COMMERCIAL NATIONAL FINANCIAL CORPORATION

Annual Report 2022

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COMMERCIAL BANK

Celebrating over 130 years of community banking!

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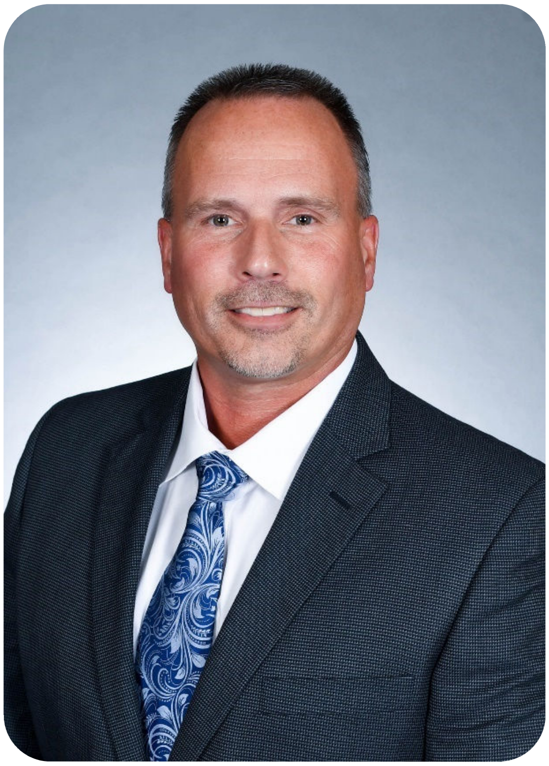


To Our Shareholders,

Commercial National Financial Corporation (the Company) continues to deliver on our mission to our customers, team members, and shareholders and we are pleased to share our 2022 accomplishments. The Company and our industry had to navigate a challenging economic environment in 2022 as we dealt with inflation and interest rates increasing at their fastest pace in the last 40 years. We feel very fortunate that in spite of these challenges, the Company had record profits. Some of the contributing factors to our record year were the Paycheck Protection Program (PPP) related income from the repayment of those loans, our asset sensitive balance sheet, and our focus on core deposit growth and asset quality. The quality of the loan portfolio remains strong.

We are very pleased to report that consolidated earnings for 2022 were $8,081,338, or $2.04 per share, compared to $6,366,107, or $1.61 per share, for 2021. Return on equity (ROE) was 19.20% for 2022 compared to 14.63% for 2021. Book value decreased to $9.91 per share for 2022 compared to $11.32 per share for 2021. This decrease is attributable to the Accumulated Other Comprehensive Income (AOCI) category, a component of equity, which captured the unrealized loss on the securities portfolio. The increase in interest rates caused the unrealized loss, which was the main driver for the reduction in book value per share. These unrealized losses on the securities portfolio should recover as these securities mature or sooner if interest rates decline, thus restoring book value. Maintaining capital levels that exceed the regulatory definition of well-capitalized continues to be a priority and our goal. The Bank exceeded these requirements for 2022.

Loan growth for 2022 was down from the prior year primarily due to the $49.4 million repayment of PPP loans, along with some untimely large loan payoffs near the end of the year due to the sale of several businesses and also the payoff of several large non-accrual loans. I am pleased to report that loan growth has rebounded nicely to start the new year and we have a strong pipeline of commercial loans in process.

Commercial Bank is pleased to be celebrating our 130th anniversary this year. We are very proud of this accomplishment and we look forward to having many more years as a strong, independent community bank serving the needs of our local communities.

The Company's stock, CEFC, continues to be actively traded on the open market with a total of 116,075 shares traded during 2022 at an average price of $11.59 per share. This price equates to a 4.83% dividend yield.

In June of 2022, we completed the renovation of the Ithaca main office, completely remodeling the lobby with new offices, a conference room and a new teller line along with repainting and recarpeting the whole office. This renovation modernized the interior of our main office and corporate headquarters.

We continue to look for opportunities to grow organically and we are well positioned to do this, in addition, we are well positioned for an acquisition if the opportunity arises.

Our Digital One Business and our Consumer Digital One Flex platforms continue to perform well and we look forward to further enhancements coming later in 2023. In 2022, we rolled out our online account opening platform. Our customer utilization of these products continues to grow. Our loan and treasury teams are actively marketing these platforms to our current and new customers.

The Board of Directors recently appointed Daniel Walcutt to the Bank and holding company boards. Daniel is the President, CEO and owner of Nielsen Commercial Construction, Inc. located in Holt, Michigan. Dan brings a wealth of knowledge in construction and commercial development from his experience. Dan and his company have been long-time customers of the Bank.

Banking is constantly evolving, new technology is continuously being introduced into the banking systems, and our Bank works to stay current with these constantly changing financial products. The continued successful performance of our Company can be attributed to our supportive Board of Directors and our team members who are dedicated to meeting the needs of our customers. Our team continues to take great pride in delivering quality customer service to our customers who depend on us to be their financial partner. Our team members also volunteer in our communities and the Bank directs our advertising and marketing efforts to help benefit our communities throughout Central Michigan which, in turn, make our communities more vibrant. Community banks are the heart and soul of a community.

On behalf of our Board of Directors and our team members, we sincerely thank you for your continued confidence in the Company.

The annual shareholder meeting is scheduled for Wednesday, May 10, 2023, at 5:00 pm. The meeting will be held in person this year at the Pine River Country Club, 1400 W. Superior St. in Alma, Michigan. We look forward to seeing you at the meeting.

Sincerely,

Kevin D. Collison
President and CEO
Phone: (989) 875-5516

COMMERCIAL NATIONAL FINANCIAL CORPORATION

SELECTED FINANCIAL DATA

For the Year	**2022**	2021	2020	2019	2018
	(In thousands except financial ratios and per share data)				
Net interest income	**$ 20,417**	$ 16,976	$ 15,520	$ 14,690	$ 14,238
(Provision for) credit to loan losses	**-**	500	(1,450)	-	-
Noninterest income	**2,208**	2,323	2,217	2,511	1,990
Noninterest expense	**(12,748)**	(12,023)	(11,064)	(11,112)	(10,718)
Income before income tax expense	**9,877**	7,776	5,223	6,089	5,510
Income tax expense	**(1,796)**	(1,410)	(859)	(1,070)	(1,008)
Net income	**$ 8,081**	$ 6,366	$ 4,364	$ 5,019	$ 4,502
At Year End					
Total assets	**$ 613,754**	$ 610,802	$ 547,780	$ 504,713	$ 527,368
Gross loans	**411,294**	451,572	409,107	385,692	374,975
Total deposits	**538,732**	515,059	450,901	390,064	421,030
FHLB advances	**19,000**	34,400	39,480	52,105	48,078
Shareholders' equity	**39,313**	44,894	41,337	38,754	35,111
Financial Ratios					
Return on average assets	**1.29 %**	1.09 %	0.81 %	0.97 %	0.86 %
Return on average shareholders' equity	**19.20**	14.63	10.82	13.51	13.28
Average shareholders' equity to average assets	**6.74**	7.44	7.48	7.17	6.50
Allowance for loan losses to gross loans	**1.01**	0.85	1.03	0.71	0.71
Tier 1 capital ratio(1)	**8.68**	8.63	8.99	9.26	8.42
Total capital ratio(1)	**15.18**	15.17	15.50	14.18	14.36
Dividend pay-out	**27.45**	34.78	50.91	40.94	45.61
Per Share Data					
Basic earnings	**$ 2.04**	$ 1.61	$ 1.10	$ 1.27	$ 1.14
Diluted earnings	**2.04**	1.61	1.10	1.27	1.14
Dividends declared	**0.56**	0.56	0.56	0.52	0.52
Book value, end of year	**9.91**	11.32	10.42	9.77	8.85

(1) Capital ratios are for Commercial Bank

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the Commercial National Financial Corporation's (Corporation) consolidated financial statements and related information appearing in this Annual Report. Management believes that the consolidated financial statements fairly reflect the form and substance of transactions and reasonably present Commercial National Financial Corporation's financial position and results of operations and were prepared in conformity with accounting principles generally accepted in the United States of America. Management has also included in the Corporation's consolidated financial statements, amounts that are based on estimates and judgments which it believes are reasonable under the circumstances.

Commercial National Financial Corporation maintains internal controls designed to provide reasonable assurance that all assets are safeguarded and financial records are reliable for preparing the consolidated financial statements. The Corporation complies with laws and regulations relating to safety and soundness which are designated by the FDIC and other appropriate federal banking agencies. The selection and training of qualified personnel and the establishment and communication of accounting and administrative policies and procedures are elements of this control system. The effectiveness of internal controls is monitored by a program of internal audit. Management recognizes that the cost of internal controls should not exceed the benefits derived and that there are inherent limitations to be considered. Management believes that Commercial National Financial Corporation provides the appropriate balance between the costs of controls and the related benefits.

The independent auditors have audited the Corporation's consolidated financial statements in accordance with auditing standards generally accepted in the United States of America and provided an objective, independent review of the fairness of the reported operating results and financial position. The Board of Directors of Commercial National Financial Corporation has an Audit Committee composed of six non-management Directors. The Committee meets periodically with the internal auditors and the independent auditors.

Kevin D. Collison
President and CEO

Richard S. Prestage
Chair of the Board

Report of Independent Auditors

Board of Directors and Shareholders
Commercial National Financial Corporation
Ithaca, Michigan

Opinion

We have audited the accompanying consolidated financial statements of Commercial National Financial Corporation, which comprise the consolidated balance sheets as of December 31, 2022 and 2021, and the related consolidated statements of income, comprehensive income (loss), changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Commercial National Financial Corporation 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of Commercial National Financial Corporation and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Commercial National Financial Corporation's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Commercial National Financial Corporation's ability to continue as a going concern for a reasonable period of time.

