

# HURON COMMUNITY FINANCIAL SERVICES, INC.

HOLDING COMPANY FOR



# HURON COMMUNITY BANK

301 Newman Street  
East Tawas, Michigan 48730  
Phone (989) 362-6700

COMMON STOCK  
\$5,000,000 per each 12  
month period

(aggregated with all other offerings made pursuant to Section 3(b) of the  
Securities Act of 1933, as amended)

FOR SALE PURSUANT TO THE HURON COMMUNITY FINANCIAL SERVICES, INC.  
AUTOMATIC DIVIDEND REINVESTMENT PLAN

Huron Community Financial Services, Inc. (the “Company”) hereby offers for sale up to \$5,000,000 of its common stock (the “Common Stock”) every 12 months to residents of the States of Michigan and Florida, pursuant to the Company’s Automatic Dividend Reinvestment Plan.

**THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION DOES NOT PASS UPON THE MERITS OF OR GIVE ITS APPROVAL TO ANY SECURITIES OFFERED OR THE TERMS OF THE OFFERING, NOR DOES IT PASS UPON THE ACCURACY OR COMPLETENESS OF ANY OFFERING CIRCULAR OR OTHER SELLING LITERATURE. THESE SECURITIES ARE OFFERED PURSUANT TO AN EXEMPTION FROM REGISTRATION WITH THE COMMISSION; HOWEVER, THE COMMISSION HAS NOT MADE AN INDEPENDENT DETERMINATION THAT THE SECURITIES OFFERED HEREUNDER ARE EXEMPT FROM REGISTRATION.**

The securities offered hereby involve a high degree of risk. See “**Risk Factors**” on page 3 for certain items you should consider prior to making an investment in the Common Stock. This Offering made on a “best efforts - no minimum” basis and has no fixed termination date. No proceeds raised pursuant to this offering will be held in escrow or in trust pending the termination of the Offering.

The Date of This Offering Circular is April 15, 2024.

THE SECURITIES OFFERED HEREBY ARE NOT SAVINGS ACCOUNTS, DEPOSITS OR OTHER OBLIGATIONS OF A BANK OR SAVINGS ASSOCIATION AND ARE NOT INSURED BY THE FEDERAL DEPOSIT INSURANCE CORPORATION, THE DEPOSIT INSURANCE FUND OR ANY OTHER GOVERNMENT AGENCY.

THE SECURITIES OFFERED HEREBY INVOLVE A HIGH DEGREE OF RISK. THERE IS NO ASSURANCE THAT OUR OPERATIONS WILL BE PROFITABLE OR THAT LOSSES WILL NOT OCCUR. INVESTORS SHOULD NOT INVEST ANY FUNDS IN THIS OFFERING UNLESS THEY CAN AFFORD TO LOSE THEIR ENTIRE INVESTMENT. IN MAKING AN INVESTMENT DECISION INVESTORS MUST RELY ON THEIR OWN EXAMINATION OF THE ISSUER AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THESE SECURITIES HAVE NOT BEEN RECOMMENDED OR APPROVED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THESE AUTHORITIES HAVE NOT PASSED UPON THE ACCURACY OR ADEQUACY OF THIS DOCUMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

NO BROKER-DEALER, SALESMAN, AGENT OR ANY OTHER PERSON HAS BEEN AUTHORIZED TO GIVE ANY INFORMATION OR TO MAKE ANY REPRESENTATIONS IN CONNECTION WITH THE OFFERING HEREBY MADE OTHER THAN THOSE CONTAINED IN THIS OFFERING CIRCULAR OR EFFECTIVE LITERATURE.

THIS IS A BEST EFFORTS OFFERING, AND THE ISSUER HAS THE EXCLUSIVE RIGHT TO SELECT POTENTIAL OFFEREEES UNDER THE OFFERING. ONLY THOSE SHAREHOLDERS RESIDING IN THE STATES OF MICHIGAN AND FLORIDA ARE PERMITTED TO PARTICIPATE IN THE OFFERING AT THIS TIME. THE ISSUER RESERVES THE RIGHT TO ACCEPT OR REJECT ANY SUBSCRIPTION AND WILL PROMPTLY NOTIFY THE SUBSCRIBER OF ACCEPTANCE OR REJECTION. THERE IS NO ASSURANCE THAT THIS OFFERING WILL BE FULLY SUBSCRIBED, AND THE ISSUER HAS NO INTENTION OF RETURNING ANY FUNDS RELATED TO ACCEPTED SUBSCRIPTIONS. THE ISSUER ALSO RESERVES THE RIGHT TO WITHDRAW OR CANCEL THE OFFERING AT ANY TIME WITHOUT NOTICE.

THE OFFERING PRICE HAS BEEN ARBITRARILY SELECTED BY THE ISSUER. THERE IS NO ESTABLISHED SECONDARY TRADING MARKET FOR THESE SECURITIES, AND LITTLE LIKELIHOOD OF SUCH A MARKET DEVELOPING IN THE NEAR FUTURE. UNLESS A MARKET IS ESTABLISHED, PURCHASERS MIGHT NOT BE ABLE TO SELL THEIR SECURITIES. MOREOVER, THE SECURITIES OFFERED HEREBY ARE NOT FREELY TRANSFERABLE BECAUSE SUCH SECURITIES ARE SUBJECT TO CERTAIN RIGHTS OF REFUSAL GRANTED TO THE COMPANY UNDER THE COMPANY'S RESTATED ARTICLES OF INCORPORATION. A LEGEND INDICATING THIS RESTRICTION ON TRANSFER HAS BEEN PLACED ON ALL OUTSTANDING CERTIFICATES EVIDENCING SUCH SECURITIES. AS A RESULT OF THE FOREGOING RESTRICTIONS, PURCHASERS OF THESE SECURITIES SHOULD INTEND TO HOLD THEIR INVESTMENT FOR AN EXTENDED PERIOD AND BE ABLE TO WITHSTAND THE TOTAL LOSS OF THEIR INVESTMENT.

## SUMMARY OF THE OFFERING CIRCULAR

The following summarizes certain information contained elsewhere in this Offering Circular. You should read this summary only in conjunction with the complete text of this Offering Circular and its Exhibits.

### **The Company and the Bank**

The Company, a registered financial holding company, conducts all of its business activities through its sole wholly-owned bank subsidiary, Huron Community Bank (the “Bank”). Since 1927, the Bank has been a community bank. It now serves Tawas City, East Tawas, Lincoln, Oscoda, AuGres, Harrisville, West Branch, and Rose City, Michigan.

### **The Offering**

<b>Securities Offered</b>	Up to \$5,000,000 of shares of the Company’s Common Stock per each 12 month period, subject to aggregation with all other sales made by the Company during the period pursuant to an exemption under Section 3(b)(1) of the Securities Act of 1933.
<b>Offering Price</b>	The Company’s Board of Directors, in its absolute discretion, has established the offering price of \$60.00 per share, which offering price may not represent the fair market value of the Shares. See “The Offering.”
<b>Common Stock Outstanding</b>	551,316 shares as of April 1, 2024.
<b>Restrictions on Transfer</b>	The Shares will be subject to the Company’s right of first refusal granted under the Company’s Restated Articles of Incorporation and will bear legends to that effect.
<b>Plan of Distribution</b>	The Shares are being offered on a “best efforts, no minimum” basis to existing shareholders residing in the States of Michigan and Florida under the Company’s Automatic Dividend Reinvestment Plan (the “Plan”). This offering is being made pursuant to a claim of exemption from registration under the Federal securities laws pursuant to Section 3(b)(1) of the Securities Act of 1933, as amended (the “Securities Act”) and Rule 504 of Regulation D thereunder. See “The Offering.”

## **Risk Factors**

An investment in the securities hereby offered is speculative and involves a high degree of risk, including risks related to the Company's stock and risks associated with the Company's business. The several risk factors discussed in this Offering Circular, along with the other matters discussed in this Offering Circular, should be considered in making an investment decision. See "Risk Factors."

## **Use of Proceeds**

While the Company has no specific plans for the investment of the proceeds of this Offering, it anticipates that the majority of the net proceeds will be used to further capitalize the Bank in order to fund its general corporate purposes, including, but not necessarily limited to, the continued support of residential and commercial lending activity in the communities it serves. See "Use of Proceeds."

## **RISK FACTORS**

An investment in the Company's common stock is subject to risks inherent to the Company's business. Described below are certain risks and uncertainties that management has identified as material. Before making an investment decision, investors should carefully consider the risks and uncertainties described below together with all the other information included in this offering document.

If any of the following risks actually occur, the Company's financial condition and results of operations could be materially and adversely affected. If this were to happen, the value of the Company's common stock could decline significantly, and investors would lose all or part of their investment.

### **Risks Related to the Company's Stock**

*No Public Market.* There is no public market for the Common Stock and it is not likely that a public market will develop in the foreseeable future. Consequently, the Company cannot make any assurances as to the liquidity, marketability or price stability of the Common Stock.

*Limited Transferability.* The Common Stock is subject to a significant restriction on transferability contained in the Restated Articles of Incorporation of the Company, which gives the Company a right of first refusal in respect of any proposed sale or transfer of the Common Stock. For more information regarding this restriction, see "Description of Capital Stock - Limited Transferability of Capital Stock." Since the shares will not be freely transferable, they should be acquired for investment purposes only and not with a view toward transfer or resale.

*Offering Price.* The Company in its discretion has established the offering price of \$60.00 per share. Although the offering price per share is based in part on a valuation of the Common Stock as of December 31, 2023, the offering price per share has no direct relationship to earnings or any other independently established "market price" for the Common Stock. Consequently, the offering price may not reflect the actual fair market value of the Company's Common Stock.

*Dividend Restrictions.* We are dependent primarily upon the earnings of the Bank for funds to pay dividends on the Common Stock. The payment of dividends by us is also subject to regulatory restrictions. As a result, any payment of dividends in the future will be dependent, in large part, on our ability to satisfy these regulatory restrictions and our subsidiaries' earnings, capital requirements, financial condition and other factors. Although our financial earnings and financial condition have allowed us to declare and pay regular cash dividends to our shareholders, there can be no assurance that

our dividend policy or size of dividend distribution will continue in the future. Our failure to pay dividends on the Common Stock could have a material adverse effect on the value of the Common Stock.

*Anti-Takeover Measures.* The Restated Articles contain provisions that could discourage the acquisition of control of the Company without the support of the Board of Directors of the Company. The number of shares of Common Stock now or in the future held by the management of the Company and the Bank may have a similar effect. These factors may impede the takeover of the Company without the approval of the Board of Directors of the Company, may result in the Company being less attractive to potential acquirer's and may result in stockholders receiving less for their shares than otherwise might be available.

## **Risks Related to the Company's Business**

*Economic Risk.* The Company's success depends significantly on the general economic conditions of the State of Michigan. Unlike larger regional or national banks that are more geographically diversified, the Company provides banking and financial services to customers primarily in Northeast Michigan. The local economic conditions in these areas have a significant impact on the demand for the Company's products and services as well as the ability of the Company's customers to repay loans, the value of the collateral securing loans, and the stability of the Company's deposit funding sources.

The Company's primary markets experienced a significant economic downturn during the "great recession" that started in 2007, spurred in some measure by the collapse of the U.S. automobile industry and exacerbated by the overall turmoil in the financial services sector. As a consequence of the U.S. recession, businesses across a wide range of industries faced serious difficulties due to the lack of consumer spending and the lack of liquidity in the global credit markets. Unemployment also increased significantly. While the broader U.S. economy has been in a sustained recovery since 2009, there continues to be some weakness in business and economic conditions in the markets in which we do business. These conditions could adversely affect our businesses by, among other things, decreasing the demand for loans and other products and services that we offer, and increasing the number of borrowers who become delinquent, file for protection under bankruptcy laws or default on their loans or other obligations to us.

*Market volatility.* Over the past few years, the capital and credit markets have been experiencing volatility and disruption. In some cases, the markets have produced downward pressure on stock prices and credit availability for certain borrowers without regard to their underlying financial strength. If such levels of market disruption and volatility continue or worsen, there can be no assurance that we will not experience an adverse effect, which may be material, on our businesses, financial condition and results of operations.

*Lending Risk.* There are inherent risks associated with the Company's lending activities. These risks include, among other things, the impact of changes in interest rates and changes in economic conditions in the markets where the Company operates as well as those across the State of Michigan and the United States. Increases in interest rates and/or weakening economic conditions could adversely impact the ability of borrowers to repay outstanding loans or the value of the collateral securing these loans. The Company is also subject to various laws and regulations that affect its lending activities. Failure to comply with applicable laws and regulations could subject the Company to regulatory enforcement action that could result in the assessment of significant civil money penalties against the Company.

The primary focus of the Bank is centered on commercial business loans which generally involve somewhat greater risk than residential mortgage loans. Commercial business loans may be unsecured or secured by special purpose or rapidly depreciating assets, such as equipment, inventory and receivables,

which may not provide an adequate source of repayment on defaulted loans. In addition, commercial business loans are dependent on the borrower's continuing financial strength and management ability, as well as market conditions for various products, services and commodities. For these reasons, commercial business loans generally provide higher yields than residential loans but also require more administrative and management attention. Loan terms, including the fixed or adjustable interest rate, the loan maturity and the collateral considerations, vary significantly and are often negotiated on an individual loan basis.

A significant portion of the Bank's loan portfolio is also secured by one-to-four family residential real estate. These types of loans have historically been viewed as lower risk of default than commercial and industrial or consumer loans. Recent market declines in values of both residential and commercial properties have elevated the risks for loans secured by real estate. An increase in non-performing loans could result in a net loss of earnings from these loans, an increase in the provision for loan losses, and an increase in loan charge-offs, all of which could have a material adverse effect on the Company's financial condition and results of operations.

The Company maintains an Allowance for Credit Losses (the "Allowance"), which is a reserve established through a provision for loan losses charged to expense, that represents Management's best estimate of probable loan losses that have been incurred within the existing portfolio of loans. The Allowance, in the judgment of Management, is necessary to reserve for estimated loan losses and risks inherent in the loan portfolio. The level of the Allowance reflects Management's continuing evaluation of loan loss experience, current loan portfolio quality, present economic, political, and regulatory conditions, and unidentified losses inherent in the current loan portfolio. The determination of the appropriate level of the Allowance inherently involves a high degree of subjectivity and requires the Company to make significant estimates of current credit risks and future trends, all of which may undergo material changes. Changes in economic conditions affecting borrowers, new information regarding existing loans, identification of additional problem loans, and other factors, both within and outside of the Company's control, may require an increase in the Allowance. In addition, bank regulatory agencies periodically review the Company's Allowance and may require an increase in the provision for loan losses or the recognition of further loan charge-offs, based on judgments different from those of management.

*Interest Rate Risk.* The Company's earnings and cash flows are largely dependent upon its net interest income. Net interest income is the difference between interest earned on interest earning assets such as loans and securities and interest paid on interest bearing liabilities such as deposits and borrowings. Interest rates are highly sensitive to many factors that are beyond the Company's control, including general economic and market conditions and policies of various governmental and regulatory agencies and, in particular, the Board of Governors of the Federal Reserve System. Changes in monetary policy, including changes in interest rates, could influence not only the interest the Company receives on loans and investment securities and the amount of interest it pays on deposits and borrowings, but such changes could also affect the Company's ability to originate loans and obtain deposits and the fair values of the Company's financial assets and liabilities. If the interest rates paid on deposits and other borrowings increase at a faster rate or decrease at a slower rate than the interest rates received on loans and investments, the Company's net interest income, and therefore earnings, could be adversely affected.

Although management believes it has implemented effective asset and liability management strategies to reduce the potential effects of changes in interest rates on the Company's results of operations, any substantial, unexpected, or prolonged change in market interest rates or in the term structure of interest rates could have a material adverse effect on the Company's financial condition and results of operations.

*Regulatory Risk.* The Company is subject to extensive federal and state regulation and supervision primarily intended to protect depositors' funds, federal deposit insurance funds, and the banking system as a whole. These regulations affect the Company's lending practices, capital structure, investment practices, dividend policy, and growth, among other things. Congress and federal regulatory agencies continually review banking laws, regulations, and policies for possible changes. Changes to statutes, regulations, or regulatory policies, including changes in interpretation or implementation of statutes, regulations, or policies, could affect the Company in substantial and unpredictable ways. Such changes could subject the Company to additional costs, limit the types of financial services and products the Company may offer and/or increase the ability of non-banks to offer competing financial products and services, among other things. Failure to comply with laws, regulations, or policies could result in sanctions by regulatory agencies, civil money penalties, and/or reputation damage, which could have a material adverse effect on the Company's business, financial condition, and results of operations. While the Company has policies and procedures designed to prevent any such violations, there can be no assurance that such violations will not occur.

During the great recession, there was a meaningful deterioration of the worldwide credit markets, which created significant challenges for financial institutions both in the United States and around the world. Dramatic declines in the housing market, marked by falling home prices and increasing levels of mortgage foreclosures, caused significant write-downs of asset values by financial institutions, including government-sponsored entities and major commercial and investment banks. The United States Government instituted a number of programs designed to increase credit availability, provide liquidity during the crisis and stabilize the banking system, some of which have started to be reversed. However, there may be additional governmental reform legislation enacted to provide greater supervision and regulation of the banking and financial service industry over the coming years. It is impossible to predict how these possible reforms may affect our ability to implement our business plans. These actions are intended to stabilize and improve the financial condition, risk profile, and capital adequacy of the industry and such financial institutions, but there can be no assurances that such actions will have the intended effects.

