



First
Neighborhood
Bank

2023

ANNUAL REPORT

2023



Message from the Chairman of the Board

Community banks have gone through a challenging year during 2023 due to significant rates hikes by the federal government. In order for First Neighborhood Bank to compete in maintaining and attempting to grow deposits, we were forced to raise deposit interest rates significantly compare to what was budgeted for the year.

The end result was paying depositors \$814,011 interest more than what we budgeted. Loan rates increased but not to offset this increase. Our net interest margin (our income from loan interest minus what we pay on deposits) exceeded budget by \$461,778 negatively impacting the bottom line.

Also, management made some strategic decisions that created some one time additional expenses. Despite the additional expenses incurred, the bank was still able to generate earning of \$532,633 for the year. Management anticipates a significant improvement in 2024 as we anticipate rates gradually decrease.

The Board of Directors formally accepted the retirement of Garlan Miller as a member of our board as well as Chairman of the Audit and Compliance committee at our December meeting. Director Miller served as a board member for over 42 years and has provided the bank outstanding service during that time. He has been elected as Director Emeritus for First Neighborhood Bank and West/Central Bancorp, Inc.

The Board of Directors has nominated Cam Matheny to be elected at our shareholder meeting to fill the vacancy. Mr. Matheny is a Certified Public Accountant with a background in bank auditing. We are excited to have him as a candidate.

The Board of Directors and management are continuing to look for potential employees as we go forward. As I mentioned last year, this is a challenging task but we feel that we can find individuals that can make a difference.

I will be celebrating my 26th year with the bank in March and anticipate retirement this year. I am excited for the bank as we move on with the next generation of young bankers. We will keep you posted as changes occur.

The Board of Directors and management again ask you, the shareholders, to work with us to improve our investment by establishing First Neighborhood Bank as your primary bank, if you haven't already done so. Our online banking products make it easy for you to bank with us, even when you are not in the neighborhood.

Please join us on Tuesday, March 26, 2024 for our annual shareholders meeting in Spencer.

Respectfully,

A handwritten signature in blue ink that reads "David M. Righter".

David M. Righter

Chairman of the Board

February 22, 2024

The annual report can be viewed on our website:

<https://www.firstneighborhoodbank.com/about-us/investor-relations>

Under About Us/Investor Relations/Annual Reports, click on 2023 FNB Annual Report (pdf).

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES

SPENCER, WEST VIRGINIA

**CONSOLIDATED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT**

DECEMBER 31, 2023



A Professional Limited Liability Company



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
West-Central Bancorp, Inc. and Subsidiaries
Spencer, West Virginia

Opinion

We have audited the accompanying consolidated financial statements of West-Central Bancorp, Inc. and its Subsidiaries, which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2023, and the related notes to the financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of West-Central Bancorp, Inc. and its Subsidiaries as of December 31, 2023 and 2022, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis of Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of West-Central Bancorp, Inc. and its Subsidiaries 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.

Change in Accounting Principle

As discussed in Note 2 to the consolidated financial statements, in the year ended December 31, 2023, West-Central Bancorp, Inc. and its Subsidiaries adopted new accounting guidance, Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* and FASB ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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



Charleston, West Virginia
February 22, 2024

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2023 AND 2022

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	2023	2022
ASSETS		
Cash and due from banks	\$ 3,111,504	\$ 4,773,445
Interest-earning deposits in other banks	430,334	417,579
Federal funds sold	-	8,290,000
Cash and cash equivalents	3,541,838	13,481,024
Time deposits	2,000,000	2,750,000
Investment securities		
Debt securities available-for-sale, at fair value	49,108,248	51,864,166
Other securities	79,800	68,300
Loans	88,426,195	85,692,626
Less: allowance for credit losses	(1,092,991)	(1,018,183)
Loans - net	87,333,204	84,674,443
Accrued interest receivable	419,062	425,961
Premises and equipment - net	2,841,526	2,993,617
Operating lease right-of-use assets	53,883	160,813
Other real estate owned	725,000	725,000
Cash surrender value - bank owned life insurance	3,493,516	3,440,142
Deferred income taxes	2,090,185	2,462,280
Other assets	249,575	160,788
Total assets	\$ 151,935,837	\$ 163,206,534
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits		
Demand - noninterest-bearing	\$ 48,101,993	\$ 66,527,347
Demand - interest-bearing	23,377,148	31,134,542
Savings	19,937,924	26,043,549
Time	45,882,065	26,250,781
Total deposits	137,299,130	149,956,219
Advance payments from borrowers for taxes and insurance	120,693	106,759
Federal funds purchased	225,000	-
Accrued interest payable	136,428	20,962
Operating lease liabilities	53,883	160,813
Other liabilities	1,207,790	1,291,754
Total liabilities	139,042,924	151,536,507
Shareholders' equity		
Common stock (par value \$1.00; 5,000,000 shares authorized; 350,860 shares issued; 183,538 and 184,423 shares outstanding as of December 31, 2023 and 2022, respectively)	350,860	350,860
Additional paid in capital	1,597,246	1,597,246
Retained earnings	19,740,174	19,368,115
Less: treasury stock, at cost (167,322 and 166,437 shares as of December 31, 2023 and 2022, respectively)	(4,268,015)	(4,210,269)
Accumulated other comprehensive income (loss)	(4,527,352)	(5,435,925)
Total shareholders' equity	12,892,913	11,670,027
Total liabilities and shareholders' equity	\$ 151,935,837	\$ 163,206,534

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

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES

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CONSOLIDATED STATEMENTS OF INCOME

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2023

	2023	2022	2021
Interest income			
Interest and fees on loans	\$ 4,319,708	\$ 3,648,963	\$ 3,740,740
Interest on deposits in other banks	101,328	90,664	90,807
Interest on federal funds sold	118,284	82,178	7,573
Interest and dividends on investment securities	875,290	925,669	780,307
Total interest income	<u>5,414,610</u>	<u>4,747,474</u>	<u>4,619,427</u>
Interest expense			
Interest on deposits	1,028,147	159,014	331,323
Interest on federal funds purchased	11,646	-	-
Total interest expense	<u>1,039,793</u>	<u>159,014</u>	<u>331,323</u>
Net interest income	4,374,817	4,588,460	4,288,104
Credit loss expense - loans	1,400	5,100	-
Net interest income after credit loss expense	<u>4,373,417</u>	<u>4,583,360</u>	<u>4,288,104</u>
Noninterest income			
Service charges and fees	533,271	512,024	460,388
Increase in cash surrender value - bank owned life insurance	53,374	51,658	51,589
Net realized gains (losses) from sales of investment debt securities available-for-sale	32,851	-	34,274
Other income	75,767	81,618	82,499
Total noninterest income	<u>695,263</u>	<u>645,300</u>	<u>628,750</u>
Noninterest expense			
General and administrative			
Compensation and benefits	2,061,162	2,421,973	2,203,462
Occupancy and equipment	714,849	673,029	588,462
FDIC assessment	68,500	44,000	35,500
Data processing	545,766	497,736	494,499
Other expenses	1,033,101	865,986	793,240
Total noninterest expense	<u>4,423,378</u>	<u>4,502,724</u>	<u>4,115,163</u>
Income before income tax expense	645,302	725,936	801,691
Income tax expense	89,263	125,806	59,714
Net income	<u>\$ 556,039</u>	<u>\$ 600,130</u>	<u>\$ 741,977</u>
Net income available for common shareholders	\$ 556,039	\$ 600,130	\$ 741,977
Per common share data			
Net income	3.02	3.25	4.02
Cash dividends declared	1.00	1.00	1.00
Average common shares outstanding	184,198	184,448	184,453

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

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2023

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	<u>2023</u>	<u>2022</u>	<u>2021</u>
Net income	\$ 556,039	\$ 600,130	\$ 741,977
Other comprehensive income (loss)			
Unrealized gains (losses) on investment debt securities available-for-sale arising during the year	1,278,424	(7,240,523)	(796,639)
Adjustment for income tax (expense) benefit	(345,870)	1,955,000	215,746
	<u>932,554</u>	<u>(5,285,523)</u>	<u>(580,893)</u>
Reclassification adjustment for (gains) losses on investment debt securities available-for-sale included in net income	(32,851)	-	(34,274)
Adjustment for income tax expense (benefit)	8,870	-	9,254
	<u>(23,981)</u>	<u>-</u>	<u>(25,020)</u>
Other comprehensive income (loss), net of income tax	<u>908,573</u>	<u>(5,285,523)</u>	<u>(605,913)</u>
Comprehensive income (loss)	<u>\$ 1,464,612</u>	<u>\$ (4,685,393)</u>	<u>\$ 136,064</u>

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

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2023

	Common Stock	Additional Paid In Capital	Retained Earnings	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
Balance at December 31, 2020	\$ 350,860	\$ 1,597,246	\$ 18,394,899	\$ (4,208,079)	\$ 455,511	\$ 16,590,437
Comprehensive income	-	-	741,977	-	(605,913)	136,064
Cash dividends declared (\$1.00 per share)	-	-	(184,453)	-	-	(184,453)
Balance at December 31, 2021	350,860	1,597,246	18,952,423	(4,208,079)	(150,402)	16,542,048
Comprehensive income	-	-	600,130	-	(5,285,523)	(4,685,393)
Cash dividends declared (\$1.00 per share)	-	-	(184,438)	-	-	(184,438)
Purchase of treasury stock (30 shares)	-	-	-	(2,190)	-	(2,190)
Balance at December 31, 2022	350,860	1,597,246	19,368,115	(4,210,269)	(5,435,925)	11,670,027
Comprehensive income (loss)	-	-	556,039	-	908,573	1,464,612
Cash dividends declared (\$1.00 per share)	-	-	(183,980)	-	-	(183,980)
Purchase of treasury stock (885 shares)	-	-	-	(57,746)	-	(57,746)
Balance at December 31, 2023	\$ 350,860	\$ 1,597,246	\$ 19,740,174	\$ (4,268,015)	\$ (4,527,352)	\$ 12,892,913

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

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2023

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	2023	2022	2021
Cash flows from operating activities			
Net income	\$ 556,039	\$ 600,130	\$ 741,977
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Depreciation	200,688	200,191	170,083
Credit loss expense	1,400	5,100	-
Provision for deferred income tax	35,095	41,320	(3,820)
Amortizations (accretions) on investment securities - net	177,171	215,205	205,757
Net realized (gains) losses from sales of investment debt securities available-for-sale	(32,851)	-	(34,274)
Amortization of deferred gain on sale-leaseback transaction	(33,756)	(33,756)	(33,756)
Net realized (gains) losses from disposal of premises and equipment	-	29,279	-
(Increase) decrease in accrued interest receivable	6,899	(137,035)	165,021
(Increase) decrease in cash surrender value - bank owned life insurance	(53,374)	(51,658)	(51,589)
(Increase) decrease in other assets	(195,717)	216,550	(30,363)
(Increase) decrease in right-of-use operating lease asset	106,930	(160,813)	-
Increase (decrease) in accrued interest payable	115,466	4,299	(42,643)
Increase (decrease) in other liabilities	56,722	(177,181)	(26,198)
Increase (decrease) in operating lease liabilities	(106,930)	160,813	-
Total adjustments	277,743	312,314	318,218
Net cash provided (used) by operating activities	833,782	912,444	1,060,195
Cash flows from investing activities			
Net (increase) decrease in time deposits	750,000	750,000	1,500,000
Purchases of investment debt securities available-for-sale	-	(17,079,091)	(4,995,798)
Proceeds from maturities and calls of investment debt securities available-for-sale	3,154,598	1,995,000	5,256,667
Proceeds from principle payments on investment debt securities available-for-sale	702,573	660,518	293,625
Proceeds from sales of investment debt securities available-for-sale	-	-	7,490,941
Purchases of Federal Home Loan Bank stock	(11,500)	(400)	(4,600)
Redemptions of Federal Home Loan Bank stock	-	3,400	400
Net (increase) decrease in loans	(2,660,161)	(3,620,789)	(232,896)
Capital expenditures	(48,597)	(673,518)	(347,919)
Net cash provided (used) by investing activities	1,886,913	(17,964,880)	8,960,420
Cash flows from financing activities			
Net increase (decrease) in total deposits	(12,657,089)	7,224,725	2,235,052
Net increase (decrease) in advance payments from borrowers for taxes and insurance	13,934	2,263	16,018
Net increase (decrease) in short-term borrowings	225,000	-	-
Purchases of treasury stock	(57,746)	(2,190)	-
Cash dividends paid	(183,980)	(184,438)	(184,453)
Net cash provided (used) by financing activities	(12,659,881)	7,040,360	2,066,617
Net increase (decrease) in cash and cash equivalents	(9,939,186)	(10,012,076)	12,087,232
Cash and cash equivalents at beginning of year	13,481,024	23,493,100	11,405,868
Cash and cash equivalents at end of year	\$ 3,541,838	\$ 13,481,024	\$ 23,493,100

