ANNUAL REPORT 2022

CENTURY
FINANCIAL CORPORATION

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Century Financial Corporation

CENTURY FINANCIAL CORPORATION

The Annual Meeting of the shareholders of Century Financial Corporation will be held March 21, 2023 at 4:00 p.m., at the ProMedica Community Care and Conference Center, 370 East Chicago Street, Suite 500, Coldwater, MI 49036.

Financial Highlights

Century Financial Corporation

(000s omitted, except per share data)

		2022		2021
For the Year				
Net Income	$	**5,860**	**$**	**5,339**
Cash Dividends		**1,499**		**1,451**
Return on Average Assets		**1.29%**		**1.25%**
Return on Average Equity		**12.93%**		**11.48%**
At Year End				
Assets	$	**454,393**	**$**	**452,215**
Deposits		**403,644**		**396,440**
Total Loans		**201,592**		**204,244**
Net Loans		**198,293**		**200,904**
Shareholders' Equity		**43,090**		**47,585**
Per Share				
Basic and Diluted Earnings	$	**3.35**	**$**	**2.95**
Cash Dividends		**0.86**		**0.80**
Book Value -- December 31		**25.18**		**26.70**
Other Measures				
Allowance For Loan Losses	$	**3,299**	**$**	**3,340**
Provision for Loan Loss		**-**		**-**
Allowance as % of Total Loans		**1.64%**		**1.64%**
Net Interest Income	$	**13,630**	**$**	**10,848**
Non-Interest Income		**5,631**		**6,802**
Operating Expense (net employee-related items)		**5,146**		**4,827**
Non-Interest Income as % of Total Revenue		**29.24%**		**38.54%**
REM Servicing Portfolio (off balance sheet)	$	**166,370**	**$**	**163,473**
Tier 1 Leverage Ratio		**10.83%**		**10.63%**
Tier 1 Common Equity Ratio		**17.39%**		**18.42%**
Total Risk-Based Capital Ratio		**18.54%**		**19.67%**

Century Financial Corporation is a Michigan bank holding company with Century Bank and Trust as its only wholly-owned subsidiary. Century Bank and Trust offers a full range of financial and trust services through a system of eleven banking offices located in Branch, St. Joseph and Hillsdale Counties in Michigan.

Message to Shareholders

Century Financial Corporation

Dear Fellow Shareholders,

I am extremely pleased to share the annual performance for Century Financial Corporation and its subsidiary Century Bank and Trust in 2022. Our company reported net income of $5,860,000 or basic earnings per share of $3.35 for the year. This compares to net income of $5,339,000 and earnings per share of $2.95 reported to you in 2021. On a per share comparison, this is a 13.56% increase.

Strong capital, liquidity and core deposit funding continue to define Century Bank and Trust's balance sheet. Total assets increased $2,178,000 ending 12-31-22 at $454,393,000. At 12-31-21, asset levels of $452,215,000 were reported. Total revenue in 2022 came in at a record-level $19,261,000, up from $17,650,000 reported in 2021.

At 12-31-22, total loans stood at $201,592,000 with an allowance for loan loss reserve of $3,299,000 or 1.64% of the loan portfolio. For the same period in 2021, loans totaled $204,244,000 with an allowance for loan loss reserve of $3,340,000 or 1.64% of the loan portfolio. Though consumer and business loan customers continued to have strong liquidity positions that reduced their level of borrowing needs, the primary factor contributing to the year-over decrease in total loans was $4,220,000 in Paycheck Protection Program (PPP) loans at 12-31-21 that were forgiven during the first-half of 2022. Net loan loss in 2022, as a percentage of average loans was 0.02%, compared to 0.02% in 2021. Given these strong asset quality metrics, there was no provision expense for the year, or in 2021.

Total deposits ended 2022 at $403,644,000 – a $7,204,000 increase over total deposits of $396,440,000 at 12-31-21. Our deposit service teams remained focused on maintaining a strong core deposit base of personal and business checking and savings accounts – and expanding our quality service via traditional and electronic banking channels.

The Trust and Investment Management Group was again the most significant contributor to the bank's non-interest income performance – reporting total revenue of $2,295,000 for the year. This compares to total revenue of $2,400,000 in 2021. With our commitment to provide clients long-term focused, fiduciary investment management services, challenging investment climates like 2022 can have an impact on revenue from this line of business. The key elements, and metrics that drive the trendline of growth for this team remain very positive and strong.

As anticipated, the sharp interest rate increases that began mid-2022 dented fee income generated from the sale of residential mortgage loans – in a year-over comparison. For 2022, the gain on sale of mortgage loans was $773,000. This compares to revenue of $2,110,000 in 2021 which was a historical high mark fueled by ultra-low mortgage rates. The housing market fundamentals in geographic footprints we serve remain strong. Our mortgage lending teams continue to do an outstanding job helping homeowners navigate purchases, new builds and remodel projects.

Consistent and balanced revenue generation from all lines of business, coupled with the bank's strong balance sheet, continue as key factors in performance. Achieving these fundamental elements in 2022 allowed the Board of Directors to maintain their long-term focus on shareholder value and return. Century Financial Corporation (CFC) paid an annual cash dividend in 2022 of $0.86 per share. Additionally, through the authorized stock repurchase program, 71,070 shares were retired. This compares to a $0.80 annual payout and 40,992 shares repurchased in 2021.

To conclude, the performance of your bank in 2022 came in at a record level. The achievement – and credit – for such success always falls squarely on the shoulders of the talented, and dedicated team members we are fortunate to have at Century Bank and Trust. As we initiate 2023 goals and plans, I anticipate launching them in an overall positive economic environment… yet one that may possibly present a few wrinkles not yet seen. Namely, the final impact the Fed will have with its aggressive rate increases aimed at cooling the economy and stopping run-away inflation. If presented, we will be prepared to face any challenge productively – always focused on turning them into opportunities that continue to build on the long-term success of our communities, clients and the bank. I thank you as a shareholder for your continued support and confidence, your business as a client and making those very important referrals of friends, family and associates to Century Bank and Trust.

Eric H. Beckhusen

Eric H. Beckhusen
Chairman & CEO

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Shareholders
Century Financial Corporation
Coldwater, Michigan

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Century Financial Corporation as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

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

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

Other Information

Management is responsible for the other information. The other information is comprised of the Financial Highlights, the Message to Shareholders and disclosure of the Corporation's directors, officers and locations but does not include the consolidated financial statements and our auditor's 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 audit 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.

