2022 ANNUAL REPORT

STAR

Bank | Insurance | Private Advisory

Contents

2022 Economic Review

Inflation (and the Fed) debilitated financial markets in 2022, and Russia's invasion of Ukraine dominated headlines. Both dilemmas caused uncertainty, and both stock and bond markets suffered. Two supposed inflation hedges, gold and cryptocurrency, both failed to provide shelter from the storm. To rein inflation in, the Federal Open Market Committee raised interest rates from zero to over 4%, putting intense pressure on borrowers. And while energy prices appear to be somewhat normalizing in the wake of the Fed's actions, food, wages and other inputs will likely remain sticky for a while. The Fed's moves have sent mortgage rates sharply higher, and housing affordability has crashed from all-time-highs to mid-1980's levels. Despite all of these challenges, the US economy continues to march forward, albeit cautiously. After over 5% growth in 2021, the US posted a respectable 2.1% growth in 2022, a trend expected to continue into the first quarter of 2023. This upcoming year may have major opportunities for American manufacturing and industrial businesses, but there is a good chance this will present tremendous challenges to consumer spending and service industries.

- The **Commercial Bank**, for the second year in a row, closed over $500 million in loans and maintained a very solid portfolio pass grade credit percentage of 95.6%.
- The **Retail Bank** opened 6,000 new retail checking accounts and saw loan growth of 8% worth $5.8 Million and deposit growth of 1.1% worth 9.9 million. Loan production was over $56 Million in 2022.
- **Private Banking** grew YTD AVG consumer loan outstandings by 21%, YTD AVG outstanding deposits by 35% and eclipsed 2022 annual net income budget of $2.5MM through the addition of 60 new nameplates.
- **STAR Wealth Management** closed the year with $415 million in assets under management.

Savvy Money, Bill Pay and Enhanced Search are just a few of the features offered by STAR to enhance customers online/mobile banking experience.

Digital Innovation

For decades, STAR has been committed to serving our customers the way they want to be served on their personal journey. STAR has continued to find ways to allow you to bank your way, and 2022 was certainly no exception. We improved our video banking services, online and mobile suite of services and enhanced our ATM offerings. We added additional features, so that our customers also have live chat available in the mobile app, as well as on *starfinancial.com*. We continue to offer a large fleet of local video bankers to handle your banking needs from 7am–7pm, Monday through Saturday, setting us apart from the competition.

Changing of the Guard

STAR Group and STAR Bank expanded the top of the house leadership team in fall of 2022. Kristin Marcuccilli, a third-generation family member, was named President of STAR Financial Group, taking over for Tom Marcuccilli, who served in that role for 37 years. Kristin previously held the title of Chief Operating Officer since 2014. Tom Marcuccilli remains Chairman of STAR Financial Group. Kevin Wright, a 4th generation family member, who had been serving as Senior Vice President of Commercial since 2018, was named President of STAR Financial Bank, taking over for Tom Wright, who transitioned into the role of Vice Chairman. Also, Kate Miller, a third-generation family member, was named President of STAR Private Advisory in January. Kate, a member of the Greater Fort Wayne 2021 40 Under 40 class, has served on the private advisory team since she came to STAR in 2014.

Focus on Security

STAR is committed to protecting our customers' security. This year, with increased fraud attempts occurring across the nation, STAR launched a campaign to keep our customers both informed and protected that will continue into 2023 and beyond. We executed on various marketing campaigns that targeted our most vulnerable customers through advertising in our mobile app, on *starfinancial.com*, through mailed postcards and via email in order to help raise awareness to protect our customers from fraud.

Nonprofit Support

STAR's philanthropic focus remains on our pillars of Arts, Education and Economic Development. In 2022, we saw a return to employee engagement and support of organizations that slowed during the pandemic. In fact, in 2022 more than 100 STAR employees spent more than 700 hours serving with community organizations and STAR contributed more than $400,000 to over 80 nonprofits. We were honored to receive the Shrine 2022 Spirit of Excellence Award from The Veteran's National Shrine & Museum for our work during the year's United Way Day of Caring. On top of that, STAR Chairman and CEO Jim Marcuccilli was named the 2022 Maclyn Parker Swagger Award for Community Vision and Leadership by Greater Fort Wayne. Listed on the next page are some of the amazing organizations STAR came alongside to support through philanthropy this year.

Supported Community Organizations

500 Festival
Amani Family Services
American Red Cross
Anderson Museum of Arts
Anderson University
Arts United of Greater Fort Wayne
Art This Way
Athenaeum Foundation
Believe in a Dream
Big Brothers Big Sisters
Blue Jacket
Boys & Girls Club
Bridge of Grace
Brightpoint
Cancer Services of Northeast Indiana
Catholic Charities
Columbia City Connect
Community Harvest Food Bank
Cystic Fibrosis Foundation
Early Childhood Alliance
East Central Indiana Regional Partnership
Embassy Theatre
Erin's House for Grieving Children
Fire and Light
Fishers Art Council
Fort Wayne Ballet
Fort Wayne Children's Choir
Fort Wayne Children's Zoo
Fort Wayne Museum of Art
Fort Wayne Rescue Mission
Girl Scouts
Greater Fort Wayne Inc.
Habitat for Humanity
Indiana Black Expo
Indianapolis Sports Corp
Indianapolis Zoo
Invest in Steuben County
IU Health Foundation
Ivy Tech
Junior Achievement
Just Neighbors
Kate's Kart
LC Nature Park
Mad Anthony Children's Foundation
Make a Wish Foundation
Mental Health America of NE Indiana
Muncie -Delaware Advancement Corporation
Northeast Indiana Association of Fundraisers
Northeast Indiana Regional Partnership
Notre Dame Club of Fort Wayne
Pass the Torch Women Foundation
Phoenix Theatre
Progress House
Redeemer Radio
Ronald McDonald House
Science Central
Sophia's Portico/Mexica Arts
The Literacy Alliance
Troy Center
Turnstone
United Way
Visiting Nurse
World Baseball Academy
YMCA
Zionsville Community Schools Performing Arts Center

New Headquarters Coming Along Nicely

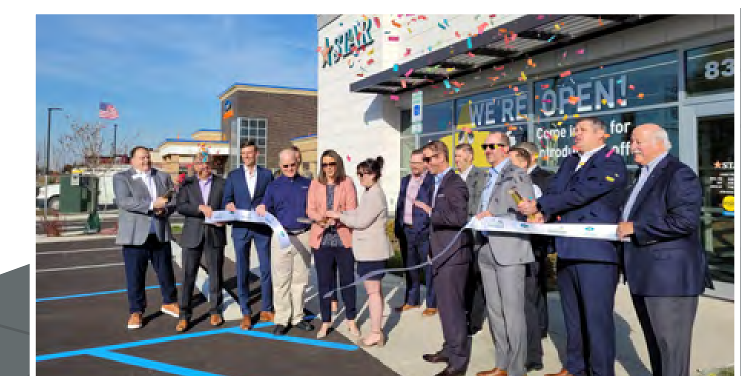
The groundbreaking of the STAR Bank Headquarters in 2021 morphed into a reality throughout 2022 with the new facility making great headway. The building at 215 W. Main Street is set to open in late 2023.

Face of Banking

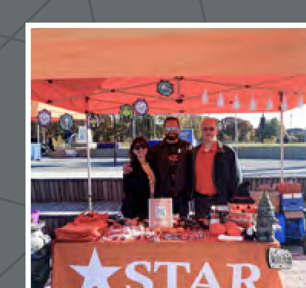
STAR bankers, leadership and board members appeared in Indianapolis Monthly's "Faces of" issue, highlighting Central Indiana's leading authorities in their respective fields. STAR was the only financial institution to appear in this issue, putting the bank in a great position to reach Indianapolis Monthly's nearly 200,000 readers of its monthly magazine.

Westfield Branch Opening

2022 was a big year for STAR in Westfield. We held a grand opening for our newest branch in October, dawned the cover of Westfield Magazine in September, and sponsored several community events through December. We were honored to be awarded the Lantern Award by the Westfield Chamber of Commerce as their Large Partner of the Year.



In October, STAR Bank opened its newest branch in Westfield, culminating with a Grand Opening ceremony on a beautiful sunny day (and some colorful confetti)



We wasted little time getting involved in the Westfield community, making appearances at a number of holiday events and being honored with the Lantern Award by the Westfield Chamber of Commerce as their Large Partner of the Year

A 'Sweet' Partnership

STAR and Friends of the Rivers partnered through our sponsorship of the iconic Sweet Breeze boat navigating the Fort Wayne rivers. STAR's sponsorship of this Fort Wayne staple will put our brand in front of over 300,000 people throughout the year just a few blocks from where the new Headquarters will be up and running during the second half of 2023.

Company-wide Learning Day

For the first time since Covid, STAR's entire footprint got together at the Memorial Coliseum in Fort Wayne for a day of learning, fellowship and team-building with special emphasis on Reflect, Renew and Reconnect. It was truly a day where STAR's OneTeam philosophy was on full display.

STAR employees take part in the Company-Wide Learning Day event held at the Fort Wayne Memorial Coliseum

STAR partnered with Friends of the Rivers to sponsor the Sweet Breeze boat tours, navigating the rivers of Fort Wayne's growing downtown area

The Marcuccilli's recognized by the IBJ's Indiana 250

Celebrating Our Own STAR's

STAR team members were honored by many area organizations in 2022. Chairman and CEO Jim Marcuccilli and Kristin Marcuccilli, President, STAR Financial Group, were recognized by the Indianapolis Business Journal's Indiana 250, a list of Indiana's most influential and impactful business and community leaders. And Jim was presented the 2022 Maclyn Parker Swagger Award for Community Vision and Leadership by Greater Fort Wayne Inc. Amanda Rubeck was named to Indy's Best and Brightest for Banking and Financial Services for this year by Junior Achievement of Central Indiana. STAR was awarded the Irene Ator Choral Excellence award that honors an individual, family, or business in our community that embodies the mission of the Fort Wayne Children's Choir through a lifelong commitment to exemplary choral music education.

