# Northeast Indiana Bancorp, Inc.

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2022 and 2021

# Northeast Indiana Bancorp, Inc.
## December 31, 2022 and 2021

## Contents

FORV/S

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# Independent Auditor's Report

Board of Directors
Northeast Indiana Bancorp, Inc.
Huntington, Indiana

### *Opinion*

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

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

### *Basis for Opinion*

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

### *Responsibilities of Management for the Consolidated Financial Statements*

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

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

### *Other Information Included in the Annual Report*

Management is responsible for the other information included in the annual report. The other information comprises the annual report 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.

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

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Northeast Indiana Bancorp, Inc.'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 Northeast Indiana Bancorp, Inc.'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.

FORVIS, LLP

Indianapolis, Indiana
May 5, 2023

# Northeast Indiana Bancorp, Inc.

## Consolidated Balance Sheets
## December 31, 2022 and 2021

### Assets

| | 2022 | 2021 |
|---|---|---|
| Interest-earning cash and cash equivalents | $ 3,141,705 | $ 12,185,155 |
| Noninterest-earning cash and cash equivalents | 747,920 | 3,595,989 |
| Cash and cash equivalents | 3,889,625 | 15,781,144 |
| Interest-earning time deposits | 1,230,000 | 2,210,000 |
| Available-for-sale securities | 78,273,337 | 86,644,434 |
| Held-to-maturity securities | 12,062,446 | 11,916,667 |
| Loans held for sale | 189,600 | 538,635 |
| Loans receivable, net of allowance for loan losses of $3,996,619 in 2022 and $3,998,392 in 2021 | 320,755,878 | 274,267,094 |
| Accrued interest receivable | 1,923,986 | 1,489,036 |
| Premises and equipment, net | 7,254,951 | 6,937,418 |
| FHLB stock | 2,101,600 | 2,426,500 |
| Cash surrender value of life insurance | 11,629,618 | 11,331,941 |
| Goodwill | 130,972 | 130,972 |
| Other assets | 6,085,581 | 3,983,022 |
| Total assets | $ 445,527,594 | $ 417,656,863 |

### Liabilities and Shareholders' Equity

| | 2022 | 2021 |
|---|---|---|
| **Liabilities** | | |
| Deposits | | |
| Demand - noninterest-bearing | $ 53,232,315 | $ 56,435,410 |
| Savings | 38,859,247 | 43,367,788 |
| Negotiable order of withdrawal | 146,193,284 | 154,830,442 |
| Money market demand account | 66,107,667 | 39,108,663 |
| Time | 62,423,816 | 48,206,268 |
| Total deposits | 366,816,329 | 341,948,571 |
| Borrowed funds | 32,000,000 | 23,001,166 |
| Accrued expenses and other liabilities | 3,584,163 | 4,013,574 |
| Total liabilities | 402,400,492 | 368,963,311 |
| **Shareholders' Equity** | | |
| Common stock, $.01 par value; 4,000,000 shares authorized; 1,405,435 shares issued and outstanding, 2022 and 2021, respectively | 14,054 | 14,054 |
| Additional paid-in capital | 11,013,309 | 10,947,848 |
| Retained earnings, substantially restricted | 43,908,485 | 40,342,893 |
| Accumulated other comprehensive income (loss), net of tax | (8,338,362) | 852,757 |
| Treasury stock, at cost; 200,600 and 200,000 shares - 2022 and 2021 | (3,470,384) | (3,464,000) |
| Total shareholders' equity | 43,127,102 | 48,693,552 |
| Total liabilities and shareholders' equity | $ 445,527,594 | $ 417,656,863 |

# Northeast Indiana Bancorp, Inc.

## Consolidated Statements of Income
## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Interest Income** | | |
| Loans, including fees | $ 15,522,039 | $ 14,625,061 |
| Taxable securities | 1,043,951 | 872,636 |
| Nontaxable securities | 884,780 | 786,338 |
| Deposits with financial institutions | 100,970 | 69,158 |
| Total interest income | 17,551,740 | 16,353,193 |
| **Interest Expense** | | |
| Deposits | 1,817,252 | 1,035,660 |
| Borrowed funds | 427,534 | 1,071,932 |
| Total interest expense | 2,244,786 | 2,107,592 |
| **Net Interest Income** | 15,306,954 | 14,245,601 |
| **Provision for Loan Losses** | - | 120,000 |
| **Net Interest Income After Provision for Loan Losses** | 15,306,954 | 14,125,601 |
| **Noninterest Income** | | |
| Service charges on deposit accounts | 741,330 | 673,080 |
| Interchange fees | 784,129 | 664,608 |
| Service fees on loans sold, net of mortgage-servicing right impairment | 354,009 | 358,410 |
| Net gains on sales of loans | 613,364 | 1,972,217 |
| Net loss on sale of repossessed assets | - | (7,954) |
| Increase in cash surrender value of life insurance | 297,677 | 260,498 |
| Brokerage fees | 203,357 | 251,429 |
| Other | 350,771 | 473,803 |
| Total noninterest income | 3,344,637 | 4,646,091 |
| **Noninterest Expense** | | |
| Salaries and employee benefits | 5,768,201 | 5,412,488 |
| Occupancy | 1,368,039 | 1,073,356 |
| Data processing | 1,461,156 | 1,342,766 |
| Deposit insurance premium | 116,000 | 101,000 |
| Professional fees | 479,529 | 354,263 |
| Advertising and marketing | 268,029 | 224,336 |
| Correspondent bank charges | 122,585 | 102,369 |
| Other | 1,199,405 | 1,219,987 |
| Total noninterest expense | 10,782,944 | 9,830,565 |
| **Income Before Income Tax** | 7,868,647 | 8,941,127 |
| Income tax expense | 1,316,051 | 1,644,000 |
| **Net Income** | $ 6,552,596 | $ 7,297,127 |
| **Basic Earnings Per Common Share** | $ 5.46 | $ 6.09 |
| **Diluted Earnings Per Common Share** | $ 5.46 | $ 6.08 |

# Northeast Indiana Bancorp, Inc.

## Consolidated Statements of Comprehensive Income (Loss)
## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Net Income** | $ 6,552,596 | $ 7,297,127 |
| **Other Comprehensive Loss** | | |
| Unrealized depreciation on available-for-sale securities, net of tax benefit of $2,632,980 and $323,161 for 2022 and 2021, respectively | (9,191,119) | (1,081,887) |
| | (9,191,119) | (1,081,887) |
| **Comprehensive Income (Loss)** | $ (2,638,523) | $ 6,215,240 |

# Northeast Indiana Bancorp, Inc.
## Consolidated Statements of Shareholders' Equity
## Years Ended December 31, 2022 and 2021

| | Common Stock | Additional Paid-in Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss), Net of Tax | Treasury Stock | Total |
|---|---|---|---|---|---|---|
| **Balance, January 1, 2021** | $ 26,407 | $ 30,071,491 | $ 35,933,229 | $ 1,934,644 | $ (22,414,060) | $ 45,551,711 |
| Net income | | | 7,297,127 | | | 7,297,127 |
| Issuance of 3,750 shares of treasury stock | | (39,902) | | | 39,902 | - |
| Other comprehensive loss | | | | (1,081,887) | | (1,081,887) |
| Cash dividends ($2.39 per share) | | | (2,887,463) | | | (2,887,463) |
| Repurchased shares | | | | | (301,022) | (301,022) |
| Retirement of treasury shares | (12,353) | (19,212,660) | | | 19,225,013 | - |
| Forfeited RRP shares | | (15,379) | | | (13,833) | (29,212) |
| Amortization of RRP contributions | | 144,298 | | | | 144,298 |
| **Balance, December 31, 2021** | $ 14,054 | $ 10,947,848 | $ 40,342,893 | $ 852,757 | $ (3,464,000) | $ 48,693,552 |
| Net income | | | 6,552,596 | | | 6,552,596 |
| Other comprehensive loss | | | | (9,191,119) | | (9,191,119) |
| Cash dividends ($2.47 per share) | | | (2,987,004) | | | (2,987,004) |
| Forfeited RRP shares | | (17,976) | | | (6,384) | (24,360) |
| Amortization of RRP contributions | | 83,437 | | | | 83,437 |
| **Balance, December 31, 2022** | $ 14,054 | $ 11,013,309 | $ 43,908,485 | $ (8,338,362) | $ (3,470,384) | $ 43,127,102 |

