2021 Annual Report

Eastern Michigan Financial Corporation®

2021 MISSION STATEMENT, VALUES, AND PROMISE

MISSION STATEMENT

To continue as a progressive and growing community bank, serving our communities by offering a wide range of competitive services for our customers, resulting in a profitable organization, enabling us to build capital, pay appropriate dividends to our stockholders and competitive salaries to our employees.

CORE VALUES

At Eastern Michigan Bank, we take great pride in being a community bank. At the center of our value system is our core commitment to provide value driven products and courteous service delivered by a caring and professional staff. After all, we're not just in the "banking business," we're in the business of financing people's lives and dreams – a responsibility we don't take lightly.

OUR PROMISE

We promise our customers they can rely on us to listen to their needs and try to provide solutions. We also promise to always practice discretion and tact when it comes to personal or professional financial issues and to treat our customers with respect, dignity and integrity, all while doing our best to help them reach their financial goals.

2021

INDEX, LOCATIONS AND CONTACT INFORMATION

GENERAL INFORMATION

Eastern Michigan Financial Corporation is the holding company for Eastern Michigan Bank, a full service community bank with offices in Croswell, Deckerville, Fort Gratiot, Lakeport, Lexington, Marysville, Port Huron, Ruth and Sandusky.

CORPORATE HEADQUARTERS

Eastern Michigan Financial Corporation
65 N. Howard Avenue
Croswell, Michigan 48422

INVESTOR RELATIONS CONTACT

Errin Levitt, Senior Vice President,
Chief Financial Officer
Eastern Michigan Financial Corporation
65 N. Howard Avenue
Croswell, Michigan 48422
810.398.5135

INDEPENDENT AUDITORS

Rehmann Robson
5800 Gratiot, Suite 201
Saginaw, Michigan 48638
989.799.9580

TRANSFER AGENT AND REGISTRAR

Computershare Shareholder Services
P.O. Box 30170
College Station, Texas 77842-3170
800.368.5948

STOCK SYMBOL

Over-the-Counter Bulletin Board: EFIN

ANNUAL MEETING

The Eastern Michigan Financial Corporation annual meeting of company shareholders is scheduled for Tuesday, April 26, 2022 at 5:30 p.m. and will be held at Lakeview Hills Golf Resort, 6560 E. Peck Road, Lexington, Michigan 48450.

BOARD OF DIRECTORS

TIMOTHY WARD
Chairperson
Retired Chief Executive Officer
Eastern Michigan Bank, Croswell

WILLIAM OLDFORD, JR.
Vice Chairperson
President and Chief Executive Officer
Eastern Michigan Bank, Croswell

KAREN FLANAGAN
Director
Farmer
Sandusky

BRADLEY APSEY
Director
President
Apsey Funeral Home Inc., Deckerville

KATHLENE PARTAKA
Director
Retired Executive Vice President, Operations
Eastern Michigan Bank, Croswell

PATRICIA RYAN
Director
Retired Partner
Frohm, Kelley, Butler & Ryan, P.C., Port Huron

DONNA NIESTER
Director
President and Chief Executive Officer
Acheson Ventures, LLC, Port Huron

ANTHONY ROGGENBUCK
Director
President, D&D Farms, Inc., Ruth
Owner-Operator, Trucker T's Transport, LLC, Ubly

STEVEN SCHWEIHOFER
Director
Former Chief Financial Officer
Foster Blue Water Oil, Richmond

JOHN WILLIAMS
Director
Retired Superintendent
Electrical & Water Departments, Croswell

MICHAEL WENDLING
Director
Prosecuting Attorney
St. Clair County

APPOINTMENTS

Anthony (Tony) Roggenbuck and Steve Schweihofer were appointed to the Boards of Directors of Eastern Michigan Financial Corporation and its subsidiary, Eastern Michigan Bank, in August 2021.

Tony Roggenbuck is a lifelong resident of the Ruth area. He is the President of D&D Farms, Inc., a third-generation family farm that he grew up on, and also the Owner-Operator of Trucker T's Transport, LLC, based in Ubly.

Steve Schweihofer is the former Chief Financial Officer for Foster Blue Water Oil, located in Richmond with operations throughout eastern Michigan. He is actively involved in his local community, currently serving as Treasurer of the SC4 Foundation, the St. Vincent DePaul Society (St. Clair), and the St. Clair Ecumenical Food Pantry. He is also a Trustee of the Community Foundation of St. Clair County and serves on their Finance and C3 committees, as well as being the varsity golf coach for Marysville High School. Steve is a lifelong resident of St. Clair County.

The directors, officers, and staff of Eastern Michigan Bank all welcome Mr. Roggenbuck and Mr. Schweihofer to the organization and look forward to their contributions.

ANTHONY ROGGENBUCK
Director

STEVEN SCHWEIHOFER
Director

BOARD RETIREMENTS

EARL DESJARDINS | Retired Chairperson

Earl DesJardins retired in April 2021 after eight years of service as Chairperson of the Boards of Directors of Eastern Michigan Bank and Eastern Michigan Financial Corporation. DesJardins was appointed to both boards in 2002. He is a retired civil engineer and former President of BMJ Engineers & Surveyors, Inc. in Port Huron.

The staff and directors of Eastern Michigan Bank and Eastern Michigan Financial Corporation thank Mr. DesJardins for his many years of service and wish him well in all of his future endeavors.

BOARD ELECTIONS

TIMOTHY WARD | Chairperson

In May 2021, sitting Vice Chairperson Timothy Ward was elected Chairperson of the Boards of Directors of Eastern Michigan Bank and Eastern Michigan Financial Corporation. Mr. Ward was first appointed to both Boards in 2005, when he joined the Bank as President.

Ward served as President and Chief Executive Officer (CEO) of Eastern Michigan Bank from 2006 until 2015 and as CEO from 2015 until his retirement in early 2020.

WILLIAM OLDFORD, JR. | Vice Chairperson

Eastern Michigan Bank President and CEO William Oldford, Jr. was elected Vice Chairperson of the Boards of Directors of Eastern Michigan Bank and Eastern Michigan Financial Corporation. Mr. Oldford served as President of Eastern Michigan Bank from October 2015 through February 2020, at which time he was appointed President and CEO.

IN MEMORIAM

Former Director Sherwood Palmateer passed away on March 5, 2021. Palmateer was appointed to the Board of Directors in 1981 when the Bank was still operating as State Bank of Croswell. He retired in 2004, after 23 years of service.

In addition to his service to Eastern Michigan Bank and Eastern Michigan Financial Corporation, Palmateer was a lifelong farmer and retired builder who spent twenty years selling and constructing family homes in the thumb of Michigan. He also played a role in the construction of the Colonial Woods Missionary Church of Port Huron, where he was a member of their board for a number of years. We extend our deepest sympathies to Sherwood's family.

OFFICERS

EASTERN MICHIGAN FINANCIAL CORPORATION OFFICERS

Timothy Ward | Chairperson of the Board
William Oldford, Jr. | Vice Chairperson, President and Chief Executive Officer
Stacie Bales | Senior Vice President, Chief Operating Officer
Chad Deaner | Senior Vice President, Chief Lending Officer
Errin Levitt | Senior Vice President, Chief Financial Officer

EASTERN MICHIGAN BANK SENIOR MANAGEMENT OFFICERS

William Oldford, Jr. | President and Chief Executive Officer
Stacie Bales | Senior Vice President, Chief Operating Officer
Chad Deaner | Senior Vice President, Chief Lending Officer
Errin Levitt | Senior Vice President, Chief Financial Officer

EASTERN MICHIGAN BANK VICE PRESIDENTS

Scott Badley | Commercial Loan Officer
Kimberly Bowman | Retail Banking Manager
Joseph Brown | Appraiser
Christopher Flann | Commercial Loan Officer
Gerald Hepfer | Commercial Loan Officer
Audra Levitte | Human Resources Director
L. Michael O'Vell | Consumer Loan Manager and Security Officer
Joseph Pink | Information Technology Manager and Chief Information Security Officer
Jessica Simon | Commercial Loan Manager
Tammy Williford | Marketing and Compliance Officer
Kathleen Wurmlinger | Mortgage Manager

EASTERN MICHIGAN BANK ASSISTANT VICE PRESIDENTS

Stefanie Abbott | Deckerville Branch Manager
Christi Agostino-Erd | Mortgage Loan Officer
David Baker | Port Huron Branch Manager
Julie Chapdelaine | Bank Secrecy Act Officer
Trishette Davis | Croswell Branch Manager
Alexander Messing | Commercial Loan Officer
Wendy Smith | Fort Gratiot Branch Manager
Kim Stencel | Lexington Branch Manager

EASTERN MICHIGAN BANK OFFICERS

Jennifer Briolat | Lakeport Branch Manager
Rachel Galbraith | Commercial Loan Officer
Melissa Gelinski | Senior Accountant
Daniel Hale | Commercial Loan Officer
Tracy Jackson | Sandusky Branch Manager
Noelle Malburg | Ruth Branch Manager
Amy Piconke | Marysville Branch Manager
Jasmine Williams | Commercial Loan Officer

PROMOTIONS

TRISHETTE DAVIS | Assistant Vice President, Branch Manager, Croswell

In July 2021, Croswell Branch Manager Trishette (Trish) Davis was promoted to Assistant Vice President. Davis has been a member of the Eastern Michigan Bank team for more than twenty years, starting her career in 2001 as a summer temp, then full time teller. She was promoted to Customer Service Representative in 2005, Assistant Branch Manager in 2010 and Branch Manager in 2013.

Davis holds an associate degree in general business from St. Clair County Community College and a Bachelor of Business Administration (BBA) from Walsh College with a major in finance. A resident of Croswell, she is active in her local community and currently serves as Treasurer of the Croswell Fair Board and Secretary of the Cros-Lex Eagles Auxiliary #4465.

DANIEL HALE | Commercial Loan Officer

In December 2021, Daniel (Dan) Hale was promoted to Commercial Loan Officer. Hale joined Eastern Michigan Bank (Bank) in January 2021 as a loan officer trainee. As a Commercial Loan Officer, he is currently serving business and agricultural customers across Sanilac and Huron Counties.

Prior to coming to the Bank, Dan worked as a crop scout for Nutrien Ag Solutions and a sales intern for LG Seeds. He is a graduate of Michigan State University with a bachelor's degree in agribusiness management, a minor in agronomy, and a certificate in agricultural technology.

Dan is also actively involved in the local community, currently serving as a Young Farmers spokesperson for Michigan Farm Bureau and a junior varsity basketball coach for Sandusky High School.

AUDRA LEVITTE | Vice President, Human Resources Director

In September 2021, Assistant Vice President, Director of Human Resources Audra Levitte was promoted to Vice President. Levitte joined the Eastern Michigan Bank team in May 2013 as Director of Human Resources and was promoted to Assistant Vice President in September 2016. Prior to coming to Eastern, she worked as the Firm Administrator for a local accounting firm from 1995 to 2013.

Levitte holds a Bachelor of Science in business management from Ferris State University. A native of the Croswell area, she currently lives in Lexington with her family.

NOELLE MALBURG | Branch Manager, Ruth

In June 2021, Assistant Branch Manager Noelle Malburg was promoted to Branch Manager of Eastern Michigan Bank's (Bank) Ruth office. Malburg joined the staff in Ruth in March 2020. Prior to coming to the Bank, she worked for Sanilac County based Tri-County Bank for seven years, most recently as Branch Manager of their Capac location.

Malburg holds a bachelor's degree from Michigan State University, and a master's degree from Canisius College. She is also a graduate of the Michigan Bankers Association's Perry School of Banking. Noelle currently resides in Sandusky with her husband.

JASMINE WILLIAMS | Commercial Loan Officer

In September 2021, Commercial Portfolio Officer Jasmine Williams was promoted to Commercial Loan Officer. Williams began her career at Eastern Michigan Bank in 2013 and has held various positions of increasing responsibility, including Credit Analyst (2016-2018), Senior Credit Analyst (2018 -2020), and Commercial Portfolio Officer (2020-2021) before being promoted to her current position.

In addition to her banking experience, Williams holds a Bachelor of Business Administration (BBA) from Walsh College with a major in finance. Jasmine is also a member of the Blue Water Young Professionals and the Delta Mu Delta Business Honor Society. She resides in Kimball Township with her husband.

TAMMY WILLIFORD | Vice President, Marketing and Compliance Officer

In September 2021, Assistant Vice President, Marketing and Compliance Officer Tammy Williford was promoted to Vice President. She has been with Eastern Michigan Bank since November 2003, assuming her current role in April 2006.

Williford holds a bachelor of arts degree in communications from Western Michigan University. She is actively involved in the local community, currently serving as Treasurer of the United Way of Sanilac County and Chair of the Sanilac Tourism Association. She also sits on the Michigan Bankers Association Marketing Committee. Tammy is a Sanilac County native and currently resides in Sandusky.

2021 NEW HIRES AND RETIREMENTS

NEW HIRES

AMY PICONKE | Branch Manager, Marysville

Amy Piconke joined Eastern Michigan Bank in January 2021 as Branch Manager of the Marysville office. Piconke comes to Eastern with fourteen years' experience in the financial services industry. Most recently she served as the Consumer Lending Manager for Christian Financial Credit Union.

Piconke holds an associate degree in business administration and management from Macomb Community College. She is active in her local community, currently serving on the Sanborn Gratiot Memorial Home Fund Development Committee and coaching the Blue Water Wolves Ten and Under travel softball team. Amy and her family live in Wales Township.

