
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total	$ 162,718	$ 326,005	$ 391,429	$ 461,491	$ 44,535	$ 18,255	$ 1,404,433

	2021						
		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
Pass	$ 141,902	$ 268,826	$ 337,359	$ 319,713	$ 35,184	$ 12,551	$ 1,115,535
Special mention	11,287	12,891	6,398	1,132	899	65	32,672
Substandard	857	6,858	14,917	1,551	178	16	24,377
Doubtful	—	—	—	—	—	—	—
Loss	—	—	—	—	—	—	—
Total	$ 154,046	$ 288,575	$ 358,674	$ 322,396	$ 36,261	$ 12,632	$ 1,172,584

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

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The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2022 and 2021:

2022

	Past Due 30-59 Days	Past Due 60-89 Days	Past Due 90 or More Days	Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
Commercial	$ 646	$ —	$ 224	$ 870	$ 161,848	$ 162,718	$ 9
Commercial Real Estate:							
Owner occupied	—	—	—	—	326,005	326,005	—
NonOwner occupied	—	—	—	—	391,429	391,429	—
Residential Real Estate:							
1-4 family	2,244	—	305	2,549	458,942	461,491	298
Home equity	16	—	22	38	44,497	44,535	2
Consumer	29	26	—	55	18,200	18,255	—
Total	$ 2,935	$ 26	$ 551	$ 3,512	$ 1,400,921	$ 1,404,433	$ 309

2021

	Past Due 30-59 Days	Past Due 60-89 Days	Past Due 90 or More Days	Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
Commercial	$ 276	$ —	$ 452	728	$ 153,318	$ 154,046	$ 16
Commercial Real Estate:							
Owner occupied	262	—	394	656	287,919	288,575	—
NonOwner occupied	1,695	—	—	1,695	356,979	358,674	—
Residential Real Estate:							
1-4 family	895	323	499	1,717	320,679	322,396	—
Home equity	—	—	54	54	36,207	36,261	—
Consumer	10	5	4	19	12,613	12,632	—
Total	$ 3,138	$ 328	$ 1,403	$ 4,869	$ 1,167,715	$ 1,172,584	$ 16

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

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The following tables present impaired loans for the years ended December 31, 2022 and 2021:

2022

	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 535	$ 535	$ —	$ 535	$ 17
Commercial real estate:					
Owner occupied	3,588	3,588	—	3,596	203
NonOwner occupied	5,235	5,235	—	6,260	454
Residential real estate:					
1-4 family	1,517	1,517	—	1,522	68
Home equity	190	190	—	197	9
Consumer	2	2	—	7	1
Loans with a specific valuation allowance:					
Commercial	77	77	24	91	6
Commercial real estate:					
Owner occupied	4,150	4,150	1,532	4,182	331
NonOwner occupied	—	—	—	—	—
Residential real estate:					
1-4 family	—	—	—	—	—
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total:					
Commercial	612	612	24	626	23
Commercial real estate:					
Owner occupied	7,738	7,738	1,532	7,778	534
NonOwner occupied	5,235	5,235	—	6,260	454
Residential real estate:					
1-4 family	1,517	1,517	—	1,522	68
Home equity	190	190	—	197	9
Consumer	2	2	—	7	1
Totals	$ 15,294	$ 15,294	$ 1,556	$ 16,390	$ 1,089

Loans acquired with deteriorating credit are included with impaired loans.

	2021				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 436	$ 2,624	$ —	$ 2,787	$ —
Commercial real estate:					
Owner occupied	675	675	—	688	41
NonOwner occupied	4,796	4,796	—	4,804	258
Residential real estate:					
1-4 family	364	364	—	373	3
Home equity	178	178	—	191	7
Consumer	16	16	—	22	1
Loans with a specific valuation allowance:					
Commercial	287	287	78	364	20
Commercial real estate:					
Owner occupied	890	890	538	922	39
NonOwner occupied	—	—	—	—	—
Residential real estate:					
1-4 family	361	361	81	361	1
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total:					
Commercial	723	2,911	78	3,151	20
Commercial real estate:					
Owner occupied	1,565	1,565	538	1,610	80
NonOwner occupied	4,796	4,796	—	4,804	258
Residential real estate:					
1-4 family	725	725	81	734	4
Home equity	178	178	—	191	7
Consumer	16	16	—	22	1
Totals	$ 8,003	$ 10,191	$ 697	$ 10,512	$ 370

Interest income recognized is not materially different than interest income that would have been recognized on a cash basis.

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The following table presents the Company's nonaccrual loans at 2022 and 2021.