*See Notes to Consolidated Financial Statements*

# Northeast Indiana Bancorp, Inc.

## Consolidated Statements of Cash Flows

## Years Ended December 31, 2022 and 2021

| | 2022 | 2021 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 6,552,596 | $ 7,297,127 |
| Items not requiring (providing) cash | | |
| Depreciation and amortization | 1,444,645 | 1,724,996 |
| Provision for loan losses | - | 120,000 |
| Deferred income tax expense | 282,678 | 57,635 |
| Net (gain) loss on sale of | | |
| Foreclosed real estate and repossessed assets | - | 7,954 |
| Loans held for sale | (613,364) | (1,972,217) |
| Amortization of RRP | 83,437 | 144,298 |
| Forfeiture of RRP | (24,360) | (29,212) |
| Recovery of mortgage-servicing rights | - | (200,000) |
| Originations of loans held for sale | (25,303,305) | (63,801,914) |
| Proceeds from loans sold | 26,058,982 | 64,992,932 |
| Changes in | | |
| Other assets | (391,319) | (416,104) |
| Accrued interest receivable | (434,950) | 27,893 |
| Accrued expenses and other liabilities | (429,411) | 1,051,569 |
| Net cash provided by operating activities | 7,225,629 | 9,004,957 |
| **Investing Activities** | | |
| Net change in interest-earning time deposits | 980,000 | 1,471,000 |
| Purchases of available-for-sale securities | (11,756,255) | (30,115,038) |
| Purchases of held-to-maturity securities | (300,000) | (2,700,016) |
| Proceeds from maturities and principal payments of | | |
| Available-for-sale securities | 7,900,239 | 17,456,803 |
| Held-to-maturity securities | 116,000 | 188,001 |
| Purchase of BOLI | - | (1,000,000) |
| Proceeds from FHLB stock redemption | 324,900 | - |
| Purchases of loans | (1,725,000) | (1,191,736) |
| Proceeds from sale of participation loans | 14,707,154 | 10,264,084 |
| Net change in loans | (59,470,938) | (19,488,956) |
| Proceeds from sale of foreclosed real estate and repossessed assets | - | 247,044 |
| Expenditures for premises and equipment | (772,836) | (2,062,110) |
| Net cash used in investing activities | (49,996,736) | (26,930,924) |
| **Financing Activities** | | |
| Net change in deposits | 24,867,758 | 44,990,556 |
| Proceeds from FHLB advances | 545,900,000 | 21,000,000 |
| Repayment of FHLB advances | (527,900,000) | (45,000,000) |
| Net change in securities sold under repurchase agreements | (9,001,166) | 1,195,747 |
| Repurchase of common shares | - | (301,022) |
| Dividends paid | (2,987,004) | (2,887,463) |
| Net cash provided by financing activities | 30,879,588 | 18,997,818 |
| **Net Change in Cash and Cash Equivalents** | (11,891,519) | 1,071,851 |
| **Cash and Cash Equivalents, Beginning of Year** | 15,781,144 | 14,709,293 |
| **Cash and Cash Equivalents, End of Year** | $ 3,889,625 | $ 15,781,144 |
| **Supplemental Cash Flows Information** | | |
| Interest paid | $ 2,142,362 | $ 2,154,024 |
| Income taxes paid | 1,180,000 | 1,570,000 |

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

### *Nature of Operations*

The consolidated financial statements include the accounts of Northeast Indiana Bancorp, Inc. (Northeast Indiana Bancorp) and its wholly owned subsidiary, First Federal Savings Bank (First Federal) and its wholly owned subsidiary, FFSB Portfolio Holdings, Inc. (Nevada Investment Subsidiary) and its wholly owned subsidiary, FFSB Real Estate Holdings, Inc. (REIT), together referred to as (Company). Northeast Indiana Bancorp, Inc. was organized for the purpose of owning all of the outstanding stock of First Federal.

During 2009, First Federal organized the Nevada Investment Subsidiary and transferred certain securities to be managed by the Nevada Investment Subsidiary. In addition, the REIT was organized in Maryland as a subsidiary of the Nevada Investment Subsidiary. First Federal transferred a significant amount of its single family mortgage portfolio into the REIT during 2009. The establishment of these two operating subsidiaries of First Federal will help the Company to reduce its state franchise tax liability going forward.

The primary source of income for the Company is the origination of commercial and residential real estate loans in northeastern Indiana. Loans secured by real estate mortgages comprise approximately 84% and 78% of the loan portfolio at December 31, 2022 and 2021, respectively, and are primarily secured by residential mortgages.

### *Principles of Consolidation*

The consolidated financial statements include the accounts of the Company and its subsidiary. All significant intercompany accounts and transactions have been eliminated in consolidation.

### *Use of Estimates*

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses and fair values of financial instruments.

### *Interest-Earning Time Deposits in Banks*

Interest-earning time deposits are carried at cost.

### *Securities*

Certain debt securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity or trading are classified as “available for sale” and recorded at fair value. For debt securities, unrealized gains and losses are excluded from earnings and reported in other comprehensive income. For equity securities, changes in fair value will be recognized through net income. Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income. For held-to-maturity debt securities, the amount of an other-than-temporary impairment recorded in other comprehensive income for the noncredit portion of a previous other-than-temporary impairment is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

### *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. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

### *Loans*

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

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

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. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off are reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when 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 established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

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

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers nonclassified loans and is based on historical charge-off experience and expected loss given default derived from the Company's internal risk rating process. Other adjustments may be made to the allowance for pools of loans after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

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

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

### *Foreclosed Assets*

Assets acquired through or instead of loan foreclosure are initially recorded at fair value, less estimated costs to sell when acquired, establishing a new cost basis. If the value subsequently declines, a valuation allowance is recorded through expense. Costs after acquisition are expensed. There were no foreclosed assets recorded at December 31, 2022 and 2021, respectively.

### *Investments in Limited Liability Partnerships*

These represent the Company's investments in affordable housing projects for the primary purpose of available tax benefits. They are accounted for using the cost method of accounting. The excess of the carrying amount of the investment over its estimated residual value is amortized during the periods in which associated tax credits are allocated to the investor. The annual amortization of the investment is based on the proportion of tax credits received in the current year to total estimated tax credits to be allocated to the Company. These investments are reviewed for impairment when events indicate their carrying amounts may not be recoverable from future undiscounted cash flows. If impaired, the investments are reported at discounted amounts.

### *Premises and Equipment*

Land is carried at cost. Premises and equipment is stated at cost, less accumulated depreciation. Depreciation is computed over asset useful lives on the straight-line basis. The useful lives for buildings and leasehold improvements range from 10 to 40 years. The useful lives for furniture, fixtures and equipment range from 3 to 10 years.

### *Long-Lived Asset Impairment*

The Company evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset are less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value.

No asset impairment was recognized during the years ended December 31, 2022 and 2021.

### *Federal Home Loan Bank Stock*

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

### *Company-Owned Life Insurance*

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

### *Goodwill and Other Intangible Assets*

Goodwill results from business acquisitions and represents the excess of the purchase price over the fair value of acquired tangible assets and liabilities and identifiable intangible assets. Goodwill is assessed at least annually for impairment and any such impairment will be recognized in the period identified.

Other intangible assets consist of acquired customer relationship intangible assets arising from business acquisitions. They are initially measured at fair value and then are amortized on an accelerated method over the estimated useful lives of eight years. Such assets are periodically evaluated as to the recoverability of their carrying value.

### *Mortgage-Servicing Rights*

Mortgage-servicing rights on originated loans that have been sold are initially recorded at fair value and include both mortgage related loan servicing rights as well as Small Business Administration (SBA) loan servicing rights. Amortized mortgage-servicing rights include commercial and mortgage loan-servicing rights. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment or increased obligation based on fair value at each reporting date.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant 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 carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with servicing fees on loans sold on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

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

### *Securities Sold Under Repurchase Agreements*

Substantially all securities sold under repurchase agreements represent amounts advanced by various customers. Securities are pledged to cover these liabilities, which are not covered by federal deposit insurance.

### *Treasury Stock*

Treasury stock is stated at cost. Cost is determined by the first-in, first-out (FIFO) method.

### *Stock Options*

At December 31, 2022 and 2021, the Company has a share-based employer compensation plan, which is more fully described in Note 14.

### *Income Taxes*

Income tax expense is the total of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred tax assets and liabilities are the expected future tax amounts for the temporary differences between carrying amounts and tax basis of assets and liabilities, computed using enacted tax rates. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

### *Earnings Per Common Share*

Basic earnings per common share is net income divided by the weighted-average number of common shares outstanding during the period. ESOP and Recognition and Retention Plan (RRP) shares are considered outstanding for this calculation unless unearned. Diluted earnings per common share includes the dilutive effect of additional potential common shares issuable under stock options and RRP plans.

### *Comprehensive Income (Loss)*

Comprehensive income (loss) consists of net income and other comprehensive loss. Other comprehensive loss includes unrealized gains and losses on securities available for sale, net of tax, which are also recognized as separate components of shareholders' equity.

### *Revenue From Contracts With Customers*

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

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

### *Dividend Restriction*

Banking regulations require maintaining certain capital levels and may limit the dividends paid by First Federal to Northeast Indiana Bancorp or by Northeast Indiana Bancorp to shareholders.

### *Restriction on Cash and Due From Banks*

The Bank considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2022 and 2021, cash equivalents consisted primarily of deposit accounts with financial institutions.