WENDY SMITH | Assistant Vice President, Branch Manager, Fort Gratiot

In August 2021, Wendy Smith joined Eastern Michigan Bank as Assistant Vice President, Branch Manager of the Bank's Fort Gratiot location. Smith comes to Eastern with sixteen years' experience in the local financial services industry. Most recently she served as Branch Manager of the Huntington Bank Port Huron Hancock location.

A long-time Port Huron area resident, Smith studied business management at St. Clair County Community College. Wendy is enthusiastic about community involvement and currently volunteers as a section chair for the United Way of St. Clair County, a member of the Blue Water Chamber of Commerce's Ambassadors Committee, and a member of the National Association of Career Women.

RETIREMENTS

Kathi Jahn retired from Eastern Michigan Bank in May 2021 after 43 years of service. Jahn began her banking career in 1978 as a high school co-op student working at what was then Ruth State Bank (RSB). She joined the RSB staff full time after graduation, holding a number of titles through the years, including Computer Operations Specialist, Compliance Officer and Vice President of Operations.

When Eastern Michigan Bank acquired RSB in 2016, Kathi joined the team as Assistant Vice President, Branch Manager of the Ruth office. Throughout her career, Kathi was active in the local community as well, serving as Sherman Township Clerk, Chair of the Holy Apostles Parish finance committee, and Treasurer of the Harbor Beach Chamber of Commerce.

KATHI JAHN
Assistant Vice President
Branch Manager, Ruth

2021 LETTER TO SHAREHOLDERS

On behalf of the Board of Directors, senior management team, and dedicated employees of Eastern Michigan Bank (the Bank) and Eastern Michigan Financial Corporation (Company), we are pleased to report another record performance for 2021.

Financial Results

- For the fifth year in a row, your Company's net income increased to the highest level in its 126-year history. Net income for 2021 hit a record $4.9 million, an increase of $707.0 thousand, or 16.9% over 2020.
- Return on Average Assets (ROA) ended the year at 0.96%, compared to 0.98% for 2020. The decrease in ROA was primarily driven by a higher asset base and lower net interest margin due to historically low interest rates.
- Asset growth in 2021 was significant, with total assets of $534.1 million at year end, versus $468.0 million at year end 2020.
- Our cost of funds remained well below many of our peers at a mere nine basis points.
- Credit quality remained strong with a net charge offs to total loans ratio at 0.0%.
- In 2021, $1.4 million in dividends was returned to shareholders, representing $1.10 per share.

SBA-Paycheck Protection Program Lending Look Back

In an effort to provide relief to the many businesses in the U.S. affected by Covid-19, the federal government established the Paycheck Protection Program (PPP) in early 2020. Implemented by the Small Business Administration (SBA), the PPP was created to help businesses pay their employees and remain open. As long as the proceeds were used as required, PPP loans would be eligible for forgiveness.

From April 2020 through early 2021, Congress approved three separate rounds of PPP lending. The Bank actively originated loans in all three rounds, strengthening our commitment to existing customers and developing new relationships as well. This led to significant growth in assets.

PPP loans also proved an unexpected and substantial source of fee income. The structure of the program was such that the fees could either be recognized as income over the life of the loan, or when the loan was paid in full, whichever occurred later. Fee income earned in 2021 can be broken down as follows:

- SBA PPP loans originated in 2020: $72.7 million
- Fees from SBA PPP loans originated in 2020: $2.5 million
- SBA PPP loans originated in 2021: $43.5 million
- Fees from SBA PPP loans originated in 2021: $2.9 million
- Through December 2021, we have recognized a total of $4.7 million in fees from SBA PPP loans

As of December 31, 2021, the Bank had balances of $14.5 million in remaining PPP loans, and $688.3 thousand in unrecognized SBA PPP fees. All of the remaining loans are expected to be forgiven in 2022 and the fees recognized over the year.

Interest Rates

As many of you know, interest rates have been at historic lows along the entire treasury yield curve for an extended period. During this same time, deposit growth has been significant and competition for loans fierce, as most banks were flush with liquidity and the government provided PPP and Economic Injury Disaster Loans (EIDL) programs led to a decline in commercial loan demand. As a result, the yield received on our investment portfolio and lack of new loan production outside the government programs have impacted our net interest margin.

While net interest margin is still expected to stay below historical norms, our balance sheet remains asset sensitive, meaning the Company is poised to benefit in a higher interest rate environment.

2021 LETTER TO SHAREHOLDERS (CON'T)

Dividend

In 2021, your Company was able to increase its dividend by 10% and returned a total of $1.4 million to shareholders. Furthermore, in February of 2022, the Board declared a special dividend of $0.50 per share, in addition to the regular quarterly dividend of $0.30 per share for the first quarter.

The Board regularly considers the Company's capital position, including the sources and uses, and decides how to best deploy that capital or to return it to shareholders.

Earl DesJardins Retirement

Chairperson Earl DesJardins retired in April 2021 from the Boards of Directors of both the Company and the Bank after nineteen years of service. Elected Chairperson in 2002, Earl provided steady leadership during both the great recession of 2009-2010 and the Covid-19 pandemic. On behalf of his fellow Directors, the leadership team and the Bank's employees, we would like to thank Earl for his dedication.

New Board Members

In August 2021, Anthony Roggenbuck and Steven Schweihofer were appointed to the Boards of Directors of both the Company and the Bank.

Tony manages a crop farming operation with his family, and a trucking operation serving the agricultural community. Tony and his family live in the Ruth area in Huron County. With our entry into the Ruth market in 2016 and our exposure to the agricultural market, Tony bolsters our current resources to continue our success and business line.

Steve has served as both an owner and the Chief Financial Officer for Foster Blue Water Oil, a large operator of retail and wholesale petroleum distributors throughout much of Michigan. He possesses a strong background in accounting, finance, and audit. Steve and his family live in the Marysville area.

We are pleased to welcome both of these community minded gentlemen to our organization.

Thank You

Your Company's continued financial success represents the work and commitment of a host of individuals, especially our employees. They have put forth an exceptional effort over the last several years to position the Bank as a provider of competitive, customer-focused service. Customer expectations on how their banking services are delivered have changed significantly, and our team has made considerable efforts to ensure we have the products and services needed to meet those expectations. For this, we say "thank you."

We also thank you, our shareholders, for the support and confidence you have placed in us. We recognize that you have chosen to invest your capital in this Company, and will continue to work hard to provide you with a competitive return.

Sincerely,

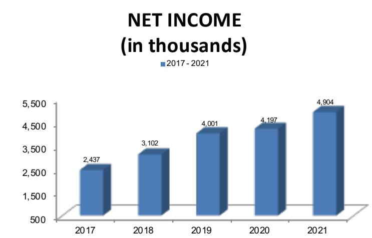
TIMOTHY WARD
Chairperson
Eastern Michigan Financial Corporation

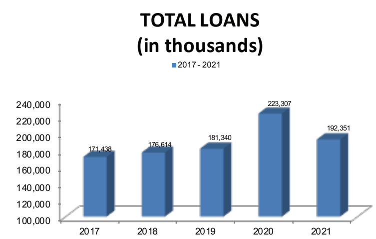
WILLIAM OLDFORD, JR.
President and Chief Executive Officer
Eastern Michigan Financial Corporation

2021 HIGHLIGHTS AND TEN YEAR FINANCIAL PROFILE

2021 HIGHLIGHTS

FOR THE YEAR (in thousands)	2021	2020	% Change
Net interest income	$ 13,209	$ 11,874	11.2%
Non-interest income	2,877	2,855	0.8%
Non-interest expense	10,204	9,351	9.1%
Net income	4,904	4,197	16.8%
YEAR END (in thousands)			
Total assets	$ 534,043	$ 467,965	14.1%
Loans, net of unearned interest	192,351	223,307	-13.9%
Allowance for loan losses	1,719	1,835	-6.3%
Deposits	487,941	423,674	15.2%
Shareholders' equity	44,578	42,897	3.9%
PER SHARE			
Net income	$ 3.98	$ 3.44	15.7%
Book value	35.64	35.02	1.8%
Cash dividends	1.10	1.00	10.0%
Number of shares outstanding	1,250,647	1,224,895	2.1%





TEN YEAR FINANCIAL PROFILE

FOR THE YEAR (in thousands)	2021	2020	2019	2018	2017	2016	2015	2014	2013	2012
Net interest income	$ 13,209	$ 11,874	$ 11,919	$ 10,582	$ 9,244	$ 9,086	$ 8,306	$ 8,275	$ 8,175	$ 8,500
Provision for loan losses	(119)	228	155	363	173	79	(144)	69	283	406
Non-interest income	2,877	2,855	1,765	1,942	2,095	1,725	1,694	1,530	1,669	1,571
Non-interest expense	10,204	9,351	8,664	8,377	7,637	7,856	7,448	7,291	7,223	7,395
Income before income taxes	6,001	5,150	4,865	3,784	3,529	2,876	2,696	2,445	2,338	2,270
Less: income taxes	1,097	953	864	682	1,092	776	724	618	518	497
Net income	4,904	4,197	4,001	3,102	2,437	2,100	1,972	1,827	1,820	1,773
AT YEAR END (in thousands)										
Total investment securities	$ 229,276	$ 72,123	$ 103,139	$ 89,065	$ 94,370	$ 106,504	$ 110,344	$ 118,054	$ 113,141	$ 85,452
Restricted investments	1,116	1,116	1,116	1,056	1,056	1,056	980	1,022	916	916
Federal funds sold	418	386	21,128	20,448	176	582	-	-	-	-
Total loans	192,351	223,307	181,340	176,614	171,438	154,265	137,535	137,025	136,487	139,580
Allowance for loan losses	1,719	1,835	1,574	1,551	1,330	1,222	1,204	1,688	1,765	2,758
Total assets	534,043	467,965	373,906	355,073	329,426	324,956	293,028	283,251	279,362	270,472
Total deposits	487,941	423,674	333,878	319,584	295,923	293,079	262,124	253,998	252,086	242,897
Shareholders' equity	44,578	42,897	38,752	34,477	32,649	30,643	29,572	28,394	26,489	26,616
PER SHARE										
Net income	$ 3.98	$ 3.44	$ 3.33	$ 2.61	$ 2.36	$ 1.82	$ 1.73	$ 1.61	$ 1.60	$ 1.57
Book value	35.64	35.02	32.16	28.94	27.76	26.55	25.81	24.97	23.32	23.52
Cash dividends per share	1.10	1.00	0.84	0.73	0.63	0.60	0.55	0.55	0.55	0.55
Number of shares outstanding	1,250,647	1,224,895	1,204,799	1,191,159	1,176,011	1,154,370	1,145,731	1,137,294	1,135,669	1,131,649
Return on average assets	0.96%	0.98%	1.08%	0.91%	0.74%	0.67%	0.69%	0.65%	0.67%	0.68%
Return on average equity	11.18%	10.37%	10.97%	9.49%	7.70%	6.90%	6.64%	6.65%	6.83%	6.83%
Capital ratio	8.69%	9.14%	10.43%	9.77%	10.10%	9.70%	10.33%	9.95%	9.75%	9.76%

2021 CONSOLIDATED BALANCE SHEETS

(Dollars in thousands except per share data)	December 31 2021	December 31 2020
Assets		
Cash and demand deposits due from banks	$ 2,859	$ 9,116
Interest bearing balances due from banks	73,045	118,782
Federal funds sold	418	386
Cash and cash equivalents	**76,322**	**128,284**
Certificates of deposit held in other banks	14,809	24,932
Debt securities		
Available-for-sale	227,351	68,237
Held-to-maturity	1,925	3,886
Restricted, at cost	1,116	1,116
Net loans	190,632	221,472
Accrued interest receivable	1,906	1,286
Premises and equipment, net	7,587	7,244
Bank-owned life insurance	9,925	10,001
Other assets	2,470	1,507
Total assets	**$ 534,043**	**$ 467,965**
Liabilities and Shareholders' Equity		
Deposits		
Noninterest-bearing	$ 132,756	$ 122,251
Interest-bearing	355,185	301,423
Total deposits	**487,941**	**423,674**
Accrued interest payable and other liabilities	1,524	1,394
Total liabilities	**489,465**	**425,068**
Commitments and contingencies (Notes 11, 13, and 14)		
Shareholders' equity		
Common stock, $5 par value; 3,000,000 shares authorized, 1,250,647 (1,224,895 in 2020) shares issued and outstanding	6,188	6,082
Additional paid-in-capital	2,465	2,299
Retained earnings	36,969	33,433
Deferred compensation	325	210
Accumulated other comprehensive (loss) income	(1,369)	873
Total shareholders' equity	**44,578**	**42,897**
Total liabilities and shareholders' equity	**$ 534,043**	**$ 467,965**

The accompanying notes are an integral part of these consolidated financial statements.