	2022	2021
Commercial	$ 556	$ 436
Commercial Real Estate:		
Owner occupied	—	394
NonOwner occupied	—	—
Residential Real Estate:		
1-4 family	124	730
Home equity	19	54
Consumer	—	4
Total nonaccrual	$ 699	$ 1,618

(Table dollar amounts in thousands, except share data)

There were no new troubled debt restructurings in 2022. The following table presents information regarding troubled debt restructurings by class for the year 2021.

	2021		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial	—	$ —	$ —
Commercial Real Estate:			
Owner occupied	—	—	—
NonOwner occupied	1	4,521	4,521
Residential Real Estate:			
1-4 family	—	—	—
Home equity	—	—	—
Consumer	— $	—	—
Total	1	$ 4,521	$ 4,521

The following table presents information regarding troubled debt restructuring by type of modification for the year 2021:

	2021				
	Interest Only Terms	Extension of Maturity	Combination	Advance Funds	Total Modification
Commercial	$ —	$ —	$ —	$ —	$ —
Commercial Real Estate:					
Owner occupied	—	—	—	—	—
NonOwner occupied	4,521	—	—	—	4,521
Residential Real Estate:					
1-4 family	—	—	—	—	—
Home equity	—	—	—	—	—
Consumer	—	—	—	—	—
Total	$ 4,521	$ —	$ —	$ —	$ 4,521

During the years ended December 31, 2022 and 2021, there were no troubled debt restructurings that subsequently defaulted within twelve months of the restructuring. The troubled debt restructurings noted above did not increase the allowance for loan losses during the years ended December 31, 2022 and 2021.

Note 4: Mortgage Servicing Rights

The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance:

	2022	2021
Loan servicing rights:		
Carrying amount, beginning of year	$ 3,096	$ 2,662
Mortgage servicing rights capitalized during the year	460	1,060
Mortgage servicing rights amortization during the year	(524)	(822)
Net change in valuation allowance	141	196
Carrying amount, end of year	3,173	3,096

	2022	2021
Valuation allowance:		
Beginning of year	$ 141	$ 337
Increase (reduction)	(141)	(196)
End of year	—	141

The fair value of mortgage servicing rights as of December 31, 2022 and 2021 were approximately $3,919,000 and $3,200,000. The unpaid principal balance of mortgage loans serviced for others as of December 31, 2022 and 2021 were approximately $365,298,000 and $374,863,000.

Note 5: Premises and Equipment

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

	2022	2021
Land and improvements	$ 7,019	$ 6,031
Building and improvements	27,578	26,355
Equipment	15,989	15,281
Total	50,586	47,667
Less accumulated depreciation	(20,110)	(18,257)
Net premises and equipment	$ 30,476	$ 29,410

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Note 6: Goodwill

Goodwill is recorded on the acquisition date of an entity. During the one-year measurement period, the Company may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. Goodwill at December 31, 2022 and 2021 was $12,389,000.

The Company reviews goodwill annually for impairment in accordance with ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill, or more frequently if events or circumstances warrant. The impairment analysis compares the estimated fair value of the Company with the Company's net book value and may include various valuation considerations including comparable peer data, precedent transaction comparables, discounted cash flow analysis, overall financial performance, share price of the Company's common stock and other factors.

At December 31, 2022 and 2021 the fair value exceeded the Company's carrying value; therefore, it was concluded that goodwill was not impaired.

Note 7: Other Intangible Assets

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. During the one-year measurement period, the Company may record subsequent adjustments to these intangibles for provisional amounts recorded at the acquisition date. The carrying basis and accumulated amortization of recognized core deposit and other intangibles are noted below.

	2022	2021
Gross carrying amount	$ 1,570	$ 1,570
Purchase Adjustment	(11)	(11)
Accumulated amortization	(794)	(569)
Total core deposit and other intangibles	$ 765	$ 990

The core deposit intangibles and other intangibles are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of five to ten years. Amortization expense for the years ended December 31, 2022 and 2021 was $225,000 and $252,000 respectively.

Note 8: Lease Arrangements

The Company enters into leases in the normal course of business primarily for financial centers, business development offices, and information technology equipment. The Company's leases have remaining terms ranging from .3 years to 14.7 years, some of which include renewal or termination options to extend the lease for up to 10 years. In addition, the Company has entered into subleases for space in certain vacated locations, the terms of which range from 2 years to 5 years. The Company's leases do not include residual value guarantees or covenants. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of less than 12 months (short-term leases) on the balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make these lease payments arising from the lease. Right-of-use assets and lease liabilities are

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recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB rate, adjusted for the lease term.

All of the Company's right-of-use assets and lease liabilities totaling $4,251,000 at December 31, 2022 and $2,745,000 at December 31, 2021 are classified as operating leases.