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

Andrews Hooper Pavlik PLC

Saginaw, Michigan
March 8, 2023

CONSOLIDATED BALANCE SHEETS

	December 31, 2022	2021
ASSETS		
Cash and due from banks	**$ 9,053,111**	$ 6,131,770
Federal funds sold	**-**	129,000
Other interest-bearing deposits	**52,018,675**	22,453,062
Total cash and cash equivalents	**61,071,786**	28,713,832
Time deposits in banks	**8,960,000**	20,854,000
Securities available for sale	**97,979,329**	77,748,769
Federal Home Loan Bank stock, at cost	**3,726,100**	4,185,300
Gross loans receivable	**411,293,661**	451,571,794
Allowance for loan losses	**(4,154,073)**	(3,820,897)
Net loans receivable	**407,139,588**	447,750,897
Bank-owned life insurance	**13,670,597**	13,121,313
Premises and equipment, net	**8,795,376**	8,479,525
Goodwill	**3,100,262**	3,100,262
Core deposit intangible	**304,224**	380,280
Accrued interest receivable and other assets	**9,007,132**	6,468,156
Total assets	**$ 613,754,394**	$ 610,802,334
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Deposits		
Noninterest-bearing demand	**$ 133,007,922**	$ 123,311,848
Interest-bearing demand	**210,948,921**	190,682,183
Savings	**120,979,644**	116,081,418
Time	**73,795,835**	84,983,242
Total deposits	**538,732,322**	515,058,691
Federal Home Loan Bank advances	**19,000,000**	34,400,000
Subordinated debentures	**13,403,000**	13,403,000
Accrued expenses and other liabilities	**3,305,797**	3,047,041
Total liabilities	**574,441,119**	565,908,732
Shareholders' equity		
Common stock and paid–in-capital, no par value, 5,000,000 shares authorized; shares issued and outstanding 2022 and 2021 – 3,965,303	**20,517,672**	20,517,672
Retained earnings	**30,011,182**	24,150,413
Accumulated other comprehensive income (loss), net of tax	**(11,215,579)**	225,517
Total shareholders' equity	**39,313,275**	44,893,602
Total liabilities and shareholders' equity	**$ 613,754,394**	$ 610,802,334

See accompanying notes

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2022	2021
Interest and dividend income		
Loans, including fees	**$ 20,101,271**	$ 18,160,796
Taxable securities	**1,412,014**	487,963
Nontaxable securities	**536,564**	160,226
Federal funds sold	**2,681**	30
Federal Home Loan Bank stock dividends	**80,361**	75,645
Interest on deposits in banks	**1,289,437**	497,729
Total interest and dividend income	**23,422,328**	19,382,389
Interest expense		
Deposits	**2,084,566**	1,568,325
Federal Home Loan Bank advances	**442,314**	568,315
Subordinated debentures	**478,023**	269,635
Other	**316**	9
Total interest expense	**3,005,219**	2,406,284
Net interest income	**20,417,109**	16,976,105
Credit to loan losses	**-**	(500,000)
Net interest income after credit to loan losses	**20,417,109**	17,476,105
Noninterest income		
Service charges and fees	**1,081,336**	984,589
Net gains on loan sales	**-**	12,414
Earnings on bank-owned life insurance	**549,284**	531,825
Net gains on securities available for sale	**-**	7,131
Other	**577,175**	787,539
Total noninterest income	**2,207,795**	2,323,498
Noninterest expense		
Salaries and employee benefits	**7,916,890**	7,164,629
Occupancy and equipment	**2,279,894**	2,354,115
Printing, postage and supplies	**284,177**	296,026
Professional and outside services	**492,363**	437,897
Collection	**(20,035)**	43,029
Other	**1,794,277**	1,727,800
Total noninterest expense	**12,747,566**	12,023,496
Income before income tax expense	**9,877,338**	7,776,107
Income tax expense	**1,796,000**	1,410,000
Net income	**$ 8,081,338**	$ 6,366,107
Per share information		
Basic earnings	**$ 2.04**	$ 1.61
Diluted earnings	**2.04**	1.61
Dividends declared	**0.56**	0.56

See accompanying notes

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

	Years Ended December 31, 2022	2021
Net income	**$ 8,081,338**	$ 6,366,107
Other comprehensive loss, net of tax:		
Unrealized holding losses arising during the period	**(11,441,096)**	(582,873)
Reclassification adjustment for gains included in earnings, net of tax	**-**	(5,633)
Total other comprehensive loss, net of tax	**(11,441,096)**	(588,506)
Comprehensive income (loss)	**$ (3,359,758)**	$ 5,777,601

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Years Ended December 31, 2022 and 2021

	Shares Issued and Outstanding	Common Stock and Paid-In-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss), Net of Tax	Total Shareholders' Equity
Balance at January 1, 2021	3,965,304	$ 20,517,679	$ 20,004,876	$ 814,023	$ 41,336,578
Net income	-	-	6,366,107	-	6,366,107
Other comprehensive loss	-	-	-	(588,506)	(588,506)
Cash dividends declared, $0.56 per share	-	-	(2,220,570)	-	(2,220,570)
Repurchase and retirement of shares	(1)	(7)	-	-	(7)
Balance at December 31, 2021	3,965,303	20,517,672	24,150,413	225,517	44,893,602
Net income	**-**	**-**	**8,081,338**	**-**	**8,081,338**
Other comprehensive loss	**-**	**-**	**-**	**(11,441,096)**	**(11,441,096)**
Cash dividends declared, $0.56 per share	**-**	**-**	**(2,220,569)**	**-**	**(2,220,569)**
Balance at December 31, 2022	**3,965,303**	**$ 20,517,672**	**$ 30,011,182**	**$ (11,215,579)**	**$ 39,313,275**

See accompanying notes

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31, 2022	2021
Cash flows from operating activities		
Net income	**$ 8,081,338**	$ 6,366,107
Adjustments to reconcile net income to net cash from operating activities		
Credit to loan losses	**-**	(500,000)
Depreciation, amortization, and accretion	**995,111**	677,799
Net gain on securities available for sale	**-**	(7,131)
Net gains on loan sales	**-**	(12,414)
Loss on disposal of premises and equipment	**5,274**	2,268
Gain on sale of other real estate owned	**-**	(44,374)
Originations of loans held for sale	**-**	(329,908)
Proceeds from sales of loans held for sale	**-**	342,322
Increase in value of bank-owned life insurance	**(549,284)**	(531,826)
Accrued interest receivable and other assets	**46,328**	(824,888)
Accrued expenses and other liabilities	**269,591**	111,141
Net cash from operating activities	**8,848,358**	5,249,096
Cash flows from investing activities		
Net change in time deposits in banks	**11,894,000**	3,483,000
Purchases of securities available for sale	**(42,892,986)**	(49,401,675)
Proceeds from sales of securities available for sale	**-**	2,488,863
Proceeds from maturities and calls of securities available for sale	**7,794,695**	9,875,962
Net change in loans	**40,611,309**	(42,359,345)
Net change in premises and equipment	**(854,849)**	(831,285)
Net change in low income housing tax credit investment	**445,165**	423,365
Net proceeds from sales of other real estate owned	**-**	155,562
Net cash from investing activities	**16,997,334**	(76,165,553)
Cash flows from financing activities		
Net change in deposits	**23,673,631**	64,157,626
Proceeds from Federal Home Loan Bank advances	**100,000**	100,000
Repayment of Federal Home Loan Bank advances	**(15,500,000)**	(5,180,000)
Redemption of Federal Home Loan Bank stock	**459,200**	-
Repurchase of common stock	**-**	(7)
Dividends paid	**(2,220,569)**	(2,220,570)
Net cash from financing activities	**6,512,262**	56,857,049
Net change in cash and cash equivalents	**32,357,954**	(14,059,408)
Cash and cash equivalents at beginning of year	**28,713,832**	42,773,240
Cash and cash equivalents at end of year	**$ 61,071,786**	$ 28,713,832
Supplemental disclosure of cash flow information:		
Interest paid	**$ 2,979,026**	$ 2,459,201
Income taxes paid	**551,000**	1,373,000
Right-of-use assets exchanged for lease obligations	**-**	473,045

See accompanying notes

Note 1 – Summary of Significant Accounting Polices

The accounting and reporting policies of Commercial National Financial Corporation (CNFC) and its wholly-owned subsidiary, Commercial Bank (Bank) (together referred to as Corporation), conform to accounting principles generally accepted in the United States of America and to general practice within the banking industry. The following describes the significant accounting and reporting policies which are employed in the preparation of the consolidated financial statements.

Principles of Consolidation The consolidated financial statements include the accounts of CNFC, the Bank, and CNFC Financial Services Inc., a wholly-owned subsidiary of the Bank. Intercompany accounts and transactions are eliminated in consolidation.

Nature of Operations, Business Segments and Concentrations of Credit Risk CNFC is a one-bank holding company which conducts limited business activities. The Bank performs the majority of business activities.

The Bank provides a full range of banking services to individuals, agricultural businesses, commercial businesses and light industries located in its service area. It maintains a diversified loan portfolio, including loans to individuals for home mortgages, automobiles and personal expenditures, and loans to business enterprises for current operations and expansion. The Bank generally requires collateral for all loans. The Bank offers a variety of deposit products, including checking, savings, individual retirement accounts and certificates of deposit.

The principal markets for the Bank's financial services are the Michigan communities in which the Bank is located and the areas immediately surrounding these communities. The Bank serves these markets through 11 offices located in Barry, Gratiot, Ingham, Kent and Montcalm Counties in Michigan.

Use of Estimates To prepare consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided, and future results could differ. The allowance for loan losses, cash flow estimates for purchased impaired loans, acquisition fair values, the fair values of securities and other financial instruments, and foreclosed assets are particularly subject to change.

Cash Flow Reporting Cash and cash equivalents include cash on hand, demand deposits with other financial institutions and federal funds sold. Cash flows are reported, net, for customer loan and deposit transactions, securities sold under agreements to repurchase with original maturities of 90 days or less and U.S. Treasury demand notes.

Securities Securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with net unrealized holding gains and losses net of related deferred income taxes, reported in other comprehensive income (loss). Equity securities are carried at fair value with unrealized gains and losses reported in income. Other securities such as Federal Home Loan Bank Stock are carried at cost.

Fair value is based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon externally developed models that use unobservable inputs due to the limited market activity of the instrument.

Gains and losses on sales are determined using the amortized cost of the specific security sold. Interest and dividend income include amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Available-for-sale securities are written down to fair value when a decline in fair value is not temporary.

The entire amount of impairment is recognized through earnings for debt securities with unrealized losses that management intends to sell or will more likely than not be required to sell before an anticipated recovery in fair value. Otherwise, declines in the fair value of debt securities below their cost that are other than temporary are split into two components, as follows: (1) other-than-temporary impairment (OTTI) related to credit loss, which must be recognized in the consolidated statements of income;

and (2) OTTI related to other factors, which is recognized in other comprehensive income (loss). In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost; (2) the financial condition and near-term prospects of the issuer; and (3) the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value.

Loans Held for Sale Loans held for sale are reported at the lower of cost or market value in the aggregate. Net unrealized losses are recorded in a valuation allowance by charges to income. Mortgage loans held for sale are generally sold with servicing rights retained.

Loans The Corporation's loan portfolio includes residential real estate, business real estate, business and consumer segments. Residential real estate loans include classes for 1-4 family and other and 1-4 family with a loan-to-value greater than 95%. Business real estate loans include classes for 1-4 family rentals, owner-occupied and other real estate. Business loans include classes for commercial and industry and other. Consumer loans include real estate and other. Loans that management has the intent and the ability to hold for the foreseeable future or until maturity or payoff, are reported at the principal balance outstanding, net of unearned interest, deferred loan fees and costs and an allowance for loan losses.

Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income is not reported when full loan repayment is in doubt, typically when the loan is impaired or payments are past due over 90 days, unless the loan is both well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued, but not received for loans placed on nonaccrual, is reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Loans classified as troubled debt restructurings (TDRs) are accounted for in generally the same manner as all other loans. If the loan is in accrual status at the time of the restructuring, the borrower has the ability to make the payments under the restructured terms, and the restructuring does not forgive principal, the loan remains on an accrual basis under the new terms. If there is a forgiveness of debt or partial charge-off, the loan will generally be placed on nonaccrual status with any accrued interest reversed against interest income. If a loan is in nonaccrual status at the time of a restructuring or subsequently becomes nonaccrual, it will remain in nonaccrual status until the borrower has demonstrated the ability to make the payments under the restructured terms by making a minimum of six months of payments. If the borrower makes the six months of payments without becoming past due 30 days or more, it will be returned to accrual status.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date.

Allowance for Loan Losses The allowance for loan losses is a valuation allowance for probable incurred credit losses increased by the provision for loan losses and decreased by charge-offs less recoveries. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance for loan losses is evaluated on a quarterly 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 local and national economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans and foreclosed real estate. Such agencies may require the Corporation to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is possible that the estimated losses on loans and foreclosed real estate may change in the near term. However, the amount of the change cannot be estimated.

