

VERSAILLES FINANCIAL CORPORATION
Versailles, Ohio

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

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CONTENTS

INDEPENDENT AUDITOR'S REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED BALANCE SHEETS	3
CONSOLIDATED STATEMENTS OF INCOME	4
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME.....	5
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	7
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	8

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Versailles Financial Corporation
Versailles, Ohio

Opinion

We have audited the consolidated financial statements of Versailles Financial Corporation, which comprise the consolidated balance sheets as of June 30, 2023 and 2022, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Versailles Financial Corporation as of June 30, 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 Versailles Financial Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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 Versailles Financial Corporation's ability to continue as a going concern for one year from the date the consolidated financial statements are available to be issued.

(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 Versailles Financial Corporation'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 Versailles Financial Corporation'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

Cleveland, Ohio
September 29, 2023

VERSAILLES FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
ASSETS		
Cash and due from financial institutions	\$ 2,614,168	\$ 4,569,150
Overnight deposits and Federal Funds sold	<u>3,893,000</u>	<u>13,348,000</u>
Total cash and cash equivalents	6,507,168	17,917,150
Interest-bearing time deposits in other financial institutions	2,250,000	3,000,000
Securities available for sale	6,093,117	6,422,703
Securities held to maturity (fair value of \$20,592 at June 30, 2023 and \$27,221 at June 30, 2022)	20,947	26,721
Loans, net of allowance of \$255,432 at June 30, 2023 and 2022	40,505,605	36,682,005
Federal Home Loan Bank stock	214,300	397,500
Premises and equipment, net	1,011,737	1,059,349
Accrued interest receivable	116,429	97,987
Other assets	<u>519,874</u>	<u>540,124</u>
Total assets	<u>\$ 57,239,177</u>	<u>\$ 66,143,539</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Liabilities		
Savings and checking accounts	\$ 29,550,747	\$ 38,173,164
Certificates of deposit	<u>11,707,555</u>	<u>12,703,275</u>
Total deposits	41,258,302	50,876,439
Federal Home Loan Bank advances	2,000,000	2,000,000
Other liabilities	<u>1,685,257</u>	<u>1,496,716</u>
Total liabilities	44,943,559	54,373,155
Shareholders' Equity		
Preferred stock, \$.01 par value, 1,000,000 shares authorized, none issued and outstanding	-	-
Common stock, \$.01 par value, 10,000,000 shares authorized; 377,648 and 384,657 shares issued	3,769	3,831
Additional paid-in capital	2,945,420	3,062,938
Retained earnings	10,196,279	9,534,524
Treasury stock, 35,460 shares, at cost	(354,600)	(354,600)
Unearned employee stock ownership plan shares	(111,150)	(128,250)
Accumulated other comprehensive loss	<u>(384,100)</u>	<u>(348,059)</u>
Total shareholders' equity	<u>12,295,618</u>	<u>11,770,384</u>
Total liabilities and shareholders' equity	<u>\$ 57,239,177</u>	<u>\$ 66,143,539</u>

See accompanying notes.

VERSAILLES FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME
Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Interest and dividend income		
Loans, including fees	\$ 1,730,370	\$ 1,542,663
Securities available for sale	83,652	40,207
Securities held to maturity	696	656
FHLB dividends	20,034	8,930
Deposits with banks	<u>525,934</u>	<u>57,143</u>
Total interest and dividend income	2,360,686	1,649,599
Interest expense		
Deposits	101,754	59,569
Federal Home Loan Bank advances	<u>48,000</u>	<u>48,000</u>
Total interest expense	<u>149,754</u>	<u>107,569</u>
Net interest income	2,210,932	1,542,030
Provision for loan losses	<u>-</u>	<u>-</u>
Net interest income after provision for loan losses	2,210,932	1,542,030
Noninterest income		
Other income	<u>30,878</u>	<u>24,458</u>
Total noninterest income	30,878	24,458
Noninterest expense		
Salaries and employee benefits	490,883	659,881
Occupancy and equipment	78,127	88,423
Directors' fees	82,400	82,000
Data processing	141,411	171,240
Franchise taxes	69,671	70,300
Legal, accounting and exam fees	144,040	124,518
Federal deposit insurance	20,622	15,334
Other	<u>140,196</u>	<u>130,439</u>
Total noninterest expense	<u>1,167,350</u>	<u>1,342,135</u>
Income before income taxes	1,074,460	224,353
Income tax expense	<u>229,571</u>	<u>51,600</u>
Net income	<u>\$ 844,889</u>	<u>\$ 172,753</u>
Basic and diluted earnings per common share	<u>\$ 2.28</u>	<u>\$ 0.46</u>

See accompanying notes.

VERSAILLES FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Net income	\$ 844,889	\$ 172,753
Other comprehensive income (loss):		
Unrealized holding gains (losses) on securities available for sale	(45,621)	(419,985)
Tax effect	<u>9,580</u>	<u>88,197</u>
Other comprehensive income (loss), net of tax	<u>(36,041)</u>	<u>(331,788)</u>
Comprehensive income (loss)	<u>\$ 808,848</u>	<u>\$ (159,035)</u>

See accompanying notes.

VERSAILLES FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended June 30, 2023 and 2022