At December 31, 2022, the Company's cash accounts exceeded federally insured limits by approximately $167,000. Additionally, the Company had approximately $155,000 on deposit with the Federal Reserve Bank or Federal Home Loan Bank of Indianapolis as of December 31, 2022, which is not federally insured.

### *Accounting for Financial Instruments – Credit Losses*

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

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

## Note 2: Securities

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

| | Amortization Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Available-for-Sale Securities:** | | | | |
| December 31, 2022: | | | | |
| U.S. Government agencies | $ 13,936,766 | $ - | $ (1,365,966) | $ 12,570,800 |
| U.S. Treasuries | 2,084,453 | - | (67,004) | 2,017,449 |
| Small Business Administration | 1,287,185 | - | (161,196) | 1,125,989 |
| U.S. Government agency-sponsored mortgage-backed securities | 30,051,026 | - | (3,560,004) | 26,491,022 |
| State and political subdivisions | 41,667,201 | 39,165 | (5,638,289) | 36,068,077 |
| | $ 89,026,631 | $ 39,165 | $ (10,792,459) | $ 78,273,337 |
| December 31, 2021: | | | | |
| U.S. Government agencies | $ 11,287,587 | $ 6,984 | $ (78,328) | $ 11,216,243 |
| Small Business Administration | 1,673,804 | - | (32,862) | 1,640,942 |
| U.S. Government agency-sponsored mortgage-backed securities | 33,410,780 | 427,739 | (356,804) | 33,481,715 |
| State and political subdivisions | 39,201,458 | 1,257,404 | (153,328) | 40,305,534 |
| | $ 85,573,629 | $ 1,692,127 | $ (621,322) | $ 86,644,434 |

| | Amortization Cost | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
|---|---|---|---|---|
| **Held-to-Maturity Securities:** | | | | |
| December 31, 2022: | | | | |
| State and political subdivisions | $ 12,062,446 | $ - | $ (2,525,192) | $ 9,537,254 |
| December 31, 2021: | | | | |
| State and political subdivisions | $ 11,916,667 | $ 12,170 | $ (214,277) | $ 11,714,560 |

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

| | Available-for-Sale | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Within one year | $ 374,770 | $ 371,585 |
| One to five years | 17,441,038 | 16,157,386 |
| Five to ten years | 7,064,089 | 6,320,460 |
| After ten years | 34,095,708 | 28,932,884 |
| | 58,975,605 | 51,782,315 |
| Mortgage-backed securities | 30,051,026 | 26,491,022 |
| Totals | $ 89,026,631 | $ 78,273,337 |

| | Held-to-Maturity | |
|---|---|---|
| | Amortized Cost | Fair Value |
| Within one year | $ 26,000 | $ 26,000 |
| One to five years | 796,523 | 736,352 |
| Five to ten years | 6,183,258 | 5,000,049 |
| After ten years | 5,056,665 | 3,774,854 |
| Totals | $ 12,062,446 | $ 9,537,255 |

Securities pledged at December 31, 2022 and 2021 had a carrying value of $2,343,000 and $13,095,000, respectively, and were pledged to secure securities sold under repurchase agreements and Federal Home Loan Bank advances.

Certain investments in debt securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2022 and 2021 was approximately $83,186,000 and $44,127,000, respectively, which is approximately 92% and 45% of the Company’s investment portfolio.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021:

**2022**

| Description of Securities | Less Than 12 Months Fair Value | Less Than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Available-for-Sale Securities:** | | | | | | |
| U.S. Government agencies | $ 8,014,855 | $ (722,569) | $ 4,555,945 | $ (643,397) | $ 12,570,800 | $ (1,365,966) |
| U.S Treasuries | 2,017,449 | (67,004) | - | - | 2,017,449 | (67,004) |
| Small Business Administration | - | - | 1,125,988 | (161,196) | 1,125,988 | (161,196) |
| U.S. Government agency-sponsored mortgage-backed securities | 15,805,676 | (1,331,177) | 10,685,346 | (2,228,827) | 26,491,022 | (3,560,004) |
| State and political subdivisions | 22,107,289 | (2,844,411) | 9,586,585 | (2,793,878) | 31,693,874 | (5,638,289) |
| | 47,945,269 | (4,965,161) | 25,953,864 | (5,827,298) | 73,899,133 | (10,792,459) |
| **Held-to-Maturity Securities:** | | | | | | |
| State and political subdivisions | 1,286,226 | (204,400) | 8,001,028 | (2,320,792) | 9,287,254 | (2,525,192) |
| | 1,286,226 | (204,400) | 8,001,028 | (2,320,792) | 9,287,254 | (2,525,192) |
| Total temporarily impaired securities | $ 49,231,495 | $ (5,169,561) | $ 33,954,892 | $ (8,148,090) | $ 83,186,387 | $ (13,317,651) |

**2021**

| Description of Securities | Less Than 12 Months Fair Value | Less Than 12 Months Unrealized Losses | 12 Months or More Fair Value | 12 Months or More Unrealized Losses | Total Fair Value | Total Unrealized Losses |
|---|---|---|---|---|---|---|
| **Available-for-Sale Securities:** | | | | | | |
| U.S. Government agencies | $ 4,149,063 | $ (50,937) | $ 971,785 | $ (27,391) | $ 5,120,848 | $ (78,328) |
| Small Business Administration | 1,640,942 | (32,862) | - | - | 1,640,942 | (32,862) |
| U.S. Government agency-sponsored mortgage-backed securities | 12,556,892 | (279,326) | 2,192,462 | (77,478) | 14,749,354 | (356,804) |
| State and political subdivisions | 11,679,049 | (142,258) | 794,779 | (11,070) | 12,473,828 | (153,328) |
| | 30,025,946 | (505,383) | 3,959,026 | (115,939) | 33,984,972 | (621,322) |
| **Held-to-Maturity Securities:** | | | | | | |
| State and political subdivisions | 9,632,414 | (202,182) | 509,583 | (12,095) | 10,141,997 | (214,277) |
| Total temporarily impaired securities | $ 39,658,360 | $ (707,565) | $ 4,468,609 | $ (128,034) | $ 44,126,969 | $ (835,599) |

### *U.S. Government Agencies and Treasuries*

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

### *U.S. Government Agency -Sponsored Mortgage-Backed Securities*

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

### *State and Political Subdivisions*

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

## Note 3: Loans Receivable, Net

Categories of loans at December 31 include:

| | 2022 | 2021 |
|---|---|---|
| Residential mortgage | | |
| Permanent mortgage | $ 39,875,654 | $ 32,481,473 |
| Construction - residential | 2,791,900 | 3,519,749 |
| Commercial mortgage | 210,612,685 | 162,877,800 |
| Construction and land development | | |
| Construction - nonresidential | 5,358,836 | 5,921,232 |
| Land and land development | 5,389,331 | 4,702,895 |
| Commercial and industrial | 41,471,152 | 54,443,896 |
| Consumer | | |
| Automobile | 6,281,875 | 6,197,227 |
| Home equity and second mortgage | 10,245,221 | 8,231,706 |
| Other | 3,799,806 | 2,190,376 |
| Total loans | 325,826,460 | 280,566,354 |
| Less | | |
| Loans in process | (199,223) | (178,817) |
| Undisbursed portion of construction loans | (817,132) | (1,783,142) |
| Net deferred loan origination fees | (57,608) | (338,909) |
| Allowance for loan losses | (3,996,619) | (3,998,392) |
| Net loans | $ 320,755,878 | $ 274,267,094 |

## Note 4: Allowance for Loan Losses

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

| | 2022 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgage | Commercial Mortgage | Construction and Land Development | Commercial and Industrial | Consumer | Total |
| **Allowance for loan losses:** | | | | | | |
| Balance, January 1 | $ 142,328 | $ 2,318,606 | $ 26,560 | $ 1,334,068 | $ 176,830 | $ 3,998,392 |
| Provision (credit) for loan loss | (3,945) | 324,653 | 310 | (410,632) | 89,614 | - |
| Charge-offs | - | - | - | - | (139,976) | (139,976) |
| Recoveries | 15,689 | 478 | - | 49,910 | 72,126 | 138,203 |
| Balance, December 31 | $ 154,072 | $ 2,643,737 | $ 26,870 | $ 973,346 | $ 198,594 | $ 3,996,619 |
| Individually evaluated for impairment | $ - | $ - | $ - | $ 540,000 | $ - | $ 540,000 |
| Collectively evaluated for impairment | 154,072 | 2,643,737 | 26,870 | 433,346 | 198,594 | 3,456,619 |
| Balance, December 31 | $ 154,072 | $ 2,643,737 | $ 26,870 | $ 973,346 | $ 198,594 | $ 3,996,619 |
| **Ending balance:** | | | | | | |
| Individually evaluated for impairment | $ 686,212 | $ 625,749 | $ - | $ 2,744,239 | $ - | $ 4,056,200 |
| Collectively evaluated for impairment | 41,981,342 | 209,986,936 | 10,748,167 | 38,726,913 | 20,326,902 | 321,770,260 |
| Ending balance: December 31 | $ 42,667,554 | $ 210,612,685 | $ 10,748,167 | $ 41,471,152 | $ 20,326,902 | $ 325,826,460 |