Crowe LLP

Crowe LLP

Grand Rapids, Michigan
February 21, 2023

Consolidated Balance Sheets

Century Financial Corporation

(000's omitted, except share and per share data)

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 11,558	$ 11,404
Short term investments	56,026	154,779
Total cash and cash equivalents	67,584	166,183
Time deposits in other financial institutions	2,000	1,744
Securities available for sale	149,870	45,581
Securities held to maturity (Fair value of $15,341 in 2022 and $18,112 in 2021)	16,531	17,926
Other investments	1,096	885
Loans held for sale	-	1,554
Loans, net	198,293	200,904
Premises and equipment, net	4,276	4,429
Bank owned life insurance	8,794	9,489
Accrued interest receivable	1,931	896
Other assets	4,018	2,624
Total Assets	$ 454,393	$ 452,215
Liabilities		
Deposits		
Noninterest-bearing	$ 168,602	$ 154,609
Time deposits of $100 or more	3,859	5,860
Other time deposits	9,293	9,033
Other interest-bearing deposits	221,890	226,938
Total deposits	403,644	396,440
Accrued interest payable	12	12
FHLB Advances	5,500	5,500
Other liabilities	2,147	2,678
Total Liabilities	411,303	404,630
Shareholders' Equity		
Preferred stock -- $1 par value; shares authorized -- 300,000; issued and outstanding -- none		
Common stock -- $1 par value; shares authorized -- 3,000,000; issued and outstanding -- 1,711,341 in 2022 and 1,782,411 in 2021	1,711	1,782
Paid in capital	14,153	16,051
Retained earnings	34,223	29,862
Accumulated other comprehensive (loss)	(6,997)	(110)
Total Shareholders' Equity	43,090	47,585
Total Liabilities and Shareholders' Equity	$ 454,393	$ 452,215

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

Consolidated Statements of Income

Century Financial Corporation

(000s omitted, except per share data)

	Year Ended December 31, 2022	2021
Interest Income		
Loans, including fees	$ 9,282	$ 9,907
Securities		
Taxable	3,071	786
Non-taxable	342	326
Other investments	1,643	215
Total interest income	14,338	11,234
Interest Expense		
Deposits	598	276
FHLB Advances	110	110
Total interest expense	708	386
Net Interest Income	13,630	10,848
Provision for loan losses	-	-
Net interest income after provision for loan losses	13,630	10,848
Non-interest Income		
Service charges on deposit accounts	1,734	1,758
Trust and investment management revenue	2,295	2,400
Gain on sale of mortgage loans	773	2,110
Gain (loss) on securities	(1)	37
Other income	830	497
Total non-interest income	5,631	6,802
Non-interest Expense		
Salaries and employee benefits	6,958	6,255
Occupancy and equipment expense	2,083	2,142
Other	3,063	2,685
Total non-interest expense	12,104	11,082
Income Before Income Taxes	7,157	6,568
Income Taxes	1,297	1,229
Net Income	$ 5,860	$ 5,339
Basic Earnings Per Share	$ 3.35	$ 2.95

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

Consolidated Statements of Comprehensive Income (Loss)

Century Financial Corporation

(000s omitted, except per share data)

	Year Ended December 31, 2022	2021
Net Income	**$ 5,860**	**$ 5,339**
Other Comprehensive Loss		
Reclassification adjustment for net realized (gains)/losses on sales of securities (A)	**1**	**(37)**
Unrealized gains/(losses) on securities		
Unrealized holding loss	**(8,717)**	**(828)**
Tax effect (B)	**1,829**	**182**
Total other comprehensive (loss)	**(6,887)**	**(683)**
Comprehensive Income (Loss)	**$ (1,027)**	**$ 4,656**

(A) Included in gain/(loss) on securities.

(B) Income taxes for 2022 and 2021 include tax expense $0 and $8 related to reclassification adjustments.

Consolidated Statements of Changes in Shareholders' Equity

Century Financial Corporation

(000s omitted, except per share data)

	Common Stock	*Paid In Capital*	*Retained Earnings*	*Accumulated Other Comprehensive Income/(Loss)*	*Total*
Balance, January 1, 2021	**$ 1,823**	**$ 17,048**	**$ 25,974**	**$ 573**	**$ 45,418**
Net income	-	-	5,339	-	**5,339**
Other comprehensive loss	-	-	-	(683)	**(683)**
Cash dividends, $.80 per share	-	-	(1,451)	-	**(1,451)**
Repurchase of shares	(41)	(997)	-		**(1,038)**
Balance, December 31, 2021	**1,782**	**16,051**	**29,862**	**(110)**	**47,585**
Net income	-	-	5,860		**5,860**
Other comprehensive loss	-	-		(6,887)	**(6,887)**
Cash dividends, $.86 per share	-	-	(1,499)		**(1,499)**
Repurchase of shares	(71)	(1,898)			**(1,969)**
Balance, December 31, 2022	**$ 1,711**	**$ 14,153**	**$ 34,223**	**$ (6,997)**	**$ 43,090**

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

Consolidated Statements of Cash Flows

Century Financial Corporation
(000s omitted)

	Year Ended December 31, 2022	2021
Cash Flows from Operating Activities		
Net Income	**$ 5,860**	**$ 5,339**
Adjustments to Reconcile Net Income to Net Cash from Operating Activities		
Depreciation	**388**	**381**
Net amortization on securities	**159**	**191**
Provision for loan losses	**-**	**-**
Gain on sales of mortgage loans	**(773)**	**(2,110)**
Proceeds from sales of mortgage loans	**25,483**	**65,035**
Mortgage loans originated for sale	**(23,156)**	**(61,114)**
(Gain) loss on sales of securities	**1**	**(37)**
Earnings on bank owned life insurance	**(221)**	**(233)**
Net Change in Assets and Liabilities		
Accrued interest receivable	**(1,035)**	**19**
Accrued interest payable	**-**	**(2)**
Other assets	**431**	**(580)**
Other liabilities	**(531)**	**600**
Net cash from operating activities	**6,606**	**7,489**
Cash Flows from Investing Activities		
Purchase of Federal Home Loan Bank stock	**(211)**	**(440)**
Purchases of securities available for sale	**(121,018)**	**(25,098)**
Proceeds from sales, calls and maturities of securities available for sale	**7,902**	**12,978**
Purchases of securities held to maturity	**(3,800)**	**(8,348)**
Proceeds from calls, prepayment and maturities of securities held to maturity	**5,145**	**4,740**
Proceeds from maturities of time deposits in other financial institutions	**1,494**	**-**
Purchase of time deposits in other financial institutions	**(1,750)**	**(250)**
Proceeds from surrender of bank owned life insurance	**916**	**-**
Net change in portfolio loans	**2,611**	**13,413**
Proceeds from sales of other real estate owned	**5**	**-**
Premises and equipment expenditures, net	**(235)**	**(59)**
Net cash from investing activities	**(108,941)**	**(3,064)**
Cash Flows from Financing Activities		
Net change in time deposits of $100 or more	**(2,001)**	**(752)**
Net change in other deposits	**9,205**	**49,583**
Repurchase of stock	**(1,969)**	**(1,038)**
Cash dividends paid	**(1,499)**	**(1,451)**
Net cash from financing activities	**3,736**	**46,342**
Net Change in Cash and Cash Equivalents	**(98,599)**	**50,767**
Cash and cash equivalents at beginning of year	**166,183**	**115,416**
Cash and Cash Equivalents at End of Year	**$ 67,584**	**$ 166,183**
Supplemental Disclosures of Cash Flow Information		
Cash Paid During the Year for	***2022***	***2021***
Interest	**$ 708**	**$ 388**
Income taxes paid	**1,266**	**1,401**
Supplemental Disclosures of Non-Cash Financing and Investing Activities		
Transfers of loans to other real estate owned	**$ -**	**$ 16**
Right-of-use assets obtained in exchange for lease liabilities	**36**	**53**