	Common Stock	Additional Paid-In Capital	Retained Earnings	Treasury Stock	Unearned ESOP Shares	Accumulated Other Comprehensive Income (Loss)	Total
Balance at July 1, 2021	\$ 3,850	\$ 3,082,651	\$ 9,546,705	\$ (354,600)	\$ (145,350)	\$ (16,271)	\$ 12,116,985
Net income	-	-	172,753	-	-	-	172,753
Other comprehensive loss, net of tax	-	-	-	-	-	(331,788)	(331,788)
Commitment to release 1,710 ESOP common shares, at fair value	-	23,803	-	-	17,100	-	40,903
ESOP liquidation and payout of 2,032 shares	(21)	(48,748)	-	-	-	-	(48,769)
Repurchase of 600 shares	(6)	(11,994)	-	-	-	-	(12,000)
Dividend paid, \$0.50 per share	-	-	(184,934)	-	-	-	(184,934)
Vesting of 775 shares under restricted stock award plan	8	(8)	-	-	-	-	-
Stock-based compensation expense	-	17,234	-	-	-	-	17,234
Balance at June 30, 2022	3,831	3,062,938	9,534,524	(354,600)	(128,250)	(348,059)	11,770,384
Net income	-	-	844,889	-	-	-	844,889
Other comprehensive loss, net of tax	-	-	-	-	-	(36,041)	(36,041)
Commitment to release 1,710 ESOP common shares, at fair value	-	18,798	-	-	17,100	-	35,898
ESOP liquidation and payout of 1,849 shares	(18)	(41,584)	-	-	-	-	(41,602)
Repurchase of 5,160 shares	(52)	(103,148)	-	-	-	-	(103,200)
Dividend paid, \$0.50 per share	-	-	(183,134)	-	-	-	(183,134)
Vesting of 775 shares under restricted stock award plan	8	(8)	-	-	-	-	-
Stock-based compensation expense	-	8,424	-	-	-	-	8,424
Balance at June 30, 2023	\$ 3,769	\$ 2,945,420	\$ 10,196,279	\$ (354,600)	\$ (111,150)	\$ (384,100)	\$ 12,295,618

See accompanying notes.

VERSAILLES FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Net income	\$ 844,889	\$ 172,753
Adjustments to reconcile net income to net cash provided from operating activities		
Provision for loan losses	-	-
Depreciation on premises and equipment	48,281	56,871
Net amortization (accretion) of AFS securities	34,029	38,872
Compensation expense related to share based plans	44,322	58,137
Deferred taxes	(26,057)	(24,328)
Change in:		
Deferred loan costs	19,736	9,640
Accrued interest receivable	(18,442)	(22,472)
Other assets	55,887	38,592
Other liabilities	<u>188,541</u>	<u>140,364</u>
Net cash from operating activities	1,191,186	468,429
 Cash flow from investing activities		
Purchase of interest bearing time deposits	-	(1,750,000)
Maturities of interest bearing time deposits	750,000	500,000
Purchase of available-for-sale securities	-	(1,490,993)
Maturities, prepayments, and calls of available-for-sale securities	249,936	211,317
Maturities, prepayments and calls of securities held to maturity	5,774	9,491
Loan originations and payments, net	(3,843,336)	(902,677)
Sale of FHLB stock	183,200	-
Property and equipment purchases	<u>(669)</u>	<u>(4,051)</u>
Net cash (used in) from investing activities	(2,655,095)	(3,426,913)
 Cash flow from financing activities		
Net change in deposits	(9,618,137)	4,145,858
Repurchase of shares, held in reserve	(103,200)	(12,000)
Repurchase of ESOP shares	(41,602)	(48,769)
Cash dividends paid on common stock	<u>(183,134)</u>	<u>(184,934)</u>
Net cash (used in) from financing activities	<u>(9,946,073)</u>	<u>3,900,155</u>
 Net change in cash and cash equivalents	(11,409,982)	941,671
Cash and cash equivalents, beginning of period	<u>17,917,150</u>	<u>16,975,479</u>
 Cash and cash equivalents at end of period	<u>\$ 6,507,168</u>	<u>\$ 17,917,150</u>
 Cash paid during the year for		
Interest	\$ 149,267	\$ 122,333
Income taxes paid	47,000	-

See accompanying notes.

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation: The accompanying consolidated financial statements include the accounts of Versailles Financial Corporation (“Versailles”) and its wholly owned subsidiary, Versailles Savings and Loan Company (“Bank”). Versailles and its subsidiary are collectively referred to as the (“Company”). All material intercompany transactions have been eliminated.

Nature of Operations: Versailles is a thrift holding company incorporated under the laws of the state of Maryland that owns all the outstanding shares of common stock of the Bank. The Bank is an Ohio chartered savings and loan company engaged primarily in the business of making residential mortgage loans and accepting checking, savings and time deposit accounts. Its operations are conducted through its only office located in Versailles, Ohio. Accordingly, all of its operations are reported in one segment, banking. The Company primarily grants one- to four-family residential loans to customers located in Darke and the western half of Shelby counties. This area is strongly influenced by agriculture, but there is also a substantial manufacturing base. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and commercial and residential real estate. There are no significant concentrations of loans to any one industry or customer. However, the customers’ ability to repay their loans is dependent on the real estate and general economic conditions in the area.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through September 29, 2023, which is the date the financial statements were available to be issued.

Use of Estimates: To prepare financial statements in conformity with generally accepted accounting principles in the United States of America, management makes estimates and assumptions based on available information. These estimates and assumptions affect the amounts reported in the financial statements and the disclosures provided, and actual results could differ.

Cash Flows: Cash and cash equivalents include cash and due from financial institutions, federal funds sold and overnight deposits. Net cash flows are reported for customer loan and deposit transactions and advances from the Federal Home Loan Bank with original maturities of 90 days or less.

Interest-bearing Time Deposits in Other Financial Institutions: Interest-bearing time deposits in other financial institutions have original maturities of greater than 90 days and are carried at cost.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Securities: Debt securities are classified as held to maturity and carried at amortized cost when management has the positive intent and ability to hold them to maturity. Debt securities are classified as available for sale when they might be sold before maturity. Securities available for sale are carried at fair value, with unrealized holding gains and losses reported in other comprehensive income, net of tax.

Interest income includes amortization of purchase premiums and discounts. Premiums and discounts on securities are amortized on the level-yield method without anticipating prepayments, except for mortgage backed securities where prepayments are anticipated. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Management evaluates securities for other-than-temporary impairment (“OTTI”) on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows: 1) OTTI related to credit loss, which must be recognized in the income statement and 2) OTTI related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis.

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. Both cash and stock dividends are reported as income.

Loans: Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the principal balance outstanding, net of deferred loan fees and costs, and an allowance for loan 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 anticipation of prepayments.

Interest income on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

All interest accrued but not received for loans placed on nonaccrual are reversed against interest income. Interest received on such loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Under the cost-recovery method, interest income is not recognized until the loan balance is reduced to zero. Under the cash-basis method, interest income is recorded when the payment is received in cash. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired. A loan is impaired when, based on current information and events, it is probable that the Company will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans, for which the terms have been modified in a manner representing a concession, and for which the borrower is experiencing financial difficulties, are considered troubled debt restructurings and classified as impaired.

Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Commercial and commercial real estate loans are individually evaluated for impairment. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's effective rate or at the fair value of collateral if repayment is expected solely from the collateral.

Troubled debt restructurings are separately identified for impairment disclosures and are measured at the present value of estimated future cash flows using the loan's effective rate at inception. If a troubled debt restructuring is considered to be a collateral dependent loan, the loan is reported, net, at the fair value of the collateral. For troubled debt restructurings that subsequently default, the Company determines the amount of reserve in accordance with the accounting policy for the allowance for loan losses on loans individually identified as impaired.

The general component covers non-impaired loans and loans collectively evaluated for impairment. Large groups of smaller balance homogeneous loans, such as consumer and residential real estate loans, are collectively evaluated for impairment, and accordingly, they are not separately identified for impairment disclosures. The general component is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent thirty-six months. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and impaired loans; levels of and trends in charge-offs and recoveries; trends in volume and terms of loans; effects of any changes in risk selection and underwriting standards; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: 1-4 family real estate, commercial real estate, commercial and consumer.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

1-4 Family real estate: 1-4 family mortgage loans represent loans to consumers for the purchase, refinance or improvement of a residence. Real estate market values at the time of origination directly affect the amount of credit extended and, in the event of default, subsequent changes in these values may impact the severity of losses. Factors considered by management include unemployment levels, credit history and real estate values in the Company's market area.

Commercial real estate: Non-residential and multi-family loans are subject to underwriting standards and processes similar to commercial loans. These loans are viewed as cash flow loans and the repayment of these loans is largely dependent on the successful operation of the farm, business or property. Loan performance may be adversely affected by factors impacting the general economy or conditions specific to the real estate market such as geographic location and property types. Management specifically considers real estate values, credit history, unemployment levels, crop prices and yields.

Commercial: Commercial credit is extended to commercial customers for use in normal business operations to finance working capital needs, equipment purchases, or other projects. The majority of these borrowers are customer's doing business in the Company's primary market area. These loans are generally underwritten individually and secured with the assets of the company and the personal guarantee of the business owners. Commercial business loans are made based primarily on the borrower's ability to make repayment from the historical and projected cash flow of the borrower's business and the underlying collateral provided by the borrower. Management specifically considers unemployment, credit history and the nature of the business.

Consumer: Consumer loans are primarily comprised of secured loans including automobile loans, loans on deposit accounts, home improvement loans and to a lesser extent, unsecured personal loans. These loans are underwritten based on several factors including debt-to-income, type of collateral and loan to value, credit history and relationship with the borrower. Unemployment rates are specifically considered by management.

Premises and Equipment: Land is carried at cost. Premises and equipment are reported at cost less accumulated depreciation. Depreciation is computed on both the straight-line and accelerated methods over the estimated useful lives of the assets. Building and improvements have useful lives ranging from five to forty years. Furniture and equipment have useful lives ranging from five to ten years.

Earnings Per Common Share: Basic earnings per common share is net income divided by the weighted average number of common shares outstanding during the period. Employee Stock Ownership Plan shares are considered outstanding for this calculation unless unearned. All outstanding unvested share-based payment awards that contain rights to nonforfeitable dividends are considered participating securities for this calculation.

The Company established a Rabbi Trust and participants in the Bank's deferred compensation and supplemental retirement plans had the ability to elect to use all or some of the amounts in their accounts to purchase shares in the Company's mutual to stock conversion. These shares are held in the trust and the obligation under the deferred compensation and supplemental retirement plans will be settled with these shares. As such, the shares are carried as treasury stock in the consolidated balance sheets and the shares are considered outstanding for the purpose of calculating earnings per share.

Employee Stock Ownership Plan: The cost of shares issued to the Employee Stock Ownership Plan ("ESOP"), but not yet allocated to participants, is shown as a reduction of shareholders' equity. Compensation expense is based on the market price of shares as they are committed to be released to participant accounts. Dividends on allocated ESOP shares reduce retained earnings. Dividends on unearned ESOP shares reduce debt and accrued interest.

(Continued)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Retirement Plans: Employee 401(k) and profit sharing plan expense is the amount of matching contributions. Deferred compensation and supplemental retirement plan expense allocates the benefits over years of service.

Stock-Based Compensation: Compensation cost is recognized for restricted stock awards issued to directors and officers based on the fair value of these awards at the date of grant, which is the market price of the Company's common stock at the date of grant.

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 each requisite service period.

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

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 Company recognizes interest and/or penalties related to income tax matters in income tax expense.

Loan Commitments and Related Financial Instruments: Financial instruments include off-balance sheet credit instruments, such as commitments to make loans, 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.

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

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 financial statements.

Fair Value of Financial Instruments: Fair values of financial instruments are estimated using relevant market information and other assumptions, as more fully disclosed in a separate note. 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.

Risks and Uncertainties In 2023, certain banks with highly concentrated deposit funding experienced dramatic customer demand for withdrawals that led to the failure of the bank. Management believes the Bank's deposit base is sufficiently diversified such that it is not exposed to liquidity risk of the same magnitude. Nevertheless, competition for deposits is intense and could result in an increase in the Bank's funding costs and overall profitability for the foreseeable future.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 2 – SECURITIES

The amortized cost, unrealized gains and losses recognized in accumulated other comprehensive income (loss), and fair value of securities available for sale were as follows.

	2023			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ 4,243,846	\$ -	\$ (278,119)	\$ 3,965,727
U.S. government agencies	301,214	-	(3,006)	298,208
Government sponsored entities residential mortgage-backed:				
FHLMC	831,251	-	(79,383)	751,868
GNMA	341,792	-	(43,058)	298,734
FNMA	861,216	-	(82,636)	778,580
	\$ 6,579,319	\$ -	\$ (486,202)	\$ 6,093,117
	2022			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. treasury securities	\$ 4,271,692	\$ -	\$ (271,046)	\$ 4,000,646
U.S. government agencies	307,726	-	(9,754)	297,972
Government sponsored entities residential mortgage-backed:				
FHLMC	928,764	-	(58,839)	869,925
GNMA	408,882	-	(42,027)	366,855
FNMA	946,220	-	(58,915)	887,305
	\$ 6,863,284	\$ -	\$ (440,581)	\$ 6,422,703

The amortized cost, unrecognized gains and losses, and fair value of securities held to maturity were as follows.

