ANNUAL REPORT 2020

KenBancorp

KB
KENTLAND BANK

Today - Tomorrow - Together

KENBANCORP
Kentland, Indiana

CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2020, 2019 and 2018

CONTENTS

2020 ANNUAL REPORT

To: Our Shareholders
Our Customers
Our Communities

We are pleased to report that KenBancorp and its wholly-owned subsidiary Kentland Bank experienced another solid earnings year in 2020. On a comparison basis, earnings decreased 18.56% in 2020 to $4,229,274, equating to a Return on Average Equity of 8.99%, versus 11.72% in 2019. The Return on Average Assets also decreased in 2020 to 1.32%, versus 1.70% in 2019.

The ongoing pandemic obviously had a huge impact on the Bank and continues to impact our operations. As you know, we paused our special dividend in July of last year as we thought it prudent to continue to assess the effect of the shutdown of the economy on our local communities. We are pleased that our credit quality, even during these unprecedented times, actually improved slightly. This, coupled with our strong capital position, allowed the Board of Directors to declare a special dividend payable on January 4, 2021 of $25.00 per share once again. Please note this is in addition to a regular dividend of $8.25 per share. Total dividends declared in 2020 was $41.00 per share.

The Bank had very minimal loan growth on average for the year over 2019. All of our growth was fueled by the CARES ACT PPP loans to our business customers. We are proud that Kentland Bank, and many community banks, were much more effective than large banks in getting these much needed funds into our customer's hands quickly. We have also begun in early 2021 processing the 2nd round of PPP Loans for our clients. Business development efforts have obviously been severely hampered by all of the emergency mandates put in place by local governments.

I would again like to commend all the Bank Officers and Employees for the exceptional work they have done over the past year during these trying times. The pandemic continues to test our operations, our resolve, and our character. Our Kentland Bank family have and continue to perform heroically, and provide economic lifelines to the communities we serve. We are extremely proud of all they have accomplished during this past year!!

I also would encourage every shareholder to fully utilize the products and services the Bank has to offer. **This is more important now than ever**, as competition for financial services continues to expand. Encourage your friends, neighbors, and business associates to use the Bank's products and services as well. Your efforts will help the Bank be more successful and your investment in the Bank to grow!

Lastly, your Board of Directors remain committed to doing everything we can to enhance your shareholder value. We continue to look for innovative ways that will accomplish this without putting your investment at an unacceptable risk level. This is our primary duty to all shareholders, and we are mindful of the trust you have put in us.

We look forward to a better and more prosperous 2021! We wish you and your family and businesses the same!

Mitchell H. Van Kley
Chairman of the Board

FINANCIAL HIGHLIGHTS

	2020	2019	% Change
PERFORMANCE DATA			
Net Income	$ 4,229,274	5,193,412	(18.56%)
Per share	45.33	56.50	(19.77%)
Cash dividends declared	3,827,909	4,653,291	(17.74%)
Per share	41.00	50.50	(18.81%)
Book value per share, December 31	518.49	494.27	4.90%
PERFORMANCE RATIOS			
Return on average equity (1)	8.99%	11.72%	
Return on average assets	1.32%	1.70%	
BALANCE SHEET AT YEAR ENDS			
Total assets	$ 334,308,508	$ 302,043,159	
Loans (net)	170,771,260	175,178,666	
Total deposits	270,731,427	246,803,463	
Shareholders' equity	48,448,632	45,616,087	
BALANCE SHEET DAILY AVERAGES			
Total assets	$ 319,423,000	$ 306,075,000	
Loans (net)	175,695,000	172,383,000	
Total deposits	260,718,000	253,790,000	

(1) Calculated using simple average of consolidated equity.