Purchased loans acquired in a business combination are recorded at estimated fair value on their purchase date and prohibit the carryover of the related allowance for loan losses. Subsequent to acquisition, purchased loans that are performing and were not subject to credit deterioration are evaluated for an allowance as noted below.

The allowance consists of general, allocated and unallocated components as further described below:

General Component

The general component of the allowance for loan losses is based on historical loss experience adjusted for qualitative factors stratified by the following loan segments: consumer, business real estate, business and residential real estate. Management uses a rolling average of historical losses based on a time frame appropriate to capture relevant loss data for each loan segment. This historical loss factor is adjusted for changes in the following qualitative factors: levels/trends in delinquencies; trends in volume and terms of loans; effects of changes in risk selection and underwriting standards and other changes in lending policies, procedures and practices; experience/ability/depth of lending management and staff; quality of loan review system; value of underlying collateral for collateral dependent loans; and national and local economic trends and conditions. There were no changes in the Corporation’s policies or methodology pertaining to the general component of the allowance for loan losses during 2022 or 2021.

The qualitative factors are determined based on the various risk characteristics of each loan segment. Risk characteristics relevant to each portfolio segment are as follows:

Consumer – Loans in this segment primarily include home equity line of credit loans secured by residential real estate; other secured loans, such as loans secured by recreational vehicles, all-terrain vehicles, boats and snowmobiles; secured and unsecured personal loans; and overdraft protection related loans. Repayment is dependent on the credit quality of the individual borrower and their intent and ability to repay. Economic trends determined by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans. Weak economic trends indicate the borrowers’ capacity to repay their obligations may be deteriorating.

Business real estate – Loans in this segment are primarily income-producing properties and are secured by real estate. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. The underlying cash flows generated by the properties are adversely impacted by a downturn in the economy. Management continually monitors the cash flows of these loans.

Business – Loans in this segment are made to businesses and are generally secured by the assets of the business. Repayment is dependent upon the successful operation and management of a business; therefore, these loans are considered to be of greater risk than other types of loans. A weakened economy and the resulting decreased consumer spending will have an effect on the credit quality of this segment.

Residential real estate – Loans in this segment are collateralized by owner-occupied residential real estate and repayment is dependent on the credit quality of the individual borrower. The overall health of the economy, including unemployment rates and housing prices, will have an effect on the credit quality of this segment.

Allocated Component

The allocated component relates to loans that are classified as impaired. Impairment is measured on a loan-by-loan basis for business and business real estate loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. An allowance is established when the discounted cash flows (or collateral value) of the impaired loan is lower than the carrying value of the loan. Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Corporation does not separately identify individual residential real estate and consumer loans for impairment, unless such loans are subject to a troubled debt restructuring, collateral repossession, bankruptcy or management has concerns about the borrower's ability to repay or concerns about the value of the underlying collateral.

A loan is considered impaired when, based on current information and events, it is probable that the Corporation 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 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.

The Corporation may agree to modify the contractual terms of loans. When a loan is modified and a concession is made to a borrower experiencing financial difficulty, the modification is considered a TDR. All TDRs are classified as impaired loans.

Unallocated Component

An unallocated component is maintained to cover uncertainties that could affect management's estimate of probable losses. The unallocated component of the allowance reflects the margin of imprecision inherent in the underlying assumptions used in the methodologies for estimating allocated and general reserves in the portfolio.

Goodwill Goodwill arises from business combinations and is generally determined as the excess of 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 acquired in a business combination is determined to have an indefinite useful life and is not amortized, but tested for impairment at least annually or more frequently if events and circumstances exist that indicate a goodwill impairment test should be performed.

Core Deposit Intangible Core deposit intangible represents the value of acquired relationships with core deposit customers. The fair value of core deposit intangibles is estimated based on a discounted cash flow methodology that gives appropriate consideration to expected customer attrition rates, cost of the deposit base compared to alternative funding sources, reserve requirements and the net maintenance cost attributable to customer deposits. Core deposit intangibles are amortized over the estimated life of 10 years.

Premises and Equipment Premises and equipment are stated at cost less accumulated depreciation. Depreciation is computed using a combination of straight-line and accelerated methods with useful lives ranging from 5 to 40 years for buildings and improvements, and 3 to 7 years for furniture and equipment. These assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Major improvements are capitalized.

Servicing Rights Servicing rights represent the allocated value of servicing rights retained on loans sold. Servicing rights are expensed in proportion to, and over the period of, estimated net servicing revenues. Impairment is evaluated based on the fair value of the rights, using the underlying loans' interest rates and prepayment characteristics. Fair value is determined using prices for similar assets with similar characteristics, when available, or based upon discounted cash flows using market-based assumptions. Any impairment is reported as a valuation allowance.

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

Foreclosed Assets Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Bank-Owned Life Insurance The Bank purchased life insurance policies on certain officers. Bank-owned life insurance is recorded at its cash surrender value, the amount that can be realized.

Employee Benefits A benefit plan with 401(k) features covers substantially all employees. The plan allows participant compensation deferrals. The amount of any matching contribution is based solely on the discretion of the Board of Directors.

Federal Income Taxes Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between book and tax bases of the various balance sheet assets and liabilities. Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. The Corporation records interest and penalties related to tax positions as interest expense or other expense, respectively, in the consolidated statements of income.

Transfers of Financial Assets Transfers of financial assets are accounted for as sales when control over the asset has been relinquished. Control is deemed to be surrendered when the assets have been isolated from the Corporation, the transferee obtains the right (free from conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control through an agreement to repurchase before maturity.

Earnings and Dividends Per Share Basic earnings per common share is based on net income divided by the weighted-average number of common shares outstanding during the period. Diluted earnings per common share shows the dilutive effect of any additional potential common shares.

Comprehensive Income (Loss) Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes the unrealized holding gains or losses arising during the period, less a reclassification adjustment for gains or losses included in net income.

Financial Instruments with Off-Balance-Sheet Risk Financial instruments include off-balance-sheet credit instruments, such as commitments to make loans and standby letters of credit issued to meet customer needs. The face amount for these items represents the exposure to loss before considering customer collateral or ability to repay. Such financial instruments are recorded when they are funded.

Fair Values of Financial Instruments Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed separately. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates. The fair value estimates of existing on- and off-balance sheet financial instruments do not include the value of anticipated future business or values of assets and liabilities not considered financial instruments.

Fair Value Measurements Fair value is the price that would be received to sell an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. In determining fair value, the Corporation uses various methods including market, income and cost approaches. Based on these approaches, the Corporation often utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable inputs. The Corporation utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the observability of the inputs used in the valuation techniques, the Corporation is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity has the ability to access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a reporting entity's own assumptions about the assumptions that market participants would use in pricing an asset or liability.

In determining the appropriate levels, the Corporation performs a detailed analysis of the assets and liabilities. At each reporting period, all assets and liabilities for which the fair value measurement is based on significant unobservable inputs are classified as Level 3.

For the years ended December 31, 2022 and 2021, the application of valuation techniques applied to similar assets and liabilities has been consistent.

Federal Home Loan Bank Stock The Corporation is a member of the Federal Home Loan Bank (FHLB) System and is required to invest in capital stock of the FHLB of Indianapolis. The amount of the required investment is determined and adjusted by the FHLB.

Dividend Restriction Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders.

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

Time Deposits in Banks Time deposits in banks consist of certificates of deposit (CDs) purchased from other financial institutions and are held in the Bank's name. The CDs range in maturities and interest rates and are purchased in amounts to stay within FDIC insurance limits.

Revenue Recognition The Corporation follows the revenue recognition principles in ASU 2014-09, Revenue from Contracts with Customers and all subsequent amendments to the ASU (collectively, ASC 606). ASC 606 creates a single framework for recognizing revenue from contracts with customers that fall within its scope and revises when it is appropriate to recognize a gain (loss) from the transfer of nonfinancial assets, such as Other Real Estate Owned (OREO). The majority of the Corporation's revenues come from interest income and other sources, including loans and securities that are outside the scope of ASC 606. The Corporation's services that fall within the scope of ASC 606 are presented within noninterest income and are recognized as revenue as the Corporation satisfies its obligation to the customer. Services within the scope of ASC 606 include service charges on deposits, interchange income, and the gain or loss on the sale of foreclosed assets.

Service Charges and Fees on Deposit Accounts: The Corporation earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point that the overdraft occurs. Service charges and fees on deposits are withdrawn from the customer's account balance and approximated $403,000 for 2022 and $359,000 for 2021.

Interchange Income: The Corporation earns interchange fees from debit 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. Interchange income approximated $678,000 in 2022 and $626,000 in 2021.

Gain or Loss on Sales of Foreclosed Assets: The Corporation records a gain or loss from the sale of foreclosed assets when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of a foreclosed asset to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the foreclosed asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction price and related gain (loss) on sale if a significant financing component is present. There was no gain or loss on sale of foreclosed assets in 2022. A gain of approximately $44,000 was recorded in 2021.

New Accounting Standards Accounting Standards Update (ASU) No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended, was issued to replace the incurred loss model for loans and other financial assets with an expected loss model, which is referred to as the current expected credit loss (CECL) model. The CECL model is applicable to the measurement of credit losses on financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. Such assets will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. CECL also applies to off-balance sheet credit exposures (loan commitments, standby letters of credit, financial guarantees, and other similar instruments). Estimated credit losses related to off-balance sheet credit exposures will be reported as a liability on the consolidated financial statements. In addition, the amendments in Topic 326 require credit losses on available-for-sale to be presented as a valuation allowance rather than as a direct write-down. This new accounting standard is effective for consolidated financial statements issued for interim and annual periods beginning after December 15, 2022. The Corporation adopted this new accounting standard as of January 1, 2023. The adoption of this accounting standard is not expected to have a material effect on the Corporation's consolidated financial statements. For assets within the scope of CECL, a cumulative effect adjustment will be recognized in retained earnings as of the beginning of the first reporting period after adoption.

ASU No. 2020-04, Facilitation of the Effects of Reference Rate Reform on Financial Reporting, as amended, provides optional expedients and exceptions for applying generally accepted accounting principles to contracts, hedging relationships, and other transactions that reference the London Interbank Offered Rate (LIBOR) or another reference rate expected to be discontinued due to reference rate reform if certain criteria are met. Effective March 12, 2020, the amendments in this ASU are elective and prospectively applied only to contracts modified on or before December 31, 2022, or hedging relationships entered into or evaluated through December 31, 2022. ASU No. 2022-06 subsequently extended the sunset date of December 31, 2022 to be through December 31, 2024. The Corporation does not believe the adoption of this standard will have a significant impact on the Corporation's consolidated financial statements.

Subsequent Events Subsequent events have been evaluated for recognition and disclosure through March 8, 2023, which is the date the financial statements were available to be issued.

Reclassifications Some items in the prior year consolidated financial statements were reclassified to conform to the current presentation. Reclassifications has no effect on the prior year net income or shareholders' equity.