2021 CONSOLIDATED STATEMENTS OF INCOME

(Dollars in thousands except per share data)	Year Ended December 31 2021	Year Ended December 31 2020
Interest and dividend income		
Loans (including fees)	$ 10,975	$ 9,703
Securities		
Taxable	2,028	1,628
Nontaxable	121	232
Other	44	54
Federal funds sold and deposits with banks	468	710
Total interest and dividend income	**13,636**	**12,327**
Interest expense	427	453
Net interest income	**13,209**	**11,874**
Provision for loan losses (reversal)	(119)	228
Net interest income, after provision for loan losses (reversal)	**13,328**	**11,646**
Noninterest income		
Service charges on deposit accounts	1,202	1,043
Other service charges and fees	258	278
Other	1,417	1,534
Total noninterest income	**2,877**	**2,855**
Noninterest expenses		
Compensation and benefits	5,672	5,370
Occupancy and equipment	1,178	1,017
Other	3,354	2,964
Total noninterest expenses	**10,204**	**9,351**
Income before federal income taxes	**6,001**	**5,150**
Federal income taxes	1,097	953
Net income	**$ 4,904**	**$ 4,197**
Net income per common share		
Basic	$ 3.98	$ 3.44
Diluted	$ 3.92	$ 3.39

The accompanying notes are an integral part of these consolidated financial statements.

(Dollars in thousands except share data)

	Year Ended December 31	
	2021	2020
Other comprehensive income		
Unrealized (losses) gains on available-for-sale securities:		
Unrealized (loss) gains arising during the year	$ (2,692)	$ 1,178
Reclassification adjustment for net realized gains included in net income	-	(7)
Comprehensive (loss) income on available-for-sale securities before income tax benefit (expense)	(2,692)	1,171
Tax effect	565	(247)
Unrealized (losses) gains on available-for-sale securities, net of tax	(2,127)	924
Unrealized losses on interest rate cap:		
Unrealized losses arising during the year	(177)	-
Reclassification adjustment for interest expense included in net income	31	-
Comprehensive loss on interest rate cap before income tax benefit	(146)	-
Tax effect	31	-
Unrealized losses on interest rate cap, net of tax	(115)	-
Other comprehensive (loss) income	**(2,242)**	**924**
Net income	4,904	4,197
Comprehensive income	**$ 2,662**	**$ 5,121**

The accompanying notes are an integral part of these consolidated financial statements.

2021 CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollars in thousands except per share data)

	Common Stock		Additional Paid-In-Capital	Retained Earnings	Deferred Compensation	Accumulated Other Comprehensive (Loss) Income	Total
	Shares	Amount					
Balances, January 1, 2020	**1,204,799**	**$ 6,006**	**$ 2,261**	**$ 30,459**	**$ 78**	**$ (51)**	**$ 38,753**
Comprehensive income	-	-	-	4,197	-	924	5,121
Common stock options recognized	-	-	4	-	-	-	4
Deferred compensation	5,475	-	-	-	132	-	132
Issuance of restricted stock awards	5,699	31	44	-	-	-	75
Issuance of shares upon exercise of common stock options	8,922	45	(10)	-	-	-	35
Cash dividends paid ($1 per share)	-	-	-	(1,223)	-	-	(1,223)
Balances, December 31, 2020	**1,224,895**	**6,082**	**2,299**	**33,433**	**210**	**873**	**42,897**
Comprehensive income	-	-	-	4,904	-	(2,242)	2,662
Common stock options recognized	-	-	4	-	-	-	4
Deferred compensation	6,635	-	-	-	187	-	187
Common stock transferred from the Rabbi Trust to satisfy deferred compensation obligations	-	12	60	-	(72)	-	-
Issuance of restricted stock awards	4,667	22	84	-	-	-	106
Issuance of shares upon exercise of common stock options	14,450	72	18	-	-	-	90
Cash dividends paid ($1.10 per share)	-	-	-	(1,368)	-	-	(1,368)
Balances, December 31, 2021	**1,250,647**	**$ 6,188**	**$ 2,465**	**$ 36,969**	**$ 325**	**$ (1,369)**	**$ 44,578**

The accompanying notes are an integral part of these consolidated financial statements.

2021 CONSOLIDATED STATEMENTS OF CASH FLOWS

(Dollars in thousands except per share data)	Year Ended December 31 2021	2020
Cash flows from operating activities		
Net income	$ 4,904	$ 4,197
Adjustments to reconcile net income to net cash provided by operating activities		
Provision (reversal) for loan losses	(119)	228
Depreciation	428	403
Net amortization of investment securities premiums	1,599	766
Gain on available-for-sale debt securities	-	(7)
Interest rate cap interest expense	31	-
Share-based compensation	297	211
Net gain on sale of loans	(536)	(832)
Net increase in cash value of bank-owned life insurance	(62)	(13)
Deferred income tax expense (benefit)	7	(2)
Origination of loans held for sale	(16,427)	(27,170)
Proceeds from loan sales	16,963	28,002
Changes in operating assets and liabilities which (used) provided cash		
Accrued interest receivable	(620)	50
Other assets	(1,109)	(224)
Accrued interest payable and other liabilities	688	(126)
Net cash provided by operating activities	**6,044**	**5,483**
Cash flows from investing activities		
Net change in certificates of deposit held in other banks	10,123	(1,422)
Activity in held-to-maturity securities		
Maturities, prepayments, and calls	1,927	3,176
Activity in available-for-sale securities		
Purchases	(204,458)	(20,545)
Maturities, prepayments, calls and sales	41,087	48,797
Proceeds from bank owned life insurance	138	-
Loan principal collections (originations), net	30,959	(41,934)
Purchases of premises and equipment	(771)	(2,191)
Net cash used in investing activities	**(120,995)**	**(14,119)**
Cash flows from financing activities		
Acceptances and withdrawals of deposits, net	64,267	89,796
Net proceeds from exercise of common stock options	90	35
Cash dividends paid	(1,368)	(1,223)
Net cash provided by financing activities	**62,989**	**88,608**
Net (decrease) increase in cash and cash equivalents	**(51,962)**	**79,972**
Cash and cash equivalents, beginning of year	128,284	48,312
Cash and cash equivalents, end of year	**$ 76,322**	**$ 128,284**

The accompanying notes are an integral part of these consolidated financial statements.

(Dollars in thousands except per share data)

1. NATURE OF BUSINESS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Consolidation and Nature of Business

The accompanying consolidated financial statements include the accounts of ***Eastern Michigan Financial Corporation,*** a registered bank holding company (the "Corporation"), and its wholly owned subsidiary, Eastern Michigan Bank (the "Bank"), and the Bank's wholly owned subsidiaries Eastern Michigan Properties, LLC; Eastern Michigan Financial Services, Inc.; and Eastern Michigan Real Estate, Inc. All significant intercompany accounts and transactions have been eliminated in consolidation.

The Corporation is independently owned and operates a community bank engaged in the business of retail and commercial banking services through its nine branches located in Sanilac, Huron, and St. Clair counties in Michigan. Active competition, principally from other commercial banks, savings banks and credit unions, exists in all of the Bank's primary markets. The Bank's results of operations can be significantly affected by changes in interest rates or changes in the automotive and agricultural industries which comprise a significant portion of the local economic environment.

Concentration Risks

The Bank's primary deposit products are interest- and noninterest-bearing checking accounts, savings accounts and time deposits and its primary lending products are real estate mortgages, commercial, agricultural and consumer loans. The Bank does not have significant concentrations with respect to any one industry, customer, or depositor.

The Bank is a state chartered bank and a member of the Federal Deposit Insurance Corporation ("FDIC") Bank Insurance Fund. The Bank is subject to the regulations and supervision of the Federal Reserve Board and state regulators and undergoes periodic examinations by these regulatory authorities. The Corporation is also subject to regulations of the Federal Reserve Board governing bank holding companies.

Economic Uncertainties

The outbreak of a novel coronavirus (COVID-19), which the World Health Organization declared in March 2020 to be a pandemic, continues to spread throughout the United States of America and the globe. As a result, the outbreak has disrupted the Bank's customary operating activities. The extent of the ultimate impact of the pandemic on the Bank's operational and financial performance will depend on various developments, including the duration and spread of the outbreak, and its impact on borrowers, customers, employees, vendors, and regulatory actions, all of which cannot be reasonably predicted at this time. The impact of the COVID-19 outbreak on the Bank's financial condition, operating results, and timing and amounts of cash flows, and the related financial consequences, including the effects of potential changes in key accounting estimates, are highly uncertain.

Recent Events

On March 22, 2020, the federal banking agencies issued an Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus. This guidance encouraged financial institutions to work with borrowers that may be unable to meet their contractual obligations because of the effects of COVID-19. The guidance further indicates that in collaboration with FASB the federal banking agencies concluded that short-term modifications made on a good faith basis to borrowers who were current as of the implementation date of a relief program are not Troubled Debt Restructurings ("TDRs"). The *Coronavirus Aid, Relief and Economic Security* ("CARES") *Act* was passed by Congress on March 27, 2020. Section 4013 of the CARES Act also addressed COVID-19 related modifications and specified that COVID-19 related modifications on loans that were current as of December 31, 2019 were not TDRs. Of note, the suspension of consideration of whether a modification results in a TDR does not eliminate the assessment of loan collectability. On December 27, 2020, the *2021 Consolidated Appropriations Act* was signed into law and included legislation that extended certain relief provisions from the March 2020 CARES Act that were set to expire at the end of 2020. This new legislation extended this relief to the earlier of 60 days after the national emergency termination date or January 1, 2022.

The CARES Act, as amended, included an allocation of loans to be issued by financial institutions through the Small Business Administration ("SBA") Paycheck Protection Program ("PPP"). While the PPP program under the CARES Act expired on August 8, 2020, the Consolidated Appropriations Act included additional funds made available in 2021 within the Paycheck Protection Program. PPP loans are forgivable, in whole or in part, if the proceeds are used for payroll and other permitted purposes in accordance with the requirements of the PPP. These loans carry a fixed rate of 1.00% and a term of two years (loans made before June 5, 2020) or five years (loans made on or after June 5, 2020), if not forgiven, in whole or in part. Loan origination fees associated with PPP loans are deferred and amortized into interest income over the contractual period of 24 months or 60 months, as applicable (or expected term method). Upon SBA forgiveness, any remaining unamortized fees are then recognized into interest income. Payments are deferred until either the date that the SBA remits the amount of forgiveness proceeds to the lender or the date that is 10 months after the last day of the covered period if the borrower does not apply for forgiveness within that 10 month period. Through December 31, 2021, the Bank had originated 1,407 PPP loans totaling $116 million in principal. Fees totaling $5 million were collected from the SBA for these loans as of December 31, 2021. As of December 31, 2021, the remaining balance of PPP loans was $14.5 million. Participation in the PPP had a significant impact on the Bank's asset mix and net interest income in 2021 and 2020.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America ("GAAP") requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and the reported amounts of income and expenses during the year. Actual results could differ from those estimates. Significant estimates include but are not limited to the determination of the allowance for loan losses and the valuation of the interest rate cap.

Summary of Significant Accounting Policies

Accounting policies used in preparation of the accompanying consolidated financial statements are in conformity with accounting principles generally accepted in the United States of America. The principles which materially affect the determination of the consolidated financial position and results of operations of the Corporation and its subsidiaries are summarized below.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, cash and cash equivalents include cash and balances due from banks, and federal funds sold, all of which mature within ninety days. Generally, federal funds are sold for a one-day period. The Corporation maintains deposit accounts in various financial institutions which generally exceed the FDIC insured limits or are not insured. Management does not believe the Corporation is exposed to any significant interest, credit or other financial risk as a result of these deposits.

Certificates of Deposit Held in Other Banks

Certificates of deposit held in other banks mature within 3 years and are carried at cost.

Fair Value Measurements

Fair value refers to the price that would be received to sell an asset or paid to transfer a liability (an exit price) in an orderly transaction between market participants in the market in which the reporting entity transacts such sales or transfers based on the assumptions market participants would use when pricing an asset or liability. Assumptions are developed based upon prioritizing information within a fair value hierarchy that gives the highest priority to quoted prices in active markets (Level 1) and the lowest priority to unobservable data, such as the reporting entity's own data (Level 3).

A description of each category in the fair value hierarchy is as follows:

Level 1: Valuation is based upon quoted prices for identical instruments traded in active markets.

Level 2: Valuation is based upon quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market.

Level 3: Valuation is generated from model-based techniques that use at least one significant assumption not observable in the market. These unobservable assumptions reflect the estimates of assumptions that market participants would use in pricing the asset or liability.

For a further discussion of Fair Value Measurements, refer to Note 2.

Investment Securities

Debt securities that management has the ability and positive intent to hold to maturity are classified as held-to-maturity and are recorded at amortized cost. Debt securities not classified as held-to-maturity are classified as available-for-sale and are recorded at fair value, with unrealized gains and losses, net of the effect of deferred income taxes, recorded in other comprehensive income. Equity securities are carried at fair value, with changes in fair value reported in net income. Equity securities without readily determinable fair values are carried at cost, minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical or a similar investment. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains or losses on the sale of debt securities are recorded in investment income on the trade date and are determined using the specific identification method.

Continued...

(Dollars in thousands except per share data)

Debt securities are reviewed at each reporting period for possible other-than-temporary impairment ("OTTI"). In determining whether an other-than-temporary impairment exists, management must assert that: (a) it does not have the intent to sell the security; and (b) it is more likely than not the Corporation will not have to sell the security before recovery of its cost basis. If these conditions are not met, the Corporation must recognize an other-than-temporary impairment charge through earnings for the difference between the debt security's amortized cost basis and its fair value, and such amount is included in noninterest income. For these debt securities, the Corporation separates the total impairment into the credit loss component and the amount of the loss related to other factors. In order to determine the amount of the credit loss for a debt security, the Corporation calculates the recovery value by performing a discounted cash flow analysis based on the current cash flows and future cash flows management expects to recover. The amount of the total other-than-temporary impairment related to the credit risk is recognized in earnings and is included in noninterest income. The amount of the total other-than-temporary impairment related to other risk factors is recognized as a component of other comprehensive income. For debt securities that have recognized an other-than-temporary impairment through earnings, if through subsequent evaluation there is a significant increase in the cash flow expected, the difference between the amortized cost basis and the cash flows expected to be collected is accreted as interest income.