Jim Marcuccilli — 2022 Maclyn Parker Swagger Award

Amanda Rubeck named to Indy's Best and Bightest for Banking and Financial Services

STAR awarded the Irene Ator Choral Excellence award

STAR was honored to support the future of agriculture through five $500 scholarships to area students

Investing in Our Future

Investing in education and students is a strong part of STAR's core pillars and has remained that way for decades, and we saw that manifest itself at STAR throughout 2022:

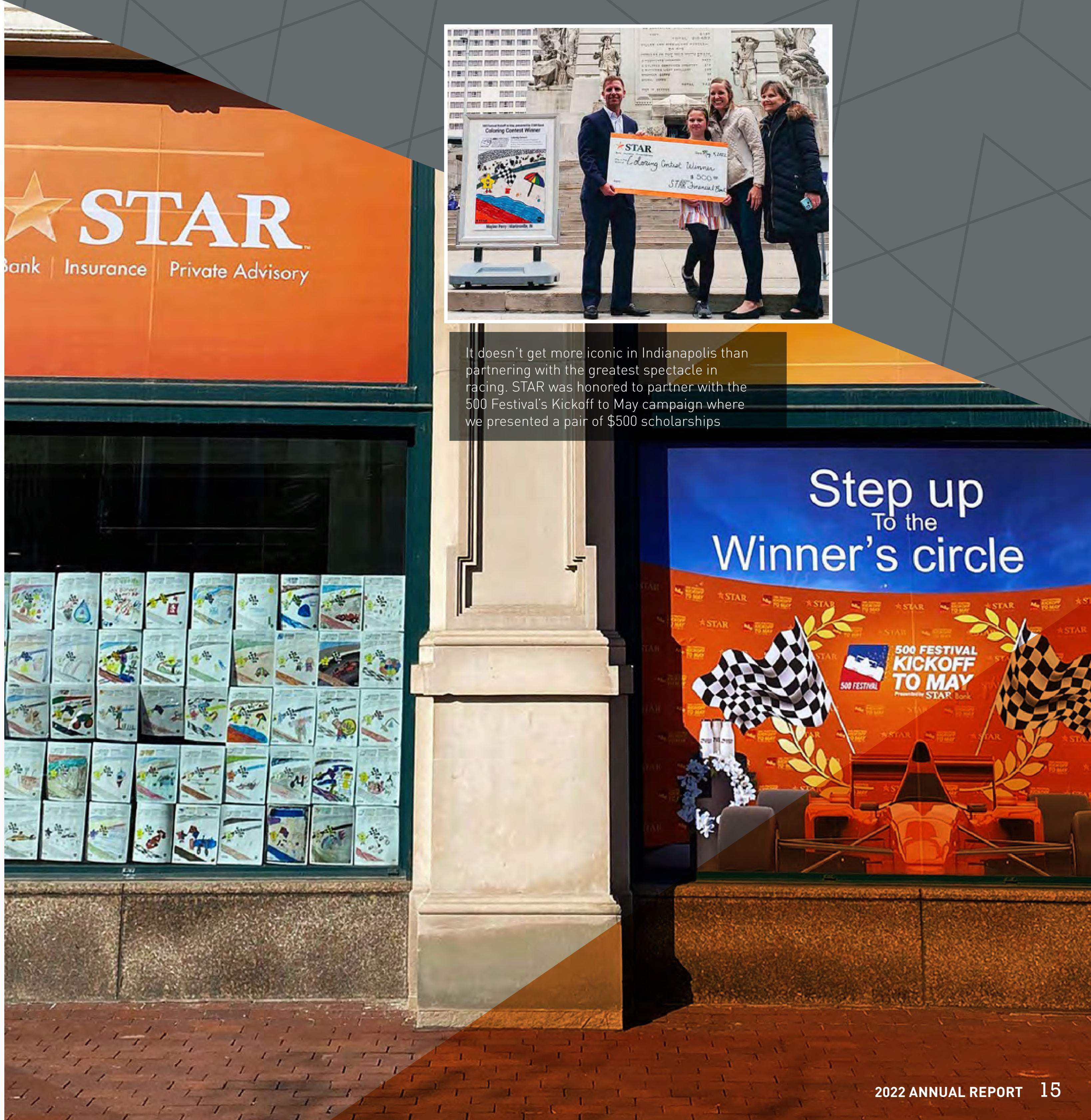
1) Farmers make up less than 1% of the population but feed the other 99%. As such, they are important to STAR. For the first time ever, we awarded five scholarships for students interested in agriculture, giving back to the communities across our Hoosier Heartland.

2) Two inspiring Ivy Tech students received a $1000 scholarship from STAR at the annual Ivy Tech Community College Brunch held at the world famous, Willis Tower.

3) STAR partnered with The 500 Festival to provide a pair of young Hoosiers ages 12 and under with a scholarship of $500 as a part of our Kickoff to May coloring contest.

4) The internship program at STAR saw 8 students make an impact on our team, with plans for immediate growth in 2023. Also, interns at Zionsville High School are immersed into situations that better prepare them to maintain their finances and learn how a bank works at the same time at the Zionsville Banking and Learning Center. This one-of-a-kind branch provides those students opportunities to work side-by-side in an immersive learning center with bankers during school hours in the fully-functioning financial center. STAR Bank's staff will oversee all banking operations and work with the students to develop on-going curriculum, work-study, internships and other facilitated learning opportunities. The STAR Bank Learning Zone provides innovative financial literacy courses, both online and through video conferencing methods.

STAR provided a pair of inspiring Ivy Tech students with $1,000 scholarships at their annual Community College Brunch



It doesn't get more iconic in Indianapolis than partnering with the greatest spectacle in racing. STAR was honored to partner with the 500 Festival's Kickoff to May campaign where we presented a pair of $500 scholarships

2023 Economic Outlook

Inflation took over the headlines in 2022, but that narrative is mostly complete. However, the fear and volatility from 2022 remains, as investors are uncertain if the Fed can engineer a soft landing (a la 1992), or if we end up in a haves-and-have-nots recession in 2024 (a la 2000). Alternative assets will remain in favor, but caution is warranted in commodities and real estate. Companies who can't adjust to higher labor and input costs will see margins erode quickly, though early results have been fairly promising. High-quality companies with proven cash flows are back in favor, as they should be. As the US economy continues to show resilience over its global competition, foreign investing should be highly limited and long-term-focused.

On behalf of the STAR family,

THOMAS M. MARCUCCILLI
Chairman, STAR Financial Group, Inc.

STAR Financial Group, Inc.

Independent Auditor's Report and
Consolidated Financial Statements

December 31, 2022 and 2021

STAR Financial Group, Inc.
Independent Auditor's Report and Consolidated Financial Statements
December 31, 2022 and 2021

STAR Financial Group, Inc.
Financial Highlights
December 31, 2022, 2021, and 2020

		2022		2021		2020
For the Year						
Net income	$	23,129	$	33,245	$	24,499
Dividends declared		3,667		4,021		3,973
Weighted average shares		2,968,111		3,346,906		3,438,748
Per Basic Common Share						
Net income	$	7.79	$	9.93	$	7.12
Dividends declared		1.24		1.20		1.16
Book value at December 31		54.02		81.81		76.86
At December 31						
Total assets	$	3,011,251	$	3,107,138	$	2,610,485
Earning assets		2,754,128		2,917,649		2,425,881
Loans and leases		1,598,869		1,500,906		1,712,369
Deposits		2,523,807		2,754,738		2,288,545
Total parent company stockholders' equity		150,835		247,281		264,247
Capital Ratios (Bank only)						
Risk-based capital ratios						
Tier I		13.00%		13.61%		13.15%
Total (Tier I plus Tier II)		13.89		14.63		14.40
Leverage ratio		9.03		8.30		9.09
Common Equity Tier I		13.00		13.61		13.15

FORVIS
111 E. Wayne Street, Suite 600 / Fort Wayne, IN 46802
P 260.460.4000 / F 260.426.2235
forvis.com

Independent Auditor's Report

Audit Committee
STAR Financial Group, Inc.
Fort Wayne, Indiana

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of STAR Financial Group, Inc. and subsidiaries as of December 31, 2022 and 2021, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited, in accordance with auditing standards generally accepted in the United States of America, STAR Financial Group, Inc.'s internal control over financial reporting as of December 31, 2022, based on criteria established in *Internal Control – Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) and our report dated March 29, 2023, expressed an unmodified opinion on the effectiveness of the Company's internal control over financial reporting.

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 Consolidated Financial Statements" section of our report. We are required to be independent of STAR Financial Group, 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.

Responsibilities of Management for the Consolidated 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 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 STAR Financial Group, Inc.'s ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated 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 financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.
- 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 STAR Financial Group, 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.

FORVIS, LLP

Fort Wayne, Indiana
March 29, 2023

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Balance Sheets
Years Ended December 31, 2022 and 2021
(In Thousands Except Share Data)

	2022	2021
Assets		
Cash and cash equivalents		
Cash and due from banks	$ 67,721	$ 55,241
Interest-bearing demand deposits	37,384	381,971
Total cash and cash equivalents	105,105	437,212
Investment securities available-for-sale	1,136,572	1,050,525
Loans held for sale	422	3,261
Loans and leases	1,598,869	1,500,906
Less: Allowance for loan and lease losses	(19,119)	(19,014)
Net loans and leases	1,579,750	1,481,892
Bank owned life insurance	46,449	46,566
Premises and equipment, net	66,041	48,231
Interest receivable	11,249	8,375
Goodwill	2,636	2,636
Other assets	63,027	28,440
Total assets	$ 3,011,251	$ 3,107,138
Liabilities and Equity		
Liabilities		
Deposits		
Demand, noninterest bearing	$ 982,696	$ 1,160,680
Interest bearing		
Demand	1,427,816	1,477,555
Time deposits	113,295	116,503
Total deposits	2,523,807	2,754,738
Long-term borrowings	245,013	10,026
Junior subordinated debt	10,310	10,310
Subordinated debt	50,000	50,000
Other liabilities	28,677	33,849
Total liabilities	2,857,807	2,858,923
Equity		
Common Stock		
No par value, 5,000,000 shares authorized, 4,854,380 shares issued	7,359	7,359
Capital surplus	7,318	6,712
Retained earnings	349,183	329,721
Accumulated other comprehensive loss	(100,285)	(2,213)
Treasury stock at cost, 2,062,007 and 1,831,772 shares as of December 31, 2022 and 2021, respectively	(112,740)	(94,298)
Total Parent Company Stockholders' Equity	150,835	247,281
Noncontrolling Interest	2,609	934
Total equity	153,444	248,215
Total liabilities and equity	$ 3,011,251	$ 3,107,138

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Income
Years Ended December 31, 2022 and 2021
(In Thousands Except Share Data)

	2022	2021
Interest Income		
Interest on loans	$ 66,628	$ 66,760
Interest on investment securities		
Taxable	19,219	7,515
Tax exempt	3,495	3,678
Total interest income	89,342	77,953
Interest Expense		
Interest on deposits	4,087	1,878
Interest on borrowings	3,272	963
Total interest expense	7,359	2,841
Net Interest Income	81,983	75,112
Provision for Loan and Lease Losses	725	950
Net Interest Income After Provision for Loan and Lease Losses	81,258	74,162
Noninterest Income		
Service charges and fees	7,764	7,051
Bank card processing	9,621	9,401
Mortgage sales and servicing fees	1,693	4,128
Insurance commissions	31	919
Trust and brokerage fee income	3,993	4,209
Gain (loss) on sale of fixed assets	(155)	786
Other fees and commissions	837	846
ATM foreign surcharge income	318	351
Check order income	192	210
Gain on sale of insurance book of business	-	12,247
Loss on sales of securities	(1,693)	-
Other	2,269	2,159
Total noninterest income	24,870	42,307
Noninterest Expense		
Salaries and employee benefits	42,936	40,750
Occupancy expense	5,259	5,336
Equipment expense	11,596	10,560
Bank card processing fees	3,024	2,486
Loan and collection expense	1,549	2,352
Deposit insurance premiums	1,363	1,181
Advertising and promotional	1,458	1,467
Professional services	2,693	3,196
Other	8,541	7,514
Total noninterest expense	78,419	74,842
Income Before Income Taxes	27,709	41,627
Provision for Income Taxes	4,580	8,382
Net Income	$ 23,129	$ 33,245
Income Per Share		
Basic	$ 7.79	$ 9.93
Diluted	$ 7.77	$ 9.93
Weighted Average Shares Outstanding		
Basic	2,968,111	3,346,906
Diluted	2,975,058	3,347,323