*FDIC insurance premiums.* The FDIC insures deposits held by FDIC-insured financial institutions, including the Bank. The FDIC charges the insured financial institutions premiums to maintain the Deposit Insurance Fund at a certain level. During the great recession, there were increased bank failures, which caused the FDIC to increase insurance premium rates and impose special assessments designed to rebuild the Deposit Insurance Fund and help maintain public confidence in the banking system. The FDIC also revised the risk-based formula used to determine the premiums due from financial institution under the insurance program. Those increases and assessments increased the Company's insurance expense, which in turn negatively affected our net income. However, recently the Deposit Insurance Fund has recovered and been strengthened and the deposit premiums have been reduced and, in some cases, resulted in refunds of premium payments. A reversal of this trend and additional premium increases or special assessments could increase the Company's insurance expense going forward.

*Competition.* The banking business is highly competitive. The Company competes with other commercial banks, savings and loan associations, credit unions, mortgage banking companies, securities brokerage companies, insurance companies, and money market mutual funds operating in Michigan and elsewhere. Many of these competitors have substantially greater resources and lending limits than the Company and offer certain services that the Company does not currently provide. In addition, non-depository institution competitors are generally not subject to the extensive regulation applicable to both the Company and the Bank.

*Failure or Circumvention of Controls and Procedures.* Management regularly reviews and updates the Company's internal controls and corporate governance policies and procedures. Any system

of controls, however well designed and operated, is based in part on certain assumptions and can provide only reasonable, not absolute, assurances that the objectives of the system are met. Any failure or circumvention of the Company's controls and procedures or failure to comply with regulations related to controls and procedures could have a material adverse effect on the Company's business, results of operations, and financial condition.

*Attraction and Retention of Key Personnel.* Our success depends upon the continued service of our senior management team and upon our ability to attract and retain qualified financial services personnel. Competition for qualified employees is intense. We cannot assure you that we will be able to retain our existing key personnel or attract additional qualified personnel. If we lose the services of our key personnel, or are unable to attract additional qualified personnel, our business, financial condition and results of operations could be adversely affected.

*Cautionary Statement Regarding "Forward-Looking" Information.* This offering circular may include statements regarding our business and prospects, such as projections of future performance, statements of management's plans and objectives, forecasts of market trends, and other matters that are forward-looking statements. Statements containing the words or phrases "will likely result," "are expected to," "will continue," "is anticipated," "estimates," "projects," "believes," "expects," "anticipates," "intends," "target," "goal," "plans," "objective," "should" (or any similar expressions) identify forward-looking statements.

Our future results, including results related to forward-looking statements, involve a number of risks and uncertainties. No assurance can be given that the results reflected in any forward-looking statements will be achieved. Our forward-looking statements are based upon assumptions that are sometimes based upon estimates, data, communications and other information from suppliers, government agencies and other sources that may be subject to revision. Further, any forward-looking statement speaks only as of the date on which it is made, and new factors emerge from time to time, and it is not possible for us to predict which factors will arise. In addition, we cannot assess the impact of each factor on our business or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those contained in any forward-looking statements.

## **DESCRIPTION OF THE COMPANY AND THE BANK**

### **General**

The Company is a registered financial holding company incorporated in Michigan in 1988. In early 1989, the Company purchased all of the issued and outstanding shares of capital stock of the Bank. All of the Company's traditional banking activities are conducted through the Bank, which was incorporated as a Michigan banking corporation in 1927 under the name "Peoples State Bank." Over the years, it has operated under the names "Michigan Bank - Huron" and, since 1989, "Huron Community Bank."

The Bank is a community bank serving Tawas City, East Tawas, Lincoln, Harrisville, Au Gres, Oscoda, West Branch, and Rose City, Michigan and surrounding areas. The Bank is engaged in the business of commercial banking and exercises the powers of a full-service commercial bank (with the exception of trust services), and offers automated teller machines, drive-through banking facilities and Saturday banking hours at most of the Bank's locations. At the present time, the Bank continues to concentrate its efforts on core bank activities such as growing its deposit base and making mortgage, consumer and commercial loans.

## **Business Activities**

*Loan Portfolio.* The Bank's primary lending focus is on commercial loans, particularly loans to small and medium sized businesses, but it also provides mortgage loans, home equity loans, installment loans, overdraft protection and credit cards. Despite its commercial lending focus, the Bank has also been one of the leading mortgage lenders in the Michigan Counties of Iosco and Alcona. The Bank does not engage in any sub-prime lending.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in the process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if principal or interest is considered doubtful. When a loan is placed in nonaccrual status, all accrued and unpaid interest is charged against interest income.

The Bank's Allowance for Credit Losses represents management's estimate of inherent credit losses in the Bank's loan portfolio. Because it is an estimate that is based on assumptions that are highly uncertain, if different assumptions were used or if any of the assumptions used were to change, there could be a material impact on the presentation of the Company's financial condition. These assumptions include, but are not limited to, collateral values and the effect of economic conditions on the financial condition of the borrowers. To determine the Allowance for Credit Losses, the Bank estimates losses on all loans that are not classified as non-accrual or renegotiated by applying historical loss rates to those loans. In addition, all loans that are nonaccrual or renegotiated are individually tested for impairment. Any amount of monetary impairment is included in the Allowance for Credit Losses on a loan by loan basis.

*Investment Portfolio.* The Bank maintains a conservative investment portfolio which includes agency bonds, investment-grade bonds, Federal Home Loan Bank stock, and Federal Reserve Bank stock.

*Deposits.* The Bank offers a full range of deposit products, including business checking, consumer checking, savings, certificate of deposit (to include jumbo CDs), individual retirement accounts, money market accounts and municipal investment accounts. The Bank's deposits are insured to the applicable limits by the Deposit Insurance Fund of the Federal Deposit Insurance Corporation (the "FDIC").

## **Market Area Information**

*General.* The Bank has its main office in East Tawas, Michigan approximately 115 miles north of Flint and operates seven branch offices in the Michigan Counties of Alcona, Arenac, Iosco, and Ogemaw Counties. The Bank owns all offices except West Branch which is leased. All locations have a drive-through facility except Harrisville and West Branch. The complete address of each of the Bank's banking offices is provided in the table below.

Office Address	City	Date Established
<b>Alcona County, Michigan</b>		
423 East Main Street	Harrisville	7/17/1998
327 Traverse Bay Road	Lincoln	6/16/1993
<b>Arenac County, Michigan</b>		
3150 East Huron Road, Sims Township	Au Gres	10/28/1985
<b>Iosco County, Michigan</b>		
301 Newman Street	East Tawas	6/14/1927
5077 North Huron Road	Oscoda Township	9/22/1975
410 Lake Street	Tawas City	4/7/1961
<b>Ogemaw County, Michigan</b>		
2210 South M-76	West Branch	7/24/2017
508 S. Bennett	Rose City	8/28/2023

## Competition

The Bank competes primarily with commercial banks, savings and loan associations, and credit unions located in and around its primary market area, but it also competes with other commercial banks, savings and loan associations, credit unions, mortgage banking companies, securities brokerage companies, insurance companies, and money market mutual funds operating in Michigan and elsewhere. Many of these competitors have substantially greater resources and lending limits than the Company and the Bank and offer certain services that the Company and the Bank do not currently provide.

## Employees

Currently, the only employees of the Company are its officers. As of April 1, 2024, the Bank had 62 full-time employees and 5 part-time employees. The Bank provides a number of benefits for its full-time employees, including health and life insurance, pensions, workers' compensation, social security, paid vacations, and numerous bank services.

## SUPERVISION AND REGULATION

Banking is a complex, highly regulated industry. Consequently, the growth and earnings performance of the Company and the Bank can be affected, not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. The effect of these statutes, regulations and policies and any changes to any of them can be significant and cannot be predicted.

Financial institutions and their holding companies are extensively regulated under federal and state law. Consequently, our growth and earnings performance can be affected not only by management decisions and general and local economic conditions, but also by the statutes administered by, and the regulations and policies of, various governmental regulatory authorities. Those authorities include, but are not limited to, the Board of Governors of the Federal Reserve System (the "Federal Reserve"), the Federal Deposit Insurance Corporation (the "FDIC"), the Michigan Department of Insurance and Financial Services (the "DIFS"), the Internal Revenue Service, and state taxing authorities. The effect of such statutes, regulations and policies and any changes thereto can be significant and cannot be predicted. The primary goals of the bank regulatory scheme are to maintain a safe and sound banking system and to facilitate the conduct of sound monetary policy. The system of supervision and regulation applicable to the Company and the Bank establishes a comprehensive framework for their respective operations and is intended primarily for the protection of the FDIC's deposit insurance fund, the Bank's depositors and the public, rather than the shareholders and creditors.

The following is a summary of the laws and regulations that apply to the Company and the Bank. This summary does not purport to be complete, and it may not contain all of the information pertinent to each investor. The operations of the Company and the Bank may be affected by legislative and regulatory changes as well as by changes in the policies of various regulatory authorities.

### **Huron Community Financial Services, Inc.**

*General.* The Company, as the sole stockholder of the Bank, is a bank holding company. As a bank holding company, the Company is registered with, and is subject to regulation by, the FRS under the Bank Holding Company Act of 1956 (the “BHCA”) as amended. In accordance with FRS policy, the Company is expected to act as a source of financial strength to the Bank and to commit resources to support the Bank. Under the BHCA, the Company is subject to periodic examination by the FRS and is required to file with the FRS periodic reports of its operations and such additional information as the FRS may require. The Company is also subject to regulation by the Division under Ohio law.

*Investments and Activities.* Under the BHCA, a bank holding company must obtain FRS approval before acquiring substantially all the assets of any bank or bank holding company or ownership or control of any voting shares of any bank or bank holding company if, after such acquisition, it would own or control, directly or indirectly, more than five percent (5%) of the voting shares of such bank or bank holding company. The BHCA also prohibits the Company, with certain limited exceptions, from acquiring direct or indirect ownership or control of more than 5% of the voting shares of any company which is not a bank or bank holding company, and from engaging in any business other than that of banking, managing and controlling banks or furnishing services to banks and their subsidiaries. The principal exception to this prohibition allows bank holding companies to engage in, and to own shares of companies engaged in, certain businesses found by the FRS to be so closely related to banking as to be a proper incident thereto.

*Affiliate Transactions.* Various governmental requirements, including Sections 23A and 23B of the Federal Reserve Act and Regulation W related to those provisions, limit borrowings by holding companies and other non-bank subsidiaries from affiliated insured depository institutions, and also limit other transactions between holding companies and their non-bank subsidiaries and their affiliated insured depository institutions. Section 23A of the Federal Reserve Act generally requires that an insured depository institution’s loan to its non-bank affiliates be secured, and Section 23B of the Federal Reserve Act generally requires that an insured depository institution’s transactions with its non-bank affiliates be on arms-length terms.

*Control Acquisitions.* The Change in Bank Control Act prohibits a person or group of persons from acquiring “control” of a bank holding company unless the FRS has been notified and has not objected to the transaction. Under the rebuttable presumption established by the FRS, the acquisition of 10% or more of a class of voting stock of a bank holding company would, under the circumstances set forth in the presumption, generally constitute the acquisition of control of a bank holding company.

*Gramm-Leach-Bliley Act.* The Financial Services Modernization Act of 1999, better known as the Gramm-Leach-Bliley Act (the “GLBA”), permits bank holding companies to become “financial holding companies” and thereby affiliate with securities firms and insurance companies and engage in other activities that are financial in nature. A bank holding company may become a financial holding company if each of its subsidiary banks is well capitalized, well managed and has at least a satisfactory rating under the Community Reinvestment Act. No regulatory approval will be required for a financial holding company to acquire a company, other than a bank or savings association, engaged in activities that are financial in nature or incidental to activities that are financial in nature, as determined by the FRS. The GLBA defines “financial in nature” to include securities underwriting, dealing and market making; sponsoring mutual

funds and investment companies; insurance underwriting and agency; merchant banking activities; and activities that the FRS has determined to be closely related to banking. The Company has not elected to become a financial holding company under this regulatory framework.

### **Huron Community Bank**

*General.* The Bank is a Michigan banking corporation and member of the Federal Reserve System. The Bank is therefore regulated by DIFS as well as the FRS. The regulatory agencies have the authority to regularly examine the Bank, which is subject to all applicable rules and regulations promulgated by its supervisory agencies. In addition, the deposits of the Bank are insured by the Federal Deposit Insurance Corporation up to applicable limits through the Deposit Insurance Fund (“DIF”) and, therefore, the Bank is subject to FDIC regulations.

*Deposit Insurance.* The Bank’s deposits are insured by the FDIC for a maximum of \$250,000 per account title. For this protection, the Bank pays quarter-annual statutory assessments and complies with the rules and regulations of the FDIC. The FDIC has adopted a risk-based assessment system using a bank’s average consolidated total assets less its average tangible equity during the assessment period as the primary metric, with adjustments to insurance premiums based on the particular bank’s risk classification. Institutions assigned to higher risk classifications (that is, institutions that pose a higher risk of loss to the deposit insurance fund) pay assessments at higher rates than institutions that pose a lower risk. An institution’s risk classification is assigned based on its capital levels and the level of supervisory concern the institution poses to the regulators. In addition, the FDIC can impose special assessments in certain instances. The FDIC may terminate its insurance of deposits if it finds that the institution has engaged in unsafe and unsound practices, is in an unsafe or unsound condition, or has violated any applicable law, regulation, rule, order, or condition imposed by the FDIC.

*DIFS Assessments.* Michigan banks are required to pay supervisory fees to the DIFS to fund their operations. The amount of supervisory fees paid by a bank is based upon the bank’s total assets.

*Regulatory Capital Requirements.* The FRS, DIFS and FDIC require banks and holding companies to maintain minimum capital ratios. The Bank is required to maintain minimum levels of capital in accordance with FRS capital adequacy guidelines. If capital falls below minimum guideline levels, the Bank, among other things, may be denied approval to acquire or establish additional banks or non-bank businesses. Beginning in 2015, the Bank was required to measure capital adequacy using Basel III accounting. Basel III is a comprehensive set of reform measures, developed by the Basel Committee on Banking Supervision, to strengthen the regulation, supervision and risk management of the banking sector. Reporting under the new rules began with the March 2015 quarterly regulatory filings. The capital requirements described above are minimum requirements. Higher capital levels will be required if warranted by the particular circumstances or risk profiles of individual institutions. For example, the regulations provide that additional capital may be required to take adequate account of, among other things, interest rate risk or the risks posed by concentrations of credit, nontraditional activities or securities trading activities.

*FDICIA.* The Federal Deposit Insurance Corporation Improvement Act of 1991 (“FDICIA”), and the regulations promulgated under FDICIA, among other things, established five capital categories for insured depository institutions—well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized and critically undercapitalized—and requires U.S. federal bank regulatory agencies to implement systems for “prompt corrective action” for insured depository institutions that do not meet minimum capital requirements based on these categories. Unless a bank is well capitalized, it is subject to restrictions on its ability to offer brokered deposits and on certain other aspects of its operations. An undercapitalized bank must develop a capital restoration plan and its parent bank holding company must

guarantee the bank's compliance with the plan up to the lesser of 5% of the bank's assets at the time it became undercapitalized and the amount needed to comply with the plan. As of December 31, 2023, the Bank was well capitalized pursuant to these prompt corrective action guidelines.

*Dividends.* Under Michigan law, banks are restricted as to the maximum amount of dividends they may pay on their common stock. Our Bank may not pay dividends except out of its net income after deducting its losses and bad debts. A Michigan state bank may not declare or pay a dividend unless the bank will have a surplus amounting to at least 20% of its capital after the payment of the dividend.

*Branching Authority.* Michigan permits both U.S. and non-U.S. banks to establish branch offices in Michigan. The Michigan Banking Code permits, in appropriate circumstances and with the approval of the DIFS (1) acquisition of Michigan banks by FDIC-insured banks or savings banks located in other states, (2) sale by a Michigan bank of branches to an FDIC-insured bank or savings bank located in a state in which a Michigan bank could purchase branches of the purchasing entity, (3) consolidation of Michigan banks and FDIC-insured banks or savings banks located in other states having laws permitting such consolidation, (4) establishment of branches in Michigan by FDIC-insured banks located in other states, the District of Columbia or U.S. territories or protectorates having laws permitting a Michigan bank to establish a branch in such jurisdiction, and (5) establishment by foreign banks of branches located in Michigan.

*Depositor Preference.* The Federal Deposit Insurance Act provides that, in the event of the "liquidation or other resolution" of an insured depository institution, the claims of depositors of the institution, including the claims of the FDIC as subrogee of insured depositors, and certain claims for administrative expenses of the FDIC as a receiver, will have priority over other general unsecured claims against the institution. If an insured depository institution fails, insured and uninsured depositors, along with the FDIC, will have priority in payment ahead of unsecured, non-deposit creditors and shareholders of the institution.

*Privacy Provisions of Gramm-Leach-Bliley Act.* Under GLB, federal banking regulators adopted rules that limit the ability of banks and other financial institutions to disclose non-public information about consumers to non-affiliated third parties. These limitations require disclosure of privacy policies to consumers and, in some circumstances, allow consumers to prevent disclosure of certain personal information to non-affiliated third parties. The privacy provisions of GLB affect how consumer information is transmitted through diversified financial companies and conveyed to outside vendors.

*Anti-Money Laundering Provisions of the USA Patriot Act of 2001.* On October 26, 2001, the USA Patriot Act of 2001 (the "Patriot Act") was signed into law. The Patriot Act is intended to strengthen U.S. law enforcement's and the intelligence community's ability to work cohesively to combat terrorism on a variety of fronts. The potential impact of the Patriot Act on financial institutions of all kinds is significant and wide-ranging. The Patriot Act contains sweeping anti-money laundering and financial transparency laws and requires various regulations, including: (a) due diligence requirements for financial institutions that administer, maintain, or manage private bank accounts or correspondent accounts for non-U.S. persons; (b) standards for verifying customer identification at account opening; and (c) rules to promote cooperation among financial institutions, regulators and law enforcement entities in identifying parties that may be involved in terrorism or money laundering.