Restricted Investments

The Bank is a member of the Federal Home Loan Bank System and is required to invest in capital stock of the Federal Home Loan Bank of Indianapolis ("FHLB"). The amount of the required investment is based upon the available balance of the Bank's outstanding home mortgage loans or advances from the FHLB and is carried at cost plus the value assigned to stock dividends.

The Bank is also a member of the Federal Reserve System and is required to invest in capital stock of the Federal Reserve Bank ("FRB"). The amount of the required investment is based upon the contributed capital of Eastern Michigan Bank and is carried at cost.

In addition, the Bank is a Farmer Mac I seller and is required to invest in capital stock of Farmer Mac. The amount of required investment is determined based upon the consolidated assets at the time of the initial stock purchase and is carried at cost.

Loans

Loans that management has the positive intent and ability to hold for the foreseeable future or until maturity or pay-off are generally reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the related loan yield using the interest method.

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Personal loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal and interest is considered doubtful.

All interest accrued in the current year but not collected for loans that are placed on nonaccrual or are charged off, is reversed against interest income while interest accrued but not collected in prior years is reversed against the allowance for loan losses. The interest on these loans is accounted for on the cash-basis until qualifying for return to accrual. Loans are returned to accrual status when all principal and interest amounts contractually due are brought current and future payments are reasonably assured. For impaired loans not classified as nonaccrual, interest income is recognized daily as it is earned according to the terms of the loan agreement.

Nonperforming loans of the loan portfolio are comprised of those loans accounted for on a nonaccrual basis, accruing loans contractually past due 90 days or more as to interest or principal payments (120 days or more past due on real estate residential loans) and loans modified under troubled debt restructurings (nonperforming originated loans).

Allowance for Loan Losses

The allowance for loan losses ("allowance") is an estimate of loan losses inherent in the Bank's loan portfolio. The allowance is established through a provision for loan losses which is charged to expense. Additions to the allowance are expected to maintain the appropriateness of the total allowance after loan losses. Loan losses are charged off against the allowance when the Bank determines the loan balance to be uncollectible. Cash received on previously charged off amounts is recorded as a recovery to the allowance.

The allowance consists of two primary components, general reserves and specific reserves. For such loans that are classified as impaired, a specific reserve is established when the discounted cash flows or collateral value of the impaired loan is lower than the carrying value of the loan. The general component covers non-impaired loans and is based on historical losses adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Bank over the most recent two years. This actual loss experience is adjusted for economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. These factors are inherently subjective and are driven by the repayment risk associated with each portfolio segment.

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loans obtained market price, or the fair value of the collateral, less costs to sell, if the loan is collateral dependent. A loan is collateral dependent if the repayment is expected to be provided solely by the underlying collateral.

Large groups of smaller balance homogeneous loans are collectively evaluated for impairment. Accordingly, the Bank does not separately identify individual consumer, home equity, and residential real estate loans for impairment disclosures, unless such loans are the subject of a restructuring agreement or in nonaccrual status.

The Bank evaluates the credit quality of loans in the consumer loan portfolio, based primarily on the aging status of the loan and payment activity. Accordingly, nonaccrual loans, loans past due as to principal or interest 90 days or more and loans modified under troubled debt restructurings of the originated portfolio and acquired loans past due in accordance with the loans' original contractual terms are considered in a nonperforming status for purposes of credit quality evaluation.

Under certain circumstances, the Bank will provide borrowers relief through loan restructurings. A loan restructuring constitutes a troubled debt restructuring ("TDR") if for economic or legal reasons related to the borrower's financial difficulties the Bank grants a concession to the borrower that it would not otherwise consider. Restructured loans typically present an elevated level of credit risk as the borrowers are not able to perform according to the original contractual terms. Loans that are reported as TDRs are considered impaired and are measured for impairment as described above.

The Bank assigns a risk rating to all loans except pools of homogeneous loans and periodically performs detailed internal reviews of all such loans over a certain threshold to identify credit risks and to assess the overall collectability of the portfolio. These risk ratings are also subject to examination by the Bank's regulators. During the internal reviews, management monitors and analyzes the financial condition of borrowers and guarantors, trends in the industries in which the borrowers operate and the fair values of collateral securing the loans. These credit quality indicators are used to assign a risk rating to each individual loan. The risk ratings can be grouped into six major categories, defined as follows:

Pass: A pass loan is a credit with no existing or known potential weaknesses deserving of management's close attention.

Watch: Loans classified as watch have most of the characteristics of a pass loan; however, emerging weaknesses have been detected and warrant additional attention.

Special Mention: Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, this potential weakness may result in deterioration of the repayment prospects for the loan or of the Bank's credit position at some future date. Special mention loans are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification.

Substandard: Loans classified as substandard are not adequately protected by the current net worth and paying capacity of the borrower or of the collateral pledged, if any. Loans classified as substandard have a well-defined weakness or weaknesses that jeopardize the repayment of the debt. Well defined weaknesses include a borrower's lack of marketability, inadequate cash flow or collateral support, failure to complete construction on time, or the failure to fulfill economic expectations. They are characterized by the distinct possibility that the Bank will sustain some loss if the deficiencies are not corrected.

Doubtful: Loans classified as doubtful have all the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or repayment in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable.

Loss: Loans classified as loss are considered uncollectible and are charged off immediately.

The majority of the Bank's consumer and residential loan portfolios are comprised of secured loans that are evaluated at origination on a centralized basis against standardized underwriting criteria. The ongoing measurement of credit quality of the consumer, home equity, and residential real estate loan portfolios is largely done on an exception basis. If payments are made on schedule, as agreed, then no further monitoring is performed. However, if delinquency occurs, the delinquent loans are turned over to the Bank's collection department for resolution, which generally occurs fairly rapidly and often through repossession and foreclosure. Credit quality for the entire consumer, home equity, and residential real estate loan portfolio is measured by the periodic delinquency rate, nonaccrual amounts and actual losses incurred.

Continued...

(Dollars in thousands except per share data)

The Bank maintains a separate general valuation allowance for each portfolio segment. These portfolio segments include commercial and industrial, agricultural, real estate related industries, other commercial loans, residential real estate, consumer and other, and home equity with risk characteristics described as follows:

Commercial and Industrial: Commercial and industrial loans generally possess a lower inherent risk of loss than real estate portfolio segments because these loans are generally underwritten to existing cash flows of operating businesses. Debt coverage is provided by business cash flows and economic trends influenced by unemployment rates and other key economic indicators are closely correlated to the credit quality of these loans.

Agricultural: The risk associated with agricultural loans depends on current market prices, weather conditions and other outside factors that are distinct to this segment. These loans, as with commercial and industrial loans, are generally underwritten to existing cash flows of operating businesses. Debt coverage, however, is influenced by different economic indicators than other commercial loans.

Real Estate Related Industries: These loans generally possess a higher inherent risk of loss than other loan portfolio segments. Adverse economic developments or an overbuilt market impact real estate projects and may result in troubled loans. Trends in vacancy rates of commercial properties impact the credit quality of these loans. High vacancy rates reduce operating revenues and the ability for the properties to produce sufficient cash flow to service debt obligations.

Other Commercial: Other commercial loans are collateralized by real estate and are underwritten based upon existing cash flows of operating businesses. Because debt coverage is provided by business cash flows, trends in real estate values have less impact on this segment than other real estate segments and would be influenced more by unemployment rates and other key economic indicators.

Residential Real Estate: The degree of risk in residential mortgage lending depends primarily on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion. These loans generally possess a lower inherent risk of loss than other real estate portfolio segments. 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 that the borrowers' capacity to repay their obligations may be deteriorating.

Consumer and Other: The consumer and other loan portfolio is usually comprised of a large number of small loans, including automobile, personal loans, etc. Most loans are made directly for consumer purchases. 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.

Home Equity: As with residential real estate, the degree of risk in home equity lending depends on the loan amount in relation to collateral value, the interest rate and the borrower's ability to repay in an orderly fashion but in addition depends on the value of any loan with a first lien interest. These loans generally possess a higher inherent risk of loss than residential real estate portfolio segments. 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 that the borrowers' capacity to repay their obligations may be deteriorating.

Although management believes the allowance to be appropriate, ultimate losses may vary from its periodic estimates. The Board of Directors reviews the appropriateness of the allowance monthly, including consideration of the relevant risks in the portfolio, current economic conditions and other factors. If the Board of Directors and management determine that changes are warranted based on those reviews, the allowance is adjusted. In addition, the Bank's primary regulators review the appropriateness of the allowance. The regulatory agencies may require changes to the allowance based on their judgment about information available at the time of their examination.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate and are included in loans on the accompanying consolidated balance sheets, if any. Net unrealized losses, if any, are recognized through a valuation allowance of which the provision is accounted for in the consolidated statements of income.

Transfers of Financial Assets

Transfers of financial assets, including mortgage loans held for sale, are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when 1) the assets have been legally isolated from the Corporation, 2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and 3) the Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Other than servicing, as disclosed in Note 5, the Corporation has no substantive continuing involvement related to these loans. The Corporation sold to an unrelated third party residential mortgage loans with proceeds of $16,963 and $28,002 during 2021 and 2020, respectively, which resulted in a net gain of $536 and $832 for 2021 and 2020, respectively. Servicing fee income earned on such loans was $122 and $83 for 2021 and 2020, respectively, and is included in other noninterest income on the consolidated statements of income.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the purchase or sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses.

Servicing assets or liabilities are amortized in proportion to and over the period of net servicing income or net servicing loss and are assessed for impairment or increased obligation based on the fair value of rights compared to amortized cost at each reporting date. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type, and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Bank later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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

Derivative Instruments and Hedging Activities

Accounting Standards Codification ("ASC") 815 provides the disclosure requirements for derivatives and hedging activities with the intent to provide users of financial statements with an enhanced understanding of: (1) how and why an entity uses derivative instruments, (2) how the entity accounts for derivative instruments and related hedged items, and (3) how derivative instruments and related hedged items affect an entity's financial position, financial performance, and cash flows. Further, qualitative disclosures are required that explain the Corporation's objectives and strategies for using derivatives, as well as quantitative disclosures about the fair value of and gains and losses on derivative instruments, and disclosures about credit-risk-related contingent features in derivative instruments.

As required by ASC 815, the Corporation records all derivatives on the balance sheet at fair value. The accounting for changes in the fair value of derivatives depends on the intended use of the derivative, whether the Corporation has elected to designate a derivative in a hedging relationship and apply hedge accounting and whether the hedging relationship has satisfied the criteria necessary to apply hedge accounting. Derivatives designated and qualifying as a hedge of the exposure to changes in the fair value of an asset, liability, or firm commitment attributable to a particular risk, such as interest rate risk, are considered fair value hedges. Derivatives designated and qualifying as a hedge of the exposure to variability in expected future cash flows, or other types of forecasted transactions, are considered cash flow hedges. Hedge accounting generally provides for the matching of the timing of gain or loss recognition on the hedging instrument with the recognition of the changes in the fair value of the hedged asset or liability that are attributable to the hedged risk in a fair value hedge or the earnings effect of the hedged forecasted transactions in a cash flow hedge. The Corporation may enter into derivative contracts that are intended to economically hedge certain of its risk, even though hedge accounting does not apply or the Corporation elects not to apply hedge accounting.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, on the date of transfer, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of the carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in expenses from foreclosed assets, net, a component of other noninterest expenses in the consolidated statements of income.

Premises and Equipment

Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation which is computed principally by the straight-line method based upon the estimated useful lives of the related assets, which range from 3 to 40 years. Major improvements are capitalized and appropriately amortized based upon the useful lives of the related assets or the expected terms of the leases, if shorter, using the straight-line method. Maintenance, repairs and minor alterations are charged to current operations as expenditures occur. Management annually reviews these assets for impairment whenever events or changes in circumstances indicate the related carrying amount may not be recoverable.

Continued...

(Dollars in thousands except per share data)

Share-Based Compensation Plans

Compensation cost relating to share-based payment transactions, including common stock option grants, restricted stock awards, and deferred compensation, are measured based on the estimated fair value of the equity or liability instruments issued on the grant dates and is recognized over the service period, which is generally the vesting period.

Bank-Owned Life Insurance

The Bank holds life insurance policies purchased on the lives of key officers. In the event of death of one of these individuals, the Bank, as beneficiary of the policies, would receive a specified cash payment equal to the face value of the policy. Such policies are recorded at their cash surrender value, or the amount that can be currently realized as of the balance sheet date. The change in cash surrender value is an adjustment of premiums paid in determining the net expense or income recognized under the contracts for the year and is included in other noninterest income on the consolidated statements of income.

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Bank has entered into commitments to extend credit, including commercial letters of credit and standby letters of credit. Such financial instruments are considered to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is considered insignificant, the commitments are generally recorded only when they are funded.