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Comprehensive Income (Loss)
Years Ended December 31, 2022 and 2021
(In Thousands)

	2022	2021
Net Income	$ 23,129	$ 33,245
Other Comprehensive Income (Loss)		
Change in fair value of cash flow hedges, net of taxes of $0 and $35, for 2022 and 2021, respectively	-	132
Unrealized depreciation on available-for-sale securities, net of taxes of ($26,425) and ($3,457), for 2022 and 2021, respectively	(99,409)	(13,005)
Reclassification adjustment for realized losses included in net income, net of taxes of $356 and $0, for 2022 and 2021, respectively	1,337	-
	(98,072)	(12,873)
Comprehensive Income (Loss)	$ (74,943)	$ 20,372

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Changes in Equity
Years Ended December 31, 2022 and 2021
(In Thousands Except Share Data)

	Common Stock	Capital Surplus	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Parent Company Stockholders' Equity	Non Controlling Interest	Total Equity
Balance, January 1, 2021	$ 7,359	$ 6,712	$ 300,497	$ 10,660	$ (60,981)	$ 264,247	$ -	$ 264,247
Net income	-	-	33,245	-	-	33,245	-	33,245
Other comprehensive loss	-	-	-	(12,873)	-	(12,873)	-	(12,873)
Cash dividends ($1.20 per share)	-	-	(4,021)	-	-	(4,021)	-	(4,021)
Purchase of treasury stock (414,302 shares)	-	-	-	-	(33,317)	(33,317)	-	(33,317)
Contributions from noncontrolling interests	-	-	-	-	-	-	934	934
Balance, December 31, 2021	7,359	6,712	329,721	(2,213)	(94,298)	247,281	934	248,215
Net income	-	-	23,129	-	-	23,129	-	23,129
Other comprehensive loss	-	-	-	(98,072)	-	(98,072)	-	(98,072)
Cash dividends ($1.24 per share)	-	-	(3,667)	-	-	(3,667)	-	(3,667)
Purchase of treasury stock (231,686 shares)	-	-	-	-	(18,547)	(18,547)	-	(18,547)
Share based compensation expense	-	711	-	-	-	711	-	711
Issuance of treasury stock for restricted stock awards (1,451 shares)	-	(105)	-	-	105	-	-	-
Contributions from noncontrolling interests	-	-	-	-	-	-	2,152	2,152
Distributions to noncontrolling interests	-	-	-	-	-	-	(477)	(477)
Balance, December 31, 2022	$ 7,359	$ 7,318	$ 349,183	$ (100,285)	$ (112,740)	$ 150,835	$ 2,609	$ 153,444

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In Thousands)

	2022	2021
Operating Activities		
Net income	$ 23,129	$ 33,245
Items not requiring (providing) cash		
Provision for loan losses	725	950
Net gain from sale of loans	(874)	(3,260)
Origination of loans for sale	(26,375)	(81,317)
Proceeds from sale of loans	30,088	84,990
Increase in value of bank-owned life insurance	(1,062)	(1,248)
Depreciation and amortization on premises and equipment	5,479	5,852
Net amortization of securities	9,951	6,515
Provision for deferred taxes	506	1,759
Gain on sale of insurance book of business	-	(12,247)
Loss on sale of securities	1,693	-
Loss on sale of premises and equipment	155	652
Repayment of operating lease liabilities	1,773	1,762
Share based compensation expense	711	-
Change in interest receivable	(2,874)	1,205
Change in other assets	(8,683)	3,012
Change in other liabilities	(7,289)	6,497
Net cash provided by operating activities	27,053	48,367
Investing Activities		
Proceeds from sales of investment securities available-for-sale	33,498	-
Proceeds from maturities and calls of investment securities available-for-sale	110,192	95,532
Proceeds from disposal of premises and equipment	58	181
Proceeds from sale of insurance book of business	-	16,000
Proceeds from bank-owned life insurance policy	1,179	2,391
Purchases of premises and equipment	(23,502)	(17,136)
Purchases of investment securities available-for-sale	(365,519)	(629,371)
Net change in loans	(98,583)	206,416
Net cash used in investing activities	(342,677)	(325,987)
Financing Activities		
Net change in deposits	(230,931)	466,193
Proceeds from long-term borrowings	370,000	-
Repayment of long-term borrowings	(135,013)	(10,147)
Cash dividends	(3,667)	(4,021)
Purchase of treasury stock	(18,547)	(33,317)
Proceeds from issuance of subordinated notes	-	50,000
Contributions from noncontrolling interests	2,152	934
Distributions to noncontrolling interests	(477)	-
Net cash provided (used) by financing activities	(16,483)	469,642
Net Change in Cash and Cash Equivalents	(332,107)	192,022
Cash and Cash Equivalents, Beginning of Year	437,212	245,190
Cash and Cash Equivalents, End of Year	$ 105,105	$ 437,212

See Notes to Consolidated Financial Statements

STAR Financial Group, Inc.

Consolidated Statements of Cash Flows
Years Ended December 31, 2022 and 2021
(In Thousands)

	2022	2021
Supplemental Cash Flows Information		
Interest paid	$ 6,962	$ 2,841
Income taxes paid	4,580	8,382
Lease liabilities arising from obtaining right-of use assets	2,117	142

See Notes to Consolidated Financial Statements

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

STAR Financial Group, Inc. (STAR or the Company) is a bank holding company whose principal activity is the ownership and management of its wholly owned subsidiaries, STAR Financial Bank (Bank), Finance and Insurance, Inc. (Insurance), and STAR Captive Insurance (Captive). In 2013, the Company formed STAR Captive Insurance as a wholly owned subsidiary to insure members of the consolidated group for potential losses in excess of existing insurance policies. The Bank has one wholly owned subsidiary, Titan, Inc. (Titan). In the first quarter of 2021, the Company completed an asset sale of STAR Insurance Agency (SIA) and changed the name of the business entity to Finance and Insurance, Inc. Effective December 31, 2022, Finance and Insurance, Inc. was legally dissolved. In 2020, the Company owned 100% of the newly formed entity, 215 W Main, LLC, which was established to acquire and hold real estate. 215 W Main is the majority owner in the new construction project, incorporated as Berry Maiden Main, LLC, that began in 2021 for STAR's new headquarters. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers throughout Central and Northeastern Indiana. The Bank is subject to the regulation of certain federal and state agencies and undergoes periodic examinations by those regulatory authorities. The Bank also provides trust and investment advisory services through a separate division titled STAR Wealth Management (Wealth). Titan is primarily engaged in managing the Bank's investment securities.

Use of Estimates

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan and lease losses, mortgage servicing rights, valuation of deferred tax assets and fair values of financial instruments.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Cash and Cash Equivalents

All highly liquid investments with original maturities of three months or less are considered to be cash equivalents. Cash and cash equivalents are defined to include the Company's cash on hand and demand deposits with other institutions (including money market mutual funds).

At December 31, 2022, the Company's cash accounts exceeded federally insured limits by approximately $23,160,000.

Investment Securities

Available-for-sale securities, which include any debt security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income (loss). Changes in the fair value of equity securities is recorded in non-interest income. Amortization of premiums and accretion of discounts are recorded as interest income from securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

For debt securities with fair value below amortized cost when the Company does not intend to sell a debt security, and it is more likely than not, the Company will not have to sell the security before recovery of its cost basis, it recognizes the credit component of an other-than-temporary impairment of a debt security in earnings and the remaining portion in other comprehensive income (loss). The credit loss component recognized in earnings is identified as the amount of principal cash flows not expected to be received over the remaining term of the security as projected based on cash flow projections.

Notes to Consolidated Financial Statements
STAR Financial Group, Inc.
December 31, 2022 and 2021
(Table Dollars in Thousands Except Share Data)

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of cost or fair value in the aggregate. Net unrealized losses, if any, are recognized through a valuation allowance by charges to noninterest income. Gains and losses on loan sales are recorded in noninterest income, and direct loan origination costs and fees are deferred at origination of the loan and are recognized in noninterest income upon sale of the loan.

Loans

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at their outstanding principal balances adjusted for unearned income, charge-offs, the allowance for loan losses, any unamortized deferred fees or costs on originated loans and unamortized premiums or discounts on purchased loans.

For loans amortized at cost, interest income is accrued based on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, as well as premiums and discounts, are deferred and amortized as a level yield adjustment over the respective term of the loan.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past due status is based on contractual terms of the loan. For all loan classes, the entire balance of the loan is considered past due if the minimum payment contractually required to be paid is not received by the contractual due date. For all loan classes, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

Management's general practice is to proactively charge down loans individually evaluated for impairment to the fair value of the underlying collateral. Consistent with regulatory guidance, charge-offs on all loan segments are taken when specific loans, or portions thereof, are considered uncollectible. The Company's policy is to promptly charge these loans off in the period the uncollectible loss is reasonably determined.

For all loan portfolio segments except residential and consumer loans, the Company promptly charges-off loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower's ability to adequately meet its obligations. For impaired loans that are considered to be solely collateral dependent, a partial charge-off is recorded when a loss has been confirmed by an updated appraisal or other appropriate valuation of the collateral.

The Company charges-off residential and consumer loans, or portions thereof, when the Company reasonably determines the amount of the loss. The Company adheres to timeframes established by applicable regulatory guidance which provides for the charge-down of 1-4 family first mortgages, junior lien mortgages and other secured consumer loans at 90 days past due. Unsecured retail loans are wholly charged off when the loan is 90 days past due.

For all loan classes, 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. Nonaccrual loans are returned to accrual status when, in the opinion of management, the financial position of the borrower indicates there is no longer any reasonable doubt as to the timely collection of interest or principal. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

When cash payments are received on impaired loans in each loan class, the Company records the payment as interest income unless collection of the remaining recorded principal amount is doubtful, at which time payments are used to reduce the principal balance of the loan. Troubled debt restructured loans recognize interest income on an accrual basis at the renegotiated rate if the loan is in compliance with the modified terms, no principal reduction has been granted and the loan has demonstrated the ability to perform in accordance with the renegotiated terms for a period of at least six months.

Allowance for Loan and Lease Losses

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to income. Loan losses are charged against the allowance when management believes the uncollectability of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance.

The allowance for loan losses is evaluated on a regular basis by management and is based upon management's periodic review of the collectability of the loans in light of historical experience, the nature and volume of the loan portfolio, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and prevailing economic conditions. This evaluation is inherently subjective as it requires estimates that are susceptible to significant revision as more information becomes available.