| | 2021 | | | | | |
|---|---|---|---|---|---|---|
| | Residential Mortgage | Commercial Mortgage | Construction and Land Development | Commercial and Industrial | Consumer | Total |
| **Allowance for loan losses:** | | | | | | |
| Balance, January 1 | $ 138,101 | $ 2,212,216 | $ 24,031 | $ 1,211,687 | $ 265,862 | $ 3,851,897 |
| Provision (credit) for loan loss | 8,106 | 86,997 | 2,529 | 118,841 | (96,473) | 120,000 |
| Charge-offs | (15,194) | - | - | - | (113,891) | (129,085) |
| Recoveries | 11,315 | 19,393 | - | 3,540 | 121,332 | 155,580 |
| Balance, December 31 | $ 142,328 | $ 2,318,606 | $ 26,560 | $ 1,334,068 | $ 176,830 | $ 3,998,392 |
| Individually evaluated for impairment | $ - | $ - | $ - | $ 670,000 | $ - | $ 670,000 |
| Collectively evaluated for impairment | 142,328 | 2,318,606 | 26,560 | 664,068 | 176,830 | 3,328,392 |
| Balance, December 31 | $ 142,328 | $ 2,318,606 | $ 26,560 | $ 1,334,068 | $ 176,830 | $ 3,998,392 |
| **Ending balance:** | | | | | | |
| Individually evaluated for impairment | $ 945,116 | $ 647,548 | $ - | $ 2,134,961 | $ - | $ 3,727,625 |
| Collectively evaluated for impairment | 35,056,106 | 162,230,252 | 10,624,127 | 52,308,935 | 16,619,309 | 276,838,729 |
| Ending balance: December 31 | $ 36,001,222 | $ 162,877,800 | $ 10,624,127 | $ 54,443,896 | $ 16,619,309 | $ 280,566,354 |

We rate all loans by credit quality using the following designations:

### *Grade 1 - Excellent*

Loans secured by liquid collateral, such as certificates of deposit, reputable bank letters of credit, or other cash equivalents; loans that are guaranteed or otherwise backed by the full faith and credit of the United States government or an agency thereof, such as the Small Business Administration; or loans to any publicly held company with a current long-term debt rating of A or better.

### *Grade 2 - Good*

Loans to businesses that have strong financial statements containing an unmodified opinion from a CPA firm and at least three consecutive years of profits; loans supported by unaudited financial statements containing strong balance sheets, five consecutive years of profits, a five-year satisfactory relationship with the Bank, and key balance sheet and income statement trends that are either stable or positive; loans secured by publicly traded marketable securities where there is no impediment to liquidation; loans to individuals backed by liquid personal assets, established credit history, and unquestionable character; or loans to publicly held companies with current long-term debt ratings of Baa or better.

### *Grade 3 - Satisfactory*

Loans supported by financial statements (audited or unaudited) that indicate average or slightly below average risk and having some deficiency or vulnerability to changing economic conditions; loans with some weakness but offsetting features of other support are readily available; loans that are meeting the terms of repayment, but which may be susceptible to deterioration if adverse factors are encountered.

Loans may be graded Satisfactory when there is no recent information on which to base a current risk evaluation and the following conditions apply:

- At inception, the loan was properly underwritten, did not possess an unwarranted level of credit risk, and the loan met the above criteria for a risk grade of Excellent, Good or Satisfactory.
- At inception, the loan was secured with collateral possessing a loan value adequate to protect the Bank from loss.
- The loan has exhibited two or more years of satisfactory repayment with a reasonable reduction of the principal balance.
- During the period that the loan has been outstanding, there has been no evidence of any credit weakness. Some examples of weakness include slow payment, lack of cooperation by the borrower, breach of loan covenants, or the borrower is in an industry known to be experiencing problems. If any of these credit weaknesses is observed, a lower risk grade may be warranted.

### *Grade 4 - Satisfactory/Monitored*

Loans in this category are considered to be of acceptable credit quality, but contain greater credit risk than Satisfactory loans due to weak balance sheets, marginal earnings or cash flow, or other uncertainties. These loans warrant a higher than average level of monitoring to ensure that weaknesses do not advance. The level of risk in a Satisfactory/Monitored loan is within acceptable underwriting guidelines so long as the loan is given the proper level of management supervision.

### *Grade 5 - Special Mention*

Loans, which possess some credit deficiency, or potential weakness, which deserves close attention. Such loans pose an unwarranted financial risk that, if not corrected, could weaken the loan by adversely impacting the future repayment ability of the borrower. The key distinctions of a Special Mention classification are that (1) it is indicative of an unwarranted level of risk and (2) weaknesses are considered “potential,” not “defined,” impairments to the primary source of repayment.

### *Grade 6 - Substandard*

One or more of the following characteristics may be exhibited in loans classified Substandard:

- Loans, which possess a defined, credit weakness. The likelihood that a loan will be paid from the primary source of repayment is uncertain. Financial deterioration is underway and very close attention is warranted to ensure that the loan is collected without loss.
- Loans are inadequately protected by the current net worth and paying capacity of the obligor.
- The primary source of repayment is gone, and the Bank is forced to rely on a secondary source of repayment, such as collateral liquidation or guarantees.
- Loans have a distinct possibility that the Bank will sustain some loss if deficiencies are not corrected.
- Unusual courses of action are needed to maintain a high probability of repayment.
- The borrower is not generating enough cash flow to repay loan principal; however, it continues to make interest payments.
- The lender is forced into a subordinated or unsecured position due to flaws in documentation.
- Loans have been restructured so that payment schedules, terms and collateral represent concessions to the borrower when compared to the normal loan terms.
- The lender is seriously contemplating foreclosure or legal action due to the apparent deterioration in the loan.
- There is a significant deterioration in market conditions to which the borrower is highly vulnerable.

### *Grade 7 - Doubtful*

One or more of the following characteristics may be present in loans classified Doubtful:

- Loans have all of the weaknesses of those classified as Substandard. However, based on existing conditions, these weaknesses make full collection of principal highly improbable.
- The primary source of repayment is gone, and there is considerable doubt as to the quality of the secondary source of repayment.
- The possibility of loss is high but because of certain important pending factors, which may strengthen the loan, loss classification is deferred until the exact status of repayment is known.

### *Grade 8 - Loss*

Loans are considered uncollectible and of such little value that continuing to carry them as assets is not feasible. Loans will be classified Loss when it is neither practical nor desirable to defer writing off or reserving all or a portion of a basically worthless asset, even though partial recovery may be possible at some time in the future.

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

Commercial Mortgage

Commercial mortgage loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial mortgage lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial mortgage loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial mortgage portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Construction and Land Development

Construction loans are underwritten utilizing feasibility studies, independent appraisal reviews and financial analysis of the developers and property owners. Construction loans are generally based on estimates of costs and value associated with the complete project. These estimates may be inaccurate. Construction loans often involve the disbursement of substantial funds with repayment substantially dependent on the success of the ultimate project. Sources of repayment for these types of loans may be pre-committed permanent loans from approved long-term lenders, sales of developed property or an interim loan commitment from the Company until permanent financing is obtained. These loans are closely monitored by on-site inspections and are considered to have higher risks than other real estate loans due to their ultimate repayment being sensitive to interest rate changes, governmental regulation of real property, general economic conditions and the availability of long-term financing.

Commercial and Industrial

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

Residential Mortgage and Consumer

Residential and consumer loans consist of two segments - residential mortgage loans and consumer loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences, and consumer personal loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

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

**2022**

| | Commercial Mortgage | Construction and Land Development | Commercial and Industrial | Total |
|---|---|---|---|---|
| 1-4 - Pass | $ 209,986,936 | $ 10,748,167 | $ 38,726,913 | $ 259,462,016 |
| 5 - Special Mention | - | - | - | - |
| 6 - Substandard | 625,749 | - | 2,744,239 | 3,369,988 |
| 7 - Doubtful | - | - | - | - |
| 8 - Loss | - | - | - | - |
| | $ 210,612,685 | $ 10,748,167 | $ 41,471,152 | $ 262,832,004 |

| | Residential Mortgage | Consumer | Total |
|---|---|---|---|
| Performing | $ 41,264,535 | $ 19,203,618 | $ 60,468,153 |
| Accruing restructured | - | - | - |
| Delinquent less than 90 days | 716,807 | 916,934 | 1,633,741 |
| Nonperforming | 686,212 | 206,350 | 892,562 |
| | $ 42,667,554 | $ 20,326,902 | $ 62,994,456 |
| Subtotal | | | $ 325,826,460 |
| Deferred loan fees and costs, overdrafts, in-process accounts | | | (1,073,963) |
| Total portfolio loans | | | $ 324,752,497 |