Note 2 - Securities

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

Available for Sale	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
		December 31, 2022		
U.S. treasury and government agencies	**$ 49,335,373**	**$ 9,999**	**$ (2,437,436)**	**$ 46,907,936**
State and municipals	**54,178,093**	**8,464**	**(10,984,202)**	**43,202,355**
Time deposits with other banks	**2,476,000**	**-**	**(50,664)**	**2,425,336**
Mortgage-backed securities	**5,686,798**	**-**	**(743,096)**	**4,943,702**
Trust preferred securities	**500,000**	**-**	**-**	**500,000**
Total	**$ 112,176,264**	**$ 18,463**	**$ (14,215,398)**	**$ 97,979,329**
		December 31, 2021		
U.S. treasury and government agencies	$ 41,069,458	$ 262,491	$ (197,206)	$ 41,134,743
State and municipals	27,834,807	224,309	(63,695)	27,995,421
Time deposits with other banks	3,962,725	74,158	(5,194)	4,031,689
Mortgage-backed securities	4,096,314	42,904	(52,302)	4,086,916
Trust preferred securities	500,000	-	-	500,000
Total	$ 77,463,304	$ 603,862	$ (318,397)	$ 77,748,769

The fair value of securities available for sale at December 31, 2022 by contractual maturity is shown below:

	Available for Sale Fair Value
Due in one year or less	**$ 10,936,059**
Due from one to five years	**45,618,538**
Due from five to ten years	**5,407,236**
Due from ten years plus	**36,017,496**
Total	**$ 97,979,329**

There were no realized gains or losses on securities available for sales during 2022. Realized gains on securities available for sale were $7,131 during 2021.

Securities with unrealized losses at December 31 are as follows:

2022	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	Value	Loss	Value	Loss	Value	Loss
U.S. treasury and government agencies	$ 15,558,596	$ 414,337	$ 28,365,512	$ 2,023,099	$ 43,924,108	$ 2,437,436
State and municipals	24,818,549	5,417,338	18,225,343	5,566,864	43,043,892	10,984,202
Time deposits with other banks	1,953,227	24,773	472,109	25,891	2,425,336	50,664
Mortgage-backed securities	2,310,728	238,408	2,632,974	504,688	4,943,702	743,096
Total temporarily impaired	$ 44,641,100	$ 6,094,856	$ 49,695,938	$ 8,120,542	$ 94,337,038	$ 14,215,398

2021	Less than 12 Months		12 Months or More		Total	
	Fair	Unrealized	Fair	Unrealized	Fair	Unrealized
Description of Securities	Value	Loss	Value	Loss	Value	Loss
U.S. treasury and government agencies	$ 14,870,829	$ 197,206	$ -	$ -	$ 14,870,829	$ 197,206
State and municipals	10,548,852	63,695	-	-	10,548,852	63,695
Time deposits with other banks	492,806	5,194	-	-	492,806	5,194
Mortgage-backed securities	3,216,520	52,302	-	-	3,216,520	52,302
Total temporarily impaired	$ 29,129,007	$ 318,397	$ -	$ -	$ 29,129,007	$ 318,397

At December 31, 2022, a total of 134 securities had unrealized losses, 98 of the securities were state and municipals, 19 of the securities were U.S. treasury and government agency securities, 7 of the securities were mortgage-backed securities, and 10 of the securities were time deposits with other banks. The unrealized losses have not been realized into income because the securities were not deemed to be of low investment grade and management has the ability to hold the securities for the foreseeable future. The decline in market value is primarily due to general economic conditions.

Securities having a fair value of approximately $12,015,000 at December 31, 2022 and $13,283,000 at December 31, 2021, were pledged to certain deposit customers. The carrying amount of securities issued by the State of Michigan and all its political subdivisions totaled approximately $14,748,000 at December 31, 2022 and $9,682,000 at December 31, 2021 with an approximate fair value of $12,844,000 in 2022 and $9,796,000 in 2021.

Note 3 - Loans Receivable

Loans receivable by loan class at December 31 are as follows:

	2022	2021
Consumer		
Real estate	$ 10,043,304	$ 6,936,697
Other	7,587,449	7,676,641
Business Real Estate		
1-4 family rentals	7,783,752	7,196,011
Owner occupied	59,118,382	62,347,331
Other real estate	136,528,975	128,038,626
Business		
Commercial and industry	29,928,743	76,893,875
Other	5,142,008	5,227,331
Residential Real Estate		
1-4 family and other	141,413,695	144,987,665
1-4 family (LTV>95%)	13,747,353	12,267,617
Gross loans receivable	411,293,661	451,571,794
Allowance for loan losses	(4,154,073)	(3,820,897)
Net loans receivable	$ 407,139,588	$ 447,750,897

At year-end 2022 and 2021, there were no loans held for sale.

Loans to employees, principal officers, directors and their affiliates at December 31 approximated $2,832,000 in 2022 and $3,477,000 in 2021. Activity for these loans was not deemed significant during 2022 and 2021.

Note 4 - Allowance for Loan Losses

Activity in the allowance for loan losses by loan segment as of December 31, 2022 was as follows:

	Beginning Balance	Charged-off	Recoveries	Provision	Ending Balance
Consumer	$ 35,196	$ (7,874)	$ 585	$ 35,833	$ 63,740
Business Real Estate	2,920,522	-	220,079	148,469	3,289,070
Business	145,568	-	112,225	(176,166)	81,627
Residential Real Estate	298,686	-	9,705	201,435	509,826
Overdrafts	-	(2,560)	1,016	1,544	-
Calculated allowance	3,399,972	(10,434)	343,610	211,115	3,944,263
Unallocated allowance	420,925	-	-	(211,115)	209,810
Total allowance for loan losses	$ 3,820,897	$ (10,434)	$ 343,610	$ -	$ 4,154,073

Activity in the allowance for loan losses by loan segment as of December 31, 2021 was as follows:

	Beginning Balance	Charged-off	Recoveries	Provision	Ending Balance
Consumer	$ 66,947	$ -	$ 585	$ (32,336)	$ 35,196
Business Real Estate	2,910,779	-	136,058	(126,315)	2,920,522
Business	291,910	(90,538)	45,653	(101,457)	145,568
Residential Real Estate	602,540	-	15,462	(319,316)	298,686
Overdrafts	-	(2,305)	790	1,515	-
Calculated allowance	3,872,176	(92,843)	198,548	(577,909)	3,399,972
Unallocated allowance	343,016	-	-	77,909	420,925
Total allowance for loan losses	$ 4,215,192	$ (92,843)	$ 198,548	$ (500,000)	$ 3,820,897

Additional detail of the allowance for loan losses by loan segment as of December 31, 2022 was as follows:

Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	**$ 4,092**	**$ 59,648**	**$ 63,740**
Business Real Estate	**14,586**	**3,274,484**	**3,289,070**
Business	**-**	**81,627**	**81,627**
Residential Real Estate	**37,498**	**472,328**	**509,826**
Calculated allowance	**56,176**	**3,888,087**	**3,944,263**
Unallocated allowance	**-**	**209,810**	**209,810**
Total allowance for loan losses	**$ 56,176**	**$ 4,097,897**	**$ 4,154,073**

Additional detail of the allowance for loan losses by loan segment as of December 31, 2021 was as follows:

Allowance for Loan Losses	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	$ 4,581	$ 30,615	$ 35,196
Business Real Estate	11,386	2,909,136	2,920,522
Business	-	145,568	145,568
Residential Real Estate	33,952	264,734	298,686
Calculated allowance	49,919	3,350,053	3,399,972
Unallocated allowance	-	420,925	420,925
Total allowance for loan losses	$ 49,919	$ 3,770,978	$ 3,820,897

Detail of loan balances by loan segment relating to the allowance for loan losses as of December 31, 2022 was as follows:

Loans Receivable Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	**$ 24,362**	**$ 17,606,391**	**$ 17,630,753**
Business Real Estate	**931,807**	**202,499,302**	**203,431,109**
Business	**123,092**	**34,947,659**	**35,070,751**
Residential Real Estate	**1,978,758**	**153,182,290**	**155,161,048**
Total loans receivable balance	**$ 3,058,019**	**$ 408,235,642**	**$ 411,293,661**

Detail of loan balances by loan segment relating to the allowance for loan losses as of December 31, 2021 was as follows:

Loans Receivable Balance	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Ending Balance
Consumer	$ 27,431	$ 14,585,907	$ 14,613,338
Business Real Estate	4,702,282	192,879,686	197,581,968
Business	1,208,080	80,913,126	82,121,206
Residential Real Estate	2,134,102	155,121,180	157,255,282
Total loans receivable balance	$ 8,071,895	$ 443,499,899	$ 451,571,794

The following tables present impaired loans, excluding purchased impaired loans, disaggregated by loan class at December 31, 2022:

Impaired Loans with No Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
<u>Consumer</u>					
Real estate	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
<u>Business Real Estate</u>					
1-4 family rentals	**45,368**	**40,118**	**-**	**40,796**	**3,431**
Owner occupied	**156,507**	**75,165**	**-**	**75,460**	**11,175**
Other real estate	**724,904**	**724,904**	**-**	**866,166**	**56,631**
<u>Business</u>					
Commercial and industry	**123,092**	**123,092**	**-**	**139,901**	**8,599**
<u>Residential Real Estate</u>					
1-4 family and other	**1,053,189**	**1,024,339**	**-**	**1,046,032**	**64,346**
1-4 family (LTV>95%)	**168,198**	**168,198**	**-**	**171,235**	**8,634**
Total	**$ 2,271,258**	**$ 2,155,816**	**$ -**	**$ 2,339,590**	**$ 152,816**

Impaired Loans with an Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 24,362	$ 24,362	$ 4,092	$ 25,570	$ 1,096
Business Real Estate					
1-4 family rentals	-	-	-	-	-
Owner occupied	91,620	91,620	14,586	93,029	3,966
Other real estate	-	-	-	-	-
Business					
Commercial and industry	-	-	-	-	-
Residential Real Estate					
1-4 family and other	872,067	786,221	37,498	805,481	35,474
1-4 family (LTV>95%)	-	-	-	-	-
Total	$ 988,049	$ 902,203	$ 56,176	$ 924,080	$ 40,536

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 24,362	$ 24,362	$ 4,092	$ 25,570	$ 1,096
Business Real Estate					
1-4 family rentals	45,368	40,118	-	40,796	3,431
Owner occupied	248,127	166,785	14,586	168,489	15,141
Other real estate	724,904	724,904	-	866,166	56,631
Business					
Commercial and industry	123,092	123,092	-	139,901	8,599
Residential Real Estate					
1-4 family and other	1,925,256	1,810,560	37,498	1,851,513	99,820
1-4 family (LTV>95%)	168,198	168,198	-	171,235	8,634
Total	$ 3,259,307	$ 3,058,019	$ 56,176	$ 3,263,670	$ 193,352

The following tables present impaired loans, excluding purchased impaired loans, disaggregated by loan class at December 31, 2021:

Impaired Loans with No Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ -	$ -	$ -	$ -	$ -
Business Real Estate					
1-4 family rentals	48,211	42,202	-	42,756	3,638
Owner occupied	3,801,386	3,558,700	-	3,817,488	42,612
Other real estate	1,021,801	1,021,187	-	1,042,363	64,023
Business					
Commercial and industry	1,228,537	1,208,080	-	1,340,340	37,511
Residential Real Estate					
1-4 family and other	1,271,973	1,242,604	-	1,266,037	74,551
1-4 family (LTV>95%)	176,997	176,440	-	179,661	9,015
Total	$ 7,548,905	$ 7,249,213	$ -	$ 7,688,645	$ 231,350

Impaired Loans with an Allocated Allowance for Loan Losses	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 27,431	$ 27,431	$ 4,581	$ 28,516	$ 1,221
Business Real Estate					
1-4 family rentals	-	-	-	-	-
Owner occupied	85,356	80,193	11,386	81,931	3,924
Other real estate	-	-	-	-	-
Business					
Commercial and industry	-	-	-	-	-
Residential Real Estate					
1-4 family and other	791,880	715,058	33,952	732,238	34,224
1-4 family (LTV>95%)	-	-	-	-	-
Total	$ 904,667	$ 822,682	$ 49,919	$ 842,685	$ 39,369