Lease Expense

The components of total lease cost were as follows for the period ending:

	December 31, 2022	December 31, 2021
Operating lease cost	$ 516	$ 492
Operating lease cost below capitalization threshold	7	6
Short-term lease cost	43	18
Variable lease cost	1	1
Less: Sublease income	(110)	(88)
Total lease cost, net	$ 457	$ 429

Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2022 are as follows:

	Operating Leases
2023	$ 527
2024	475
2025	479
2026	496
2027	508
Thereafter	2,779
Total undiscounted lease payments	$ 5,264
Less: imputed interest	(1,013)
Net lease liabilities	$ 4,251

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Supplemental Lease Information

	December 31, 2022	December 31, 2021
Operating lease weighted average remaining lease term (years)	10.8	12.1
Operating lease weighted average discount rate	3.79 %	3.13 %
Cash paid for amounts included in the measurement of lease liabilities Operating cash flows from operating leases	$ 516	$ 492

Note 9: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of $250,000 or more were $108,587,000 on December 31, 2022 and $29,252,000 on December 31, 2021.

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

2023	$ 240,427
2024	70,174
2025	6,729
2026	3,958
2027 and thereafter	2,570
Total time deposits	$ 323,858

Note 10: Repurchase Agreements

The Company had repurchase agreements on December 31, 2022 and 2021 of $5,213,000 and $9,032,000 respectively. These agreements are secured by U. S. Government Agency, FHLB, FHLMC, FNMA and GNMA securities and such collateral is held in safekeeping with a third party. The maximum amount of outstanding agreements at any month end during 2022 and 2021 totaled $9,621,000 and $11,075,000, respectively, and the daily average of such agreements totaled $7,388,000 and $9,305,000 for 2022 and 2021, respectively. These agreements mature daily. The following table represents the remaining contractual maturity of repurchase agreements disaggregated by the class of securities pledged as of December 31.

	2022 Overnight & Continuous
December 31, 2022:	
U.S. government agencies	$ 3,584
Mortgage-backed securities of U.S. Government sponsored enterprises	1,629
Totals	$ 5,213

Note 11: Borrowings

The Bank has Federal Funds Borrowing Line Agreements with US Bank and PNC Bank that allow the Company to borrow up to $20,000,000 and $5,000,000 in Federal Funds, respectively.

At December 31, 2022, fed funds purchased from US Bank were $10,000,000 at a rate of 5.00%

The Company has a Stock Secured Line Agreement with United Banker's Bank that allows the Company to borrow up to $10,000,000.

The Bank has a cash management advance (CMA) line of credit with the Federal Home Loan Bank (FHLB) of Cincinnati. FHLB borrowings are collateralized by all shares of FHLB stock owned by the Bank and by the Bank's residential mortgage loans. At December 31, 2022, the Bank had $212,395,000, respectively, available on its CMA line of credit. The Bank has the option of selecting a variable interest rate set daily for 90 days or a fixed interest rate for a maximum of thirty days. Variable interest rates are set daily based upon the FHLB's published interest rates. Variable interest rate advances are prepayable with no fee. The fixed rate is not prepayable prior to maturity.

At December 31, 2022, advances from the Federal Home Loan Bank were $6,000,000 at a variable rate of 4.42% maturing by March 30, 2023. Each advance is payable either at its maturity date or amortizing over the life of the advance, with a prepayment penalty for fixed rate advances. The advances were collateralized by approximately $469,274,000 of residential mortgage assets under a blanket lien arrangement at year-end 2022.

Based on this collateral the Company has additional borrowing capacity of $212,395,000 at December 31, 2022.

Payments over the next five years and thereafter are as follows:

2023	$ 16,000
2024	—
2025	—
2026	—
2027	—
Thereafter	—
Total FHLB Advances and fed funds purchased	$ 16,000

On May 15, 2020, the Company completed a private issuance and sale, of subordinated notes at a 5.00% fixed to floating rate, to 21 accredited investors for an aggregate gross amount of $25,000,000 proceeds, net of related issuance costs of $415,000. The notes are fixed at 5.00% until June 15, 2025, when they will convert to the three-month term SOFR plus 490.0 basis points, repricing quarterly. Interest is payable in March and September of each year. The Subordinated notes will mature on May 15, 2030, and the Company cannot redeem the notes prior to May 15, 2025, subject to approval of the Board of Governors of the Federal Reserve System, as required by law or regulation. This private placement included $5,360,000 of notes that were issued in exchange for the Company's existing subordinated notes, issued on November 12, 2015, for net cash proceeds of $19,225,000.

On January 4, 2021, the Company paid off $100,000 of the remaining subordinated notes issued on November 12, 2015.