	2023			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Government sponsored entities residential mortgage-backed:				
FHLMC	\$ 11,942	\$ -	\$ (71)	\$ 11,871
GNMA	9,005	-	(284)	8,721
	\$ 20,947	\$ -	\$ (355)	\$ 20,592

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 2 – SECURITIES (Continued)

	2022			
	Amortized Cost	Gross Unrecognized Gains	Gross Unrecognized Losses	Fair Value
Government sponsored entities residential mortgage-backed:				
FHLMC	\$ 14,831	\$ 397	\$ (1)	\$ 15,227
GNMA	11,890	104	-	11,994
	\$ 26,721	\$ 501	\$ (1)	\$ 27,221

The amortized cost and fair value of debt securities available for sale at year-end 2023 by contractual maturity was as follows. Expected maturities may differ from contractual maturities if issuers 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.

	Amortized Cost	Fair Value
Due in one year or less	\$ 1,255,086	\$ 1,230,301
Due from one to five years	3,289,974	3,033,634
Residential mortgage-backed	2,034,259	1,829,182
Total	\$ 6,579,319	\$ 6,093,117

At June 30, 2023 and June 30, 2022, there were no holdings of securities of any one issuer, other than the U.S. Treasury, in an amount greater than 10% of shareholders' equity.

At June 30, 2023 and June 30, 2022 no securities were pledged.

Securities with unrealized and unrecognized losses at June 30, 2023, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or More		Total	
	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss	Fair Value	Unrealized Loss
<u>2023</u>						
Available-for-sale:						
U.S. treasury	\$ -	\$ -	\$ 3,965,727	\$ (278,119)	\$ 3,965,727	\$ (278,119)
U.S. government agencies	-	-	298,208	(3,006)	298,208	(3,006)
Government sponsored entities residential mortgage-backed:						
FHLMC	-	-	751,868	(79,383)	751,868	(79,383)
GNMA	-	-	298,734	(43,058)	298,734	(43,058)
FNMA	431,642	(19,269)	346,938	(63,367)	778,580	(82,636)
Total available-for-sale	\$ 431,642	\$ (19,269)	\$ 5,661,475	\$ (466,933)	\$ 6,093,117	\$ (486,202)

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 2 – SECURITIES (Continued)

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrecognized</u>	<u>Fair</u>	<u>Unrecognized</u>	<u>Fair</u>	<u>Unrecognized</u>
	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>
Held-to-maturity:						
Government sponsored entities						
residential mortgage-backed:						
FHLMC	\$ 11,645	\$ (65)	\$ 226	\$ (6)	\$ 11,871	\$ (71)
GNMA	<u>8,721</u>	<u>(284)</u>	<u>-</u>	<u>-</u>	<u>8,721</u>	<u>(284)</u>
Total held-to-maturity	<u>\$ 20,366</u>	<u>\$ (349)</u>	<u>\$ 226</u>	<u>\$ (6)</u>	<u>\$ 20,592</u>	<u>\$ (355)</u>

Securities with unrealized and unrecognized losses at June 30, 2022, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>	<u>Fair</u>	<u>Unrealized</u>
	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>
<u>2022</u>						
Available-for-sale:						
U.S. treasury	\$ 4,000,646	\$ (271,046)	\$ -	\$ -	\$ 4,000,646	\$ (271,046)
U.S. government agencies	297,972	(9,754)	-	-	297,972	(9,754)
Government sponsored entities						
residential mortgage-backed:						
FHLMC	869,925	(58,839)	-	-	869,925	(58,839)
FNMA	387,149	(58,915)	-	-	387,149	(58,915)
GNMA	<u>366,855</u>	<u>(42,027)</u>	<u>-</u>	<u>-</u>	<u>366,855</u>	<u>(42,027)</u>
Total available-for-sale	<u>\$ 5,922,547</u>	<u>\$ (440,581)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,922,547</u>	<u>\$ (440,581)</u>

	<u>Less Than 12 Months</u>		<u>12 Months or More</u>		<u>Total</u>	
	<u>Fair</u>	<u>Unrecognized</u>	<u>Fair</u>	<u>Unrecognized</u>	<u>Fair</u>	<u>Unrecognized</u>
	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>	<u>Value</u>	<u>Loss</u>
Held-to-maturity:						
Government sponsored entities						
residential mortgage-backed:						
FHLMC	<u>\$ 261</u>	<u>\$ (1)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 261</u>	<u>\$ (1)</u>

Unrealized and unrecognized losses on securities have not been recognized into income because the securities are of high credit quality, the Company does not intend to sell the securities, it is more likely than not that the Company will not be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to changes in market interest rates and fixed income market conditions since the purchase date. Credit quality of the securities is considered to be high, and the fair value is expected to recover as the securities approach their maturity date.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 3 – LOANS

Loans at year-end were as follows:

	<u>2023</u>	<u>2022</u>
1-4 family real estate	\$ 33,170,230	\$ 28,883,309
Commercial real estate:		
Business	334,449	369,108
Agricultural	1,695,866	2,055,188
Commercial	4,266,767	4,495,271
Consumer	<u>1,326,227</u>	<u>1,147,325</u>
Total loans	40,793,539	36,950,201
Deferred loan (fees) costs	(32,502)	(12,764)
Allowance for loan losses	<u>(255,432)</u>	<u>(255,432)</u>
	<u>\$ 40,505,605</u>	<u>\$ 36,682,005</u>

Loans to principal officers, directors, and their affiliates during fiscal 2023 and 2022 were as follows.