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

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2023
(Continued)

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	<u>2023</u>	<u>2022</u>	<u>2021</u>
Supplemental disclosure of cash flows information			
Cash paid during the year for			
Interest	\$ 924,327	\$ 154,715	\$ 373,966
Income taxes	\$ 180,250	\$ 37,856	\$ 37,164

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES

Nature of operations - West-Central Bancorp, Inc. (the Bancorp) is a bank holding company whose wholly owned bank subsidiary, First Neighborhood Bank, Inc. (the Bank), is a commercial bank with operations in Spencer, Parkersburg, and Ripley, West Virginia. The Bank provides retail and commercial loans and deposit services principally to customers in Roane, Wood, and Jackson counties in West Virginia and surrounding counties. The Bank operates under a state bank charter and provides full banking services. As a state bank, the Bank is subject to regulation by the West Virginia Division of Financial Institutions and the Federal Deposit Insurance Corporation (FDIC). The Bancorp's other subsidiary, West Central Insurance, LLC, had no significant operations during the years ended December 31, 2023, 2022, and 2021.

Basis of financial statement presentation - The accounting and reporting policies of the Bancorp and its Subsidiaries conform with accounting principles generally accepted in the United States of America and with general practices followed within the banking industry.

Principles of consolidation - The accompanying consolidated financial statements include the accounts of West-Central Bancorp, Inc. and its Subsidiaries, First Neighborhood Bank, Inc. and West Central Insurance, LLC. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates, such as the allowance for loan losses, are based on known facts and circumstances. Estimates are revised by management in the period such facts and circumstances change. Actual results could differ from those estimates.

Comprehensive income - Accounting principles require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale debt securities, are reported as a separate component of the shareholders' equity section of the balance sheets. Such items, along with net income, are components of comprehensive income.

Presentation of cash flows - For the purpose of reporting cash flows, the Bancorp and its Subsidiaries have defined cash and cash equivalents as those amounts included in the consolidated balance sheets captions "Cash and due from banks" and "Interest-earning deposits in other banks," which have original maturities of ninety (90) days or less, and "Federal funds sold." Generally, federal funds are sold for one-day periods.

Investment securities - It is the policy of the Bank to prohibit the use of their respective investment accounts to maintain a trading account or to speculate in securities that would demonstrate management's intent to profit from short-term price movements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Debt securities are classified as held-to-maturity when management has both the intent and ability to hold the securities to maturity. Securities held-to-maturity are carried at cost, adjusted for amortization of premiums and accretion of discounts computed by the interest method. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

Debt securities not classified as held-to-maturity or as trading are classified as available-for-sale. Securities available-for-sale are carried at estimated fair value based on information provided by a third party pricing service, with unrealized gains and losses, net of the deferred income tax effect, reported in accumulated other comprehensive income. Realized gains and losses on debt securities available-for-sale are included in noninterest income and, when applicable, are reported as a reclassification adjustment, net of income tax, in other comprehensive income. The cost of securities sold is determined on the specific-identification method. Purchase premiums are amortized to the earliest call date, while discounts on purchased debt securities are accreted to maturity. Amortization of premiums and accretion of discounts are recognized in interest income using the interest method.

On January 1, 2023, the Bancorp and its Subsidiaries adopted FASB ASU No. 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which requires entities to measure expected credit losses under the current expected credit loss (CECL) methodology for held-to-maturity debt securities and to record credit losses on available-for-sale debt securities as an allowance rather than a write-down when management does not intend to sell or believes that it is more likely than not they will be required to sell the securities.

Allowance for credit losses - held-to-maturity debt securities - For held-to-maturity debt securities, the Bancorp and its Subsidiaries are required to utilize a current expected credit losses (CECL) methodology to estimate expected credit losses. Expected credit losses on held-to-maturity debt securities are measured on a collective basis by major security type, considering historical credit loss information that is adjusted for current conditions and reasonable and supportable forecasts. There are no securities classified as held-to-maturity in the accompanying consolidated financial statements.

Allowance for credit losses - available-for-sale debt securities - For available-for-sale debt securities in an unrealized loss position, the Bancorp and its Subsidiaries first assesses whether it intends to sell, or it is more likely than not that it will be required to sell the security before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the security's amortized cost basis is written down to fair value through income. For available-for-sale debt securities that do not meet the aforementioned criteria, the Bancorp and its Subsidiaries evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, the Bancorp and its Subsidiaries considers the extent to which fair value is less than amortized cost, any changes to the rating of the security by a rating agency, and adverse conditions specifically related to the security, among other factors. If this assessment indicates that a credit loss exists, the present value of cash flows expected to be collected from the security are compared to the amortized cost basis of the security. If the present value of cash flows expected to be collected is less than the amortized cost basis, a credit loss exists and an allowance for credit losses is recorded for the credit loss, limited by the amount that the fair value is less than the amortized cost basis. Any impairment that has not been recorded through an allowance for credit losses is recognized in other comprehensive income.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Changes in the allowance for credit losses are recorded as provision for (or reversal of) credit loss expense. Losses are charged against the allowance when the Bancorp and its Subsidiaries believe the uncollectibility of an available-for-sale security is confirmed or when either of the criteria regarding intent or requirement to sell is met. As of December 31, 2023, the Bancorp and its Subsidiaries determined that the unrealized loss positions in available-for-sale securities were not the result of credit losses, and therefore, an allowance for credit losses was not recorded.

Loans - The Bank grants commercial, mortgage, and installment loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans throughout West Virginia. The ability of the Bank's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans are stated at the amount of unpaid principal balances, less the allowance for credit losses.

Interest on loans is accrued based on principal amounts outstanding.

Allowance for credit losses - loans - On January 1, 2023, the Bancorp and its Subsidiaries adopted FASB ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*; therefore, the allowance calculation at December 31, 2023 is based on the CECL methodology. As of December 31, 2022, the calculation was based on the incurred loss methodology.

The allowance for credit losses is a valuation account that is deducted from, or added to, the loans' amortized cost basis to present the net amount expected to be collected on the loans. Loans are charged off against the allowance when management believes the uncollectibility of a loan balance is confirmed. Expected recoveries do not exceed the aggregate of amounts previously charged off and expected to be charged off.

Management estimates the allowance balance using relevant available information, from internal and external sources, relating to past events, current conditions, and reasonable and supportable forecasts. Probability of default based on FDIC data and the Bank's historical credit loss experience adjusted for economic index rates provides the basis for the estimation of expected credit losses. Adjustments are then made for differences in current loan-specific risk characteristics. Differences in items such as underwriting standards, portfolio mix, delinquency level, or term as well as changes in environmental conditions, such as changes in unemployment rates, property values, peer comparison, or other relevant factors may be considered in the adjustments. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. The Bancorp and its Subsidiaries made a policy election to present the accrued interest receivable balance separately in its consolidated balance sheets from the amortized cost of the loan.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bancorp and its Subsidiaries have identified the following portfolio segments and measures the allowance for credit losses using the following method:

Method: Probability of default/loss given default using a time series model

Commercial

- Commercial & Industrial Line
- Commercial & Industrial Loans
- Commercial Real Estate
- Commercial Real Estate Line of Credit

Real Estate

- Agricultural Loans
- Home Equity Line of Credit
- Residential Real Estate

Installment & Other

- Automobile
- Consumer Loans
- Municipal/State

Risks related to agricultural loans include volatility of agricultural commodity prices, variations in crop yields, farmland values, and farm production costs. Automobile and consumer loan risk pool characteristics are influenced by general, regional, and local economic conditions. Commercial and industrial loans and lines are normally dependent upon the borrower's internal cash flow from operations to service debt or on external income of third parties for use of the real estate such as rents and leases. Commercial real estate loans and lines of credit are generally dependent on cash flow from the ongoing operations and activities conducted by the party who owns the property. Risks of residential real estate loans and home equity lines of credit are dependent upon individual borrowers who are affected by changes in general economic conditions, demand for housing, and resulting residential real estate valuation. The municipal and state pool is comprised of loans to state and political subdivisions in the U.S. which are guaranteed by the full faith and credit authority of the state or political subdivision.

Loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, but may also include other non-performing loans or troubled debt restructurings, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. These individually evaluated loans are removed from their respective pools and typically represent collateral dependent loans.

Expected credit losses are estimated over the contractual term of the loans and leases, adjusted for expected prepayments when appropriate. The contractual term excludes expected extensions, renewals and modifications unless either of the following applies: management has a reasonable expectation at the reporting date that a troubled debt restructuring will be executed with an individual borrower or the extension or renewal options are included in the original or modified contract at the reporting date and are not unconditionally cancelable by the Bank.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Prior to January 1, 2023, the allowance for loan losses calculation as well as the provision for loan losses was based on the incurred loss methodology. Under the incurred loss model, management estimated the losses on loans and leases when it was “probable” that the Bancorp and its Subsidiaries had already incurred losses based on information available at that time. Once a loss was probable, then the expected value of the estimated loss given default was calculated and incorporated into the allowance. The allowance for loan losses is maintained at a level considered adequate to provide for losses that can be reasonably anticipated. The allowance is increased by provisions charged to operating expense and reduced by net charge-offs. The subsidiary bank makes continuous credit reviews of the loan portfolio and considers current economic conditions, historical loan loss experience, review of specific problem loans, and other factors in determining the adequacy of the allowance for loan losses. Loans are charged against the allowance for loan losses when management believes that collectability is unlikely.

Off-balance-sheet credit exposures - In the ordinary course of business, the Bancorp and its Subsidiaries enter into off-balance sheet financial instruments consisting of commitments to extend credit and irrevocable letters of credit. Such financial instruments are recording in the consolidated financial statements when they become payable. The Bancorp and its Subsidiaries estimate expected credit losses over the contractual period in which the Bancorp and its Subsidiaries are exposed to credit risk via a contractual obligation to extend credit, unless that obligation is unconditionally cancellable by the Bancorp and its Subsidiaries. The allowance for credit losses on off-balance sheet credit exposures is adjusted as credit loss expense. The estimate includes consideration of the likelihood that funding will occur and an estimate of expected credit losses on commitments expected to be funded over its estimated life. Methodology is based on a loss rate approach that starts with the probability of funding based on historical experience. Adjustments are made to the historical losses for current conditions and reasonable and supportable forecast. As of December 31, 2023, the Bancorp and its Subsidiaries have not identified any specific categories of off-balance sheet credit exposures.