Note 12: Income Taxes

The provision for income taxes includes these components:

	2022	2021
Taxes currently payable	$ 4,274	$ 4,444
Deferred income taxes	(119)	121
Income tax expense	$ 4,155	$ 4,565

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

	2022	2021
Computed at the statutory rate of 21%	$ 4,668	$ 4,863
Increase (decrease) resulting from		
Tax exempt interest	(702)	(704)
Cash surrender value, net of premiums	(74)	(75)
Other	263	481
Actual tax expense	$ 4,155	$ 4,565

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2022	2021
Deferred tax assets		
Allowance for loan losses	$ 3,617	$ 3,262
Deferred compensation	719	678
Stock option expense	166	128
Unrealized losses on available-for-sale securities	5,385	—
Right of use lease liability	927	598
Deferred loan fees	4	196
Other	91	85
Total deferred tax assets	10,909	4,947
Deferred tax liabilities		
Depreciation	(1,283)	(1,269)
Purchase accounting adjustments	(385)	(242)
FHLB stock dividends	(94)	(94)
Prepaid expenses	(12)	(58)
Unrealized gains on available-for-sale securities	—	(607)
Right of use lease asset	(927)	(598)
Other	(692)	(675)
Total deferred tax liabilities	(3,393)	(3,543)
Net deferred tax asset	$ 7,516	$ 1,404

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Note 13: Regulatory Matters

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

Quantitative measures established by regulation to ensure capital adequacy require the Company and the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier 1 capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2022, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2022, the most recent notification from the Federal Reserve categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain capital ratios as set forth in the table that follows. There are no conditions or events since that notification that management believes have changed the Company or Bank's category.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 192,353	13.5 %	N/A	N/A	N/A	N/A
Bank	182,486	12.8 %	114,172	8.0 %	$ 142,715	10.0 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	151,012	10.6 %	N/A	N/A	N/A	N/A
Bank	165,895	11.6 %	85,629	6.0 %	114,172	8.0 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	151,012	10.6 %	N/A	N/A	N/A	N/A
Bank	165,895	11.6 %	64,222	4.5 %	92,765	6.5 %
Tier I Capital (to Average Assets)						
Consolidated	151,012	9.4 %	N/A	N/A	N/A	N/A
Bank	165,895	10.3 %	64,318	4.0 %	80,398	5.0 %
As of December 31, 2021						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 176,982	15.0 %	N/A	N/A	N/A	N/A
Bank	167,397	14.2 %	94,250	8.0 %	$ 117,813	10.0 %
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	137,493	11.7 %	N/A	N/A	N/A	N/A
Bank	152,668	13.0 %	70,688	6.0 %	94,250	8.0 %
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	137,493	11.7 %	N/A	N/A	N/A	N/A
Bank	152,668	13.0 %	53,016	4.5 %	76,578	6.5 %
Tier I Capital (to Average Assets)						
Consolidated	137,493	9.6 %	N/A	N/A	N/A	N/A
Bank	152,668	10.6 %	57,583	4.0 %	71,979	5.0 %

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

The above minimum capital requirements exclude the 2.50% capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

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Note 14: Related Party Transactions

At December 31, 2022 and 2021, the Bank had loans outstanding and lines of credit available to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of approximately $24,074,000 and $25,973,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons.

Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2022 and 2021, totaled $32,528,000 and $30,153,000, respectively.

Note 15: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to the maximum amount allowable by the Internal Revenue Service with the Company matching 100% of the first 2% of employee compensation contributed, and 50% matching of the next 4%, for a maximum match of 4% of employee compensation. In addition, the Company may make additional discretionary contributions allocated to all eligible participants based on compensation. Employee contributions are always 100% vested. Employer contributions vest annually until the employee becomes fully vested after six years of participation in the plan. Employer contributions charged to expense for 2022 and 2021, were approximately $796,000 and $709,000, respectively.

The Company has supplemental retirement plans for certain former and current Senior Officers. Officers in the plans, upon retirement, will receive annually for ten or fifteen years a percentage of their final annual payroll amount exclusive of incentive and bonus amounts and may be partially offset by 401(k) or 401(k) and social security retirement benefits. The plans are uniquely designed for each participant. The charges to expense for 2022 and 2021 were $504,000 and $495,000, respectively. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date. For plans executed before 2016, a 6% discount factor is used. For plans executed after January 1, 2016, the accumulation period crediting rate was 43% of the prior year Return on Equity of the Company for 2021 and 2022; and the distribution period crediting rate is equal to the 10-Year U.S. Treasury note on the first day of each year plus 1%. The resulting liability at December 31, 2022 and 2021 was $3,300,000 and $3,110,000, respectively. The Company purchased life insurance on the participants.