	<u>2023</u>	<u>2022</u>
Beginning balance	\$ 100,430	\$ 118,920
Additions	-	-
Repayments	<u>(19,182)</u>	<u>(18,490)</u>
Ending balance	<u>\$ 81,428</u>	<u>\$ 100,430</u>

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2023:

	Allowance at June 30, <u>2022</u>	Provision for Loan <u>Losses</u>	Loans <u>Charged-off</u>	<u>Recoveries</u>	Allowance at June 30, <u>2023</u>
1-4 family real estate	\$ 201,471	\$ 11,550	\$ -	\$ -	\$ 213,021
Commercial real estate	12,683	(3,857)	-	-	8,826
Commercial	35,276	(7,456)	-	-	27,820
Consumer	<u>6,002</u>	<u>(237)</u>	<u>-</u>	<u>-</u>	<u>5,765</u>
Total	<u>\$ 255,432</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,432</u>

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 3 – LOANS (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the year ended June 30, 2022:

	Allowance at June 30, <u>2021</u>	Provision for Loan <u>Losses</u>	Loans <u>Charged-off</u>	<u>Recoveries</u>	Allowance at June 30, <u>2022</u>
1-4 family real estate	\$ 179,963	\$ 21,508	\$ -	\$ -	\$ 201,471
Commercial real estate	21,886	(9,203)	-	-	12,683
Commercial	44,872	(9,596)	-	-	35,276
Consumer	<u>8,711</u>	<u>(2,709)</u>	<u>-</u>	<u>-</u>	<u>6,002</u>
Total	<u>\$ 255,432</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 255,432</u>

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of June 30, 2023 and 2022:

	<u>Allowance for Loan Losses</u>			<u>Recorded Investment in Loans</u>		
	<u>Individually Evaluated</u>	<u>Collectively Evaluated</u>	<u>Total Allowance</u>	<u>Individually Evaluated</u>	<u>Collectively Evaluated</u>	<u>Total Loans</u>
<u>June 30, 2023</u>						
1-4 family real estate	\$ -	\$ 213,021	\$ 213,021	\$ -	\$ 33,203,939	\$ 33,203,939
Commercial real estate	-	8,826	8,826	-	2,038,518	2,038,518
Commercial	-	27,820	27,820	-	4,284,005	4,284,005
Consumer	<u>-</u>	<u>5,765</u>	<u>5,765</u>	<u>-</u>	<u>1,331,585</u>	<u>1,331,585</u>
Total	<u>\$ -</u>	<u>\$ 255,432</u>	<u>\$ 255,432</u>	<u>\$ -</u>	<u>\$ 40,858,047</u>	<u>\$ 40,858,047</u>
<u>June 30, 2022</u>						
1-4 family real estate	\$ -	\$ 201,471	\$ 201,471	\$ -	\$ 28,922,227	\$ 28,922,227
Commercial real estate	-	12,683	12,683	-	2,431,921	2,431,921
Commercial	-	35,276	35,276	-	4,509,409	4,509,409
Consumer	<u>-</u>	<u>6,002</u>	<u>6,002</u>	<u>-</u>	<u>1,150,934</u>	<u>1,150,934</u>
Total	<u>\$ -</u>	<u>\$ 255,432</u>	<u>\$ 255,432</u>	<u>\$ -</u>	<u>\$ 37,014,491</u>	<u>\$ 37,014,491</u>

Included in the recorded investment in 2023 is \$(32,502) of net deferred loan fees and \$97,010 of accrued loan interest receivable. Included in the recorded investment in 2022 is \$(12,764) of net deferred loan fees and \$77,054 of accrued loan interest receivable.

There were no loans individually evaluated for impairment at June 30, 2023 or 2022 or during the years ending June 30, 2023 and 2022.

Loan Performance and Credit Quality Indicators: The Company considers the performance of the loan portfolio and its impact on the allowance for loan losses. For all loan classes, the Company primarily evaluates credit quality based on the aging status of the loan and by payment activity.

There were no nonaccrual loans or loans past due 90 days or more still on accrual as of June 30, 2023 and 2022.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 3 – LOANS (Continued)

The following tables present the recorded investment of loans past due as of June 30, 2023 and June 30, 2022. There was one loan past due more than 30 days at both dates.

	2023		
	31-60 Days Past Due	61-89 Days Past Due	Total
1-4 family real estate	\$ -	\$ -	\$ -
Commercial real estate:			
Business	-	62,499	62,499
Agricultural	-	-	-
Total delinquent loans	\$ -	\$ 62,499	\$ 62,499

	2022		
	31-60 Days Past Due	61-89 Days Past Due	Total
1-4 family real estate	\$ -	\$ -	\$ -
Commercial real estate:			
Business	65,990	-	65,990
Agricultural	-	-	-
Total delinquent loans	\$ 65,990	\$ -	\$ 65,990

Troubled Debt Restructurings:

The Company had no loans classified as troubled debt restructurings (TDRs) at June 30, 2023 and 2022, and there were no loans modified as troubled debt restructurings that occurred during the year ending June 30, 2023 and 2022.

NOTE 4 – PREMISES AND EQUIPMENT

Year-end premises and equipment were as follows.

	2023	2022
Land	\$ 81,807	\$ 81,807
Building and improvements	1,251,413	1,251,413
Furniture and equipment	242,848	287,511
Total	1,576,068	1,620,731
Accumulated depreciation	(564,331)	(561,382)
	\$ 1,011,737	\$ 1,059,349

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 5 – DEPOSITS

Deposits from principal officers, directors, and their affiliates at June 30, 2023 and 2022 were \$1,695,606 and \$1,633,112. The aggregate amount of certificates of deposit accounts with balances greater than \$250,000 at year-end 2023 and 2022 was \$806,961 and \$834,560.

Scheduled maturities of certificates of deposit were as follows.

<u>Year ended June 30,</u>	
2024	\$ 7,723,975
2025	3,097,326
2026	751,169
2027	<u>135,085</u>
	<u>\$ 11,707,555</u>

NOTE 6 – FEDERAL HOME LOAN BANK ADVANCES

Year-end advances from the Federal Home Loan Bank were as follows.

	<u>Rate</u>	<u>2023</u>	<u>2022</u>
Fixed rate advance, due February 5, 2025	2.40%	\$ <u>2,000,000</u>	\$ <u>2,000,000</u>
		<u>\$ 2,000,000</u>	<u>\$ 2,000,000</u>

Fixed rate advances are payable at maturity and subject to prepayment penalties if paid off prior to maturity.