The allowance consists of allocated and general components. The allocated component relates to loans that are classified as impaired. For those loans that are classified as impaired, an allowance is established when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical charge-off experience by segment. The historical loss experience is determined by portfolio segment and is based on the actual loss history on a weighted average basis experienced by the Company over the prior three years. Management believes the weighted average three-year historical loss experience methodology is appropriate in the current economic environment. Other adjustments (qualitative/environmental considerations) for each segment may be added to the allowance for each loan segment after an assessment of internal or external influences on credit quality that are not fully reflected in the historical loss or risk rating data.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due based on the loan's current payment status and the borrower's financial condition including available sources of cash flows. 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 a 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. Impairment is measured on a loan-by-loan basis for non-homogenous type loans such as commercial, non-owner residential and construction loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price or the fair value of the collateral if the loan is collateral dependent. For impaired loans where the Company utilizes the discounted cash flows to determine the level of impairment, the Company includes the entire change in the present value of cash flows as provision for loan losses.

The fair values of collateral dependent impaired loans are based on independent appraisals of the collateral. In general, the Company acquires an updated appraisal upon identification of impairment and annually thereafter for commercial, commercial real estate and multi-family loans. It is the Company's practice to obtain annual appraisals on impaired loans. The Company applies a discount rate to the appraisal based upon the collateral type. In the case of commercial real estate, the discount rate is 25%. After determining the collateral value as described, the fair value is calculated based on the determined collateral value less selling expenses. The potential for outdated appraisal values is considered in the Company's determination of the allowance for loan losses through the analysis of various trends and conditions including the local economy, trends in charge-offs and delinquencies, etc. and the related qualitative adjustments assigned by the Company.

Segments of loans with similar risk characteristics are collectively evaluated for impairment based on the segment's historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company does not separately identify individual consumer and residential loans for impairment measurements, unless such loans are the subject of a restructuring agreement due to financial difficulties of the borrower.

In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring (TDR) has occurred, which is when, for economic or legal reasons related to a borrower's financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the ability of the borrower to repay in line with its current financial status and the restructuring of the loan may include the transfer of assets from the borrower to satisfy the debt, a modification of loan terms, or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the

property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company's policy to have any restructured loans which are on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance at which time management would consider its return to accrual status. If a loan was accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the determination of the amount of impaired loans for each portfolio segment within troubled debt restructurings is the same as detailed previously.

Bank Owned Life Insurance

Bank owned life insurance consists of investments in life insurance policies on certain key executives and other members of the Bank's management. The policies are carried at their net cash surrender value. Changes in the policy value are recorded as an adjustment to the carrying value with the corresponding amount recognized as non-interest income or expense. Earnings on these policies are based on the net earnings on the cash surrender value of the policies.

Premises and Equipment

Premises and equipment are recorded at cost less accumulated depreciation. The provision for depreciation is computed on the straight-line method over the estimated useful lives of the assets generally ranging from three to 25 years. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Maintenance and repairs are expensed as incurred, while major additions and improvements are capitalized. Gains and losses on disposition are included in the consolidated statements of income.

FHLB Stock

Federal Home Loan Bank (FHLB) stock is a required investment for institutions that are members of the Federal Home Loan Bank system. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment. Included in other assets on the consolidated balance sheets is FHLB stock totaling $11,070,600 and $6,880,000 at December 31, 2022 and 2021.

Goodwill

Goodwill is evaluated annually for impairment – or more frequently if impairment indicators are present. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recorded in the consolidated financial statements.

Intangible Assets

Intangible assets with finite lives are being amortized on the straight-line basis over periods ranging from five to seven years. Such assets are periodically evaluated as to the recoverability of their carrying values.

Other Real Estate Owned

Other real estate owned represents properties acquired through foreclosures or deeds in lieu of foreclosure or former branches held for sale. The properties acquired through, or in lieu of, loan foreclosure are held for sale and are initially recorded at fair value less cost to sell at the date of foreclosure. Any excess of the loan amount over the net realizable value of such property when acquired is charged to the allowance for loan and lease losses, 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 cost to sell. In the case of former branches, any excess of net book value over the net realizable value of such property is charged to impairment of premises and equipment. Subsequent write-downs and gains or losses on sales are recorded in the income statement. Costs of maintaining the properties are recorded in the consolidated income statement as incurred. Included in other assets on the consolidated balance sheets is other real estate owned totaling $521,343 and $521,343 at December 31, 2022 and 2021, respectively.

Mortgage Servicing Rights

Mortgage servicing assets are recognized when rights are acquired through the sale of financial assets. Under the servicing assets and liabilities accounting guidance (ASC 860-50), servicing rights resulting from the sale of loans originated by the Company are initially measured at fair value at the date of transfer. The Company subsequently measures each class of servicing asset using the amortization method. Under the amortization method, servicing rights are amortized in proportion to and over the period of estimated net servicing income. The amortized assets are assessed for impairment based on fair value at each reporting date.

Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. These variables change from quarter to quarter as market conditions and projected interest rates change, and may have an adverse impact on the value of the mortgage servicing right and may result in a reduction to noninterest income.

Each class of separately recognized servicing assets subsequently measured using the amortization method are evaluated and measured for impairment. Impairment is determined by stratifying rights into tranches based on predominant characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the carrying amount of the servicing assets for that tranche. The valuation allowance is adjusted to reflect changes in the measurement of impairment after the initial measurement of impairment. Changes in valuation allowances are reported with mortgage sales and servicing fees on the income statement. Fair value in excess of the carrying amount of servicing assets for that stratum is not recognized.

Servicing fee income is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales, when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

Lease Commitments

The Company leases certain banking center locations, office space, land and billboards. In determining whether a contract contains a lease, the Company examines the contract to ensure an asset was specifically identified and that the Company has control of use over the asset. To determine whether a lease is classified as operating or finance, the Company performs an economic life test on all building leases with greater than a twenty years term. Further, the Company performs a fair value test to identify any leases that have a present value of future lease payments over the lease term that is greater than 90% of the fair value of the building.

At lease inception, the Company determines the lease term by adding together the minimum lease term and all optional renewal periods that it is reasonably certain to renew. The Company determines this on each lease by considering all relevant contract based, asset-based, market-based, and entity-based economic factors. Generally, the exercise of lease renewal options is at the Company's sole discretion. The lease term is used to determine whether a lease is operating or finance and is used to calculate straight-line rent expense. Additionally, the depreciable life of leasehold improvements is limited by the expected lease term.

Operating lease rentals are expensed on a straight-line basis over the life of the lease beginning on the date the Company takes possession of the property. Rent expense and variable lease costs are included in occupancy expense on the Company's consolidated statements of income. Included in variable lease costs are leases with rent escalations based on recent financial indices, such as the Consumer Price Index, where the Company estimates future rent

increases and records the actual difference to variable costs. Certain leases require the Company to pay common area maintenance, real estate taxes, insurance and other operating expenses associated with the leases premises. These expenses are classified in occupancy expense, consistent with similar costs for owned locations. There are no residual value guarantees, restrictions or covenants imposed by leases.

The Company accounts for lease and non-lease components together as a single lease component by class of underlying asset. Operating lease obligations with an initial term longer than 12 months are recorded with a right of use asset and a lease liability in the consolidated balance sheet.

The discount rate used in determining the lease liability and related right of use asset is based upon what would be obtained by the Company for similar loans as an incremental rate as of the date of origination or renewal.

Income Taxes

The Company accounts for income taxes in accordance with income tax accounting guidance (ASC 740, *Income Taxes*). The income tax accounting guidance results in two components of income tax expense: current and deferred. Current income tax expense reflects taxes to be paid or refunded for the current period by applying the provisions of the enacted tax law to the taxable income or excess of deductions over revenue. The Company determines deferred income taxes using the liability method. Under this method, the net deferred tax asset or liability is based on the tax effects of the differences between the book and tax bases of assets and liabilities, and enacted changes in tax rates and laws are recognized in the period in which they occur.

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized. Uncertain tax positions are recognized if it is more likely than not, based on the technical merits, that the tax position will be realized or sustained upon examination. The term more likely than not means a likelihood of more than 50% the terms examined and upon examination also include resolution of the related appeals or litigation processes, if any. A tax position that meets the more-likely-than-not recognition threshold is initially and subsequently measured as the largest amount of tax benefit that has a greater than 50% likelihood of being realized upon settlement with a taxing authority that has full knowledge of all relevant information. The determination of whether or not a tax position has met the more-likely-than-not recognition threshold considers the facts, circumstances and information available at the reporting date and is subject to management's judgment.

The Company files consolidated income tax returns with its subsidiaries. The Company recognizes interest and penalties, if any, as income tax expense.

Treasury Stock

Common stock shares repurchased are recorded at cost. Cost of shares retired or reissued is determined using the first-in, first-out method.

Earnings Per Share

Basic earnings per share are based on the weighted average number of common shares outstanding. Dilutive earnings per share includes the dilutive effect of additional potential common shares issuable under restricted stock awards.

Subsequent Events

Subsequent events have been evaluated through March 29, 2023, which is the date the consolidated financial statements were available to be issued.

(Table Dollars in Thousands Except Share Data)

Note 2: Future Change in Accounting Principle

In June 2016, the FASB issued ASU No. 2016-13, *"Financial Instruments-Credit Losses (Topic 326) - Measurement of Credit Losses on Financial Instruments."* The provisions of ASU 2016-13 were issued to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments that are not accounted for at fair value through net income, including loans held for investment, held-to-maturity debt securities, trade and other receivables, net investment in leases and other commitments to extend credit held by a reporting entity at each reporting date. ASU 2016-13 requires that financial assets measured at amortized cost be presented at the net amount expected to be collected, through an allowance for credit losses that is deducted from the amortized cost basis. The amendments in ASU 2016-13 eliminate the probable incurred loss recognition in current GAAP and reflect an entity's current estimate of all expected credit losses. The measurement of expected credit losses is based upon historical experience, current conditions, and reasonable and supportable forecasts that affect the collectability of the financial assets. In May 2019, the FASB issued final amendments (ASU No. 2019-05) to provide entities that have certain instruments measured at amortized cost within the scope Topic 326 with an option to irrevocably elect the fair value option in Topic 825 on an instrument-by-instrument basis for eligible instruments, upon adoption of Topic 326. The fair value option election does not apply to held-to-maturity debt securities.

Credit losses relating to available-for-sale debt securities will be recorded through an allowance for credit losses rather than as a direct write-down to the security.

ASU 2016-13 and 2019-05 are effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2022. Early adoption is permitted for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2018. As previously disclosed, the Company formed a cross-functional team to work through its implementation plan and implemented a third-party software solution to assist in the application of the new standard including portfolio segmentation according to shared risk and characteristics and modeling methodologies. The Company's cross-functional team is substantially complete with the assessment and documentation of processes, internal controls, data and model validation testing, parallel testing, qualitative factors and forecast periods as well as model development. Upon adoption of ASU 2016-13, the Company will recognize a one-time cumulative effect adjustment through retained earnings as of January 1, 2023.

Upon adoption of ASU 2016-13, the Company will not record an allowance as of January 1, 2023 with respect to its available-for-sale debt securities as the majority of these securities are government-agency backed securities for which the risk of loss is minimal. The adoption of ASU 2016-13 is not expected to have a significant impact on the Company's regulatory ratios.

Note 3: Restriction on Cash and Due From Banks

The Bank is required by the Federal Reserve to maintain a portion of its deposits in the form of cash and/or on deposit with the Federal Reserve Bank. The amount of the required reserve balance as of December 31, 2022, was $0.