Business Acquisition Intangibles and Goodwill

A past business combination included identified amounts related to the valuation of customer deposit relationships (core deposit intangibles), which are being amortized on the straight line method over ten years, and residual goodwill, which is included in other assets. Such goodwill represents the purchase price in excess of identifiable assets and is not amortized but is evaluated by management for impairment at least annually, or at an interim basis if an event occurs or circumstances change that would more likely than not reduce the fair value of the reporting unit below its carrying value.

Income Taxes

Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred income tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities and gives current recognition to changes in federal income tax rates and laws. Valuation allowances are established, where necessary, to reduce deferred tax assets to the amount expected more likely than not to be realized. Income tax expense is the tax payable or refundable for the year plus or minus the change during the year in deferred tax assets and liabilities.

Net Income Per Share

Basic earnings per share represent income available to common shareholders divided by the weighted-average number of common shares outstanding less unvested restricted stock during the year. Diluted earnings per share reflects additional common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustments to income that would result from the assumed issuance. Potential common shares that may be issued by the Corporation relate to outstanding common stock options and restricted stock awards, and are determined using the treasury stock method.

Subsequent Events

In preparing these consolidated financial statements, the Corporation has evaluated, for potential recognition or disclosure, significant events or transactions that occurred during the period subsequent to December 31, 2021, the most recent balance sheet presented herein, through ______, 2022, the date these consolidated financial statements were available to be issued. No such events or transactions were identified.

Pending Accounting Pronouncement

Accounting Standards Update ("ASU") 2016-13, Financial Instruments - Credit Losses: Measurement of Credit Losses on Financial Instruments, and all subsequent amendments to the ASU (collectively "ASU 326"). The standard was originally issued in 2016 with the intention of improving financial reporting by requiring timelier recording of credit losses on loans and certain other financial instruments held by financial institutions. The ASU requires that the measurement of all expected credit losses for financial assets that are measured at amortized cost at the reporting date be based on historical experience, current conditions, and reasonable and supportable forecasts. Financial institutions will also use forward-looking information to develop their credit loss estimates. In addition, the ASU amends existing guidance on accounting for credit losses on available-for-sale debt securities, purchased financial assets with credit deterioration, and also applies to certain off-balance sheet credit exposures. The ASU on credit losses will take effect for the Bank for fiscal years beginning after December 15, 2022. Management is currently evaluating the provisions of ASU 2016-13 to determine the potential impact on the Bank's consolidated financial statements.

2. FAIR VALUE MEASUREMENTS

The Corporation utilizes fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. Equity securities, available-for-sale debt securities and derivatives 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 debt securities held-to-maturity, loans, loans held for sale, foreclosed assets, mortgage servicing rights, goodwill and certain other assets and liabilities. These nonrecurring fair value adjustments typically involve the application of lower of cost or market accounting or write downs of individual assets.

Following is a description of the valuation methodologies and key inputs used to measure financial assets and liabilities recorded at fair value, which includes an indication of the level of the fair value hierarchy in which the assets or liabilities are classified.

Investment Securities

Equity securities and available-for-sale debt securities are recorded at fair value on a recurring basis. Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions.

Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange, those that are traded by dealers or brokers in active over-the-counter markets and money market funds. Level 2 fair value measurement is based upon quoted prices for similar securities, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions and other factors such as credit loss and liquidity assumptions. Level 2 securities include certain U.S. government and federal agency securities, mortgage-backed securities issued by government-sponsored entities, state and municipal bonds, and corporate debt securities in active markets. For Level 3 securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators. Securities classified as Level 3 include securities in less liquid markets.

Derivatives

The Corporation utilizes derivative instruments to manage interest rate risk including interest rate caps. Derivatives are reported at fair value utilizing Level 2 inputs. Derivative instruments held by the Corporation for risk management purposes, are traded in over-the-counter markets where quoted market prices are not readily available. The Corporation measures fair value using models that primarily utilize market observable inputs, such as yield curves and option volatilities, and include the value associated with counterparty credit risk. In addition, the Corporation obtains third-party valuation sources. Derivatives are included in other assets or liabilities on the Consolidated balance sheets.

A description of the derivative instrument the Corporation utilizes is as follows:

Interest rate cap: Interest rate caps are designated as cash flow hedges which involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for and up-front premium.

Impaired Loans

The fair value of impaired loans is measured in accordance with accounting standards for subsequent measurement of receivables. The fair value of impaired loans is estimated using one of several methods, including collateral value, liquidation value and discounted cash flows. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Impaired loans where an allowance is established based on the fair value of collateral require classification in the fair value hierarchy. When the fair value of the collateral is based on an observable market price or a current appraised value, the Corporation records the impaired loan as nonrecurring Level 2. When a current appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Corporation records the impaired loan as nonrecurring Level 3.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Assets Recorded at Fair Value on a Recurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a recurring basis as of December 31:

	Assets at Fair Value			
2021	**Level 1**	**Level 2**	**Level 3**	**Total**
Debt securities available-for-sale:				
U.S. treasury notes	$ 53,942	$ -	$ -	$ 53,942
U.S. government and federal agencies	-	458	-	458
Corporate bonds	1,110	83,062	-	84,172
Agency issued mortgage-backed securities	-	20,832	-	20,832
States and municipals	677	55,354	445	56,476
Other asset-backed securities	-	11,471	-	11,471
Derivatives	-	323	-	323
Total assets at fair value	**$ 55,729**	**$ 171,500**	**$ 445**	**$ 227,674**

Continued...

(Dollars in thousands except per share data)

2020	Assets at Fair Value Level 1	Level 2	Level 3	Total
Debt securities available-for-sale:				
U.S. treasury notes	$ 508	$ -	$ -	$ 508
U.S. government and federal agencies	-	8,033	-	8,033
Corporate bonds	269	9,988	-	10,257
Agency issued mortgage-backed securities	-	39,786	-	39,786
States and municipals	-	8,356	500	8,856
Other asset-backed securities	-	797	-	797
Total assets at fair value	**$ 777**	**$ 66,960**	**$ 500**	**$ 68,237**

The following table sets forth a summary of changes in fair value of the Corporation's Level 3 assets measured at fair value on a recurring basis:

2021	Municipal Securities
Balance of recurring Level 3 assets at January 1, 2021	$ 500
Total gains or losses (realized/unrealized):	
Realized	-
Unrealized	(55)
Balance of recurring Level 3 assets at December 31, 2021	**$ 445**

2020	Municipal Securities
Balance of recurring Level 3 assets at January 1, 2020	$ 553
Total gains or losses (realized/unrealized):	
Realized	-
Unrealized	(53)
Balance of recurring Level 3 assets at December 31, 2020	**$ 500**

Unrealized losses on available-for-sale debt securities, net of deferred taxes, are included in accumulated other comprehensive (loss) income on the consolidated balance sheets.

Assets Recorded at Fair Value on a Nonrecurring Basis

The following tables set forth by level, within the fair value hierarchy, the recorded amount of assets and liabilities measured at fair value on a nonrecurring basis as of December 31:

2021	Assets of Carrying Value Level 1	Level 2	Level 3	Total
Impaired loans (1)	$ -	$ -	$ 2,330	$ 2,330

2020	Assets of Carrying Value Level 1	Level 2	Level 3	Total
Impaired loans (1)	$ -	$ -	$ 2,868	$ 2,868

(1) Certain impaired loans were remeasured and reported at fair value through a specific valuation allowance. Impaired loans of $2,330 and $2,868 as of December 31, 2021 and 2020, respectively, were reduced by a specific valuation allowance totaling $130 and $140 as of those dates.

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2021:

Instrument	Level 3 Instruments Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 2,330	Discounted Appraisal Value	Discount Applied to Collateral	1-27% (12.3%)

Quantitative information about Level 3 fair value measurements is as follows as of December 31, 2020:

Instrument	Level 3 Instruments Fair Value	Valuation Technique	Unobservable Input	Range (Weighted Average)
Impaired loans	$ 2,868	Discounted Appraisal Value	Discount Applied to Collateral	1-28% (9.5%)

Estimated Fair Values of Financial Instruments Not Recorded at Fair Value in their Entirety on a Recurring Basis

Disclosure of the estimated fair values of financial instruments, which differ from carrying values, often requires the use of estimates. In cases where quoted market values in an active market are not available, the Corporation uses present value techniques and other valuation methods to estimate the fair values of its financial instruments. These valuation methods require considerable judgment and the resulting estimates of fair value can be significantly affected by the assumptions made and methods used. The methodologies for estimating fair value of financial assets and liabilities on a recurring and nonrecurring basis are discussed above.

The carrying amount and estimated fair value of financial instruments not recorded at fair value in their entirety on a recurring basis on the Corporation's consolidated balance sheets are as follows at December 31:

	2021 Carrying Amount	2021 Estimated Fair Value	2020 Carrying Amount	2020 Estimated Fair Value
Assets				
Cash and cash equivalents	$ 76,322	$ 76,322	$ 128,284	$ 128,284
Certificates of deposit held in other banks	14,809	14,948	24,932	25,392
Investment securities held-to-maturity	1,925	1,945	3,886	3,957
Restricted investments	1,116	1,116	1,116	1,116
Net loans	190,632	192,531	221,472	220,573
Mortgage servicing rights	517	520	390	390
Accrued interest receivable	1,906	1,906	1,286	1,286
Liabilities				
Noninterest-bearing deposits	$ 132,756	$ 132,756	$ 122,251	$ 122,251
Interest-bearing deposits	355,185	354,803	301,423	301,416
Accrued interest payable	7	7	8	8

3. INVESTMENT SECURITIES

The amortized cost and fair value of non-trading investment securities, including gross unrealized gains and losses, are summarized as follows as of December 31:

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
Agency issued mortgage-backed securities	$ 1,925	$ 20	$ -	$ 1,945
Available-for-sale				
U.S. treasury notes	54,072	114	244	53,942
U.S. government and federal agencies	458	-	-	458
Corporate bonds	85,170	36	1,034	84,172
Agency issued mortgage-backed securities	20,595	285	48	20,832
States and municipals	57,127	82	733	56,476
Other asset-backed securities	11,517	-	46	11,471
Total available-for-sale	**228,939**	**517**	**2,105**	**227,351**
Total securities	**$ 230,864**	**$ 537**	**$ 2,105**	**$ 229,296**

2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Held-to-maturity				
Agency issued mortgage-backed securities	$ 3,386	$ 68	$ 1	$ 3,453
States and municipals	500	4	-	504
Total held-to-maturity	**3,886**	**72**	**1**	**3,957**
Available-for-sale				
U.S. treasury notes	503	5	-	508
U.S. government and federal agencies	7,981	52	-	8,033
Corporate bonds	10,253	40	36	10,257
Agency issued mortgage-backed securities	38,877	950	41	39,786
States and municipals	8,710	146	-	8,856
Other asset-backed securities	809	-	12	797
Total available-for-sale	**67,133**	**1,193**	**89**	**68,237**
Total securities	**$ 71,019**	**$ 1,265**	**$ 90**	**$ 72,194**

Continued...

Continued...

(Dollars in thousands except per share data)

Investment securities with carrying values of $7,591 and $21,093 at December 31, 2021 and 2020, respectively, were pledged to secure public deposits or for other purposes as permitted or required by law.

The amortized cost and fair value of held-to-maturity and available-for-sale debt securities grouped by contractual maturity at December 31, 2021, are summarized as follows:

	Maturing					
	Due in One Year or Less	Due After One Year Through Five Years	Due After Five Years Through Ten Years	Over Ten Years	Securities With Variable Monthly Payments or No Contractual Maturity	Total
Held-to-maturity						
Agency issued mortgage-backed securities	$ -	$ -	$ -	$ -	$ 1,925	$ 1,925
Available-for-sale						
U.S. treasury notes	-	21,513	32,559	-	-	54,072
U.S. government and federal agencies	458	-	-	-	-	458
Corporate bonds	257	59,472	25,441	-	-	85,170
Agency issued mortgage-backed securities	-	-	-	-	20,595	20,595
State and municipals	920	18,021	36,553	1,633	-	57,127
Other asset-backed securities	-	-	-	-	11,517	11,517
Total available-for-sale	**1,635**	**99,006**	**94,553**	**1,633**	**32,112**	**228,939**
Total amortized cost	**$ 1,635**	**$ 99,006**	**$ 94,553**	**$ 1,633**	**$ 34,037**	**$ 230,864**
Fair value	**$ 1,644**	**$ 97,908**	**$ 93,858**	**$ 1,638**	**$ 34,248**	**$ 229,296**

Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations.

Because of their variable monthly payments, mortgage-backed and other asset-backed securities are not reported by a specific maturity group.

During 2021, proceeds from sales of available-for-sale securities amounted to approximately $265. There were no gross realized gains or losses recognized in 2021. During 2020, proceeds from sales of available-for-sale securities amounted to approximately $5,979, gross realized gains amounted to approximately $19 and gross realized losses amounted to approximately $12.