The Bank has employment agreements with certain officers of the Bank. Under these agreements, the officers are employed for rolling one to three-year periods. Unless the Bank serves a termination notice to the officers before December 31 of each year, the agreements are automatically extended for one additional year. The Bank's Board of Directors approve the officers' base salaries annually. The agreements prohibit the officers from soliciting banking business from customers of the Bank for a period of one to three years following the termination of the employment agreements.

Note 16: Stock Option Plan

The Company has a fixed option plan under which the Company may grant options to selected directors, Advisory Board Members and employees for up to 249,738 shares of common stock that vest over two years or immediately if the recipient is 65 years old or older. The Company believes that such awards align the interests of its employees with those of its shareholders. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. An option's maximum term is ten years. The compensation cost for the stock option expense recognized in 2022 and 2021 totaled $515,000 and $138,000, respectively. As of December 31, 2022, there was $258,000 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan.

(Table dollar amounts in thousands, except share data)

A summary of the status of the plan at December 31, 2022 and changes during the year then ended is presented below:

	2022			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value
Outstanding, beginning of year	204,650	$ 81.06		
Granted	—			
Exercised	(4,800)	53.07		
Forfeited or expired	(4,500)	84.37		
Outstanding, end of year	195,350	$ 81.67	6.23	$ 2,376
Exercisable, end of year	160,491	$ 79.30	5.76	$ 2,332

There were no options granted in 2022. The weighted-average grant-date fair value of options granted during 2021 was $14.00. The total intrinsic value of options exercised during the year ended December 31, 2022 and 2021 was $195,000 and $437,000, respectively.

The fair value of each option award granted is estimated on the date of the grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses the simplified method to estimate option exercise and employee termination within the valuation model due to lack of historical data. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2022	2021
Dividend yield	N/A	2.64%
Volatility factors of expected market price of common stock	N/A	21.84%
Risk-free interest rate	N/A	1.21%
Expected life (in years)	N/A	5.0 - 6.9
Weighted-average fair value of options granted during the year	N/A	$14.00

Note 17: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	2022	2021
Basic		
Net Income	$ 18,071	$ 18,593
Weighted average common shares outstanding	2,007,574	1,998,386
Basic earnings per common share	$ 9.00	$ 9.30
Diluted		
Net income	$ 18,071	$ 18,593
Weighted average common shares outstanding for basic earnings per common share	2,007,574	1,998,386
Dilutive effects of assumed exercise of stock options	22,208	29,593
Average shares and dilutive potential common shares	2,029,782	2,027,979
Diluted earnings per common share	$ 8.90	$ 9.17

Options to purchase 88,150 and 90,150 shares of common stock at a weighted-average exercise price of $92.50 per share were outstanding at December 31, 2022 and 2021, respectively, but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

Note 18: Disclosures about Fair Value of Assets and Liabilities

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets 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

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Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
U.S. government agencies	$ 33,011	$ —	$ 33,011	$ —
Mortgage-backed securities of U.S. government sponsored enterprises	18,628	—	18,628	—
State and political subdivisions	87,019	—	87,019	—
Corporate Bonds	13,834	—	13,834	—
December 31, 2021:				
U.S. government agencies	$ 16,030	$ —	$ 16,030	$ —
Mortgage-backed securities of U.S. government sponsored enterprises	23,042	—	23,042	—
State and political subdivisions	102,946	—	102,946	—
Corporate Bonds	14,487	—	14,487	—

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets. There have been no significant changes in the valuation techniques during the year-ended December 31, 2022.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Level 2 securities include U.S. government agencies, Mortgage-backed securities of U.S. government sponsored enterprises, State and political subdivisions and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

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Nonrecurring Measurements

The following tables present the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022:				
Collateral-dependent impaired loans	$ 2,404	$ —	$ —	$ 2,404
Mortgage servicing rights	3,919	—	—	3,919
December 31, 2021:				
Collateral-dependent impaired loans	$ 418	$ —	$ —	$ 418
Mortgage servicing rights	3,200	—	—	3,200

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-dependent Impaired Loans, Net of ALLL

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

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

Mortgage servicing rights

MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. The Company determines the fair value of MSRs using an income approach model based upon the Company's month–end interest rate curve and prepayment assumptions. The model utilizes assumptions to estimate future net servicing income cash flows, including estimates of time decay, payoffs and changes in valuation inputs and assumptions. The Company reviews the valuation assumptions against this market data for reasonableness and adjusts the assumptions if deemed appropriate. The carrying amount of the MSRs were increased by $141,000 in 2022 for the fair value.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2022 and 2021.