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

1. SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

The consolidated financial statements include the accounts of Century Financial Corporation (the “Corporation”), its wholly-owned subsidiary, Century Bank and Trust (the “Bank”), combined with its wholly-owned subsidiaries, Century Insurance Services and Century Mortgage Services, after elimination of significant intercompany transactions and accounts.

The Corporation provides financial services through its offices located in southern Michigan. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial, and installment consumer loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid by cash flows from operations of businesses. Real estate loans are secured by both residential and commercial real estate. Other financial instruments which potentially represent concentrations of credit risk include deposit accounts in other financial institutions.

Subsequent Events

The Bank has evaluated subsequent events for recognition and disclosure through February 21, 2023, which is the date the consolidated financial statements were available to be issued.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the consolidated financial statements and the disclosures provided. Actual amounts could differ from those estimates.

Cash Flows

For the purpose of this statement, cash and cash equivalents are defined to include cash on hand, demand deposits with banks, overnight investments and certain short term investments with maturities of three months or less upon acquisition. Net cash flows are reported for customer loan and deposit transactions, short-term borrowings, and premises and equipment activities.

Securities

Securities classified as available for sale are reported at their fair value and the related unrealized holding gains or losses are reported, net of related income tax effects, in other comprehensive loss, until realized. Such securities might be sold prior to maturity due to changes in interest rates, prepayment risks, yield and availability of alternative investments, liquidity needs or other factors. Securities for which management has the positive intent and the ability to hold to maturity are classified as held to maturity and are reported at amortized cost. Other investments, such as Federal Home Loan Bank and Federal Agriculture Mortgage Corp stock, are carried at cost.

Premiums and discounts on securities are recognized in interest income using the level yield method over the estimated life of the security. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are other than temporary are reflected as realized losses. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near term prospects of the issuer, (3) whether the market decline was affected by macroeconomic conditions, and (4) whether the Corporation has the intent to sell the debt security or more likely than not will be required to sell the debt security before its anticipated recovery. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: (1) other-than-temporary-impairment (OTTI) related to credit loss, which must be recognized in the consolidated statements of income and (2) OTTI related to other factors, which is recognized in other comprehensive loss. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cash basis. For equity securities, the entire amount of impairment is recognized through consolidated statements of income. The assessment of whether an other-than-temporary decline exists involves a high degree of subjectivity and judgment and is based on the information available to management at a point in time.

Time Deposits in Other Financial Institutions

These are fully FDIC insured deposits with future contractual maturities of $250,000 (2023), $500,000 (2024), $250,000 (2025), $500,000 (2026), and $500,000 (2027).

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to consolidated statements of income.

Mortgage loans held for sale are generally sold with servicing rights retained. The carrying value of mortgage loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of mortgage loans are based on the difference between the selling price and the carrying value of the related loan sold.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Loans

Loans are reported at the principal balance outstanding, net of deferred loan fees and costs and an allowance for loan losses. Interest income is reported on the interest method and includes amortization of net deferred loan fees and costs over the loan term. Interest income on loans is generally discontinued at the time the loan is ninety days delinquent, determined based upon the contractual terms of the loan, unless the credit is well-secured and in process of collection. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Past due status is determined based on the contractual terms of the loan. All interest accrued but not received for loans placed on non-accrual is reversed against interest income. Interest received on such loans is accounted on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Loan Losses

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

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful.

A loan is impaired when full payment under the loan terms is not expected. Loans, for which the terms have been modified, resulting in a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired. Commercial loans are individually evaluated for impairment.

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.

If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of the estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral. Large groups of smaller balance homogenous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Corporation determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses.

The general component covers non-impaired loans and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Corporation over the most recent five years. This actual loss experience is supplemented with other 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. The following portfolio segments have been identified:

> Commercial - Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers' business and industry as repayment is typically dependent on cash flows generated from the underlying business.
>
> Residential real estate - Loans to purchase or refinance one- to four-family residences. The risks associated with this segment are generally dependent on the overall real estate value environment and individual payment obligations. Real estate is subject to changes in market valuation and can be unstable for a variety of reasons.
>
> Consumer - Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from a consumer continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Bank Owned Life Insurance

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

Servicing Rights

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

Servicing fee income, which is reported on the income statement as other income, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal. The amortization of mortgage servicing rights is netted against loan servicing fee income. Servicing fees totaled approximately $445,000 and $429,000 for the years ended December 31, 2022 and 2021. Late fees and ancillary fees related to loan servicing are not material.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (2) the transferee obtains the right (free 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.

Foreclosed Assets

Assets acquired in collection of a loan are recorded at fair value less estimated costs to sell at acquisition. Any reduction to fair value at acquisition from carrying value is recorded through the allowance for loan losses. After acquisition, a valuation allowance reduces the reported amount for further reductions in fair value. Expenses, gains and losses on disposition, and changes in the valuation allowance are reported as non-interest expense other in the consolidated statements of income. The Corporation had $0 and $4,000 in foreclosed assets at December 31, 2022, and 2021, respectively, which are included in other assets in the consolidated balance sheet.

Premises and Equipment

Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation. Buildings and related components are depreciated using the straight-line method and furniture, fixtures and equipment are depreciated using the straight-line or accelerated methods.

Long-term Assets

Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

Retirement Plans

Expense for the Employee Stock Ownership Plan is the amount contributed as determined by the Board of Directors.

Income Taxes

Income tax expense is the tax due or refundable for the period plus or minus the change during the period in the deferred tax assets and liabilities. Deferred tax assets and liabilities are computed annually for temporary differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Valuation allowances are established, when necessary, to reduce deferred tax assets to the amount expected to be realized.

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

The Corporation recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments

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

Century Financial Corporation

1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair Values of Financial Instruments

Fair values of financial instruments are estimated using the relevant market information and other assumptions, as more fully disclosed in a separate note. Fair value estimates involve uncertainties and matters of significant judgment regarding interest rates, credit risk, prepayments, and other factors, especially in the absence of broad markets for particular items. Changes in assumptions or in market conditions could significantly affect the estimates.

