FFBW, INC.

AUDITED FINANCIAL STATEMENTS AS OF AND FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

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Independent Auditor's Report

Audit Committee
FFBW, Inc.
Brookfield, Wisconsin

Opinion

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

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the Company 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 ("GAAP").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance whether the 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, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users made on the basis of these 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 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 financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company'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 financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

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

Wipfli LLP

Wipfli LLP
Milwaukee, Wisconsin

March 13, 2023

FFBW, Inc.
CONSOLIDATED BALANCE SHEETS
(Dollars in thousands, except share data)

	December 31, 2022	December 31, 2021
Assets		
Cash and due from banks	$ 10,887	$ 52,483
Fed funds sold	—	14,519
Cash and cash equivalents	10,887	67,002
Available for sale securities, stated at fair value	47,330	48,398
Loans held for sale	—	500
Loans, net of allowance for loan and lease losses of $2,633 and $2,430, respectively	242,018	222,104
Premises and equipment, net	6,668	5,506
Other equity investments	1,517	1,353
Accrued interest receivable	927	813
Cash value of life insurance	10,310	10,029
Other assets	3,378	1,372
TOTAL ASSETS	$ 323,035	$ 357,077
Liabilities and Equity		
Deposits	$ 234,576	$ 255,250
Advance payments by borrowers for taxes and insurance	82	102
FHLB advances	8,000	6,500
Accrued interest payable	21	7
Other liabilities	2,258	1,246
Total liabilities	$ 244,937	$ 263,105
Preferred stock ($0.01 par value, 50,000,000 authorized, no shares issued or outstanding as of December 31, 2022 and December 31, 2021, respectively)	$ —	$ —
Common stock ($0.01 par value, 100,000,000 authorized, 5,515,641 and 6,734,970 issued and outstanding as of December 31, 2022 and December 31, 2021, respectively)	55	67
Additional paid in capital	43,630	58,273
Unallocated common stock of Employee Stock Ownership Plan ("ESOP") (519,925 and 550,509 shares at December 31, 2022 and December 31, 2021, respectively)	(5,200)	(5,506)
Retained earnings	42,707	40,365
Accumulated other comprehensive income (loss), net of income taxes	(3,094)	773
Total equity	$ 78,098	$ 93,972
TOTAL LIABILITIES AND EQUITY	$ 323,035	$ 357,077

See accompanying notes to financial statements.

FFBW, Inc.
CONSOLIDATED STATEMENTS OF INCOME
(Dollars in thousands, except per share data)

	Years ended December 31, 2022	2021
Interest and dividend income:		
Loans, including fees	$ 10,942	$ 10,268
Securities		
Taxable	1,032	814
Tax-exempt	191	187
Other	273	95
Total interest and dividend income	12,438	11,364
Interest expense:		
Interest-bearing deposits	961	939
Borrowed funds	18	50
Total interest expense	979	989
Net interest income	11,459	10,375
Provision for loan losses	194	—
Net interest income after provision for loan losses	11,265	10,375
Noninterest income:		
Service charges and other fees	573	473
Net gain on sale of loans	30	237
Increase in cash surrender value of insurance	281	257
Other noninterest income	186	269
Total noninterest income	1,070	1,236
Noninterest expense:		
Salaries and employee benefits	5,330	5,207
Occupancy and equipment	1,156	1,045
Data processing	882	1,067
Technology	273	277
Professional fees	549	444
Other noninterest expense	1,016	942
Total noninterest expense	9,206	8,982
Income before income taxes	3,129	2,629
Provision for income taxes	787	646
Net income	$ 2,342	$ 1,983
Earnings per share		
Basic	$ 0.43	$ 0.31
Diluted	$ 0.43	$ 0.31

See accompanying notes to financial statements.

FFBW, Inc.
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(Dollars in thousands)

	Years ended December 31,	
	2022	2021
Net income	$ 2,342	$ 1,983
Other comprehensive income (loss):		
Unrealized holding gains (losses) arising during the period	(5,298)	(1,050)
Tax effect of other comprehensive income (loss) items	1,431	296
Other comprehensive income (loss), net of tax	(3,867)	(754)
Comprehensive income (loss)	$ (1,525)	$ 1,229

See accompanying notes to financial statements.

FFBW, Inc.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Dollars in thousands, except share data)

	Number of Shares	Common Stock	Additional Paid-In Capital	Unallocated Common Stock of ESOP	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at December 31, 2020	7,695,214	$ 77	$ 69,090	$ (5,811)	$ 38,382	$ 1,527	$ 103,265
Net income	—	—	—	—	1,983	—	1,983
ESOP shares committed to be released (30,584 shares)	—	—	42	305	—	—	347
Stock based compensation expense	17,231	—	379	—	—	—	379
Stock options exercised	1,027	—	20	—	—	—	20
Repurchase of common stock	(978,502)	(10)	(11,258)	—	—	—	(11,268)
Other comprehensive loss	—	—	—	—	—	(754)	(754)
Balance at December 31, 2021	6,734,970	$ 67	$ 58,273	$ (5,506)	$ 40,365	$ 773	$ 93,972
Balance at December 31, 2021	6,734,970	$ 67	$ 58,273	$ (5,506)	$ 40,365	$ 773	$ 93,972
Net income	—	—	—	—	2,342	—	2,342
ESOP shares committed to be released (30,584 shares)	—	—	61	306	—	—	367
Stock based compensation expense	17,500	—	502	—	—	—	502
Repurchase of common stock	(1,236,829)	(12)	(15,206)	—	—	—	(15,218)
Other comprehensive loss	—	—	—	—	—	(3,867)	(3,867)
Balance at December 31, 2022	5,515,641	$ 55	$ 43,630	$ (5,200)	$ 42,707	$ (3,094)	$ 78,098

See accompanying notes to financial statements.

FFBW, Inc.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Dollars in thousands)

	Years ended December 31, 2022	2021
Increase (decrease) in cash and cash equivalents:		
Cash flows from operating activities:		
Net income	$ 2,342	$ 1,983
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	194	—
Depreciation	349	293
Net accretion of loan portfolio discount and amortization of deposit premium	39	(232)
Net amortization on securities available for sale	300	507
Loss on sales and impairments of foreclosed assets	—	3
Increase in cash surrender value of life insurance	(281)	(257)
Increase in fair value of other equity investments	(54)	(74)
ESOP compensation	367	347
Stock based compensation	502	393
Changes in operating assets and liabilities:		
Accrued interest receivable	(114)	182
Loans held for sale	500	1,208
Other assets	398	343
Accrued interest payable	14	(10)
Other liabilities	(58)	(319)
Net cash provided by operating activities	$ 4,498	$ 4,367
Cash flows from investing activities:		
Proceeds from sales of available for sale securities	$ —	$ 3
Maturities, calls, paydowns on available for sale securities	5,630	18,580
Purchases of available for sale securities	(10,159)	(4,280)
Net change in loans	(20,052)	(7,041)
Purchases of premises and equipment	(1,510)	(207)
Purchase of other equity investments	(110)	—
Purchase of life insurance	—	(2,500)
Proceeds from sale of foreclosed assets	—	122
Net cash provided by (used in) investing activities	$ (26,201)	$ 4,677
Cash flows from financing activities:		
Net change in deposits and advance payments	$ (20,694)	$ 28,727
Repayments of FHLB advances	(6,500)	(6,000)
Proceeds from FHLB advances	8,000	5,000
Repurchase of common stock	(15,218)	(11,268)
Exercise of stock options	—	20
Net cash (used in) provided by financing activities	$ (34,412)	$ 16,479
Net change in cash and cash equivalents	$ (56,115)	$ 25,523
Cash and cash equivalents at beginning	67,002	41,479
Cash and cash equivalents at end	$ 10,887	$ 67,002
Noncash investing and financing activities		
Lease liabilities arising from obtaining right-of-use asset	$ 1,070	$ —
Supplemental Cash Flow Disclosures:		
Cash paid for interest	$ 965	$ 990
Cash paid for income taxes	684	400

See accompanying notes to financial statements

NOTE 1 - Summary of Significant Accounting Policies

Organization

FFBW, Inc. (the "Company"), a Maryland corporation, provides a variety of financial services to individual and corporate customers through its wholly owned subsidiary, First Federal Bank of Wisconsin (the "Bank"). The Bank is a community bank headquartered in Waukesha, Wisconsin, with offices in Waukesha, Brookfield and Milwaukee.

Use of Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and 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 in the near term relate to the determination of the allowance for loan losses, the fair values of securities, fair value of financial instruments, the valuation of other real estate owned and the valuation of deferred income tax assets.

Revenue Recognition

Accounting Standards Codification ("ASC") 606, Revenue from Contracts with Customers ("ASC 606"), establishes principles for reporting information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts to provide goods or services to customers. The core principle requires an entity to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration that it expects to be entitled to receive in exchange for those goods or services recognized as performance obligations are satisfied.

