

July 15, 2022

Dear Shareholders and Friends, Ladies and Gentlemen,

We are pleased to present to you selected financial highlights of Huron Community Financial Services, Inc. (HCFSI) and Huron Community Bank (HCB) for the period ending June 30, 2022.

**HCFSI (In Thousands)**

Net Income for our holding company through June 30, 2022, was \$725 as compared to \$1,476 for the same period last year. Return on Average Equity was 5.40% and Return on Average Assets was 0.48% compared to 9.53% and 1.07% respectively on June 30, 2021. Book value of your common stock is \$37.44, Earnings per Share are \$1.23 and share-holder equity is \$21,895 on June 30, 2022 (See attached letter).

**HCB (In Thousands)**

Net Income through the end of the second quarter 2022 was \$763 compared to \$1,517 for the same period last year. June 30, 2022 Return on Average Equity was 6.11% with Return on Average Assets of 0.51% compared to 10.74% and 1.12% respectively on June 30, 2021. Total assets at the end of the second quarter were \$307,274 versus \$287,186 in 2021. Total loans ended the second quarter at \$137,092 while total deposits were \$271,524.

**Year to Date Financial Performance**

Second quarter results ran a smidge behind budget due to the end of PPP loan fee income, some commercial loan pay downs, and a slowdown in residential mortgage refinances. Currently our loan pipelines in Commercial, Agriculture, and Mortgages are strong. We expect to book significant loan volume in the third quarter. The expansion of our Agriculture lending has resulted in excellent opportunities both in our market and beyond. Farmers are excited to bank at HCB because of our expertise in agriculture and quick turnaround of their requests. We recently committed to change our core banking platform to Jack Henry & Associates. This decision will provide HCB significant improvements in the efficiency of our customer support, dependable service, and a robust product suite. The process will begin in August and continue into the first quarter of 2023. In addition, we have partnered with BankOnIT to transform our total IT function at HCB. This will provide enhanced efficiency with disaster recovery and information security along with state-of-the-art protection against daily cybersecurity threats and minimizing our institution's risk, both regulatory and strategic. These changes will save HCB money while at the same time evolving this important area of our company away from manual processes and old, unreliable systems. We expect to be YOUR Community Bank for many years to come! Despite the many challenges in today's world, this team at HCB is committed to providing you the service, growth, and return on your investment that you have come to expect. Thanks for your support!

**Cash Dividend Declared**

Your Board of Directors declared a cash dividend of \$0.41 per share to shareholders of record on July 5, 2022. This represents the 114th consecutive quarter in which a cash dividend has been paid to our shareholders. The dividend was paid on July 15, 2022. If you are not already enrolled in our dividend reinvestment program, I would encourage you to do so. It is a great way to increase investment in the bank!

Sincerely,

Robert J. (Bob) Thomas  
President & CEO



**HCFSI Consolidated Balance Sheet**  
(000's Omitted)

**HCFSI Consolidated Report of Income**  
(000's Omitted)

**Huron Community Bank**  
**Financial Highlights**

ASSETS	(Unaudited) 6/30/2022	(Unaudited) 6/30/2021	Six Months Ended	(Unaudited) 6/30/2022	(Unaudited) 6/30/2021	PROFITABILITY	(Unaudited) 6/30/2022	(Unaudited) 6/30/2021
Cash & Due From Banks	\$ 45,614	\$ 50,000	Interest on Loans	\$ 2,862	\$ 3,018	Net Income (In thousands)	\$ 763	\$ 1,517
Investment Securities	112,654	86,536	Interest on Investments	1,018	743	Return on Assets - YTD Annualized	0.51%	1.12%
Total Loans	137,092	141,133	<b>TOTAL INTEREST INCOME</b>	<b>3,879</b>	<b>3,761</b>	Return on Equity - YTD Annualized	<b>6.11%</b>	<b>10.74%</b>
Allowance for Loan Loss	(2,683)	(2,593)				Net Interest Margin - YTD Annualized	<b>2.60%</b>	<b>2.85%</b>
Net Loans	134,409	138,540	INTEREST EXPENSE	286	276			
Bank Premises & Equipment	2,611	2,944						
Accrued Interest Receivable	663	651	NET INTEREST INCOME	3,593	3,485			
Intangible Assets	405	405						
Other Assets	11,967	9,121	Fees on Loans	499	1,263			
			Other Income	510	722	SELECTED BALANCES (In Thousands)		
<b>TOTAL ASSETS</b>	<b>\$ 308,321</b>	<b>\$ 288,197</b>				Total Assets	\$ 307,274	\$ 287,186
			Total Other Operating Income	1,009	1,984	Total Loans	\$ 137,092	\$ 141,134
LIABILITIES & EQUITY			Salaries and Benefits (net)	2,173	1,922	Total Deposits	\$ 271,524	\$ 246,246
			Fixed Expense	489	491	Stockholder's Equity	\$ 19,634	\$ 29,187
Total Deposits	\$ 270,283	\$ 245,003	Variable Expense	1,263	1,218			
Repurchase Agreements	6,689	7,790	Loan Loss Provision	0	90			
FHLB/FRB Borrowings	8,000	3,000	Loss (Gain) on Assets	(120)	5			
Other Liabilities	1,455	955						
			Other Operating Expense	3,806	3,726			
<b>TOTAL LIABILITIES</b>	<b>286,426</b>	<b>256,748</b>						
			NET INCOME BEFORE INCOME TAXES	796	1,743			
Common Stock	585	590	FEDERAL INCOME TAXES	71	267			
Surplus	18,667	19,188						
Retained Earnings	10,714	10,518	NET INCOME	\$ 725	\$ 1,476			
Unrealized Gain(Loss) Inv. Sec. AFS	(8,071)	1,152						
			Basic Earnings Per Share	\$ 1.23	\$ 2.51			
<b>TOTAL SHAREHOLDERS EQUITY</b>	<b>21,895</b>	<b>31,449</b>	Book Value Per Share	\$ 37.44	\$ 53.30			
			Cash Dividends Declared Per Share	\$ 0.82	\$ 0.82			
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 308,321</b>	<b>\$ 288,197</b>						