*Fiscal and Monetary Policies.* The Bank's business and earnings are affected significantly by the fiscal and monetary policies of the federal government and its agencies. The Bank is particularly affected by the policies of the FRS, which regulates the supply of money and credit in the United States. Among the instruments of monetary policy available to the Federal Reserve are (a) conducting open market operations in United States government securities, (b) changing the discount rates of borrowings of depository

institutions, (c) imposing or changing reserve requirements against depository institutions' deposits, and (d) imposing or changing reserve requirements against certain borrowing by banks and their affiliates. These methods are used in varying degrees and combinations to affect directly the availability of bank loans and deposits, as well as the interest rates charged on loans and paid on deposits. For that reason alone, the policies of the FRS can have a material effect on the earnings of the Bank.

*The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010.* On July 21, 2010, President Obama signed into law the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act"), which is continuing to have a broad impact on the financial services industry. The Dodd-Frank Act created the Consumer Financial Protection Bureau ("Bureau"), which is tasked with establishing and implementing rules and regulations under certain federal consumer protection laws with respect to the conduct of providers of certain consumer financial products and services. The Bureau has rulemaking authority over many of the statutes governing products and services offered to bank consumers. The changes resulting from the Dodd-Frank Act may impact the profitability of our business activities, require further changes to certain of our business practices, impose upon us more stringent capital, liquidity and leverage ratio requirements or otherwise adversely affect our business. These changes may also require us to invest significant management attention and resources to evaluate and make necessary changes in order to comply with new statutory and regulatory requirements.

*Additional and Pending Regulation.* The Bank is also subject to federal regulation relating to such matters as required reserves, limitation as to the nature and amount of its loans and investments, regulatory approval of any merger or consolidation, issuance or retirement of their own securities, limitations upon the payment of dividends and other aspects of banking operations. In addition, the activities and operations of the Bank are subject to a number of additional detailed, complex and sometimes overlapping laws and regulations. These include state usury and consumer credit laws, state laws relating to fiduciaries, the federal Equal Credit Opportunity Act and Regulation B, the federal Electronic Funds Transfer Act and Regulation E, the federal Fair Credit Reporting Act and Regulation V, the federal Real Estate Settlement Procedures Act (RESPA) and Regulation X, the federal Truth in Lending Act and Regulation Z, the federal Truth in Savings Act and Regulation DD, the Bank Secrecy Act, the federal Community Reinvestment Act, anti-discrimination and unfair or deceptive acts or practices laws and legislation, and antitrust laws.

Congress regularly considers legislation that may have an impact upon the operation of the Company and the Bank. At this time, the Company is unable to predict whether any proposed legislation will be enacted and, therefore, is unable to predict the impact such legislation may have on the operations of the Company and the Bank.

## MANAGEMENT

### Directors and Officers

The following table contains pertinent information concerning the present directors and executive officers of the Company and the Bank.

Name and Residence Address	Principle Occupation for Last 5 Years	Year Service Began	Company / Bank Position	Shares Owned Directly or Beneficially as of 4/1/2024	Exercisable Options as of 04/1/2024	% Ownership of Company
Wayne Bigelow 1109 Swenson Rd Omer, MI 48749	Retired	1997	Vice-Chairman / Vice-Chairman	34,470	2,600	6.72%
Matthew W. Buresh 4507 Gowen East Tawas, MI 48730	Owner/Funeral Director Buresh Funeral Homes, Inc.	2006	Director, Treasurer / Director	2,476	2,600	0.92%
David H. Cook 4385 M-72 Harrisville, MI 48740	Attorney David H. Cook, PC	2003	Director, Secretary / Director	9,829	2,600	2.25%
Larry J. Richardson 2300 Eagle Dr Standish, MI 48658	Owner & President Richardson Auto Group	2019	Director / Director	4,692	250	0.90%
Alan J. Stephenson 1160 Court Dr East Tawas, MI 48730	CPA Stephenson & Co., PC	1989	Chairman / Chairman	31,870	3,500	6.42%
Brenden A. Stephenson 1398 E Finerty Rd West Branch, MI 48661	CPA Stephenson & Co., PC	2022	Director / Director	891	500	0.25%
Gary J. Thibault 1590 Kings Corner Rd Mikado, MI 48745	President & CEO GT Plastics, Inc. Retired	2015	Director, Vice President / Director	6,344	2,350	1.58%
John A. Emmendorfer, Jr. 555 Miller Rd Tawas City, MI 48763	Interim President / CCO Huron Community Bank	2008	Executive Vice President / Interim President, CCO	0	1,550	0.28%
<b>Totals for Share Ownership Numbers (1)</b>				90,572	15,950	19.32%
(1) Percentage of ownership based on 551,316 shares of the Company's Common Stock as of April 1, 2024 and assumes the exercise of all outstanding options.						

Outstanding options to purchase shares of Common Stock have been granted to the directors and certain key employees pursuant to: (1) the 2005 Nonemployee Director Stock Option Plan; (2) the 2005 Employee Stock Option Plan; (3) the 2014 Stock Incentive Plan; and (4) the 2023 Stock Incentive Plan. The options are exercisable at any time prior to the respective expiration dates, ten years after grant date. The Company has also granted options to acquire a total of 5,800 shares to certain directors pursuant to its 2005 Nonemployee Director Discretionary Stock Option Plan. The exercise price under all of the foregoing options is the fair market value of the shares on the respective grant dates.

## Compensation of Executive Officers and Directors

The following table sets forth: (i) the aggregate compensation paid by the Bank to its executive officers for 2023; and (ii) the projected aggregate compensation to be paid by the Bank to the executive officers for 2024.

Name and Title of Senior Executive Officers	Components of Compensation	Aggregate Compensation for Mr. Thomas and Mr. Emmendorfer as a group for 2023	Projected Aggregate Compensation for Mr. Thomas* and Mr. Emmendorfer as a group for 2024
Robert J. Thomas President & CEO*	Compensation for each individual identified consists of annual salary and a discretionary annual cash bonus. Compensation for Mr. Thomas also includes fees for service as a member of the board of directors.	\$411,773	\$193,486
John A. Emmendorfer, Jr. Interim President / CCO**			
* Mr. Thomas retired January 22, 2024			
** Mr. Emmendorfer became Interim President January 22, 2024			

Directors of the Company do not receive compensation for their services as directors. Directors of the Bank receive \$1,500 for each meeting of the Board of Directors of the Bank attended. The Chairman receives an additional \$150 for each meeting of the Board of Directors of the Bank attended. Members of the Bank's credit and audit committee receive \$250 for each meeting of such committee attended. Members of the Bank's other committees receive \$175 for each meeting of such committee attended. Certain outside directors have also been designated as board officers of the holding company, but those individuals receive no additional compensation for serving in such capacities and have no additional policy making functions beyond their capacities as directors.

## Transactions with Management

Some of the directors, executive officers and principal shareholders of the Company and/or the Bank and the companies with which they are associated are customers of and have had banking transactions with the

Bank or lending company in the ordinary course of business. All loans and commitments for loans included in such transactions were made on substantially the same terms, including interest rates and collateral, as were prevailing at the time for comparable transactions with other persons. Such loans and commitments for loans do not involve more than a normal risk of collectability or present other unfavorable features. The Company and/or the Bank also expect to continue to have in the future, banking transactions in the ordinary course of its business with directors, officers, principal shareholders and their associates, on substantially the same terms, including interest rates and collateral on loans, as those prevailing at the same time for comparable transactions with others. Such transactions will not involve more than the normal risk of collectability or present other unfavorable features.

### **PRINCIPAL SHAREHOLDERS**

As of the date hereof, no person owned of record or beneficially more than 10% of the outstanding shares of Common Stock. It is the intent of the Company that no persons, including affiliates of such person, will own greater than 10% of the outstanding shares of Common Stock subsequent to the Offering. However, it is possible that the 401(k) plan established for the benefit of the Bank's employees may in the aggregate hold greater than 10% of the Company's outstanding shares in the future, although no individual participant will have greater than 10% allocated to his/her individual account.

### **USE OF PROCEEDS**

While the Company has no specific plans for the investment of the proceeds of this Offering, it anticipates that the majority of the net proceeds will be used to further capitalize the Bank in order to fund its general corporate purposes, including, but not necessarily limited to, the continued support of residential and commercial lending activity in the communities it serves. Some potential additional uses of the funding include:

- to invest in securities;
- to pay dividends to stockholders;
- to repurchase shares of its common stock;
- to finance the possible acquisition of financial institutions or other businesses related to banking; or
- the possible expansion of business activities.

While the Company anticipates using the majority of net proceeds to further capitalize the Bank, some net proceeds may be retained at the parent company for general corporate purposes. There are currently no plans, arrangements, or understandings regarding the possible acquisition of another financial institution or other business related to banking.

### **DESCRIPTION OF CAPITAL STOCK**

The following description of the capital stock of the Company does not purport to be complete and is subject to and qualified in its entirety by reference to the Company's Restated Articles.

#### **General**

The Company's total authorized capital stock currently consists solely of 1,000,000 shares of common stock, \$1.00 par value per share. The Bank is the registrar and transfer agent for the Company's Common Stock.

### **Common Stock**

The holders of Common Stock are entitled to receive such dividends as may from time to time be declared by the Board of Directors. In the event of liquidation, they are entitled to share ratably in all assets of the Company available for distribution to holders of shares of Common Stock. With respect to the election of directors, and every other issue submitted to them as Company shareholders at a meeting of shareholders or otherwise, the shareholders are entitled to one vote per share of Common Stock. Holders of shares of Common Stock do not have preemptive rights.

### **Limited Transferability of Common Stock**

Under Article III of the Restated Articles of Incorporation of the Company, and except in limited circumstances, none of the outstanding shares of Common Stock of the Company may voluntarily or involuntarily be transferred or sold unless and until the holder thereof (the "Holder") shall have first offered for sale such shares to the Company. Such restriction, however, does not apply to a transfer, by whatever means, to a spouse or lineal descendent of the Holder, a corporation, partnership or trust controlled by the Holder or to a trust or to a court appointed fiduciary for the benefit of the Holder. Prior to the amendment of the Articles of Incorporation at the 2013 annual meeting, the original incorporators had a secondary right of refusal in the event the Company chose not to exercise its right of refusal. That secondary right was eliminated with the amendment of the Articles.

Any Holder who desires to sell or otherwise transfer any or all of his or her shares of capital stock of the Company (a "Selling Holder") must first offer the same for sale to the Company by giving to the Company written notice, delivered to the President or Secretary of the Company, indicating: (i) the number of shares of Common Stock desired to be sold or otherwise transferred; (ii) the name and address of the proposed third-party purchaser(s) (the "Proposed Buyer"); (iii) the per share purchase price offered by the Proposed Buyer and any other material terms of the proposed sale or transfer; and (iv) either the number(s) of the subject certificate(s) for the shares of Common Stock proposed to be sold, if such shares are still in certificated form, or the shareholder account identification number for such shares if held in book-entry form.

The Board of Directors of the Company must within 30 days after receipt of the offer of sale (or within 120 days after receipt if acceptance of such offer by the Company requires prior regulatory approval) notify the Selling Holder in writing whether it desires to purchase the shares of Common Stock so offered for the sale on the terms and at the "Applicable Purchase Price" (as hereinafter defined). In the event that the Company notifies the Selling Holder of its acceptance of the offer of sale, then the Company's notification will specify a date not less than five nor more than 15 days after the date of such notice as the date on which the shares of Common Stock will be purchased by the Company. If the Company fails to purchase and pay for all of the shares of Common Stock so offered for sale, it shall be deemed to have rejected the offer.

Upon receipt of written notice of the Company's refusal to purchase the shares of Common Stock offered to it for sale, or if the Company does not purchase and pay for such shares of Common Stock upon the applicable terms and within the applicable time limitations, the Selling Holder may sell or otherwise transfer such shares of Common Stock to, and only to, the Proposed Buyer, at the offered price and upon the offered terms. However, if the sale or transfer to the Proposed Buyer is not made within 30 days after the Company's right to purchase such shares of Common Stock expires, then the above described provisions of Article III of the Restated Articles of Incorporation of the Company shall again apply to those shares.

The “Applicable Purchase Price” is determined as follows: If a Holder desires to sell and transfer shares of Common Stock of the Company pursuant to a written bona fide offer to purchase received by the Holder from an unrelated third party in an arms-length transaction, the purchase price at which the Company shall be entitled to purchase the shares proposed to be transferred will be the same price at which the Selling Holder desires to sell and transfer shares to such unrelated third party. If the proposed transfer is a transfer not pursuant to a bona fide third party offer, the purchase by the Company shall be at a price per share equal to: (i) the value of such shares as determined by an independent consultant retained by the Company, if determined within the twelve month period preceding the month the notice for such purchase is received, or (ii) where no such valuation has been performed, at a price equal to the net book value of such shares on the last day of the month preceding the month in which such notice is received, as determined by the independent auditors then serving the Company.

The purchase price to be paid by the Company when purchasing Common Stock pursuant to the provisions of Article III of the Restated Articles of Incorporation of the Company, is payable in cash in full, unless otherwise agreed between the parties, on the date of the settlement for and delivery of the shares.

The Company is not required to accept any offer of sale made pursuant to Article III of the Company’s Restated Articles of Incorporation. Failure of the Company to purchase any shares of Common Stock offered for sale and the sale or transfer thereof to any other person, firm or corporation, shall not, as to any future sale or other transfer of said shares, or of any shares of Common Stock issued in lieu thereof, discharge any of such shares of capital stock from any of the obligations and restrictions contained in the Restated Articles of Incorporation of the Company, as such obligations and restrictions are intended to apply to any and all sales or other transfers of shares of Common Stock of the Company whenever, however or by whomever acquired.

When the Company has repurchased shares in accordance with this authority, its general practice has been to immediately retire the shares upon repurchase in lieu of holding them as treasury shares. From an accounting perspective, the retirement of the shares generally involves a reduction to common stock for the amount of the aggregate par value of the repurchased shares and a concomitant reduction to retained earnings for the difference between the total purchase amount and the aggregate par value.

## **DESCRIPTION OF SHAREHOLDER RIGHTS**

*The following discussion is not meant to be relied upon as an exhaustive list or detailed description of the rights of holders of the Company's equity securities, and is not intended to constitute a detailed description of the Company's Restated Articles of Incorporation and Bylaws (collectively, the “Charter Documents”) and the Michigan Business Corporation Act, as amended (the “MBCAA”). The following discussion is qualified in its entirety by reference to the Charter Documents and the MBCA.*

### **General**

The provisions of the Charter Documents and the MBCA govern the rights of holders of the Company's equity securities.

### **Board of Directors; Removal of Directors**

The size of the whole Board of Directors of the Company is nine. The Board of Directors of the Company is divided into three classes of three directors each, with the term of office of one of such classes expiring in each year. At each annual meeting of shareholders, the successors to the directors of the class whose term is expiring at that time are elected to hold office for a term of three years. The provision in the Restated Articles of Incorporation of the Company setting forth the number and classification of the Board of Directors of the Company may not be amended, supplemented, modified or repealed unless (i) a majority of the Board of Directors of the Company recommends such a change and it is approved by not less than

66 2/3% of the outstanding voting shares, or (ii) such change is approved by not less than 80% of the outstanding voting shares.

With respect to an election of directors, a holder of Common Stock is entitled to one vote for each share held.

Under the MBCA, directors may be removed with or without cause unless the corporation's articles of incorporation provides otherwise. Since the Company's Restated Articles of Incorporation contain no contrary provision, the Company's directors are subject to removal by shareholders with or without cause.

### **Shareholder Voting Requirements**

Generally, pursuant to the MBCA, all matters submitted to a vote of the Company's shareholders, are determined by a vote of the holders of shares entitling them to exercise a majority of the voting power of the Company. There are certain key exceptions to this general rule. First, directors are elected by the affirmative vote of a plurality of the vote cast at an election. Second, "supermajority" votes are required under the Restated Articles to amend certain sections of the Restated Articles, or to approve a sale, merger, consolidation or similar transaction (See "Board of Directors; Removal of Directors" above and "Anti-takeover Laws and Charter Provisions" below). Third, the MBCA imposes special voting requirements in connection with certain change of control transactions (See "Anti-Takeover Laws and Charter Provisions" below).

### **Anti-Takeover Laws and Charter Provisions**

The Company is subject to the Michigan "Fair Price" statute (Chapter 7A of the MBCA), which applies to certain "business combinations" such as mergers, substantial sales of assets or securities issuances and liquidation, recapitalization or reorganization plans. Generally, this statute requires, for a business combination with an "interested shareholder" (generally, the holder of 10% or more of a class of a corporation's voting stock), an advisory statement from the corporation's board of directors, the approval of holders of 90% of each class of the corporation's outstanding voting stock and the approval of two-thirds of the holders of each such class other than the interested shareholder. The supermajority voting requirements do not apply where the interested shareholder's offer meets certain price, form of consideration and procedural requirements designed to make such offers fair to all shareholders or where the board of directors has approved the transaction with respect to a particular interested shareholder prior to the interested shareholder becoming an interested shareholder.