FIVE YEAR RECORD

	Net Income		Dividends		Shareholders' Equity	
Year	Amount	Per Share	Amount	Per Share	Amount	Per Share
2016	3,745,808	41.16	1,274,579	14.00	41,359,753	454.08
2017	4,266,465	46.89	3,574,037	39.50	41,983,301	464.78
2018	5,482,385	60.26	4,559,580	50.00	43,006,826	471.32
2019	5,193,412	56.50	4,653,291	50.50	45,616,087	494.27
2020	4,229,274	45.33	3,827,909	41.00	48,448,632	518.49

KENBANCORP
TRANSACTION PRICE RANGES OF COMMON STOCK AND CASH DIVIDENDS

	As of	Transaction Price	Cash Dividend	Transaction Price	Cash Dividend
		2020		2019	
First Quarter	3/31	$ 524	$ -	$ 518	$ -
Second Quarter	6/30	537	7.75	534	17.50
Third Quarter	9/30	539	-	530	-
Fourth Quarter	12/31	549	33.25	544	33.00

KenBancorp's common stock is traded in the Newton County, Indiana area. The common stock of KenBancorp has never been actively traded, and there has never been an established market for the stock.

Crowe LLP
Independent Member Crowe Global

INDEPENDENT AUDITOR'S REPORT

Shareholders and Board of Directors
KenBancorp
Kentland, Indiana

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of KenBancorp, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2020, and the related notes to the consolidated financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

(Continued)

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of KenBancorp as of December 31, 2020 and 2019, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2020, in accordance with accounting principles generally accepted in the United States of America.

Crowe LLP

South Bend, Indiana
February 22, 2021

KENBANCORP
CONSOLIDATED BALANCE SHEETS
December 31, 2020 and 2019

	2020	2019
ASSETS		
Cash and due from financial institutions	$ 43,505,043	$ 11,867,584
Federal funds sold	598,780	700,581
Cash and cash equivalents	44,103,823	12,568,165
Interest earning deposits in other financial institutions	5,243,765	6,550,000
Available-for-sale (AFS) securities	95,117,876	89,000,373
Loans, net	170,771,260	175,178,666
Restricted equity securities - at cost	703,850	703,850
Premises and equipment - net	4,249,248	3,513,025
Other real estate owned - net	1,422,334	1,605,763
Bank owned life insurance	10,572,496	10,370,190
Accrued interest receivable and other assets	2,123,856	2,553,127
Total assets	$ 334,308,508	$ 302,043,159
LIABILITIES		
Deposits		
Demand, non-interest bearing	$ 87,527,517	$ 71,640,474
Interest-bearing transaction accounts	116,770,586	106,241,493
Time	66,433,324	68,921,496
Total deposits	270,731,427	246,803,463
Borrowings	10,000,000	5,000,000
Accrued interest payable and other liabilities	5,128,449	4,623,609
Total liabilities	285,859,876	256,427,072
SHAREHOLDERS' EQUITY		
Common stock, no par value: 1,000,000 shares authorized; 93,441 – 2020 and 92,289 – 2019 shares issued and outstanding	88,000	88,000
Additional paid-in capital	8,197,529	7,519,006
Retained earnings	37,035,221	36,704,315
Accumulated other comprehensive income	3,127,882	1,304,766
Total shareholders' equity	48,448,632	45,616,087
Total liabilities and shareholders' equity	$ 334,308,508	$ 302,043,159

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF INCOME
Years ended December 31, 2020, 2019, and 2018

	2020	2019	2018
INTEREST INCOME			
Loans, including related fees	$ 10,057,359	$ 11,079,935	$ 10,994,504
Federal funds sold and other	39,987	155,117	48,847
Taxable securities	773,975	1,504,183	1,408,056
Nontaxable securities	1,278,650	1,148,861	1,069,599
Total interest income	12,149,971	13,888,096	13,521,006
INTEREST EXPENSE			
Deposits	1,091,312	1,626,901	1,339,754
Borrowings	98,728	58,425	61,413
Total interest expense	1,190,040	1,685,326	1,401,167
NET INTEREST INCOME	10,959,931	12,202,770	12,119,839
PROVISION FOR LOAN LOSSES	139,000	328,631	(252,132)
NET INTEREST INCOME AFTER PROVISION FOR LOAN LOSSES	10,820,931	11,874,139	12,371,971
OTHER INCOME			
Service charges on deposit accounts	414,723	543,123	420,346
Security gains (losses)	(3,354)	31,026	(4,728)
Bank owned life insurance income	202,306	217,116	220,967
Other	866,575	722,369	661,446
Total other income	1,480,250	1,513,634	1,298,031
OTHER EXPENSES			
Salaries and employee benefits	4,654,682	4,621,198	4,633,618
Occupancy	548,242	506,371	511,263
Furniture and equipment	501,138	461,043	365,948
FDIC insurance	64,527	19,056	82,900
Other real estate owned, net	(37,385)	(75,385)	(165,346)
Other	1,726,404	1,746,130	1,723,230
Total other expenses	7,457,608	7,278,413	7,151,613
INCOME BEFORE INCOME TAXES	4,843,573	6,109,360	6,518,389
Income tax expense	614,299	915,948	1,036,004
NET INCOME	$ 4,229,274	$ 5,193,412	$ 5,482,385
EARNINGS PER SHARE	$ 45.33	$ 56.50	$ 60.26