Charge off of uncollectible loans - Generally, any unsecured commercial loan that has reached 180 days delinquent in payment of interest must be charged off in full. If secured, the charge-off is generally made to reduce the loan balance to a level equal to the liquidation value of the collateral when payment of principal and interest is six months delinquent. Any commercial loan, secured or unsecured, on which a principal or interest payment has not been made within 90 days, is reviewed monthly for appropriate action.

First mortgage residential real estate loans, which are well-secured and in process of collection are to be charged off on or before becoming 365 days past due. Home equity and improvement loans are to be reviewed before they become 180 days past due, and are to be charged off unless they are well-secured and in process of collection. If well-secured and in process of collection, charge-off can be deferred until the loan is 365 days past due.

Consumer loans that are past due 120 cumulative days from the contractual due date are charged off. Any consumer loan on which a principal or interest payment has not been made within 90 days is reviewed monthly for appropriate action.

Outside of the circumstances described above, loans are charged off if a loss confirming event occurs. Loss confirming events include, but are not limited to, bankruptcy (unsecured), continued delinquency, or receipt of an asset valuation indicating a collateral deficiency and that asset is the sole source of repayment. Management monitors differences between expected and incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate expected credit losses in those portfolios. Additions to the allowance for credit losses are made by charges to credit loss expense. Credit exposures deemed to be uncollectible are charged against the allowance for credit losses. Recoveries of previously charged off amounts are credited to the allowance for credit losses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Loan modifications – Occasionally, the Company modifies loans to borrowers in financial distress by providing modifications such as principal forgiveness, term extension, an other-than-significant payment delay, or interest rate reduction. In some cases, the Company may provide multiple types of concessions on one loan. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses. Upon the Company's determination that a modified loan (or portion of a loan) has subsequently been deemed uncollectible, the loan (or a portion of the loan) is written off. Therefore, the amortized cost basis of the loan is reduced by the uncollectible amount and the allowance for credit losses is adjusted by the same amount.

Premises and equipment - Land is carried at cost. Bank buildings and equipment are carried at cost, less accumulated depreciation. Depreciation is computed primarily using the straight-line, 150% declining balance, or double declining balance methods for financial reporting purposes over the estimated useful lives of the respective assets, which range from 3 to 10 years for equipment and 10 to 50 years for buildings and improvements. Useful lives are revised when a change in life expectancy becomes apparent.

Maintenance and repairs are expensed as incurred while major additions and improvements are capitalized. Gains and losses on dispositions are included in current operations as realized.

Leases - Leases are evaluated at inception to determine if an arrangement is or contains a lease. Operating leases are included in operating lease right-of-use (ROU) assets and operating lease liabilities in the consolidated balance sheets. The Bank has no finance leases. Short-term leases (i.e. leases with an initial term of twelve months or less that do not contain a purchase option that is likely to be exercised) are not recorded on the consolidated balance sheet. Operating lease ROU assets represent the Bank's right to use an underlying asset for the lease term, and operating lease liabilities represent the Bank's obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of the future lease payments over the lease term. The leases do not provide an implicit rate, so the Bank uses the risk-free rate of return based on the information available at commencement date as the discount rate in determining the present value of lease payments. The discount rate is reevaluated upon lease modification. The operating lease ROU asset also includes initial direct costs and prepaid lease payments made, if any, less lease incentives, if any. Lease terms may include options to extend or terminate the lease when it is reasonably certain that the option will be exercised.

Other real estate owned - Real estate acquired through, or in lieu of, loan foreclosure is held-for-sale and is initially recorded at the lower of the Bank's cost (book value) or fair value less estimated selling costs at the date of foreclosure. Any writedowns based on the asset's fair value at the date of acquisition are charged to the allowance for loan losses. After foreclosure, valuations are periodically performed by management, and any subsequent writedowns are recorded as a charge to operations, if necessary, to reduce the carrying value of a property to the lower new fair value less costs to sell. Costs of significant property improvements are capitalized, whereas costs relating to holding the property are expensed. The portion of interest costs relating to development of real estate is capitalized.

Advertising - The Bancorp and its Subsidiaries' policy is to expense advertising costs as incurred. Advertising expense for the years ended December 31, 2023, 2022, and 2021 were \$71,615, \$78,521, and \$84,004, respectively.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Income taxes - Income taxes are provided for the tax effects of the transactions reported in the financial statements and consist of taxes currently due plus deferred taxes related primarily to differences between the basis of debt securities available-for-sale, supplemental employee benefit plans, subsequent loss writedowns on other real estate owned, the allowance for loan losses, and accumulated depreciation for financial and income tax reporting. The deferred tax assets and liabilities represent the future tax return consequences of those differences, which will either be taxable or deductible when the assets and liabilities are recovered or settled. Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. Valuation limitation reserves are established, as deemed necessary, and adjusted periodically on certain deferred tax assets to reflect estimated recoverability of the asset in a reasonable time period. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

The Bancorp and its Subsidiaries file consolidated federal and state tax returns. Tax allocation arrangements between the Bancorp and its Subsidiaries follow the policy of determining federal and state income taxes as if the Subsidiaries filed separate federal and state income tax returns.

Employee benefit plans - The Bank has a profit-sharing plan and an employee stock ownership plan (ESOP), which covers substantially all employees. The amount of the contributions to the plans is at the discretion of the Bank's Board of Directors.

Earnings per share - Earnings per share of common stock are computed based upon the weighted-average number of shares of common stock outstanding during the period. The weighted-average shares outstanding were 184,198, 184,448, and 184,453 shares for the years ended December 31, 2023, 2022, and 2021, respectively. During each of the three years in the period ended December 31, 2023, the Bancorp did not have any potentially dilutive securities.

Fair value measurements - The Bancorp and its Subsidiaries follow the guidance of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurements*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING AND REPORTING POLICIES (Continued)

Revenue from contracts with customers - In the ordinary course of business, the Bancorp and its Subsidiaries recognize income from various revenue generating activities. Certain revenues are generated from contracts with customers where such revenues are recognized when, or as, services or products are transferred to customers for amounts to which the Bancorp and its Subsidiaries expect to be entitled. Certain specific policies related to revenue recognition from contracts with customers include:

Services fees

Service fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

Credit and Debit Card Revenue

Credit and debit card revenue includes interchange fees from credit and debit cards processed through card association networks, annual fees, and other transaction and account management fees. Interchange rates are generally set by the credit card associations and based on purchase volumes and other factors. The Bancorp and its Subsidiaries record interchange fees as services are provided. Transaction and account management fees are recognized as services are provided, except for annual fees which are recognized over the applicable period. The costs of related loyalty rewards programs are netted against interchange revenue as a direct cost of the revenue generating activity.

Date of management's review of subsequent events - Management has evaluated the accompanying consolidated financial statements for subsequent events and transactions through February 22, 2024, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

NOTE 2 - ADOPTION OF NEW ACCOUNTING STANDARD

On January 1, 2023, the Bancorp and its Subsidiaries adopted FASB ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, as amended, which replaces the incurred loss methodology with an expected loss methodology that is referred to as the current expected credit loss (CECL) methodology. The measurement of expected credit losses under the CECL methodology is applicable to financial assets measured at amortized cost, including loan receivables and held-to-maturity debt securities. It also applies to off-balance sheet credit exposures not accounted for as insurance (loan commitments, standby letters of credit, financial guarantees, and other similar instruments) and net investments in leases recognized by a lessor in accordance with Topic 842 on leases. In addition, ASC 326 requires entities to record credit losses on available-for-sale debt securities as an allowance rather than a write-down when management does not intend to sell or believes that it is more likely than not they will be required to sell the securities.

On January 1, 2023, the Bancorp and its Subsidiaries also adopted FASB ASU No. 2022-02, *Financial Instruments - Credit Losses (Topic 326): Troubled Debt Restructurings and Vintage Disclosures*, which eliminates the troubled debt restructurings (TDR) and vintage disclosures recognition and measurement guidance and, instead, requires that entities evaluate (consistent with the accounting for other loan modifications) whether the modification represents a new loan or a continuation of an existing loan. The standard also introduces new disclosure requirements related to certain modifications of loans made to borrowers experiencing financial difficulty and, for public business entities, enhances vintage disclosure requirements.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2 - ADOPTION OF NEW ACCOUNTING STANDARD (Continued)

The Bancorp and its Subsidiaries adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet credit exposures. Results for the year ended December 31, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The adoption of ASC 326 did not result in an adjustment to the Bancorp and its Subsidiaries' retained earnings for a cumulative effect of adopting the standard.

NOTE 3 - RESTRICTION ON CASH AND DUE FROM BANKS

The Bank met the requirement to maintain reserve funds by either cash on hand or cash on deposit with the Federal Reserve Bank as of December 31, 2023 and 2022.

NOTE 4 - INVESTMENT SECURITIES

The amortized cost, gross unrealized gains, gross unrealized losses, and fair values of investment securities as of December 31, 2023 and 2022 are summarized as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Allowance For Credit Losses	Fair Value
<u>December 31, 2023</u>					
Debt securities available-for-sale					
U.S. government and federal agencies	\$ 17,829,110	\$ -	\$ (2,595,248)	\$ -	\$ 15,233,862
U.S. treasuries	12,998,261	-	(612,403)	-	12,385,858
Mortgage-backed securities	6,354,029	-	(843,326)	-	5,510,703
State, county, and municipal – nontaxable	13,935,759	-	(1,457,079)	-	12,478,680
State, county, and municipal – taxable	<u>4,192,441</u>	-	<u>(693,296)</u>	-	<u>3,499,145</u>
Total	<u>\$ 55,309,600</u>	<u>\$ -</u>	<u>\$ (6,201,352)</u>	<u>\$ -</u>	<u>\$ 49,108,248</u>
<u>December 31, 2022</u>					
Debt securities available-for-sale					
U.S. government and federal agencies	\$ 17,828,386	\$ -	\$ (3,041,059)		\$ 14,787,327
U.S. treasuries	13,019,003		(866,190)		12,152,813
Mortgage-backed securities	7,064,439		(911,016)		6,153,423
State, county, and municipal – nontaxable	17,195,160	17,854	(1,800,732)		15,412,282
State, county, and municipal – taxable	<u>4,204,103</u>	-	<u>(845,782)</u>		<u>3,358,321</u>
Total	<u>\$ 59,311,091</u>	<u>\$ 17,854</u>	<u>\$ 7,464,779)</u>		<u>\$ 51,864,166</u>

The caption "Other securities" in the consolidated balance sheets consists of Federal Home Loan Bank stock. This restricted equity security is carried at cost since it may only be sold back to the Federal Home Loan Bank or another member at par value.