Earnings Per Share

Basic earnings per share is based on net income divided by the weighted average number of shares outstanding during the period. Diluted earnings per share would show the dilutive effect of additional common shares issuable under stock options. However, there are currently no outstanding stock options or other instruments which could cause dilution.

Comprehensive Income (Loss)

Comprehensive income (loss) consists of net income and unrealized gains and losses on securities available for sale, net of tax, which is recognized as a separate component of shareholder's equity.

Loss Contingencies

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

Dividend Restriction

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

Revenue Recognition

ASC 606, Revenue from Contracts with Customers established a comprehensive revenue recognition standard for virtually all industries under U.S. GAAP, including those that previously followed industry-specifc guidance such as the real estate, construction and software industries. The revenue standard's core principle is built on the contract between a vendor and a customer for the provision of goods and services. It attempts to depict the exchange of rights and obligations between the parties in the pattern of revenue recognition based on the consideration to which the vendor is entitled. To accomplish this objective, the standard requires five basic steps: (i) identify the contract with the customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract, and (v)recognize revenue when (or as) the entity satisfies a performance obligation. The Corporation's in-scope revenue streams consist primarily of service charges on deposit accounts and trust and investment management revenue which are included in non-interest income on the consolidated statements of income. This revenue is recognized at the time a discrete service is provided to a customer and the performance obligation is fulfilled.

Reclassifications

Certain amounts in the prior year consolidated financial statements have been reclassified to conform with the current year presentation.

2. RESTRICTIONS ON CASH

Cash on hand or on deposit with the Federal Reserve Bank of $0 was required to meet regulatory reserve and clearing requirements at both December 31, 2022 and 2021.

3. SECURITIES

The fair value of available for sale securities and the related gross unrealized gains and losses recognized in accumulated other comprehensive losses were as follows (000s omitted):

2022	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 123,457	$ -	$ (5,767)	$ 117,690
Mortgage-backed securities, residential	3,473	-	(680)	2,793
Corporate Securities	31,797	-	(2,410)	29,387
	$ 158,727	$ -	$ (8,857)	$ 149,870

2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Loss	Fair Value
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 17,671	$ 38	$ (230)	$ 17,479
Mortgage-backed securities, residential	3,830	-	(147)	3,683
Corporate Securities	24,220	299	(100)	24,419
	$ 45,721	$ 337	$ (477)	$ 45,581

The carrying amount, unrecognized gains and losses, and fair value of securities held to maturity were as follows (000s omitted):

2022	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Loss	Fair Value
Obligations of states and political subdivisions	$ 16,531	$ 42	$ (1,232)	$ 15,341
Totals	$ 16,531	$ 42	$ (1,232)	$ 15,341

2021	Carrying Amount	Gross Unrecognized Gains	Gross Unrecognized Loss	Fair Value
Obligations of states and political subdivisions	$ 17,926	$ 466	$ (280)	$ 18,112
Totals	$ 17,926	$ 466	$ (280)	$ 18,112

Securities available for sale with unrealized losses at year end 2022 and 2021, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows (000s omitted):

	Less than 12 Months		12 Months or More		Total	
2022	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 104,702	$ (3,112)	$ 12,988	$ (2,655)	$ 117,690	$ (5,767)
Mortgage-backed securities	-	-	2,793	(680)	2,793	(680)
Corporate securities	20,326	(745)	9,061	(1,665)	29,387	(2,410)
Total temporarily impaired	$ 125,028	$ (3,857)	$ 24,842	$ (5,000)	$ 149,870	$ (8,857)

2021	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
U.S. Treasury securities and obligations of U.S. government corporations and agencies	$ 8,977	$ (97)	$ 3,867	$ (133)	$ 12,844	$ (230)
Mortgage-backed securities	3,683	(147)	-	-	3,683	(147)
Corporate securities	5,126	(68)	490	(32)	5,616	(100)
Total temporarily impaired	$ 17,786	$ (312)	$ 4,357	$ (165)	$ 22,143	$ (477)

Unrealized losses on securities available for sale have not been recognized into income because the issuers' bonds are of high credit quality. Management does not intend to sell the securities, it is not likely to be required to sell the securities prior to the recovery in value, and the decline in fair value is largely due to changes in interest rates. The fair value is expected to recover as the securities approach maturity.

There were no sales of securities in 2022. Securities called in 2022 resulted in a loss of $1,202. Sales of securities in 2021 resulted in gross gains of $20,460 and gross losses of $7,497. Called securities in 2021 resulted in a gross gain of $24,007 for a total net gain of $36,970.

3. SECURITIES (continued)

The fair value of securities and carrying amount, if different, at year end 2022 by contractual maturity were as follows (000s omitted). Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Held-to-maturity		*Available for sale*	
	Carrying Amount	*Fair Value*	*Amortized Cost*	*Fair Value*
Due in one year or less	$ 4,010	$ 3,973	$ 11,744	$ 11,618
Due from one to five years	5,390	5,197	94,848	91,677
Due from five to ten years	3,667	3,229	45,116	40,675
Due after ten years	3,464	2,942	3,546	3,107
Mortgage-backed, residential	-	-	3,473	2,793
Totals	$ 16,531	$ 15,341	$ 158,727	$ 149,870

Securities pledged at year end 2022 and 2021 had a carrying amount of $17,714,912 and $25,152,623, respectively and were pledged to secure public deposits.

4. LOANS

Major classifications of loans were as follows as of December 31 (000s omitted):

	2022	*2021*
Commercial:		
Commercial real estate	$ 99,267	$ 98,310
Other	25,952	34,132
Residential real estate:		
One to four family	56,508	54,267
Home equity lines of credit	13,949	11,696
Consumer	5,916	5,839
Subtotal	201,592	204,244
Allowance for loan losses	(3,299)	(3,340)
Loans, net	$ 198,293	$ 200,904

At December 31, 2022 and 2021, certain officers and directors, and companies in which they are principal owners, were indebted to the Corporation in the aggregate of $140,830 and $354,536, respectively.