The Company's Restated Articles of Incorporation also contain certain provisions permitted under Michigan law that may have anti-takeover effect. For example, the Company's Restated Articles of Incorporation provide rights of refusal to the Company in connection with proposed transfers of shares of Common Stock of the Company. The Restated Articles of Incorporation of the Company also specifically provide for nine directors, divided into three classes of three directors each. The election of classes of directors for staggered three-year terms makes it difficult to force an immediate change in the Board of Directors of the Company, since only one-third of the Board of Directors of the Company would be elected in any one year. In addition: (i) approval of the Board of Directors of the Company and 66-2/3% of all of the outstanding voting shares in the aggregate or (ii) approval by holders of 80% of the outstanding voting shares, in the aggregate, are required to authorize a sale, merger, consolidation or similar transaction concerning the Company. These provisions and limitations will make it more difficult for third parties to acquire control of the Company without the support of the Board of Directors of the Company and a significant percentage of its shareholders. However, these provisions also could deter offers that might be viewed by certain shareholders to be in their best interest.

## **Special Meetings of Shareholders**

The Company's By-laws provide that a special meeting of shareholders may be called by the Board of Directors of the Company or by shareholders of record holding in the aggregate 10% or more of the outstanding voting stock for any purpose.

## **Director Liability and Indemnification**

The MBCA provides that a Michigan corporation, such as the Company, may indemnify a director, officer, employee or agent of the corporation (an "Indemnitee") against the Indemnitee's expenses and judgments, fines and amounts paid in settlement actually and reasonably incurred in connection with any threatened, pending or completed action, suit or proceeding (other than an action by or in the right of the corporation) involving the Indemnitee by reason of the fact that the Indemnitee is or was a director, officer, employee or agent of the corporation, if the Indemnitee acted in good faith and in a manner the Indemnitee reasonably believed to be in or not opposed to the best interest of the corporation and, with respect to any criminal action or proceeding, had no reasonable cause to believe his or her conduct was unlawful. The MBCA also provides that in derivative actions, a corporation may indemnify a director, officer, employee or agent of the corporation against expenses actually and reasonably incurred by the Indemnitee to the extent that the Indemnitee is successful on the merits or otherwise in any such action, suit or proceeding or in the defense of any claim, issue or matter therein. Under the MBCA, no indemnification shall be made with respect to any claim, issue or matter as to which an Indemnitee shall have been adjudged to be liable to the corporation unless and only to the extent that the court shall determine upon application that, despite the adjudication of liability but in view of all of the circumstances of the case, the Indemnitee is fairly and reasonably entitled to indemnity for such expenses which the court shall deem proper. The MBCA also generally permits the advancement of reasonable expenses and empowers the corporation to purchase and maintain directors' and officers' insurance.

Article III, Section 8 of the By-laws of the Company contain provisions authorizing indemnification of directors, officers, employees and agents of the Company that are substantially similar to those set forth in the MBCA.

## **Payment of Dividends**

Under the MBCA, a corporation may not make distributions to its shareholders if, after giving effect to the distribution, the corporation would not be able to pay its debts as they become due in the usual course of business, or the corporation's total assets would be less than the sum of its total liabilities plus, unless the corporation's articles of incorporation permit otherwise, the amount that would be needed, if the corporation were to be dissolved at the time of the distribution, to satisfy the preferential rights upon dissolution of shareholders whose preferential rights are superior to those receiving the distribution.

In addition to the dividend restrictions imposed under the MBCA, the Company and the Bank are subject to certain regulatory restrictions. See "Certain Regulatory Considerations – Payment of Dividends".

## **Charter Amendments**

Under the MBCA, a corporation's articles of incorporation may be amended by the affirmative vote of a majority of the outstanding stock entitled to vote thereon, and a majority of the outstanding stock entitled to vote thereon as a class, subject to such supermajority vote requirements as may be provided for in the corporation's articles of incorporation. Except for certain provisions thereof which are subject to supermajority vote requirements as

described above, the Company's Restated Articles of Incorporation may be amended by the affirmative vote of a majority of the outstanding shares of Common Stock.

Under the MBCA, the shareholders or the board of directors of the corporation may adopt, amend or repeal the by-laws unless the articles of incorporation or by-laws of the corporation provide that the power to adopt new by-laws is reserved exclusively to the shareholders or that the by-laws or any particular by-law shall not be altered or repealed by the board of directors. The Company's By-laws provide that they may be amended by a two-thirds' vote of the Board of Directors of the Company or by a majority Company's shareholders.

### **Other Matters**

The Company's Restated Articles of Incorporation contain a provision authorizing shareholder action by less than unanimous written consent, as permitted by the MBCA.

The MBCA provides dissenters' rights of appraisal. The MBCA expressly authorizes shareholders of a Michigan corporation to exercise dissenters' rights with respect to certain amendments to the articles of incorporation of such Michigan corporation which adversely affect the rights of the class of shares held by them. The MBCA expressly permits shareholders to exercise dissenters' rights of appraisal in connection with the sale or exchange of all or substantially all of the property of a Michigan corporation if the shareholder is entitled to vote thereon.

The MBCA provides voting rights with respect to mergers, sales of substantially all of the assets of a corporation and other extraordinary corporate transactions.

## **THE OFFERING**

### **General**

Up to \$5,000,000 annually of the Company's Common Stock is being offered to shareholders residing in the States of Michigan and Florida pursuant to the Huron Community Financial Services, Inc. Automated Dividend Reinvestment Plan (the "Plan"). The Shares have not been registered with the Securities and Exchange Commission ("SEC") pursuant to an exemption for limited offerings under Section 3(b)(1) of the Securities Act of 1933 and Rule 504 of SEC Regulation D promulgated thereunder, which provides an exemption for public offerings that do not exceed \$5,000,000 annually. For purposes of calculating the \$5,000,000 annual limit, the Company must aggregate all other sales made pursuant to any other offerings in the preceding 12 month period pursuant to Section 3(b) of the Securities Act of 1933.

Because the Shares have not been registered with the SEC pursuant to the Rule 504 exemption, they are deemed to be "restricted" under the Federal securities laws, which mean they are not freely transferable in the secondary market by plan participants unless certain conditions have been met. In addition, the Company's Articles of Incorporation also impose certain transfer restrictions that are independent of the securities laws. These restrictions are discussed in the section of this offering circular captioned "Description of Capital Stock."

The Shares have not been registered under the Michigan Uniform Securities Act or other applicable state securities laws pursuant to an exemption for transactions with a company's existing shareholders.

The Offering is being made on a "best efforts, no minimum" basis, which means that no one is guaranteeing that any number of the Shares will be sold. All costs and expenses incurred as a result of the Offering will be borne by the Company.

## **Description of the Plan**

The Plan is described in the following questions and answers. The Plan was approved by the Board of Directors of the Company on May 15, 1997 and became effective as of June 1, 1997. The Board of Directors adopted certain amendments to the Plan effective September 25, 2015. All shares of Common Stock issued and to be issued by the Company pursuant to the Plan have been, or will be, when issued, fully paid and non-assessable. The Plan does not guarantee the payment of any future dividends, which will continue to be declared and paid out of funds legally available therefore in the sole discretion of the Company's Board of Directors.

1. *What is the Plan?*

The Plan provides that the Company's eligible shareholders may reinvest their cash dividends automatically in shares of Common Stock.

2. *What is the purpose of the Plan and what are its advantages?*

The Plan offers a convenient and economical way for holders of record of the Company's Common Stock to increase their ownership of shares of Common Stock without incurring brokerage commissions or service charges and without having to pay full dealer mark-ups, if any. The Plan permits fractions of shares to be purchased.

To the extent that shares purchased under the Plan are purchased from the Company from its authorized and unissued shares of Common Stock, the Company will use the proceeds of the sale for working capital or other general corporate purposes.

3. *Who administers the Plan and what reports will participants receive concerning the Plan?*

Huron Community Bank (acting as the "Agent") administers the Plan. The Agent will send each participant a statement as soon as practicable following each purchase of shares of Common Stock. The Agent will also provide Plan participants with copies of any amendments to the Plan and any offering materials relating to the Plan together with information for reporting dividend income for federal income tax purposes. Shares purchased will be issued and maintained as "book entry", non-certificated securities of the Company. This means that paper stock certificates for shares purchased will not be issued or sent to participants in order to protect participants from loss, theft or destruction of stock certificates.

All inquiries, notices, requests and other communications by participants concerning the Plan should be sent to the Agent at:

Huron Community Bank  
301 Newman Street  
East Tawas, Michigan 48730

Participants may also contact the Agent by telephone at (989) 362-6700.

The Company reserves the right to change the Agent for the Plan at any time and without prior notice to Plan participants. In the event the Agent resigns, the Company will make such other arrangements as it deems appropriate for administration of the Plan.

4. *Who is eligible to participate in the Plan?*

Any shareholder of record of the Company to whom the Company may legally offer and sell shares, in light of such steps as the Company may take from time to time to make such offers and sales) is eligible to participate in the Plan. However, any shareholder owning more than 9.9% of the outstanding shares of Common Stock will not be eligible to participate in the Plan. If any shareholder owns stock which is registered in a different name and wishes to participate in the Plan, he or she must first withdraw his or her shares from “street name” or other registration and register the stock in his or her own name.

In addition, the Company is currently limiting this Offering to shareholders residing in the States of Michigan and Florida (collectively, the “Authorized States”). No registration has been made under the securities laws of either of the Authorized States in reliance upon exemptions from registration for sales to existing shareholders and/or isolated transactions. The Company will consider expanding the scope of this offering depending on the level of interest that shareholders residing outside of these States may have in participating in the Plan. In no event will any shareholder residing in a State besides one of the Authorized States be able to participate in the Plan until such time as the Shares have been duly registered for sale in the respective State, or an exemption from such registration has been determined by the Company, with the assistance of counsel, to be available.

5. *How does an eligible stockholder participate?*

Any eligible shareholder may participate in the Plan at any time by completing an authorization card and returning it to the Company. The authorization card will contain instructions to the Agent to use all cash dividends paid on all shares registered in the name of the participant on each subsequent dividend record date to purchase as many whole and fractional shares as possible until such time as the participant withdraws from the Plan. If an authorization card is received later than the record date for a cash dividend, the dividend will be paid to the participant in cash and participation in the Plan will begin as of the next dividend payment date.

A copy of the authorization card, including instructions, is provided with this offering circular.

6. *May participants add their own funds to dividends to purchase more shares under the Plan?*

No. Only cash dividends may be used to purchase shares under the Plan.

7. *When will funds be invested under the Plan?*

Cash dividends will be used to purchase shares of Common Stock on the dividend payment date.

8. *What is the source of shares purchased under the Plan?*

Shares purchased under the Plan will ordinarily come from the authorized and unissued shares of the Common Stock of the Company or from shares held in treasury.

9. *How is the purchase price generally established from time to time under the Plan?*

The price of Common Stock purchased from time to time from the Company with participants' cash dividends will be determined by the Board of Directors in its absolute discretion, and the offering price set by the Board of Directors may have no direct relationship to earnings or fair market value, or any established “market price” for, or actual trades involving, the Company's Common Stock. Solely as one factor in helping to periodically set the purchase price, the Board may, in its absolute discretion, utilize any valuation report of the Company's Common Stock otherwise prepared and delivered for the benefit of the Company by an independent financial advisor experienced in the financial analysis and valuation of

financial institutions. Any use of valuation report in this manner is within the discretion of the Board of Directors, which is free to use, or discontinue the use of, such valuation reports in this manner as it sees fit.

Any change in the offering price will be communicated to investors as part of an amendment to this offering circular.

*10. How has the current purchase price of the shares been set?*

The Company's Board of Directors has established the current offering price to be \$60.00 per share, which price shall remain in effect until further notice. The current offering price is set at the value determined pursuant to a valuation report of the Common Stock as of the end of each fiscal year prepared by an independent financial advisor experienced in the financial analysis and valuation of financial institutions. While it has been the Company's practice to engage an independent advisor to conduct an annual valuation of its Common Stock, the Company can make no assurances that it will continue to do so.

The fair market value estimate of the independent financial advisor assumed no specific buyer but rather a hypothetical transaction negotiated by two parties based on the economic considerations outlined in the valuation. The price a particular buyer may pay depends on many variables, including synergies with other operations owned or controlled by the buyer, and, accordingly, the valuation cannot be relied upon to predict a sales price to a particular buyer.

*11. How many shares of common stock will be purchased for a participant?*

12. The number of shares to be purchased depends on the amount of the participant's dividends and the price paid for the Common Stock. Dividends payable to a participant will be used to purchase as many whole and fractional shares on behalf of the participant as possible. See 5. "*How does an eligible stockholder participate?*"

*13. Are any fees or expenses incurred by participants in the Plan?*

Participants will not be responsible for payment of any brokerage commissions or fees or service charges in connection with the purchase of shares under the Plan whether their shares are newly issued or purchased on the open market.

*14. Will certificates be issued to participants for shares purchased?*

Certificates for shares purchased under the Plan will not be issued to participants. Instead, shares purchased for each participant will be credited to his or her Plan account and held by the Company in "book entry" form.

*15. How does a participant withdraw from the Plan?*

A participant may withdraw from the Plan at any time by notifying the Agent in writing. If a participant's request to withdraw is received by the Agent before a dividend record date, the amount of the dividend which would have otherwise been applied for purchase of Common Stock on the related dividend payment date and all subsequent dividends will be paid to the withdrawing participant in cash unless he or she re-enrolls in the Plan. If the request is received on or after the record date, but before the dividend payment date, shares will be purchased and credited to the participant's Plan account.

An eligible shareholder may again become a participant at any time following his or her withdrawal by following the procedures then in effect for enrollment in the Plan.

16. *What happens if the Company issues a stock dividend, declares a stock split, or has a rights offering?*

Additional shares issued by the Company pursuant to stock dividends and split shares distributed on shares of Common Stock registered under the Plan in the name of the Participant will be credited directly to Participant's Plan account in book-entry form. In the event of a subscription rights offering or a dividend in the form of stock other than Common Stock, such rights or such stock will be mailed directly to a participant in the Plan in the same manner as to holders of Common Stock not participating in the Plan.

17. *Who votes the shares held in the Plan?*

Each participant in the Plan will for all purposes be the record owner of all shares standing in his or her own name, and will have full voting rights as to all those shares.

18. *What is the tax status of reinvested cash dividends and shares of common stock acquired through the Plan?*

Participants are advised to consult their own tax advisors with respect to the tax consequences of their participation in the Plan. The reinvestment of cash dividends does not relieve the participant of any income tax payable on such dividends. In general, the Company believes that stockholders who participate in the Plan will have the same Federal and state income tax consequences, with respect to dividends payable to them, as any other holder of Common Stock. A participant will be treated for Federal income tax purposes as having received, on each dividend payment date, a dividend equal to the full amount of the cash dividend payable with respect to the participant's shares, even though that amount is not actually received by the participant in cash but, instead, is applied to the purchase of additional shares of Common Stock for the participant under the Plan. Each year a participant will receive all required Internal Revenue Federal income tax statements which reflect the dividends paid on shares of Common Stock registered in the participant's name.

Generally, any service fees paid by the Company on a participant's behalf are not subject to income taxes. Also, when the Agent makes open market purchases of Common Stock, the pro-rata share of any brokerage fees attributable to such purchases will be included in the per-share price. The participant's tax basis for each share is the per-share price.

A participant will not realize any taxable income upon receipt of shares of Common Stock acquired through the Plan. Gain or loss may also be recognized by a participant when shares of Common Stock are sold by the participant after withdrawal from the Plan. The amount of such gain or loss will be the difference between the amount a participant receives for such shares and the purchase cost thereof. The Agent's statements should be retained by the participant to help determine the tax basis of shares of Common Stock acquired through the Plan.

18. *What is the responsibility of the Company and Agent under the Plan?*

Neither the Company nor the Agent shall be liable in administering the Plan for any act done in good faith, or for any good faith omission to act, including, without limitation, any claims of liability: (1) arising out of failure to terminate the participant's participation in the Plan upon such participant's death prior to receipt of notice in writing of such death; (2) with respect to the prices at which shares of Common Stock are purchased under the Plan and the time when such purchases are made (provided, however, that nothing herein shall be deemed to constitute a waiver of any rights that a participant might have under the Securities Exchange Act of 1934 or other applicable State securities laws); and (3) for any fluctuations in the market price after purchase or sale of shares of Common Stock.

19. *Who interprets and regulates the Plan?*

The Board of Directors of the Company reserves the right to interpret and regulate the Plan.

20. *May the Plan be amended or discontinued?*

The Board of Directors of the Company may suspend, amend, or terminate the Plan at any time. Participants will be notified of any such suspension, amendment, or termination.

#### **FINANCIAL AND OTHER INFORMATION**

Attached hereto as Exhibit 1 are the consolidated financial statements of the Company for and as of the fiscal years ended December 31, 2023 and 2022, and for and as of the fiscal period ended March 31, 2024. Copies of the Company's Restated Articles of Incorporation and its By-laws will also be provided free of charge upon written request to the attention of David M. Gottleber, Senior Vice President and Chief Financial Officer of Huron Community Bank, 301 Newman Street, East Tawas, Michigan 48730.

In addition, the Company will furnish its shareholders with annual reports containing financial statements and may provide quarterly reports containing such financial statements at the discretion of the Company.

#### **LEGAL MATTERS**

Shumaker, Loop & Kendrick, LLP has issued an opinion that the shares of Common Stock offered hereby, when sold and issued as described herein, will be duly and validly issued and outstanding shares of Common Stock.