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
Years ended December 31, 2020, 2019, and 2018

	2020	2019	2018
Net income	$ 4,229,274	$ 5,193,412	$ 5,482,385
Other comprehensive income/(loss):			
Unrealized holding gains and (losses) on available-for-sale securities	2,314,190	2,001,305	(492,557)
Reclassification adjustments for (gains) and losses recognized in income	3,354	(31,026)	4,728
Net unrealized gains and losses	2,317,544	1,970,279	(487,829)
Tax effect	(494,428)	(444,859)	122,727
Total other comprehensive income (loss)	1,823,116	1,525,420	(365,102)
Comprehensive income	$ 6,052,390	$ 6,718,832	$ 5,117,283

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
Years ended December 31, 2020, 2019, and 2018

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Shareholders' Equity
Balances at January 1, 2018	$ 88,000	$ 6,323,327	$ 35,451,765	$ 120,209	$ 41,983,301
Net income	-	-	5,482,385	-	5,482,385
Adoption of ASU 2018-02	-	-	(24,239)	24,239	-
Other comprehensive loss	-	-	-	(365,102)	(365,102)
Cash dividends ($50.00 per share)	-	-	(4,559,580)		(4,559,580)
Issuance of common stock (1,084 shares)	-	554,271	-	-	554,271
Purchase & retirement of stock (166 shares)	-	-	(88,449)	-	(88,449)
Balances at December 31, 2018	88,000	6,877,598	36,261,882	(220,654)	43,006,826
Net income	-	-	5,193,412	-	5,193,412
Other comprehensive loss	-	-	-	1,525,420	1,525,420
Cash dividends ($50.50 per share)	-	-	(4,653,291)	-	(4,653,291)
Issuance of common stock (1,226 shares)	-	641,408	-	-	641,408
Purchase & retirement of stock (184 shares)	-	-	(97,688)	-	(97,688)
Balances at December 31, 2019	88,000	7,519,006	36,704,315	1,304,766	45,616,087
Net income	-	-	4,229,274	-	4,229,274
Other comprehensive income	-	-	-	1,823,116	1,823,116
Cash dividends ($41.00 per share)	-	-	(3,827,909)	-	(3,827,909)
Issuance of common stock (1,283 shares)	-	678,523	-	-	678,523
Purchase & retirement of stock (131 shares)	-	-	(70,459)	-	(70,459)
Balances at December 31, 2020	$ 88,000	$ 8,197,529	$ 37,035,221	$ 3,127,882	$ 48,448,632

See accompanying notes to consolidated financial statements.

KENBANCORP
CONSOLIDATED STATEMENTS OF CASH FLOWS
Years ended December 31, 2020, 2019, and 2018