Note 4: Investment Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2022				
U.S. Treasury and agency securities	$ 109,500	$ -	$ 9,977	$ 99,523
Obligations of states and political subdivisions	243,587	45	37,744	205,888
Mortgage-backed Government Sponsored				
Enterprise (GSE) residential	896,093	301	78,249	818,145
Pooled trust preferred securities	14,335	-	1,319	13,016
	$ 1,263,515	$ 346	$ 127,289	$ 1,136,572

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
December 31, 2021				
U.S. Treasury and agency securities	$ 65,317	$ 22	$ 252	$ 65,087
Obligations of states and political subdivisions	248,177	9,333	3,037	254,472
Mortgage-backed Government Sponsored				
Enterprise (GSE) residential	725,030	1,781	9,559	717,252
Pooled trust preferred securities	14,802	-	1,089	13,713
	$ 1,053,326	$ 11,136	$ 13,937	$ 1,050,525

Securities with a carrying value of approximately $133,373,000 and $85,322,000 at December 31, 2022 and 2021, respectively, were pledged to secure public and trust deposits, securities sold under agreements to repurchase and for other purposes as required by law.

The amortized cost and fair value of securities at December 31, 2022, by contractual maturity are shown below. Expected maturities may differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available for Sale	
	Amortized Cost	Fair Value
Due within one year	$ 5,640	$ 5,612
Due after one year through five years	106,234	98,834
Due after five years through ten years	64,487	59,354
Due after ten years	191,061	154,627
Total investment securities with a contractual maturity	367,422	318,427
Mortgage-backed GSE residential	896,093	818,145
Total investment securities	$ 1,263,515	$ 1,136,572

Gross gains of $0 and $0 resulting from sales of available-for-sale securities were realized in 2022 and 2021, respectively. Gross losses of $1,693,000 and $0 resulting from sales of AFS securities were realized in 2022 and 2021.

Certain investments in debt and equity securities are reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2022 and 2021, was $1,102,788,000 and $758,785,000 respectively, which is approximately 97% and 72%, respectively, of the available-for-sale investment portfolio. These declines primarily resulted from changes in market interest rates since the securities were purchased and current depressed market conditions.

Based on evaluation of available evidence, including recent changes in market interest rates, discounted cash flow analysis, and credit rating information, management believes the declines in fair value for these securities are temporary, except as discussed below.

(Table Dollars in Thousands Except Share Data)

The following table shows the Company's investments' gross unrealized losses and fair value, aggregated by investment class and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2022 and 2021.

	December 31, 2022					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency securities	$ 23,229	$ 1,452	$ 76,294	$ 8,525	$ 99,523	$ 9,977
Obligations of states and political subdivisions	106,218	7,091	86,155	30,653	192,373	37,744
Mortgage-backed GSE residential	292,491	18,642	505,385	59,607	797,876	78,249
Pooled trust preferred securities	-	-	13,016	1,319	13,016	1,319
	$ 421,938	$ 27,185	$ 680,850	$ 100,104	$ 1,102,788	$ 127,289

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Treasury and agency securities	$ 47,530	$ 252	$ -	$ -	$ 47,530	$ 252
Obligations of states and political subdivisions	68,898	1,856	24,063	1,181	92,961	3,037
Mortgage-backed GSE residential	546,192	7,844	58,389	1,715	604,581	9,559
Pooled trust preferred securities	-	-	13,713	1,089	13,713	1,089
	$ 662,620	$ 9,952	$ 96,165	$ 3,985	$ 758,785	$ 13,937

U.S. Treasury and Agency Securities

The unrealized losses on the Company's investments in securities of U.S. Treasury and Agency Securities were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Obligations of State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Mortgage-backed GSE Residential

The unrealized losses on the Company's investment in mortgage-backed GSE residential securities were caused by interest rate changes. The Company expects to recover the amortized cost basis over the term of the securities. Because the decline in market value is attributable to changes in interest rates and not credit quality, and because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2022.

Pooled Trust Preferred Securities

Pooled trust preferred securities within the available-for-sale portfolio include six securities which are collateralized by trust preferred securities principally issued by banks. As of December 31, 2022, there were six pools and one pool was determined to be fully impaired and was written off against earnings in a prior period. As of December 31, 2022, the remaining five pools were rated below investment grade. The remaining five securities rated below investment

grade were evaluated for impairment as discussed below and not deemed to be other-than-temporarily impaired. The Company's unrealized losses on pooled trust preferred securities were primarily caused by deterioration in the financial status of the institutions within the respective pools and sector downgrades by analysts and rating agencies.

Other-Than-Temporary Impairment

Upon acquisition of a security, the Company decides whether it is within the scope of the accounting guidance for beneficial interests in securitized financial assets or will be evaluated for impairment under the accounting guidance for investments in debt and equity securities.

The accounting guidance for beneficial interests in securitized financial assets provides incremental impairment guidance for a subset of the debt securities within the scope of the guidance for investments in debt and equity securities. For securities where the security is a beneficial interest in securitized financial assets, the Company uses the beneficial interests in securitized financial asset impairment model.

The Company conducts quarterly reviews to identify and evaluate each investment security to determine whether an other-than-temporary impairment has occurred. Economic models are used to determine whether an other-than-temporary impairment has occurred on these securities. While all securities are considered, the securities primarily impacted by other-than-temporary impairment testing are pooled trust preferred securities. For each trust preferred security in the investment portfolio, an extensive, regular review is conducted to determine if an other-than-temporary impairment has occurred. As part of its impairment analysis, management reviewed the underlying institutions' most recently available financial performance to assist management in applying the appropriate constant default rate to its cash flow projections for each security. To determine the range and likelihood of potential principal and interest losses on these tranches, management evaluated cash flow projections encompassing multiple market assumptions, including default rates, recoveries and severity. Based upon these cash flow projections and all other information available, management projected that all future contractual principal and interest payments will be received and no additional other-than-temporary impairment existed as of December 31, 2022. If economic conditions worsen, it is possible that the securities that are currently performing satisfactorily could suffer impairment and could potentially require write-downs in future periods.

Note 5: Loans and Allowance for Loan and Lease Losses

STAR's business activity is primarily with customers located in north central and northeast Indiana. The loan portfolio is diversified by type and industry. Collateral requirements for each loan are based upon the credit evaluation of each transaction.

Classes of loans at December 31, include:

	2022	2021
Commercial and industrial *	$ 587,937	$ 582,409
Commercial real estate	620,929	547,223
Consumer:		
Consumer, home equity lines of credit	76,955	65,799
Consumer, auto	13,279	12,869
Consumer, other	14,312	13,272
Residential	278,836	267,522
Finance leases	6,621	11,812
Gross loans	1,598,869	1,500,906
Allowance for loan losses	(19,119)	(19,014)
Net loans	$ 1,579,750	$ 1,481,892

*In 2022 and 2021, STAR originated $0 and $88,775,000 in Paycheck Protection Program (PPP) loans, respectively. There were $394,000 and $43,436,000 outstanding at December 31, 2022 and 2021, respectively.

(Table Dollars in Thousands Except Share Data)

The components of the Company's direct financing leases as of December 31 are summarized below:

	2022	2021
Future minimum lease payments	$ 6,826	$ 11,661
Residual interests	408	1,118
Initial direct costs	6	16
Unearned income	(619)	(983)
	$ 6,621	$ 11,812

Future minimum lease payments are as follows:

2023	$ 1,918
2024	1,671
2025	829
2026	627
2027	462
Thereafter	1,319
	$ 6,826

The risk characteristics of each loan portfolio segment are as follows:

Commercial and Industrial and Commercial Real Estate

Commercial and industrial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. The cash flows of borrowers; however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets, such as accounts receivable or inventory, and may include a personal guarantee. Short-term loans may be made on an unsecured basis. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially ` on the ability of the borrower to collect amounts due from its customers.

Commercial real estate loans are viewed primarily as cash flow loans and secondarily as loans secured by real estate. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The characteristics of properties securing the Company's commercial real estate portfolio are diverse, but with geographic location almost entirely in the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, geography and risk grade criteria. In general, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate versus nonowner-occupied loans.

Real Estate, Consumer, Leases and Other

Real estate, consumer, leases and other loans consist of four segments - residential mortgage loans, personal loans, direct financing leases and other loans. For residential mortgage loans that are secured by 1-4 family residences and are generally owner-occupied, the Company generally establishes a maximum loan-to-value ratio and requires private mortgage insurance if that ratio is exceeded. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Consumer personal, leases and other loans are secured by consumer personal assets, such as automobiles or recreational vehicles. Some consumer personal loans are unsecured, such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas, such as unemployment levels. Repayment can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

2022		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans (collateral dependent)	$ 597	$ -	$ -	$ 597
Mortgage servicing rights	1,505	-	-	1,505

2021		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans (collateral dependent)	$ 585	$ -	$ -	$ 585
Mortgage servicing rights	1,534	-	-	1,534

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a nonrecurring basis.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. An allowable method for determining the amount of impairment includes estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Managed Assets department and Asset Quality Committee. Appraisals are reviewed for accuracy and consistency by the Loan Review department. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Loan Review department by comparison to historical results.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

(Table Dollars in Thousands Except Share Data)

Internal Risk Categories

Loan grades are numbered 1 through 10. Grades 1 through 6 are considered satisfactory grades. The grade of 7, or Watch, represents loans of lower quality and is considered criticized. The grades of 8, or Substandard, and 9, or Special Mention, and 10, or Loss, refer to assets that are classified. The use and application of these grades by the Bank conform to the Bank's policy.

Prime (1) loans have exceptional credit fundamentals, including stable and predictable income and balance sheet performance; highly regarded with excellent management and management depth.

Good (2) loans have very good credit fundamentals but less predictable income and balance sheet performance than a prime graded credit. Loans have regional exposure in stable industry with seasoned management.

Satisfactory (3) loans are medium size or a local company in a good industry with predictable income and balance sheet performance over time.

Pass (4) all loans with acceptable credit risk but of a moderate to small size for local markets. Credit compares equally or favorably to peers and competitors with a solid balance sheet and profitability with some volatility.

Pass Minus (5) loans are credits where overall risk associated with creditworthiness criteria is considered higher than normal and warrant attention. Startup or less seasoned company within cyclical industry with moderate levels of volatility and deterioration of credit fundamentals.

Risk rated with caution (6) loans are credits where overall risk associated with creditworthiness criteria are less desirable but with potential. High or increasing risk dependence upon collateral or guarantor for protection with weaker or deteriorating financial trends.

Watch (7) all credits where overall credit fundamentals need continued review. Considered higher risk with unfavorable characteristics present. Risk, however, remains reasonable. Borrowings would usually be on a fully secured basis.

Substandard (8) credits have well-defined weaknesses where payment default is possible but not yet probable. Deficiencies are not corrected quickly and financing alternatives are limited. Reliance on collateral and guarantors is increased.

Doubtful (9) loans are credits where the possibility of loss is high, repayment is erratic or nonexistent, and loan is collateral dependent or firm in bankruptcy.

Loss (10) loans are no longer considered bankable assets.

Nonperforming mortgage, home equity and consumer loans on non-accrual or greater than 90 days past due and are internally monitored monthly by management.