Required payments over the next five years are as follows:

<u>Year ended June 30,</u>	
2024	\$ -
2025	2,000,000
2026	-
2027	-
2028	<u>-</u>
	<u>\$ 2,000,000</u>

Advances under the borrowing agreements are collateralized by a blanket pledge of the Company's residential mortgage loan portfolio and FHLB stock. At June 30, 2023 and 2022, the Company had approximately \$30,676,000 and \$26,838,000 of qualifying first-mortgage loans pledged, in addition to FHLB stock, as collateral for FHLB advances. At June 30, 2023, based on the Bank's current FHLB stock ownership, total assets and pledgeable first-mortgage loan portfolio, the Bank had the ability to obtain borrowings up to an additional \$5,551,000.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 7 – INCOME TAXES

Income tax expense was as follows.

	<u>2023</u>	<u>2022</u>
Current	\$ 255,628	\$ 75,928
Deferred	<u>(26,057)</u>	<u>(24,328)</u>
Total	<u>\$ 229,571</u>	<u>\$ 51,600</u>

Effective tax rates differ from the federal statutory rate applied to income before income taxes due to the following (21% statutory rate for 2023 and 2022).

	<u>2023</u>	<u>2022</u>
Federal statutory rate times financial statement income	\$ 225,636	\$ 47,114
Effect of:		
Tax exempt interest income, net of interest expense disallowance	(613)	(492)
Stock-based compensation	(1,040)	(739)
Other, net	<u>5,588</u>	<u>5,717</u>
Total	<u>\$ 229,571</u>	<u>\$ 51,600</u>
Effective tax rate	21.39%	23.00%

Year-end deferred tax assets and liabilities were due to the following.

	<u>2023</u>	<u>2022</u>
Deferred tax assets:		
Allowance for loan losses	\$ 53,641	\$ 53,641
Accrued compensation	379,439	353,161
Restricted stock expense	7,291	9,425
Unrealized loss on securities available for sale	102,103	92,522
Deferred loan fees and costs	<u>6,825</u>	<u>-</u>
Total deferred tax asset	549,299	508,749
Deferred tax liabilities:		
FHLB stock	(14,524)	(46,367)
Accrual to cash	(12,660)	(6,199)
Accumulated depreciation	(8,099)	(9,383)
Deferred loan fees and costs	-	(395)
Accrued wages	<u>(31,973)</u>	<u>-</u>
Total deferred tax liability	<u>(67,256)</u>	<u>(62,344)</u>
Net deferred tax asset	<u>\$ 482,043</u>	<u>\$ 446,405</u>

The Company has not recorded a deferred tax liability of approximately \$163,000 at June 30, 2023 and 2022 related to approximately \$778,000 of cumulative special bad debt deductions arising prior to December 31, 1987, the end of the Company's base year for purposes of calculating the bad debt deduction. If the Company were liquidated or otherwise ceases to be a financial institution or if the tax laws were to change, this amount would be expensed.

(Continued)

NOTE 7 – INCOME TAXES (Continued)

At June 30, 2023 and 2022, the Company had no unrecognized tax benefits recorded. The Company does not expect the amount of unrecognized tax benefits to significantly change within the next twelve months ended June 30, 2023 and 2022 and no amounts accrued for penalties and interest as of June 30, 2023 or June 30, 2022.

The Company is subject to U.S. federal income tax. The Company is no longer subject to examination by the federal taxing authority for years prior to 2019. The tax years 2020-2022 remain open to examination by the U.S. taxing authority.

NOTE 8 – RETIREMENT PLANS

Employee 401(k) and Profit Sharing Plan: The Company maintains a 401(k) and profit sharing plan for all eligible employees. Employees are eligible one year from the date of hire and must have at least 1,000 hours of service. Eligible employees may contribute up to 15% of their compensation subject to a maximum statutory limitation. The Company provides a matching contribution on behalf of participants who make elective compensation deferrals, at the rate of 50% of the first 6% of the participant's discretionary contribution. Employee contributions are always 100% vested. Employer matching contributions vest on a graduated basis at the rate of 20% per year in years two through six so that the employee is 100% vested after six years of service. The 2023 and 2022 expense related to this plan was \$13,679 and \$12,419, respectively.

Deferred Compensation and Supplemental Retirement Plan: The Board of Directors adopted a deferred compensation and supplemental retirement plan for directors and executive officers of the Company during fiscal 1999. Upon adoption, each nonemployee director was credited with \$1,494 for each year of service as a director and the employee director was credited with \$5,103 for each year of service prior to plan initiation. Beginning December 31, 1998, each nonemployee director receives a credit to their account equal to 24% of the cash compensation that a participant earned during that calendar year. Employees that are directors receive an annual credit of 8%. At the participant's election, the participant's account earns interest at the rate of the Company's return on average equity for that year or at the rate the Company is paying on a certificate of deposit having a term of one year or less at January 1 of that year. Total expense related to the Plan was \$38,115 and \$35,352 for the years ended June 30, 2023 and 2022. The accrued supplemental retirement liability included in other liabilities was \$475,733 at June 30, 2023 and \$437,618 at June 30, 2022. There were no distributions to participants or their beneficiaries during the years ended June 30, 2023 and 2022.

Additionally, each participant may elect to defer up to 25% in base salary and up to 100% of director's fees, bonuses or other cash compensation. Amounts in participant's accounts are vested at all times. The accrued deferred compensation liability included in other liabilities was \$939,104 at June 30, 2023 and \$850,551 at June 30, 2022. Earnings on amounts deferred included in salaries and employee benefits expense totaled \$16,422 and \$12,264 for the years ended June 30, 2023 and 2022. There were no distributions to participants during the years ended June 30, 2023 and 2022. The Plan is unfunded and subject to the general claims of creditors.

In conjunction with the conversion to a stock company with concurrent formation of a holding company, the Company allowed participants in the supplemental retirement and deferred compensation plans to use all or a portion of their funds in a one-time election to purchase shares of the holding company at conversion.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 8 – RETIREMENT PLANS (Continued)

The shares are held in a Rabbi Trust and the obligation under the plans will be settled with these shares. Participant stock held by the Rabbi Trust is classified in equity as Treasury Stock. Subsequent changes in the fair value of the stock are not recognized. The deferred compensation obligation is classified as an equity instrument and changes in the fair value of the amount owed to the participant are not recognized. These shares are considered outstanding for the purpose of both basic and diluted EPS. The participants elected to use \$354,600 to purchase 35,460 shares of common stock.