The majority of the Company's revenue-generating transactions are not subject to ASC 606, including all interest and dividend income generated from financial instruments. Certain noninterest income items, including loan servicing income, gain on sales of loans, gain on sales of securities, and other noninterest income have been evaluated and were determined to not fall within the scope of ASC 606. Elements of noninterest income that are within the scope of ASC 606, are as follows:

Service charges and other fees - The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Management reviewed the deposit account agreements and determined that the agreements can be terminated at any time by either the Company or the account holder. Transaction fees, such as balance transfers, wires and overdraft charges are settled the day the performance obligation is satisfied. The Company's monthly service charges and maintenance fees are for services provided to the customer on a monthly basis and are considered a series of services that have the same pattern of transfer each month. The review of service charges assessed on deposit accounts included the amount of variable consideration that is a part of the monthly charges.

Interchange fees - Customers use a Bank-issued debit card to purchase goods and services, and the Company earns interchange fees on those transactions, typically a percentage of the sale amount of the transaction. The Company records the amount due when it receives the settlement from the payment network. Payments from the payment network are received and recorded into income on a daily basis. These fees are included in "service charges and other fees" on the Statements of Income. There are no contingent debit card interchange fees recorded by the Company that could be subject to a clawback in future periods.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and balances due from banks, non-maturity deposits in the Federal Home Loan Bank of Chicago (FHLB), and fed funds sold. The Company has not experienced any losses in such accounts.

Available for Sale Securities

Securities classified as available for sale are those securities that the Company intends to hold for an indefinite period of time, but not necessarily to maturity. Any decision to sell a security classified as available for sale would be based on various factors, including significant movements in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital requirements, and other similar factors. Securities classified as available for sale are carried at fair value. Unrealized gains or losses are reported as increases or decreases in other comprehensive income, net of the related deferred tax effect. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method. Premiums that exceed the amount repayable by the issuer at the next call date are amortized to the next call date. Other premiums and discounts are amortized (accreted) over the estimated lives of the securities. Realized gains or losses, determined on the basis of the cost of specific securities sold, are included in earnings. Gains and losses on the sale of securities are recorded on the trade date and determined using the specific-identification method.

Declines in fair value of securities that are deemed to be other than temporary, if applicable, are reflected in earnings as realized losses. In estimating other-than-temporary impairment losses, management considers the length of time and the extent to which fair value has been less than cost, the financial condition and near-term prospects of the issuer, and the intent and ability of the Company to retain its investment in the issuer for a period of time sufficient enough to allow for any anticipated recovery in fair value.

Loans Acquired in a Transfer

The Company acquires loans (including debt securities) individually and in groups or portfolios. These loans are initially measured at fair value with no allowance for loan losses. The Company's allowance for loan losses on all acquired loans reflect only those losses incurred subsequent to acquisition.

Certain acquired loans may have experienced deterioration of credit quality between origination and the Company's acquisition of the loans. At acquisition, the Company reviews each loan to determine whether there is evidence of deterioration of credit quality since origination and if it is probable that the Company will be unable to collect all amounts due according to the loan's contractual terms. If both conditions exist, the Company determines whether each such loan is to be accounted for individually or whether such loans will be assembled into pools of loans based on common risk characteristics (for example, credit score, loan type, and date of origination). The Company considers expected prepayments and estimates the amount and timing of undiscounted principal, interest, and other cash flows expected at acquisition for each loan and aggregated pool of loans. The excess of the loan's or pool's scheduled contractual principal and interest payments over all cash flows expected at acquisition is calculated as the nonaccretable difference. The excess of cash flows expected to be collected over the fair value of each loan or pool (accretable yield) is accreted into interest income over the remaining life of the loan or pool.

At each reporting date, the Company continues to estimate cash flows expected to be collected for each loan or pool. If expected cash flows have decreased from the acquisition date estimate, the Company recognizes an allowance for loan losses. If expected cash flows have increased from the acquisition date estimate, the Company increases the amount of accretable yield to be recognized as interest income over the remaining life of the loan or pool.

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income. Mortgage loans held for sale are sold with the mortgage servicing rights released by the Company. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loan sold.

Loans

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

The accrual of interest on loans is discontinued when, in the opinion of management, there is an indication that the borrower may be unable to make payments as they become due. When loans are placed on nonaccrual status or charged off, all unpaid accrued interest is reversed against interest income. The interest on these loans is subsequently accounted for on the cash-basis or cost-recovery method until qualifying for return to accrual status. 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 maintained at the level considered adequate by management to provide for losses that are probable as of the balance sheet date. The allowance for loan losses is established through a provision for loan losses charged to expense as losses are estimated to have occurred. Loan losses are charged against the allowance when management believes that the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance. In determining the adequacy of the allowance balance, the Company makes evaluations of the loan portfolio and related off-balance sheet commitments, considers current economic conditions and historical loss experience, and reviews specific problem loans and other factors.

When establishing the allowance for loan losses, management categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and their relevant risk characteristics are as follows:

Commercial development: These loans are secured by vacant land and/or property that are in the process of improvement. Repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. Construction loans include not only construction of new structures, but loans originated to finance additions to or alterations of existing structures. Until a permanent loan originates, or payoff occurs, all commercial construction loans secured by real estate are reported in this loan pool. Development loans also have the risk that improvements will not be completed on time, or in accordance with specifications and projected costs.

Commercial real estate: These loans are primarily secured by office and industrial buildings, warehouses, small retail shopping facilities, and various special purpose properties, including restaurants. These loans are subject to underwriting standards and processes similar to commercial and industrial loans. Loans to closely held businesses are generally guaranteed in full by the owners of the business. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property. The cash flows of the borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to the general economic factors or conditions specific to the real estate market, such as geographic location and/or purpose type.

Commercial and industrial: Commercial and industrial loans are extended primarily to small and middle market customers. Such credits typically comprise working capital loans, asset acquisition loans, and loans for other business purposes. Loans to closely held businesses are generally guaranteed in full by the owners of the business. Commercial and industrial loans are made based primarily on the historical and projected cash flow of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of the borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to economic or individual performance factors. Minimum standards and underwriting guidelines have been established for commercial and industrial loans.

One-to-four family owner-occupied: These loans are generally to individuals and are underwritten by evaluating the credit history of the borrower, the ability of the borrower to meet the debt service requirements of the loan and total debt obligations, the underlying collateral, and the loan to collateral value. Underwriting standards for one-to-four family owner-occupied loans are heavily influenced by statutory requirements, which include, but are not limited to, loan-to-value and affordability ratios, risk-based pricing strategies, and documentation requirements.

One-to-four family investor-owned: These loans may be to individuals or businesses and are subject to underwriting standards and processes similar to commercial and industrial loans. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the property(ies). The cash flows of the borrowers, however, may not behave as forecasted and collateral securing loans may fluctuate in value due to the general economic factors or conditions specific to the real estate market, such as geographic location and/or purpose type.

Multifamily real estate: These loans include loans to finance non-farm properties with five or more units in structures primarily to accommodate households. Such credits are typically originated to finance the acquisition or refinancing of an apartment building. These loans are subject to underwriting standards and processes similar to commercial and industrial loans. Loans to closely held businesses are generally guaranteed in full by the owners of the business. These loans are viewed primarily as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the subject multifamily property, with assumptions made for vacancy rates. Cash flows of the borrowers rely on the receipt of rental income from the tenants of the property who are themselves subject to fluctuations in national and local economic conditions and unemployment trends.

Consumer: These loans may take the form of installment loans, demand loans, or single payment loans, and are extended to individuals for household, family, and other personal expenditures. These loans generally include direct consumer automobile loans and credit card loans. Also included in this category are junior liens on one-to-four family residential properties. These loans are generally smaller in size and are underwritten by evaluating the credit history of the borrower, the ability of the borrower to meet the debt service requirements of the loan and total debt obligations.

Management regularly evaluates the allowance for loan losses using the Company's past loan loss experience, known and inherent risks in the loan portfolio, composition of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral, current economic conditions, and other relevant factors. This evaluation is inherently subjective since it requires material estimates that may be susceptible to significant change.

A loan is impaired when, based on current information, it is probable that the Company will not collect all amounts due in accordance with the contractual terms of the loan agreement. Management determines whether a loan is impaired on a case-by-case basis, taking into consideration the payment status, collateral value, length and reason of any payment delays, the borrower's prior payment record, and any other relevant factors. Large groups of smaller-balance homogeneous loans, such as residential mortgage and consumer loans, are collectively evaluated in the allowance for loan losses analysis and are not subject to impairment analysis unless such loans have been subject to a restructuring agreement. Specific allowances for impaired loans are based on discounted cash flows of expected future payments using the loan's initial effective interest rate or the fair value of the collateral if the loan is collateral dependent.