**HURON COMMUNITY FINANCIAL SERVICES, INC.**

**BOARD OF DIRECTORS**

Alan J. Stephenson, Chairman  
Wayne D. Bigelow, Vice Chairman  
David H. Cook  
Matthew W. Buresh  
Gary J. Thibault  
Larry J. Richardson  
Robert J. Thomas  
Brenden A. Stephenson

**DIRECTORS EMERITUS**

Earl T. O'Loughlin  
Monty L. Kruttlin  
Robert M. Beneson  
Thomas B. Huck  
Mark D. Elliott

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July 15, 2022

Dear Shareholders and Friends;

Generally Accepted Accounting Principles (GAAP) Accounting Standard 115 requires debt and equity securities, owned by banks and classified as available-for-sale securities, to be reported at fair value, therefore, the fair value of our investment portfolio must be adjusted. The fair value of the investment portfolio moves in the opposite direction of rates. When rates are low, the fair value of the portfolio increases and we see a market value adjustment to reflect this increase, as we saw in 2020 - 2021. However, as rates began to rise in 2022, the fair value of the investment portfolio becomes lower and we must make a market value adjustment to reflect this decrease.

GAAP reporting rules requires the market adjustment **to be excluded from earnings** and is reported as a separate component of shareholders equity as an Unrealized Gain or Loss. These adjustments are **NOT** an increase or reduction in equity or a gain or loss of value within the company, but an accounting entry to balance the market adjustment on the balance sheet. As these securities mature, the Unrealized Gain or Loss adjustment disappears.

These GAAP adjustments in **NO WAY** affects any of the bank's regulatory ratios, the strength of the bank, or the **EQUITY OF THE SHAREHOLDERS**. This does **NOT** affect the share price of the stock or the value of shares owned by any shareholder. **This is just an accounting entry reflecting the timing difference between rates moving up or down and the maturity of these securities.**

This is a temporary position as the investment portfolio is constantly maturing, and as time passes, rates will again fall due to rates being cyclical. These events will require the fair value of the portfolio to again be adjusted using GAAP

standards to reflect this. As this occurs, the fair value of the portfolio will again increase and will also be reflected as a component of shareholder equity.

The 2<sup>nd</sup> quarter financial report is included with this letter. As can be seen, the aforementioned GAAP rules require an adjustment to the fair value of our securities portfolio represented by an Unrealized Loss in the equity section of the balance sheet. This resulted in an accounting adjustment in assets, book value and shareholder equity.

As reported, according to GAAP rules, total consolidated assets as of June 30, 2022 and June 30, 2021 are \$308,321,000 and \$288,197,000, respectively; total shareholder equity is \$21,895,000 and \$31,449,000, respectively; and book value per share is \$37.44 and \$53.30, respectively.

However, when backing out this accounting adjustment for comparison, our unadjusted total consolidated assets are \$316,392,000 and \$287,045,000, respectively; our unadjusted shareholder equity is \$29,966,000 and \$30,297,000, respectively; and our unadjusted book value per share is \$51.24 and \$51.35, respectively. This clearly shows the shareholder equity and book value per share has remained rather steady throughout the past two years.

Should you have any questions concerning these adjustments, or any other questions, feel free to contact either of us at any time. As always, we welcome your comments and appreciate your continued support.

Sincerely,



Robert J. (Bob) Thomas  
President & CEO



David M. Gottleber  
VP & Chief Financial Officer