	2020	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	$ 4,229,274	$ 5,193,412	$ 5,482,385
Adjustments to reconcile net income to net cash from operating activities:			
Provision for loan losses	139,000	328,631	(252,132)
Depreciation	375,572	273,717	249,678
Security (gains) losses	3,354	(31,026)	4,728
Net amortization (accretion) on securities	385,780	314,169	437,513
Income earned on bank owned life insurance	(202,306)	(217,116)	(220,967)
(Gain) loss/writedown on other real estate owned	(98,129)	(142,741)	(259,489)
Change in:			
Interest receivable and other assets	429,271	(12,762)	93,549
Interest payable and other liabilities	(52,414)	376,380	366,590
NET CASH FROM OPERATING ACTIVITIES	5,209,402	6,082,664	5,901,855
CASH FLOWS FROM INVESTING ACTIVITIES:			
Net change in interest earning deposits	1,306,235	1,240,000	1,670,000
Proceeds from maturities, calls and principal repayments of securities	32,020,381	48,123,212	21,349,801
Purchase of securities	(36,209,474)	(38,073,452)	(31,193,765)
Proceeds from sales of other real estate owned	395,638	360,332	449,921
Loans made to customers, net of principal repayments	4,154,326	1,082,410	(5,538,881)
Premises and equipment expenditures, net	(1,111,795)	(800,787)	(91,575)
NET CASH FROM INVESTING ACTIVITIES	555,311	11,931,715	(13,354,499)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in deposits	23,927,964	(10,545,682)	13,411,412
Dividends paid	(3,765,083)	(4,597,809)	(4,559,580)
Proceeds from Federal Home Loan Bank advances	5,000,000	-	-
Proceeds from issuance and sale of stock	678,523	641,408	554,271
Purchase and retirement of stock	(70,459)	(97,688)	(88,449)
NET CASH FROM FINANCING ACTIVITIES	25,770,945	(14,599,771)	9,317,654
NET CHANGE IN CASH AND CASH EQUIVALENTS	31,535,658	3,414,608	1,865,010
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	12,568,165	9,153,557	7,288,547
CASH AND CASH EQUIVALENTS END OF YEAR	$ 44,103,823	$ 12,568,165	$ 9,153,557
Cash paid during the year for:			
Interest	$ 1,349,934	$ 1,610,136	$ 1,236,020
Income taxes	470,000	610,000	840,000
Supplemental noncash disclosures:			
Transfers from loans to other real estate owned	$ 114,080	$ 219,122	$ 186,997

See accompanying notes to consolidated financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations and Principles of Consolidation: The consolidated financial statements include the accounts of KenBancorp (the Company) and its wholly owned subsidiaries Kentland Risk Management and Kentland Bank (the Bank) and its wholly owned subsidiary Kentland Investment, Inc., Kentland Portfolio, LLC, Kentland Holdings, Inc. and Kentland Funding Corp. Intercompany balances and transactions are eliminated in consolidation. The Company generates the majority of its commercial, mortgage and installment loans and receives deposits from customers located primarily in the Newton, Jasper and Tippecanoe counties, Indiana and Iroquois and Vermillion counties, Illinois market areas. Although the overall loan portfolio is diversified, a substantial portion of the debtors' ability to honor their contracts is dependent upon the agriculture industry. A majority of the Bank's loans are secured by specific items of collateral including business and consumer assets and real property.

Subsequent Events: The Company has evaluated subsequent events for recognition and disclosure through February 22, 2021, which is the date the financial statements were available to be issued.

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

Cash Flows: Cash and cash equivalents include cash on hand, demand deposits in other institutions and daily federal funds sold. Cash flows are reported net for customer loan and deposit transactions, time deposits with other institutions and short-term borrowings with maturities of 90 days or less.

Securities: Available-for-sale securities are those which management may decide to sell before maturity. They are reported at fair value, with unrealized gains or losses included in other comprehensive income. Premiums and discounts are recognized as interest income using the level yield method. Premiums are amortized to the earliest call date, while discounts are amortized to maturity. Gains and losses on the sale of available-for-sale securities are determined using the specific identification method.

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

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loans: Loans that management has the intent and ability to hold for the foreseeable future are reported at the principal balance outstanding net of unearned interest, deferred loan fees and costs and an allowance for loan losses. Interest on loans is accrued over the term of the loans based on the principal balance outstanding, except where substantial doubt exists as to the collectability of a loan, in which case the accrual of interest is discontinued. Loan fees, net of certain direct loan origination costs, are deferred and recognized into interest income over the term of the loan using the level yield method. Payment Protection Plan (PPP) loans fees received from the SBA are deferred over the life of the loan on a straight-line basis or until the loans are forgiven.