NOTE 9 – EMPLOYEE STOCK OWNERSHIP PLAN

As part of the conversion to a stock company, the Company formed a leveraged ESOP. The plan has a December 31 year-end and the first allocation was December 31, 2010. The ESOP borrowed from the Company, totaling \$342,000, to purchase 34,200 shares of stock at \$10 per share. The Company may make discretionary contributions to the ESOP, as well as paying dividends on unallocated shares to the ESOP, and the ESOP uses funds it receives to repay the loan. When loan payments are made, ESOP shares are allocated to participants based on relative compensation and expense is recorded. Dividends on allocated shares increase participant accounts. The shares in the plan are expected to be allocated over a twenty year period.

Participants receive the shares at the end of employment. A participant may require stock received to be repurchased unless the stock is traded on an established market. During the years ended June 30, 2023 and 2022, the Company was required to repurchase 1,849 and 2,032 shares at \$22.50 and \$24 per share, respectively.

Contributions to the ESOP during the years ended June 30, 2023 and 2022 were \$17,231 and \$16,376. ESOP expense was \$35,898 and \$40,903 for the year ended June 30, 2023 and 2022, respectively.

Shares held by the ESOP were as follows:

	<u>2023</u>	<u>2022</u>
Allocated	15,021	15,160
Committed to be released	855	855
Unearned	<u>11,115</u>	<u>12,825</u>
Total ESOP shares	<u>26,991</u>	<u>28,840</u>
Fair value of unearned shares	<u>\$ 227,857</u>	<u>\$ 269,325</u>
Fair value of allocated shares subject to repurchase obligation	<u>\$ 307,931</u>	<u>\$ 318,360</u>

The Company expects to allocate 1,710 shares for the December 31, 2023 plan year.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 10 – COMMITMENTS, OFF-BALANCE-SHEET RISK AND CONTINGENCIES

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

The contractual amounts of financial instruments with off-balance-sheet risk at year-end were as follows:

	2023		2022	
	<u>Balance</u>	<u>Rate</u>	<u>Balance</u>	<u>Rate</u>
1-4 family real estate	\$ 135,000	6.625%	\$ 808,000	4.74 – 5.50%
Undisbursed construction	\$ 1,941,000	5.25 – 7.25%	\$ 634,000	3.25 – 3.75%

Commitments to make loans are generally made for periods of 60 days or less. The loan commitments have maturities ranging up to 30 years.

At June 30, 2023 and 2022, the Company had no unused lines of credit.

NOTE 11 – FAIR VALUE

Fair value is the exchange price that would be received for an asset or paid to transfer a liability (exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. There are three levels of inputs that may be used to measure fair values:

Level 1 – Quoted prices (unadjusted) for identical assets or liabilities in active markets that the entity can access as of the measurement date.

Level 2 – Significant other observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 – Significant unobservable inputs that reflect a company’s own assumptions about the assumptions that market participants would use in pricing an asset or liability.

The Company used the following methods and significant assumptions to estimate fair value:

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2), using matrix pricing. Matrix pricing is a mathematical technique commonly used to price debt securities that are not actively traded, values debt securities without relying exclusively on quoted prices for the specific securities, but rather by relying on the securities’ relationship to other benchmark quoted securities (Level 2 inputs). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 11 – FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis at June 30, 2023 and 2022, are summarized below:

	Fair Value Measurements at June 30, 2023 Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets				
Securities available for sale				
U.S. treasury securities	\$ -	\$ 3,965,727	\$ -	\$ 3,965,727
U.S. government agencies	-	298,208	-	298,208
Government sponsored agencies – residential mortgage-backed				
FHLMC	-	751,868	-	751,868
GMNA	-	298,734	-	298,734
FNMA	-	778,580	-	778,580
	<u>-</u>	<u>6,093,117</u>	<u>-</u>	<u>6,093,117</u>
Total securities available for sale	<u>\$ -</u>	<u>\$ 6,093,117</u>	<u>\$ -</u>	<u>\$ 6,093,117</u>

	Fair Value Measurements at June 30, 2022 Using:			Total
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Financial assets				
Securities available for sale				
U.S. treasury securities	\$ -	\$ 4,000,646	\$ -	\$ 4,000,646
U.S. government agencies	-	297,972	-	297,972
Government sponsored agencies – residential mortgage-backed				
FHLMC	-	869,925	-	869,925
GMNA	-	366,855	-	366,855
FNMA	-	887,305	-	887,305
	<u>-</u>	<u>6,422,703</u>	<u>-</u>	<u>6,422,703</u>
Total securities available for sale	<u>\$ -</u>	<u>\$ 6,422,703</u>	<u>\$ -</u>	<u>\$ 6,422,703</u>

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 11 – FAIR VALUE (Continued)

There were no financial instruments measured at fair value on a non-recurring basis at June 30, 2023 or June 30, 2022. The carrying amounts and estimated fair values of financial instruments, not carried at fair value, at June 30, 2023 and 2022 are as follows:

	Carrying Value	Fair Value Measurements at June 30, 2023 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 6,507,168	\$ 6,507,168	\$ -	\$ -	\$ 6,507,168
Interest bearing time deposits	2,250,000	-	2,250,000	-	2,250,000
Securities held to maturity	20,947	-	20,592	-	20,592
Loans, net of allowance	40,505,605	-	-	36,012,833	36,012,833
FHLB stock	214,300	N/A	N/A	N/A	N/A
Accrued interest receivable	116,429	-	15,340	101,089	116,429
Financial liabilities					
Time Deposits	\$ (11,707,555)	\$ -	\$ (11,292,000)	\$ -	\$ (11,292,000)
FHLB advances	(2,000,000)	-	(1,913,877)	-	(1,913,877)
Accrued interest payable	18,512	-	18,512	-	18,512

	Carrying Value	Fair Value Measurements at June 30, 2022 Using:			Total
		Level 1	Level 2	Level 3	
Financial assets					
Cash and cash equivalents	\$ 17,917,150	\$ 17,917,150	\$ -	\$ -	\$ 17,917,150
Interest bearing time deposits	3,000,000	-	3,000,000	-	3,000,000
Securities held to maturity	26,271	-	26,836	-	26,836
Loans, net of allowance	36,682,005	-	-	35,346,692	35,346,692
FHLB stock	397,500	N/A	N/A	N/A	N/A
Accrued interest receivable	97,987	-	15,831	82,156	97,987
Financial liabilities					
Time Deposits	\$ (12,703,275)	\$ -	\$ (12,462,000)	\$ -	\$ (12,462,000)
FHLB advances	(2,000,000)	-	(1,962,832)	-	(1,962,832)
Accrued interest payable	(9,173)	-	(9,173)	-	(9,173)

While these estimates are based on management's judgment of the appropriate valuation factors, no assurance exists that, were the Company to have liquidated such items, the estimated fair values would necessarily have been realized. The estimated fair values should not be considered to apply to subsequent dates.