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ending December 31 (000s omitted) :

	Commercial	*Residential Real Estate*	*Consumer*	*Unallocated*	*Total*
2022					
Allowance for loan losses:					
Beginning balance	$ 943	$ 221	$ 73	$ 2,103	$ 3,340
Provision for loan losses	(177)	13	67	97	-
Loans charged-off	-	-	(100)	-	(100)
Recoveries	20	2	37	-	59
Total ending balance	$ 786	$ 236	$ 77	$ 2,200	$ 3,299
2021					
Allowance for loan losses:					
Beginning balance	$ 1,085	$ 266	$ 71	$ 1,954	$ 3,376
Provision for loan losses	(149)	(42)	42	149	-
Loans charged-off	(62)	(12)	(98)	-	(172)
Recoveries	69	9	58	-	136
Total ending balance	$ 943	$ 221	$ 73	$ 2,103	$ 3,340

4. LOANS (continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31 (000s omitted):

2022	*Commercial*	*Residential Real Estate*	*Consumer*	*Unallocated*	*Total*
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 125	$ -	$ -	$ -	$ 125
Collectively evaluated for impairment	661	236	77	2,200	3,174
Total ending allowance balance	$ 786	236	77	2,200	$ 3,299
Loans:					
Individually evaluated for impairment	$ 1,868	$ 215	$ -	$ -	$ 2,083
Collectively evaluated for impairment	123,351	70,242	5,916	-	199,509
Total ending loans balance	$ 125,219	$ 70,457	$ 5,916	$ -	$ 201,592
2021					
Allowance for loan losses:					
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	$ 225	$ -	$ -	$ -	$ 225
Collectively evaluated for impairment	718	221	73	2,103	3,115
Total ending allowance balance	$ 943	$ 221	$ 73	$ 2,103	$ 3,340
Loans:					
Individually evaluated for impairment	$ 2,369	$ 437	$ -	$ -	$ $2,806
Collectively evaluated for impairment	130,073	65,526	5,839	-	$ 201,438
Total ending loans balance	$ 132,442	$ 65,963	$ 5,839	$ -	$ 204,244

The following tables present information related to impaired loans by class of loans as of and for the years ending December 31 (000s omitted):

2022	*Unpaid Principal Balance*	*Recorded Investment*	*Allowance for Loan Losses Allocated*	*Average Recorded Investment*	*Interest Income Recognized*	*Cash Basis Interest Recognized*
With no related allowance for loan loss recorded:						
Commercial:						
Commercial real estate	$ 1,398	$ 1,398	$ -	$ 1,482	$ 93	$ 84
Other	-	-	-	-	-	-
Residential real estate	215	215	-	224	11	10
Subtotal	1,613	1,613	-	1,706	104	94
With an allowance for loan loss recorded:						
Commercial:						
Commercial real estate	1,331	470	125	478	-	-
Subtotal	1,331	470	125	478	-	-
Total	$ 2,944	$ 2,083	$ 125	$ 2,184	$ 104	$ 94
2021						
With no related allowance for loan loss recorded:						
Commercial:						
Commercial real estate	$ 1,523	$ 1,523	$ -	$ 1,523	$ 16	$ 16
Other	2	2	-	4	-	-
Residential real estate	437	437	-	442	22	22
Subtotal	1,962	1,962	-	1,969	38	38
With an allowance for loan loss recorded:						
Commercial:						
Commercial real estate	2,109	844	225	849	-	-
Subtotal	2,109	844	225	849	-	-
Total	$ 4,071	$ 2,806	$ 225	$ 2,818	$ 38	$ 38

4. LOANS (continued)

The recorded investment in loans does not include accrued interest receivable and loan origination fees, net, as they are immaterial. For purposes of this disclosure, the unpaid principal balance is not reduced for net charge-offs.

Nonaccrual loans and loans past due 90 days and still on accrual include both smaller balance homogenous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following tables present the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31 (000s omitted):

	Nonaccrual		Loans Past Due Over 90 Days Still Accruing	
	2022	*2021*	*2022*	*2021*
Commercial:				
Commercial real estate	$ 470	$ 844	$ 75	$ -
Other	22	-	-	-
Residential real estate:				
One to four family	158	270	140	-
Home equity lines of credit	44	86	-	-
Consumer	1	4	-	-
Total	$ 695	$ 1,204	$ 215	$ -

The following tables present the aging of the recorded investment in past due loans by class of loans as of December 31 (000s omitted):

	30-89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
2022					
Commercial:					
Commercial real estate	$ 705	$ 75	$ 780	$ 98,487	$ 99,267
Other	13	-	13	25,939	25,952
Residential real estate:					
One to four family	2,233	140	2,373	54,135	56,508
Home equity lines of credit	107	-	107	13,842	13,949
Consumer	313	-	313	5,603	5,916
Total	$ 3,371	$ 215	$ 3,586	$ 198,006	$ 201,592
2021					
Commercial:					
Commercial real estate	$ 76	$ -	$ 76	$ 98,234	$ 98,310
Other	18	-	18	34,114	34,132
Residential real estate:					
One to four family	1,377	-	1,377	52,890	54,267
Home equity lines of credit	65	-	65	11,631	11,696
Consumer	68	-	68	5,771	5,839
Total	$ 1,604	$ -	$ 1,604	$ 202,640	$ 204,244

Troubled Debt Restructurings:

The Corporation has allocated $125,000 and $225,000 of specific reserve to customers whose loan terms have been modified in troubled debt restructurings as of December 31, 2022 and 2021. No additional amounts are committed to be lent to these borrowers. No loans were modified in 2022 or 2021.

The troubled debt restructurings described above did not increase the allowance for loan losses and did not result in charge offs in the years 2022 or 2021. The majority of the loans modified were already identified as problem loans and the modifications did not change the impact of the impairment assessment on those loans. Additionally, there were no troubled debt restructurings during 2022 or 2021 for which there was a payment default within twelve months following the restructuring.

Credit Quality Indicators:

The Corporation categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Corporation analyzes loans individually by classifying the loans as to credit risk. This analysis includes primarily non-homogenous loans, such as commercial loans. This analysis is performed on a quarterly basis. The Corporation uses the following definitions for risk ratings:

4. LOANS (continued)

Watch/Special Mention Borrowers who exhibit potential credit weaknesses or downward trends deserving management's close attention. While potentially weak, these borrowers are currently marginally acceptable; no loss of principal or interest is envisioned. However, if left uncorrected, these potential weaknesses could result in deterioration of the repayment prospects for the assets or in the banks' credit position at some future date. These borrowers have characteristics which corrective management action would remedy. Included in this category could be turnaround situations, as well as those borrowers previously rated satisfactory who have shown deterioration, for whatever reason, indicating a downgrading from the better categories. An element of asset quality, financial flexibility, or management is below average.

Potential Problem (Substandard) Borrowers with well-defined weaknesses that jeopardize the orderly liquidation of debt. A potential problem loan is inadequately protected by the current sound worth and paying capacity of the obligor or by the collateral pledged, if any. Normal repayment from the borrower is in jeopardy. There is a distinct possibility that a partial loss of interest and/or principal will occur if the deficiencies are not corrected. Loss potential, while existing in the aggregate amount of potential problem assets, does not have to exist in individual assets classified potential problem.

Problem (Doubtful) Borrowers classified problem have all the weaknesses found in potential problem borrowers with the added provision that the weaknesses make collection of debt in full, on the basis of currently existing facts, conditions, and values, highly questionable and improbable. Serious problems exist to the point where partial loss of principal is likely. The possibility of loss is high, but because of certain important, reasonably specific pending factors that may work to strengthen the assets, the loan's classification as estimated loss is deferred until a more exact status may be determined. Pending factors include proposed merger, acquisition, or liquidation procedures; capital injection; perfecting liens on additional collateral; and refinancing plans.