Information pertaining to securities with unrealized losses aggregated by investment category and the length of time that individual securities have been in a continuous loss position at December 31 is as follows:

	Less Than 12 Months		Over 12 Months			Total
2021	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Gross Unrealized Losses
Securities available-for-sale						
U.S. treasury notes	$ 27,735	$ 244	$ -	$ -	$ 27,735	$ 244
Corporate bonds	75,478	1,024	990	10	76,468	1,034
Agency issued mortgage-backed securities	2,962	14	2,704	34	5,666	48
States and municipals	46,426	733	-	-	46,426	733
Other asset-backed securities	10,967	46	-	-	10,967	46
Total securities available-for-sale	**$ 163,568**	**$ 2,061**	**$ 3,694**	**$ 44**	**$ 167,262**	**$ 2,105**

	Less Than 12 Months		Over 12 Months			Total
2020	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Total Gross Unrealized Losses
Securities held-to-maturity						
Agency issued mortgage-backed securities	$ -	$ -	$ 262	$ 1	$ 262	$ 1
Securities available-for-sale						
Corporate bonds	2,535	7	1,971	29	4,506	36
Agency issued mortgage-backed securities	473	6	3,640	35	4,113	41
Other asset-backed securities	797	12	-	-	797	12
Total securities available-for-sale	**$ 3,805**	**$ 25**	**$ 5,611**	**$ 64**	**$ 9,416**	**$ 89**

As of December 31, 2021, the Corporation's investment security portfolio consisted of 319 securities, 210 of which were in an unrealized loss position.

As of December 31, 2021 and 2020, management conducted an analysis to determine whether all securities currently in an unrealized loss position should be considered other-than-temporarily impaired. Such analyses considered, among other factors, the following criteria:

- Has the value of the investment declined more than what is deemed reasonable based on a risk and maturity adjusted discount rate?
- Is the investment credit rating below investment grade?
- Is it probable that the issuer will be unable to pay the amount when due?
- Is it more likely than not that the Corporation will not have to sell the security before recovery of its cost basis?
- Has the duration of the investment been extended for an unreasonable period of time?

Based on the Corporation's analysis using the above criteria, the fact that management has asserted that it does not have the intent to sell these securities in an unrealized loss position, and that it is more likely than not the Corporation will not be required to sell the securities before recovery of their cost basis, management does not believe that the values of any securities are other-than-temporarily impaired as of December 31, 2021 or 2020.

4. LOANS AND ALLOWANCE FOR LOAN LOSSES

The Bank grants commercial, consumer and residential mortgage loans to customers situated primarily in Sanilac, Huron and St. Clair counties in Michigan. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area. Substantially all of the consumer and residential loans are secured by various items of property, while commercial loans are secured primarily by business assets and personal guarantees; a portion of loans are unsecured.

Loans are summarized as follows at December 31:

	2021	2020
Commercial and industrial	$ 28,640	$ 72,341
Agricultural	45,412	40,386
Real estate related industries	34,936	37,185
Other commercial	30,948	32,737
Residential real estate	30,108	20,342
Consumer and other	15,377	13,481
Home equity	6,930	6,835
Total loans	192,351	223,307
Allowance for loan losses	1,719	1,835
Loans, net	**$ 190,632**	**$ 221,472**

The allowance for loan losses and loans are as follows for the year ended December 31, 2021:

	Commercial and Industrial	Agricultural	Real Estate Related Industries	Other Commercial	Residential Real Estate	Consumer and Other	Home Equity	Total
Allowance for loan losses								
Balance at beginning of year	$ 230	$ 568	$ 356	$ 434	$ 118	$ 89	$ 40	$ 1,835
Provision for loan losses (reversal)	(116)	(2)	(18)	(78)	65	34	(4)	(119)
Loans charged off	-	-	-	-	-	(28)	-	(28)
Recoveries of loans previously charged off	-	12	2	-	-	12	5	31
Balance at end of year	**$ 114**	**$ 578**	**$ 340**	**$ 356**	**$ 183**	**$ 107**	**$ 41**	**$ 1,719**
Allowance for loan losses attributable to loans								
Individually evaluated for impairment	$ -	$ 65	$ 50	$ 13	$ -	$ 2	$ -	$ 130
Collectively evaluated for impairment	114	513	290	343	183	105	41	1,589
Total allowance for loan losses	**$ 114**	**$ 578**	**$ 340**	**$ 356**	**$ 183**	**$ 107**	**$ 41**	**$ 1,719**
Loans								
Individually evaluated for impairment	$ -	$ 3,180	$ 192	$ 1,815	$ 124	$ 96	$ 32	$ 5,439
Collectively evaluated for impairment	28,640	42,232	34,744	29,133	29,984	15,281	6,898	186,912
Total loans	**$ 28,640**	**$ 45,412**	**$ 34,936**	**$ 30,948**	**$ 30,108**	**$ 15,377**	**$ 6,930**	**$ 192,351**

The allowance for loan losses and loans are as follows for the year ended December 31, 2020:

	Commercial and Industrial	Agricultural	Real Estate Related Industries	Other Commercial	Residential Real Estate	Consumer and Other	Home Equity	Total
Allowance for loan losses								
Balance at beginning of year	$ 266	$ 581	$ 277	$ 290	$ 74	$ 53	$ 33	$ 1,574
Provision for loan losses	(37)	(23)	47	144	44	46	7	228
Loans charged off	-	-	-	-	-	(23)	-	(23)
Recoveries of loans previously charged off	1	10	32	-	-	13	-	56
Balance at end of year	**$ 230**	**$ 568**	**$ 356**	**$ 434**	**$ 118**	**$ 89**	**$ 40**	**$ 1,835**
Allowance for loan losses attributable to loans								
Individually evaluated for impairment	$ -	$ 65	$ 54	$ 17	$ -	$ 3	$ 1	$ 140
Collectively evaluated for impairment	230	503	302	417	118	86	39	1,695
Total allowance for loan losses	**$ 230**	**$ 568**	**$ 356**	**$ 434**	**$ 118**	**$ 89**	**$ 40**	**$ 1,835**
Loans								
Individually evaluated for impairment	$ -	$ 4,036	$ 218	$ 1,586	$ 150	$ 16	$ 42	$ 6,048
Collectively evaluated for impairment	72,341	36,350	36,967	31,151	20,192	13,465	6,793	217,259
Total loans	**$ 72,341**	**$ 40,386**	**$ 37,185**	**$ 32,737**	**$ 20,342**	**$ 13,481**	**$ 6,835**	**$ 223,307**

Continued...

(Dollars in thousands except per share data)

The following table shows the loans allocated by management's internal risk ratings at December 31, 2021:

	Commercial Credit Risk Profile by Risk Rating				
	Commercial and Industrial	Agricultural	Real Estate Related Industries	Other Commercial	Total
Risk Rating					
Pass	$ 28,640	$ 35,674	$ 34,744	$ 24,239	$ 123,297
Watch	-	8,363	-	4,294	12,657
Special mention	-	788	-	1,848	2,636
Substandard	-	587	192	567	1,346
Total	**$ 28,640**	**$ 45,412**	**$ 34,936**	**$ 30,948**	**$ 139,936**

The following table shows the homogeneous loans allocated by payment activity as of December 31, 2021:

	Consumer Credit Risk Profile by Risk Rating			
	Residential Real Estate	Consumer and Other	Home Equity	Total
Payment Activity				
Performing	$ 29,984	$ 15,281	$ 6,930	$ 52,195
Non-Performing	124	96	-	220
Total	**$ 30,108**	**$ 15,377**	**$ 6,930**	**$ 52,415**

The following table shows the loans allocated by management's internal risk ratings at December 31, 2020:

	Commercial Credit Risk Profile by Risk Rating				
	Commercial and Industrial	Agricultural	Real Estate Related Industries	Other Commercial	Total
Risk Rating					
Pass	$ 72,341	$ 27,100	$ 36,967	$ 24,443	$ 160,851
Watch	-	11,368	-	6,705	18,073
Special mention	-	830	-	1,341	2,171
Substandard	-	1,088	218	248	1,554
Total	**$ 72,341**	**$ 40,386**	**$ 37,185**	**$ 32,737**	**$ 182,649**

The following table shows the homogeneous loans allocated by payment activity as of December 31, 2020:

	Consumer Credit Risk Profile by Risk Rating			
	Residential Real Estate	Consumer and Other	Home Equity	Total
Payment Activity				
Performing	$ 20,192	$ 13,465	$ 6,835	$ 40,492
Non-Performing	150	16	-	166
Total	**$ 20,342**	**$ 13,481**	**$ 6,835**	**$ 40,658**

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2021:

	Accruing Interest				
	Current	30 - 89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial and industrial	$ 28,635	$ 5	$ -	$ -	$ 28,640
Agricultural	44,551	-	-	861	45,412
Real estate related industries	34,936	-	-	-	34,936
Other commercial	30,606	35	-	307	30,948
Residential real estate	29,984	-	-	124	30,108
Consumer and other	15,279	2	-	96	15,377
Home equity	6,930	-	-	-	6,930
Total	**$ 190,921**	**$ 42**	**$ -**	**$ 1,388**	**$ 192,351**

The following table shows an aging analysis of the loan portfolio by time past due as of December 31, 2020:

	Accruing Interest				
	Current	30 - 89 Days Past Due	More Than 90 Days Past Due	Total Nonaccrual	Total Loans
Commercial and industrial	$ 72,341	$ -	$ -	$ -	$ 72,341
Agricultural	39,385	-	-	1,001	40,386
Real estate related industries	37,176	-	-	9	37,185
Other commercial	32,387	-	-	350	32,737
Residential real estate	20,135	57	-	150	20,342
Consumer and other	13,463	2	-	16	13,481
Home equity	6,835	-	-	-	6,835
Total	**$ 221,722**	**$ 59**	**$ -**	**$ 1,526**	**$ 223,307**

The following table presents information related to impaired loans as of December 31, 2021:

	Recorded Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Agricultural	$ 1,290	$ 1,961	$ -	$ 1,565	$ 43
Real estate related industries	-	1,093	-	4	47
Other commercial	1,607	837	-	1,388	-
Residential real estate	124	412	-	137	1
Consumer and other	88	110	-	47	2
Home equity	-	30	-	3	-
Loans with an allowance recorded					
Agricultural	1,890	1,891	65	2,043	94
Real estate related industries	192	192	50	201	10
Other commercial	208	208	13	312	12
Residential real estate	-	-	-	-	-
Consumer and other	8	9	2	9	-
Home equity	32	32	-	34	2
Total impaired loans					
Agricultural	3,180	3,852	65	3,608	137
Real estate related industries	192	1,285	50	205	57
Other commercial	1,815	1,045	13	1,700	12
Residential real estate	124	412	-	137	1
Consumer and other	96	119	2	56	2
Home equity	32	62	-	37	2
Total	**$ 5,439**	**$ 6,775**	**$ 130**	**$ 5,743**	**$ 211**

The following table presents information related to impaired loans as of December 31, 2020:

	Recorded Balance	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
Loans with no related allowance recorded					
Agricultural	$ 1,840	$ 2,420	$ -	$ 1,449	$ 48
Real estate related industries	9	540	-	15	53
Other commercial	1,170	1,266	-	812	-
Residential real estate	150	426	-	163	-
Consumer and other	6	15	-	8	-
Home equity	5	39	-	10	1
Loans with an allowance recorded					
Agricultural	2,196	2,196	65	2,262	112
Real estate related industries	209	209	54	212	21
Other commercial	416	416	17	334	13
Residential real estate	-	-	-	3	-
Consumer and other	10	11	3	11	-
Home equity	37	37	1	40	2

Continued...

(Dollars in thousands except per share data)

Total impaired loans					
Agricultural	4,036	4,616	65	3,711	160
Real estate related industries	218	749	54	227	74
Other commercial	1,586	1,682	17	1,146	13
Residential real estate	150	426	-	166	-
Consumer and other	16	26	3	19	-
Home equity	42	76	1	50	3
Total	**$ 6,048**	**$ 7,575**	**$ 140**	**$ 5,319**	**$ 250**

A summary of loans that were modified in troubled debt restructurings during 2021 is as follows:

	Troubled Debt Restructurings		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Other commercial	2	$ 766	$ 664

The following table details the number of loans and the recorded investment in loans considered to be troubled debt restructurings ("TDRs") by type of modification during 2021:

	Total Modifications				
	Principal Deferrals		Interest Rate Reductions		
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Total Modifications
Other commercial	1	$ 371	1	$ 395	$ 766

A summary of loans that were modified in troubled debt restructurings during 2020 is as follows:

	Troubled Debt Restructurings		
	Number of Loans	Pre-Modification Outstanding Recorded Investment	Post-Modification Outstanding Recorded Investment
Agricultural	1	$ 283	$ 283

The following table details the number of loans and the recorded investment in loans considered to be troubled debt restructurings ("TDRs") by type of modification during 2020:

	Total Modifications				
	Principal Deferrals		Interest Rate Reductions		
	Number of Loans	Recorded Investment	Number of Loans	Recorded Investment	Total Modifications
Agricultural	1	$ 283	-	$ -	$ 283

There were no TDRs for which there was a payment default whereby the borrower was past due with respect to principal and/or interest for 90 days or more during the 12 months ended December 31, 2021 and 2020, that had been modified during the 12-month period prior to default.

5. SERVICING

The Bank services loans for others which generally consists of collecting mortgage payments, maintaining escrow accounts, disbursing payments to investors and taxing authorities, and processing foreclosures. Loans serviced as of December 31, 2021 and 2020, were $52,162 and $44,715, respectively; such loans are not included on the consolidated balance sheets.

The following summarizes the carrying value and the changes therein of mortgage servicing rights for the years ended December 31:

	2021	2020
Mortgage servicing rights		
Balance at beginning of year	$ 390	$ 253
Mortgage servicing rights capitalized	267	296
Mortgage servicing rights amortized	(140)	(159)
Balance at end of year	**$ 517**	**$ 390**

6. PREMISES AND EQUIPMENT

Net premises and equipment consists of the following amounts at December 31:

	2021	2020
Bank premises and land	$ 11,120	$ 10,762
Furniture and equipment	4,992	4,623
Total	16,112	15,385
Less accumulated depreciation	8,525	8,141
Premises and equipment, net	**$ 7,587**	**$ 7,244**

Depreciation expense was $428 and $403 for 2021 and 2020, respectively.