NOTE 4 - INVESTMENT SECURITIES (Continued)

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

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
<u>December 31, 2023</u>						
Debt securities available-for-sale						
U.S. government and federal agencies	\$ -	\$ -	\$ 15,233,862	\$ (2,595,248)	\$ 15,233,862	\$ (2,595,248)
U.S. treasuries	-	-	12,385,858	(612,403)	12,385,858	(612,403)
Mortgage-backed securities	-	-	5,510,703	(843,326)	5,510,703	(843,326)
State, county, and municipal – nontaxable	-	-	12,478,680	(1,457,079)	12,478,680	(1,457,079)
State, county, and municipal – taxable	-	-	3,499,145	(693,296)	3,499,145	(693,296)
	-	-	49,108,248	(6,201,352)	49,108,248	(6,201,352)
Total	\$ -	\$ -	\$ 49,108,248	\$ (6,201,352)	\$ 49,108,248	\$ (6,201,352)
<u>December 31, 2022</u>						
Debt securities available-for-sale						
U.S. government and federal agencies	\$ 970,946	\$ (29,054)	\$ 13,816,381	\$ (3,012,005)	\$ 14,787,327	\$ (3,041,059)
U.S. treasuries	8,447,735	(579,447)	3,705,078	(286,743)	12,152,813	(866,190)
Mortgage-backed securities	4,072,411	(536,389)	2,081,012	(374,627)	6,153,423	(911,016)
State, county, and municipal – nontaxable	11,678,189	(1,116,934)	2,600,523	(683,798)	14,278,712	(1,800,732)
State, county, and municipal – taxable	-	-	3,358,321	(845,782)	3,358,321	(845,782)
	-	-	25,561,315	(5,202,955)	50,730,596	(7,464,779)
Total	\$ 25,169,281	\$ (2,261,824)	\$ 25,561,315	\$ (5,202,955)	\$ 50,730,596	\$ (7,464,779)

Impairment is evaluated considering numerous factors and their relative significance varies from case to case. Factors considered include the length of time and extent to which the fair value has been less than cost; the financial condition and near-term prospects of the issuer; and the intent and ability to retain the security in order to allow for an anticipated recovery in fair value.

As of December 31, 2023, the sixty-four (64) debt securities with unrealized losses have depreciated approximately 11.21% from the Bank's amortized cost basis. These securities are predominately rated investment grade securities and the unrealized losses are due to the current interest rate environment and not due to any underlying credit concerns of the issuers. In analyzing an issuer's financial condition, management considers whether the securities are issued by the federal government or its agencies or by a state or political subdivision, whether downgrades by bond rating agencies have occurred, and the results of reviews of the issuer's financial condition. As management has the ability to hold debt securities until maturity, or for the foreseeable future, if classified as available-for-sale, none of the securities are deemed to be impaired.

NOTE 4 - INVESTMENT SECURITIES (Continued)

U.S. government and federal agency securities - The portfolio includes securities issued by Federal Home Loan Bank, Federal Farm Credit Bank, Fannie Mae, and Freddie Mac. These securities provide a guarantee of full and timely payments of principal and interest by the issuing agency. The Bancorp does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The Bancorp has not recorded credit losses against any of its U.S. government and federal agency securities at December 31, 2023.

U.S. treasury securities - The portfolio includes securities issued by U.S. government. These securities provide a guarantee of full and timely payments of principal and interest by the issuing agency. The Bancorp does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The Bancorp has not recorded credit losses against any of its U.S. treasury securities at December 31, 2023.

Mortgage-backed securities - The portfolio includes securities issued by Fannie Mae and Freddie Mac. These securities provide a guarantee of full and timely payments of principal and interest by the issuing agency. The Bancorp does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The Bancorp has not recorded credit losses against any of its mortgage-backed securities at December 31, 2023.

State, county, and municipal - nontaxable - The portfolio includes securities issued by various municipalities throughout the United States. The Bancorp monitors the credit ratings of these securities and the majority of the portfolio is rated AA or higher. Additionally, the Bancorp does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The Bancorp has not recorded credit losses against any of its state, county, and municipal - nontaxable securities at December 31, 2023.

State, county, and municipal - taxable - The portfolio includes securities issued by various municipalities throughout the United States. The Bancorp monitors the credit ratings of these securities and the majority of the portfolio is rated AA or higher. Additionally, the Bancorp does not intend to sell and it is likely that management will not be required to sell the securities prior to their anticipated recovery and the decline in fair value is largely due to changes in interest rates and other market conditions. The Bancorp has not recorded credit losses against any of its state, county, and municipal - taxable securities at December 31, 2023.

NOTE 4 - INVESTMENT SECURITIES (Continued)

The amortized cost and fair values of securities as of December 31, 2023, are summarized by contractual maturity as follows:

	Debt Securities Available-for-Sale	
	Amortized Cost	Fair Value
Due in one year or less	\$ 5,028,753	\$ 4,872,065
Due after one year through five years	18,340,121	16,718,073
Due after five years through ten years	14,319,462	12,168,205
Due after ten years	17,621,264	15,349,905
Total	\$ 55,309,600	\$ 49,108,248

Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

Securities pledged to secure public deposits and for other purposes required or permitted by law had a carrying value of \$5,996,963 and \$5,619,246 as of December 2023 and 2022, respectively.

The following is a summary of the proceeds from sales of investment debt securities available-for-sale and the related gross realized gains and losses:

	Proceeds	Gross Realized Gains	Gross Realized Losses
Year ended December 31, 2023	\$ 3,154,598	\$ 38,478	\$ (5,627)
2022	-	-	-
2021	7,490,941	94,048	(59,774)

NOTE 5 - BANK OWNED LIFE INSURANCE

The Bank invested in whole life insurance contracts on the lives of four (4) current and former officers who have provided positive consent allowing the Bank to be named beneficiary of these insurance contracts. These policies are recorded at their cash surrender values, which are presented in the consolidated balance sheets as "Cash surrender value - bank owned life insurance." These contracts are insurance products of Nationwide Insurance and NFP Executive Benefits and consist of seven (7) policies. These policies have a stated aggregate death benefit as of December 31, 2023 and 2022 of \$5,547,555 and \$5,559,261, respectively, and aggregate cash surrender values of \$3,493,516 and \$3,440,142 as of December 31, 2023 and 2022, respectively.

These policies were funded by premium payments of \$2,292,680. Cash surrender value increases to the carrying amounts of the policies are recognized as income of \$53,374, \$51,658, and \$51,589 for the years ended December 31, 2023, 2022, and 2021, respectively.

NOTE 6 - LOANS

The composition of recorded investment in loans by segment is as follows:

	December 31,	
	2023	2022
Commercial	\$ 31,766,904	\$ 47,771,545
Real Estate	52,584,562	34,361,042
Installment & Other	4,074,729	3,560,039
Total loans	88,426,195	85,692,626
Less: allowance for loan losses	(1,092,991)	(1,018,183)
Loans - net	\$ 87,333,204	\$ 84,674,443

As of December 31, 2023 and 2022, overdrafts from deposit accounts of \$29,290 and \$31,111, respectively, are included within the appropriate loan segment above.

As of December 31, 2022, the Bank had direct extensions of credit to entities in the oil and gas industry totaling approximately \$1,962,648, and unfunded commitments to lend totaling \$1,581,396. These outstanding loans consist of installment contracts repayable over periods ranging from 1 to 120 months, generally secured by liens on equipment; and line-of-credit arrangements payable on demand, secured primarily by one or more of the following: pledges of accounts receivable or inventories, real estate, or personal guarantees. The Bank evaluates each such customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based upon management's credit evaluation. The Bank had no concentrations in direct extensions of credit to entities in the oil and gas industry as of December 31, 2023.

In the ordinary course of business, the Bancorp and its Subsidiaries have and expect to continue to have transactions, including borrowings, with its officers, directors, and their affiliates. In the opinion of management, such transactions were on substantially the same terms and conditions, including interest rates and collateral, as those prevailing at the time of comparable transactions with other customers and did not involve more than a normal credit risk of collectability or present any other unfavorable features to the Bancorp and its Subsidiaries. Loans to such borrowers are summarized as follows:

	December 31,	
	2023	2022
Balance at beginning of year	\$ 5,943,127	\$ 6,838,839
Repayments	(1,820,323)	(608,507)
Borrowings	1,050,004	46,309
Change in status	-	(333,514)
Balance at end of year	\$ 5,172,808	\$ 5,943,127

NOTE 7 - CREDIT QUALITY

Management monitors the credit quality of loans on an ongoing basis. Measurement of delinquency and past due status are based on the contractual terms of the loan.

For all loan classes, past due loans are reviewed on a monthly basis to identify loans for nonaccrual status. Generally, when full collection of the principal and interest is jeopardized, the loan is placed on nonaccrual. The accrual of interest income generally is discontinued when a loan becomes 90 days or more past due as to principal or interest, unless the loan is fully secured and in the process of collection and resolution of collection is expected in the near term (generally less than 90 days). When interest accruals are discontinued, unpaid interest recognized in income in the current year is reversed, and unpaid interest accrued in prior years is charged to the allowance for loan losses. The Bank's method of income recognition for loans that are classified as nonaccrual is to recognize interest income on a cash basis or to apply the cash receipt to principal when the ultimate collectability of the principal is in doubt. Management may elect to continue the accrual of interest when the estimated net realized value of collateral exceeds the principal balance and accrued interest, and the loan is in the process of collection. Nonaccrual loans will not normally be returned to accrual status unless all past due principal and interest have been paid.

The following table sets forth the Bank's age analysis of its past due loans, segregated by class of loans:

	30-59 Days Past Due	60-89 Days Past Due	90 Days Or More Past Due	Total Past Due	Total Current	Total Financing Receivables	Recorded Investment >90 Days & Accruing
<u>December 31, 2023</u>							
Secured by real estate							
Construction	\$ -	\$ -	\$ -	\$ -	\$ 109,947	\$ 109,947	\$ -
Farmland	-	-	-	-	2,017,386	2,017,386	-
Residential	215,255	-	-	215,255	50,157,048	50,372,303	-
Commercial	-	-	-	-	20,839,288	20,839,288	-
Commercial and industrial	29,959	74,290	-	104,249	10,199,874	10,304,123	-
Consumer	10,504	2,223	-	12,727	4,469,404	4,482,131	-
Government	-	-	-	-	301,017	301,017	-
Total	\$ 255,718	\$ 76,513	\$ -	\$ 332,231	\$ 88,093,964	\$ 88,426,195	\$ -
<u>December 31, 2022</u>							
Secured by real estate							
Construction	\$ -	\$ -	\$ -	\$ -	\$ 2,465,587	\$ 2,465,587	\$ -
Farmland	-	-	-	-	941,390	941,390	-
Residential	38,754	-	-	38,754	42,646,790	42,685,544	-
Commercial	250,813	-	-	250,813	21,092,897	21,343,710	-
Commercial and industrial	-	-	-	-	13,651,882	13,651,882	-
Consumer	20,020	18,521	-	38,541	4,227,066	4,265,607	-
Government	-	-	-	-	338,906	338,906	-
Total	\$ 309,587	\$ 18,521	\$ -	\$ 328,108	\$ 85,364,518	\$ 85,692,626	\$ -

The Bank generally places loans on nonaccrual status when the full and timely collection of interest or principal becomes uncertain, part of the principal balance has been charged off and no restructuring has occurred, or the loans reach a certain number of days past due.

NOTE 7 - CREDIT QUALITY (Continued)

The Bank had no nonaccrual loans as of December 31, 2023 and 2022.

The Bank has not granted modifications to borrowers experiencing financial difficulty in a troubled debt restructuring during the years ended December 31, 2023 and 2022.

As of December 31, 2023, there are no commitments to lend additional funds to any borrower with financial difficulty whose loan terms have been modified.

The Bank assigns credit quality indicators of pass, special mention, substandard, doubtful, and loss to its loans. The loans are internally assigned a grade based on a combination of the known creditworthiness of the borrower and on the loan's delinquency status. The Bank updates these grades on a quarterly basis.

A loan classified as pass has strong asset quality and liquidity along with a multi-year track record of profitability.

A loan classified as special mention has potential weaknesses that deserve management's close attention. If left unmonitored, these potential weaknesses may result in deterioration of the repayment prospects for such loans or in the borrower's credit position at some future date. Adverse economic or market conditions may also support a special mention rating. Other nonfinancial reasons for rating a credit exposure as special mention can include known borrower problems, pending litigation, or lending agreement issues.