**2021**

| | Commercial Mortgage | Construction and Land Development | Commercial and Industrial | Total |
|---|---|---|---|---|
| 1-4 - Pass | $ 162,230,252 | $ 10,624,127 | $ 52,308,934 | $ 225,163,313 |
| 5 - Special Mention | - | - | - | - |
| 6 - Substandard | 647,548 | - | 2,134,962 | 2,782,510 |
| 7 - Doubtful | - | - | - | - |
| 8 - Loss | - | - | - | - |
| | $ 162,877,800 | $ 10,624,127 | $ 54,443,896 | $ 227,945,823 |

| | Residential Mortgage | Consumer | Total |
|---|---|---|---|
| Performing | $ 34,189,820 | $ 16,094,251 | $ 50,284,071 |
| Accruing restructured | 356,977 | - | 356,977 |
| Delinquent less than 90 days | 509,309 | 223,293 | 732,602 |
| Nonperforming | 945,116 | 301,765 | 1,246,881 |
| | $ 36,001,222 | $ 16,619,309 | $ 52,620,531 |
| Subtotal | | | $ 280,566,354 |
| Deferred loan fees and costs, overdrafts, in-process accounts | | | (2,300,868) |
| Total portfolio loans | | | $ 278,265,486 |

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

**2022**

| | Delinquent Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Over | Total Past Due | Current | Total Portfolio Loans | Total Loans > 90 Days Accruing |
| Residential mortgage | $ 665,374 | $ 51,433 | $ 686,212 | $ 1,403,019 | $ 41,264,535 | $ 42,667,554 | $ - |
| Commercial mortgage | - | 249,888 | 344,313 | 594,201 | 210,018,484 | 210,612,685 | - |
| Construction and land development | - | - | - | - | 10,748,167 | 10,748,167 | - |
| Commercial and industrial | 111,209 | 1,080,893 | 1,227,037 | 2,419,139 | 39,052,013 | 41,471,152 | - |
| Consumer | 716,552 | 200,382 | 206,350 | 1,123,284 | 19,203,618 | 20,326,902 | - |
| Subtotal | $ 1,493,135 | $ 1,582,596 | $ 2,463,912 | $ 5,539,643 | $ 320,286,817 | 325,826,460 | $ - |
| Deferred loan fees and costs, overdrafts, in-process accounts | | | | | | (1,073,963) | |
| Total portfolio loans | | | | | | $ 324,752,497 | |

**2021**

| | Delinquent Loans | | | | | | |
|---|---|---|---|---|---|---|---|
| | 30-59 Days Past Due | 60-89 Days Past Due | 90 Days and Over | Total Past Due | Current | Total Portfolio Loans | Total Loans > 90 Days Accruing |
| Residential mortgage | $ 93,136 | $ 415,903 | $ 945,116 | $ 1,454,155 | $ 34,547,067 | $ 36,001,222 | $ - |
| Commercial mortgage | - | - | 394,313 | 394,313 | 162,483,487 | 162,877,800 | - |
| Construction and land development | - | - | - | - | 10,624,127 | 10,624,127 | - |
| Commercial and industrial | 234,807 | 28,395 | 1,218,474 | 1,481,676 | 52,962,220 | 54,443,896 | - |
| Consumer | 55,118 | 168,175 | 301,765 | 525,058 | 16,094,251 | 16,619,309 | - |
| Subtotal | $ 383,061 | $ 612,473 | $ 2,859,668 | $ 3,855,202 | $ 276,711,152 | 280,566,354 | $ - |
| Deferred loan fees and costs, overdrafts, in-process accounts | | | | | | (2,300,868) | |
| Total portfolio loans | | | | | | $ 278,265,486 | |

The following table presents the Company's nonaccrual loans at December 31, 2022 and 2021:

| | 2022 | 2021 |
|---|---|---|
| Residential mortgage | $ 686,212 | $ 945,116 |
| Commercial mortgage | 344,313 | 394,313 |
| Commercial and industrial | 1,227,037 | 1,218,474 |
| Consumer | 206,350 | 301,765 |
| | $ 2,463,912 | $ 2,859,668 |

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

**2022**

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Loans without a specific valuation allowance | | | | | |
| Residential mortgage | $ 686,212 | $ 686,212 | $ - | $ 734,203 | $ 64,374 |
| Commercial mortgage | 625,749 | 625,749 | - | 635,867 | 22,923 |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 781,861 | 781,861 | - | 814,729 | 78,818 |
| | $ 2,093,822 | $ 2,093,822 | $ - | $ 2,184,799 | $ 166,115 |
| Loans with a specific valuation allowance | | | | | |
| Residential mortgage | $ - | $ - | $ - | $ 4,941 | $ 8,212 |
| Commercial mortgage | - | - | - | - | - |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 1,962,378 | 1,962,378 | 540,000 | 2,112,292 | 294,772 |
| | $ 1,962,378 | $ 1,962,378 | $ 540,000 | $ 2,117,233 | $ 302,984 |
| Total impaired loans | | | | | |
| Residential mortgage | $ 686,212 | $ 686,212 | $ - | $ 739,144 | $ 72,586 |
| Commercial mortgage | 625,749 | 625,749 | - | 635,867 | 22,923 |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 2,744,239 | 2,744,239 | 540,000 | 2,927,021 | 373,590 |
| Total impaired loans | $ 4,056,200 | $ 4,056,200 | $ 540,000 | $ 4,302,032 | $ 469,099 |

**2021**

| | Recorded Balance | Unpaid Principal Balance | Specific Allowance | Average Investment in Impaired Loans | Interest Income Recognized |
|---|---|---|---|---|---|
| Loans without a specific valuation allowance | | | | | |
| Residential mortgage | $ 945,116 | $ 945,116 | $ - | $ 1,005,069 | $ 65,759 |
| Commercial mortgage | 647,548 | 647,548 | - | 3,512,235 | 212,834 |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 809,637 | 809,637 | - | 880,243 | 68,606 |
| | $ 2,402,301 | $ 2,402,301 | $ - | $ 5,397,547 | $ 347,199 |
| Loans with a specific valuation allowance | | | | | |
| Residential mortgage | $ - | $ - | $ - | $ - | $ - |
| Commercial mortgage | - | - | - | 1,398,667 | 306,167 |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 1,325,324 | 1,325,324 | 670,000 | 1,229,894 | 263,862 |
| | $ 1,325,324 | $ 1,325,324 | $ 670,000 | $ 2,628,561 | $ 570,029 |
| Total impaired loans | | | | | |
| Residential mortgage | $ 945,116 | $ 945,116 | $ - | $ 1,005,069 | $ 65,759 |
| Commercial mortgage | 647,548 | 647,548 | - | 4,910,902 | 519,001 |
| Construction and land development | - | - | - | - | - |
| Commercial and industrial | 2,134,961 | 2,134,961 | 670,000 | 2,110,137 | 332,468 |
| Total impaired loans | $ 3,727,625 | $ 3,727,625 | $ 670,000 | $ 8,026,108 | $ 917,228 |

There was one loan for $245,583 that was modified in a troubled debt restructuring during the year ended December 31, 2022 compared to zero loans during the year ended December 31, 2021.

No troubled debt restructurings increased the allowance for loan losses and did not result in charge-offs during the years ended December 31, 2022 and 2021.

No troubled debt restructurings modified in the past 12 months have subsequently defaulted in 2022 and 2021.

## Note 5: Secondary Mortgage Marketing Activities

Activity for capitalized mortgage-servicing rights, along with activity in the related valuation allowance, is as follows:

| | 2022 | 2021 |
|---|---|---|
| Servicing rights | | |
| Carrying amount, beginning of year | $ 1,314,080 | $ 1,132,584 |
| Assumptions of servicing obligations | 206,722 | 379,564 |
| Net change in valuation allowance | - | 200,000 |
| Amortized to expense | (248,106) | (398,068) |
| Carrying amount, end of year | $ 1,272,696 | $ 1,314,080 |
| Valuation allowance: | | |
| January 1 | $ - | $ 200,000 |
| Decrease | - | (200,000) |
| December 31 | $ - | $ - |
| Fair value disclosures | | |
| Fair value as of the beginning of the period | $ 1,388,257 | $ 1,092,950 |
| Fair value as of the end of the period | 1,540,391 | 1,388,257 |

Mortgage and SBA loans serviced for others are not included in the accompanying consolidated balance sheets. The risks inherent in mortgage-servicing assets relate primarily to changes in prepayments that result from shifts in mortgage interest rates. The unpaid principal balances of loans serviced for others totaled $188,058,000 and $189,544,000 at December 31, 2022 and 2021, respectively.

## Note 6: Premises and Equipment, Net

Premises and equipment were as follows:

| | 2022 | 2021 |
|---|---|---|
| Land | $ 2,709,131 | $ 2,709,131 |
| Automobiles | 179,835 | 59,945 |
| Buildings and leasehold improvements | 6,181,683 | 5,870,923 |
| Furniture, fixtures and equipment | 3,112,978 | 2,977,927 |
| | 12,183,627 | 11,617,927 |
| Less accumulated depreciation | (4,928,676) | (4,680,509) |
| Net premises and equipment | $ 7,254,951 | $ 6,937,418 |

Depreciation expense was approximately $462,000 and $408,000 for 2022 and 2021, respectively.