Performing all other mortgage, home equity and consumer loans.

The following table presents the credit risk profile of the Company's commercial, commercial real estate, and finance leases loan portfolios based on internal rating category as of December 31, 2022 and 2021:

	Commercial and Industrial		Commercial Real Estate		Finance Leases	
	2022	2021	2022	2021	2022	2021
Grade						
Pass (1-6)	$ 555,300	$ 557,273	$ 590,997	$ 521,110	$ 6,621	$ 11,432
Watch (7)	26,867	4,916	27,954	22,139	-	26
Substandard (8)	4,716	18,950	1,382	3,965	-	354
Doubtful (9)	1,054	1,270	596	9	-	-
Loss (10)	-	-	-	-	-	-
Total	$ 587,937	$ 582,409	$ 620,929	$ 547,223	$ 6,621	$ 11,812

The following table presents the credit risk profile of the Company's residential real estate, home equity lines of credit, and consumer loan portfolios based on internal rating category as of December 31, 2022 and 2021:

	Consumer - Home Equity Lines of Credit		Consumer - Auto		Consumer - Other		Residential	
	2022	2021	2022	2021	2022	2021	2022	2021
Performing	$ 76,884	$ 65,732	$ 13,279	$ 12,869	$ 14,312	$ 13,267	$ 278,641	$ 267,302
Nonperforming	71	67	-	-	-	5	195	220
	$ 76,955	$ 65,799	$ 13,279	$ 12,869	$ 14,312	$ 13,272	$ 278,836	$ 267,522

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2022 and 2021:

	2022						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Commercial and industrial	$ 324	$ -	$ 1,103	$ 1,427	$ 586,510	$ 587,937	$ 78
Commercial real estate	596	-	-	596	620,333	620,929	-
Consumer							
Consumer, home equity lines of credit	144	78	22	244	76,711	76,955	22
Consumer, auto	-	-	-	-	13,279	13,279	-
Consumer, other	25	-	-	25	14,287	14,312	-
Residential	104	116	22	242	278,594	278,836	-
Finance leases	-	-	-	-	6,621	6,621	-
Total	$ 1,193	$ 194	$ 1,147	$ 2,534	$ 1,596,335	$ 1,598,869	$ 100

(Table Dollars in Thousands Except Share Data)

	2021						
	30-59 Days Past Due	60-89 Days Past Due	Greater than 90 Days	Total Past Due	Current	Total Loans	Total Loans > 90 Days and Accruing
Commercial and industrial	$ 438	$ 325	$ 505	$ 1,268	$ 581,141	$ 582,409	$ 31
Commercial real estate	-	-	9	9	547,214	547,223	-
Consumer							
Consumer, home equity lines of credit	20	44	-	64	65,735	65,799	-
Consumer, auto	24	-	-	24	12,845	12,869	-
Consumer, other	-	-	-	-	13,272	13,272	-
Residential	33	354	10	397	267,125	267,522	10
Finance leases	-	-	-	-	11,812	11,812	-
Total	$ 515	$ 723	$ 524	$ 1,762	$ 1,499,144	$ 1,500,906	$ 41

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans as of and for the years ended December 31, 2022 and 2021:

	2022					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized on Cash Basis
Loans without a specific valuation allowance:						
Commercial and industrial	$ 3,482	$ 3,487	$ -	$ 4,514	$ 183	$ 180
Commercial real estate	596	667	-	936	24	21
Loans with a specific valuation allowance:						
Commercial and industrial	1,648	1,736	1,050	1,727	81	41
Total impaired loans	$ 5,726	$ 5,890	$ 1,050	$ 7,177	$ 288	$ 242

	2021					
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized	Interest Income Recognized on Cash Basis
Loans without a specific valuation allowance:						
Commercial and industrial	$ 5,546	$ 5,548	$ -	$ 5,683	$ 241	$ 239
Commercial real estate	1,275	1,343	-	4,965	65	-
Loans with a specific valuation allowance:						
Commercial and industrial	1,805	1,855	1,220	4,084	76	38
Total impaired loans	$ 8,626	$ 8,746	$ 1,220	$ 14,732	$ 382	$ 277

The following table presents the Company's nonaccrual loans at December 31, 2022 and 2022. This table excludes performing troubled debt restructurings.

	2022	2021
Commercial and industrial	$ 1,706	$ 1,867
Commercial real estate	596	9
Consumer		
Consumer, home equity lines of credit	48	67
Consumer, auto	-	-
Consumer, other	-	5
Residential	195	210
Finance leases	-	-
Total	$ 2,545	$ 2,158

The Company identified as troubled debt restructurings certain receivables for which the allowance for loan losses had previously been measured under a general allowance for loan losses methodology. Upon identifying those receivables as troubled debt restructurings, the Company identified them as impaired under the guidance in Accounting Standards Codification (ASC) 310-10-35. The ASU requires prospective application of the impairment measurement guidance in ASC 310-10-35 for those receivables newly identified as impaired.

At December 31, 2022 and 2021, the Company had a number of loans that were modified in troubled debt restructurings and impaired. The modification of terms of such loans included one or a combination of the following: an extension of maturity, a reduction of the stated interest rate or a permanent reduction of the recorded investment in the loan.

The following tables present information regarding troubled debt restructurings by class for the years ended December 31, 2022 and 2021.

(Table Dollars in Thousands Except Share Data)

Newly restructured loans:

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
December 31, 2022			
Commercial and industrial	$ 1	$ 391	$ 363
Commercial real estate	-	-	-
Consumer			
Consumer, residential	1	6	4
	$ 2	$ 397	$ 367

	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
December 31, 2021			
Commercial and industrial	$ 13	$ 3,581	$ 3,556
Commercial real estate	3	681	681
Consumer			
Consumer, residential	-	-	-
	$ 16	$ 4,262	$ 4,237

The troubled debt restructurings described above did not materially increase the allowance for loan losses for the years ended December 31, 2022 and 2021. The troubled debt restructurings described above did not result in any charge offs during the years ended December 31, 2022 and 2021.

Newly restructured loans by type of modification:

2022	Interest Only	Term	Combination	Total Modification
Commercial and industrial	$ -	$ -	$ 363	$ 363
Commercial real estate	-	-	-	-
Consumer				
Consumer, residential	4	-	-	4
	$ 4	$ -	$ 363	$ 367

2021	Interest Only	Term	Combination	Total Modification
Commercial and industrial	$ -	$ 3,556	$ -	$ 3,556
Commercial real estate	-	681	-	681
Consumer				
Consumer, residential	-	-	-	-
	$ -	$ 4,237	$ -	$ 4,237

There were no troubled debt restructurings modified in the past 12 months that subsequently defaulted.

As of December 31, 2022, there were $0 of loans designated as TDRs that met the criteria for placement back on accrual status. This criteria is a minimum of six months of payment performance under existing modified terms.

The Company had no foreclosed residential real estate property obtained by physical possession as of December 31, 2022 and 2021. The Company had no consumer mortgage loans secured by residential real estate properties for which foreclosure proceedings are in process according to local jurisdictions as of December 31, 2022 and 2021.

Note 6: Premises and Equipment

Premises and equipment as of December 31 are summarized as follows:

	2022	2021
Land	$ 18,756	$ 18,682
Buildings and improvements	37,480	35,377
Furniture and equipment	37,223	34,219
Construction in progress	26,864	10,686
	120,323	98,964
Less accumulated depreciation	(54,282)	(50,733)
Net premises and equipment	$ 66,041	$ 48,231

Note 7: Mortgage Servicing

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately $299,663,000 and $315,114,000 at December 31, 2022 and 2021, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in other liabilities, were approximately $1,383,000 and $2,361,000 at December 31, 2022 and 2021, respectively.

Mortgage servicing rights are included in other assets in the accompanying consolidated balance sheets. Comparable market values and a valuation model that calculates the present value of future cash flows were used to estimate fair value.

Activity in the balance of servicing assets was as follows:

	2022	2021
Carrying amount, beginning of year	$ 1,534	$ 1,402
Servicing obligations that result from transfers of financial assets	317	722
Amortization	(354)	(664)
Change in valuation allowance	8	74
Carrying amount, end of year	$ 1,505	$ 1,534
Valuation allowance, beginning of year	(30)	(104)
Additions	11	84
Reductions	(3)	(10)
Valuation allowance, end of year	$ (22)	$ (30)
Fair value, beginning of year	$ 2,573	$ 1,661
Fair value, end of year	$ 3,999	$ 2,573

(Table Dollars in Thousands Except Share Data)

Note 8: Time Deposits

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

2023	$	89,166
2024		17,178
2025		2,794
2026		1,912
2027		1,317
Thereafter		928
	$	113,295

Time deposits with balances of $250,000 or greater were approximately $11,885,000 and $14,279,000 at December 31, 2022 and 2021, respectively.

Included in time deposits at December 31, 2022 and 2021 were $16,288,000 and $14,935,000 respectively, of deposits which were obtained through the IntraFi Network. This service allows deposit customers to maintain fully insured balances in excess of the $250,000 FDIC insurance limit without the inconvenience of having multi-banking relationships. Under the reciprocal program that the Company is currently participating in, customers agree to allow the Company to place their deposits with other participating banks in the IntraFi Network program in insurable amounts under $250,000. In exchange, other banks in the program agree to place their deposits with the Company also in insurable amounts under $250,000.

Note 9: Long-Term Borrowings

As of December 31, 2022 and 2021, STAR had Federal Home Loan Bank of Indianapolis advances (advances) outstanding totaling $245,013,000 and $10,026,000, respectively. The advances bear interest at rates ranging from 3.22% to 5.12% and mature at various dates through November 1, 2027.

Interest is paid monthly and the weighted average interest rate on the advances was 4.53% and 0.87% as of December 31, 2022 and 2021, respectively. The advances at December 31, 2022, are secured by first-mortgage loans totaling $319,994,000 and are subject to restrictions or penalties in the event of prepayment.

Maturities of long-term debt are as follows: 2023 - $170,013,000; 2024 - $0; 2025 - $25,000,000; 2026 - $25,000,000; 2027 - $25,000,000 and $0 thereafter.

The Company has established borrowing capacity of $1,003,076,400 and $355,000,000 as of December 31, 2022 and 2021, respectively, with the Federal Home Loan Bank and other financial institutions, of which $245,013,000 and $10,026,000 was outstanding at December 31, 2022 and 2021, respectively. In addition to the other borrowings, the Company also had $1,000,000 and $1,000,000 letters of credit available as of December 31, 2022 and 2021, respectively.

Note 10: Junior Subordinated Debt and Subordinated Debt

In 2021, the Company privately placed $50 million in aggregate principal amount of fixed-to-floating rate subordinated notes due 2031 to certain qualified institutional buyers. The Notes will initially bear interest at 3.25% per year, payable semi-annually in arrears. Beginning October 1, 2026 through the maturity date or earlier redemption, the interest rate will reset quarterly based on the then current Three-Month Term SOFR plus 257 basis points, payable quarterly in arrears. Also beginning on October 1, 2026 through maturity, the Notes may be redeemed in whole or in part, at the Company's option. The Notes will mature on October 1, 2031.