In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Company to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Troubled Debt Restructurings

Loans are accounted for as troubled debt restructurings when a borrower is experiencing financial difficulties that lead to a restructuring of the loan and the Company grants a "concession" to the borrower that they would not otherwise consider. These concessions include a modification of terms, such as a reduction of the stated interest rate or loan balance, a reduction of accrued interest, an extension of the maturity date at an interest rate lower than a current market rate for a new loan with similar risk, or some combination thereof to facilitate repayment. Troubled debt restructurings are considered impaired loans.

Foreclosed Assets

Assets acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value, less costs to sell, at the date of foreclosure, establishing a new cost basis. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less costs to sell. Revenue and expenses from operations and changes in the valuation allowance are included in net expenses from foreclosed assets.

Premises and Equipment

Depreciable assets are stated at cost less accumulated depreciation. Provisions for depreciation are computed on straight-line and accelerated methods over the estimated useful lives of the assets.

Leases

The Company is a lessee in multiple noncancelable operating leases. If the contract provides the Company the right to substantially all the economic benefits and the right to direct the use of the identified asset, it is considered to be or contain a lease. Right-of-use (ROU) assets and lease liabilities are recognized at the lease commencement date based on the present value of the future lease payments over the expected lease term. The ROU asset is also adjusted for any lease prepayments made, lease incentives received, and initial direct costs incurred.

The lease liability is initially and subsequently recognized based on the present value of its future lease payments. Variable payments are included in the future lease payments when those variable payments depend on an index or a rate. Increases (decreases) to variable lease payments due to subsequent changes in an index or rate are recorded as variable lease expense (income) in the future period in which they are incurred.

The discount rate used is the Company’s incremental borrowing rate. The Company’s incremental borrowing rate for a lease is the rate of interest it would have to pay on a collateralized basis to borrow an amount equal to the lease payments under similar terms and in a similar economic environment.

The ROU asset for operating leases is subsequently measured throughout the lease term at the amount of the remeasured lease liability (i.e., present value of the remaining lease payments), plus unamortized initial direct costs, plus (minus) any prepaid (accrued) lease payments, less the unamortized balance of lease incentives received, and any impairment recognized. For operating leases with lease payments that fluctuate over the lease term, the total lease costs are recognized on a straight-line basis over the lease term.

For all underlying classes of assets, the Company has elected to not recognize ROU assets and lease liabilities for short-term leases that have a lease term of 12 months or less at lease commencement and do not include an option to purchase the underlying asset that the Company is reasonably certain to exercise. Leases containing termination clauses in which either party may terminate the lease without cause and the notice period is less than 12 months are deemed short-term leases with lease costs included in short-term lease expense. The Company recognizes short-term lease cost on a straight-line basis over the lease term.

The Company made an accounting policy election for all leases to not separate the lease components of a contract and its associated non-lease components, including its proportionate share of real estate taxes and maintenance expenses.

Other Equity Investments

Other Equity Investments consist primarily of Federal Home Loan Bank of Chicago (“FHLB”) stock and Bankers’ Bank stock. The Company's investment in the FHLB stock is carried at cost, which approximates fair value. The Company is required to hold the stock as a member of the FHLB and transfer of the stock is substantially restricted. The stock is evaluated for impairment on an annual basis. The Company is required to adjust its reported value of Bankers’ Bank stock, which is considered an equity security without a readily determinable market value, if a comparable transaction is observed.

Income Taxes

Amounts provided for income tax expense are based on income reported for financial statement purposes and do not necessarily represent amounts currently payable under tax laws. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and income tax basis of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income.

As changes in tax laws or rates are enacted, deferred income tax assets and liabilities are adjusted through the provision for income taxes. The differences relate principally to the allowances for loan losses, deferred compensation, depreciation, FHLB stock dividends and non-accrual interest. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

The tax effects from an uncertain tax position can be recognized in the financial statements only if the position is more likely than not to be sustained on audit, based on the technical merits of the position. The Company recognizes the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more likely than not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. Based on its evaluation, the Company has concluded that there are no significant uncertain tax positions requiring recognition in its financial statements.

The Company’s policy is to recognize interest and penalties related to income tax issues as components of income tax expense. During the periods shown, the Company did not recognize any interest or penalties related to income tax expense in its statements of income.

Transfers of Financial Assets

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

Advertising

Advertising costs are expensed as incurred.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) is shown on the statements of comprehensive income (loss). The Company’s accumulated other comprehensive income (loss) is composed of the unrealized gains (losses) on securities available for sale, net of tax and is shown on the statements of changes in equity. Reclassification adjustments out of other comprehensive income (loss) for gains/losses realized on sales of securities available for sale comprise the entire balance of “net gain/loss on sale of securities” on the statements of income.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Company has entered into off-balance-sheet financial instruments consisting of commitments to extend credit, unfunded commitments under lines of credit, and standby letters of credit. Such financial instruments are recorded in the financial statements when they become payable.

Life Insurance

The Company has purchased life insurance policies on certain key members of the management team. Life insurance is measured at the amount that could be realized under the insurance contract as of the balance sheet date, which is generally the cash surrender value of the policy.

Recent Accounting Pronouncements

The Company recently adopted the following Accounting Standards Updates (ASU) issued by the Financial Accounting Standards Board (FASB).

ASU No. 2016-02, *Leases* - The Company adopted this new accounting standard on January 1, 2022 using the modified retrospective method, and elected to apply several of the available practical expedients, including: 1) carry over of historical lease determination and lease classification conclusions; 2) carry over of historical initial direct cost balances for existing leases. Adoption of the leasing standard resulted in the recognition of operating right-of-use assets and operating lease liabilities of as of January 1, 2022. The prior year was not restated and continues to be presented under the previous accounting standards. Disclosures about the Company's leasing activities are presented in Note 7.

ASU No. 2019-12, *Simplifying the Accounting for Income Taxes* - This standard is intended to simplify the accounting for income taxes and improve the consistent application of accounting guidance through the following changes: 1) removes certain exceptions for recognizing deferred tax liabilities, tax allocations, and the calculation methodology for an interim year-to-date loss that exceeds the anticipated loss for the year; 2) requires a franchise tax or similar tax based partially on income be recognized as an income-based tax and account for any incremental amount incurred as a non-income based tax; 3) requires an entity evaluate when a step up in the tax basis of goodwill should be considered part of a business combination in which goodwill was originally recognized and when it should be considered a separate transaction; 4) does not require the allocation of consolidated current and deferred tax expense to a member entity that is not subject to tax in separate financial statements, but may elect to do so for certain legal entities that are disregarded by the taxing authority; and 5) amends guidance on the handling of an enacted change in tax law or rates within interim tax periods. The Company adopted this new standard for the year ended December 31, 2022. The adoption of this accounting standard did not have a significant effect on the Company's consolidated financial statements.

The following ASUs have been issued by FASB and may impact the Company's consolidated financial statements in future reporting periods.

ASU No. 2016-13, *Measurement of Credit Losses on Financial Instruments* - This standard will significantly change how financial assets measured at amortized cost are presented. Such assets, which include most loans, will be presented at the net amount expected to be collected over their remaining contractual lives. Estimated credit losses will be based on relevant information about historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the reported amounts. The standard will also change the accounting for credit losses related to securities available for sale and purchased financial assets with a more-than-insignificant amount of credit deterioration since origination. This new accounting standard is effective for consolidated financial statements issued for interim and annual periods beginning after December 15, 2022. The Company has been evaluating the impacts this new standard will have on its consolidated financial statements, and based on its methodologies that are anticipated to be implemented at adoption, the Company is estimating an overall increase in its allowance for credit losses of 10-20%. The actual amount determined from the adoption of this accounting standard will be recognized as a cumulative effect adjustment to the January 1, 2023 retained earnings balance.

ASU No. 2022-02, *Troubled Debt Restructurings and Vintage Disclosures, Topic 326 (Financial Instruments-Credit Losses)* – This standard eliminates the accounting guidance for troubled debt restructurings by creditors under Subtopic 310-40, *Receivables-Troubled Debt Restructurings by Creditors*, and requires an entity evaluate whether the modification represents a new loan or a continuation of an existing loan. The amendments to the standard also enhance existing disclosure requirements, and introduce new requirements related to certain modifications of receivables made to borrowers experiencing financial difficulty. For entities that have adopted ASU No. 2016-13, this new standard is effective for financial statements issued for annual periods beginning after December 15, 2022, including interim periods within those annual years, and is generally applied on a prospective basis. Early adoption is permitted if an entity has adopted the amendments of ASU No. 2016-13, including adoption of an interim period. The Company is evaluating what impact this new standard will have on its financial statements.

(Dollars in thousands, except share data)

NOTE 2 – Earnings Per Share

Basic earnings per common share is computed by dividing net income by the weighted average number of common shares outstanding, adjusted for weighted average unallocated ESOP shares, during the applicable period, excluding outstanding participating securities. Participating securities include non-vested restricted stock awards and restricted stock units, though no actual shares of common stock related to restricted stock units are issued until the settlement of such units, to the extent holders of these securities receive non-forfeitable dividends or dividend equivalents at the same rate as holders of the Company's common stock. Diluted earnings per share is computed using the weighted-average number of shares determined for the basic earnings per common share computation plus the dilutive effect of stock compensation using the treasury stock method. Antidilutive options are disregarded in earnings per share calculations.