## Note 7: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31 were:

| | 2022 | 2021 |
|---|---|---|
| Balance as of January 1 | $ 130,972 | $ 130,972 |
| Acquired goodwill | - | - |
| Balance as of December 31 | $ 130,972 | $ 130,972 |

## Note 8: Deposits

Time deposits of $250,000 or more were $42,026,000 and $21,684,000 at December 31, 2022 and 2021, respectively. Scheduled maturities of time deposits for the next five years were as follows:

| | |
|---|---|
| 2023 | $ 42,879,295 |
| 2024 | 11,294,635 |
| 2025 | 5,601,885 |
| 2026 | 2,335,409 |
| 2027 | 312,592 |
| | $ 62,423,816 |

## Note 9: Borrowed Funds

Borrowed funds included the following at December 31:

| | 2022 | 2021 |
|---|---|---|
| Federal Home Loan Bank (FHLB) advances | $ 32,000,000 | $ 14,000,000 |
| Securities sold under repurchase agreements | - | 9,001,166 |
| | $ 32,000,000 | $ 23,001,166 |

Securities sold under agreements to repurchase are financing arrangements that mature within one day. At maturity, the securities underlying the agreements are returned to the Company. Information concerning securities sold under agreements to repurchase is summarized as follows:

| | 2022 | 2021 |
|---|---|---|
| Average monthly balance during the year | $ 2,037,821 | $ 5,970,484 |
| Average interest rate during the year | 0.26% | 0.60% |
| Maximum month-end balance during the year | 5,847,015 | 9,001,166 |
| Weighted-average interest rate during the year | 0.59% | 0.50% |

Securities sold under agreements to repurchase are secured by mortgage-backed securities - governmental sponsored enterprises (GSE) residential. The Company may be required to provide additional collateral securing the borrowings in the event of a principal pay down or a decrease in the market value of the pledged securities. The Company mitigates this risk by monitoring the market value and liquidity of the collateral and ensuring that it holds a sufficient level of eligible securities to cover potential increases in collateral requirements.

Securities underlying these agreements at December 31 were as follows:

| | 2022 | 2021 |
|---|---|---|
| Book value of securities | $ - | $ 9,102,706 |
| Fair value | - | 9,125,553 |

### *FHLB Advances*

FHLB advances have fixed and variable interest rates ranging from 1.06% to 4.74%. Scheduled maturities and the weighted-average interest rates by maturity for the years ended December 31, were as follows:

| | 2022 | | 2021 | |
|---|---|---|---|---|
| | Amount | Weighted-Average Interest Rate | Amount | Weighted-Average Interest Rate |
| 2022 | $ - | 0.00% | $ 4,000,000 | 2.59% |
| 2023 | 26,000,000 | 4.01% | 3,000,000 | 1.75% |
| 2024 | 5,000,000 | 1.41% | 5,000,000 | 1.41% |
| 2027 | 1,000,000 | 3.74% | 2,000,000 | 1.59% |
| | $ 32,000,000 | 3.60% | $ 14,000,000 | 1.85% |

FHLB advances are secured by FHLB stock, eligible mortgage loans and specifically pledged securities. At December 31, 2022 and 2021, in addition to FHLB stock, collateral of approximately $122,093,000 and $99,087,000, respectively, was pledged to the FHLB to secure advances outstanding.

## Note 10: Employee Benefits

### *Employee Pension Plan*

The Company participated in the Pentegra Defined Benefit Plan for Financial Institutions (Pentegra Plan), an industry-wide, tax-qualified defined-benefit pension plan. The Pentegra Plan's Employer Identification Number is 13-5645888 and the Plan Number is 333. The Pentegra Plan operates as a multi-employer plan for accounting purposes and as a multiple-employer plan under the *Employee Retirement Income Security Act of 1974* and the Internal Revenue Code. There are no collective bargaining agreements in place that require contributions to the Pentegra Plan. The Pentegra Plan is a single plan under Internal Revenue Code Section 413(c) and, as a result, all of the assets stand behind all of the liabilities.

The risks of participating in a multi-employer plan are different from a single-employer plan in the following aspects:

1. Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating employers.
2. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers.
3. If the Company chooses to stop participating in some of its multi-employer plans, the Company may be required to pay those plans an amount based on the underfunded status of the plan, referred to as a withdrawal liability.

The Company froze the benefits in the Pentegra Plan effective July 1, 2006. Full-time employees of the Company who had attained at least 21 years of age and completed one year of service were eligible to participate in the Pentegra Plan. In addition, employees who would have been eligible after July 1, 2006 are not eligible to participate. No further benefits will accrue subsequent to the freeze, and the freeze does not reduce the benefits accrued up to the date of the freeze.

Total contributions by all employer participants in the Pentegra Plan, as reported on Form 5500, totaled $135.0 million and $213.9 million, respectively, for the plan years ended June 30, 2022 and 2021. The Company's contributions to the Pentegra Plan totaled $0 and $185,000, respectively, for the years ended December 31, 2022 and 2021 and do not represent more than 5% of the total contributions made by all employer participants in the Pentegra Plan. First Federal Savings Bank notified Pentegra of its intent to withdraw from the multi-employer plan in favor of a Qualified Successor Plan with a different benefits administrator during 2020. In 2022, the Qualified Successor Plan was terminated and the Company no longer has any liability associated with the Plan.

### *401(k) Plan*

Northeast Indiana Bancorp has a 401(k) plan for all employees who have completed one year of service (1,000 hours) and attained a minimum age of 21 years. The plan was amended in 2016 to meet Safe Harbor status. Participants may make deferrals up to 75% of compensation. Northeast Indiana Bancorp matches 100% of elective deferrals on the first 3% and 50% on the next 2% of the participant's compensation. Expense for 2022 and 2021 was approximately $140,000 and $144,000, respectively.

### *Supplemental Retirement Plans*

First Federal has a supplemental retirement plan for the Chairman of the Board of Directors and a deferred compensation plan for certain directors. First Federal also has a salary continuation plan for certain executive officers. First Federal is recording an expense equal to the change in the present value of the payment due at retirement based on the projected remaining years of service using the projected unit credit method. The balance of the plans was approximately $1,050,000 and $1,282,000 at December 31, 2022 and 2021, respectively. Expense related to the plans was approximately $138,000 for 2022 and $116,000 in 2021.

First Federal has purchased insurance on the lives of the participants in the supplemental retirement plan and the deferred compensation plan with First Federal as beneficiary. In addition, life insurance was purchased on a pool of officers with First Federal as beneficiary. The cash surrender value of the life insurance was approximately $11,630,000 and $11,332,000 at December 31, 2022 and 2021, respectively. The income derived from the investment in life insurance included in other income was approximately $298,000 and $260,000 for 2022 and 2021, respectively.

### *Employee Stock Ownership Plan (ESOP)*

An ESOP exists for the benefit of substantially all employees. Contributions to the ESOP are made by Northeast Indiana Bancorp and are determined by the Board of Directors at their discretion. The contributions may be made in the form of cash or common stock. The annual contributions may not be greater than the amount deductible for federal income tax purposes and cannot cause Northeast Indiana Bancorp to violate regulatory capital requirements.

There were no cash contributions or expense associated with the ESOP in 2022 and 2021. The Company is obligated, at the option of each beneficiary, to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. At December 31, 2022, the fair value of the 89,257 allocated shares held by the ESOP was $3,838,000. The fair value of the 87,420 allocated shares held by the ESOP at December 31, 2021 was $4,065,000. In addition, there are 9,201 outstanding shares held by former employees that are subject to an ESOP-related repurchase option. The fair value of all shares subject to the repurchase obligation at December 31, 2022 is approximately $419,000.

### *Recognition and Retention Plan (RRP)*

In 2022, the 2022 Equity Incentive Plan was approved with 125,000 shares available to be awarded through either stock options or RRP grants. There are currently 125,000 shares remaining available to be granted as of December 31, 2022.

In 2002, the Omnibus Incentive Plan was approved with 158,753 shares available to be awarded through either stock options or RRP grants. There are currently no shares remaining available to be granted as of December 31, 2022. The shares awarded in prior periods will vest 20% per year over a period of five years. There were no new RRP grants awarded in 2022 and one new RRP grant awarded in 2021 for 3,750 shares. The expense associated with the RRP was approximately $59,000 in 2022 and $115,000 in 2021.

| | 2022 | |
|---|---|---|
| | **Shares** | **Weighted-Average Grant-Date Fair Value** |
| Nonvested, beginning of year | 7,150 | $ 41.87 |
| Awarded | - | - |
| Vested | (2,350) | 39.64 |
| Forfeiture | (600) | 40.60 |
| Nonvested, end of year | 4,200 | $ 41.87 |

Unearned compensation at December 31, 2022 and 2021 related to the RRP shares is $164,000 and $248,000, respectively, and will be recognized over a weighted-average period of 41 months.