	Fair Value at 12/31/2022	Valuation Technique	Unobservable Inputs	(Weighted Average)
Collateral-dependent impaired loans	$ 2,404	Market comparable properties	Marketability discounts	20-20% (20%)
Mortgage servicing rights	3,919	Discounted cash flow	Discount rate	9.5-9.5% (9.5%)
			Constant prepayment rate	3-15% (9%)

	Fair Value at 12/31/2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 418	Market comparable properties	Marketability discounts	20-35% (30%)
Mortgage servicing rights	3,200	Discounted cash flow	Discount rate	9.5-9.5% (9.5%)
			Constant prepayment rate	10-29% (13%)

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Collateral-dependent impaired loans

The significant unobservable input used in the fair value measurement of the Company's collateral-dependent impaired loans is the marketability discount. Significant increases in this input in isolation would result in a significantly lower fair value measurement.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

Mortgage servicing rights are tested for impairment on at least an annual basis. The Controller's office contracts with a pricing specialist to generate fair value estimates. The Controller's office challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value is appropriate.

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Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2022				
Financial assets				
Cash and cash equivalents	$ 22,883	$ 22,883	$ —	$ —
Held-to-maturity securities	5	—	5	—
Loans held for sale	1,345	—	—	1,345
Loans, net of allowance for loan losses	1,387,842	—	—	1,332,624
Nonmarketable equity securities	6,627	—	6,627	—
Interest receivable	6,111	—	6,111	—
Financial liabilities				
Deposits	1,456,570	—	1,449,548	—
Repurchase agreements	5,213	—	5,213	—
Other borrowed funds	16,000	—	16,000	—
Subordinated debt	24,693	—	19,504	—
Interest payable	927	—	927	—
December 31, 2021				
Financial assets				
Cash and cash equivalents	$ 64,884	$ 64,884	$ —	$ —
Held-to-maturity securities	49	—	49	—
Loans held for sale	4,648	—	—	4,648
Loans, net of allowance for loan losses	1,157,619	—	—	1,173,003
Nonmarketable equity securities	6,024	—	6,024	—
Interest receivable	5,248	—	5,248	—
Financial liabilities				
Deposits	1,256,045	—	1,255,805	—
Repurchase agreements	9,032	—	9,032	—
Other borrowed funds	12,000	—	12,000	—
Subordinated debt	24,651	—	22,954	—
Interest payable	483	—	483	—

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Note 19: Commitments and Credit Risk

Letters of Credit

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding letters of credit amounting to $203,000 and $625,000 at December 31, 2022 and 2021, respectively, with maturities within the next 12 months.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2022, the Bank had granted unused lines of credit to borrowers aggregating approximately $136,805,000 and $71,861,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2021, the Bank had granted unused lines of credit to borrowers aggregating approximately $102,737,000 and $57,832,000 for commercial lines and open-end consumer lines, respectively.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2022, and 2021, the Bank had outstanding commitments to originate variable rate loans aggregating approximately $14,178,000 and $16,586,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

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Note 20: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to the financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31, 2022	December 31, 2021
Assets		
Cash and cash equivalents	$ 10,227	$ 9,746
Investment in common stock of subsidiaries	159,243	168,725
Other assets	884	958
Total assets	$ 170,354	$ 179,429
Liabilities		
Subordinated debt	24,693	24,651
Other liabilities	1,753	1,620
Total liabilities	26,446	26,271
Shareholders' Equity	143,908	153,158
Total liabilities and shareholders' equity	$ 170,354	$ 179,429

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Condensed Statements of Income and Comprehensive Income/(Loss

	Year Ending December 31, 2022	Year Ending December 31, 2021
Income		
Dividends from the Bank	$ 6,791	$ 6,262
Interest income	21	23
Other income	22	—
Total income	6,834	6,285
Expenses		
Interest expense	1,294	1,290
Other expenses	390	432
Total expenses	1,684	1,722
Income Before Income Tax and Equity in Undistributed Income of the Bank	5,150	4,563
Income Tax Benefit	(375)	(356)
Income Before Equity in Undistributed Income of the Bank	5,525	4,919
Equity in Undistributed Income of subsidiaries	12,546	13,674
Net Income	$ 18,071	$ 18,593
Comprehensive Income/(Loss)	$ (4,473)	$ 16,449

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Condensed Statements of Cash Flows

	Year Ending December 31, 2022	Year Ending December 31, 2021
Operating Activities		
Net income	$ 18,071	$ 18,593
Stock option expense	515	138
Tax benefit related to stock options exercised	30	51
Items not providing cash	(12,973)	(12,866)
Net cash provided by operating activities	5,643	5,916
Financing Activities		
Proceeds/(repayment) of subordinated debt, net	—	(100)
Dividends paid	(5,414)	(4,895)
Proceeds from stock options exercised	252	691
Net cash used in financing activities	(5,162)	(4,304)
Net Change in Cash and Cash Equivalents	481	1,612
Cash and Cash Equivalents at Beginning of Year	9,746	8,134
Cash and Cash Equivalents at End of Year	$ 10,227	$ 9,746

Note 21: Subsequent Events

Subsequent events have been evaluated through March 10, 2023 which is the date the financial statements were available to be issued.