**Financial Statements**

**HURON COMMUNITY FINANCIAL SERVICES, INC.**  
East Tawas, Michigan

**CONSOLIDATED FINANCIAL STATEMENTS**  
December 31, 2023 and 2022

HURON COMMUNITY FINANCIAL SERVICES, INC.  
East Tawas, Michigan

CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022

CONTENTS

INDEPENDENT AUDITOR'S REPORT .....	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS .....	3
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS) .....	4
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY .....	5
CONSOLIDATED STATEMENTS OF CASH FLOWS .....	6
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS .....	7

## INDEPENDENT AUDITOR'S REPORT

Board of Directors  
Huron Community Financial Services, Inc.  
East Tawas, Michigan

### ***Opinion***

We have audited the consolidated financial statements of Huron Community Financial Services, Inc., which comprise the consolidated balance sheets as of December 31, 2023 and 2022, and the related consolidated statements of operations and comprehensive income (loss), changes in stockholders' equity, and cash flows for the years then ended, and the related notes to consolidated financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Huron Community Financial Services, Inc. as of December 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

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

### ***Emphasis of Matter***

As discussed in Note 1 to the consolidated financial statements, in the year-ended December 31, 2023, Huron Community Financial Services, Inc. adopted the new accounting guidance ASU 2016-13 Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, as amended. 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.

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 Huron Community Financial Services, Inc.'s ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

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(Continued)

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

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

In performing an audit in accordance with GAAS, we:

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

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

Crowe LLP

Grand Rapids, Michigan  
March 15, 2024

HURON COMMUNITY FINANCIAL SERVICES, INC.  
CONSOLIDATED BALANCE SHEETS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

	<u>2023</u>	<u>2022</u>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 21,890	\$ 9,711
Time deposits held in other financial institutions, at cost	32,833	31,846
Investment securities – available for sale, at fair value	110,580	115,822
Restricted stock, at cost	935	930
Loans		
Loans held for sale	128	597
Loans – net of allowance for credit losses of \$2,433 and \$2,683 in 2023 and 2022, respectively	<u>146,291</u>	<u>141,615</u>
Total loans	146,419	142,212
Foreclosed assets		
Premises and equipment, net	3,579	3,074
Goodwill	405	405
Accrued interest receivable	1,449	926
Bank-owned life insurance	8,215	8,021
Other assets	<u>4,849</u>	<u>4,306</u>
Total assets	<u>\$ 331,154</u>	<u>\$ 317,357</u>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Liabilities		
Deposits		
Noninterest bearing	\$ 52,189	\$ 52,548
Interest bearing	<u>231,005</u>	<u>220,783</u>
Total deposits	283,194	273,331
Short-term borrowings		
FHLB advances	4,274	10,967
Federal Reserve Bank borrowings	10,000	10,000
Accrued expenses and other liabilities	10,000	-
Total liabilities	<u>1,672</u>	<u>1,185</u>
Total liabilities	309,140	295,483
Stockholders' equity		
Common stock – \$1 par value: authorized – 1,000,000 shares issued – 552,524 and 580,694 shares outstanding at December 31, 2023 and 2022, respectively	553	581
Additional paid-in capital	16,994	18,612
Retained earnings	11,978	11,282
Accumulated other comprehensive loss	<u>(7,511)</u>	<u>(8,601)</u>
Total stockholders' equity	<u>22,014</u>	<u>21,874</u>
Total liabilities and stockholders' equity	<u>\$ 331,154</u>	<u>\$ 317,357</u>

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)  
Years ended December 31, 2023 and 2022  
(000's omitted, except share and per share data)

	<u>2023</u>	<u>2022</u>
Interest income		
Loans – including fees	\$ 8,673	\$ 6,970
Time deposits held in other financial institutions	1,070	462
Investment securities		
Taxable	1,105	1,071
Tax-exempt	817	771
Other	<u>653</u>	<u>137</u>
Total interest income	12,318	9,411
Interest expense		
Deposits	2,256	607
FHLB advances	459	41
Federal Reserve Bank borrowings	68	-
Short-term borrowings	<u>29</u>	<u>141</u>
Total interest expense	<u>2,812</u>	<u>789</u>
<b>Net interest income</b>	9,506	8,622
Provision (recovery) for credit losses – loans	<u>(250)</u>	<u>-</u>
<b>Net interest income after provision for credit losses</b>	9,756	8,622
Other operating income		
Service charges – deposits	437	420
Net gain on sales of loans held for sale	67	158
Bank owned life insurance income	194	188
Net loan servicing income	66	96
Other	<u>159</u>	<u>311</u>
Total other operating income	923	1,173
Other operating expenses		
Salaries and employee benefits	4,600	4,356
FDIC assessment	139	96
Occupancy expenses	646	624
Data processing fees	841	931
Depreciation expense	388	317
Other	<u>2,066</u>	<u>1,250</u>
Total other operating expenses	<u>8,680</u>	<u>7,574</u>
<b>Income before income taxes</b>	1,999	2,221
Income tax expense	<u>202</u>	<u>190</u>
<b>Net income</b>	1,797	2,031
Other comprehensive income (loss) – net of reclassification adjustments and tax – unrealized gain (loss) on investment securities	<u>1,090</u>	<u>(8,602)</u>
<b>Total comprehensive income (loss)</b>	<u>\$ 2,887</u>	<u>\$ (6,571)</u>
Earnings per share		
Basic earnings per common share	\$ 3.18	\$ 3.48
Diluted earnings per common share	3.17	3.47

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY  
Years ended December 31, 2023 and 2022  
(000's omitted, except share and per share data)

	<u>Common Stock</u>	<u>Additional Paid-In Capital</u>	<u>Retained Earnings</u>	<u>Accumulated Other Comprehensive Loss</u>	<u>Total Stockholders' Equity</u>
<b>Balance, January 1, 2022</b>	\$ 584	\$ 19,000	\$ 10,527	\$ 1	\$ 30,112
Net income	-	-	2,031	-	2,031
Other comprehensive loss	-	-	-	(8,602)	(8,602)
Issuance and sale of common stock (36,361 shares)	36	2,068	-	-	2,104
Repurchase of common stock (39,330 shares)	(39)	(2,475)	-	-	(2,514)
Stock-based compensation, net	-	19	-	-	19
Dividends declared \$2.18 per common share	-	-	(1,276)	-	(1,276)
<b>Balance, December 31, 2022</b>	581	18,612	11,282	(8,601)	21,874
Net income	-	-	1,797	-	1,797
Other comprehensive income	-	-	-	1,090	1,090
Issuance and sale of common stock (17,394 shares)	17	1,023	-	-	1,040
Repurchase of common stock (45,564 shares)	(45)	(2,658)	-	-	(2,703)
Stock-based compensation, net	-	17	-	-	17
Dividends declared \$1.91 per common share	-	-	(1,101)	-	(1,101)
<b>Balance, December 31, 2023</b>	<u>\$ 553</u>	<u>\$ 16,994</u>	<u>\$ 11,978</u>	<u>\$ (7,511)</u>	<u>\$ 22,014</u>

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
Years ended December 31, 2023 and 2022  
(000's omitted, except share and per share data)

	<u>2023</u>	<u>2022</u>
<b>Cash flows from operating activities</b>		
Net income	\$ 1,797	\$ 2,031
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation	388	317
Net gain on sales of loans held for sale	(67)	(158)
Proceeds from sales of loans held for sale	2,134	5,267
Origination of loans held for sale	(1,598)	(5,109)
Provision (recovery) for credit losses – loans	(250)	-
Net amortization on securities	369	442
Bank owned life insurance income	(194)	(188)
Gain on sale of premises and equipment	-	(119)
Net gain on sale of foreclosed assets	(17)	(3)
Stock-based compensation	17	19
Net change in:		
Accrued interest receivable	(523)	(245)
Other assets	(785)	(190)
Accrued expenses and other liabilities	441	(62)
Net cash from operating activities	<u>1,712</u>	<u>2,002</u>
<b>Cash flows from investing activities</b>		
Activity in investment securities available for sale:		
Maturities, prepayments, calls and sales	24,060	20,551
Purchases	(17,809)	(29,087)
Net change in time deposits held in other financial institutions	(987)	(21,082)
Purchase of restricted securities	(5)	-
Proceeds from sale of foreclosed assets	121	62
Proceeds from redemption of restricted securities	-	27
Proceeds from sale of premises and equipment	-	285
Net increase in loans	(4,426)	(7,835)
Capital expenditures	(893)	(801)
Net cash from (for) investing activities	<u>61</u>	<u>(37,880)</u>
<b>Cash flows from financing activities</b>		
Net increase in deposits	9,863	12,147
Net increase (decrease) in short-term borrowings	(6,693)	3,093
Proceeds from FHLB advances	-	7,000
Proceeds from Federal Reserve Bank borrowings	10,000	-
Proceeds from the issuance and sale of common stock	1,040	2,104
Repurchases of common stock	(2,703)	(2,514)
Cash dividends paid on common stock	(1,101)	(1,276)
Net cash from financing activities	<u>10,406</u>	<u>20,554</u>
Net change in cash and cash equivalents	12,179	(15,324)
Cash and cash equivalents at beginning of year	<u>9,711</u>	<u>25,035</u>
<b>Cash and cash equivalents at end of year</b>	<u>\$ 21,890</u>	<u>\$ 9,711</u>
<b>Supplemental disclosures of cash flow information</b>		
Cash paid during the year for:		
Interest	\$ 2,615	\$ 697
Income taxes	75	80

See accompanying notes to consolidated financial statements.

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES**

Basis of Presentation and Consolidation: The consolidated financial statements include the accounts of Huron Community Financial Services, Inc. (the "Corporation") and its wholly owned subsidiaries, Huron Community Bank (the "Bank") and Huron Community Insurance Agency, LLC. All intercompany transactions and balances have been eliminated in consolidation.

Nature of Operations: The Bank operates in Iosco, Arenac, Alcona and Ogemaw counties in the state of Michigan. The Bank's revenue results primarily from providing real estate and commercial loans and, to a lesser extent, consumer loans. Its primary deposit products are demand deposits, savings, and term certificate accounts. The Corporation does not have any significant concentrations to any one industry or customer.

Use of Estimates: In preparing consolidated financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the consolidated balance sheet and reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash and cash equivalents include cash on hand, amounts due from other financial institutions, and federal funds sold. Federal funds sold are generally sold for one-day periods. Net cash flows are reported for customer loan and deposit transactions, time deposits in other financial institutions and short-term borrowings.

Time Deposits Held with Other Financial Institutions: Time deposits held with other financial institutions are interest earning deposits. All individual time deposits held with other financial institutions are originated in amounts that are within federally insured limits and are carried at cost. Contractual maturities of time deposits held with other financial institutions at December 31, 2023 were as follows:

During Fiscal Years Ending <u>December 31,</u>	<u>Amount Maturing</u>
2024	\$ 14,229
2025	12,402
2026	2,480
2027	<u>3,722</u>
Total	<u>\$ 32,833</u>

Investment Securities: Securities not classified as held to maturity or trading are classified as "available for sale" and are recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss), net of tax.

Interest income includes amortization or accretion of purchase premium or discount. Premiums and discounts on securities are amortized or accreted on the level-yield method without anticipating prepayments, except for mortgage-backed securities where prepayments are anticipated. Premiums on callable securities are amortized to their earliest call date. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

A security is placed on nonaccrual status at the time any principal or interest payments become greater than 90 days delinquent. Interest accrued but not received for a security placed on non-accrual is reversed against interest income.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Allowance for Credit Losses – Investment Securities Available for Sale: For investment securities available for sale in an unrealized loss position, the Corporation 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 earnings. For investment securities available for sale that do not meet the aforementioned criteria, the Corporation evaluates whether the decline in fair value has resulted from credit losses or other factors. In making this assessment, management 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 (loss).

Changes in the allowance for credit losses are recorded as credit loss expense (or reversal). Losses are charged against the allowance when management believes the uncollectibility of an investment security available for sale is confirmed or when either of the criteria regarding intent or requirement to sell is met.

Accrued interest receivable on investment securities available for sale totaled \$423 at December 31, 2023 and is excluded from the estimate of credit losses.

Federal Home Loan Bank (FHLB) Stock: The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. FHLB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. FHLB stock was \$455 and \$450 at December 31, 2023 and 2022 and is include in restricted stock in the consolidated balance sheets. Both cash and stock dividends are reported as income in interest income – other in the consolidated statements of operations and comprehensive income (loss).

Federal Reserve Bank (FRB) Stock: The Bank is a member of its regional Federal Reserve Bank. FRB stock is carried at cost, classified as a restricted security, and periodically evaluated for impairment based on ultimate recovery of par value. FRB stock was \$480 at both December 31, 2023 and 2022 and is include in restricted stock in the consolidated balance sheets. Both cash and stock dividends are reported as income in interest income – other in the consolidated statements of operations and comprehensive income (loss).

Loans Held for Sale: Real estate - residential loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by outstanding commitments from investors. Net unrealized losses, if any, are recorded as a valuation allowance and charged to earnings. Real estate –residential loans held for sale are generally sold with servicing retained. The carrying value of real estate – residential loans sold is reduced by the amount allocated to the servicing right. Gains and losses on sales of real estate - residential loans are based on the difference between the selling price and the carrying value of the related loan sold.

Loans: The Bank grants real estate – commercial, real estate – residential, commercial and industrial, and consumer loans to customers. A substantial portion of the loan portfolio is represented by commercial and residential loans throughout Michigan. The ability of the Bank's borrowers to honor their contracts is dependent upon the real estate and general economic conditions in this area.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at amortized cost net of the allowance for credit losses. Amortized cost is the principal balance outstanding, net of deferred loan fees and costs. Accrued interest receivable totaled \$808 at December 31, 2023 and was reported in accrued interest receivable in the consolidated balance sheets and is excluded from the estimate of credit losses. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method without anticipating prepayments.

The accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance for Credit Losses – Loans: The allowance for credit losses is a valuation account that is deducted from 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. Historical credit loss experience provides the basis for the estimation of expected credit losses. Adjustments to historical loss information are made for differences in current loan-specific risk characteristics such as differences in underwriting standards, portfolio mix, delinquency level, or term as well as for changes in environmental conditions, such as changes in unemployment rates, property values, or other relevant factors.

The allowance for credit losses is measured on a collective (pool) basis when similar risk characteristics exist. The Bank uses the weighted average remaining maturity (WARM) method for estimating expected losses on each portfolio segment. The WARM method uses an average annual charge-off rate and remaining life to estimate the allowance for credit losses. The average annual charge-off rate contains losses over several vintages and is used as a foundation for estimating the credit losses for the remaining balances of loans in a portfolio segment as of the consolidated balance sheet date. The average annual charge-off rate is applied to the contractual term, further adjusted for estimated prepayments to determine the unadjusted historical charge-off rate for the remaining loan balance.

The annual charge-off rate is comprised of the Bank's historical loss experience over the past seven (7) years by portfolio segment. This actual loss experience is supplemented with other qualitative factors based on the risks present for each portfolio segment. These qualitative factors include consideration of the following: lending policies and procedures, nature and volume of the loan portfolio, experience, ability and depth of the lending department, volume and severity of past due, nonaccrual and adversely classified loans, quality of the loan review function, values of the underlying collateral for loans, existence and impact of any concentrations in credit risk, and other external factors such as competition, legal and regulatory matters. Management forecasts the qualitative factors over the expected life of the portfolio and has adjusted the historical loss experience for these expectations.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

The Bank has identified the following portfolio segments:

Commercial and Industrial – Loans to businesses that are sole proprietorships, partnerships, limited liability companies and corporations. These loans are for commercial, industrial, or professional purposes. The risk characteristics of these loans vary based on the borrowers business and industry as repayment is typically dependent on cash flows generated from the underlying business.

Consumer – Term loans or lines of credit for the purchase of consumer goods, vehicles or home improvement. The risk characteristics of the loans in this segment vary depending on the type of collateral but generally repayment is expected from an individual continuing to generate a cash flow that supports the calculated payment obligation. Secondary support could involve liquidation of collateral.

Real Estate – Commercial – These are loans to purchase, construct or refinance business related facilities, both owner-occupied and non-owner-occupied (leased to unrelated businesses). The risks associated with this segment are dependent on the businesses' ability to continue to generate cash flows that supports the payment obligation under the loan and changes in market valuation of the underlying commercial real estate. However, these risks are mitigated by diversification of industries within this segment and ultimately the underlying collateral supporting these loans.

Real Estate – Residential – These are loans to purchase, construct or refinance single-family residences. The risks associated with this segment are dependent on the customer's ability to satisfy the payment obligation under the loan and often widely fluctuating market values of the underlying real estate. However, due to robust underwriting procedures and assessment of underlying residential real estate property collateral, these risks are diminished.

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 estimated selling costs as appropriate.

Expected credit losses are estimated over the contractual term of the loans, 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 loan modification 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 cancellable by the Bank.

Transfers of Financial Assets: Transfers of financial assets are accounted for as sales when control over the assets has been relinquished. Control over transferred assets is deemed to be surrendered when the assets have been legally isolated from the Corporation, the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and the Corporation does not maintain effective control over the transferred assets.

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

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Premises and Equipment: Land is carried at cost. Buildings and equipment are carried at cost, less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets.

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

Leases: Leases are classified as operating or finance leases at the lease commencement date. The Corporation leases certain locations and equipment. The Corporation records leases on the consolidated balance sheet in the form of a lease liability for the present value of future minimum payments under the lease terms and a right-of-use asset equal to the lease liability adjusted for items such as deferred or prepaid rent, lease incentives, and any impairment of the right-of-use asset. The discount rate used in determining the lease liability is based upon incremental borrowing rates the Corporation could obtain for similar loans as of the date of commencement or renewal. The Corporation does not record short term leases with an initial lease term of one year or less in the consolidated balance sheets.

At lease inception, the Corporation determines the lease term by considering the noncancelable lease term and all optional renewal periods that the Corporation is reasonably certain to renew. The lease term is also used to calculate straight-line lease expense. Leasehold improvements, except for those relating to leases between entities under common control, are amortized over the shorter of the useful life and the estimated lease term. The Corporation's leases do not contain residual value guarantees or material variable lease payments that will impact the Corporation's ability to pay dividends or cause the Corporation to incur additional expenses.