The following table presents the earnings per share calculations for the years ended December 31:

	2022	2021
Net income	$ 2,342	$ 1,983
Basic potential common shares		
Weighted average shares outstanding	5,971,298	7,015,476
Weighted average unallocated Employee Stock Ownership Plan Shares	(535,277)	(565,865)
Basic weighted average shares outstanding	5,436,021	6,449,611
Dilutive potential common shares	12,589	2,551
Dilutive weighted average shares outstanding	5,448,610	6,452,162
Basic earnings per share	$ 0.43	$ 0.31
Diluted earnings per share	$ 0.43	$ 0.31

NOTE 3 – Cash and Due from Banks

Effective March 12, 2021, the Federal Reserve's board of directors approved the final rule reducing the required reserve rations to zero percent, effectively eliminating the requirement to maintain reserve balances in cash or on deposit with the Federal Reserve Bank. This reduction in the required reserves does not have a defined timeframe and may be revised by the Federal Reserve's board in the future. The Company's total required reserve was $0 as of December 31, 2022 and 2021.

In the normal course of business, the Company maintains cash and due from bank balances with correspondent banks. Balances in these accounts may exceed the Federal Deposit Insurance Corporation's insured limit of $250. Management believes these financial institutions have strong credit ratings and that the credit risk related to these deposits is minimal.

(Dollars in thousands, except share data)

NOTE 4 – Available for Sale Securities

Amortized costs and fair values of available for sale securities are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
December 31, 2022				
Obligations of the US government and US government sponsored agencies	$ 1,800	$ -	$ (166)	$ 1,634
Obligations of states and political subdivisions	14,136	10	(1,405)	12,741
Mortgage-backed securities	24,828	-	(1,958)	22,870
Certificates of deposit	500	2	(13)	489
Corporate debt securities	10,306	-	(710)	9,596
Total available for sale securities	$ 51,570	$ 12	$ (4,252)	$ 47,330
December 31, 2021				
Obligations of the US government and US government sponsored agencies	$ 1,028	$ 19	$ (7)	$ 1,040
Obligations of states and political subdivisions	14,289	376	(41)	14,624
Mortgage-backed securities	25,452	658	(54)	26,056
Certificates of deposit	750	22	-	772
Corporate debt securities	5,821	111	(26)	5,906
Total available for sale securities	$ 47,340	$ 1,186	$ (128)	$ 48,398

Fair values of securities are estimated based on financial models or prices paid for similar securities. It is possible interest rates could change considerably, resulting in a material change in estimated fair value.

The following table presents the portion of the Company's portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
December 31, 2022						
Obligations of the US government and US government sponsored agencies	$ 1,202	$ (95)	$ 432	$ (71)	$ 1,634	$ (166)
Obligations of states and political subdivisions	7,412	(558)	4,198	(847)	11,610	(1,405)
Mortgage-backed securities	17,343	(1,342)	5,527	(616)	22,870	(1,958)
Certificates of deposit	237	(13)	—	—	237	(13)
Corporate debt securities	6,338	(319)	3,258	(391)	9,596	(710)
Total available for sale securities	$ 32,532	$ (2,327)	$ 13,415	$ (1,925)	$ 45,947	$ (4,252)
December 31, 2021						
Obligations of the US government and US government sponsored agencies	$ 497	$ (7)	$ —	$ —	$ 497	$ (7)
Obligations of states and political subdivisions	3,129	(10)	937	(31)	4,066	(41)
Mortgage-backed securities	4,116	(24)	1,881	(30)	5,997	(54)
Corporate debt securities	2,874	(26)	—	—	2,874	(26)
Total available for sale securities	$ 10,616	$ (67)	$ 2,818	$ (61)	$ 13,434	$ (128)

At December 31, 2022, the investment portfolio included 36 securities available for sale, which had been in an unrealized loss position for greater than twelve months, and 93 securities available for sale, which had been in an unrealized loss position for less than twelve months. At December 31, 2021, the investment portfolio included 4 securities available for sale, which had been in an unrealized loss position for greater than twelve months, and 23 securities available for sale, which had been in an unrealized loss position for less than twelve months. Because these securities have a fixed interest rate, their fair value is sensitive to movements in market interest rates. These unrealized losses are considered temporary because the Company does not currently have the intent to sell the securities before recovery of the losses; therefore we expect to collect all contractually due amounts from these securities. Accordingly, these investments were reduced to their fair values through accumulated other comprehensive income, not through earnings.

(Dollars in thousands, except share data)

We regularly assess our securities portfolio for other than temporary impairment ("OTTI"). These assessments are based on the nature of the securities, the underlying collateral, the financial condition of the issuer, the extent and duration of the loss, our intent related to the individual securities, and the likelihood that we will have to sell securities prior to expected recovery. We did not have any impairment losses recognized in earnings for the years ended December 31, 2022 or December 31, 2021.

The amortized cost and fair value of available for sale securities by contractual maturity are shown below. Expected maturities will differ from contractual maturities in mortgage-backed securities since the anticipated maturities are not readily determinable. Therefore, these securities are not included in the maturity categories in the following maturity summary listed below:

	December 31, 2022	
	Amortized Cost	Fair Value
Due in one year or less	$ 1,804	$ 1,749
Due after one year through 5 years	10,577	10,023
Due after 5 years through 10 years	10,236	9,069
Due after 10 years	4,125	3,619
Subtotal	$ 26,742	$ 24,460
Mortgage-backed securities	24,828	22,870
Total	$ 51,570	$ 47,330

The following is a summary of the proceeds from sales of securities available for sale, as well as gross gains and losses:

	Years ended December 31,	
	2022	2021
Proceeds from sale of securities	$ —	$ 3
Gain on sale of securities	—	—
Loss on sale of securities	—	—
	$ —	$ 3

Available for sale securities with a carrying value of $932 and $989 were pledged at December 31, 2022 and December 31, 2021, respectively.

(Dollars in thousands, except share data)

NOTE 5 - Loans

Major classifications of loans are as follows:

	Years ended December 31, 2022	Years ended December 31, 2021
Commercial		
Development	$ 17,581	$ 21,396
Real estate	114,328	94,830
Commercial and industrial	22,302	18,387
Residential real estate and consumer		
One-to-four family owner-occupied	18,924	18,158
One-to-four family investor-owned	28,497	26,234
Multifamily	40,445	42,511
Consumer	3,050	3,312
Subtotal	$ 245,127	$ 224,828
Deferred loan fees	(476)	(294)
Allowance for loan losses	(2,633)	(2,430)
Net loans	$ 242,018	$ 222,104

Deposit accounts in an overdraft position and reclassified as loans approximated $106 and $23 at December 31, 2022 and December 31, 2021, respectively.

A summary of the activity in the allowance for loan losses by portfolio segment is as follows:

	Commercial	Residential real estate and consumer	Total
Balance at December 31, 2021	$ 1,516	$ 914	$ 2,430
Provision for loan losses	180	14	194
Loans charged off	—	(3)	(3)
Recoveries of loans previously charged off	—	12	12
Total ending allowance balance at December 31, 2022	$ 1,696	$ 937	$ 2,633
Balance at December 31, 2020	$ 1,834	$ 977	$ 2,811
Provision for loan losses	73	(73)	—
Loans charged off	(393)	—	(393)
Recoveries of loans previously charged off	2	10	12
Total ending allowance balance at December 31, 2021	$ 1,516	$ 914	$ 2,430

(Dollars in thousands, except share data)

Information about how loans were evaluated for impairment and the related allowance for loan losses follows:

December 31, 2022	Commercial	Residential Real Estate and Consumer	Total
Loans:			
Individually evaluated for impairment	$ —	$ 336	$ 336
Collectively evaluated for impairment	154,211	90,580	244,791
Total loans	$ 154,211	$ 90,916	$ 245,127
Allowance for loan losses:			
Individually evaluated for impairment	$ —	$ —	$ —
Collectively evaluated for impairment	1,696	937	2,633
Total allowance for loan losses	$ 1,696	$ 937	$ 2,633

December 31, 2021	Commercial	Residential Real Estate and Consumer	Total
Loans:			
	$ 112	$ 817	$ 929
Collectively evaluated for impairment	134,501	89,398	223,899
Total loans	$ 134,613	$ 90,215	$ 224,828
Allowance for loan losses:			
Individually evaluated for impairment	$ —	$ —	$ —
Collectively evaluated for impairment	1,516	914	2,430
Total allowance for loan losses	$ 1,516	$ 914	$ 2,430

Information regarding impaired loans follows:

As of December 31, 2022	Principal Balance	Recorded Investment	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Residential real estate and consumer					
One-to-four family owner-occupied	$ 302	$ 293	$ —	$ 304	$ 2
Consumer	43	43	—	44	1
Total loans with no related allowance for loan losses	$ 345	$ 336	$ —	$ 348	$ 3

As of December 31, 2021	Principal Balance	Recorded Investment	Related Allowance	Average Investment	Interest Recognized
Loans with no related allowance for loan losses:					
Commercial					
Real estate	$ 116	$ 112	$ —	$ 77	$ —
Residential real estate and consumer					
One-to-four family owner-occupied	819	770	—	831	7
Consumer	47	47	—	49	—
Total loans with no related allowance for loan losses	$ 982	$ 929	$ —	$ 957	$ 7

There were no additional funds committed to impaired loans as of December 31, 2022 and December 31, 2021, respectively.