For all classes of financing receivables, interest income is discontinued at the time the loan is 90 days delinquent unless the loan is well-secured and in process of collection. Past due status is based on the contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged-off at an earlier date if collection of principal or interest is considered doubtful. All interest accrued but not received for loans placed on nonaccrual is reversed against interest income. Interest received on such loans is accounted for on the cash basis or cost recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured.

Allowance For Loan Losses: The allowance for loan losses is a valuation allowance for probable incurred credit losses. Loan losses are charged against the allowance when management believes the balance of a loan to be uncollectible and is confirmed. Charge-offs of the commercial, agriculture, and real estate portfolio segments are recognized when the loss is confirmed and the amount of the charge-off is the difference in the recorded investment in the loan and the discounted collateral value or the discounted future cash flows, whichever is deemed to be the most likely source of repayment. Loans in the installment and other portfolio segments are typically charged-off no later than 120 days past due. Subsequent recoveries, if any, are credited to the allowance. Management estimates the allowance balance required using past loan loss experience, the nature and volume of the portfolio, information about specific borrower situations and estimated collateral values, economic conditions, and other factors. Allocations of the allowance may be made for specific loans, but the entire allowance is available for any loan that, in management's judgment, should be charged-off.

The allowance consists of specific and general components. The specific component relates to loans that are individually classified as impaired or loans otherwise classified as substandard or doubtful. The general component covers non-classified loans and is based on historical loss experience adjusted for current factors.

A loan is impaired when full payment under the loan terms is not expected. Impairment is evaluated in total for smaller balance loans of similar nature such as residential mortgage, consumer, and credit card loans, and on an individual loan basis for other loans. If a loan is impaired, a portion of the allowance is allocated so that the loan is reported, net, at the present value of estimated future cash flows using the loan's existing rate or at the fair value of collateral if repayment is expected solely from the collateral.

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The general component covers loans collectively evaluated for impairment and is based on historical loss experience adjusted for current factors. The historical loss experience is determined by portfolio segment and is based on the actual loss history experienced by the Company over the most recent three years. This actual loss experience is supplemented with other economic factors based on the risks present for each portfolio segment. These economic factors include consideration of the following: levels of and trends in delinquencies and adversely classified loans; trends in volume and terms of loans; other changes in lending policies, procedures, and practices; experience, ability, and depth of lending management and other relevant staff; national and local economic trends and conditions; industry conditions; and effects of changes in credit concentrations. The following portfolio segments have been identified: Commercial; Agriculture; Real Estate; Installment; and Other.

Each of these portfolio segments has different risk characteristics and the allowance for loan loss methodology addresses these risks as follows:

Commercial loans include those secured by pledged assets of the customer’s business (such as inventories, property and equipment, or accounts receivable), those secured by mortgages or other liens on real property, and those that are unsecured. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from the cash flow from the business operations of the customer. In underwriting these types of loans, the customer’s ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the business operations of the borrowers, which is impacted by various factors including the industry in which the customer operates and the general economy.

Agriculture loans are secured by farm real estate, farm equipment or other farm business assets such as crops or livestock. Such loans include term loans and revolving arrangements. Repayment may be structured for full, partial, or no amortization of principal. These types of loans are primarily underwritten with expected repayment to be from farm operations of the customer. In underwriting these types of loans, the customer’s ability to repay as well as the value of any pledged assets, are considered. Repayment is dependent upon the farm operations of the borrowers, which can be impacted by various factors including the price of agricultural commodities, machinery, real estate, and the general economy.

Real estate loans are those that are secured by residential property. This portfolio segment includes fixed and adjustable-rate mortgage loans that provided for the full amortization of principal and home equity lines of credit. Repayment of real estate loans is primarily dependent upon the personal income of the borrowers, which can be impacted by the economic conditions in their market area. The Company seeks to mitigate the risk of the uncertainty of economic conditions with its current underwriting standards, which include a required loan-to-value ratio of at least 80% of each loan originated. The losses experienced within this segment will be impacted by changes in real estate values for the collateral securing these loans.