7. DEPOSITS

The composition of deposits is summarized as follows as of December 31:

	2021	2020
Interest-bearing		
NOW accounts	$ 149,515	$ 123,628
Savings	100,747	89,858
Money market demand	71,341	57,848
Time, $250,000 and over	4,053	2,189
Other time	29,529	27,900
Total interest-bearing	355,185	301,423
Noninterest-bearing demand	132,756	122,251
Total deposits	**$ 487,941**	**$ 423,674**

Scheduled maturities of time deposits for each of the five years succeeding December 31, 2021 and thereafter, are summarized as follows:

Year	Amount
2021	$ 17,659
2022	5,407
2023	2,992
2024	4,081
2025	3,439
After	4
Total	**$ 33,582**

8. FEDERAL INCOME TAXES

The provision for federal income taxes consists of the following components for the years ended December 31:

	2021	2020
Currently payable	$ 1,090	$ 955
Deferred expense (benefit)	7	(2)
Income taxes	**$ 1,097**	**$ 953**

A reconciliation between federal income tax expense reported and the amount computed by applying the statutory federal income tax rate to income before federal income taxes is as follows for the years ended December 31:

	2021	2020
Income tax provision at statutory rate	$ 1,260	$ 1,082
Effect of tax-exempt interest income	(37)	(78)
Other, net	(126)	(51)
Income taxes	**$ 1,097**	**$ 953**

The components of the net deferred income tax asset included within other assets in the accompanying consolidated balance sheets (measured at a 21% tax rate) resulted from the following temporary differences between the carrying amounts of assets and liabilities for federal income tax and financial reporting purposes as of December 31:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 222	$ 247
Nonaccrual loan interest	9	14
Deferred loan fees/costs	129	-
Unrealized loss on available-for-sale securities	364	-
Other	145	109
Total deferred tax assets	**869**	**370**
Deferred tax liabilities		
Unrealized gain on available-for-sale securities	-	231
Depreciation	248	141
Mortgage servicing rights	103	82
Deferred loan fees/costs	-	17
Other	51	21
Total deferred tax liabilities	**402**	**492**
Net deferred tax asset (liability)	**$ 467**	**$ (122)**

Continued...

(Dollars in thousands except per share data)

The Corporation concluded that there are no significant uncertain tax positions requiring recognition in the Corporation's consolidated financial statements based on the evaluation performed for 2018 through 2021, the years which remain subject to examination by major tax jurisdictions as of December 31, 2021. The Corporation does not expect the total amount of unrecognized tax benefits ("UTB") (e.g. tax deductions, exclusions, or credits claimed or expected to be claimed) to significantly change in the next 12 months. The Corporation does not have any amounts accrued for interest and penalties related to UTBs at December 31, 2021 or 2020 and it is not aware of any claims for such amounts by federal or state income tax authorities.

9. RELATED PARTY TRANSACTIONS

Loans

In the ordinary course of business, the Bank grants loans to certain directors, executive officers and their affiliates. Such loans aggregated to $4,344 and $5,798 at December 31, 2021 and 2020, respectively.

Deposits

Deposits of Corporate directors, executive officers and their affiliates were $2,760 and $922 at December 31, 2021 and 2020, respectively.

10. OFF-BALANCE SHEET ACTIVITIES

The Bank is a party to credit related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheets. The Bank's exposure to credit loss is represented by the contractual amount of these commitments. The Bank follows the same credit policy in making commitments, including requirements for collateral, as it does for on-balance-sheet instruments; no significant losses are anticipated as a result of these commitments.

At December 31, 2021 and 2020, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2021	2020
Unfunded commitments under lines of credit	$ 55,671	$ 53,720
Commitments to grant loans	7,050	5,864
Commercial and standby letters of credit	575	568

Unfunded commitments under commercial lines of credit, revolving home equity lines of credit and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. The commitments for equity lines of credit may expire without being drawn upon. These lines of credit are uncollateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Bank is committed. A majority of such commitments are at fixed rates of interest; a portion is unsecured.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Bank, is based on management's credit evaluation of the customer.

Commercial and standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank generally holds collateral supporting those commitments, if deemed necessary. Guarantees that are not derivative contracts have been recorded on the Corporation's consolidated balance sheets at their fair value at inception. The Bank considers standby letters of credit to be guarantees; however, as the amount of the liability related to such guarantees on the commitment date is not significant, a liability related to such guarantees is not recorded at December 31, 2021 or 2020.

11. COMMON STOCK ACTIVITY, INCLUDING SHARE-BASED INCENTIVE PLANS

Common Stock Repurchases

There were no common stock repurchases during 2021 or 2020.

Share-Based Compensation

Common Stock Options

The fair value of each option award is estimated on the date of the grant using the Black-Scholes option-pricing model with the following weighted average assumptions for the year ended December 31, 2021:

Risk-free interest rate	1.63%
Expected term	10 years
Expected stock price volatility	25.85%
Dividend yield or expected	3.08%

Under the Corporation's 2012 Employee Stock Option Plan (the "Plan"), the Corporation may grant options to its directors, officers and employees for the purchase of up to 128,000 shares of common stock, which can be increased annually up to 3% of the shares outstanding at January 1, 2013, (1,131,649) or 33,949 shares. The exercise of each option equals the market price of the Corporation's stock on the date of grant and an option's maximum term is ten years. The options vest ratably over five years from date of grant. For each of the years ended December 31, 2021 and 2020, the Corporation recognized $4 in compensation expense for stock options. As of December 31, 2021, unrecognized compensation costs related to nonvested awards amounted to $4 and will be recognized over a remaining weighted average period of approximately 6 years.

The expected volatility is based on historical volatility. The risk-free interest rates for periods within the contractual life of the awards are based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life is based on historical exercise experience. The dividend yield assumption is based on the Corporation's history and expectation of dividend payouts.

In general, the Corporation's policy is to issue new shares upon the exercise of a stock option; however, the option holder has the option under the Plan to sell shares of stock owned by the holder to the Corporation to facilitate the exercise of options. A summary of the changes in the status of the Corporation's stock option plan is presented below:

	Common Shares Subject to Option	Weighted Average Exercise Price	Average Remaining Contractual Terms (Years)
Outstanding at January 1, 2020	126,215	$ 20.88	5.00
Granted	37,511	30.10	
Exercised	(25,025)	20.81	
Outstanding at December 31, 2020	**138,701**	**$ 23.39**	**6.05**
Granted	53,603	29.28	
Exercised	(37,463)	21.69	
Forfeited	(4,516)	29.35	
Outstanding at December 31, 2021	**150,325**	**$ 25.73**	**5.91**

The fair value of options granted during 2021 and 2020 was $4.21 and $4.59, respectively.

As of December 31, 2021, 150,325 options under the 2012 plan were outstanding at an average exercise price of $25.73 (range of $12.75 - $34.75) of which 83,437 are exercisable.

Shares granted in 2021 and 2020, include 23,013 and 16,103 shares received in connection with the exercise of a "reload" option whereby the grantee tendered shares to pay the exercise price of an option and received a new option to purchase the number of shares of common stock equal to the number of shares tendered to pay the exercise price.

Reload options have an exercise price equal to the estimated fair value as of the date of exercise of the underlying option. The date of grant of the reload option is the date of exercise of the underlying option. The reload option may be exercised one year after it is granted and expires on the date of expiration of the underlying option to which the reload options related.

Restricted Stock Awards

The Plan also authorizes the use of restricted stock awards, which were granted in 2021 and 2020. The fair value of restricted stock awards is estimated by the market price of the Corporation's common stock at the date of grant. Under the provisions of the plan, the Corporation cannot be obligated to "cash-settle" any of the restricted stock awards through redemption. The shares become vested over a 5-year service period. During the period the shares are not vested, the grantee may not sell, assign, transfer or pledge the shares but has all other rights of a shareholder, including the right to receive dividends and the right to vote such shares. Restricted stock is immediately forfeited when the employment of a grantee ceases. Restricted stock activity during 2021 and 2020, is summarized as follows:

	Number of Shares	Weighted-Average Grant - Date Fair Value per Share
Non-vested, January 1, 2020	**10,312**	**$ 22.96**
Granted	6,229	28.70
Vested	(2,535)	22.72
Non-vested, December 31, 2020	**14,006**	**25.56**
Granted	5,410	27.95
Vested	(4,625)	24.99
Cancelled and forfeited	(230)	26.24
Non-vested, December 31, 2021	**14,561**	**$ 26.61**

Awards are being amortized to expense over the 5-year vesting period. Compensation cost related to restricted stock awards was $106 and $75 for 2021 and 2020, respectively. As of December 31, 2021, there was $305 of total remaining unrecognized compensation cost related to nonvested restricted stock awards granted under the Plan. The cost is expected to be recognized over the next 4 years.

There was an impact of $0.06 to diluted earnings per share resulting from such common stock equivalents in 2021 and 2020, respectively.

Continued...

(Dollars in thousands except per share data)

12. REGULATORY REQUIREMENTS

Capital Requirements

The Corporation (on a consolidated basis) and the Bank are subject to various regulatory capital requirements, including restrictions on dividends, administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Corporation's and the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Corporation and the Bank must meet specific capital guidelines that involve quantitative measures of their assets, liabilities, capital and certain off-balance-sheet items as defined in the regulations and calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Prompt corrective action provisions are not applicable to bank holding companies.

Failure to meet capital requirements can initiate regulatory action. The final rules related to the implementation of the Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III Rules) became effective for the Corporation on January 1, 2016, with full compliance of all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. The capital conservation buffer as of December 31, 2021 and 2020 is 2.50%. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Quantitative measurements established by regulation to ensure capital adequacy require the Corporation and the Bank to maintain minimum amounts and ratios (set forth in the following table). Management believes, as of December 31, 2021 and 2020, that the Corporation and the Bank met all capital adequacy requirements to which they are subject.

As of December 31, 2021 and 2020, the most recent notifications from the Federal Deposit Insurance Corporation categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since the notification that management believes have changed the Bank's category. The Corporation's and the Bank's actual capital amounts and ratios as of December 31, 2021 and 2020 are also presented in the table.

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2021	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk Weighted Assets						
Consolidated	$ 47,667	15.21 %	$ 32,902	10.50 %	N/A	N/A
Bank	46,581	14.87	32,902	10.50	$ 31,335	10.00 %
Tier 1 (Core) Capital To Risk Weighted Assets						
Consolidated	45,948	14.66	26,635	8.50	N/A	N/A
Bank	44,861	14.32	26,635	8.50	25,068	8.00
Common Tier 1 (CET1)						
Consolidated	45,948	14.66	21,934	7.00	N/A	N/A
Bank	44,861	14.32	21,934	7.00	20,368	6.50
Tier 1 (Core) Capital To Average Assets						
Consolidated	45,948	8.69	21,142	4.00	N/A	N/A
Bank	44,861	8.50	21,142	4.00	26,427	5.00

	Actual		Minimum Capital Requirements		Minimum To Be Well Capitalized Under Prompt Corrective Action Provisions	
December 31, 2020	**Amount**	**Ratio**	**Amount**	**Ratio**	**Amount**	**Ratio**
Total Capital to Risk Weighted Assets						
Consolidated	$ 43,859	22.34 %	$ 20,619	10.50 %	N/A	N/A
Bank	42,803	21.80	20,619	10.50	$ 19,637	10.00 %
Tier 1 (Core) Capital To Risk Weighted Assets						
Consolidated	42,025	21.40	16,692	8.50	N/A	N/A
Bank	40,968	20.86	16,692	8.50	15,710	8.00
Common Tier 1 (CET1)						
Consolidated	42,025	21.40	13,746	7.00	N/A	N/A
Bank	40,968	20.86	13,746	7.00	12,764	6.50
Tier 1 (Core) Capital To Average Assets						
Consolidated	42,025	9.14	18,401	4.00	N/A	N/A
Bank	40,968	8.91	18,401	4.00	23,002	5.00

Restrictions on Cash and Amounts Due from Banks

The Bank is required by regulatory agencies to maintain legal cash reserves based on the level of certain customer deposits. There was no required reserve balance at December 31, 2021 or 2020.

Restrictions on Dividends, Loans and Advances

Federal and state banking regulations place certain restrictions on the amount of loans or advances that can be extended to the Corporation by the Bank and dividends that can be paid to the Corporation by the Bank. The total amount of dividends which may be paid at any date is generally limited to the retained earnings of the Bank, and loans or advances are limited to 10% of the Bank's capital stock and surplus on a secured basis. In addition, dividends paid by the Bank to the Corporation would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum capital requirements.

13. CONTINGENCIES

Litigation

The Corporation is party to litigation arising during the normal course of business. In the opinion of management, based on consultation with legal counsel, the resolution of such litigation is not expected to have a material effect on the consolidated financial statements.

Environmental Issues

As a result of acquiring real estate from foreclosure proceedings, the Corporation is subject to potential claims and possible legal proceedings involving environmental matters. No such claims have been asserted as of December 31, 2021.