Total Impaired Loans	Unpaid Principal Balance	Recorded Investment	Related Allowance	Average Recorded Investment	Interest Income Recognized
Consumer					
Real estate	$ 27,431	$ 27,431	$ 4,581	$ 28,516	$ 1,221
Business Real Estate					
1-4 family rentals	48,211	42,202	-	42,756	3,638
Owner occupied	3,886,742	3,638,893	11,386	3,899,419	46,536
Other real estate	1,021,801	1,021,187	-	1,042,363	64,023
Business					
Commercial and industry	1,228,537	1,208,080	-	1,340,340	37,511
Residential Real Estate					
1-4 family and other	2,063,853	1,957,662	33,952	1,998,275	108,775
1-4 family (LTV>95%)	176,997	176,440	-	179,661	9,015
Total	$ 8,453,572	$ 8,071,895	$ 49,919	$ 8,531,330	$ 270,719

The following table presents the aging of the recorded investment in loans, excluding purchased impaired loans, by portfolio class as of December 31, 2022:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Consumer						
Real estate	$ 10,043,304	$ -	$ -	$ -	$ -	$ 10,043,304
Other	7,585,438	2,011	-	-	2,011	7,587,449
Business Real Estate						
1-4 family rentals	7,783,752	-	-	-	-	7,783,752
Owner occupied	59,118,382	-	-	-	-	59,118,382
Other real estate	136,528,975	-	-	-	-	136,528,975
Business						
Commercial and industry	29,761,282	105,845	61,616	-	167,461	29,928,743
Other	5,142,008	-	-	-	-	5,142,008
Residential Real Estate						
1-4 family and other	141,003,189	281,127	-	129,379	410,506	141,413,695
1-4 family (LTV>95%)	13,530,098	103,490	-	113,765	217,255	13,747,353
Total	$ 410,496,428	$ 492,473	$ 61,616	$ 243,144	$ 797,233	$ 411,293,661

The following table presents the aging of the recorded investment in loans, excluding purchased impaired loans, by portfolio class as of December 31, 2021:

	Current	30-59 Days Past Due	60-89 Days Past Due	90 Days or More Past Due	Total Past Due	Total
Consumer						
Real estate	$ 6,917,206	$ 19,491	$ -	$ -	$ 19,491	$ 6,936,697
Other	6,912,561	-	-	764,080	764,080	7,676,641
Business Real Estate						
1-4 family rentals	7,196,011	-	-	-	-	7,196,011
Owner occupied	62,347,331	-	-	-	-	62,347,331
Other real estate	128,038,626	-	-	-	-	128,038,626
Business						
Commercial and industry	76,877,077	7,122	9,676	-	16,798	76,893,875
Other	5,227,331	-	-	-	-	5,227,331
Residential Real Estate						
1-4 family and other	144,004,565	812,606	170,494	-	983,100	144,987,665
1-4 family (LTV>95%)	11,988,824	165,989	112,804	-	278,793	12,267,617
Total	$ 449,509,532	$ 1,005,208	$ 292,974	$ 764,080	$ 2,062,262	$ 451,571,794

The following table presents the recorded investment in nonaccrual loans, which are divided among all aging categories, and accruing loans contractually past due 90 days or more as to interest or principal payments at December 31, 2022:

	Accruing	Nonaccrual	Total
Consumer			
Other	$ -	$ -	$ -
Business Real Estate			
Owner occupied	-	-	-
Business			
Commercial and industry	-	-	-
Residential Real Estate			
1-4 family and other	-	470,872	470,872
1-4 family (LTV>95%)	-	217,255	217,255
Total	$ -	$ 688,127	$ 688,127

The following table presents the recorded investment in nonaccrual loans, which are divided among all aging categories, and accruing loans contractually past due 90 days or more as to interest or principal payments at December 31, 2021:

	Accruing	Nonaccrual	Total
Consumer			
Other	$ -	$ 764,080	$ 764,080
Business Real Estate			
1-4 family rentals	-	2,718,439	2,718,439
Business			
Commercial and industry	-	427,551	427,551
Residential Real Estate			
1-4 family and other	-	393,343	393,343
1-4 family (LTV>95%)	-	112,804	112,804
Total	$ -	$ 4,416,217	$ 4,416,217

Nonperforming loans includes both smaller-balance, homogenous loans that are collectively evaluated for impairment and individually classified impaired loans. No additional funds are committed to be advanced in connection with impaired loans, which include restructured loans.

Credit Quality Information

The Corporation utilizes an eight-grade internal loan rating system for all business relationships.

Loans rated 1-4: Loans in these categories are considered "pass" rated loans with minimal to acceptable risk.

Loans rated 5: Loans in this category are considered "watch" or "special mention." These loans are starting to show signs of potential weakness and are being closely monitored by management.

Loans rated 6: Loans in this category are considered "substandard." Generally, a loan is considered substandard if it is inadequately protected by current net worth and paying capacity of the obligors and/or the collateral pledged. There is a distinct possibility that the Corporation will sustain some loss if the weakness is not corrected.

Loans rated 7: Loans in this category are considered "doubtful." 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 currently existing facts, highly questionable and improbable.

Loans rated 8: Loans in this category are considered uncollectible ("loss") and of such little value that their continuance as loans is not warranted.

On an annual basis, or more often if needed, the Corporation formally reviews the ratings on all business loans. Annually, the Corporation engages a third party to review a significant portion of loans. Management utilizes the results of these reviews as part of its annual review process.

Loans not meeting the above criteria that are analyzed individually as part of the above-described process are considered to be pass rated loans. The Corporation risk rates residential real estate loans on an as-needed basis as they become aware of credit weaknesses.

The Corporation utilizes a two-grade internal loan risk rating system for consumer loans:

Performing: Loans in this category are, as of the presentation date, those in which payments of principal and interest are less than 90 days past due.

Nonperforming: Loans in this category were 90 days or more delinquent, nonaccruing loans less than 90 days past due, or loans acquired with deteriorated credit quality and, therefore, are considered to be nonperforming loans. All loans rated nonaccrual are also nonperforming.

The following tables present the credit quality indicators of the Corporation's various classes of loans at December 31, 2022:

Commercial Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Business Real Estate						
1-4 family rentals	$ 7,090,006	$ 693,746	$ -	$ -	$ -	$ 7,783,752
Owner occupied	54,135,431	4,911,138	71,813	-	-	59,118,382
Other real estate	110,288,960	26,240,015	-	-	-	136,528,975
Business						
Commercial and industry	26,208,967	2,805,373	914,403	-	-	29,928,743
Other	5,142,008	-	-	-	-	5,142,008
Total	$ 202,865,372	$ 34,650,272	$ 986,216	$ -	$ -	$ 238,501,860

Residential Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Residential Real Estate						
1-4 family and other	$ 140,942,823	$ -	$ 470,872	$ -	$ -	$ 141,413,695
1-4 family (LTV>95%)	13,530,097	-	217,256	-	-	13,747,353
Total	$ 154,472,920	$ -	$ 688,128	$ -	$ -	$ 155,161,048

Consumer Credit Exposure	Performing	Non-Performing	Total
Consumer			
Real estate	$ 10,043,304	$ -	$ 10,043,304
Other	7,587,449	-	7,587,449
Total	$ 17,630,753	$ -	$ 17,630,753

The following tables present the credit quality indicators of the Corporation's various classes of loans at December 31, 2021:

Commercial Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Business Real Estate						
1-4 family rentals	$ 6,525,904	$ 387,208	$ 282,899	$ -	$ -	$ 7,196,011
Owner occupied	53,382,800	4,719,391	4,245,140	-	-	62,347,331
Other real estate	107,760,390	19,257,049	1,021,187	-	-	128,038,626
Business						
Commercial and industry	73,031,400	2,588,693	1,273,782	-	-	76,893,875
Other	4,839,366	387,965	-	-	-	5,227,331
Total	$ 245,539,860	$ 27,340,306	$ 6,823,008	$ -	$ -	$ 279,703,174

Residential Credit Exposure	Pass	Watch	Substandard	Doubtful	Loss	Total
Residential Real Estate						
1-4 family and other	$ 144,506,955	$ -	$ 480,710	$ -	$ -	$ 144,987,665
1-4 family (LTV>95%)	12,154,813	-	112,804	-	-	12,267,617
Total	$ 156,661,768	$ -	$ 593,514	$ -	$ -	$ 157,255,282

Consumer Credit Exposure	Performing	Non-Performing	Total
Consumer			
Real estate	$ 6,936,697	$ -	$ 6,936,697
Other	6,912,561	764,080	7,676,641
Total	$ 13,849,258	$ 764,080	$ 14,613,338

There were no troubled debt restructurings during 2022. The following table presents the troubled debt restructurings that occurred during 2021 by portfolio class in accordance with accounting guidance.

2021	Number of Contracts	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Business			
Commercial and industry	1	$ 22,624	$ 20,991
Total	1	$ 22,624	$ 20,991

The modification of the terms of such loans included one or a combination of the following: a reduction in the stated interest rate of the loan; an extension of the maturity date; or some other modification deeming the loan a TDR. All troubled debt restructurings are considered impaired loans in the calculation of the allowance for loan losses. Therefore, management performs a reserve analysis on all loans that have been determined to be troubled debt restructurings. The Corporation has allocated approximately $56,000 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2022 related to a total TDR portfolio of approximately $3,058,000. The Corporation has allocated approximately $50,000 of specific reserves to customers whose loan terms have been modified in TDRs as of December 31, 2021 related to a total TDR portfolio of approximately $4,926,000.

Additionally, the Bank is working with borrowers impacted by COVID-19 and providing modifications to include principal and interest deferral. These modifications are excluded from troubled debt restructuring classification under Section 4013 of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) or under applicable interagency guidance of the federal banking regulators. As of December 31, 2022, the Bank has no CARES Act loan modifications. At December 31, 2021, the Bank had modified one commercial loan with a balance of $550,000.

Paycheck Protection Program Loans:

The CARES Act is an economic stimulus bill signed into law on March 27, 2020 in response to the economic fallout of the COVID-19 pandemic in the United States. The creation of the Paycheck Protection Program (PPP) enacted under the CARES Act provides forgivable loans to small businesses for payroll obligations, emergency grants to cover immediate operating costs, and a mechanism for loan forgiveness by the Small Business Association should all criteria be met. Included in commercial loans at December 31, 2022 and December 31, 2021 were approximately $569,000 and $50,001,000, respectively, of loans granted under the Paycheck Protection Program. These loans are fully guaranteed by the Small Business Association.

Note 5 – Loan Servicing

Mortgage loans serviced for others are not reported as assets. The principal balance of these loans at year-end was as follows:

Mortgage loan portfolios serviced for:

	2022	2021
Freddie Mac	**$ 3,269,102**	$ 4,300,295
Federal Home Loan Bank	**10,487,511**	12,792,088
Total serviced	**$ 13,756,613**	$ 17,092,383

Custodial escrow balances maintained in connection with serviced loans were $17,324 at year-end 2022 and $32,068 at year-end 2021.