Operating lease expense consists of a single lease cost allocated over the remaining lease term on a straight-line basis, variable lease expense, and any impairment of the right-of-use asset. Lease expense is included in other operating expenses – occupancy expenses in the Corporation's consolidated statements of operations and comprehensive income (loss). The Corporation's variable lease expense include rent escalators that are based on market conditions and include items such as common area maintenance, utilities, parking, property taxes, insurance and other costs associated with the lease. As of December 31, 2023, the balance of the right of use asset and lease liability was not material to the Corporation.

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

Short-Term Borrowings: Short-term borrowings consist of repurchase agreements and on demand borrowings such as lines of credit. Substantially all repurchase agreement liabilities represent amounts advanced by various customers. Securities are pledged to cover these borrowings, which are not covered by federal deposit insurance.

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

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Servicing Rights: When real estate – residential loans are sold with servicing retained, servicing rights are initially recorded at fair value in net gain on sales of loans held for sale in the consolidated statements of operations and comprehensive income (loss). Fair value is based on market prices for comparable servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into earnings in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Corporation later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the valuation allowance may be recorded as an increase to earnings. No impairment of servicing rights has been recorded at year end 2023 or 2022. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Gross servicing fee income is based on a contractual percentage of the outstanding principal and is recorded as income when earned and was approximately \$149 and \$160 in 2023 and 2022, respectively. The amortization of servicing rights is netted against gross servicing fee income. Late fees and ancillary fees related to loan servicing are not material.

Stock-Based Compensation: Compensation cost is recognized for stock options awards issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options.

Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Comprehensive Income (Loss): Comprehensive income (loss) consists of net income and other comprehensive income (loss). Other comprehensive income (loss) includes unrealized gains and losses on investment securities available for sale which is also recognized as a separate component of stockholders' equity.

There were no reclassification adjustments (and associated tax effect) during 2023 and 2022 related to other comprehensive income (loss).

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

Income Taxes: Income tax expense is the sum of the current year income tax due or refundable and the change in deferred tax assets and liabilities. Deferred income tax assets and liabilities are determined using the liability (or balance sheet) method. Under this method, the net deferred tax asset or liability is determined based on the federal income tax effects of the temporary differences between the book and tax bases of the various balance sheet assets and liabilities. A valuation allowance, if needed, reduces deferred tax assets to the amount expected to be realized.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 1 – NATURE OF BUSINESS AND SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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

Earnings per Share: Basic earnings per common share are computed by dividing net income by the average number of common shares outstanding during the period. The number of weighted average common shares outstanding was 564,759 and 583,099 for the years ended December 31, 2023 and 2022, respectively. The Corporation uses the treasury stock method to compute diluted earnings per share, which assumes that proceeds from the assumed exercise of stock options would be used to purchase common stock at the average market price during the period. The dilutive effect of stock options increased average common shares outstanding by 1,908 and 1,813 shares at December 31, 2023 and 2022, respectively. There were 15,150 options not considered for dilution in 2023, because the exercise price plus unrecognized compensation cost was in excess of the average market price during the year.

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

Subsequent Events: The consolidated financial statements and related disclosures include evaluation of events up through and including March 15, 2024, which is the date the consolidated financial statements were available to be issued.

Reclassification: Certain amounts appearing in the prior year's consolidated financial statements have been reclassified to conform to the current year presentation. These reclassifications had no effect on prior period net income or total stockholders' equity.

Adoption of New Accounting Standards: On January 1, 2023, the Corporation adopted ASU 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 and securities held to maturity. It also applies to off-balance sheet credit exposures such as loan commitments, standby letters of credit, financial guarantees, and other similar instruments. In addition, ASC 326 made changes to the accounting for investment securities available for sale. One such change is to require credit losses to be presented as an allowance rather than as a write-down on investment securities available for sale management does not intend to sell or believes that it is more likely than not, they will be required to sell.

The Corporation adopted ASC 326 using the modified retrospective method for all financial assets measured at amortized cost and off-balance-sheet (OBS) credit exposures. Results for reporting periods beginning after January 1, 2023 are presented under ASC 326 while prior period amounts continue to be reported in accordance with previously applicable GAAP. The impact of the adoption of ASC 326 was not material to the Corporation.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 2 – INVESTMENT SECURITIES**

The amortized cost and fair value of investment securities available for sale and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive loss, are as follows at December 31:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
<u>2023</u>				
U.S. government and federal agency	\$ 32,411	\$ -	\$ (2,327)	\$ 30,084
State and municipal	40,248	179	(1,956)	38,471
Time deposits with financial institutions	5,676	7	(202)	5,481
Mortgage-backed securities, residential	31,702	15	(3,619)	28,098
Collateralized mortgage obligations, residential	<u>10,052</u>	<u>-</u>	<u>(1,606)</u>	<u>8,446</u>
Total securities available for sale	<u>\$ 120,089</u>	<u>\$ 201</u>	<u>\$ (9,710)</u>	<u>\$ 110,580</u>
<u>2022</u>				
U.S. government and federal agency	\$ 32,570	\$ -	\$ (3,075)	\$ 29,495
State and municipal	42,344	26	(2,444)	39,926
Time deposits with financial institutions	5,238	-	(232)	5,006
Mortgage-backed securities, residential	34,982	8	(3,593)	31,397
Collateralized mortgage obligations, residential	<u>11,575</u>	<u>-</u>	<u>(1,577)</u>	<u>9,998</u>
Total securities available for sale	<u>\$ 126,709</u>	<u>\$ 34</u>	<u>\$ (10,921)</u>	<u>\$ 115,822</u>

There was no investment securities available for sale with an allowance for credit losses at December 31, 2023.

At December 31, 2023 and 2022, investment securities available for sale with a carrying value of \$64,486 and \$24,169, respectively, were pledged to secure borrowings and public deposits and for other purposes required or permitted by law.

The amortized cost and fair value of investment securities available for sale are shown by contractual maturity. Expected maturities may differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Securities not due at a single maturity date are shown separately:

	<u>December 31, 2023</u>	
	<u>Amortized Cost</u>	<u>Fair Value</u>
Due in 1 year or less	\$ 9,575	\$ 9,355
Due in 1 through 5 years	52,522	49,387
Due after 5 years through 10 years	12,981	12,300
Due after 10 years	3,257	2,994
Mortgage-backed securities, residential	31,702	28,098
Collateralized mortgage obligations, residential	<u>10,052</u>	<u>8,446</u>
Total	<u>\$ 120,089</u>	<u>\$ 110,580</u>

There were no investment securities available for sale sold in 2023 or 2022.

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 2 – INVESTMENT SECURITIES (Continued)**

At December 31, 2023 and 2022, there were no holdings of investment securities available for sale of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of total stockholders' equity.

Information pertaining to investment securities available for sale with gross unrealized losses at December 31, 2023 and 2022, aggregated by investment category and length of time that individual securities have been in a continuous loss position, is as follows:

	<u>Less than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>	<u>Fair Value</u>	<u>Unrealized Loss</u>
<u>2023</u>						
U.S. government and federal agency	\$ -	\$ -	\$ 30,084	\$ (2,327)	\$ 30,084	\$ (2,327)
State and municipal	4,207	(22)	29,387	(1,934)	33,594	(1,956)
Time deposits with financial institutions	-	-	4,487	(202)	4,487	(202)
Mortgage-backed securities, residential	796	(4)	26,378	(3,615)	27,174	(3,619)
Collateralized mortgage obligations, residential	-	-	8,446	(1,606)	8,446	(1,606)
	<u>\$ 5,003</u>	<u>\$ (26)</u>	<u>\$ 98,782</u>	<u>\$ (9,684)</u>	<u>\$ 103,785</u>	<u>\$ (9,710)</u>
<u>2022</u>						
U.S. government and federal agency	\$ -	\$ -	\$ 29,495	\$ (3,075)	\$ 29,495	\$ (3,075)
State and municipal	23,199	(564)	14,032	(1,880)	37,231	(2,444)
Time deposits with financial institutions	4,339	(153)	667	(79)	5,006	(232)
Mortgage-backed securities, residential	7,620	(472)	22,829	(3,121)	30,449	(3,593)
Collateralized mortgage obligations, residential	4,304	(477)	5,694	(1,100)	9,998	(1,577)
	<u>\$ 39,462</u>	<u>\$ (1,666)</u>	<u>\$ 72,717</u>	<u>\$ (9,255)</u>	<u>\$ 112,179</u>	<u>\$ (10,921)</u>

At December 31, 2023 and 2022, there were 497 and 545 investment securities available for sale in an unrealized loss position, respectively. Unrealized losses on these securities have not been recognized into earnings because the issuers' securities are of high credit quality, the Corporation has the intent and ability to hold the securities for the foreseeable future, and the decline in fair value is due primarily to increased market interest rates. The fair value is expected to recover as the securities approach the maturity date.

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES**

A summary of the balances of loans follows:

	<u>2023</u>	<u>2022</u>
Real estate – residential	\$ 32,311	\$ 30,174
Real estate – commercial	77,231	84,152
Consumer and industrial	30,027	23,185
Consumer	<u>9,283</u>	<u>7,384</u>
	148,852	144,895
Less: allowances for credit losses	<u>2,433</u>	<u>2,683</u>
Loans – net	<u>\$ 146,419</u>	<u>\$ 142,212</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table present the balance in the allowance for credit losses by portfolio segment for the year ended December 31, 2023.

	Real Estate – <u>Residential</u>	Real Estate – <u>Commercial</u>	Commercial and <u>Industrial</u>	<u>Consumer</u>	<u>Total</u>
<u>2023</u>					
Beginning balance, prior to adoption of ASC 326	\$ 558	\$ 1,558	\$ 430	\$ 137	\$ 2,683
Impact of adoption of ASC 326	-	-	-	-	-
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision (recovery) for credit losses	<u>(107)</u>	<u>4</u>	<u>(139)</u>	<u>(8)</u>	<u>(250)</u>
Ending allowance balance	<u>\$ 451</u>	<u>\$ 1,562</u>	<u>\$ 291</u>	<u>\$ 129</u>	<u>\$ 2,433</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for each of the year ending December 31, 2022:

	Real Estate - <u>Residential</u>	Real Estate - <u>Commercial</u>	Commercial and <u>Industrial</u>	<u>Consumer</u>	<u>Total</u>
<u>2022</u>					
Beginning balance	\$ 258	\$ 1,640	\$ 641	\$ 144	\$ 2,683
Charge-offs	-	-	-	-	-
Recoveries	-	-	-	-	-
Provision for loan losses	<u>300</u>	<u>(82)</u>	<u>(211)</u>	<u>(7)</u>	<u>-</u>
Ending allowance balance	<u>\$ 558</u>	<u>\$ 1,558</u>	<u>\$ 430</u>	<u>\$ 137</u>	<u>\$ 2,683</u>
Ending allowance balance attributable to loans:					
Individually evaluated for impairment	\$ -	\$ 217	\$ -	\$ -	\$ 217
Collectively evaluated for impairment	<u>558</u>	<u>1,341</u>	<u>430</u>	<u>137</u>	<u>2,466</u>
Ending allowance balance	<u>\$ 558</u>	<u>\$ 1,558</u>	<u>\$ 430</u>	<u>\$ 137</u>	<u>\$ 2,683</u>
Loans:					
Individually evaluated for impairment	\$ 360	\$ 1,937	\$ -	\$ -	\$ 2,297
Collectively evaluated for impairment	<u>29,814</u>	<u>82,215</u>	<u>23,185</u>	<u>7,384</u>	<u>142,598</u>
Total loans	<u>\$ 30,174</u>	<u>\$ 84,152</u>	<u>\$ 23,185</u>	<u>\$ 7,384</u>	<u>\$ 144,895</u>

(Continued)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

**Credit Risk Grading**

As part of the management of the loan portfolio at the time of origination and through the continuing loan review process, the Bank categorizes each loan into credit risk categories based on several factors including current financial information, overall debt service coverage, comparison against industry averages, collateral coverage, historical payment experience, and current economic trends. The credit risk rating structure used is shown below:

**Monitor** – A monitor asset is not considered “rated” or “classified” for regulatory purposes but is considered an asset which bears watching due to some modest deterioration in financial performance or external threats, such as a lawsuit, environmental issue, or potential loss of a significant customer. Some of the following characteristics may exist: financial condition has taken a negative turn and may be temporarily strained; borrower may have experienced recent losses from operations; cash flow may be insufficient to service the loan, based on most recent six-month period; financial covenant defaults are occurring with some regularity, and they would be deemed more than inconsequential; need for guarantor is critical, but guarantor’s condition adds little substance to credit quality; loss of principal is not at question, unless current trends were to continue; however, there are aspects of this underwriting which may not now conform to bank lending policy; borrowing base deficiencies may exist and are becoming a concern.

**Special Mention** – A special mention asset has potential weaknesses that deserve management’s close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan, or in the Bank’s credit position at some future date. Special mention assets are not adversely classified and do not expose an institution to sufficient risk to warrant adverse classification. Some of the following characteristics may exist: loans are currently protected, but are potentially weak due to negative trends in balance sheet or income statement; cash flow may be insufficient to meet debt service, with the prospect that this condition may not be temporary; lack of effective control over the collateral or existence of documentation deficiencies; there is a potential risk of payment default; management’s ability to cope with current financial conditions is questioned; collateral coverage has weakened; moderate operating losses may have occurred; financial information may be inadequate to depict condition of borrower adequately; consistent borrowing deficiencies.

**Substandard** – A substandard asset has well defined weaknesses whereby collection is possible, but jeopardized. However, jeopardized payment does not imply ultimate loss. Assets so classified are inadequately protected by current net worth and repayment capacity, and there is a high probability that collateral will have to be liquidated to repay the loan. If deficiencies are not corrected quickly, there is a real possibility of loss, and of the borrower’s ability to operate as a going concern. Loan may be in default, borrower may be in bankruptcy, loan restructure at less than market terms, or has been partially charged off. Nonaccrual loans would be classified, at least, “substandard.”

**Doubtful** – A doubtful asset has characteristics of “substandard,” but information available suggests it is highly improbable that liquidation of collateral will repay the loan in its entirety. It may be impossible to calculate exactly what the loss may be, but the probability of some loss is high. Loans are to be placed on nonaccrual status when a significant percentage is classified “doubtful” and collateral liquidation is probable (Not all nonaccrual loans necessarily have to be classified “doubtful” if collateral appears adequate to repay remaining the outstanding loan balance).

**Pass** – Credits not covered by the above definitions are pass credits, which are not considered to be adversely rated.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

For real estate – residential and consumer loan segments, the Bank monitors credit quality using a combination of the delinquency status of the loan and other known borrower circumstances and classifies loans as performing and nonperforming:

Performing – Loan pays as agreed and is current.

Nonperforming – Loans which are contractually past due 90 days or more as to interest or principal payments, on nonaccrual status, in process of foreclosure or other forms of liquidation and/or collection or loans where the terms of which have been renegotiated to provide a reduction or deferral on interest or principal.

	<u>Pass</u>	<u>Monitor</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Performing</u>	<u>Non- Performing</u>	<u>Total</u>
<u>2023</u>							
Real estate – commercial							
Commercial real estate and other	\$ 72,349	\$ 8	\$ 75	\$ -	\$ -	\$ -	\$ 72,432
Hotels and motels	1,693	-	-	1,591	-	-	3,284
Golf courses	1,515	-	-	-	-	-	1,515
Commercial and industrial	30,019	8	-	-	-	-	30,027
Real estate – residential							
1-4 family residential	-	-	-	-	30,961	64	31,025
Construction and land loans	-	-	-	-	1,286	-	1,286
Consumer							
Home equity lines of credit	-	-	-	-	5,297	-	5,297
Other	-	-	-	-	3,986	-	3,986
	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
Total	<u>\$ 105,576</u>	<u>\$ 16</u>	<u>\$ 75</u>	<u>\$ 1,591</u>	<u>\$ 41,530</u>	<u>\$ 64</u>	<u>\$ 148,852</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

	<u>Pass</u>	<u>Monitor</u>	<u>Special Mention</u>	<u>Substandard</u>	<u>Performing</u>	<u>Non- Performing</u>	<u>Total</u>
<u>2022</u>							
Real estate – commercial							
Commercial real estate and other	\$ 72,480	\$ 19	\$ 111	\$ -	\$ -	\$ -	\$ 72,610
Hotels and motels	7,914	-	-	-	-	1,937	9,851
Golf courses	1,287	404	-	-	-	-	1,691
Commercial and industrial	23,173	12	-	-	-	-	23,185
Real estate – residential							
1-4 family residential	-	-	-	-	19,961	78	20,039
Construction and land loans	-	-	-	-	10,135	-	10,135
Consumer							
Home equity lines of credit	-	-	-	-	4,910	-	4,910
Other	-	-	-	-	2,474	-	2,474
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,474</u>	<u>-</u>	<u>2,474</u>
Total	<u>\$ 104,854</u>	<u>\$ 435</u>	<u>\$ 111</u>	<u>\$ -</u>	<u>\$ 37,480</u>	<u>\$ 2,015</u>	<u>\$ 144,895</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

**Age Analysis of Past Due Loans**

The following tables detail the age analysis of past due loans at December 31, 2023 and 2022:

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total	Past Due 89 Days and Accruing
<u>2023</u>							
Real estate – commercial							
Commercial real estate and other	\$ 143	\$ -	\$ -	\$ 143	\$ 72,289	\$ 72,432	\$ -
Hotels and motels	-	-	-	-	3,284	3,284	-
Golf courses	-	-	-	-	1,515	1,515	-
Commercial and industrial	14	-	-	14	30,013	30,027	-
Real estate – residential							
1-4 family residential	-	-	-	-	31,025	31,025	-
Construction and land loans	-	-	-	-	1,286	1,286	-
Consumer							
Home equity lines of credit	-	-	-	-	5,297	5,297	-
Other	-	-	-	-	3,986	3,986	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,986</u>	<u>3,986</u>	<u>-</u>
Total	<u>\$ 157</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 157</u>	<u>\$ 148,695</u>	<u>\$ 148,852</u>	<u>\$ -</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

	30-59 Days Past Due	60-89 Days Past Due	Greater Than 89 Days	Total Past Due	Current	Total	Past Due 89 Days and Accruing
<u>2022</u>							
Real estate – commercial							
Commercial real estate and other	\$ 196	\$ 1	\$ -	\$ 197	\$ 72,413	\$ 72,610	\$ -
Hotels and motels	-	-	-	-	9,851	9,851	-
Golf courses	-	-	-	-	1,691	1,691	-
Commercial and industrial	-	-	-	-	23,185	23,185	-
Real estate – residential							
1-4 family residential	228	-	-	228	19,811	20,039	-
Construction and land loans	8	-	-	8	10,127	10,135	-
Consumer							
Home equity lines of credit	-	-	-	-	4,910	4,910	-
Other	-	-	-	-	2,474	2,474	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,474</u>	<u>2,474</u>	<u>-</u>
Total	\$ 432	\$ 1	\$ -	\$ 433	\$ 144,462	\$ 144,895	\$ -

**Collateral Dependent Loans**

The following tables present the amortized cost basis of collateral-dependent loans by class of loans as of December 31, 2023:

	<u>Commercial Real Estate</u>	<u>Residential Real Estate</u>
Real estate – commercial:		
Hotels and motels	\$ 1,592	\$ -
Real estate – residential:		
1-4 family residential	<u>-</u>	<u>64</u>
Total	<u>\$ 1,562</u>	<u>\$ 64</u>

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES** (Continued)

The following table presents information related to impaired loans by class, as of December 31, 2022, and the amount of allowance for loan losses allocated.