Accounting for Financial Instruments – Credit Losses

The Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments—Credit Losses (Topic 326)*. ASU 2016-13 significantly changes how entities will measure credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. The standard will replace the existing "incurred loss" approach with an "expected loss" model. The new model, referred to as the current expected credit loss ("CECL") model, will apply to (1) financial assets subject to credit losses and measured at amortized cost, and (2) certain off-balance sheet credit exposures. This includes, but is not limited to, loans, leases, held-to-maturity securities, loan commitments, and financial guarantees. Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses. The ASU also simplifies the accounting model for purchased credit-impaired ("PCI") debt securities and loans. ASU 2016-13 also expands the disclosure requirements regarding an entity's assumptions, models, and methods for estimating the allowance for loan and lease losses. Entities will apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is effective, i.e., modified retrospective approach.

The CECL model represents a significant change from existing practice and may result in material changes to the Company's accounting for financial instruments. The Company is evaluating the effect ASU 2016-13 will have on its consolidated financial statements and related disclosures. The impact of the ASU will depend upon the state of the economy and the nature of our portfolios at the date of adoption. The new standard is effective for fiscal years beginning after December 15, 2022, including interim periods within those years.

The Board of Directors

Heartland BancCorp Directors

Thomas L. Campbell	Partner	Fusion Alliance, LLC
Jay B. Eggspuehler, Esq.	Partner	Isaac, Wiles & Burkholder, LLC
Jodi L. Garrison	CPA, Partner	Hirth, Norris & Garrsion, LLP
James R. Heimerl	Owner	Heimerl Farms Ltd.
Jon A. Husted *(not pictured)*	Lieutenant Governor	State of Ohio
John G. Kenkel, Jr.	Retired, President & CEO	Victory Community Bank & Victory Bancorp
Cheryl L. Krueger	President & CEO	C. Krueger's
G. Scott McComb	Chairman, President & CEO	Heartland Bank
Robert C. Overs	CEO/Executive Director	Creative Living
Gary D. Paine	President & CEO	Accurate Companies
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Gregory M. Ubert	Founder, President & CEO	Crimson Cup Coffee & Tea

Heartland BancCorp Directors Emeriti

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Gerald K. McClain	The Jerry McClain Company, Inc.
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Cheryl C. Poulton	Tech International
Richard A. Vincent	Osteopathic Heritage Foundation

Heartland BancCorp Officers

G. Scott McComb	Chairman, President & CEO
Jay B. Eggspuehler, Esq.	Vice Chairman & Lead Director
Jennifer L. Eckert	Secretary
Carrie L. Almendinger	Treasurer

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G. Scott McComb
Chairman, President & CEO

Carrie L. Almendinger
EVP, Chief Financial Officer

Benjamin J. Babcanec
EVP, Chief Operating Officer

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Alyssa L. Booms
SVP, Director of
Branch Banking

Matthew H. Booms
SVP, Director of
Mortgage Banking

T. Brian Brockhoff
Market President
Cincinnati Region

Jeff S. Ciochetto
SVP, Chief Credit Officer

Jennifer L. Eckert
SVP, Chief Risk Officer &
Corporate Secretary

Sarah M. Ketty
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People Portfolio

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Aaron A. Cooke
VP, Controller

James W. Duckro
VP, Operations Manager

Ruth Floyd
General Manager
TransCounty Title Agency

are STRONGER when we invest in EACH OTHER.

HEARTLAND BANK Community Foundation

Focus Areas

The Heartland Bank Community Foundation (HBCF) was formed as a resource to guide community prosperity through organized philanthropic efforts. The Foundation places particular emphasis on two targeted areas of focus established to guide giving and promote understanding of the objectives of the Foundation.