(Dollars in thousands, except share data)

The Company regularly evaluates various attributes of loans to determine the appropriateness of the allowance for loan losses. The credit quality indicators monitored differ depending on the class of loan.

Commercial loans and one-to-four family investor-owned and multifamily loans are generally evaluated using the following internally prepared ratings:

“Pass” ratings are assigned to loans with adequate collateral and debt service ability such that collectability of the contractual loan payments is highly probable.

“Special mention” ratings are assigned to loans where management has some concern that the collateral or debt service ability may not be adequate, though the collectability of the contractual loan payments is still probable.

“Substandard” ratings are assigned to loans that do not have adequate collateral and/or debt service ability such that collectability of the contractual loan payments is no longer probable.

“Doubtful” ratings are assigned to loans that do not have adequate collateral and/or debt service ability, and collectability of the contractual loan payments is unlikely.

Information regarding the credit quality indicators most closely monitored for commercial loans by class follows:

	Pass	Special Mention	Substandard	Doubtful	Totals
December 31, 2022					
Development	$ 17,581	$ —	$ —	$ —	$ 17,581
Real estate	111,862	—	2,466	—	114,328
Commercial and industrial	20,224	—	2,078	—	22,302
One-to-four family investor-owned	28,454	—	43	—	28,497
Multifamily	40,445	—	—	—	40,445
Totals	$ 218,566	$ —	$ 4,587	$ —	$ 223,153
December 31, 2021					
Development	$ 21,396	$ —	$ —	$ —	$ 21,396
Real estate	93,653	843	334	—	94,830
Commercial and industrial	18,387	—	—	—	18,387
One-to-four family investor-owned	26,234	—	—	—	26,234
Multifamily	42,511	—	—	—	42,511
Totals	$ 202,181	$ 843	$ 334	$ —	$ 203,358

Residential real estate and consumer loans are generally evaluated based on whether or not the loan is performing according to the contractual terms of the loan.

Information regarding the credit quality indicators most closely monitored for residential real estate and consumer loans by class follows:

	Performing	Non-performing	Totals
December 31, 2022			
One-to-four family owner-occupied	$ 18,778	$ 146	$ 18,924
Consumer	3,050	—	3,050
Totals	$ 21,828	$ 146	$ 21,974
December 31, 2021			
One-to-four family owner-occupied	$ 17,986	$ 172	$ 18,158
Consumer	3,312	—	3,312
Totals	$ 21,298	$ 172	$ 21,470

(Dollars in thousands, except share data)

Loan aging information follows:

	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Loans	Nonaccrual Loans
December 31, 2022					
Commercial					
Development	$ 17,581	$ —	$ —	$ 17,581	$ —
Real estate	114,328	—	—	114,328	—
Commercial and industrial	22,302	—	—	22,302	—
Residential real estate and consumer					
One-to-four family owner-occupied	18,924	—	—	18,924	146
One-to-four family investor-owned	28,497	—	—	28,497	—
Multifamily	40,445	—	—	40,445	—
Consumer	3,050	—	—	3,050	—
Total	$ 245,127	$ —	$ —	$ 245,127	$ 146

	Current Loans	Loans Past Due 30-89 Days	Loans Past Due 90+ Days	Total Loans	Nonaccrual Loans
December 31, 2021					
Commercial					
Development	$ 21,396	$ —	$ —	$ 21,396	$ —
Real estate	94,830	—	—	94,830	112
Commercial and industrial	18,387	—	—	18,387	—
Residential real estate and consumer					
One-to-four family owner-occupied	18,044	114	—	18,158	172
One-to-four family investor-owned	26,234	—	—	26,234	—
Multifamily	42,511	—	—	42,511	—
Consumer	3,312	—	—	3,312	—
Total	$ 224,714	$ 114	$ —	$ 224,828	$ 284

There are no loans 90 or more days past due and accruing interest as of December 31, 2022 or December 31, 2021.

Management regularly monitors impaired loan relationships. In the event facts and circumstances change, an additional provision for losses may be necessary.

Nonaccrual loans are as follows:

As of December 31, 2022	2022	2021
Nonaccrual loans, other than troubled debt restructurings	$ —	$ 15
Nonaccrual loans, troubled debt restructurings	146	269
Total nonaccrual loans	146	284
Restructured loans, accruing	$ —	$ 262

When, for economic or legal reasons related to the borrower's financial difficulties, the Company grants a concession to the borrower that the Company would not otherwise consider, the modified loan is classified as a troubled debt restructuring. Loan modifications may consist of forgiveness of interest and/or principal, a reduction of the interest rate, allowing interest-only payments for a period of time, and/or extending amortization terms.

(Dollars in thousands, except share data)

During the year ended December 31, 2022, there were no new troubled debt restructurings. No troubled debt restructurings defaulted within 12 months of their modification date during the year ended December 31, 2022. During the year ended December 31, 2021, there was one commercial real estate loan totaling $116 and one 1-4 family owner-occupied loan totaling $115 that were new troubled debt restructurings. No troubled debt restructurings defaulted within 12 months of their modifications during the year ended December 31, 2021. The Company considers a troubled debt restructuring in default if it becomes past due more than 90 days.

The Company continues to evaluate purchased loans for impairment. The purchased loans were considered impaired at the acquisition date if there was evidence of deterioration since origination and if it was probable that not all contractually required principal and interest payments would be collected under the loans. As of December 31, 2022 and 2021, there were no loans that were classified as purchased credit impaired. The following table reflects the carrying value of all purchased loans:

	Contractually Required Principal Receivable		
As of December 31, 2022	**Credit Impaired**	**Non-Credit Impaired**	**Carrying Value of Purchased Loans**
Commercial			
Real estate	$ —	$ 646	$ 648
Commercial and industrial	—	827	820
Residential real estate and consumer			
One-to-four family owner-occupied	—	1,193	1,186
One-to-four family investor-owned	—	867	850
Multifamily	—	62	62
Consumer	—	36	36
Totals	$ —	$ 3,631	$ 3,602

	Contractually Required Principal Receivable		
As of December 31, 2021	**Credit Impaired**	**Non-Credit Impaired**	**Carrying Value of Purchased Loans**
Commercial			
Development	$ —	$ 104	$ 103
Real estate	—	2,030	2,022
Commercial and industrial	—	1,677	1,643
Residential real estate and consumer			
One-to-four family owner-occupied	—	1,702	1,708
One-to-four family investor-owned	—	1,136	1,095
Multifamily	—	67	68
Consumer	—	43	40
Totals	$ —	$ 6,759	$ 6,679

At December 31, 2022 and 2021, the Company had a discount on purchased loans totaling $29 and $80, respectively. The amount of discount accreted into income totaled $51 and $339 for the years ended December 31, 2022 and 2021, respectively.

(Dollars in thousands, except share data)

NOTE 6 – Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation and are summarized as follows:

	December 31,	
	2022	2021
Land	$ 844	$ 844
Buildings	6,946	5,562
Leasehold improvements	329	205
Furniture and equipment	1,567	1,478
Automobile	66	66
In-progress improvements	—	87
Totals	9,752	8,242
Less: Accumulated depreciation	3,084	2,736
Premises and equipment, net	$ 6,668	$ 5,506

Depreciation expense was $349 and $293 for the years ended December 31, 2022 and 2021, respectively.

NOTE 7 - Leases

The Company leases four branch locations under operating leases. The leases entered into include one or more options to renew. The renewal terms can extend the lease term from five to fifteen years. The exercise of lease renewal options is at the Company's sole discretion. Renewal option periods are included in the measurement of the Right-of-Use (ROU) asset and lease liability when the exercise is reasonably certain to occur. As of December 31, 2022, the Company has recorded an ROU asset totaling $860, which is included in other assets. As of December 31, 2022, the Company has also recorded a lease obligation liability totaling $873, which is included in other liabilities.

The depreciable life of assets and leasehold improvements are limited by the expected lease term, unless there is a transfer of title or purchase option reasonably certain of exercise.

The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. Payments due under the lease contracts include fixed payments plus, for one of the Company's leases, variable payments. The Company's office space leases require it to make variable payments for the Company's proportionate share of the building's property taxes, insurance, and common area maintenance. These variable lease payments are not included in lease payments used to determine the lease liability and are recognized as variable lease costs when incurred.