Activity for capitalized mortgage servicing rights was as follows:

	2022	2021
Beginning balance	**$ 91,822**	$ 148,973
Additions	**-**	2,702
Amortized to expense	**(21,241)**	(59,853)
Ending balance	**$ 70,581**	$ 91,822

Fair value at year-end 2022 was determined using a discount rate of 11.25%, prepayment speeds ranging from 6.0% to 10.3%, depending on the stratification of the specific right, and a weighted-average default rate of zero. Fair value at year-end 2021 was determined using a discount rate of 8.0%, prepayment speeds ranging from 5.2% to 21.4%, depending on the stratification of the specific right, and a weighted-average default rate of zero.

There was no valuation allowance required at December 31, 2022 or 2021.

Note 6 – Other Real Estate Owned

Other real estate owned totaled zero at December 31, 2022 and 2021.

Note 7 - Premises and Equipment

Premises and equipment at December 31 consist of:

		2022		2021
Land	$	**2,674,488**	$	2,685,737
Buildings and improvements		**9,218,570**		8,669,818
Equipment		**4,190,607**		4,107,135
Total cost		**16,083,665**		15,462,690
Less accumulated depreciation		**(7,288,289)**		(6,983,165)
Net premises and equipment	$	**8,795,376**	$	8,479,525

Depreciation and amortization expense was $533,724 in 2022 and $498,343 in 2021.

Note 8 - Leases

The Corporation enters into leases in the normal course of business primarily for branch offices and back-office operations. The Corporation's leases have remaining terms ranging from 1 to 2.5 years, some of which include renewal options to extend the lease for up to 5 years. The Corporation includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Corporation will exercise the option. The Corporation has elected not to recognize leases with original lease terms of 12 months or less (short-term leases) on its consolidated balance sheets.

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 the Corporation's right to use an underlying asset for the lease term and the lease liabilities represent the Corporation's obligation to make lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Corporation uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in the lease is not known. The Corporation's incremental borrowing rate is based on the Federal Home Loan Bank of Indianapolis advance rate, adjusted for the lease term and other factors.

The Corporation records operating leases as a right-of-use asset in accrued interest receivable and other assets and operating lease liability in accrued expenses and other liabilities on the consolidated balance sheets. At December 31, 2022, all leases are considered operating leases.

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

2023	**$**	**41,400**
2024		**41,400**
2025		**38,700**
2026		**36,000**
2027		**36,000**
Thereafter		**666,000**
Total		**859,500**
Less: imputed interest		**(162,048)**
Net lease liabilities	**$**	**697,452**

The lease expense for operating leases was $41,400 for the year ended December 31, 2022. At December 31, 2022, the weighted average remaining lease term was 20.7 years and the weighted average discount rate utilized to calculate the right-of use asset was 2.00%. The lease expense for operating leases was $41,400 for the year ended December 31, 2021. At December 31, 2021, the weighted average remaining lease term was 21.6 years and the weighted average discount rate utilized to calculate the right-of use asset was 1.99%.

Note 9 – Deposits

At December 31, 2022, stated maturities of time deposits were as follows:

2023	**$**	**35,691,224**
2024		**26,903,133**
2025		**8,671,264**
2026		**1,256,737**
2027		**1,253,132**
Thereafter		**20,345**
Total time deposits	**$**	**73,795,835**

Time deposits in denominations of $250,000 or more were $18,337,293 at December 31, 2022 and $12,131,035 at December 31, 2021. At December 31, 2022, stated maturities of time deposits in denominations of $250,000 or more were as follows:

In 3 months or less	**$**	**2,858,746**
Over 3 through 6 months		**2,878,837**
Over 6 through 12 months		**3,138,168**
Over 12 months		**9,461,542**
Total time deposits $250,000 or more	**$**	**18,337,293**

Related party deposits were approximately $3,067,000 at December 31, 2022 and $8,566,000 at December 31, 2021. Activity in these accounts was not deemed significant during 2022 and 2021.

There were certificates of deposits obtained through deposit brokers totaling $29,891,000 at December 31, 2022 and $45,145,000 at December 31, 2021.

Note 10 – Federal Home Loan Bank Advances

At December 31, the types of Federal Home Loan Bank (FHLB) advances were as follows:

		2022		2021
Bullet	**$**	**19,000,000**	$	24,400,000
Putable		**-**		10,000,000
Total	**$**	**19,000,000**	$	34,400,000

Pursuant to collateral agreements with the Federal Home Loan Bank, in addition to Federal Home Loan Bank stock, advances are secured, under a blanket lien arrangement, by qualified 1-4 family mortgage loans with a carrying value at year-end of approximately $133,106,000 in 2022 and $131,355,000 in 2021.

Scheduled principal reductions and related weighted-average rate grouped by advance type at December 31, 2022 were as follows:

	2023		2024		2025		2026		2027		Thereafter		Total	
	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Bullet	$ 5,000,000	1.75%	$ 10,000,000	1.80%	$ 3,000,000	1.44%	$ 1,000,000	1.04%	$ -		$ -		$ 19,000,000	1.69%
Total	$ 5,000,000	1.75%	$ 10,000,000	1.80%	$ 3,000,000	1.44%	$ 1,000,000	1.04%	$ -		$ -		$ 19,000,000	1.69%

Note 11 – Subordinated Debentures

In 2005, Commercial National Financial Corporation Trust I (CNFC I), a trust formed by the Corporation, closed a pooled private offering of 10,000 trust preferred securities with a liquidation amount of $1,000 per security. The Corporation issued $10,310,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust. On January 1, 2017, the Corporation acquired Capital Direction Statutory Trust I (CDI I), a trust formed by Capital Directions, Inc. In 2007, CDI issued $3,093,000 of subordinated debentures to the trust in exchange for ownership of all of the common security of the trust and the proceeds of the preferred securities sold by the trust.

The Corporation may redeem the subordinated debentures, in whole or in part, in a principal amount with integral multiples of 1,000 at a redemption price specified in the indenture plus any accrued and unpaid interest. The subordinated debentures of CNFC I mature on June 15, 2035. The subordinated debentures of CDI I mature on January 15, 2037. The subordinated debentures are also redeemable in whole or in part from time to time, upon the occurrence of specific events defined within the trust indentures. The Corporation has the option to defer interest payments on the subordinated debentures from time to time for a period not to exceed five consecutive years. The trust preferred securities may be included in Tier I capital (with certain limitations applicable) under current regulatory guidelines and interpretations. The CNFC I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month London Interbank Offered Rate (LIBOR) plus 1.95%, which was 6.72% at the December 13, 2022 set date. The CDI I trust preferred securities and subordinated debentures have a variable rate of interest equal to the sum of the three-month LIBOR plus 1.68%, which was 6.45% at the December 13, 2022 set date. The trusts are not consolidated with the Corporation's financial statements, but rather the subordinated debentures are shown as a liability.

The Corporation's investment in the common stock of CNFC I and CDI I was $310,000 and $93,000, respectively, and is included in other assets.

Note 12 – Employee Benefits

The Corporation's employee benefit plan allows participants to make elective deferrals up to IRS limitations. The Corporation's annual contribution to the plan is based solely on the discretion of the Board of Directors. Employee and employer contributions are vested immediately. The plan covers substantially all employees. Employer expense associated with funding the 401(k) plan was approximately $296,000 in 2022 and $287,000 in 2021.

Note 13 – Federal Income Taxes

Federal income tax expense for the year ended December 31 was as follows:

		2022		2021
Current	**$**	**1,226,000**	$	1,678,000
Deferred benefit		**570,000**		(268,000)
Total	**$**	**1,796,000**	$	1,410,000

The difference between the federal income taxes and the amount computed by applying the statutory federal income tax to income before taxes is related to the following:

		2022		2021
Statutory rates	**$**	**2,074,000**	$	1,633,000
Decrease from:				
Bank-owned life insurance		**(91,000)**		(87,000)
Tax-exempt interest income		**(107,000)**		(39,000)
General business credits		**(105,000)**		(97,000)
Other, net		**25,000**		-
Total	**$**	**1,796,000**	$	1,410,000

The components of the net deferred income tax assets and liabilities resulted from the following temporary differences between the carrying amounts of assets and liabilities for income tax and financial reporting purposes as of December 31.

		2022		2021
Allowance for loan losses	**$**	**872,000**	$	802,000
Interest on nonaccrual loans		**27,000**		65,000
Deferred compensation		**36,000**		45,000
Asset acquisition - Hastings		**56,000**		79,000
Asset acquisition - Mason		**(60,000)**		(75,000)
Prepaid expenses		**(50,000)**		(61,000)
Accumulated depreciation		**(710,000)**		(636,000)
Mortgage servicing rights		**(14,000)**		(18,000)
Net unrealized (gains) losses on				
securities available for sale		**2,981,000**		(60,000)
Deferred loan fees		**29,000**		599,000
Other		**128,000**		84,000
Net deferred tax asset	**$**	**3,295,000**	$	824,000

All tax years from 2019 and subsequent remain open to examination by the Internal Revenue Service. The Corporation does not believe that the results from any examination of these open years would have a material adverse effect on the Corporation.

Note 14 – Earnings Per Share

A reconciliation of the numerators and denominators of the basic earnings per share and diluted earnings per share computations is presented below for December 31:

		2022		2021
Basic earnings per share:				
Net income available to common shareholders	$	**8,081,338**	$	6,366,107
Weighted-average common shares outstanding for basic earnings per share		**3,965,303**		3,965,303
Basic earnings per share	$	**2.04**	$	1.61

		2022		2021
Diluted earnings per share:				
Net income available to common shareholders	$	**8,081,338**	$	6,366,107
Weighted-average common shares outstanding for basic earnings per share		**3,965,303**		3,965,303
Add:				
Dilutive effect of assumed exercise of stock options		-		-
Weighted-average common and dilutive additional potential common shares outstanding		**3,965,303**		3,965,303
Diluted earnings per share	$	**2.04**	$	1.61

Note 15 - Commitments, Off-Balance-Sheet Risk and Contingencies

There are various contingent liabilities that are not reflected in the consolidated financial statements, including claims and legal actions arising in the ordinary course of business. In the opinion of management, after consultation with legal counsel, the ultimate disposition of these matters is not expected to have a material effect on the Corporation's financial condition or results of operations.

Loan Commitments The Corporation is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to make loans, unused lines of credit and standby letters of credit. Contractual amounts of these instruments represent the exposure to credit loss in the event of nonperformance by the other party to financial instruments for commitments to make loans, unused lines of credit and standby letters of credit. The Corporation follows the same credit policy to make such commitments as it uses for on-balance-sheet items.

Since many commitments to make loans expire without being used, the amount of commitments shown does not necessarily represent future cash commitments. No losses are anticipated as a result of these transactions. Collateral obtained upon exercise of commitments is determined using management's credit evaluation of the borrowers and may include real estate, business assets, deposits and other items.

Commitments at December 31 were as follows:

		2022		2021
Commitments to extend credit	**$**	**51,564,480**	$	53,052,079
Standby letters of credit		**190,000**		200,000
Total commitments	**$**	**51,754,480**	$	53,252,079

At December 31, 2022, fixed and variable interest rate commitments were approximately $9,512,000 and $42,242,000, respectively. Fixed rate commitments interest rates and terms ranged from 2.74% to 16.20% and eighteen months to thirty years, respectively.