In March 2006, the Company formed STAR Capital Trust I (Trust I) and STAR Capital Trust II (Trust II) which are both statutory business trusts. Trust I issued $5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating $5,155,000 to Trust I. The subordinated debentures are the sole assets of Trust I. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month LIBOR (4.74%) plus 1.40% (6.14%) and mature on June 30, 2036, and are non-callable for five years after issuance. The securities may be called at any quarterly interest date at par.

Trust II issued $5,155,000 of trust preferred capital securities as a participant in a pooled trust preferred securities offering. The Company issued subordinated debentures aggregating $5,155,000 to Trust II. The subordinated debentures are the sole assets of Trust II. The subordinated debentures and the trust preferred securities pay interest and dividends, respectively, on a quarterly basis. The subordinated debentures and trust preferred capital securities bear interest at a rate of three-month LIBOR (4.74%) plus 1.40% (6.14%) and mature on June 30, 2036. The securities may be called at any quarterly interest date at par.

The trust preferred capital securities, subject to certain limitations, are included in Tier I Capital for regulatory purposes. Trust I and Trust II are not consolidated into the Company and as a result, the Company accounts for the investment in Trust I and Trust II as assets, the subordinated debentures as debt, and the interest paid/received thereon as interest expense/income.

Note 11: Stock Based Compensation

The Company has 5,000,000 authorized shares which may be issued and would have such voting, dividend, liquidation and other rights and preferences as specified by the Board of Directors.

STAR declared $3,667,000 ($1.24 per common share) of cash dividends during the year ended December 31, 2022 and $4,021,000 ($1.20 per common share) during the year ended December 31, 2021.

The Company's long-term incentive model was approved in 2020 and agreements with employees were entered into in January 2021. Issuance of stock vests over a period of three years. Restricted stock units (RSU) are either time vested or based on performance metrics achieved by the Company. The total compensation expense recognized for the long-term incentive plan was $711,000 and $220,000 for the years ended December 31, 2022 and 2021, respectively.

A summary of the status of the Company's nonvested restricted stock units as of December 31, 2022, and 2021, and changes during the periods then ended is presented below:

	Shares		Weighted Average Grant Date Fair Value
Nonvested at January 1, 2021	-	$	-
Granted	7,850		72.00
Vested	-		-
Forfeited	-		-
Nonvested at December 31, 2021	7,850	$	72.00
Granted	8,159		85.00
Vested	(1,451)		72.00
Forfeited	-		-
Nonvested at December 31, 2022	14,558	$	74.10

The total unrecognized compensation was $350,000 and $345,000 for the years ended December 31, 2022 and 2021, respectively. In the first quarter of 2023, 2,843 shares were vested and issued to plan participants.

Note 12: Income Tax Expense

The Company files income tax returns in the U.S. federal jurisdiction and various states and local jurisdictions. With a few exceptions, the Company is no longer subject to U.S. federal, state and local or income tax examinations by tax authorities for years before 2019.

(Table Dollars in Thousands Except Share Data)

Income tax provision is summarized as follows:

	2022	2021
Current		
Federal	$ 4,134	$ 5,671
State	(60)	1,197
Deferred	506	1,514
Total tax expense	$ 4,580	$ 8,382

A net deferred tax asset is included in other assets and is comprised of the following temporary differences at December 31:

	2022	2021
Deferred tax assets		
Allowance for loan and lease losses	$ 4,925	$ 4,899
Other nondeductible accruals	1,493	1,399
Unrealized losses on available-for-sale securities	26,652	17
Other	532	505
	$ 33,602	$ 6,820
Deferred tax liabilities		
Mortgage servicing rights	$ (382)	$ (384)
Premises and equipment, including equipment leased to others	(2,159)	(2,371)
Other	(1,903)	(706)
	$ (4,444)	$ (3,461)
Total net deferred taxes	$ 29,158	$ 3,359

A reconciliation of income tax expense at the statutory rate to the Company's actual income tax expense is as follows:

	2022	2021
Income taxes at statutory rate	$ 5,809	$ 8,742
State income taxes, net of federal benefit	353	1,344
Tax-exempt interest	(1,036)	(1,189)
Bank owned life insurance	(172)	(223)
Captive insurance income	(393)	(233)
Tax credits	(36)	(38)
Other, net	55	(21)
Net income tax expense	$ 4,580	$ 8,382

At December 31, 2022, the Company had no general income tax credit carryovers.

Note 13: Accumulated Other Comprehensive Income/(Loss)

The components of accumulated other comprehensive income (loss), included in stockholders' equity, are as follows:

	2022	2021
Net unrealized loss on available-for-sale securities	$ (126,943)	$ (2,801)
Tax effect	26,658	588
Net-of-tax amount	$ (100,285)	$ (2,213)

Note 14: Employee Retirement and Savings Plans

During 2021 STAR terminated the Employee Stock Ownership Plan (ESOP), effective July 31, 2021. Employees were given the option to retain shares, liquidate their position or roll funds over to an investment account. As a result of the termination, 184,599 shares were purchased back into treasury stock.

STAR also has a Section 401(k) savings plan for substantially all employees. The savings plan provides that STAR may contribute up to 50% of the amount of compensation deferred by the employee, up to 5%. STAR contributed $983,000 and $969,000 to the plans in 2022 and 2021, respectively.

Note 15: Goodwill

The changes in the carrying amount of goodwill for the years ended December 31, 2022 and 2021, were:

	2022	2021
Balance as of January 1	$ 2,636	$ 5,567
Disposition of SIA	-	(2,931)
Balance as of December 31	$ 2,636	$ 2,636

Note 16: Related Party Transactions

The Bank has loan, deposit and other transactions with its directors and officers, and with organizations and individuals with which they are associated. In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features. The aggregate dollar amount of loans to directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to $15,854,000 and $16,123,000 at December 31, 2022 and 2021, respectively. The aggregate dollar amount of deposits of directors and executive officers who held office at the end of the year, and organizations and individuals with which they are associated, amounted to $11,209,000 and $12,936,000 at December 31, 2022 and 2021, respectively.

Note 17: Commitments and Contingencies

The Bank, in the normal course of business, is a party to various financial instruments with off-balance sheet risk to meet the financing needs of customers. These instruments involve elements of credit risk in excess of amounts recognized in the financial statements. The contract amounts of those instruments reflect the extent of involvement STAR has in financial instruments.

Financial instruments whose contract amounts represent credit risk at December 31:

	2022	2021
Commitments to extend credit	$ 726,583	$ 717,694
Standby letters of credit	10,680	7,149
Forward sale commitments	920	5,149

(Table Dollars in Thousands Except Share Data)

STAR's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual amount of those instruments. STAR follows the same credit policies in making commitments and conditional obligations as it does for on-balance sheet instruments.

Commitments to extend credit are agreements to loan funds to customers providing there is compliance with terms of the commitment. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained if deemed necessary by the Bank upon extension of credit is based on management's credit evaluation of the customer. Collateral held varies but may include accounts receivable, inventory, plant and equipment and real estate.

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Bank holds collateral supporting those commitments when deemed necessary.

Forward sale commitments are commitments to sell groups of residential mortgage loans that the Bank originates or purchases as part of its mortgage banking activities. The Bank commits to sell the loans at specified prices in a future period, typically within 90 days. These commitments are acquired to reduce market risk on mortgage loans in the process of origination and mortgage loans held for sale since the Bank is exposed to interest rate risk during the period between issuing a loan commitment and the sale of the loan into the secondary market.

Management does not expect any material losses to result from these financial instruments.

The Company and Bank are also subject to claims and lawsuits which arise primarily in the ordinary course of business. It is the opinion of management that the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the consolidated financial position of the Company.

The Company is obligated under operating leases for certain office premises and equipment. The following table shows operating lease right of use assets and operating lease liabilities as of December 31, 2022 and 2021.

	2022	2021
Operating lease right of use assets	$ 5,462	$ 5,771
Operating lease liabilities	5,807	6,187

The following table shows the components of operating leases expenses for the years ended December 31, 2022 and 2021.

	2022	2021
Operating lease cost	$ 1,960	$ 1,877

The following table shows future minimum rental commitments for all non-cancellable operating leases with an initial term longer than 12 months for the next five years and thereafter.

2023	$ 1,243
2024	1,176
2025	1,007
2026	557
2027	535
Thereafter	2,459
Total lease payments	6,977
Less: imputed interest	(1,170)
Present value of operating lease liabilities	$ 5,807

The following table shows the weighted average remaining operating lease term, the weighted average discount rate and supplemental consolidated statement of cash flows information for operating leases at December 31, 2022 and 2021.

	2022	2021
Weighted average remaining lease term (years)	11.69	8.52
Weighted average discount rate	3.18%	2.54%
Cash paid for amounts included in the measurement of lease liability:		
Operating cash flows from operating leases	1,589	1,533

In early 2021, STAR announced plans to begin construction on their new headquarters which will be located in downtown Fort Wayne. Construction began in 2021 and is scheduled to be complete in the third quarter of 2023. The Company has entered into construction-related contracts in the amount of $36 million. The amount outstanding on the contract is $8,762,000 and $18,022,000 as of December 31, 2022 and 2021 respectively.

Note 18: Regulatory Matters

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

Quantitative measures established by regulatory capital standards to ensure capital adequacy require the Company and Bank to maintain minimum amounts and ratios (set forth in the following table) of Total and Tier 1 capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined).

As of December 31, 2022, the most recent notification received from federal banking agencies categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the following table. There are no conditions or events since that notification that management believes have changed the Bank's category.

(Table Dollars in Thousands Except Share Data)

STAR Bank's capital amounts and ratios are presented in the following table:

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2022						
Total capital (to risk weighted assets)						
STAR Financial Bank	$ 297,490	13.89%	$ 171,325	8.00%	$ 214,156	10.00%
Tier I capital (to risk weighted assets)						
STAR Financial Bank	278,371	13.00	128,494	6.00	171,325	8.00
Tier 1 capital (to average assets)						
STAR Financial Bank	278,371	9.03	123,317	4.00	154,147	5.00
Common equity Tier I capital						
STAR Financial Bank	278,371	13.00	96,370	4.50	139,202	6.50

	Actual		Minimum Capital Requirement		Minimum to be Well Capitalized Under Prompt Corrective Actions Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total capital (to risk weighted assets)						
STAR Financial Bank	$ 274,678	14.63%	$ 150,226	8.00%	$ 187,783	10.00%
Tier I capital (to risk weighted assets)						
STAR Financial Bank	255,664	13.61	112,670	6.00	150,226	8.00
Tier 1 capital (to average assets)						
STAR Financial Bank	255,664	8.30	123,262	4.00	154,078	5.00
Common equity Tier I capital						
STAR Financial Bank	255,664	13.61	84,502	4.50	122,059	6.50

Banking regulations limit the amount that the Bank may pay the Company without prior approval of bank regulatory authorities. At December 31, 2022, retained earnings available for dividends to the Company without such approval totaled approximately $56,690,000.