Components of lease expense were as follows for the year ended December 31, 2022:

Lease cost:	
Operating lease cost	$ 228
Variable lease cost	—
Total lease cost	$ 228

Lease expense totaled $196 for year ended December 31, 2021.

(Dollars in thousands, except share data)

Maturities of lease liabilities are as follows as of December 31, 2022:

2023	$	214
2024		189
2025		185
2026		181
2027		137
Total lease payments		906
Less imputed interest		(33)
Total	$	873
Weighted-average remaining lease term (years)		4.67
Weighted-average discount rate		2.18 %

The Company's leasing information for the year ended December 31, 2021, is presented under FASB ASC 840, *Lease.* Future minimum lease payments, required under operating leases for the following five years were as follows:

as of December 31, 2021		
2022	$	197
2023		169
2024		150
2025		152
2026		155
Thereafter		117
Total	$	940

The Company also entered into a lease with a tenant for a portion of the Brookfield branch, commencing June 1, 2018 through May 31, 2024. As of December 31, 2022, minimum future lease payments receivable are as follows:

2023	$	122
2024		41
Total	$	163

NOTE 8 - Deposits

The composition of deposits are as follows:

	December 31,			
	2022		**2021**	
Non interest-bearing checking	$	51,209	$	54,243
Interest-bearing checking		11,884		12,864
Money market		70,976		87,585
Statement savings accounts		33,864		33,968
Health savings accounts		10,528		10,608
Certificates of deposit		56,115		55,982
Total	$	234,576	$	255,250

(Dollars in thousands, except share data)

Certificates of deposit that meet or exceed the FDIC insurance limit of $250 totaled $18,122 and $10,845 at December 31, 2022 and December 31, 2021, respectively.

The scheduled maturities of certificates of deposit are as follows as of December 31, 2022:

2023	$	41,656
2024		13,305
2025		554
2026		386
2027		214
Total	$	56,115

NOTE 9– FHLB Advances

FHLB advances consist of the following as of December 31:

	2022			2021		
	Rates	Amount		Rates	Amount	
Fixed rate, fixed term advances	4.35%	$	8,000	0.0%-1.71%	$	6,500
		$	8,000		$	6,500

The following is a summary of scheduled maturities of fixed term FHLB advances as of December 31, 2022:

	Fixed Rate Advances				Adjustable Rate Advances					
	Weighted Average Rate		Amount		Weighted Average Rate		Amount		Total Amount	
2023	4.35	%	$	8,000	—	%	$	—	$	8,000
Total	4.35	%	$	8,000	—	%	$	—	$	8,000

Actual maturities may differ from the scheduled principal maturities due to call options on the various advances.

The Company has a master contract agreement with the FHLB that provides for a borrowing up to the lesser of a determined multiple of FHLB stock owned or a determined percentage of the book value of the Company’s qualifying one-to-four family, multifamily, commercial real estate and commercial business loans. The Company pledged approximately $163,088 and $154,649 of one-to-four family, multifamily, commercial real estate and commercial business loans to secure FHLB advances at December 31, 2022 and December 31, 2021, respectively. FHLB provides both fixed and floating rate advances. Floating rates are tied to short-term market rates of interest, such as Federal funds, FHLB discount note or prime rates. Fixed rate advances are priced in reference to market rates of interest at the time of the advance, namely the rates that FHLB pays to borrowers at various maturities. Certain FHLB advances are subject to a prepayment penalty if they are repaid prior to maturity. FHLB advances are also secured by $851 of FHLB stock owned by the Company at both December 31, 2022 and December 31, 2021.

(Dollars in thousands, except share data)

At December 31, 2022, the Company's available and unused portion of this borrowing agreement based on the amount of FHLB stock was $10,903. In additiona, the Company has a $7,000 federal funds line of credit through Bankers' Bank of Wisconsin, which was not drawn on as of December 31, 2022. The Company also has the authority to borrow through the Federal Reserve's Discount Window.

NOTE 10 – 401(k) Plan

The Company sponsors a 401(k) plan that covers substantially all employees. To be eligible to participate, an employee must have completed 90 days of service and be 21 years of age or older. The Company matches 100% of employee contributions up to 4% of their annual compensation. The Company may also make non-elective contributions to the plan at the discretion of the Board of Directors. Expense charged to operations for this plan was $214 and $216 for the years ended December 31, 2022 and 2021, respectively.

NOTE 11 – Income Taxes

The provision for income taxes included in the accompanying financial statements consists of the following components:

	Years ended December 31, 2022	Years ended December 31, 2021
Current Taxes (Benefit)		
Federal	$ 635	$ 309
State	270	163
Total Current Taxes	905	472
Deferred Income Taxes (Benefit)		
Federal	(91)	136
State	(27)	38
Total Deferred Income Taxes	(118)	174
Total Provision for Income Taxes	$ 787	$ 646

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The net deferred tax asset in the accompanying balance sheet includes the following amounts of deferred tax assets and liabilities:

	December 31, 2022	December 31, 2021
Deferred Tax Assets		
Allowance for loan losses	$ 724	$ 668
Deferred compensation	109	116
Non-accrual interest	4	3
Purchase accounting	42	3
Equity compensation	109	78
Deferred loan fees	129	78
Unrealized loss on available for sale securities	1,146	—
Other	4	38
Deferred Tax Assets	$ 2,267	$ 984
Deferred Tax Liabilities		
Depreciation and amortization	$ (44)	$ (30)
FHLB stock	(23)	(23)
Unrealized gain on available for sale securities	—	(285)
Other	(36)	(29)
Deferred Tax Liabilities	$ (103)	$ (367)
Net Deferred Tax Asset	$ 2,164	$ 617

(Dollars in thousands, except share data)

A summary of the sources of differences between income taxes at the federal statutory rate and the provision for income taxes follows:

	Years ended December 31,			
	2022		2021	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Reconciliation of statutory to effective rates				
Federal income taxes at statutory rate	$ 657	21.0 %	$ 552	21.0 %
Adjustments for				
Tax exempt interest on municipal obligations	(37)	(1.2) %	(36)	(1.4) %
State income taxes, net of federal income tax benefit	188	6.0 %	157	6.0 %
Increase in CSV of life insurance	(59)	(1.9) %	(54)	(2.1) %
Equity Compensation	12	0.4 %	12	0.5 %
Other	26	0.8 %	15	0.6 %
Provision for income taxes	$ 787	25.2 %	$ 646	24.6 %

With few exceptions, the Company is no longer subject to federal or state examinations by taxing authorities for years before 2018.

NOTE 12 – Commitments and Contingencies

In the normal course of business, the Company may be involved in various legal proceedings. In the opinion of management, any liability resulting from such proceedings would not have a material adverse effect on the Company's financial statements. No legal proceedings existed at December 31, 2022.

The Company is party to financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit risk in excess of the amount recognized in the balance sheets.

The Company's exposure to credit loss is represented by the contractual, or notional, amount of these commitments. The Company follows the same credit policies in making commitments as it does for on-balance-sheet instruments. Since some of the commitments are expected to expire without being drawn upon, and some of the commitments may not be drawn upon to the total extent of the commitment, the notional amount of these commitments does not necessarily represent future cash requirements of the Company.

The contract amounts of credit-related financial instruments at December 31, 2022 and 2021 are summarized below:

	Notional Amount	
	2022	2021
Unused lines of credit		
Fixed	28,411	19,197
Variable	-	6,732
Undisbursed portion of loan proceeds	1,496	453
Standby letters of credit	1,444	1,003

(Dollars in thousands, except share data)

Unused commitments under lines of credit are commitments for possible future extensions of credit to existing customers. These lines of credit may or may not require collateral and may or may not contain a specific maturity date.

The undisbursed portion of loan proceeds represents undrawn amounts under construction loans. These loans are generally secured by real estate and generally have a specific maturity date.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee the performance of a customer to a third party. Generally, all standby letters of credit issued have expiration dates within one year. The credit risk involved in issuing standby letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting these commitments. Standby letters of credit are not reflected in the financial statements, since recording the fair value of these guarantees would not have a significant impact on the financial statements.

The Company sells loans to investors and does not retain servicing responsibilities. Upon sale, the risk of credit loss is passed to the investor, unless the loan is sold with recourse. For loans sold without recourse, the Company does not retain the risk of loss should a loan, previously sold, go into default, unless it is determined that such loan was not within the agreed-upon underwriting guidelines due to negligence on the part of the Company or fraud on the part of the borrower. Such risk retention is standard within the mortgage banking industry. The Company's exposure relating to the fair value of the representations and warranties and other recourse obligations is not material. The Company has no contingently liability relating to loans sold with recourse at December 31, 2022 and $1,357 as of December 31, 2021. All recourse provisions expire within four months from when the loan is sold.

NOTE 13 – Related-Party Transactions

A summary of loans to directors, executive officers, and their affiliates follows:

	Years ended December 31,			
	2022		2021	
Beginning balance	$	9,642	$	10,113
New loans		7,118		501
Repayments		(7,216)		(972)
Ending balance	$	9,544	$	9,642

Deposits from directors, executive officers, and their affiliates totaled $1,494 and $1,440 at December 31, 2022 and 2021, respectively.