A loan classified as substandard contains weaknesses that, if left uncorrected, create some degree of doubt as to the likelihood of full collection of principal and interest. These loans require intensive supervision by management. Such loans are generally characterized by current or expected unprofitable operations, inadequate debt service coverage, inadequate liquidity, or marginal capitalization. Repayment may depend on collateral or other credit risk mitigants.

A loan classified as doubtful exhibits all the weaknesses inherent in one classified as substandard with the additional characteristic that the weaknesses make its collection in full, based on currently existing facts, conditions, and values, highly questionable and improbable. A doubtful loan has a high probability of total or substantial loss, but because of specific pending events that may strengthen the credit, its classification as loss is deferred at the present time. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain operationally solvent. Specific pending events may include mergers, acquisitions, liquidations, capital injections, the perfection of liens of additional collateral, the valuation of collateral, and refinancing. Loans classified as doubtful are also considered impaired. Generally, consumer credit exposures are charged off prior to being classified as doubtful.

A loan classified as a loss is considered uncollectible. This classification does not guarantee that the loan has no recovery or salvage value, but rather it is not practical or desirable to defer charging off the loan even though partial recovery may be affected in the future.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - CREDIT QUALITY (Continued)

The following table sets forth the Bank's credit quality indicators information, segregated by class of loans:

	<u>Pass</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Doubtful</u>	<u>Loss</u>	<u>Total</u>
<u>December 31, 2023</u>						
Secured by real estate						
Construction	\$ 109,947	\$ -	\$ -	\$ -	\$ -	\$ 109,947
Farmland	2,017,386	-	-	-	-	2,017,386
Residential	50,205,980	-	166,323	-	-	50,372,303
Commercial	20,764,264	-	75,024	-	-	20,839,288
Commercial and industrial	10,235,552	-	68,571	-	-	10,304,123
Consumer	4,482,131	-	-	-	-	4,482,131
Government	301,017	-	-	-	-	301,017
Total	<u>\$ 88,116,277</u>	<u>\$ -</u>	<u>\$ 309,918</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 88,426,195</u>
<u>December 31, 2022</u>						
Secured by real estate						
Construction	\$ 2,465,587	\$ -	\$ -	\$ -	\$ -	\$ 2,465,587
Farmland	941,390	-	-	-	-	941,390
Residential	42,501,289	-	184,255	-	-	42,685,544
Commercial	21,246,998	-	96,712	-	-	21,343,710
Commercial and industrial	13,512,023	139,859	-	-	-	13,651,882
Consumer	4,265,607	-	-	-	-	4,265,607
Government	338,906	-	-	-	-	338,906
Total	<u>\$ 85,271,800</u>	<u>\$ 139,859</u>	<u>\$ 280,967</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 85,692,626</u>

NOTE 7 - CREDIT QUALITY (Continued)

As a result of adopting FASB ASU No. 2016-13, *Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, the concept of impaired loans is no longer applicable under the new guidance; therefore, the Bank did not have impaired loans at December 31, 2023.

Loans are designated as impaired at December 31, 2022, when, in the opinion of management, based on current information and events, the collection of principal and interest in accordance with the loan contract is doubtful. Typically, such loans have exhibited a sustained period of delinquency or there have been significant events (such as bankruptcy, eminent foreclosure, or natural disasters) that impact repayment probability. Impairment is evaluated on an individual loan basis. Consistent with the Bank's existing method of income recognition for loans, interest on impaired loans, except those classified as nonaccrual, is recognized as income using the accrual method. Impaired loans, or portions thereof, are charged off when deemed uncollectible.

The following table sets forth the Bank's impaired loans information, segregated by class of loan:

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance</u>	<u>Average Recorded Investment</u>	<u>Interest Income Recognized</u>
<u>December 31, 2022</u>					
With no related allowance recorded					
Secured by real estate					
Construction	\$ -	\$ -	\$ -	\$ -	\$ -
Farmland	-	-	-	-	-
Residential	-	-	-	-	-
Commercial	7,185	7,185	-	12,088	994
Commercial and industrial	-	-	-	-	-
Consumer	-	-	-	-	-
Government	-	-	-	-	-
With an allowance recorded					
Secured by real estate					
Construction	-	-	-	-	-
Farmland	-	-	-	-	-
Residential	-	-	-	-	-
Commercial	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Consumer	-	-	-	-	-
Government	-	-	-	-	-
Total	<u>\$ 7,185</u>	<u>\$ 7,185</u>	<u>\$ -</u>	<u>\$ 12,088</u>	<u>\$ 994</u>

NOTE 8 - ALLOWANCE FOR CREDIT LOSSES

The following is an analysis of the allowance for credit losses for the years ended:

	December 31,		
	2023	2022	2021
Balance at beginning of year	\$ 1,018,183	\$ 1,002,817	\$ 1,027,825
Loans charged off	(11,404)	(14,842)	(39,275)
Recoveries of loans previously charged off	84,812	25,108	14,267
Provision for loan losses	1,400	5,100	-
Balance at end of year	<u>\$ 1,092,991</u>	<u>\$ 1,018,183</u>	<u>\$ 1,002,817</u>

The Bank considers the allowance for credit losses of \$1,092,991 and \$1,018,183 adequate to cover loan losses inherent in the loan portfolio as of December 31, 2023 and 2022, respectively. All disclosures as of and for the year ended December 31, 2023 are presented in accordance with ASC 326. Disclosures as of and for the year ended December 31, 2022 are presented under previously applicable U.S. GAAP. The following table presents by portfolio segment, the changes in the allowance for credit losses for the year ended December 31, 2023 and the changes in the allowance for loan losses for the year ended December 31, 2022.

	Commercial	Real Estate	Installment & Other	Unallocated	Total
<u>December 31, 2023</u>					
Allowance for credit losses					
Beginning balance	\$ 517,996	\$ 194,808	\$ 29,548	\$ 275,831	\$ 1,018,183
Charge-offs	(8,118)	-	(3,286)	-	(11,404)
Recoveries	81,037	-	3,775	-	84,812
Provision	(451,809)	350,674	97,529	5,006	1,400
Ending balance	<u>\$ 139,106</u>	<u>\$ 545,482</u>	<u>\$ 127,566</u>	<u>\$ 280,837</u>	<u>\$ 1,092,991</u>
<u>December 31, 2022</u>					
Allowance for loan losses					
Beginning balance	\$ 542,890	\$ 167,707	\$ 22,452	\$ 269,768	\$ 1,002,817
Charge-offs	(14,842)	-	-	-	(14,842)
Recoveries	1,396	13,805	9,907	-	25,108
Provision	(11,448)	13,296	(2,811)	6,063	5,100
Ending balance	<u>517,996</u>	<u>194,808</u>	<u>29,548</u>	<u>275,831</u>	<u>1,018,183</u>
Ending balance - individually evaluated for impairment	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Ending balance - collectively evaluated for impairment	<u>517,996</u>	<u>194,808</u>	<u>29,548</u>	<u>275,831</u>	<u>1,018,183</u>
Financing receivables					
Ending balance	<u>47,771,545</u>	<u>34,361,042</u>	<u>3,560,039</u>		<u>85,692,626</u>
Ending balance - individually evaluated for impairment	<u>7,185</u>	<u>-</u>	<u>-</u>		<u>7,185</u>
Ending balance - collectively evaluated for impairment	<u>\$ 47,764,360</u>	<u>\$ 34,361,042</u>	<u>\$ 3,560,039</u>		<u>\$ 85,685,441</u>

NOTE 9 - ACCRUED INTEREST RECEIVABLE

Accrued interest receivable consists of the following:

	December 31,	
	2023	2022
Time deposits	\$ 6,281	\$ 9,605
Investment securities	211,858	223,310
Loans	200,923	193,046
Total	\$ 419,062	\$ 425,961

NOTE 10 - PREMISES AND EQUIPMENT

The major categories of premises and equipment are as follows:

	December 31,	
	2023	2022
Land	\$ 922,931	\$ 922,931
Building and improvements	3,271,853	3,271,853
Furniture, fixtures, and equipment	2,104,769	2,056,172
Automobile	69,809	69,809
Total cost	6,369,362	6,320,765
Less: accumulated depreciation	(3,527,836)	(3,327,148)
Net	\$ 2,841,526	\$ 2,993,617

Depreciation expense for the years ended December 31, 2023, 2022, and 2021 totaled \$200,688, \$200,191 and \$170,083, respectively.

NOTE 11 - OTHER REAL ESTATE OWNED

The following is a summary of activity of other real estate owned, expected to be disposed of in the near term, for the years ended:

	December 31,	
	2023	2022
Balance at beginning of year	\$ 725,000	\$ 725,000
Total foreclosed properties for disposition	725,000	725,000
Total basis of other real estate owned sold	-	-
Balance at end of year	\$ 725,000	\$ 725,000

Subsequent writedowns and realized gains and losses on the sale of other real estate owned are recognized in the "Other expense" caption in the consolidated statements of income.

NOTE 12 - DEPOSITS

Time deposits issued in denominations that meet or exceed the Federal Deposit Insurance Corporation (FDIC) limit of \$250,000 or more totaled \$16,097,265 and \$2,586,629 as of December 31, 2023 and 2022, respectively.

As of December 31, 2023, the maturity distribution of time deposits is as follows:

2024	\$ 39,580,549
2025	2,900,922
2026	1,633,349
2027	1,225,776
2028 and thereafter	541,469
Total	\$ 45,882,065

The Bank held related party deposits of approximately \$29,389,000 and \$31,531,000 as of December 31, 2023 and 2022, respectively.

NOTE 13 - SHORT-TERM BORROWINGS

The Bank has obtained unsecured, uncommitted, borrowing facilities for the purchase of federal funds in the amounts of \$4,500,000 from SouthState Bank, N.A. (SSB) and \$5,000,000 from Pacific Coast Bankers' Bank (PCBB). Any borrowings bear an interest rate which is determined at the time of each advance. Requests for advances under these facilities are subject to SSB and PCBB's sole and absolute discretion, including, without limitation, the availability of funds. There were no borrowings outstanding as of December 31, 2023 and 2022, respectively.

The Bank is a member of the Federal Home Loan Bank of Pittsburgh (FHLB). As a member, the Bank has an open line of credit commitment from the FHLB. Any advances bear interest at the interest rate posted by the FHLB on the day of the borrowing and are subject to change daily. Any advances are secured by a blanket lien on certain loans secured by 1 to 4 family mortgages made by the Bank and other eligible collateral. As of December 31, 2023, no loans were pledged for collateral. In addition, the Bank has a maximum borrowing capacity with the FHLB of approximately \$51,511,150 based on qualifying loan collateral. As of December 31, 2023 and 2022, outstanding borrowings were \$225,000 and \$-, respectively.