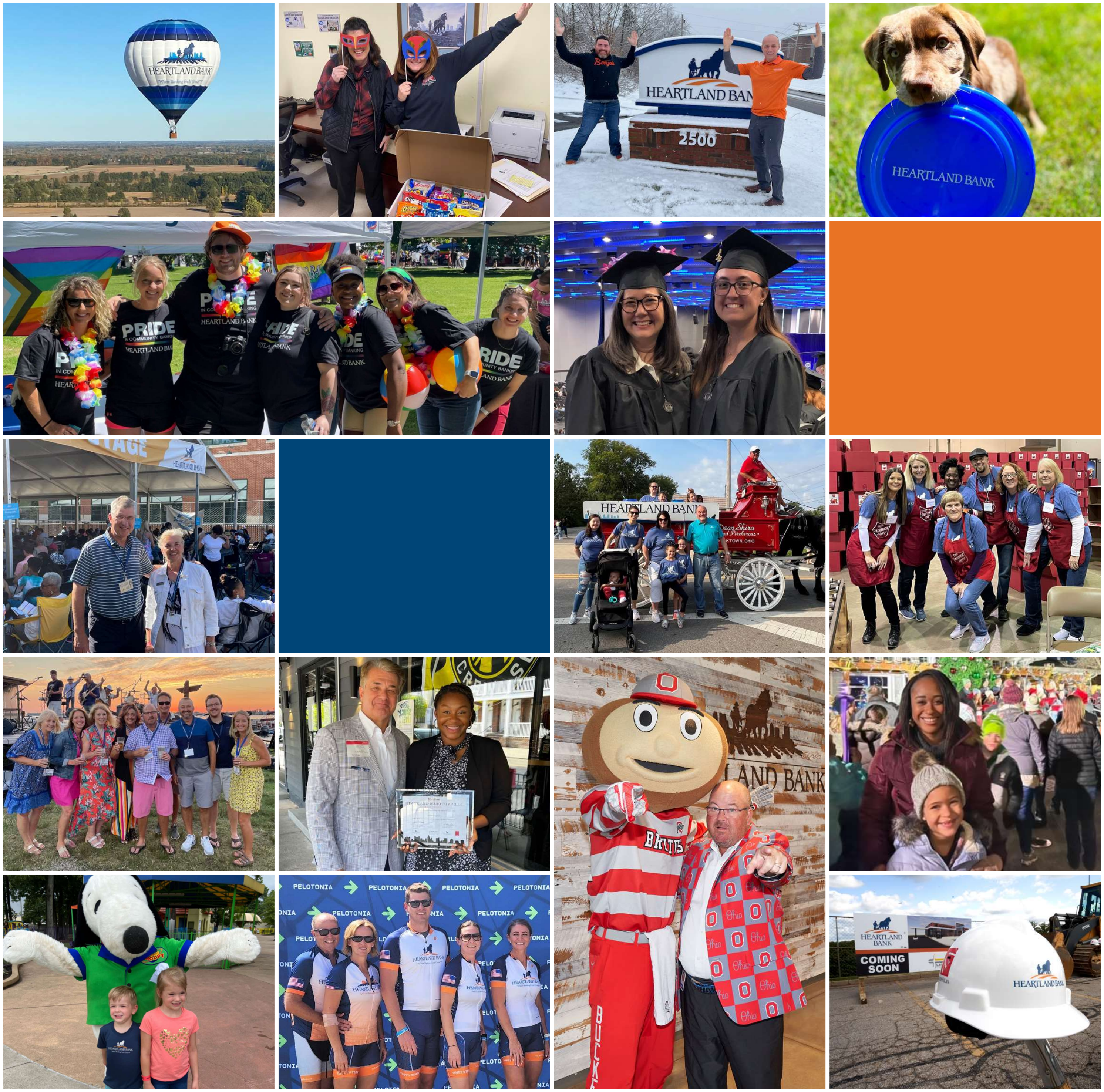
The two areas of support are:

- Early Childhood & Adolescent Development
- Family Strengthening & Enrichment

Donate online anytime by scanning the QR code today!

Give back to your community. Visit us online today for more information.

HeartlandBankCommunityFoundation.org | HBCF@Heartland.Bank | 430 N. Hamilton Rd., Whitehall, OH 43213



About Heartland BancCorp

Heartland BancCorp is a registered Ohio bank holding company and the parent of Heartland Bank, which operates 19 full-service banking offices and TransCounty Title Agency, LLC. Heartland Bank, founded in 1911, provides full-service commercial, small business, and consumer banking services; professional financial planning services; and other financial products and services. Heartland Bank is a member of the Federal Reserve, a member of the FDIC, and an Equal Housing Lender. Heartland BancCorp is currently quoted on the OTC Markets (OTCQX) under the symbol HLAN. Learn more about Heartland Bank at Heartland.Bank.

In May of 2022, Heartland was ranked #112 on the American Banker Magazine's list of Top 200 Publicly Traded Community Banks and Thrifts based on three-year average return on equity as of December 31, 2021.

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