NOTE 14 – Fair Value

Accounting standards describe three levels of inputs that may be used to measure fair value (the fair value hierarchy). The level of an asset or liability within the fair value hierarchy is based on the lowest level of input significant to the fair value measurement of that asset or liability.

Following is a brief description of each level of the fair value hierarchy:

Level 1 - Fair value measurement is based on quoted prices for identical assets or liabilities in active markets.

Level 2 - Fair value measurement is based on: (1) quoted prices for similar assets or liabilities in active markets; (2) quoted prices for identical or similar assets or liabilities in markets that are not active; or (3) valuation models and methodologies for which all significant assumptions are or can be corroborated by observable market data.

Level 3 - Fair value measurement is based on valuation models and methodologies that incorporate at least one significant assumption that cannot be corroborated by observable market data. Level 3 measurements reflect the Company's estimates about assumptions market participants would use in measuring fair value of the asset or liability.

Some assets and liabilities, such as securities available for sale, are measured at fair value on a recurring basis under accounting principles generally accepted in the United States. Other assets and liabilities, such as impaired loans, may be measured at fair value on a nonrecurring basis.

Following is a description of the Company's valuation methodology and significant inputs used for each asset and liability measured at fair value on a recurring or nonrecurring basis, as well as the classification of the asset or liability within the fair value hierarchy.

Available for sale securities - Available for sale securities may be classified as Level 1 or Level 2 measurements within the fair value hierarchy. Level 1 securities include equity securities traded on a national exchange. The fair value measurement of a Level 1 security is based on the quoted price of the security. Level 2 securities include U.S. government and agency securities, obligations of states and political subdivisions, corporate debt securities, and mortgage related securities. The fair value measurement of a Level 2 security is obtained from an independent pricing service and is based on recent sales of similar securities and other observable market data.

Loans - Loans are not measured at fair value on a recurring basis. However, loans considered to be impaired may be measured at fair value on a nonrecurring basis. The fair value measurement of an impaired loan that is collateral dependent is based on the fair value of the underlying collateral. Independent appraisals are obtained that utilize one or more valuation methodologies - typically they will incorporate a comparable sales approach and an income approach. Management routinely evaluates the fair value measurements of independent appraisers and adjusts those valuations based on differences noted between actual selling prices of collateral and the most recent appraised value. Such adjustments are usually significant, which results in a Level 3 classification. All other impaired loan measurements are based on the present value of expected future cash flows discounted at the applicable effective interest rate and, thus, are not fair value measurements.

Foreclosed assets - Real estate acquired through or in lieu of loan foreclosure are not measured at fair value on a recurring basis. However, foreclosed assets are initially measured at fair value (less estimated costs to sell) when they are acquired and may also be measured at fair value (less estimated costs to sell) if they become subsequently impaired. The fair value measurement for each asset may be obtained from an independent appraiser or prepared internally. Fair value measurements obtained from independent appraisers generally utilize a market approach based on sales of comparable assets and/or an income approach. Such measurements are usually considered Level 2 measurements. However, management routinely evaluates fair value measurements of independent appraisers by comparing actual selling prices to the most recent appraisals. If management determines significant adjustments should be made to the independent appraisals based on these evaluations, these measurements are considered Level 3 measurements. Fair value measurements prepared internally are based on management's comparisons to sales of comparable assets, but include significant unobservable data and are therefore considered Level 3 measurements.

Other equity investments - Certain equity investments are measured at fair value on a non-recurring basis using observable transactions and are classified as Level 2.

(Dollars in thousands, except share data)

Assets measured at fair value on a recurring basis are summarized below:

	Recurring Fair Value Measurements Using			
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
As of December 31, 2022				
Assets:				
Available for sale securities:				
Obligations of the US government and US government sponsored agencies	$ —	$ 1,634	$ —	$ 1,634
Obligations of states and political subdivisions	—	12,741	—	12,741
Mortgage-backed securities	—	22,870	—	22,870
Certificates of deposit	—	489	—	489
Corporate debt securities	—	9,596	—	9,596
Total available for sale securities	$ —	$ 47,330	$ —	$ 47,330
As of December 31, 2021				
Assets:				
Available for sale securities:				
Obligations of the US government and US government sponsored agencies	$ —	$ 1,040	$ —	$ 1,040
Obligations of states and political subdivisions	—	14,624	—	14,624
Mortgage-backed securities	—	26,056	—	26,056
Certificates of deposit	—	772	—	772
Corporate debt securities	—	5,906	—	5,906
Total available for sale securities	$ —	$ 48,398	$ —	$ 48,398

Information regarding the fair value of assets measured at fair value on a nonrecurring basis follows:

		Nonrecurring Fair Value Measurements Using		
	Assets Measured at Fair Value	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of December 31, 2022				
Assets:				
Other equity investments	$ 557	$ —	$ 557	$ —
As of December 31, 2021				
Assets:				
Other equity investments	$ 503	$ —	$ 503	$ —

(Dollars in thousands, except share data)

As of December 31, 2022 and December 31, 2021, there were no impaired loans requiring a write down to their estimated fair value.

There were no foreclosed assets as of December 31, 2022 or December 31, 2021.

The carrying value and estimated fair value of financial instruments as of December 31, 2022 and December 31, 2021 follow:

	December 31, 2022			
	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets:				
Cash and cash equivalents	$ 10,887	$ 10,887	$ —	$ —
Available for sale securities	47,330	—	47,330	—
Loans	242,018	—	—	234,458
Accrued interest receivable	927	927	—	—
Cash value of life insurance	10,310	10,310	—	—
Other equity investments	1,517	—	557	960
Financial liabilities:				
Deposits	$ 234,576	$ 178,461	$ —	$ 55,264
Advance payments by borrowers for taxes and insurance	82	82	—	—
FHLB advances	8,000	—	—	7,981
Accrued interest payable	21	21	—	—

	December 31, 2021			
	Carrying Value	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Financial assets:				
Cash and cash equivalents	$ 67,002	$ 67,002	$ —	$ —
Available for sale securities	48,398	—	48,398	—
Loans held for sale	500	—	500	—
Loans	222,104	—	—	224,612
Accrued interest receivable	813	813	—	—
Cash value of life insurance	10,029	10,029	—	—
Other equity investments	1,353	—	503	850
Financial liabilities:				
Deposits	$ 255,250	$ 150,024	$ —	$ 55,970
Advance payments by borrowers for taxes and insurance	102	102	—	—
FHLB advances	6,500	—	—	6,489
Accrued interest payable	7	7	—	—

Limitations - The fair value of a financial instrument is the current amount that would be exchanged between market participants, other than in a forced liquidation. Fair value is best determined based on quoted market prices. However, in many instances, there are no quoted market prices for the Company's various financial instruments. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. Those techniques are significantly affected by the assumptions used, including the discount rate and estimates of future cash flows. Accordingly, the fair value estimates may not be realized in an immediate settlement of the instrument. Consequently, the aggregate fair value amounts presented may not necessarily represent the underlying fair value of the Company.

Fair value estimates are made at a specific point in time based on relevant market information and information about the financial instrument. These estimates do not reflect any premium or discount that could result from offering for sale at one time the Company's entire holdings of a particular instrument. Because no market exists for a significant portion of the Company's financial instruments, fair value estimates are based on judgments regarding future expected loss experience, current economic conditions, risk characteristics of various financial instruments, and other factors. These estimates are subjective in nature and involve uncertainties and matters that could affect the estimates. Fair value estimates are based on existing on- and off-balance-sheet financial instruments without attempting to estimate the value of anticipated future business. Deposits with no stated maturities are defined as having a fair value equivalent to the amount payable on demand. This prohibits adjusting fair value derived from retaining those deposits for an expected future period of time. This component, commonly referred to as a deposit base intangible, is neither considered in the above amounts, nor is it recorded as an intangible asset on the consolidated balance sheets. In addition, the tax ramifications related to the realization of the unrealized gains and losses can have a significant effect on fair value estimates and have not been considered in the estimates.

NOTE 15 – Equity and Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory, and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of Common Equity Tier 1, Tier 1, and Total capital to risk-weighted assets and of Tier 1 capital to average assets. It is management's opinion, as of December 31, 2022, that the Bank met all applicable capital adequacy requirements.

As of December 31, 2022, the Bank is categorized as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum regulatory capital ratios as set forth in the table. There are no conditions or events since December 31, 2022 that management believes have changed the category.