NOTE 14 - INCOME TAXES

The consolidated provision for income taxes consists of the following for the years ended:

	December 31,		
	2023	2022	2021
Current			
Federal	\$ 35,309	\$ 56,858	\$ 42,731
State	18,859	27,628	20,803
	54,168	84,486	63,534
Deferred			
Federal	28,345	33,375	(3,085)
State	6,750	7,945	(735)
	35,095	41,320	(3,820)
Total income tax expense	\$ 89,263	\$ 125,806	\$ 59,714

NOTE 14 - INCOME TAXES (Continued)

The consolidated provision for income taxes differs from the amounts computed by applying the U.S. federal statutory income tax rates to income before income tax expense as a result of the following:

	December 31,					
	2023		2022		2021	
	Amount	%	Amount	%	Amount	%
Federal statutory tax rate	\$ 136,378	21.0%	\$ 152,447	21.0%	\$ 168,355	21.0%
Tax-exempt interest	(62,400)	(9.6)	(77,898)	(10.7)	(87,608)	(10.9)
Increase in cash surrender value of life insurance	(11,209)	(1.7)	(10,848)	(1.5)	(10,834)	(1.4)
State income taxes, net of federal tax benefit	20,231	3.1	28,103	3.9	15,854	2.0
Nondeductible expenses	1,659	0.3	2,245	0.3	4,107	0.5
Effect of other items	4,604	0.7	31,757	4.4	(30,160)	(3.8)
Reported effective tax rate	<u>\$ 89,263</u>	<u>13.8%</u>	<u>\$ 125,806</u>	<u>17.4%</u>	<u>\$ 59,714</u>	<u>7.4%</u>

Deferred income taxes reflect the impact of “temporary differences” between amounts of assets and liabilities for financial reporting purposes and such amounts as measured for tax purposes. Deferred tax assets and liabilities represent the future tax return consequences of temporary differences, which will either be taxable or deductible when the related assets and liabilities are recovered or settled.

Management believes that the Bank will generate sufficient future taxable income to realize the deferred tax assets. Management continually reviews the need for a valuation allowance and will recognize tax benefits only as reassessment indicates that it is more likely than not that the benefits will be realized.

Deferred tax assets and liabilities are reflected at income tax rates applicable to the period in which the deferred tax assets or liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

NOTE 14 - INCOME TAXES (Continued)

The tax effects of temporary differences which give rise to the Bancorp's deferred tax assets and liabilities are as follows:

	December 31,	
	2023	2022
Deferred tax assets		
Allowance for credit losses	\$ 199,416	\$ 199,508
Employee benefit plans	251,488	266,142
Deferred gain on sale-leaseback	4,388	13,165
Unrealized losses on investment debt securities available-for-sale	1,674,000	2,011,000
Accumulated depreciation	-	-
	2,129,292	2,489,815
Deferred tax liabilities		
Accumulated depreciation	(39,107)	(27,535)
	(39,107)	(27,535)
Net deferred tax assets	\$ 2,090,185	\$ 2,462,280

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Bancorp and its Subsidiaries and recognize a tax liability (or asset) if the Bancorp and its Subsidiaries have taken an uncertain position that more-likely-than-not would not be sustained upon examination by the Internal Revenue Service. Management has analyzed tax positions taken by the Bancorp and its Subsidiaries, and has concluded that as of December 31, 2023, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Bancorp files income tax returns in the United States federal jurisdiction and West Virginia state jurisdiction, and is subject to examination of those filings by the authorities representing those jurisdictions. There are no current examinations in process for any filings, and management believes that the Bancorp is not subject to audit for any years prior to 2020.

NOTE 15 - EMPLOYEE BENEFIT PLANS

Profit sharing and employee stock ownership plans - The Bank has a defined contribution profit sharing plan covering substantially all employees. The Bank's contributions under the profit sharing plan are funded with a trustee and are contingent upon the Bank achieving a minimum earnings level.

The Bank has an Employee Stock Ownership Plan (ESOP) which enables eligible employees to acquire shares of the Bancorp's common stock. The cost of the ESOP is borne by the Bank through annual contributions to an Employee Stock Ownership Trust, the trustees of which are also members of the Bancorp and its Subsidiary Bank's Board of Directors. The expense recognized by the Bank is based on cash contributed or committed to be contributed by the Bank to the ESOP during the year. Dividends made by the Bancorp to the ESOP are reported as a reduction to retained earnings. The ESOP owns 20,722 shares of the Bancorp's common stock as of December 31, 2023, all of which are considered outstanding for earnings per share computations. The Bank's Board of Directors elected to terminate the ESOP effective December 17, 2021 and all contributions ceased after this date.

NOTE 15 - EMPLOYEE BENEFIT PLANS (Continued)

The amount of the contributions to the profit-sharing plan and the ESOP (prior to termination of the plan as of December 17, 2021) are determined at the discretion of the Bank's Board of Directors in compliance with Internal Revenue Service limitations. Contributions have historically been made in the amount of 10% of the Bank's income before profit-sharing, ESOP, and income taxes. In the event this calculated contribution exceeds the amount allowable under current Internal Revenue Service regulations, the excess is distributed to the employees in the form of a cash bonus. Contributions to the plans, for the years ended December 31, 2023, 2022, and 2021, were \$80,600, \$73,100, and \$86,300, respectively.

Executive supplemental income plan - The Bank has entered into a nonqualified supplemental income plan with certain current and former senior officers that provide these participating officers with an income benefit payable at retirement age or death. The liabilities accrued for the Executive Supplemental Income Plan as of December 31, 2023 and 2022, were \$967,271 and \$1,023,625, respectively, which are included in other liabilities in the accompanying consolidated balance sheets. In addition, the Bank has purchased certain insurance contracts to fund the liabilities arising under this plan. As of December 31, 2023 and 2022, the cash surrender value of these insurance contracts was \$3,493,516 and \$3,440,142, respectively.

NOTE 16 - RESTRICTIONS ON BANK DIVIDENDS

The payment of dividends to shareholders by the Bancorp is not encumbered by any restrictive provisions. There are, however, limitations set by law on the amount of funds available to the Bancorp from its Subsidiary Bank. Dividends may be paid out of funds legally available subject to the restrictions set forth in West Virginia Code, Section 31-A-4-25, which provides that prior approval of the West Virginia Commissioner of Financial Institutions is required if the total of all dividends declared by a state bank in any calendar year will exceed the bank's net profits for that year combined with its retained net profits for the preceding two years. The amount of funds legally available for distribution of dividends by the Bank to the Bancorp without prior approval from regulatory authorities for 2023 was approximately \$1,458,375, less \$183,981, which was distributed by December 31, 2023.

NOTE 17 - REGULATORY CAPITAL MATTERS

Banks and bank holding companies are subject to regulatory capital requirements administered by their primary federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. Management believes, as of December 31, 2023 and 2022, that the Bancorp and the Bank meet all the capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2023 and 2022, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the Bank's category.

NOTE 17 - REGULATORY CAPITAL MATTERS (Continued)

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure for capital adequacy, the community bank leverage ratio framework (CBLR framework), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank during the first quarter of 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to section 4012 of the Coronavirus Aid, Relief, and Economic Security (CARES) Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8% as of December 31, 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7% as of December 31, 2020, 7.5% for calendar year 2021, and 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restrictions. As of December 31, 2023, both the Bancorp and Bank were qualifying community banking organizations as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

NOTE 17 - REGULATORY CAPITAL MATTERS (Continued)

The following tables present the Bancorp and the Bank's actual and required capital amounts and capital ratios as of December 31, 2023 and 2022, respectively.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)		
	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio	
<u>As of December 31, 2023</u>					
Leverage – (Tier 1 capital to average total assets)					
Consolidated	\$ 17,420	11.47%	\$ N/A	≥	N/A
Subsidiary Bank	\$ 17,314	11.40%	\$ 13,670	≥	9.00%

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)		
	Amount (Thousands)	Ratio	Amount (Thousands)	Ratio	
<u>As of December 31, 2022</u>					
Leverage – (Tier 1 capital to average total assets)					
Consolidated	\$ 17,106	10.99%	\$ N/A	≥	N/A
Subsidiary Bank	\$ 16,966	10.90%	\$ 14,013	≥	9.00%

NOTE 18 - LEASING ARRANGEMENTS

During 2019, the Bank entered into a sales arrangement with a related party for the sale of the Spencer main bank building. Certain owners of the related party are either directors or shareholders of the Bancorp. Simultaneous with the closing of the sale, the Bank entered into a lease transaction with the related party to lease a portion of the building. Under the arrangement, the building, with a net book value of \$81,178, was sold for \$250,000 and leased back under a five year operating lease. The Bank received cash of \$100,000 at the time of sale and the remaining purchase price of \$150,000 was financed by the Bank. As a result of the transaction, a gain in the amount of \$168,822 has been deferred and will be recognized over the term of the related lease agreement. As of December 31, 2023 and 2022, a deferred gain in the amount of \$16,878 and \$50,634, respectively, is reported in the "Other liabilities" caption on the consolidated balance sheets. The portion of the gain recognized by the Bank for the years ended December 31, 2023 and 2022 was \$33,756 and \$33,756, respectively. Under the terms of the operating lease agreement, the Bank is required to make a fixed monthly payment of \$9,000 over the term of five years.

The Bank accounts for this lease as an operating lease under ASU 2016-02, *Leases (Topic 842)*. The consolidated balance sheets present operating lease ROU assets of \$53,883 and \$160,813 and operating lease liabilities of \$53,883 and \$160,813 as of December 31, 2023 and 2022, respectively.

Operating lease cost is recognized on a straight-line basis over the lease term and is included in occupancy and equipment expenses within noninterest expenses on the consolidated statements of income. Net operating lease cost for both of the years ended December 31, 2023 and 2022 was \$108,000.

As of December 31, 2023 and 2022, the weighted average remaining lease term was 0.5 and 1.5 years, respectively, and the weighted average discount rate was 1.04% for operating leases recognized in the consolidated financial statements.

NOTE 18 - LEASING ARRANGEMENTS (Continued)

Future minimum lease commitments under operating leases as of December 31, 2023 are as follows:

<u>December 31,</u> 2024	\$ 54,000
Total	<u>\$ 54,000</u>

NOTE 19 - COMMITMENTS AND CONTINGENT LIABILITIES

The Bancorp and its Subsidiary Bank have an executive benefit agreement with the current Executive Vice President. This agreement contains change in control provisions that would entitle the officer to receive a multiple of his annual compensation if there is a change in control in the Bancorp (as defined) and a termination of his employment under certain circumstances. The maximum contingent liability under this agreement approximates \$135,000 as of December 31, 2023.

The Bank has contracted with a third-party service center to perform substantially all electronic data processing services for the Bank. Pursuant to this agreement, certain payments may become due if the agreement is terminated before March 2028. As of December 31, 2023, the contingent liability to the Bank's service center is estimated to be approximately \$2,668,000 plus the actual costs incurred in connection with the termination.

The Bank is involved in various legal actions arising in the ordinary course of business. In the opinion of management and counsel, there are no legal actions pending at the time of the audit report.

As a participating lender in the SBA PPP, the Bancorp and its Subsidiaries are subject to additional risks of litigation from customers or other parties regarding processing of loans for the PPP and risks that the SBA may not fund some or all PPP loan guarantees.

From time to time, the Bank maintains cash balances in other financial institutions exceeding the Federal Deposit Insurance Corporation's insured balance of up to \$250,000.

NOTE 20 - FINANCIAL INSTRUMENTS WITH OFF-BALANCE SHEET RISK

In the normal course of business, the Bank has outstanding commitments, contingent liabilities, and other financial instruments that are not reflected in the accompanying consolidated financial statements. These include commitments to extend credit, standby letters of credit, and overdraft protection, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recognized in the consolidated balance sheets.

The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for these commitments is represented by the contractual amount of those instruments. The Bank uses the same credit policies in making commitments as it does for on-balance sheet instruments.