Loans not meeting the criteria above that are analyzed individually as part of the process described above are considered to be pass rated loans. Loans listed as not rated are predominantly homogenous loans. These loans are monitored for credit quality based primarily on payment performance.

Based on the most recent analysis performed, the risk category of loans by class of loans is as follows (000s omitted):

	Pass	*Watch*	*Potential Problem*	*Problem*	*Not Rated*
2022					
Commercial:					
Commercial real estate	**$ 96,951**	**$ 623**	**$ 1,223**	**$ 470**	**$ -**
Other	**25,612**	**340**	**-**	**-**	**-**
Residential real estate:					
One to four family	**-**	**-**	**-**	**-**	**56,508**
Home equity lines of credit	**-**	**-**	**-**	**-**	**13,949**
Consumer	**-**	**-**	**-**	**-**	**5,916**
Total	**$ 122,563**	**$ 963**	**$ 1,223**	**$ 470**	**$ 76,373**
2021					
Commercial:					
Commercial real estate	**$ 94,818**	**$ 1,025**	**$ 1,523**	**$ 844**	**$ -**
Other	**33,389**	**741**	**2**	**-**	**-**
Residential real estate:					
One to four family	**-**	**-**	**-**	**-**	**54,267**
Home equity lines of credit	**-**	**-**	**-**	**-**	**11,696**
Consumer	**-**	**-**	**-**	**-**	**5,839**
Total	**$ 128,307**	**$ 1,766**	**$ 1,525**	**$ 844**	**$ 71,802**

5. FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

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

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

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

5. *FAIR VALUE (continued)*

The fair values of securities available for sale are determined by obtaining quoted prices on nationally recognized securities exchanges (Level 1 inputs) or matrix pricing, which is a mathematical technique widely used in the industry to value securities without relying exclusively on quoted prices for the specific securities but rather by relying on the securities' relationship to other benchmark quoted securities (Level 2 inputs). There were no securities priced using Level 3 inputs at year end 2022 or 2021.

The fair value of impaired loans with specific allocations of the allowance for loan losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available, and management makes adjustments to appraised values based on market conditions. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Non-real estate collateral may be valued using an appraisal, net book value per the borrower's financial statements, or aging reports, adjusted or discounted based on management's historical knowledge, changes in market conditions from the time of the valuation, and management's expertise and knowledge of the client and client's business, resulting in a Level 3 fair value classification. Impaired loans are evaluated on a quarterly basis for additional impairment and adjusted accordingly.

Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. Fair value is commonly based on recent real estate appraisals which are updated no less frequently than annually. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available, and management makes adjustments to appraised values based on market conditions. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value. Foreclosed assets are evaluated on a quarterly basis for additional impairment and adjusted accordingly. No foreclosed assets held at year-end 2022 or 2021 was being measured at fair value on a non-recurring basis.

Appraisals for both collateral-dependent impaired loans and real estate owned are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Once received, an officer reviews the assumptions and approaches utilized in the appraisal as well as the overall resulting fair value in comparison with independent data sources such as recent market data or industry- wide statistics. On an annual basis, the Corporation compares the actual selling price of collateral that has been sold to the most recent appraised value to determine what additional adjustment should be made to the appraisal value to arrive at fair value. The most recent analysis performed indicated that a discount of 10% should be applied to properties with appraisals performed within 12 months.

Assets and Liabilities Measured on a Recurring Basis

Assets and liabilities measured at fair value on a recurring basis are summarized below (000s omitted):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
2022			
Assets:			
Securities available for sale			
U.S. Treasury securities and obligations of U.S.	**$ -**	**$ 117,690**	**$ -**
government corporations and agencies	**-**	**2,793**	**-**
Mortgage-backed securities, residential	**-**	**29,387**	**-**
Corporate Securities	**$ -**	**$ 149,870**	**$ -**
Total Securities			
2021			
Assets:			
Securities available for sale			
U.S. Treasury securities and obligations of U.S.	**$ -**	**$ 17,479**	**$ -**
government corporations and agencies	**-**	**3,683**	**-**
Mortgage-backed securities, residential	**-**	**24,419**	**-**
Corporate Securities	**$ -**	**$ 45,581**	**$ -**
Total Securities			

5. FAIR VALUE (continued)

Assets and Liabilities Measured on a Nonrecurring Basis

Assets and liabilities measured at fair value on a non-recurring basis are summarized below (000s omitted):

	Fair Value Measurements Using		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	*Significant Other Observable Inputs (Level 2)*	*Significant Unobservable Inputs (Level 3)*
2022			
Assets:			
Impaired loans:			
Commercial:			
Commercial real estate	**$ -**	**$ -**	**$ 345**
Total	**$ -**	**$ -**	**$ 345**
2021			
Assets:			
Impaired loans:			
Commercial:			
Commercial real estate	**$ -**	**$ -**	**$ 619**
Total	**$ -**	**$ -**	**$ 619**

The following represent impairment charges recognized during the period:

Impaired loans, which are measured for impairment using the fair value of the collateral for collateral-dependent loans, had a recorded investment of $470,000, before a valuation of $125,000 at year-end 2022, resulting in no provision for loan losses in 2022. At December 31, 2021 impaired loans had a recorded investment of $844,000, before a valuation allowance of $225,000 at year-end 2021, resulting in no provision for loan losses in 2021.

As discussed previously, the fair values of impaired loans and foreclosed assets carried at fair value are determined by third party appraisals. Management makes adjustments to these appraised values based on the age of the appraisal and the type of property. The following tables present quantitative information about Level 3 fair value measurements for the larger classes of financial instruments measured at fair value on a non-recurring basis at December 31 (000s omitted):

2022	*Fair Value*	*Valuation Technique(s)*	*Unobservable Input*	*Discount Rate (Range and Average)*
Impaired loans:				
Commercial:				
Commercial real estate	$ 345	Sales comparison	Management discount for property type and recent market volatility	10%
2021				
Impaired loans:				
Commercial:				
Commercial real estate	$ 619	Sales comparison	Management discount for property type and recent market volatility	10%

5. FAIR VALUE (continued)

Fair Value of Financial Instruments

The carrying amount and estimated fair values of financial instruments excluding securities available for sale are as follows as of December 31 (000s omitted):