(Dollars in thousands, except share data)

The Bank's actual capital amounts and ratios are presented in the following tables:

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
December 31, 2022						
Common Equity Tier 1 capital (to risk-weighted assets)	$ 70,487	26.6 %	$ ≥ 11,942	≥ 4.5 %	$ ≥ 17,681	≥ 6.5 %
Tier 1 capital (to risk-weighted assets)	70,487	26.6	≥ 15,922	≥ 6.0	≥ 21,762	≥ 8.0
Total capital (to risk-weighted assets)	73,017	27.5	≥ 21,230	≥ 8.0	≥ 27,202	≥ 10.0
Tier 1 capital (to average assets)	70,487	21.8	≥ 12,949	≥ 4.0	≥ 15,787	≥ 5.0
December 31, 2021						
Common Equity Tier 1 capital (to risk-weighted assets)	$ 75,554	29.6 %	$ ≥ 11,467	≥ 4.5 %	$ ≥ 16,564	≥ 6.5 %
Tier 1 capital (to risk-weighted assets)	75,554	29.6	≥ 15,290	≥ 6.0	≥ 20,386	≥ 8.0
Total capital (to risk-weighted assets)	77,984	30.6	≥ 20,386	≥ 8.0	≥ 25,483	≥ 10.0
Tier 1 capital (to average assets)	75,554	21.4	≥ 14,137	≥ 4.0	≥ 17,671	≥ 5.0

NOTE 16 – Intangible Assets

The core deposit premium intangible asset had a gross carrying amount of $530 and accumulated amortization of $309 at December 31, 2021. The core deposit premium intangible asset had a gross carrying amount of $530 and accumulated amortization of $214 at December 31, 2021. Aggregate amortization expense for the years ended December 31, 2022 and 2021 was $95 and $108, respectively.

The following table shows the estimated future amortization of the core deposit premium intangible asset for the next five years. The projections of amortization expense are based on existing asset balances:

	At December 31, 2022
2023	82
2024	60
2025	40
2026	26
2027	13

NOTE 17 – Deferred Compensation

The Company has entered into various deferred compensation agreements with key officers. The liability outstanding under the agreements was $396 at December 31, 2022 and $422 at December 31, 2021. The amount charged to operations was $26 and $23 for the twelve months ended December 31, 2022 and 2021, respectively.

(Dollars in thousands, except share data)

NOTE 18 – Employee Stock Ownership Plan

The Company maintains a leveraged employee stock ownership plan ("ESOP") that covers substantially all employees. The Bank makes annual contributions to the ESOP equal to the ESOP's debt service. The ESOP shares initially were pledged as collateral for this debt. As the debt is repaid, shares are released from collateral and allocated to active participants, based on the proportion of debt service paid in the year. Because the debt is intercompany, it is eliminated in consolidation for presentation in these financial statements. The shares pledged as collateral are reported as unearned ESOP shares in the balance sheet.

As shares are committed to be released from collateral and allocated to active participants, the Company reports compensation expense equal to the current market price of the shares and the shares will become outstanding for earnings-per-shares (EPS) computations. During the years ended December 31, 2022 and 2021, 30,584 and 30,584 shares were committed to be released, respectively. During the year ended December 31, 2022 the average fair value per share of stock was $12.00 resulting in total ESOP compensation expense of $367. During the year ended December 31, 2021 the average fair value per share of stock was $11.38 resulting in total ESOP compensation expense of $347.

The ESOP shares as of December 31, 2022 and December 31, 2021 were as follows:

	December 31, 2022	December 31, 2021
Shares allocated to active participants	92,889	62,305
Shares committed to be released and allocated to participants	30,584	30,584
Shares distributed	(4,414)	—
Total unallocated shares	519,925	550,509
Total ESOP shares	638,984	643,398
Fair value of unallocated shares (based on $11.61 and $11.80 share price at December 31, 2022 and December 31, 2021, respectively)	$ 6,036	$ 6,496

NOTE 19 - Share-based Compensation Plans

The Company adopted the FFBW, Inc. 2018 Equity Incentive Plan in 2018. In May 2021, the Company adopted the FFBW, Inc. 2021 Equity Incentive Plan. ASC Topic 718 requires that the grant date fair value of equity awards to employees and directors be recognized as compensation expense over the period during which they are required to provide service in exchange for such awards.

The following table summarizes the impact of the Company's share-based payment plans in the financial statements for the period shown:

	Year Ended December 31, 2022	Year Ended December 31, 2021
Total cost of stock grant plan during the year	$ 304	$ 227
Total cost of stock option plan during the year	198	152
Total cost of share-based payment plans during the year	$ 502	$ 379
Amount of related income tax benefit recognized in income	$ 124	$ 94

The Company adopted the FFBW, Inc. 2018 Equity Incentive Plan (the "2018 Equity Incentive Plan") in 2018. In November 2018, the Company's stockholders approved the 2018 Equity Incentive Plan which authorized the issuance of up to 152,027 restricted stock awards and up to 380,066 stock options. As of December 31, 2022 there were 30,957 restricted stock awards and 60,694 options available for future grants under this plan. In May 2021, the Company's stockholders approved the FFBW, Inc. 2021 Equity Incentive Plan which authorized the issuance of up to 170,742 restricted stock awards and up to 426,857 stock options. As of December 31, 2022 there were 151,742 restricted awards and 385,857 options available for future grants under this plan.

(Dollars in thousands, except share data)

Shares granted under these Equity Incentive Plans may be authorized but unissued, currently held or, to the extent permitted by applicable law, subsequently acquired by the Company as treasury shares, including shares purchased in the open market or in private transactions. Forfeited or canceled shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of stock available for delivery under the Plan.

Options are granted with an exercise price equal to no less than the market price of the Company's shares at the date of grant: those option awards generally vest pro-rata over five years of service and have 10-year contractual terms. Restricted shares typically vest pro-rata over a five year period, 20% per year beginning one year from the issuance date. Under the FFBW, Inc. 2021 Equity Incentive Plan, certain restricted shares awarded to Board of Director members vest in one year.

Share amounts related to periods prior to the date of the closing of the Offering on January 16, 2020 have been restated to give retroactive recognition to the 1.1730 exchange ratio applied in the offering.

The following tables summarize stock options activity for the years ended December 31, 2022 and 2021:

	Outstanding			
	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in dollars)
Options outstanding as of December 31, 2021	316,875	$ 10.73		
Granted	27,000	12.16		
Exercised	—	—		
Expired or cancelled	(500)	11.25		
Forfeited	—	—		
Options outstanding as of December 31, 2022	343,375	$ 10.84	6.86	$ 267,474
Options exercisable as of December 31, 2022	189,845	$ 10.72	6.27	$ 169,476

	Stock Option Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (in dollars)
Options outstanding as of December 31, 2020	269,220	$ 10.51		
Granted	76,000	11.27		
Exercised	(6,942)	10.14		
Expired or cancelled	(2,346)	10.64		
Forfeited	(19,057)	10.01		
Options outstanding as of December 31, 2021	316,875	$ 10.73	7.51	$ 342,758
Options exercisable as of December 31, 2021	126,520	$ 10.72	7.05	$ 137,049

The fair value of each option award is estimated on the date of grant using the Black-Scholes option pricing model based on certain assumptions. Since the Company does not have sufficient historical fair value estimates of its stock, the Company calculates expected volatility using the historical volatility of the Dow Jones U.S. Financial Services Index. The risk-free interest rate for periods within the contractual term of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. The expected life of options is estimated based on the assumption that options will be exercised evenly throughout their life after vesting and represents the period of time that options granted are expected to remain outstanding.

(Dollars in thousands, except share data)

	Number of Options	Weighted Average Grant Date Fair Value
Nonvested options outstanding as of December 31, 2021	190,355	$ 3.16
Granted	27,000	4.24
Vested	(63,425)	3.23
Expired or cancelled	(400)	3.28
Nonvested options outstanding as of December 31, 2022	153,530	$ 3.32

The following assumptions were used for options granted during the years ended December 31:

	2022	2021
Risk-free interest rate	2.76 %	1.26 %
Expected volatility	23.87 %	23.86 %
Expected dividend yield	0 %	0 %
Expected life of options (years)	7.5	7.5
Weighted average fair value per option of options granted during the year	$ 4.24	$ 3.29

The following is a summary of changes in restricted shares for the years ended December 31, 2022 and 2021:

	Number of Shares	Weighted Average Grant Date Fair Value
Nonvested stock awards as of December 31, 2021	59,737	$ 11.02
Granted	17,500	12.16
Vested	(25,661)	10.97
Expired or cancelled	(200)	11.25
Nonvested stock awards as of December 31, 2022	51,376	$ 11.43
Nonvested stock awards as of December 31, 2020	62,067	$ 10.73
Granted	22,750	11.35
Vested	(19,561)	10.77
Expired or cancelled	(5,519)	10.08
Nonvested stock awards as of December 31, 2021	59,737	$ 11.02

As of December 31, 2022, there was $893 of total unrecognized compensation cost related to non-vested share-based compensation arrangements (including share option and non-vested share awards) granted under both Equity Incentive Plans. At December 31, 2022, the weighted-average period over which the unrecognized compensation expense is expected to be recognized was approximately 2.8 years.

NOTE 20 – Subsequent Events

Subsequent events have been evaluated through March 13, 2023, which is the date the financial statements are available to be issued, and there are no matters that require additional disclosure.