14. OTHER EMPLOYEE BENEFIT PLANS

401(k) Plan

The Bank maintains a deferred compensation plan qualified under Section 401(k) of the Internal Revenue Code. Under this plan, eligible employees are permitted to contribute up to 25% of gross compensation into the retirement plan up to a maximum determined by the Internal Revenue Code; the Bank matches each employee contribution at a rate of up to 50% of the first 6% contributed by the employee. Expenses associated with the plan amounted to $96 and $85 in 2021 and 2020, respectively.

The 401(k) retirement plan also has a defined contribution profit sharing feature that covers substantially all of its employees. Contributions to the plan are based on an employee's earnings, as defined in the plan document. Expenses associated with the plan amounted to $358 and $296 in 2021 and 2020, respectively.

Deferred Compensation Plan

In 2018, the Corporation adopted a deferred compensation plan. Pursuant to the terms of the Deferred Compensation Plan, Bank Officers are permitted to defer all or a portion of any annual bonus and receive shares of the Corporation equal to the stock value based on the closing price on the day the bonus is issued. In addition, the participant's account will be credited with additional shares representing 25% bonus shares based on the number of shares credited from the deferral. Board members may also elect to defer any or all of their board fees and receive the same 25% bonus shares, subject to a 3-year vesting. The bonus shares for both deferred annual bonus amounts and deferred directors fees vest after three years of service, death, disability, or upon mandatory retirement from the board. The Deferred Compensation Plan does not allow for cash settlement.

The amounts deferred under the arrangements and invested in Corporation common stock are maintained in a grantor ("rabbi") trust. Assets of the rabbi trust are consolidated with the Corporation, and the value of the Corporation's common shares held in the rabbi trust is classified in shareholders' equity. The Corporation recognizes the original amount of deferred compensation as the basis for recognition in the rabbi trust. Changes in the fair value owed to employees are not recognized as the Deferred Compensation Plan does not permit diversification and must be settled only by the delivery of a fixed number of shares of the Corporation's common stock.

The Corporation recognized $187 and $132 of compensation expense related to this plan in 2021 and 2020, respectively, and has recorded a related obligation totaling $325 within shareholders' equity at December 31, 2021. As of December 31, 2021, a total of 12,640 shares are held in the rabbi trust of which 1,096 remain unvested. The weighted average share price of shares held in the rabbi trust at December 31, 2021, is $30.13.

Bank-Owned Life Insurance

The Bank has invested in single premium, bank owned, whole life insurance policies on certain officers of the Bank. Bank owned life insurance is an alternative investment vehicle, generally non-liquid, which may produce additional earnings to offset, and later fund, various employee supplemental benefit expenses The earnings on the policies are not taxed unless withdrawn or surrendered prior to the death of the insured. The increase in cash surrender value of the policies, which was $240 and $241 in 2021 and 2020, respectively, is included in noninterest income in the consolidated statements of income.

The benefit promised by the Bank to the covered officers is established at one times the officer's salary at date of death; such benefit expires if the officers' employment is terminated for any reason other than death, including voluntary or involuntary termination or retirement. Based primarily on the ages of the covered officers, the Bank believes that the payment of such benefits is not probable; accordingly, the Bank has not recognized compensation expense for such benefits.

15. ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

The following table presents a reconciliation of the changes in the components of AOCI and details the components of OCI, including the amount of income tax (benefit) expense allocated to each component of OCI:

	Unrealized Holding Gains (Losses) on Securities AFS	Unrealized Gains (Losses)on Cash Flow Hedges	Total
Balance, January 1, 2021	**$ 873**	**$ -**	**873**
Unrealized losses arising during the period	(2,692)	(177)	(2,869)
Reclassification adjustments for net gains included in net income	-	31	31
Net unrealized losses	(2,692)	(146)	(2,838)
Tax Effect*	565	31	596
OCI, net of tax	(2,127)	(115)	(2,242)
Balance, December 31, 2021	**$ (1,254)**	**$ (115)**	**(1,369)**

*Based on federal income tax rate of 21%.

Continued...

(Dollars in thousands except per share data)

The following table details reclassification adjustments and the related affected line items in the Corporation's Consolidated Statements of Comprehensive Income for 2021:

Details about Accumulated Other Comprehensive Income components	Amount Reclassified from Accumulated Other Comprehensive Income	Affected Line Item in the Consolidated Statements of Income
Realized gains on cash flow hedges		
	$ 31	Interest expense
Tax effect*	(7)	Income tax expense
	$ 24	Net income

*Based on federal income tax rate of 21%.

16. DERIVATIVES

Risk Management Objective of Using Derivatives

The Corporation is exposed to certain risk arising from both its business operations and economic conditions. The Corporation principally manages its exposures to a wide variety of business and operational risks through management of its core business activities. The Corporation manages economic risks, including interest rate, liquidity, and credit risk primarily by managing the amount, sources, and duration of its assets and liabilities and the use of derivative financial instruments. Specifically, the Corporation enters into derivative financial instruments to manage exposures that arise from business activities that result in the receipt or payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Corporation's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Corporation's known or expected cash receipts and its known or expected cash payments principally related to the Corporation's mortgage loans, investments and borrowings.

Cash Flow Hedges of Interest Rate Risk

The Corporation's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Corporation primarily uses interest rate swaps and caps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of variable amounts from a counterparty in exchange for the Corporation making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount. Interest rate caps designated as cash flow hedges involve the receipt of variable amounts from a counterparty if interest rates rise above the strike rate on the contract in exchange for an up-front premium. During 2021, such derivatives were used to hedge the variable cash flows associated with existing variable-rate borrowings and forecasted issuances of borrowings.

For derivatives designated and that qualify as cash flow hedges of interest rate risk, the gain or loss on the derivative is recorded in AOCI and subsequently reclassified into interest expense in the same period(s) during which the hedged transaction affects earnings. Amounts reported in AOCI related to derivatives will be reclassified to interest expense as interest payments are made on the Corporation's variable-rate debt.

17. SUPPLEMENTAL CASH FLOWS INFORMATION

Other Cash Flows Information

Cash paid for interest and income taxes amounted to the following during the years ended December 31:

	2021	2021
Interest	$ 428	$ 453
Income taxes	$ 927	$ 1,181

Non-Cash Financing Activities

During 2021 and 2020, options for the purchase of 4,606 and 1,696, common shares, respectively, were exercised.

Additionally, during 2021 and 2020, 32,857 and 23,113 common shares were exercised through a reload option whereby 23,013 and 16,104 common shares were tendered to pay the exercise price ("cashless exercise"). The issuance of shares upon exercise of common stock options has been recorded net of the tendered shares in the statements of shareholders' equity.

18. REVENUE FROM CONTRACTS WITH CUSTOMERS

The Corporation’s primary revenue stream accounted for under ASC 606 relates to service charges on deposit accounts.

The Corporation earns fees from its deposit customers for transaction-based fees, account maintenance, and overdraft services. Transaction-based fees, including these for services such as ATM 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 primarily relate to monthly account maintenance, are earned over the course of the month, which represents the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are deducted from the customer's account balance.

End of Notes

Rehmann

INDEPENDENT AUDITORS' REPORT

March 4, 2022

Shareholders and Board of Directors
Eastern Michigan Financial Corporation
Croswell, Michigan

Opinion

We have audited the accompanying consolidated financial statements of ***Eastern Michigan Financial Corporation*** ("the Corporation"), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements (the "financial statements").

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of ***Eastern Michigan Financial Corporation*** as of December 31, 2021 and 2020, and the consolidated results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the 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 these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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.

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

5800 Gratiot, Suite 201, Saginaw, MI 48638 989.799.9580

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- 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 the 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 the Company'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.

HLB WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

5800 Gratiot, Suite 201, Saginaw, MI 48638 989.799.9580

Other Information included in the Annual Report

Management is responsible for the other information included in the annual report. The other information comprises the Letter to Shareholders, 2021 Highlights and Ten Year Financial Profile and other nonfinancial information, but does not include the consolidated financial statements and our auditors' report thereon. Our opinion on the consolidated financial statements does not cover the other information, and we do not express an opinion or any form of assurance thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information and consider whether a material inconsistency exists between the other information and the consolidated financial statements, or the other information otherwise appears to be materially misstated. If, based on the work performed, we conclude that an uncorrected material misstatement of the other information exists, we are required to describe it in our report.

Rehmann Robson LLC

WE ARE AN INDEPENDENT MEMBER OF THE GLOBAL ADVISORY AND ACCOUNTING NETWORK

5800 Gratiot, Suite 201, Saginaw, MI 48638 989.799.9580

BRANCH, LOAN AND ADMINISTRATIVE STAFF

CROSWELL BRANCH
Skye Bolsby | Assistant Branch Manager
Talysha VanEenoo | Head Teller
Alexess Lynch | Teller
Jillian Nichol | Teller
Leanne Quade | Teller

DECKERVILLE BRANCH
Jennifer Sampier | Assistant Branch Manager
Anna-Marie Peresta | Head Teller
Scott Cameron | Teller, Backup CSR

FORT GRATIOT BRANCH
Kristina Feeny | Assistant Branch Manager
Jessica Winn | Head Teller
Suzanne Hedges | Teller
Alexandria Kudja | Teller

LAKEPORT BRANCH
Karen Louks | Assistant Branch Manager
Leslie Snyder | Head Teller
Amallia Dean | Teller

LEXINGTON BRANCH
Lisa Hatch | Assistant Branch Manager
Paula Mullen | Head Teller
Christine Raymo | Teller
Melanie Schoen | Teller

MARYSVILLE BRANCH
Scott Whitenight | Assistant Branch Manager
Dakota Alexander | Teller
Hali Claerhout | Teller
Joanne Lamar | Teller

PORT HURON BRANCH
Cheryl McCoy | Assistant Branch Manager
Stephanie Blake | Float Assistant Manager
Suzette Sulkowski | Head Teller
Rachel Bailey | Teller
Rachel Crawford | Teller

RUTH BRANCH
Pamela Will | Assistant Branch Manager
Jamie Brooks | Head Teller
Cheryl Becker | Teller
Nicole Wolschleger | Teller

SANDUSKY BRANCH
Megan Hartwick | Assistant Branch Manager
Tamira Anderson | Float Assistant Manager
Roxann Green | Head Teller
Mindy Fetting | Teller

LOAN STAFF
Rebekah Houle | Credit Manager
Ashley Foster | Commercial Loan Clerk
Thomas Gallagher | Credit Analyst I
Shantal McClellan | Mortgage Loan Clerk
Amanda Mosher | Retail Lending Specialist, Senior Underwriter
Nicki Parker | Consumer Loan Documentation, Collections Specialist
Marian Romzek | Loan Processing Manager
Katherine Krause | Loan Support Specialist

ADMINISTRATIVE STAFF
Riley Black | Accounting Clerk
Nicole Butler | Deposit Operations Manager
Natajsha Day | Deposit Operations Specialist
Chelsea DuPree | Human Resources Generalist
Jamie Goline | Deposit Operations Specialist
Darlene Innes | Courier
Ashley Lindke | Deposit Operations Specialist
Annemarie Prax-Cornelissen | Communications Administrator
Amanda Rennie | Senior Relationship Banker, Public Funds
Mechel Smith | Deposit Operations Specialist

LOCATIONS

ADMINISTRATIVE OFFICES
65 N. Howard Avenue
Croswell, Michigan 48422
810.679.2500

CROSWELL BRANCH
37 N. Howard Avenue
Croswell, Michigan 48422
810.679.3620

DECKERVILLE BRANCH
3636 Main Street
Deckerville, Michigan 48427
810.376.2015

FORT GRATIOT BRANCH
3061 Krafft Road
Fort Gratiot, Michigan 48059
810.966.2281

LAKEPORT BRANCH
7090 Lakeshore Road
Lakeport, Michigan 48059
810.385.3211

LEXINGTON BRANCH
5446 Main Street
Lexington, Michigan 48450
810.359.5353

LOAN CENTER
66 N. Howard Avenue
Croswell, Michigan 48422
810.679.2500

MARYSVILLE BRANCH
2970 Gratiot Boulevard
Marysville, Michigan 48040
810.364.4854

PORT HURON BRANCH
600 Water Street
Port Huron, Michigan 48060
810.987.9777

RUTH BRANCH
7004 E. Atwater Road
Ruth, Michigan 48470
989.864.3380

SANDUSKY BRANCH
324 S. Sandusky Road
Sandusky, Michigan 48471
810.648.3230

CORPORATE WEBSITE
emb.bank

MILESTONES

2021 brought milestone anniversaries for some of our employees.
We value their dedication and contributions to help make us the bank we are today.

40 YEAR AWARD

MARIAM ROMZEK
Commercial Loan Processing Manager

25 YEAR AWARD

JOSEPH BROWN
Vice President, Appraiser

20 YEAR AWARD

STACIE BALES
SVP, Chief Operating Officer

TRISHETTE DAVIS
AVP, Branch Manager, Croswell

5 YEAR AWARD

SKYE BOLSBY
Assistant Branch Manager
Croswell

KIM BOWMAN
VP, Retail Banking Manager

CHAD DEANER
SVP, Chief Lending Officer

ERRIN LEVITT
SVP, Chief Financial Officer

TRACY JACKSON
Branch Manager
Sandusky

ALEXANDER MESSING
AVP, Commercial Loan Officer

2021 Annual Report

Eastern Michigan Financial Corporation®

Eastern Michigan Bank
65 N. Howard Avenue, Croswell, MI 48422
810.679.2500 | 800.397.2504
emb.bank