The Installment and Other portfolio segments include consumer installment loans and leases. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions such as unemployment levels. Loans to consumers are extended after a credit evaluation, including the creditworthiness of the borrower(s), the purpose of the credit, and the secondary source of repayment. Consumer loans are made at fixed and variable interest rates. The repayment of the loans in this segment is dependent upon the willingness and ability of the customers to repay any outstanding balance. Management tracks the risk in this segment based on the level of past due loans and the actual net charge-offs experienced.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Real Estate Owned: Assets acquired through or instead of loan foreclosure are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. These assets are subsequently accounted for at the lower of cost or fair value, less costs to sell. If fair value declines, a valuation allowance is recorded through expense and included with other real estate owned expenses. Operating costs after acquisition are expensed.

Premises and Equipment: Land is carried at cost. Premises and equipment are stated at cost less accumulated depreciation and amortization. Depreciation expense is calculated on the straight-line method over asset useful lives. Leasehold improvements are depreciated over the lesser of their useful lives or the term of the lease.

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

Restricted Equity Securities: Restricted equity includes Federal Home Loan Bank (FHLB) stock and Farmer Mac stock. The Bank is a member of the FHLB system. Members are required to own a certain amount of stock based on the level of borrowings and other factors and may invest in additional amounts. Restricted equity securities are carried at cost and are periodically evaluated for impairment based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Long-Term Assets: Premises and equipment and other long-term assets are reviewed for impairment when events indicate their carrying amount may not be recoverable from future undiscounted cash flows. If impaired, the assets are recorded at fair value.

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

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

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

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

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

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Earnings Per Share: Earnings per share are calculated based on the weighted average number of shares outstanding during the year. The weighted average number of shares used was 93,301 in 2020, 91,911 in 2019 and 90,979 in 2018.

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

Dividend Restriction: Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the holding company or by the holding company to shareholders. These restrictions pose no practical limit on the ability of the Bank or holding company to pay dividends at historical levels.

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

Revenue from Contracts with Customers: Revenue from contracts with customers includes service charges on deposits, interchange fees and other income. The recognition and measurement of revenue is based on the assessment of individual contract terms. Significant judgment is required to determine whether performance obligations are satisfied at a point in time or over time; how to allocate transaction prices where multiple performance obligations are identified; when to recognize revenue based on the appropriate measure of the Company's progress under the contract; and whether constraints on variable consideration should be applied due to uncertain future events.

Service charges on deposits: The Company earns fees from its deposit customers for transaction-based, account maintenance, and overdraft services. Transaction-based fees, which include fees for services such as ATM use fees, stop payment charges, statement rendering, and ACH fees, are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time the overdraft occurs. Service charges on deposits are withdrawn from the customer's account balance.

Interchange Fees (included in Other income): The Company earns interchange fees from credit and debit cardholder transactions conducted through payment networks. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

Other income: The Company earns fees for transaction-based services, such as check cashing, purchasing checks and money order and wire transfers. Fees are recognized at the time the transaction is executed as that is the point in time the Company fulfills the customer's request. The Company did not finance sales of other real estate owned so gains and losses are recognized when the sale is completed.

(Continued)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

COVID-19: In December 2019, a novel strain of coronavirus surfaced and has spread around the world, with resulting business and social disruption. In March 2020, the outbreak of the Coronavirus Disease 2019 (COVID-19) was recognized as a pandemic by the World Health Organization. The spread of COVID-19 has caused economic and social disruption resulting in unprecedented uncertainty, volatility and disruption in financial markets, and has placed significant health, economic and other major pressures throughout the communities we serve, the United States and globally. While some industries have been impacted more severely than others, all businesses have been impacted to some degree. This disruption has resulted in the shuttering of businesses across the country, significant job loss, material decreases in oil and gas prices and in business valuations, changes in consumer behavior related to pandemic fears, and aggressive measures by the federal government. The operations and results of the company could still be materially affected, and significant estimates may be materially impacted by local, state, national restrictions and events designed to contain the virus. As of the period ended December 31, 2020, the Company's operating results were not materially adversely impacted.