Commitments to extend credit - The Bank has outstanding firm commitments to extend credit as follows:

	December 31, 2023			December 31, 2022		
	Fixed Rate	Variable Rate	Total	Fixed Rate	Variable Rate	Total
Real estate loans	\$ -	\$ 699,322	\$ 699,322	\$ 307,094	\$ 956,749	\$ 1,263,843
Installment loans	-	-	-	20,000	-	20,000
Commercial loans	62,500	1,138,991	1,201,491	-	1,724,600	1,724,600
Home equity loans	-	1,788,806	1,788,806	-	2,721,013	2,721,013
Commercial lines of credit	596,207	5,232,592	5,828,799	2,125,813	3,996,936	6,122,749
Total	\$ 658,707	\$ 8,859,711	\$ 9,518,418	\$ 2,452,907	\$ 9,399,298	\$ 11,852,205

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Certain commitments have fixed expiration dates, or other termination clauses, and may require payment of a fee. Many of the commitments are expected to expire without being drawn upon, accordingly, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral or other security obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, equipment, or real estate.

Standby letters of credit - The Bank has commitments under standby letters of credit that totaled \$295,000 and \$335,000 as of December 31, 2023 and 2022, respectively.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. These letters of credit are generally uncollateralized.

Overdraft protection - The Bank has an overdraft privilege product with qualified individual transaction account holders providing automatic payment of overdrafts up to a specified amount based on the type of account, charging the standard overdraft fee. The Bank had commitments of \$853,879 and \$907,785 as of December 31, 2023 and 2022, respectively.

NOTE 21 - FAIR VALUE MEASUREMENTS

Fair value is defined as the exchange price that would be received to sell an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Accounting guidance also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

Level 1 - Valuation is based on quoted prices in active markets for identical assets or liabilities that the Bank has the ability to access at the measurement date. Level 1 assets and liabilities generally include debt and equity securities that are traded in an active exchange market. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.

Level 2 - Valuation is based on inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. The valuation may be based on quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability.

Level 3 - Valuation is based on unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which determination of fair value requires significant management judgment or estimation.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Accordingly, investment debt securities available-for-sale are recorded at fair value on a recurring basis. Additionally, from time to time, the Bank may be required to record other assets at fair value on a nonrecurring basis, such as impaired loans and other real estate owned. These nonrecurring fair value adjustments typically involve application of lower of cost or market accounting or writedowns of individual assets.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

The following describes the valuation techniques used to measure certain financial assets and liabilities recorded at fair value on a recurring basis in the financial statements.

Investment debt securities available-for-sale - Fair value measurement is based upon quoted prices, if available. If quoted prices are not available, fair values are measured using independent pricing models or other model-based valuation techniques such as the present value of future cash flows, adjusted for the security's credit rating, prepayment assumptions, and other factors such as credit loss assumptions. Level 1 securities include those traded on an active exchange, such as the New York Stock Exchange or traded by dealers or brokers in active over-the-counter markets. Level 2 securities include securities issued by government sponsored entities, mortgage-backed securities, and municipal bonds. Level 3 securities include those with unobservable inputs. Transfers between levels can occur due to changes in the observability of significant inputs.

The following are assets and liabilities that were accounted for or disclosed at fair value on a recurring basis:

	Fair Value	Fair Value Measurements at Reporting Date Using:		
		Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<u>December 31, 2023</u>				
Debt securities available-for-sale				
U.S. government and federal agencies	\$ 15,233,862	\$ -	\$ 15,233,862	\$ -
U.S. treasuries	12,385,858	-	12,385,858	-
Mortgage-backed securities	5,510,703	-	5,510,703	-
State, county, and municipal - nontaxable	12,478,680	-	12,478,680	-
State, county, and municipal - taxable	3,499,145	-	3,499,145	-
Total debt securities available-for-sale	\$ 49,108,248	\$ -	\$ 49,108,248	\$ -
<u>December 31, 2022</u>				
Debt securities available-for-sale				
U.S. government and federal agencies	\$ 14,787,327	\$ -	\$ 14,787,327	\$ -
U.S. treasuries	12,152,813	-	12,152,813	-
Mortgage-backed securities	6,153,423	-	6,153,423	-
State, county, and municipal - nontaxable	15,412,282	-	15,412,282	-
State, county, and municipal - taxable	3,358,321	-	3,358,321	-
Total debt securities available-for-sale	\$ 51,864,166	\$ -	\$ 51,864,166	\$ -

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

The following describes the valuation techniques used to measure certain assets and liabilities recorded at fair value on a nonrecurring basis in the financial statements.

Individually assessed loans - In the determination of the allowance for credit losses, loans that do not share risk characteristics are evaluated on an individual basis. Loans evaluated individually are not also included in the collective evaluation. When management determines that foreclosure is probable or when the borrower is experiencing financial difficulty at the reporting date and repayment is expected to be provided substantially through the operation or sale of the collateral, expected credit losses are based on the fair value of the collateral at the reporting date, adjusted for selling costs as appropriate. Fair value is measured using a market approach based on the value of the collateral securing the loans. Collateral may be in the form of real estate or business assets including equipment, inventory, and accounts receivable. When the fair value of the collateral is based on an observable market price or a current appraised value, the fair value is considered Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the fair value is considered Level 3. For individually assessed loans, a specific reserve is established through the allowance for credit losses, if necessary, by estimating the fair value of the underlying collateral on a nonrecurring basis. Any fair value adjustments are recorded in the period incurred as credit loss expense on the consolidated statements of income.

Impaired loans - Under guidance prior to the adoption of ASC 326, the Bank did not record loans at fair value on a recurring basis. However, from time to time, a loan was considered impaired and an allowance for loan losses may have been established. Loans for which it was probable that payment of interest and principal would not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan was identified as individually impaired, management measured impairment. Impaired loans where an allowance was established based on the fair value of the collateral, required classification in the fair value hierarchy. When the fair value of the collateral was based on an observable market price or a current appraised value, the Bank recorded the impaired loan as nonrecurring Level 2. When an appraised value was not available or management determined the fair value of the collateral was further impaired below the appraised value and there was no observable market price, the Bank recorded the impaired loan as nonrecurring Level 3. Those impaired loans not requiring an allowance represent loans for which the fair value of the expected repayments or collateral exceed the recorded investments in such loans.

Other real estate owned (OREO) - OREO consists of real estate acquired in foreclosure or other settlement of loans. Such assets are carried on the consolidated balance sheet at the lower of the investment in the real estate or its fair value less estimated selling costs. The fair value of OREO is determined on a nonrecurring basis generally utilizing current appraisals performed by an independent, licensed appraiser applying an income or market value approach using observable market data (Level 2). However, if a current appraisal is not available, the original appraised value is discounted, as appropriate, to compensate for the estimated depreciation in the value of the real estate since the date of its original appraisal. Such discounts are generally estimated based upon management's knowledge of sales of similar property within the applicable market area and its knowledge of other real estate market-related data as well as general economic trends (Level 3). Upon foreclosure, any fair value adjustment is charged against the allowance for loan losses. Subsequent fair value adjustments are recorded in the period incurred and included in other noninterest expense in the consolidated statements of income.

NOTE 21 - FAIR VALUE MEASUREMENTS (Continued)

The following are assets and liabilities that were accounted for or disclosed at fair value on a nonrecurring basis:

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using:</u>		
		<u>Quoted Prices in Active Markets for Identical Assets/ Liabilities (Level 1)</u>	<u>Significant Other Observable Inputs (Level 2)</u>	<u>Significant Unobservable Inputs (Level 3)</u>
<u>December 31, 2023</u>				
Other real estate owned:				
Commercial	\$ 725,000	\$ -	\$ -	\$ 725,000
Total other real estate owned	<u>\$ 725,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 725,000</u>
<u>December 31, 2022</u>				
Other real estate owned:				
Commercial	\$ 725,000	\$ -	\$ -	\$ 725,000
Total other real estate owned	<u>\$ 725,000</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 725,000</u>

The quantitative information about Level 3 fair value measurements for assets and liabilities measured at fair value on a nonrecurring basis is as follows:

<u>Description</u>	<u>Fair Value</u>	<u>Valuation Technique</u>	<u>Significant Unobservable Input</u>
<u>December 31, 2023</u>			
Other real estate owned:			
Commercial	\$ 725,000	Appraisal of property	Appraisal adjustment
<u>December 31, 2022</u>			
Other real estate owned:			
Commercial	\$ 725,000	Appraisal of property	Appraisal adjustment

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY

The following financial statements reflect the financial position, results of operations, and cash flows of West-Central Bancorp, Inc. (Parent Company Only).

CONDENSED BALANCE SHEETS

	December 31,	
	2023	2022
Assets		
Cash and due from banks (all from subsidiary bank)	\$ 59,281	\$ 93,601
Investment in subsidiaries (equity basis)	12,833,632	11,576,426
Total assets	\$ 12,892,913	\$ 11,670,027
Liabilities and shareholders' equity		
Total liabilities	\$ -	\$ -
Shareholders' equity		
Common stock (par value \$1.00; 5,000,000 shares authorized; 350,860 shares issued; 183,538 and 184,423 shares outstanding as of December 31, 2023 and 2022, respectively)	350,860	350,860
Additional paid in capital	1,597,246	1,597,246
Retained earnings	19,740,174	19,368,115
Less: treasury stock, at cost (167,322 and 166,437 shares as of December 31, 2023 and 2022, respectively)	(4,268,015)	(4,210,269)
Accumulated other comprehensive income (loss)	(4,527,352)	(5,435,925)
Total shareholders' equity	12,892,913	11,670,027
Total liabilities and shareholders' equity	\$ 12,892,913	\$ 11,670,027

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF INCOME

	Years Ended December 31,		
	2023	2022	2021
Income			
Dividend income from subsidiaries	\$ 207,457	\$ 211,777	\$ 214,643
Total income	207,457	211,777	214,643
Expenses			
Other expenses	51	25	10,050
Total expenses	51	25	10,050
Income before income tax expense and equity in undistributed earnings of subsidiaries	207,406	211,752	204,593
Income tax expense	-	-	-
Income before equity in undistributed earnings of subsidiaries	207,406	211,752	204,593
Equity in undistributed earnings of subsidiaries	348,633	388,378	537,384
Net income	\$ 556,039	\$ 600,130	\$ 741,977

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

CONDENSED STATEMENTS OF CASH FLOWS

	Years Ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net income	\$ 556,039	\$ 600,130	\$ 741,977
Adjustments to reconcile net income to net cash provided (used) by operating activities			
Equity in undistributed earnings of subsidiaries	(348,633)	(388,378)	(537,384)
Total adjustments	(348,633)	(388,378)	(537,384)
Net cash provided (used) by operating activities	207,406	211,752	204,593
Cash flows from financing activities			
Purchases of treasury stock	(57,746)	(2,190)	-
Cash dividends paid	(183,980)	(184,438)	(184,453)
Net cash provided (used) by financing activities	(241,726)	(186,628)	(184,453)
Net increase (decrease) in cash and cash equivalents	(34,320)	25,124	20,140
Cash and cash equivalents at beginning of year	93,601	68,477	48,337
Cash and cash equivalents at end of year	\$ 59,281	\$ 93,601	\$ 68,477

Principal sources of income for the Bancorp are dividends received from its Subsidiaries. State law imposes limitations on the payment of dividends by the Subsidiary Bank of the Bancorp. A dividend may not be paid if the total of all dividends declared by a bank in any calendar year is in excess of the current year's net profits combined with the retained net profits of the two preceding years unless the bank obtains regulatory approval.