## Note 11: Income Taxes

The Company or one of its subsidiaries files income tax returns in the U.S. federal jurisdiction and various states and foreign jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or non-U.S. income tax examinations by tax authorities for years before 2019. The provision for income taxes includes these components:

| | 2022 | 2021 |
|---|---|---|
| Federal | | |
| Current | $ 856,000 | $ 1,274,573 |
| Deferred | 237,816 | 46,876 |
| State | | |
| Current | 177,373 | 308,792 |
| Deferred | 44,862 | 13,759 |
| Income tax expense | $ 1,316,051 | $ 1,644,000 |

Effective tax rates differ from federal statutory rates applied to financial statement income due to the following:

| | 2022 | 2021 |
|---|---|---|
| Federal statutory rate of 21% in 2022 and 2021, financial statement income before income taxes | $ 1,652,416 | $ 1,877,637 |
| Tax effect of | | |
| State tax benefit, net of federal income tax effect | 172,678 | 254,815 |
| Low income housing tax credit | (266,025) | (266,025) |
| Tax-exempt income | (185,442) | (164,382) |
| Other, net | (57,576) | (58,045) |
| Income tax expense | $ 1,316,051 | $ 1,644,000 |

The components of the net deferred tax asset included in other assets on the consolidated balance sheets were:

| | 2022 | 2021 |
|---|---|---|
| Deferred tax assets | | |
| Deferred compensation | $ 269,389 | $ 330,283 |
| Bad debts | 781,150 | 780,212 |
| Deferred loan fees | - | 58,705 |
| Pension and employee benefits | 6,442 | 13,326 |
| Unrealized losses on available-for-sale securities | 2,414,933 | - |
| Other | 51,255 | 17,561 |
| | 3,523,169 | 1,200,087 |
| Deferred tax liabilities | | |
| Unrealized gains on available-for-sale securities | - | (218,047) |
| Depreciation | (246,957) | (212,924) |
| Prepaids | (69,460) | (51,754) |
| FHLB stock dividends | (31,710) | (36,751) |
| Accrual to cash adjustments | (254,732) | (114,101) |
| Deferred loan fees | (3,500) | - |
| | (606,359) | (633,577) |
| Net deferred tax asset | $ 2,916,810 | $ 566,510 |

Retained earnings at December 31, 2022 includes approximately $1,187,000 for which no deferred federal income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately $249,000 at December 31, 2022.

### Note 12: Regulatory Matters

First Federal is subject to regulatory capital requirements administered by federal regulatory agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices.

Capital amounts and classifications are also subject to qualitative judgments by regulators about components, risk weightings, and other factors, and the regulators can lower classifications in certain cases. Failure to meet various capital requirements can initiate regulatory action that could have a direct material effect on the consolidated financial statements.

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 only 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.

At December 31, 2022 and 2021, actual First Federal capital levels (in millions) and minimum required levels were:

| | Actual | | Required for Adequate Capital | | To Be Well Capitalized | |
|---|---|---|---|---|---|---|
| | Amount | Ratio | Amount | Ratio | Amount | Ratio |
| As of December 31, 2022 | | | | | | |
| Total capital | | | | | | |
| (to risk-weighted assets) | $ 54.7 | 15.4% | $ 28.4 | 8.0% | $ 35.5 | 10.0% |
| Tier I (core) capital | | | | | | |
| (to risk-weighted assets) | 50.7 | 14.3% | 21.3 | 6.0% | 28.4 | 8.0% |
| Common Equity Tier I capital | | | | | | |
| (to risk-weighted assets) | 50.7 | 14.3% | 16.0 | 4.5% | 23.1 | 6.5% |
| Tier I (core) capital | | | | | | |
| (to adjusted total assets) | 50.7 | 11.6% | 17.5 | 4.0% | 21.9 | 5.0% |
| As of December 31, 2021 | | | | | | |
| Total capital | | | | | | |
| (to risk-weighted assets) | $ 51.1 | 16.5% | $ 24.8 | 8.0% | $ 31.0 | 10.0% |
| Tier I (core) capital | | | | | | |
| (to risk-weighted assets) | 47.2 | 15.2% | 18.6 | 6.0% | 24.8 | 8.0% |
| Common Equity Tier I capital | | | | | | |
| (to risk-weighted assets) | 47.2 | 15.2% | 14.0 | 4.5% | 20.2 | 6.5% |
| Tier I (core) capital | | | | | | |
| (to adjusted total assets) | 47.2 | 11.1% | 17.1 | 4.0% | 21.3 | 5.0% |

First Federal was categorized as well capitalized at December 31, 2022 and 2021. There are no conditions or events since that notification that management believes have changed First Federal's category.

### *Basel III Capital Rules*

In July 2013, the three federal bank regulatory agencies jointly published final rules (the Basel III Capital Rules) establishing a new comprehensive capital framework for U.S. banking organizations. The rules implement the Basel Committee's December 2010 framework known as "Basel III" for strengthening international capital standards as well as certain provisions of the Dodd-Frank Act. These rules substantially revise the risk-based capital requirements applicable to bank holding companies and depository institutions, compared to the current U.S. risk-based capital rules. The Basel III Capital Rules define the components of capital and address other issues affecting the numerator in banking institutions' regulatory capital ratios. These rules also address risk weights and other issues affecting the denominator in banking institutions' regulatory capital ratios and replace the existing risk-weighting approach with a more risk-sensitive approach. The Basel III Capital Rules were effective for the Bank on January 1, 2015 (subject to a four-year phase-in period).

The Basel III Capital Rules, among other things, (i) introduce a new capital measure called "Common Equity Tier 1" (CET1), (ii) specify that Tier 1 capital consist of CET1 and "Additional Tier 1 Capital" instruments meeting specified requirements, (iii) define CET1 narrowly by requiring that most deductions/adjustments to regulatory capital measures be made to CET1 and not to the other components of capital and (iv) expand the scope of the deductions/adjustments as compared to existing regulations.

## Note 13: Commitments and Contingencies and Financial Instruments With Off-Balance-Sheet Risk

Some financial instruments, such as loan commitments, credit lines, letters of credit and overdraft protection, are issued to meet customer financing needs. These agreements to provide credit or to support the credit of others, as long as conditions established in the contract are met, usually have expiration dates. Commitments may expire without being used. Off-balance-sheet risk to credit loss exists up to the face amount of these instruments, although material losses are not anticipated. The same credit policies are used to make such commitments as are used for loans, including obtaining collateral at exercise of the commitment.

Financial instruments with off-balance-sheet risk were as follows:

| | 2022 | 2021 |
|---|---|---|
| Fixed rate commitments | $ 2,441,468 | $ 7,115,907 |
| Variable rate commitments | 29,800,730 | 34,278,923 |
| Letter of credit | 3,627,019 | 3,104,250 |

Most loan commitments have terms up to 60 days. At December 31, 2022, fixed commitments have contractual interest rates ranging from 5.50% to 7.38%. Most variable rate arrangements are tied either to the national monthly median cost of funds, prime rate or the U.S. Treasury bill rate and have spreads between -0.5% and 2.8%. Certain executives of the Bank have employment contracts, which are based upon changes of control. The employment contracts provide for the payment of one to three years' worth of the officers' salaries upon a change of control.

## Note 14: Stock Options

The 2022 Equity Incentive Plan was added to the Company's proxy statement and approved by the shareholders at the April 26, 2022 Northeast Indiana Bancorp, Inc. Annual Meeting. There were 125,000 new stock options approved under the new plan. At December 31, 2022, there were 125,000 shares authorized for future grants.

At December 31, 2022 and 2021, the Company had no stock options outstanding or exercisable.

## Note 15: Related Party Transactions

Certain directors and officers of First Federal are loan customers. In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. Related party loans were approximately $25,000 at December 31, 2022 and 2021, respectively. Related party deposits were approximately $5,968,000 and $4,483,000 at December 31, 2022 and 2021, respectively.