	<u>Recorded Investment</u>	<u>Unpaid Principal Balance</u>	<u>Related Allowance for Loan Losses</u>	<u>Average Recorded Investment for the Year</u>	<u>Interest Income for the Year</u>
<u>2022</u>					
With no related allowance for loan losses recorded:					
Real estate – commercial:					
Commercial real estate and other	\$ -	\$ -	\$ -	\$ -	\$ -
Hotels and motels	-	-	-	-	-
Commercial and industrial	-	-	-	-	-
Real estate – residential					
1-4 family residential	360	431	-	370	23
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	<u>360</u>	<u>431</u>	<u>-</u>	<u>370</u>	<u>23</u>
With an allowance for loan losses recorded:					
Real estate – commercial:					
Commercial real estate and other	-	-	-	-	-
Hotels and motels	1,937	2,137	217	2,008	121
Commercial and industrial	-	-	-	-	-
Real estate – residential:					
1-4 family residential	-	-	-	-	-
Construction and land loans	-	-	-	-	-
Consumer – home equity lines of credit	-	-	-	-	-
Sub-total	<u>1,937</u>	<u>2,137</u>	<u>217</u>	<u>2,008</u>	<u>121</u>
<b>Total</b>	<u>\$ 2,297</u>	<u>\$ 2,568</u>	<u>\$ 217</u>	<u>\$ 2,378</u>	<u>\$ 144</u>

The recorded investment in loans excluded accrued interest receivable due to immateriality. For purposes of this disclosure, the unpaid principal balance is not reduced for partial charge-offs and reflects the contractual amounts due.

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
 NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
 December 31, 2023 and 2022  
 (000's omitted, except share and per share data)

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**NOTE 3 – LOANS AND ALLOWANCE FOR CREDIT LOSSES (Continued)**

**Nonaccrual Loans**

The following tables present the amortized cost basis of loans on nonaccrual status as of December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Real estate commercial:		
Hotels and motels	\$ 1,592	\$ 1,937
Real estate – residential:		
1-4 family residential	64	78
Total	\$ 1,656	\$ 2,015

At December 31, 2023, there were no loans on nonaccrual status that had an allowance for credit losses allocation.

Loans on which interest and/or principal is 90 days or more past due are placed on nonaccrual status and any previously accrued but uncollected interest is reversed against income. Such loans will remain on a cash basis for the recognition of income until such time as the loan has remained current for a period of not less than six (6) months and it is determined an adequate propensity for timely payment to occur in the future. Past due is measured from the date through which interest is due or on which principal payment is due irrespective of the date on which the billing may have been rendered. Unless otherwise specified in the note or loan agreement, demand notes shall, for purposes of measuring past due status, have an interest due date no less frequently than once each calendar quarter. Other loans on which there is serious doubt as to collectability are placed on nonaccrual because of past due status. Any loan whereby some or all of the balance has been charged off is placed on nonaccrual, unless it is part of an A B loan restructure. If the loan was on nonaccrual at the time of the restructure, it will remain in nonaccrual until such time as the above stated criteria is met. If the loan was not in nonaccrual at the time of the A B note restructuring and there is concrete evidence the payment structure will be met, the loan will not have to be placed in nonaccrual, provided the B portion has been charged off. Real estate – residential loans are placed on nonaccrual status when the account is three months (typically four payments) past due. All previously accrued but uncollected interest is reversed when the loan is placed on nonaccrual.

**Loan Modifications**

Occasionally, the Bank modifies loans to borrowers in financial distress by providing principal forgiveness, term extension, an other-than-insignificant payment delay or interest rate reduction. When principal forgiveness is provided, the amount of forgiveness is charged-off against the allowance for credit losses.

In some cases, the Bank provides multiple types of concessions on one loan. Typically, one type of concession, such as a term extension, is granted initially. If the borrower continues to experience financial difficulty, another concession, such as principal forgiveness, may be granted.

There were no loan modifications in 2023 or 2022, and no loan modifications that defaulted within a year of their modification during 2023 or 2022.

**Related Parties**

In the ordinary course of business, the Bank has granted loans to principal officers and directors and their affiliates amounting to \$4,200 and \$4,589 at December 31, 2023 and 2022, respectively.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 4 –LOAN SERVICING**

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of loans serviced for others were \$56,723 and \$61,749 at December 31, 2023 and 2022, respectively.

The balance of capitalized servicing rights, net of valuation allowance, included in other assets in the consolidated balance sheets at December 31, 2023 and 2022 was \$272 and \$355, respectively. The fair value of the capitalized servicing rights was approximately \$1,183 and \$700 at year-end 2023 and 2022, respectively. The key economic assumptions used in determining the fair value of the loan servicing rights include an annual constant prepayment speed (CPR) of 6.42% and 6.68% for December 31, 2023 and 2022, respectively, and a discount rate of 11.00% and 11.25% for December 31, 2023 and 2022, respectively.

The following summarizes servicing rights capitalized and amortized, along with the aggregate activity in related valuation allowances:

	<u>2023</u>	<u>2022</u>
Mortgage-servicing rights capitalized	\$ 24	\$ 61
Mortgage-servicing rights amortized and closed	107	125

**NOTE 5 – PREMISES AND EQUIPMENT**

A summary of the cost and accumulated depreciation of premises and equipment is as follows:

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 5,494	\$ 4,665
Furniture and fixtures	2,414	2,652
Vault and equipment	375	375
Automobiles	91	91
Land	<u>949</u>	<u>667</u>
	9,323	8,450
Accumulated depreciation	<u>(5,744)</u>	<u>(5,376)</u>
Net premises and equipment	<u>\$ 3,579</u>	<u>\$ 3,074</u>

Depreciation expense for the years ended December 31, 2023 and 2022 amounted to \$388 and \$317, respectively.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 6 - DEPOSITS**

The following is a summary of the distribution of interest-bearing deposits at December 31:

	<u>2023</u>	<u>2022</u>
Checking/NOW accounts	\$ 114,273	\$ 123,521
Savings	51,929	54,278
Money market demand	2,152	5,081
Time		
Under \$250	52,089	33,866
\$250 and over	10,562	4,037
Total interest-bearing deposits	\$ 231,005	\$ 220,783

At December 31, 2023, the scheduled maturities of time deposits are as follows:

2024	\$ 47,214
2025	10,111
2026	887
2027	4,410
2028	29
	\$ 62,651

**NOTE 7 – SHORT-TERM BORROWINGS**

Short-term borrowings include the following:

Securities Sold Under Agreements to Repurchase: These are classified as secured borrowings and are used by the Bank for its sweep account product that mature daily and had a year-end balance of \$4,274 and \$5,967 in 2023 and 2022 respectively. Securities sold under agreements to repurchase are reflected at the amount of cash received in connection with the transaction and are secured by U.S. Government and agency securities with a fair value of approximately \$939 and \$0, mortgage-backed securities with a fair value of approximately \$4,336 and \$5,129, and collateralized mortgage obligation securities with a fair value of approximately \$4,069 and \$3,318.

Discount Window Borrowings: The Bank has a discount window loan agreement with the Federal Reserve Bank that allows for advances. The advances are secured by investment securities with a fair value of approximately \$26,420 and are generally due within 28 days from the date of the advance. The interest rate on the advances is based on the quoted Federal Reserve discount window rate (effective rate of 5.50% as of December 31, 2023). Outstanding advances at December 31, 2023 and 2022 were \$0 and \$5,000, respectively.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 8 – FEDERAL HOME LOAN BANK ADVANCES AND FEDERAL RESERVE BANK BORROWINGS**

Advances from the Federal Home Loan Bank (FHLB) are secured by the Corporation's qualifying real estate loans under a blanket collateral agreement. The advances are collateralized by approximately \$22,084 and \$21,478 of real estate – residential loans as of December 31, 2023 and 2022, respectively. Advances outstanding as of December 31, 2023 and 2022 were \$10,000, maturing December 23, 2024 with an annual fixed interest rate of 4.53%.

FHLB advances are subject to prepayment penalties and the provisions and conditions of the credit policy of the Federal Home Loan Bank.

Borrowings from the Federal Reserve Bank (FRB) under the Bank Term Funding Program are secured by the Corporation's U.S. Government and federal agency securities with a fair value of approximately \$22,837 as of December 31, 2023. FRB borrowings outstanding as of December 31, 2023 were \$10,000, maturing December 16, 2024 with an annual fixed interest rate of 4.93%.

**NOTE 9 – INCOME TAXES**

The components of the net deferred tax asset, included in other assets in the consolidated balance sheets, are as follows:

	<u>2023</u>	<u>2022</u>
Deferred tax assets		
Allowance for credit losses	\$ 403	\$ 457
Accrued employee benefits	363	345
Nonaccrual loans	97	60
Foreclosed assets	-	1
Lease liability	42	-
Net unrealized loss on securities available for sale	1,997	2,286
Other	59	54
	<u>2,961</u>	<u>3,203</u>
Deferred tax liabilities		
Prepaid assets	45	24
Servicing rights	57	75
Depreciation	225	143
Right-of-use asset	42	-
Other	31	23
	<u>400</u>	<u>265</u>
Net deferred tax assets	<u>\$ 2,561</u>	<u>\$ 2,938</u>

Allocation of income taxes between current and deferred portions is as follows:

	<u>2023</u>	<u>2022</u>
Current	\$ 114	\$ 155
Deferred – continuing temporary differences	<u>88</u>	<u>35</u>
	<u>\$ 202</u>	<u>\$ 190</u>

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 9 – INCOME TAXES** (Continued)

The reasons for the differences between the income tax expense at the federal statutory income tax rate of 21% and the recorded income tax expense are summarized as follows:

	<u>2023</u>	<u>2022</u>
Income before income taxes	\$ 1,999	\$ 2,221
Income tax expense at federal statutory rate	420	466
Increases resulting from nondeductible expenses	5	3
Decreases resulting from nontaxable income	(198)	(198)
Other	<u>(25)</u>	<u>(81)</u>
	<u>\$ 202</u>	<u>\$ 190</u>

At December 31, 2023 and 2022, the Corporation had no unrecognized tax benefits recorded. The Corporation does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months. No amounts have been recorded for interest or penalties for the years ended December 31, 2023 or 2022. The Corporation is subject to U.S. federal income tax and is no longer subject to examination by the taxing authorities for years before 2020.

**NOTE 10 – BENEFIT PLAN**

The Corporation has a 401(k) plan whereby a certain percentage of employees' contributions can be matched with discretionary contributions by the Corporation. Contributions to the plan for the years ended December 31, 2023 and 2022 were \$90 and \$86, respectively.

**NOTE 11 – STOCK-BASED COMPENSATION**

Options: As of December 31, 2023, the Corporation has five share-based compensation plans which are described below. Options available for grant under the 1997 Nonemployee Director Discretionary Stock Option Plan, 2005 Nonemployee Director Stock Option Plan, and the 2005 Employee Stock Option Plan have been issued. Some of the options issued under the 1997 and 2005 plans are exercisable by the participants until the end of the contractual terms.

The Corporation's 2005 Nonemployee Director Stock Option Plan, 2005 Nonemployee Director Discretionary Stock Option Plan, 2005 Employee Stock Option Plan, 2014 Stock Incentive Plan, and 2023 Stock Incentive Plan (the "Plans"), permit the grant of stock options for up to 15,000 shares, 25,000 shares, 35,000 shares, 50,000 shares, and 50,000 shares of common stock, respectively. The Corporation believes that such awards better align the interests of its employees with those of its stockholders. Option awards are generally granted with an exercise price equal to the market price of the Corporation's stock at the date of grant; those option awards generally vest immediately for nonemployees and over three years for employees and have 10-year contractual terms. Certain option awards provide for accelerated vesting if there is a change in control (as defined in the Plans). The compensation cost that has been charged against earnings for the Plans was \$17 and \$19 for 2023 and 2022, respectively. As of December 31, 2023, there were 47,469 shares available for grant in the 2023 Stock Incentive Plan. In accordance with the respective Plan agreements, incentive stock options are no longer permitted to be granted from the 2005 Nonemployee Director Stock Option Plan or the 2005 Employee Stock Option Plan.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 11 – STOCK-BASED COMPENSATION** (Continued)

The Corporation uses a Black-Scholes formula to estimate the calculated value of its share-based payments. The volatility assumption used in the Black-Scholes formula is based on the historic volatility of the Corporation's stock price and dividend payments throughout the year. The Corporation calculated the historical volatility using the monthly closing total stock price for the one year immediately prior.

The weighted average assumptions used in the Black-Scholes model for 2023 grants are noted in the following table. The Corporation uses historical data to estimate option exercise and employee termination within the valuation model. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

Volatility	10.00%
Dividend rate	3.29%
Expected term (in years)	7.00
Risk free rate	4.04%

A summary of option activity under the Plans for 2023 presented below:

	<u>Number of Shares</u>	<u>Weighted Average Exercise Price</u>
Options outstanding – beginning of year	31,579	\$ 56.08
Options granted	5,950	58.00
Options exercised	(3,245)	51.97
Options forfeited	(501)	61.33
Options expired	<u>(500)</u>	<u>48.00</u>
Options outstanding – end of year	<u>33,283</u>	<u>\$ 56.85</u>
Exercisable at year end	<u>27,217</u>	<u>\$ 56.25</u>

The grant-date fair value of options granted during 2023 was \$5.99 per option.

The aggregate intrinsic value of the outstanding options represents the total pretax intrinsic value (i.e., the difference between the Corporation's stock price of \$58 and the exercise price, times the number of shares outstanding that would have been received by the option holder had all option holders exercised their options on December 31, 2023). The aggregate intrinsic value on outstanding options as of December 31, 2023, was approximately \$37. The weighted average remaining contractual term (in years) for options outstanding as of December 31, 2023, was 6.29 years.

As of December 31, 2023, there was approximately \$32 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plans. That cost is expected to be recognized over a weighted average period of 1.81 years.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 12 – OFF-BALANCE-SHEET ACTIVITIES**

Credit-Related Financial Instruments: The Corporation is a party to credit-related financial instruments with off-balance-sheet risk in the normal course of business to meet the financing needs of its customers. These financial instruments include commitments to extend credit, standby letters of credit, and commercial letters of credit. Such commitments involve, to varying degrees, elements of credit and interest rate risk in excess of the amount recognized in the consolidated balance sheet.

The Corporation's exposure to credit loss is represented by the contractual amount of these commitments. The Corporation follows the same credit policies in making commitments as it does for on-balance-sheet instruments.

At December 31, 2023 and 2022, the following financial instruments were outstanding whose contract amounts represent credit risk:

	<u>2023</u>	<u>2022</u>
Commitments to grant loans	\$ 8,400	\$ 5,290
Unfunded commitments	23,768	23,562
Commercial and standby letters of credit	47	53

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. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The commitments for equity lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Corporation, is based on management's credit evaluation of the customer.

Unfunded commitments under commercial lines of credit, revolving credit lines, and overdraft protection agreements are commitments for possible future extensions of credit to existing customers. These lines of credit are collateralized and usually do not contain a specified maturity date and may not be drawn upon to the total extent to which the Corporation is committed.

Commercial and standby letters of credit are conditional commitments issued by the Corporation to guarantee the performance of a customer to a third party. Those letters of credit are used primarily to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved is extending loan facilities to customers. The Corporation generally holds collateral supporting those commitments if deemed necessary.

Collateral Requirements: To reduce credit risk related to the use of credit-related financial instruments, the Corporation might deem it necessary to obtain collateral. The amount and nature of the collateral obtained are based on the Corporation's credit evaluation of the customer. Collateral held varies but may include cash, securities, accounts receivable, inventory, property, plant, equipment, and real estate.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 13 – RESTRICTIONS ON DIVIDENDS, LOANS AND ADVANCES**

Banking regulations place certain restrictions on dividends paid and loans or advances made by the Bank to the Corporation. Prior approval of the Bank's federal regulator is required if the total dividends declared by the Bank in a calendar year exceed the sum of the net profits of the Bank for the preceding three years, less any required transfers to surplus. In addition, dividends paid by the Bank would be prohibited if the effect thereof would cause the Bank's capital to be reduced below applicable minimum standards.