Leases and Other Contractual Commitments The Corporation occupies one location under a long-term operating lease. In addition, the Corporation is party to long-term contracts for data processing and operating systems. The future minimum annual commitments under all operating leases and other contractual commitments as of December 31, 2022 were as follows:

Year		**Lease and Other Contractual Commitments**
2023	**$**	**699,725**
2024		**726,199**
2025		**753,928**
2026		**763,145**
2027		**726,753**
Total	**$**	**3,669,750**

Note 16 - Fair Values of Financial Instruments

The following methods and assumptions were used to estimate fair values for financial instruments:

- Carrying amount is considered to approximate fair value for cash and cash equivalents, interest-bearing deposits in banks, Federal Home Loan Bank (FHLB) stock, demand and savings deposits, accrued interest receivable, accrued interest payable and variable rate loans or deposits that re-price frequently and fully.
- Securities fair values are based on quoted market prices or, if no quotes are available, on the rate, term of the security, and information about the issuer.
- Fixed rate loans and time deposits, and variable rate loans with infrequent re-pricing, are estimated using discounted cash flow analyses or underlying collateral values, where applicable.
- Fair value of Federal Home Loan Bank advances is based on currently available rates for similar financing.
- Fair value of debt is based on current rates for similar financing.
- Fair value of other financial instruments and off-balance-sheet items approximate cost and are not considered significant to this presentation.

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that if the Corporation had disposed of such items at December 31, 2022 and 2021, the estimated fair values would have been achieved.

Market values may differ depending on various circumstances not taken into consideration in this methodology. The estimated fair values at December 31, 2022 and 2021 should not necessarily be considered to apply at subsequent dates.

Financial instruments at December 31 were approximately as follows:

	2022		2021	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
FINANCIAL ASSETS				
Cash and cash equivalents	**$ 61,072,000**	**$ 61,072,000**	$ 28,714,000	$ 28,714,000
Time deposits in banks	**8,960,000**	**8,960,000**	20,854,000	20,854,000
Securities available for sale	**97,979,000**	**97,979,000**	77,749,000	77,749,000
Federal Home Loan Bank stock	**3,726,000**	**3,726,000**	4,185,000	4,185,000
Loans, net of allowance	**407,140,000**	**381,832,000**	447,751,000	451,794,000
Accrued interest receivable	**1,958,000**	**1,958,000**	1,726,000	1,726,000
Total financial assets	**$ 580,835,000**	**$ 555,527,000**	$ 580,979,000	$ 585,022,000
FINANCIAL LIABILITIES				
Demand and savings deposits	**$ (464,936,000)**	**$ (464,936,000)**	$ (430,075,000)	$ (430,075,000)
Time deposits	**(73,796,000)**	**(71,486,000)**	(84,983,000)	(85,726,000)
Federal Home Loan Bank advances	**(19,000,000)**	**(18,029,000)**	(34,400,000)	(34,736,000)
Subordinated debentures	**(13,403,000)**	**(13,403,000)**	(13,403,000)	(13,403,000)
Accrued interest payable	**(116,000)**	**(116,000)**	(90,000)	(90,000)
Total financial liabilities	**$ (571,251,000)**	**$ (567,970,000)**	$ (562,951,000)	$ (564,030,000)

Note 17 – Capital Requirements and Restrictions on Retained Earnings

The Bank is subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative and qualitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings and other factors. The regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements. The capital conservation buffer for 2022 and 2021 is 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital. Management believes as of December 31, 2022, the Bank meets all capital adequacy requirements to which they are subject.

The prompt corrective action regulations provide five classifications, including well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized. These terms are not used to represent overall financial condition.

If only adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions, asset growth and expansion are limited. Plans for capital restoration are also required. The Bank was categorized as well capitalized at December 31, 2022 and 2021. There are no events or conditions since that time that management believes have changed the institution's category.

The Corporation's primary source of funds to pay dividends to shareholders is the dividends received from the Bank. The Bank is subject to certain state and federal restrictions on the amount of dividends it may declare without prior regulatory approval.

The Corporation's ability to pay dividends is dependent on the Bank, which is restricted by state law and regulations. These regulations pose no practical restrictions to paying dividends at historical levels.

Actual capital levels and minimum required levels (both in millions) at December 31 were:

	Actual		Minimum Required For Capital Adequacy Purposes		Minimum Required To Be Well Capitalized Under Prompt Corrective Action Regulations	
2022	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total capital (to risk-weighted assets)						
Bank	**$ 59.1**	**15.2 %**	**$ 31.2**	**8.0 %**	**$ 39.0**	**10.0 %**
Tier 1 (Core) capital (to risk-weighted assets)						
Bank	**55.0**	**14.1**	**23.4**	**6.0**	**31.2**	**8.0**
Common Tier 1 (CET1)						
Bank	**55.0**	**14.1**	**17.5**	**4.5**	**25.3**	**6.5**
Tier 1 capital (to average assets)						
Bank	**55.0**	**8.7**	**25.3**	**4.0**	**31.6**	**5.0**
2021						
Total capital (to risk-weighted assets)						
Bank	$ 56.2	15.2 %	$ 29.6	8.0 %	$ 37.0	10.0 %
Tier 1 (Core) capital (to risk-weighted assets)						
Bank	52.4	14.1	22.2	6.0	29.6	8.0
Common Tier 1 (CET1)						
Bank	52.4	14.1	16.7	4.5	24.1	6.5
Tier 1 capital (to average assets)						
Bank	52.4	8.6	24.3	4.0	30.4	5.0

Consolidated capital amounts and ratios are not presented as they are not required since the consolidated entity is less than $3 billion in assets and the Bank comprises approximately 99% of the consolidated assets of the holding company.

Note 18 - Fair Value

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Securities available for sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Corporation may be required to record at fair value other assets on a nonrecurring basis, such as loans held for sale, foreclosed assets, mortgage servicing rights and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting for write-downs of individual assets.

Following is a description of the valuation methodologies used for assets and liabilities recorded at fair value:

Securities: Securities available for sale and equity securities are recorded at fair value on a recurring basis. Fair values are determined by quoted market prices (Level 1) or by matrix pricing, which is a mathematical technique widely used in the industry to value debt securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). The fair values of certain municipal securities are determined by computing discounted cash flows using observable and unobservable market inputs (Level 3 inputs).

Foreclosed Assets: Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Adjustments to foreclosed assets are measured at fair value less costs to sell. Fair values are generally based on third-party appraisals or realtor evaluations of the property. These appraisals and evaluations may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If these values are based on appraisals less than six months old, they are considered Level 2. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification of the inputs for determining fair value. In cases where the carrying amount exceeds the fair value, less costs to sell, an impairment loss is recognized through a valuation allowance and the property is reported as nonrecurring Level 2. For Level 3 fair value measurements, management applies adjustments as considered necessary based on the circumstances surrounding each individual property. There were no foreclosed asset appraisal adjustments during 2022 or 2021.

Impaired Loans: Loans identified as impaired are measured using one of three methods: the loan's observable market price, the fair value of collateral or the present value of expected future cash flows. For each period presented, no impaired loans were measured using the loan's observable market price. During the year, if an impaired loan has had a charge-off or if the fair value of the collateral is less than the recorded investment in the loan, the Corporation establishes a specific reserve and reports the loan as nonrecurring Level 3. The fair value of collateral of impaired loans is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. If adjustments are made by management and the adjustments are significant, these result in a Level 3 classification.

Fair values of assets and liabilities measured on a recurring basis at December 31 were as follows:

		Fair Value Measurements at Reporting Date Using		
	Fair Value	**Quoted Prices In Active Markets for Identical Assets/Liabilities (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
2022				
Securities available for sale	**$ 97,979,329**	**$ 27,496,718**	**$ 66,348,163**	**$ 4,134,448**
2021				
Securities available for sale	$ 77,748,769	$ 41,134,743	$ 34,993,551	$ 1,620,475

Fair values of assets and liabilities measured on a nonrecurring basis at December 31 were as follows:

	Total	**Level 1**	**Level 2**	**Level 3**
2022				
Impaired loans	**$ 846,027**	**$ -**	**$ -**	**$ 846,027**
2021				
Impaired loans	$ 772,763	$ -	$ -	$ 772,763

A reconciliation of beginning and ending balances for Level 3 assets measured at fair value on a recurring basis follows:

Level 3 Fair Value Measurements				
Available-For-Sale Securities				
		2022		2021
Balance at beginning of year	**$**	**1,620,475**	$	1,730,261
Tranfers out of Level 3		**(53,000)**		(75,000)
Total gains or losses (realized/unrealized)				
Included in earnings		**-**		-
Included in other comprehensive income/(loss)		**(218,027)**		(34,786)
Purchases		**2,785,000**		-
Sales		**-**		-
Balance at end of year	**$**	**4,134,448**	$	1,620,475

Note 19 – Accumulated Other Comprehensive Income (Loss)

The comprehensive income (loss) topic of FASB ASC requires the reporting of comprehensive income (loss) in addition to net income. Comprehensive income (loss) is a more inclusive financial reporting methodology that includes disclosures of certain financial information that, historically, has not been recognized in the calculation of net income.

The items of other comprehensive income (loss) included in comprehensive income (loss) is the change in unrealized holding gains (losses) on investment securities classified as available for sale. The reclassification adjustment for gains (losses) realized in net income is recorded as a separate line item on the consolidated statements of income.

The amounts for the years ended December 31 are summarized below:

		Before-Tax Amount		**Tax (Expense) Benefit**		**Net-of-Tax Amount**
2022						
Accumulated other comprehensive income, beginning balance	**$**	**285,465**	**$**	**(59,948)**	**$**	**225,517**
Unrealized losses on securities available for sale:						
Unrealized holding losses arising during the period		**(14,482,400)**		**3,041,304**		**(11,441,096)**
Other comprehensive loss		**(14,482,400)**		**3,041,304**		**(11,441,096)**
Accumulated other comprehensive loss, ending balance	**$**	**(14,196,935)**	**$**	**2,981,356**	**$**	**(11,215,579)**
2021						
Accumulated other comprehensive income, beginning balance	$	1,030,409	$	(216,386)	$	814,023
Unrealized losses on securities available for sale:						
Unrealized holding losses arising during the period		(737,813)		154,940		(582,873)
Reclassification adjustment for gains included in earnings		(7,131)		1,498		(5,633)
Other comprehensive loss		(744,944)		156,438		(588,506)
Accumulated other comprehensive income, ending balance	$	285,465	$	(59,948)	$	225,517

Note 20 – Investment in Qualified Affordable Housing Projects

The Bank holds investments in Cinnaire Michigan Community Fund Limited Partnership XX-2, Cinnaire Michigan Community Fund Limited Partnership XX-3 and Cinnaire Michigan Community Fund Limited Partnership XX-4 (collectively Cinnaire) which are limited liability companies that manage or invest in affordable housing projects that qualify for the low-income housing tax credit. The Bank accounts for its investment in Cinnaire using the proportional amortization method, under which the Bank amortizes the cost of the investment in proportion to the tax credits and other tax benefits received and recognizes the net investment performance as a component of income tax expense. The Bank recognized approximately $105,000 as an income tax benefit related to these investments in 2022 and $97,000 in 2021.

The Bank's recorded investment in Cinnaire was approximately $1,090,000 at December 31, 2022 and $1,546,000 at December 31, 2021. These investments are included in accrued interest receivable and other assets on the consolidated balance sheets. The Bank's remaining commitment to provide capital contributions to Cinnaire is $131,000 as of December 31, 2022 and $142,000 as of December 31, 2021. These amounts are included in accrued expenses and other liabilities on the consolidated balance sheets.