## Note 16: Earnings Per Common Share

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

| | 2022 | 2021 |
|---|---|---|
| Basic earnings per common share | | |
| Net income available to common shareholders | $ 6,552,596 | $ 7,297,127 |
| Weighted-average common shares outstanding before adjustment | 1,205,183 | 1,205,464 |
| Less: nonvested RRP shares | (5,132) | (7,150) |
| Weighted-average common shares outstanding for basis earnings per common shares | 1,200,051 | 1,198,314 |
| Basic earnings per common share | $ 5.46 | $ 6.09 |
| Diluted earnings per common share | | |
| Net income available to common shareholders, per above | $ 6,552,596 | $ 7,297,127 |
| Weighted-average common shares outstanding | 1,200,051 | 1,198,314 |
| Add: dilutive effects of assumed conversions and exercises of stock options and RRP shares | 153 | 1,250 |
| Weighted-average common and dilutive shares outstanding for dilutive earnings per common shares | 1,200,204 | 1,199,564 |
| Diluted earnings per common share | $ 5.46 | $ 6.08 |

## Note 17: Disclosures About Fair Values of Financial Instruments

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

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

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

**Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

### *Recurring Measurements*

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

| | | 2022 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale securities | | | | |
| U.S. agencies | $ 12,570,800 | $ - | $ 12,570,800 | $ - |
| U.S. Treasuries | 2,017,449 | | 2,017,449 | |
| Small Business Administration | 1,125,989 | - | 1,125,989 | - |
| U.S. Government agency-sponsored mortgage-backed securities | 26,491,022 | - | 26,491,022 | - |
| State and political subdivisions | 36,068,077 | - | 36,068,077 | - |
| | $ 78,273,337 | $ - | $ 78,273,337 | $ - |

| | | 2021 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Available-for-sale securities | | | | |
| U.S. agencies | $ 11,216,243 | $ - | $ 11,216,243 | $ - |
| Small Business Administration | 1,640,942 | - | 1,640,942 | - |
| U.S. Government agency-sponsored mortgage-backed securities | 33,481,715 | - | 33,481,715 | - |
| State and political subdivisions | 40,305,534 | - | 40,305,534 | - |
| | $ 86,644,434 | $ - | $ 86,644,434 | $ - |

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

### *Available-for-Sale Securities*

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Level 2 securities include U.S. Government agency and treasury securities, U.S. Government agency-sponsored mortgage-backed securities and obligations of state and political subdivisions. Level 2 securities are valued by a third-party pricing service commonly used in the banking industry, utilizing observable inputs. Observable inputs include dealer quotes, market spreads, cash flow analysis, the U.S. Treasury curve, trade execution data, market consensus prepayment spreads and available credit information. The pricing provided utilizes evaluated pricing models that are based on asset class. These models incorporate available market information including quoted prices of securities with similar characteristics and, because many fixed income securities do not trade on a daily basis, apply available information through processes such as benchmark curves. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

### *Nonrecurring Measurements*

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

| | | 2022 Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 1,422,378 | $ - | $ - | $ 1,422,378 |
| Mortgage-servicing rights | 1,540,391 | - | - | 1,540,391 |

| | 2021 | | | |
|---|---|---|---|---|
| | | Fair Value Measurements Using | | |
| | Fair Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| Impaired loans | $ 143,927 | $ - | $ - | $ 143,927 |
| Mortgage-servicing rights | 1,388,257 | - | - | 1,388,257 |

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

### *Impaired Loans (Collateral Dependent)*

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

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

### *Mortgage-Servicing Rights*

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

Mortgage-servicing rights are tested for impairment on at least an annual basis. The Company measures mortgage-servicing rights through the completion of a third-party valuation.

### *Unobservable (Level 3) Inputs*

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

| | Fair Value at December 31, 2022 | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Collateral-dependent impaired loans | $ 1,422,378 | Appraisal | Marketability discount | 10% - 50% |
| Mortgage-servicing rights | 1,540,391 | Discounted cash flows | Discount rate | 10% - 22% |

| | Fair Value at December 31, 2021 | Valuation Technique | Unobservable Inputs | Range |
|---|---|---|---|---|
| Collateral-dependent impaired loans | $ 143,927 | Appraisal | Marketability discount | 10% - 50% |
| Mortgage-servicing rights | 1,388,257 | Discounted cash flows | Discount rate | 10% - 12% |

### *Fair Value of Financial Instruments*

The following tables present estimated fair values of the Company's financial instruments at December 31, 2022 and 2021.

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **December 31, 2022** | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 3,889,625 | $ 3,889,625 | $ - | $ - |
| Interest-earning time deposits | 1,230,000 | 1,230,000 | - | - |
| Available-for-sale securities | 78,273,337 | - | 78,273,337 | - |
| Held-to-maturity securities | 12,062,446 | - | 9,537,254 | - |
| Loans held for sale | 189,600 | - | 189,600 | - |
| Loans receivable, net | 320,755,878 | - | - | 309,034,878 |
| Accrued interest receivable | 1,923,986 | - | 1,923,986 | - |
| FHLB stock | 2,101,600 | - | 2,101,600 | - |
| Financial liabilities | | | | |
| Deposits | 366,816,329 | - | 334,386,329 | - |
| Borrowed funds | 32,000,000 | - | 31,669,000 | - |
| Accrued interest payable | 164,547 | - | 164,547 | - |

| | | Fair Value Measurements Using | | |
|---|---|---|---|---|
| | Carrying Value | Quoted Prices in Active Markets for Identical Assets (Level 1) | Significant Other Observable Inputs (Level 2) | Significant Unobservable Inputs (Level 3) |
| **December 31, 2021** | | | | |
| Financial assets | | | | |
| Cash and cash equivalents | $ 15,781,144 | $ 15,781,144 | $ - | $ - |
| Interest-earning time deposits | 2,210,000 | 2,210,000 | - | - |
| Available-for-sale securities | 86,644,434 | - | 86,644,434 | - |
| Held-to-maturity securities | 11,916,667 | - | 11,714,560 | - |
| Loans held for sale | 538,635 | - | 538,635 | - |
| Loans receivable, net | 274,267,094 | - | - | 280,364,094 |
| Accrued interest receivable | 1,489,036 | - | 1,489,036 | - |
| FHLB stock | 2,426,500 | - | 2,426,500 | - |
| Financial liabilities | | | | |
| Deposits | 341,948,571 | - | 341,946,303 | - |
| Borrowed funds | 23,001,166 | - | 23,132,000 | - |
| Accrued interest payable | 62,123 | - | 62,123 | - |

While these estimates of fair value are based on management's judgment of the most appropriate factors, there is no assurance that were Northeast Indiana Bancorp to have disposed of such items at December 31, 2022 and 2021, the estimated fair values would necessarily have been achieved at that date, since fair values may differ depending on various circumstances. The estimated fair values at December 31, 2022 and 2021, should not necessarily be considered to apply at subsequent dates.

## Note 18: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to financial position, results of operations and cash flows of Northeast Indiana Bancorp:

### Condensed Balance Sheets

| | 2022 | 2021 |
|---|---|---|
| **Assets** | | |
| Cash and due from banks | $ 482,108 | $ 487,792 |
| Investment in subsidiary bank | 42,533,981 | 48,159,107 |
| Other assets | 119,605 | 61,498 |
| Total assets | $ 43,135,694 | $ 48,708,397 |
| **Liabilities** | | |
| Accrued expenses | $ 8,592 | $ 14,845 |
| **Shareholders' Equity** | 43,127,102 | 48,693,552 |
| Total liabilities and shareholders' equity | $ 43,135,694 | $ 48,708,397 |

### Condensed Statements of Income and Comprehensive Income (Loss)

| | 2022 | 2021 |
|---|---|---|
| **Income** | | |
| Dividends from subsidiaries | $ 3,200,000 | $ 3,600,000 |
| **Expenses** | 224,535 | 208,093 |
| **Income Before Income Tax and Equity in Undistributed Income of Subsidiaries** | 2,975,465 | 3,391,907 |
| **Income Tax Benefit** | (56,464) | (53,152) |
| **Income Before Equity in Undistributed Income of Subsidiaries** | 3,031,929 | 3,445,059 |
| **Equity in Undistributed Income of Subsidiaries** | 3,520,667 | 3,852,068 |
| **Net Income** | $ 6,552,596 | $ 7,297,127 |
| **Comprehensive Income (Loss)** | $ (2,638,523) | $ 6,215,240 |

### Condensed Statements of Cash Flows

| | 2022 | 2021 |
|---|---|---|
| **Operating Activities** | | |
| Net income | $ 6,552,596 | $ 7,297,127 |
| Items not providing cash | | |
| Equity in undistributed income of subsidiaries | (3,520,667) | (3,852,068) |
| Change in | | |
| Other assets | (58,107) | (5,147) |
| Accrued expenses and other | 7,498 | 15,870 |
| Net cash provided by operating activities | 2,981,320 | 3,455,782 |
| **Financing Activity** | | |
| Repurchase stock | - | (301,022) |
| Dividends paid | (2,987,004) | (2,887,463) |
| Net cash used in financing activities | (2,987,004) | (3,188,485) |
| **Net Change in Cash and Due From Banks** | (5,684) | 267,297 |
| **Cash and Due From Banks at Beginning of Year** | 487,792 | 220,495 |
| **Cash and Due From Banks at End of Year** | $ 482,108 | $ 487,792 |

## Note 19: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Estimates related to the allowance for loan losses are reflected in the footnote regarding loans. Current vulnerabilities due to certain concentrations of credit risk are discussed in the footnote on commitments and credit risk.

### *General Litigation*

The Company is subject to claims and lawsuits that arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position, results of operations and cash flows of the Company.

## Note 20: Subsequent Events

Subsequent events have been evaluated through May 5, 2023, which is the date the consolidated financial statements were available to be issued.