Loans or advances made by the Bank to the Corporation are generally limited to 10 percent of the Bank's capital stock and surplus.

**NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS**

Banks and bank holding companies are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve 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. The net unrealized gain or loss on investment securities available for sale is not included in computing regulatory capital. Management believes as of December 31, 2023, the Corporation and Bank meet all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 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.

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of 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 was elected by the Bank and in effect for all periods presented. 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 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 greater than 8%. As of December 31, 2023, the Bank had fallen below the 9% minimum but was still within the two-quarter grace period for correction.

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(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 14 – MINIMUM REGULATORY CAPITAL REQUIREMENTS (Continued)**

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

Actual and required capital amounts (in millions) and ratios are presented below at year-end.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Requirements (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
<u>2023</u>				
Tier 1 capital (to average assets)	\$ 28,400	8.7%	\$ 29,397	9.0%
<u>2022</u>				
Tier 1 capital (to average assets)	\$ 29,030	9.1%	\$ 28,618	9.0%

**NOTE 15 – FAIR VALUE MEASUREMENTS**

Accounting standards require certain assets and liabilities be reported at fair value in the consolidated financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the inputs and valuation techniques used to measure fair value.

The following tables present information about the Corporation's assets measured at fair value on a recurring basis at December 31, 2023 and 2022 and the valuation techniques used by the Corporation to determine those fair values.

In general, fair values determined by Level 1 inputs use quoted prices in active markets for identical assets that the Corporation has the ability to access.

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset. These Level 3 fair value measurements are based primarily on management's own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset.

In instances whereby inputs used to measure fair value fall into different levels in the above fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. The Corporation's assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset.

(Continued)

HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

**NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)**

Assets Measured on a Recurring Basis

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

	Fair Value Measurements at December 31, 2023:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:			
U.S. Government and federal agency	\$ 17,440	\$ 12,644	\$ -
State and municipal	-	38,471	-
Time deposits with financial institutions	-	5,481	-
Mortgage-backed securities, residential	-	28,098	-
Collateralized mortgage obligations, residential	-	<u>8,446</u>	-
Total securities available for sale	<u>\$ 17,440</u>	<u>\$ 93,140</u>	<u>\$ -</u>

	Fair Value Measurements at December 31, 2022:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Securities available for sale:			
U.S. Government and federal agency	\$ 17,124	\$ 12,371	\$ -
State and municipal	-	39,926	-
Time deposits with financial institutions	-	5,006	-
Mortgage-backed securities, residential	-	31,397	-
Collateralized mortgage obligations, residential	-	<u>9,998</u>	-
Total securities available for sale	<u>\$ 17,124</u>	<u>\$ 98,698</u>	<u>\$ -</u>

At December 31, 2023 and 2022, the fair value of U.S. Treasury securities included in U.S. Government and federal agency securities available for sale were determined based on Level 1 inputs, while the fair value of all the remaining securities available for sale portfolio was determined based on level 2 inputs. The Corporation estimates the fair value of these investment inputs include quoted prices for similar assets in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

The Corporation also has assets that under certain conditions are subject to measurement at fair value on a nonrecurring basis. These assets include individually evaluated loans and foreclosed assets.

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HURON COMMUNITY FINANCIAL SERVICES, INC.  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023 and 2022  
(000's omitted, except share and per share data)

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**NOTE 15 – FAIR VALUE MEASUREMENTS (Continued)**

The fair value of collateral dependent individually evaluated loans with specific allocations of the allowance for credit losses is generally based on recent real estate appraisals. These appraisals may utilize a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

Foreclosed assets are reported in the following table at the initial recognition of any impairment and on an ongoing basis until recovery or charge-off. At the time of foreclosure or repossession, foreclosed assets are adjusted to fair value less estimated costs to sell, establishing a new cost basis.

Appraisals for collateral-dependent individually evaluated loans and foreclosed assets are performed by certified general appraisers (for commercial properties) or certified residential appraisers (for residential properties) whose qualifications and licenses have been reviewed and verified by the Corporation. Management reviews the assumptions and approaches utilized in the appraisal. Management periodically evaluates the appraised values and will discount a property's appraised value to account for a number of factors including but not limited to the cost of liquidating the collateral, the age of the appraisal, observable deterioration since the appraisal, or other factors unique to the property.

Assets Measured on a Non-Recurring Basis

There were no assets measured at fair value on a non-recurring basis at December 31, 2023.

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

	Fair Value Measurements at December 31, 2022:		
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans			
Real estate – commercial	\$ -	\$ -	\$ 1,720

Impaired loans measured had a carrying value of \$1,937 at year-end 2022 before a valuation allowance of \$217. Impairment charges recognized during the year resulted in additional provisions for loan losses of approximately \$0. The real estate-commercial loan presented in the table above is valued using the sales comparison valuation technique with a discount of 11.2% being applied to available appraisal data to estimate fair value.

April 15, 2024

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 March 31, 2024.

**HCFSI (In Thousands)**

Net Income for your holding company through March 31, 2024 was \$314 as compared to \$245 for the same quarter last year. Return on Average Equity was 5.75% and Return on Average Assets was 0.38% compared to 4.55% and 0.31% respectively at March 31, 2023. After the Generally Accepted Accounting Principles (GAAP) adjustments of our Unrealized Gains and Losses of the securities portfolio, the Book Value of your common stock is \$39.46 and Share-Holder Equity is \$21,755. 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.** When these GAAP adjustments are backed out, Book Value per share and Share-Holder Equity are \$53.20 and \$29,332, respectively, compared to \$52.04 and \$30,054, respectively, at March 31, 2023. At March 31, 2024 Earnings per Share is \$0.57 compared to \$0.42 at March 31, 2023.

**HCB (In Thousands)**

Net Income through the end of the first quarter 2024 was \$338 compared to \$268 for the same period last year. March 31, 2024 Return on Average Equity was 6.57% with Return on Average Assets of 0.42% compared to 5.33% and 0.35% respectively at March 31, 2023. Total assets at the end of the quarter were \$324,292 versus \$312,355 in 2023. Total loans ended the first quarter at \$151,285 while total deposits were \$278,058 compared to \$143,404 and \$274,128, respectively in 2023.

**Year to Date Financial Performance**

First quarter results for net income were ahead of budget forecasts for 2024. For the remainder of 2024 we will be closely watching the overall economic conditions. Inflation seems to be running ahead of projections, which has delayed any anticipated rates cuts by the Federal Reserve. This has had a negative effect on mortgage interest rates. Both mortgage and consumer loan demand remain low. A bright spot for the bank has been in the area of Ag Lending. Over the past two years, growth in this area has surpassed traditional lending demand in commercial and commercial real estate lending. The bank was fortunate to hire an individual who is not only a farmer, he has 20 years' experience lending in this field. The bank is experiencing good growth in our Treasury Management Services. This is a concerted effort by Senior Retail Management, Business Development Manager and our personal bankers to identify needs of our customer base and show how the bank may assist in those areas. Included in the product offerings is Positive Pay, Mobile Deposits, Remote Check Deposit, ACH services, etc. The bank is also working on updates to our website. This will make it easier for current and potential customers to access all the great services the bank has to offer. The addition of the Rose City branch location has opened up new markets for Huron Community Bank. We are seeing success in this location with new business and personal accounts. With all of these items, the team at HCB expects to attain or exceed our budget numbers for the year. Ever-present is the focus on protecting customers from cyber security threats that continue to plague our industry and society as a whole.

I hope you will be able to join us on May 13<sup>th</sup> for the annual shareholder meeting. As we celebrate our 35<sup>th</sup> year as a community bank I'm reminded that this was all made possible with the support of our shareholders, the loyalty of our customers, and the commitment of our team.

**Cash Dividend Declared**

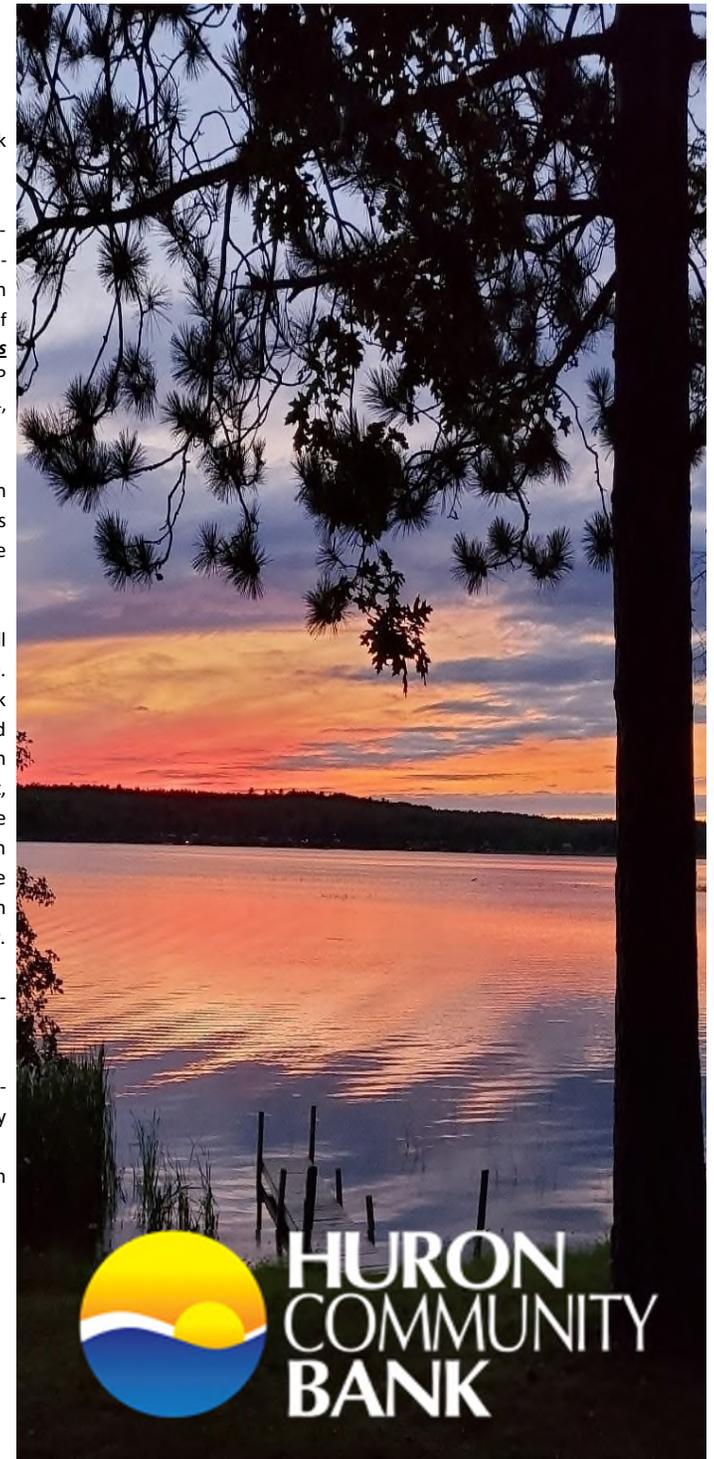
Your Board of Directors declared a cash dividend of \$0.45 per share to shareholders of record on April 5, 2024. This represents the 121st consecutive quarter in which a cash dividend has been paid to our shareholders. The dividend was paid on April 15, 2024. If you are not already enrolled in our dividend reinvestment program, I would encourage you to do so as it is a great way to increase investment in your bank!

I encourage you to reach out to me if you should have any questions or concerns. We appreciate your continued support and investment in HCFSI/HCB and "Community Banking".

Sincerely,



John A. Emmendorfer  
Interim-President and CCO



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

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

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

ASSETS	(Unaudited) 3/31/2024	(Unaudited) 3/31/2023	Three Months Ended	(Unaudited) 3/31/2024	(Unaudited) 3/31/2023	PROFITABILITY	(Unaudited) 3/31/2024	(Unaudited) 3/31/2023
Cash & Due From Banks	\$ 54,281	\$ 45,271	Interest on Loans	\$ 2,225	\$ 1,898	Net Income (In thousands)	\$ 338	\$ 268
Investment Securities	104,201	110,046	Interest on Investments	1,110	781	Return on Assets - YTD Annualized	0.42%	0.35%
Total Loans	151,026	143,403	TOTAL INTEREST INCOME	3,335	2,679	Return on Equity - YTD Annualized	6.57%	5.33%
Allowance for Loan Loss	(2,429)	(2,683)				Net Interest Margin - YTD Annualized	2.99%	2.98%
Net Loans	148,597	140,720	INTEREST EXPENSE	1,109	522			
Bank Premises & Equipment	3,510	3,176						
Accrued Interest Receivable	1,453	1,064	NET INTEREST INCOME	2,226	2,157			
Intangible Assets	405	405						
Other Assets	12,790	12,753	Fees on Loans	73	103			
			Other Income	276	235	SELECTED BALANCES (In Thousands)		
TOTAL ASSETS	\$ 325,418	\$ 313,434				Total Assets	\$ 324,292	\$ 312,355
			Total Other Operating Income	349	338	Total Loans	\$ 151,285	\$ 143,404
LIABILITIES & EQUITY			Salaries and Benefits (net)	1,186	1,245	Total Deposits	\$ 278,058	\$ 274,128
			Fixed Expense	284	250	Stockholder's Equity	\$ 20,589	\$ 20,352
Total Deposits	\$ 277,989	\$ 273,904	Variable Expense	772	757			
Repurchase Agreements	3,266	6,446	Loan Loss Provision	0	0			
FHLB/FRB Borrowings	20,000	10,000	Loss (Gain) on Assets	0	(1)			
Other Liabilities	2,408	1,458						
			Other Operating Expense	2,242	2,252			
TOTAL LIABILITIES	303,663	291,808						
			INCOME BEFORE INCOME TAXES	333	243			
Common Stock	551	578						
Surplus	16,636	18,137	FEDERAL INCOME TAXES	19	(2)			
Retained Earnings	12,145	11,340						
Unrealized Gain(Loss) Inv. Sec. AFS	(7,577)	(8,429)	NET INCOME	\$ 314	\$ 245			
TOTAL SHAREHOLDERS EQUITY	21,755	21,626	Basic Earnings Per Share	\$ 0.56	\$ 0.42			
			Book Value Per Share	\$ 39.46	\$ 37.44			
TOTAL LIABILITIES & EQUITY	\$ 325,418	\$ 313,434	Cash Dividends Declared Per Share	\$ 0.45	\$ 0.41			

**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  
Brenden A. Stephenson

**DIRECTORS EMERITUS**

Monty L. Kruttlin  
Robert M. Beneson  
Thomas B. Huck  
Mark D. Elliott

East Tawas Office  
(989) 362-6700

Oscoda Office  
(989) 739-9125

AuGres Office  
(989) 876-8068

West Branch Office  
(989) 343-1050

Tawas City Office  
(989) 362-8671

Lincoln Office  
(989) 736-6727

Harrisville Office  
(989) 724-6719

Rose City Office  
(989) 685-1169

**Plan Authorization Card**

**HURON COMMUNITY FINANCIAL SERVICES, INC.**  
**AUTOMATIC DIVIDEND REINVESTMENT PLAN**  
**SHAREHOLDER AUTHORIZATION CARD**  
(See mailing instructions below)

\_\_\_\_\_  
Name(s) exactly as set forth on your stock certificate or as registered on your behalf in book-entry form

\_\_\_\_\_  
Additional space for name(s) if necessary

\_\_\_\_\_  
Street Address

\_\_\_\_\_  
City State Zip Code

\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_  
Social Security Number (To be completed if the shareholder is an individual. If shares are held jointly, the Social Security Number should be that of the first person listed on the stock certificate.)

\_\_\_\_\_-\_\_\_\_\_-\_\_\_\_\_  
Employer Identification Number (To be completed if the shareholder is not an individual.)

- I am a U.S. Citizen or Resident Alien  
 I am a Nonresident Alien

**Dividend Reinvestment**

I hereby elect to participate in the Huron Community Financial Services, Inc. (the "Company") Automatic Dividend Reinvestment Plan (the "Plan") and authorize and direct the Company, as my agent, to have all cash dividends payable on all shares of Common Stock now or hereafter registered in my name applied on my behalf to the purchase of shares of Company Common Stock. Please use the funds so set aside to purchase as many whole and fractional shares of Common Stock as is possible. I understand that all dividends received or shares credited to my Plan account will also be automatically reinvested in Company Common Stock.

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Print Name

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

**(Please sign above exactly as name appears on reverse side. If shares are held jointly, each shareholder must sign.)**  
Under penalties of perjury, I certify (1) that the number shown above on this Form is my correct Taxpayer Identification Number and (2) that I am not subject to backup withholding because: (a) I am exempt from backup withholding, or (b) I have not been notified by the Internal Revenue Service (the "IRS") that I am subject to backup withholding as a result of failure to report all interest or dividends, or (c) the IRS has notified me that I am no longer subject to backup withholding.

Completion of this Card directs the Company to apply your cash dividends in accordance with the terms of the Plan. Your participation is subject to the terms of the Offering Circular describing the Plan and the Plan itself. You may withdraw from the Plan by notifying the Company in writing.

**Complete this form, sign it, and then mail it to:**  
Huron Community Bank  
301 Newman Street  
East Tawas, Michigan 48730  
Attn: Chief Financial Officer

**For answers to questions regarding the Plan, contact:**  
David M. Gottleber, Senior Vice President & Chief Financial Officer  
Huron Community Bank, at (989)362-6700