		2022		2021	
	Fair Value Level	*Carrying Amount*	*Fair Value*	*Carrying Amount*	*Fair Value*
Financial assets					
Cash and cash equivalents	1	$ 67,584	$ 67,584	$ 166,183	$ 166,183
Securities held to maturity	2	16,531	15,341	17,926	18,112
Time deposits with other institutions	2	2,000	1,920	1,744	1,769
Loans held for sale	1	-	-	1,554	1,586
Loans, net	3	198,293	191,035	200,904	200,683
FHLB and FAMC stock	N/A	1,096	N/A	885	N/A
Accrued interest receivable	2	1,931	1,931	896	896
Financial liabilities					
Time Deposits	2	$ 13,152	$ 13,278	$ 14,893	$ 14,910
Deposits	1	390,492	390,492	381,547	381,547
Federal Home Loan Bank advances	2	5,500	5,276	5,500	5,588
Accrued interest payable	2	12	12	12	12

6. PREMISES AND EQUIPMENT

Major classifications of premises and equipment were as follows at December 31 (000s omitted):

	2022	2021
Land	$ 1,300	$ 1,300
Buildings	8,637	8,637
Furniture, fixtures and equipment	5,754	5,520
Total cost	15,691	15,457
Less accumulated depreciation	(11,415)	(11,028)
Total	$ 4,276	$ 4,429

7. LOAN SERVICING

Mortgage loans serviced for others are not reported as assets. The principal balances of these loans at year-end are as follows (000s omitted):

	2022	2021
Mortgage loan portfolios serviced for:		
FHLMC	$ 115,184	$ 112,446
FHLBI	51,186	51,027
	$ 166,370	$ 163,473

Custodial escrow balances maintained in connection with serviced loans were $316,879 and $419,409 at December 31, 2022 and 2021, respectively.

Activity for servicing rights follows (000s omitted):

	2022	2021
Servicing rights		
Beginning of year	$ 1,066	$ 805
Additions	267	698
Amortized to expense	(417)	(437)
End of year	$ 916	$ 1,066

The fair value of servicing rights at year-end 2022 and 2021 were $2,223,976 and $1,584,952.

8. DEPOSITS

At December 31, 2022, scheduled maturities of time deposits were as follows (000s omitted):

2023	8,663
2024	3,483
2025	1002
2026	4
Total	$ 13,152

Related party deposits totaled $29,931,575 and $23,823,248 at December 31, 2022 and 2021, respectively.

Time deposits that meet or exceed the FDIC Insurance limit of $250,000 at year-end 2022 and 2021 were $2,384,311 and $3,424,199, respectively.

9. BORROWINGS

The Bank had $5,500,000 in Federal Home Loan Bank (FHLB) advances outstanding as of December 31, 2022 and 2021. Advances from the FHLB are secured by the Corporation's qualifying real estate loans and investment securities under a specific collateral agreement. The advance outstanding at December 31, 2022 has a fixed interest rate of 1.97%, has no contractually required periodic principal payments and matures in 2029.

FHLB advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the FHLB.

10. INCOME TAX

Income tax expense (benefit) consists of (000s omitted):

	2022	2021
Current liability	$ 1,283	$ 1,118
Deferred (benefit) liability	14	111
Total income tax expense (benefit)	$ 1,297	$ 1,229

Deferred tax assets and liabilities at December 31 consist of (000s omitted):

	2022	2021
Deferred tax assets		
Allowance for loan losses	$ 639	$ 638
Nonaccrual loans	16	29
Unrealized loss on securities available for sale	1,860	29
Accrued liabilities	76	66
Other	28	43
Total deferred tax assets	2,619	805
Deferred tax liabilities		
Deferred loan fees/costs	(46)	(11)
Depreciation	(229)	(229)
Mortgage servicing rights	(192)	(224)
Other	(46)	(52)
Total deferred tax liabilities	(513)	(516)
Net deferred tax assets	2,106	289
Valuation allowance	-	-
Total deferred tax assets	$ 2,106	$ 289

A valuation allowance related to deferred tax assets is required when it is considered more likely than not that all or part of the benefits related to such assets will not be realized. Management has determined that no valuation allowance was required at year-end 2022 or 2021.

The difference between the financial statement tax expense and amounts computed by applying the statutory federal tax rate of 21% to income before income taxes is reconciled as follows (000s omitted):

	2022	2021
Statutory rate applied to income before taxes		
Add (deduct):	$ 1,503	$ 1,379
Non-taxable income	(102)	(102)
Bank owned life insurance	(107)	(49)
Other	3	1
Total income tax expense	$ 1,297	$ 1,229

There were no unrecognized tax benefits at December 31, 2022, and the Corporation does not expect the total amount of unrecognized tax benefits to significantly increase or decrease in the next twelve months.

The Corporation is no longer subject to examination by the Internal Revenue Service for years before 2019.

No amounts of interest, penalties, and/or accruals were recorded during or for the years ended December 31, 2022 and 2021.

11. EARNINGS PER SHARE

The computation of earnings per share for the years ended December 31, is as follows (000s omitted, except per share data):

		2022	2021
Basic earnings per share			
Net income	$	5,860	$ 5,339
Weighted average common shares outstanding		1,749	1,812
Basic earnings per share	$	3.35	$ 2.95

12. EMPLOYEE BENEFIT PLANS

Employee Stock Ownership Plan (ESOP)

A non-contributory ESOP is maintained for the benefit of all qualified employees. At year-end 2022 and 2021, the ESOP owned 168,781 and 158,458 shares of the Corporation's common stock. All shares are allocated to participants. Dividends paid on shares held by the ESOP are allocated to participants' accounts based upon shares held. Upon retirement or separation, a participant or beneficiary generally has 60 days to elect the form of benefit desired. They may elect to receive an in-kind distribution of shares allocated to them or may elect to receive the value of their ESOP account balance, including shares, distributed in cash over a period generally not in excess of five years. The value of ESOP shares for cash distribution purposes is determined annually by a third party appraisal, and at year-end 2022 aggregated to approximately $4,557,087. Annual contributions are made at the discretion of the Board of Directors and were $234,855 and $240,083 for 2022 and 2021.

13. FINANCIAL INSTRUMENTS WITH OFF-BALANCE-SHEET RISK

Some financial instruments are used to meet customer financing needs and to reduce exposure to interest rate changes. These financial instruments include commitments to make loans, unused lines of credit, and standby letters of credit. These involve, to varying degrees, credit and interest-rate risk in excess of the amount reported in the balance sheet.

Outstanding commitments to make loans and unused lines of credit totaled $66,543,000 and $62,885,000 at December 31, 2022 and 2021, respectively. Commitments under letters of credit were $665,000 and $1,317,000 at December 31, 2022 and 2021, respectively.

Commitments to make loans are agreements to lend to a customer as long as there is no violation of any condition established in the commitment, and generally have fixed expiration dates. Standby letters of credit are conditional commitments to guarantee a customer's performance to a third party. Exposure to credit loss if the other party does not perform is represented by the contractual amount of these items. Collateral or other security is normally not obtained for these financial instruments prior to their use, and many of the commitments are expected to expire without being used.

Mortgage Banking Related Derivatives: Certain derivative instruments do not meet the criteria for hedging requirements. These undesignated derivative instruments are generally recognized in the consolidated balance sheets at fair value, with changes in fair value recorded in other noninterest income.