Commercial National Financial Corporation

Directors

Richard S. Prestage	Chair of the Board; Partner, Nexcare Wellbridge Senior Living
Jeffrey A. Stahl	Vice Chair of the Board; President of Jer-Den Plastics
Kevin D. Collison	President and CEO of the Corporation and Bank
Heather M. Cook Fisette	Owner, Heather M. Cook CPA, PLC
Timothy J. Coscarelly	Commercial real estate management and development
Aaron L. Davis	President, CEO, and part-owner of Craig Frames, LLC
Christopher E. Goggin	General practice attorney in Alma, Michigan
Brent J. Hardman	Chief Executive Officer of Powell in St. Louis, Michigan
Loren R. Roslund	Chairman, Roslund Farms, LLC and Roslund Precision Machine, LLC
Dan Walcutt	President, CEO and Owner of Nielsen Commercial Construction, Inc.

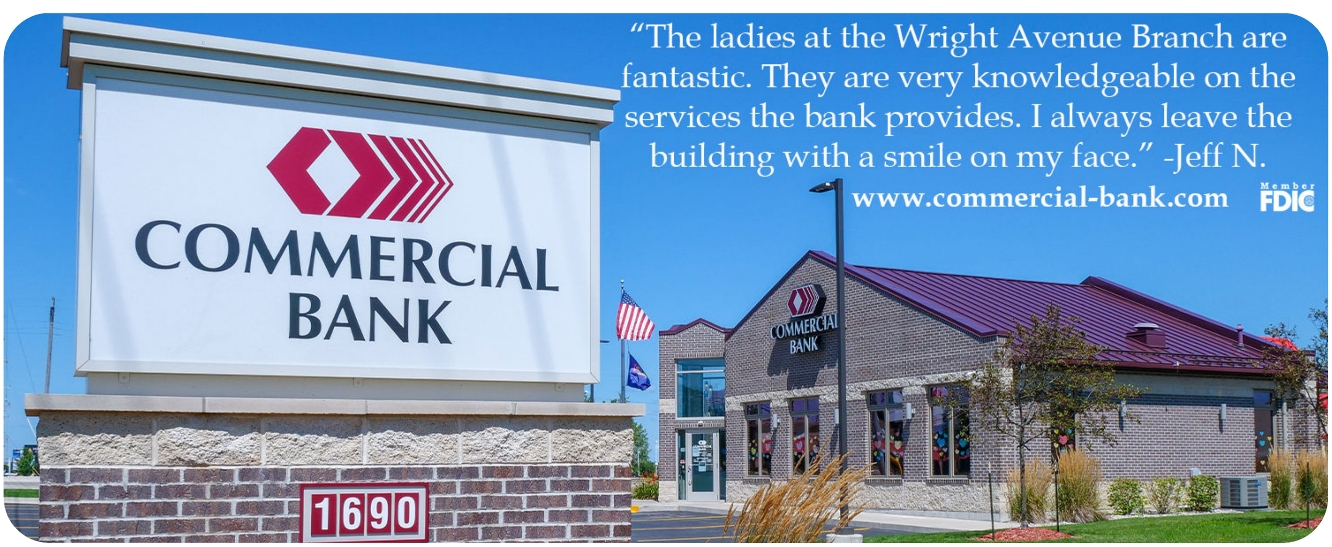
Officers

Kevin D. Collison	President and CEO
Kevin A. Twardy	Chief Financial Officer

Commercial Bank

Officers

Richard S. Prestage	Chair of the Board
Jeffrey A. Stahl	Vice Chair of the Board
Kevin D. Collison	President and CEO
Andrew P. Shafley	EVP and Chief Lending Officer
Kevin A. Twardy	Chief Financial Officer and COO
Gregory R. Hansen	SVP - Commercial Loan Manager
Corey S. Bailey	1st VP - Senior Commercial Loan Officer
Matthew O. Fletcher	1st VP - Credit Administration
Garth W. Anderson	VP - Commercial Lender - Alma/Mt Pleasant
Sara F. Bajema	VP - Treasury Manager
Jacky Halliwill	VP - Mason Community President
Paul D. Harger	VP - IT Manager
Amy S. Homich	VP - Commercial Lender - Greenville/G.R.
Jayme L. Kosal	VP - Commercial Lender - Greenville/G.R.
Benjamin Z. Ogle	VP - Controller
Heather A. Schaeffer	VP - Human Resources
Tara M. Steele	VP - Hastings Community President
Linda M. Vaughn	VP - Loan Operations Manager
Jessica L. Wright	VP - Mortgage Loan Manager
Melanie S. Baxter	AVP - Branch Administration
Kimberly S. Campbell	AVP - Compliance and CRA Officer
Dakota T. Curns	AVP - Bank Secrecy Act Officer
Nate R. Kirk, Jr.	AVP - Mortgage Lender - Okemos
Tammy L. McCollum	AVP - Treasury Management
Roger K. Merritt	AVP - IT Support Specialist
Heidi L. Miller	AVP - Mortgage Lender - Hastings
Jamie L. Ogle	AVP - Commercial Loan Doc Manager
Denise L. Reese	AVP - Security Officer/ISO
Courtney A. Samson	AVP - Treasury Management
Tricia C. Frost	Officer - Deposit Operations Manager
Kayla M. Grzeskowiak	Officer - Treasury Support Manager



Commercial Bank Locations

ALMA	1690 Wright Ave.	ATM on site	Ph. (989) 463-3901	Fax (989) 463-2265
ALMA	301 North State St.	Loan operations center ATM on site	Ph. (989) 463-2185	Fax (989) 463-5996
GRAND RAPIDS	50 Louis St., NW, Suite 612	Loan production office	Ph. (616) 405-4626	
GREENVILLE	10530 West Carson City Rd.	ATM on site	Ph. (616) 754-7166	Fax (616) 754-2118
HASTINGS	629 West State St.	ATM on site	Ph. (269) 945-9561	Fax (269) 945-2389
ITHACA	101 North Pine River St.	ATM on site	Ph. (989) 875-4144	Fax (989) 875-4534
MASON	322 S. Jefferson St.	ATM on site	Ph. (517) 676-0500	Fax (517) 676-0528
MASON	661 N. Cedar St.	ATM on site	Ph. (517) 676-0515	Fax (517) 676-0510
MIDDLETON	101 North Newton St.	ATM on site	Ph. (989) 236-7236	Fax (989) 236-7732
OKEMOS	2112 Jolly Rd.	ATM on site	Ph. (517) 337-5000	Fax (517) 337-5648
ST. LOUIS	104 North Mill St.	ATM on site	Ph. (989) 681-5738	Fax (989) 681-3509

Transfer Agent

Commercial National Financial Corporation
Commercial Bank
Care of Ms. Kim Campbell
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847

Corporate Headquarters

101 North Pine River
Ithaca, Michigan 48847
www.commercial-bank.com
Phone (989) 875-4144
Fax (989) 875-4534

Annual Report Availability

Commercial National's annual report is available upon written request without charge from:

Commercial National Financial Corporation
Care of Mr. Benjamin Z. Ogle
101 North Pine River, P.O. Box 280
Ithaca, Michigan 48847
Phone (989) 875-4144

Investment Brokers

Stifel, Nicolaus & Company, Incorporated
Kyle Travis, Vice President/Investments, (616) 224-1559
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D.A. Davidson & Co.
Nick Bicking, Senior Vice President, (614) 710-7060 and Tom Dooley, Senior Vice President, (614) 710-7061
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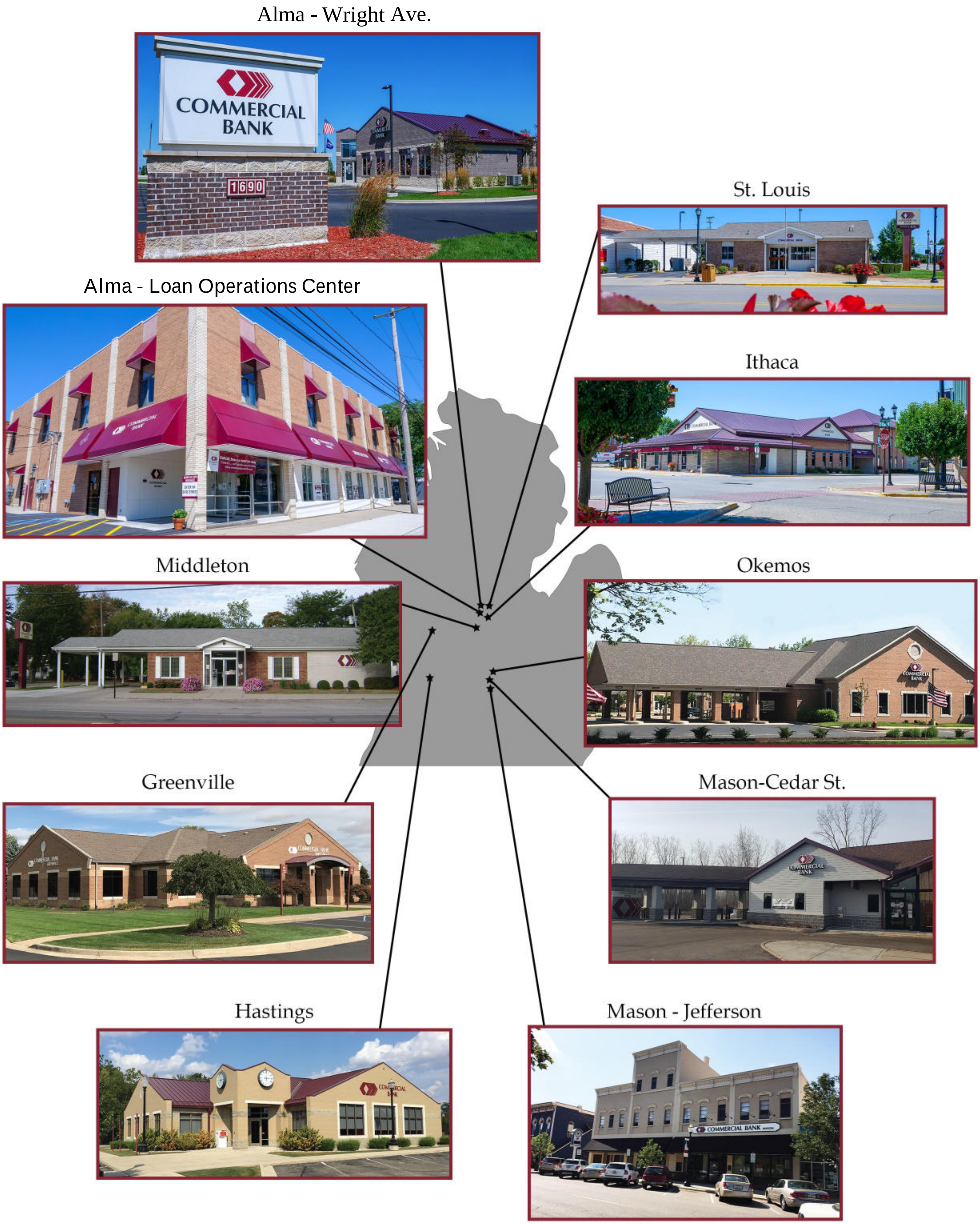
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1690
St. Louis
Alma - Loan Operations Center
Ithaca
Middleton
Okemos
Greenville
Mason-Cedar St.
Hastings
Mason - Jefferson

COMMERCIAL NATIONAL FINANCIAL CORPORATION

101 N. Pine River
P.O. Box 280
Ithaca, Michigan 48847
989.875.4144