Loans and extensions of credit must be secured in specified amounts. The Bancorp had no borrowings outstanding from its Subsidiary Bank as of December 31, 2023.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 22 - CONDENSED FINANCIAL INFORMATION - PARENT COMPANY ONLY (Continued)

The Bancorp accounts for its investments in its Subsidiaries by the equity method. During the years ended December 31, 2023, 2022, and 2021, changes in the investments were as follows:

	West Central Insurance, LLC	First Neighborhood Bank, Inc.
Percent to total shares	100%	100%
Balance at December 31, 2020	\$ 46,610	\$ 16,495,490
Add (deduct)		
Equity in net income	30,140	721,837
Equity in other comprehensive income (loss)	-	(605,913)
Dividends declared	(30,140)	(184,453)
Balance at December 31, 2021	46,610	16,426,961
Add (deduct)		
Equity in net income	27,339	572,816
Equity in other comprehensive income (loss)	-	(5,285,523)
Dividends declared	(27,339)	(184,438)
Balance at December 31, 2022	46,610	11,529,816
Add (deduct)		
Equity in net income	23,476	532,614
Equity in other comprehensive income (loss)	-	908,573
Dividends declared	(23,476)	(183,981)
Balance at December 31, 2023	\$ 46,610	\$ 12,787,022

SUPPLEMENTARY INFORMATION

INDEPENDENT AUDITOR'S REPORT ON
CONSOLIDATING INFORMATION

To the Board of Directors
West-Central Bancorp, Inc. and Subsidiaries
Spencer, West Virginia

We have audited the consolidated financial statements of West-Central Bancorp, Inc. and its Subsidiaries as of and for the year ended December 31, 2023, and our report thereon dated February 22, 2024, which expressed an unmodified opinion on those consolidated financial statements, appears on pages 3 and 4. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, results of operations, and cash flows of the individual entities, and it is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Suttle & Stalnaker, PLLC

Charleston, West Virginia
February 22, 2024

The Virginia Center
1411 Virginia Street, East
Suite 100
Charleston, WV 25301

MAIN (304) 343-4126
FAX (304) 343-8008

The Rivers Office Park
200 Star Avenue
Suite 220
Parkersburg, WV 26101

MAIN (304) 485-6584
FAX (304) 485-0971

Suncrest Towne Centre
453 Suncrest Towne Centre Drive
Suite 201
Morgantown, WV 26505

MAIN (304) 554-3371
FAX (304) 554-3410

The Somerville Building
501 5th Avenue
Suite 1
Huntington, WV 25701

MAIN (304) 525-0301
FAX (304) 522-1569

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATING BALANCE SHEET
DECEMBER 31, 2023

	West-Central Bancorp, Inc.	First Neighborhood Bank, Inc.	West Central Insurance, LLC	Consolidating Eliminations	Consolidated Totals
ASSETS					
Cash and due from banks	\$ 59,281	\$ 3,111,504	\$ -	\$ (59,281)	\$ 3,111,504
Interest-earning deposits in other banks	-	430,334	-	-	430,334
Cash and cash equivalents	59,281	3,541,838	-	(59,281)	3,541,838
Time deposits	-	2,000,000	-	-	2,000,000
Investment securities					
Debt securities available-for-sale, at fair value	-	49,108,248	-	-	49,108,248
Other securities	-	79,800	-	-	79,800
Investment in subsidiaries	12,833,632	-	-	(12,833,632)	-
Loans	-	88,426,195	-	-	88,426,195
Less: allowance for credit losses	-	(1,092,991)	-	-	(1,092,991)
Loans - net	-	87,333,204	-	-	87,333,204
Accrued interest receivable	-	419,062	-	-	419,062
Premises and equipment - net	-	2,841,526	-	-	2,841,526
Operating lease right-of-use assets	-	53,883	-	-	53,883
Other real estate owned	-	725,000	-	-	725,000
Cash surrender value - bank owned life insurance	-	3,493,516	-	-	3,493,516
Deferred income taxes	-	2,090,185	-	-	2,090,185
Other assets	-	202,965	46,610	-	249,575
Total assets	\$ 12,892,913	\$ 151,889,227	\$ 46,610	\$ (12,892,913)	\$ 151,935,837
LIABILITIES AND SHAREHOLDERS' EQUITY					
Deposits					
Demand - noninterest-bearing	\$ -	\$ 48,161,274	\$ -	\$ (59,281)	\$ 48,101,993
Demand - interest-bearing	-	23,377,148	-	-	23,377,148
Savings	-	19,937,924	-	-	19,937,924
Time	-	45,882,065	-	-	45,882,065
Total deposits	-	137,358,411	-	(59,281)	137,299,130
Advance payments from borrowers for taxes and insurance	-	120,693	-	-	120,693
Federal funds purchased	-	225,000	-	-	225,000
Accrued interest payable	-	136,428	-	-	136,428
Operating lease liabilities	-	53,883	-	-	53,883
Other liabilities	-	1,207,790	-	-	1,207,790
Total liabilities	-	139,102,205	-	(59,281)	139,042,924
Shareholders' equity					
Common stock	350,860	545,669	-	(545,669)	350,860
Additional paid in capital	1,597,246	1,500,000	-	(1,500,000)	1,597,246
Retained earnings	19,740,174	15,268,705	46,610	(15,315,315)	19,740,174
Less: treasury stock, at cost	(4,268,015)	-	-	-	(4,268,015)
Accumulated other comprehensive income (loss)	(4,527,352)	(4,527,352)	-	4,527,352	(4,527,352)
Total shareholders' equity	12,892,913	12,787,022	46,610	(12,833,632)	12,892,913
Total liabilities and shareholders' equity	\$ 12,892,913	\$ 151,889,227	\$ 46,610	\$ (12,892,913)	\$ 151,935,837

Refer to the auditor's report on consolidating information.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF INCOME
YEAR ENDED DECEMBER 31, 2023

	West-Central Bancorp, Inc.	First Neighborhood Bank, Inc.	West Central Insurance, LLC	Consolidating Eliminations	Consolidated Totals
Interest income					
Interest and fees on loans	\$ -	\$ 4,319,708	\$ -	\$ -	\$ 4,319,708
Interest on deposits in other banks	-	101,328	-	-	101,328
Interest on federal funds sold	-	118,284	-	-	118,284
Interest and dividends on investment securities	-	875,290	-	-	875,290
Total interest income	-	5,414,610	-	-	5,414,610
Interest expense					
Interest on deposits	-	1,028,147	-	-	1,028,147
Interest on federal funds purchased	-	11,646	-	-	11,646
Total interest expense	-	1,039,793	-	-	1,039,793
Net interest income	-	4,374,817	-	-	4,374,817
Credit loss expense - loans	-	1,400	-	-	1,400
Net interest income after credit loss expense	-	4,373,417	-	-	4,373,417
Noninterest income					
Service charges and fees	-	533,271	-	-	533,271
Increase in cash surrender value - bank owned life insurance	-	53,374	-	-	53,374
Net realized gains (losses) from sales of investment debt securities available-for-sale	-	32,851	-	-	32,851
Dividend income from subsidiaries	207,457	-	-	(207,457)	-
Equity in undistributed earnings of subsidiaries	348,633	-	-	(348,633)	-
Other income	-	52,291	23,476	-	75,767
Total noninterest income	556,090	671,787	23,476	(556,090)	695,263
Noninterest expense					
General and administrative					
Compensation and benefits	-	2,061,162	-	-	2,061,162
Occupancy and equipment	-	714,849	-	-	714,849
FDIC assessment	-	68,500	-	-	68,500
Data processing	-	545,766	-	-	545,766
Other expenses	51	1,033,050	-	-	1,033,101
Total noninterest expense	51	4,423,327	-	-	4,423,378
Income before income tax expense	556,039	621,877	23,476	(556,090)	645,302
Income tax expense	-	89,263	-	-	89,263
Net income	\$ 556,039	\$ 532,614	\$ 23,476	\$ (556,090)	\$ 556,039

Refer to the auditor's report on consolidating information.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023

	West-Central Bancorp, Inc.	First Neighborhood Bank, Inc.	West Central Insurance, LLC	Consolidating Eliminations	Consolidated Totals
Cash flows from operating activities					
Net income	\$ 556,039	\$ 532,614	\$ 23,476	\$ (556,090)	\$ 556,039
Adjustments to reconcile net income to net cash provided (used) by operating activities					
Equity in undistributed earnings of subsidiaries	(348,633)	-	-	348,633	-
Depreciation	-	200,688	-	-	200,688
Credit loss expense	-	1,400	-	-	1,400
Provision for deferred income tax	-	35,095	-	-	35,095
Amortizations (accretions) on investment securities - net	-	177,171	-	-	177,171
Realized net (gains) losses from sales of investment debt securities available-for-sale	-	(32,851)	-	-	(32,851)
Amortization of deferred gain on sale-leaseback transaction	-	(33,756)	-	-	(33,756)
(Increase) decrease in accrued interest receivable	-	6,899	-	-	6,899
(Increase) decrease in cash surrender value - bank owned life insurance	-	(53,374)	-	-	(53,374)
(Increase) decrease in other assets	-	(195,717)	-	-	(195,717)
(Increase) decrease in right-of-use operating lease asset	-	106,930	-	-	106,930
Increase (decrease) in accrued interest payable	-	115,466	-	-	115,466
Increase (decrease) in other liabilities	-	56,722	-	-	56,722
Increase (decrease) in operating lease liabilities	-	(106,930)	-	-	(106,930)
Total adjustments	(348,633)	277,743	-	348,633	277,743
Net cash provided (used) by operating activities	207,406	810,357	23,476	(207,457)	833,782
Cash flows from investing activities					
Net (increase) decrease in time deposits	-	750,000	-	-	750,000
Proceeds from maturities and calls of investment debt securities available-for-sale	-	3,154,598	-	-	3,154,598
Proceeds from principle payments on investment debt securities available-for-sale	-	702,573	-	-	702,573
Purchases of Federal Home Loan Bank stock	-	(11,500)	-	-	(11,500)
Net (increase) decrease in loans	-	(2,660,161)	-	-	(2,660,161)
Capital expenditures	-	(48,597)	-	-	(48,597)
Net cash provided (used) by investing activities	-	1,886,913	-	-	1,886,913

Refer to the auditor's report on consolidating information.

WEST-CENTRAL BANCORP, INC. AND SUBSIDIARIES
CONSOLIDATING STATEMENT OF CASH FLOWS
YEAR ENDED DECEMBER 31, 2023
(Continued)

	West-Central Bancorp, Inc.	First Neighborhood Bank, Inc.	West Central Insurance, LLC	Consolidating Eliminations	Consolidated Totals
Cash flows from financing activities					
Net increase (decrease) in total deposits	-	(12,691,409)	-	34,320	(12,657,089)
Net increase (decrease) in advance payments from borrowers for taxes and insurance	-	13,934	-	-	13,934
Net increase (decrease) in short-term borrowings	-	225,000	-	-	225,000
Purchases of treasury stock	(57,746)	-	-	-	(57,746)
Cash dividends paid	(183,980)	(183,981)	(23,476)	207,457	(183,980)
Net cash provided (used) by financing activities	(241,726)	(12,636,456)	(23,476)	241,777	(12,659,881)
Net increase (decrease) in cash and cash equivalents	(34,320)	(9,939,186)	-	34,320	(9,939,186)
Cash and cash equivalents at beginning of year	93,601	13,481,024	-	(93,601)	13,481,024
Cash and cash equivalents at end of year	\$ 59,281	\$ 3,541,838	\$ -	\$ (59,281)	\$ 3,541,838
Supplemental disclosure of cash flows information					
Cash paid during the year for					
Interest	\$ -	\$ 924,327	\$ -	\$ -	\$ 924,327
Income taxes	\$ -	\$ 180,250	\$ -	\$ -	\$ 180,250

Refer to the auditor's report on consolidating information.