Note 19: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets or liabilities

Level 2 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 for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring Measurements

The following tables present the fair value measurements of assets and liabilities recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021:

	2022			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash Equivalents				
Money market mutual funds	$ 14,775	$ 14,775	$ -	$ -
Available-for-Sale Securities				
U.S. Treasury and agency securities	99,523	-	99,523	-
Obligations of states and political subdivisions	205,888	-	205,888	-
Mortgage-backed GSE residential	818,145	-	818,145	-
Pooled trust preferred securities	13,016	-	13,016	-

(Table Dollars in Thousands Except Share Data)

	2021			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Cash Equivalents				
Money market mutual funds	$ 20,501	$ 20,501	$ -	$ -
Available-for-Sale Securities				
U.S. Treasury and agency securities	65,087	-	65,087	-
Obligations of states and political subdivisions	254,472	-	254,472	-
Mortgage-backed GSE residential	717,252	-	717,252	-
Pooled trust preferred securities	13,713	-	13,713	-
Interest Rate Swap Assets	187	-	187	-
Interest Rate Swap Liability	(187)	-	(187)	-

Following is a description of the valuation methodologies used for assets and liabilities measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended December 31, 2022. For assets and liabilities classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Cash Equivalents

Where quoted market prices are available in an active market, cash equivalents are classified within Level 1 of the valuation hierarchy and include only money market mutual funds. The Company had no cash equivalents classified as Level 2 or Level 3.

Available-for-Sale Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by a third-party pricing service using pricing models, quoted market prices of securities with similar characteristics or discounted cash flows. The inputs used by the pricing service to determine fair value may include one, or a combination of, observable inputs such as benchmark yields, reported trades, broker/dealer quotes, issuer spreads, two-sided markets, benchmark securities, bids, offers and reference data market research publications and are classified within Level 2 of the valuation hierarchy. These level 2 securities include U.S. Treasury and agency securities, obligations of state and political subdivisions, pooled trust preferred securities, and mortgage-backed GSE residential securities. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Fair value determinations for Level 3 measurements of securities are the responsibility of the Finance department. The Finance department contracts with a pricing specialist to generate fair value estimates on a monthly or quarterly basis. The Finance department challenges the reasonableness of the assumptions used and reviews the methodology to ensure the estimated fair value complies with accounting standards generally accepted in the United States.

Interest Rate Swap Agreements

Derivative instruments consist of interest rate swaps and interest rate caps. The Company obtained fair values from financial institutions that use internal models with observable market inputs to estimate the values of these instruments (Level 2).

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2022 and 2021.

	2022			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans (collateral dependent)	$ 597	$ -	$ -	$ 597
Mortgage servicing rights	1,505	-	-	1,505

	2021			
		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Impaired loans (collateral dependent)	$ 585	$ -	$ -	$ 585
Mortgage servicing rights	1,534	-	-	1,534

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. The Company has no liabilities measured at fair value on a nonrecurring basis.

Impaired Loans (Collateral Dependent)

Loans for which it is probable that the Company will not collect all principal and interest due according to contractual terms are measured for impairment. An allowable method for determining the amount of impairment includes estimating fair value using the fair value of the collateral for collateral dependent loans. If the impaired loan is identified as collateral dependent, then the fair value method of measuring the amount of impairment is utilized. This method requires obtaining a current independent appraisal of the collateral and applying a discount factor to the value. Impaired loans that are collateral dependent are classified within Level 3 of the fair value hierarchy when impairment is determined using the fair value method.

The Company considers the appraisal or evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals of the collateral underlying collateral-dependent loans are obtained when the loan is determined to be collateral-dependent and subsequently as deemed necessary by the Managed Assets department and Asset Quality Committee. Appraisals are reviewed for accuracy and consistency by the Loan Review department. Appraisers are selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated cost to sell if repayment or satisfaction of the loan is dependent on the sale of the collateral. These discounts and estimates are developed by the Loan Review department by comparison to historical results.

Mortgage Servicing Rights

Mortgage servicing rights do not trade in an active, open market with readily observable prices. Accordingly, fair value is estimated using discounted cash flow models having significant inputs of discount rate, prepayment speed and default rate. Due to the nature of the valuation inputs, mortgage servicing rights are classified within Level 3 of the hierarchy.

(Table Dollars in Thousands Except Share Data)

Mortgage servicing rights are tested for impairment on a quarterly basis. The Company measures mortgage servicing rights through the completion of a proprietary model. The model is tested quarterly using baseline data to check its accuracy.

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in recurring and nonrecurring Level 3 fair value measurements as of December 31, 2022 and 2021.

	Fair Value at December 31, 2022	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral dependent)	$ 597	Market comparable properties	Marketability discount	31.93% - 91.73% (63.74%)
Mortgage servicing rights	$ 1,505	Discounted cash flows	Constant prepayment rate	5.46 - 30.08% (6.81%)

	Fair Value at December 31, 2021	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Impaired loans (collateral dependent)	$ 585	Market comparable properties	Marketability discount	42.26% - 100% (67.58%)
Mortgage servicing rights	$ 1,534	Discounted cash flows	Constant prepayment rate	6.94 - 32.19% (12.58%)

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationship between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments at December 31, 2022 and 2021.

	Carrying Amount	Fair Value	Level 1	Level 2	Level 3
December 31, 2022					
Financial assets					
Cash and cash equivalents	$ 105,105	$ 105,105	$ 105,105	$ -	$ -
Loans held for sale	422	426	-	426	-
Loans and leases, net	1,579,750	1,489,023	-	-	1,489,023
Interest receivable	11,249	11,249	-	11,249	-
Federal Home Loan Bank stock	11,071	11,071	-	11,071	-
Financial liabilities					
Demand deposits	2,410,512	2,410,512	2,410,512	-	-
Time deposits	113,295	91,692	-	91,692	-
Long-term borrowings	245,013	245,679	-	245,679	-
Subordinated debt	60,310	45,615	-	45,615	-
Interest payable	887	887	-	887	-
December 31, 2021					
Financial assets					
Cash and cash equivalents	$ 437,370	$ 437,370	$ 437,370	$ -	$ -
Loans held for sale	3,261	3,308	-	3,308	-
Loans and leases, net	1,481,892	1,478,062	-	-	1,478,062
Interest receivable	8,375	8,375	-	8,375	-
Federal Home Loan Bank stock	6,880	6,880	-	6,880	-
Financial liabilities					
Demand deposits	2,638,235	2,638,235	2,638,235	-	-
Time deposits	116,503	98,819	-	98,819	-
Long-term borrowings	10,023	9,660	-	9,660	-
Subordinated debt	60,310	55,242	-	55,242	-
Interest payable	489	489	-	489	-

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value.

Cash and Cash Equivalents, Federal Home Loan Bank Stock, Interest Receivable and Interest Payable

The carrying amounts approximate fair value.

Loans Held for Sale

For homogeneous categories of loans, such as mortgage loans held for sale, fair value is estimated using the quoted market prices for securities backed by similar loans, adjusted for differences in loan characteristics.

(Table Dollars in Thousands Except Share Data)

Loans and Leases, net

Fair value is estimated by discounting the future cash flows using market rates for similar loans to similar borrowers. The market rates reflect a market participant assumption about risks associated with nonperformance, illiquidity, and the structure and term of the loans along with local economic and market conditions.

Deposit Liabilities

The fair values disclosed for demand deposits (*e.g.*, interest and noninterest checking, savings and money market accounts) are, by definition, equal to the amount payable on demand at the reporting date (*i.e.*, their carrying amounts). The carrying amounts for variable-rate, fixed-term time deposits approximate their fair values at the reporting date. Fair values for fixed-rate certificates of deposit are estimated using a discounted cash flow calculation that applies interest rates currently being offered on certificates to a schedule of aggregated expected monthly maturities on time deposits.

Long-Term Borrowings

Fair values for Federal Home Loan Bank and other borrowings are estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

Subordinated Debt

The fair value for subordinated debt is estimated using a discounted cash flow calculation that applies interest rates currently being offered for similar maturities.

Commitments to Originate Loans, Forward Sale Commitments, Letters of Credit and Lines of Credit

The fair value of commitments to originate loans is estimated using the fees currently charged to enter into similar agreements, taking into account the remaining terms of the agreements and the present creditworthiness of the counterparties. For fixed-rate loan commitments, fair value also considers the difference between current levels of interest rates and the committed rates. The fair value of forward sale commitments is estimated based on current market prices for loans of similar terms and credit quality. The fair values of letters of credit and lines of credit are based on fees currently charged for similar agreements or on the estimated cost to terminate or otherwise settle the obligations with the counterparties at the reporting date. The fair value of these items is not material.

Note 20: Earnings Per Share

The factors used in the Company's earnings per share computation are as follows:

	2022	2021
Net income	$ 23,129	$ 33,245
Weighted average shares outstanding	2,968,111	3,346,906
Add: Dilutive effects of restricted stock units	6,947	417
Average shares and dilutive potential shares	2,975,058	3,347,323
Basic earnings per share	$ 7.79	$ 9.93
Diluted earnings per share	$ 7.77	$ 9.93

BOARD OF DIRECTORS & EXECUTIVE TEAM

STAR Financial Group

BOARD OF DIRECTORS

James C. Marcuccilli
Kristin M. Marcuccilli
Thomas M. Marcuccilli, *Chairman*
Kathryn L. Miller
C. Robin Wright
Kevin A. Wright
Thomas W. Wright

EXECUTIVE OFFICERS

Casey B. Cox, *General Counsel, Secretary*
James C. Marcuccilli, *Executive Vice President*
Kristin M. Marcuccilli, *President*
Thomas M. Marcuccilli, *Chairman*
Brian M. Miller, *Chief Financial Officer, Treasurer*
Thomas W. Wright, *Vice Chairman*

STAR Financial Bank

BOARD OF DIRECTORS

Ryan H. Drook
James C. Marcuccilli, Chairman
Thomas M. Marcuccilli
Edmond C. O'Neal III
Melissa Proffitt Schmidt
Steven F. Walker
Bernadine L. Wallace
Erin M. Whittle
Douglas A. Wood
Kevin A. Wright
Thomas W. Wright

EXECUTIVE OFFICERS

Casey B. Cox, General Counsel, *Secretary*
Angela M. Dane, *SVP, Human Resources Director*
Kathryn L. Miller, *President, Private Advisory*
Michael A. Goldman, *SVP, Chief Credit Officer*
James C. Marcuccilli, *Chairman & CEO*
Kristin M. Marcuccilli, *STAR Financial Group President*
Thomas M. Marcuccilli, *STAR Financial Group Chairman*
Brian M. Miller, *Chief Financial Officer*
C. Michael Wallace, *President, Retail Banking*
Kevin A. Wright, *President*
Thomas W. Wright, *Vice Chairman*

REGION PRESIDENTS

James E. Cook – *North*
Scott A. Bove – *South*
S. Trent Dowling – *Central*

2023 Annual Meeting

The 2023 Annual Meeting of the Shareholders of STAR Financial Group occurs on Wednesday, May 24, 2023, at 10 a.m. at STAR Financial Group's Corporate Office at 127 West Berry Street, 2nd floor, Fort Wayne, Indiana.

STAR

Bank | Insurance | Private Advisory

STAR Financial Group, Inc.

CORPORATE OFFICE

127 W. Berry Street | Fort Wayne, Indiana 46802 | (260) 428-7000

starfinancial.com

STAR346