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NOTE 12 – REGULATORY MATTERS

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Capital adequacy guidelines and prompt corrective action regulations involve quantitative measures of assets, liabilities and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by the regulators. Failure to meet capital requirements can initiate regulatory action. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of June 30, 2023, the Bank meets all capital adequacy requirements to which it is 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.

In 2019, 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 became effective on January 1, 2020 and was elected by the Bank as of June 30, 2023 and 2022.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. Qualifying banking organizations that elect to use the community bank leverage ratio framework and that maintain a leverage ratio of greater than required minimums will be considered to have satisfied the generally applicable risk based and leverage capital requirements in the agencies' capital rules (generally applicable rule) and, if applicable, will be considered to have met the well capitalized ratio requirements for purposes of section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% for calendar year 2022, and 9% for calendar year 2023 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the bank maintains a leverage ratio of 7.5% for calendar year 2022, and 8% for calendar year 2023 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of June 30, 2023 and 2022, the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

At June 30, 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 institution's category.

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 12 – REGULATORY MATTERS (Continued)

At year-end, the Bank's actual and required capital amounts (in thousands) and ratios were as follows.

	Actual		To Be Well Capitalized Under Prompt Corrective Action Regulations (CBLR Framework)	
	Amount	Ratio	Amount	Ratio
<u>June 30, 2023</u>				
Tier I (core) capital (to average total assets)	\$ 12,379	20.5%	\$ 5,424	9.0%
<u>June 30, 2022</u>				
Tier I (core) capital (to average total assets)	\$ 11,650	17.7%	\$ 5,924	9.0%

The Qualified Thrift Lender test requires at least 65% of assets to be maintained in housing-related finance and other specified areas. If this test is not met, limits are placed on growth, branching, new investments and FHLB advances, or the Company must convert to a commercial bank charter. Management believes that this test is met.

The Bank converted from a mutual to a stock institution, and a "liquidation account" was established at \$7,378,641, which was net worth reported in the conversion prospectus. The liquidation account represents a calculated amount for the purposes described below, and it does not represent actual funds included in the consolidated financial statements of the Company. Eligible depositors who have maintained their accounts, less annual reductions to the extent they have reduced their deposits, would receive a distribution from this account if the Company liquidated. Dividends may not reduce shareholders' equity below the required liquidation account balance.

NOTE 13 – EARNINGS PER SHARE

The two-class method is used in the calculation of basic earnings per share. Under the two-class method, earnings available to common shareholders for the period are allocated between common shareholders and participating securities according to dividends declared (or accumulated) and participation rights in undistributed earnings. The factors used in the earnings per share computation follow:

	<u>2023</u>	<u>2022</u>
Basic		
Net income available to common shareholders	\$ 844,889	\$ 172,753
Less: Income allocated to participating securities	<u>(2,647)</u>	<u>(1,223)</u>
Net income allocated to common shareholders	<u>\$ 842,242</u>	<u>\$ 171,530</u>
Weighted average common shares		
outstanding including participating securities	381,376	385,948
Less: Average unearned participating securities	(597)	(835)
Less: Average unallocated ESOP shares	<u>(12,039)</u>	<u>(13,680)</u>
Weighted average shares	<u>368,740</u>	<u>371,433</u>
Basic and diluted earnings per common share	<u>\$ 2.28</u>	<u>\$ 0.46</u>

(Continued)

VERSAILLES FINANCIAL CORPORATION
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2023 and 2022

NOTE 14 – STOCK-BASED COMPENSATION

The Company's 2011 Equity Incentive Plan (the "Plan"), which was approved by shareholders on November 15, 2011, permits the grant of share options to its employees for up to an aggregate of 42,750 shares of common stock. Provisions of the plan indicate option awards are generally granted with an exercise price equal to the market price of the Company's common stock at the date of grant with vesting periods defined by the Board of Directors. The fair value of options awarded is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. As of June 30, 2023 and 2022, no grants of stock options related to the Plan have occurred and thus no compensation expense has been recognized related to option grants for the years ended June 30, 2023 and 2022.

The Plan also provides for the issuance of up to 17,100 restricted shares to directors and officers. The Company awarded 13,600 restricted stock awards ("RSAs") during the year ended June 30, 2014 and 3,500 RSAs during the year ended June 30, 2019. During the year ending June 30, 2021, 900 RSAs were forfeited and 900 RSAs were awarded. Total compensation cost that has been charged against income for the RSAs was \$8,424 and \$17,234 for the years ended June 30, 2023 and 2022. The total income tax benefit was \$1,769 and \$3,286 for the years ended June 30, 2023 and 2022. The fair value of the stock was determined using the Company's over-the-counter stock price at the grant date. RSA shares vest ratably over a three-year period for directors and a three or five-year-period for officers on the anniversary of the grant date. The shares have voting rights and participants receive nonforfeitable dividends on the unvested shares. These shares are considered to be participating securities in the earnings per share calculation.

A summary of changes in the Company's nonvested shares for the year follows:

<u>Nonvested Shares</u>	<u>Shares</u>	<u>Weighted-Average Grant-Date Fair Value</u>
Nonvested at July 1, 2022	1,550	\$23.55
Granted	-	-
Vested	(775)	23.55
Forfeited	-	-
	<u>775</u>	<u>\$ 23.55</u>
Nonvested at June 30, 2023	<u>775</u>	<u>\$ 23.55</u>

The fair value of restricted stock awards which vested during the years ended June 30, 2023 and 2022 totaled \$15,888 and \$16,275. As of June 30, 2023, there was \$3,000 of total unrecognized compensation cost related to nonvested shares granted under the Plan. Compensation expense expected to be recognized in the year ended June 30, 2024.