Derivative Loan Commitments: Mortgage loan commitments are referred to as derivative loan commitments if the loan that will result from exercise of the commitment will be held for sale upon funding. The Bank enters into commitments to fund residential mortgage loans at specified times in the future, with the intention that these loans will subsequently be sold in the secondary market. A mortgage loan commitment binds the Bank to lend funds to a potential borrower at a specified interest rate and within a specified period of time, generally up to 90 days after inception of the rate lock.

Forward Loan Sale Commitments: The Bank utilizes "mandatory delivery" forward loan sale commitments. With a mandatory fixed-rate contract, the Bank may enter into an agreement with Freddie Mac to deliver one or more fixed-rate mortgages of a specified dollar amount in exchange for cash. Mandatory fixed-rate contracts are not loan-specific, and any bundle of loans that meets Freddie Mac's loan requirements may be used to fulfill the agreed-upon volume.

At year-end 2022, the Bank had $809,000 in commitments to originate and sell mortgage loans. The fair value of customer loan commitments and forward loan sales commitments were not material at December 31, 2022.

14. REGULATORY MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines, and additionally for banks, prompt corrective action regulations, involve quantitave measures of assets, liabilities, and certain off-balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on securities available for sale is not included in computing regulatory capital. Management believes as of December 31, 2022, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. As of December 31, 2022 and 2021, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

At December 31, the Bank's actual capital levels and minimum required levels including the capital conservation buffer, in thousands, approximated:

	Actual		*Minimum required for capital adequacy purposes*		*Mimimum required to be well capitalized under prompt corrective action regulations*	
2022	***Amount***	***Ratio***	***Amount***	***Ratio***	***Amount***	***Ratio***
Total Capital (to risk weighted assets)	**$ 53,349**	**18.5%**	**$ 30,219**	**10.5%**	**$ 28,780**	**10.0%**
Tier 1 (Core) Capital (to risk weighted assets)	**50,050**	**17.4%**	**24,463**	**8.5%**	**23,024**	**8.0%**
Common Tier 1 (CET1)	**50,050**	**17.4%**	**20,146**	**7.0%**	**18,707**	**6.5%**
Tier 1 (Core) Capital (to average assets)	**50,050**	**10.8%**	**18,494**	**4.0%**	**23,118**	**5.0%**
2021						
Total Capital (to risk weighted assets)	**$ 50,890**	**19.7%**	**$ 27,167**	**10.5%**	**$ 25,874**	**10.0%**
Tier 1 (Core) Capital (to risk weighted assets)	**47,655**	**18.4%**	**21,992**	**8.5%**	**20,669**	**8.0%**
Common Tier 1 (CET1)	**47,655**	**18.4%**	**18,111**	**7.0%**	**16,818**	**6.5%**
Tier 1 (Core) Capital (to average assets)	**47,655**	**10.6%**	**17,939**	**4.0%**	**22,424**	**5.0%**

Banking regulations require maintaining certain capital levels and may limit the dividend paid by the Bank to the Corporation or by the Corporation to the shareholders.

15. LEASES

The Corporation leases certain office facilities under long-term operating lease agreements. The leases expire at various dates through 2028 and some include renewal options. These leases require the payment of property taxes, insurance premiums, maintenance, utilities and other costs. In many cases, rentals are subject to increase in relation to a cost-of-living index. The Corporation accounts for lease and non-lease components together as a single lease component. The Corporation determines if an arrangement is a lease at inception. Operating leases are recorded as a right-of-use ("ROU") lease assets and are included in other assets on the consolidated balance sheet. The Corporation's corresponding lease obligations are included in other liabilities on the consolidated balance sheet. ROU lease assets represent the Corporation's right to use an underlying asset for the lease term and lease obligations represent the Corporation's obligation to make lease payments arising from the lease. Operating ROU lease assets and obligations are recognized at the commencement date based on the present value of lease payments over the lease term. As most of the Corporation's leases do not provide an implicit rate, the Corporation uses its incremental borrowing rate based on the information available at the commencement date in determining the present value of lease payments. The ROU lease asset also includes any lease payments made and excludes lease incentives. The Corporation's lease terms may include options to extend or terminate the lease when it is reasonably certain that the Corporation will exercise that option.

Lease expense for lease payments is recognized on a straight-line basis over the lease term. Short-term leases are leases having a term of twelve months or less. The Corporation recognizes short-term leases on a straight-line basis and does not record a related lease asset or liability for such leases, as allowed as practical expedient of the standard. The following is a maturity analysis of the operating lease liabilities as of December 31, 2022 (000s omitted):

Years Ending December 31:		
2023	$	32
2024		30
2025		27
2026		21
2027		22
Thereafter		13
Total undiscounted future minimum lease payments		145
Discount		(17)
Total lease liabilities	$	128
Right-of-use asset	$	128

		2022		*2021*
Lease cost				
Operating lease cost	$	78	$	86
Total lease cost	$	78	$	86
Other information				
Operating cash outflows from operating leases	$	77	$	84
Weighted-average remaining lease term (years) - operating leases		2.73		3.2
Weighted average discount rate - operating leases		2.93%		2.78%

Directors

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Century Bank and Trust

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Attorney at Law
Brothers Law Office, PLLC

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James W. Gordon
Certified Public Accountant
James W. Gordon, CPA, P.C.

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President,
Century Bank and Trust

Officers

Century Bank and Trust

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Chairman & CEO

Eric J. Wynes
President

Dylan M. Foster
Executive Vice President

Rebecca S. Crabill
Chief Financial Officer

Julie A. Andrews
Vice President & Senior Trust Officer

Alicia K. Cole
Vice President &
Senior Trust Officer

Jared E. Hoffmaster
Vice President &
Investment Officer

Jeffrey S. Holbrook
Vice President

Barry R. Miller
Vice President

Donna L. Penick
Vice President & Risk Officer

Tracy A. Richer
Vice President &
Trust Officer

Andrea J. Strong
Vice President

Ronald H. Uhl
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Corey L. Collins
Assistant Vice President &
Commercial Loan Officer

Michael D. Eddy
Assistant Vice President &
Mortgage Loan Officer

Alicia A. Finnerman
Assistant Vice President &
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Sergio Gomez
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Human Resource Manager

Jennifer J. Ewers
Auditor

Samantha L. Fergison
Digital Products Officer

Tiffany R. Moore
Deposit Services Officer

Ryan J. Saddler
Cash Management Officer

Century Financial Corporation

Eric H. Beckhusen
Chairman & CEO

Eric J. Wynes
President

Office and ATM Locations

Century Financial Corporation

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Century Bank and Trust
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745 East Chicago Street
Coldwater, Michigan

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Bronson, Michigan

Century Bank and Trust
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