NOTE 2 - SECURITIES

The fair value of available-for-sale securities and the related unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency	$ 3,000,000	$ 6,027	$ (2,747)	$ 3,003,280
Municipal bonds	475,000	118,693	-	593,693
States and political subdivisions	59,842,612	3,140,849	(13,377)	62,970,084
Mortgage-backed investments, residential	27,813,821	748,931	(11,933)	28,550,819
	$ 91,131,433	$ 4,014,500	$ (28,057)	$ 95,117,876

2019	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury and agency	$ 1,000,000	$ -	$ (5,834)	$ 994,166
Municipal bonds	499,000	94,219	-	593,219
States and political subdivisions	39,516,788	1,368,198	(34,996)	40,849,990
Mortgage-backed investments, residential	46,315,686	330,956	(83,644)	46,562,998
	$ 87,331,474	$ 1,793,373	$ (124,474)	$ 89,000,373

(Continued)

NOTE 2 - SECURITIES (Continued)

The fair value of securities available-for-sale at year-end, by contractual maturity is shown below. Securities not due at a single maturity, primarily mortgage-backed investments, are shown separately.

	December 31, 2020	
	Amortized Cost	Fair Value
Due in one year or less	$ 4,133,370	$ 4,180,105
Due after one year through five years	8,312,212	8,471,931
Due after five years through ten years	5,298,356	5,595,775
Due after ten years	45,573,674	48,319,246
Mortgage-backed	27,813,821	28,550,819
	$ 91,131,433	$ 95,117,876

Proceeds from the sale of securities was $0 for 2020, 2019, and 2018. Gross gains from sales of securities were $0 for 2020, 2019, and 2018, respectively. Realized gains and losses in 2020, 2019 and 2018 were from calls.

Securities with a fair value of approximately $25,033,000 at year-end 2020 and $20,108,000 at year-end 2019 were pledged to secure FHLB advances.

At year-end 2020 and 2019, there were no holdings of securities of any one issuer, other than the U.S. Government and its agencies, in an amount greater than 10% of shareholders' equity.

Securities with unrealized losses at year-end 2020 and 2019, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position, are as follows:

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2020						
U.S. Treasury and Agency	$ 1,997,254	$ (2,747)	$ -	$ -	$ 1,997,254	$ (2,747)
States and political subdivisions	1,872,718	(9,592)	726,353	(3,785)	2,599,071	(13,377)
Mortgage-backed investments, residential	569,068	(2,152)	1,018,470	(9,781)	1,587,538	(11,933)
Total	$ 4,439,040	$ (14,491)	$ 1,744,823	$ (13,566)	$ 6,183,863	$ (28,057)

	Less Than 12 Months		12 Months or Longer		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
2019						
U.S. Treasury and Agency	$ 994,166	$ (5,834)	$ -	$ -	$ 994,166	$ (5,834)
States and political subdivisions	2,831,516	(23,666)	438,818	(11,330)	3,270,334	(34,996)
Mortgage-backed investments, residential	10,511,300	(58,322)	3,823,879	(25,322)	14,335,179	(83,644)
Total	$14,336,982	$ (87,822)	$ 4,262,697	$ (36,652)	$18,599,679	$ (124,474)

(Continued)

NOTE 2 - SECURITIES (Continued)

Unrealized losses on investments have not been recognized into income because the issuer(s) are of high credit quality (rated AA or higher or issued by U.S. government agencies). These securities are currently performing. Management does not intend to sell, and it is not more likely than not that management would be required to sell the securities prior to their anticipated recovery, and the decline in fair value is largely due to increases in market interest rates. The fair value is expected to recover as the investments approach their maturity date and/or market rates decline.

NOTE 3 - LOANS

Loans are comprised of the following classifications:

	2020	2019
Commercial	$ 97,662,266	$ 102,193,485
Agricultural	54,119,666	51,424,866
Real estate	8,140,423	9,510,796
Installment	4,389,616	5,041,186
Lease receivables and other, net	8,526,110	8,979,962
Subtotal	172,838,081	177,150,295
Less: Allowance for loan losses	(2,066,821)	(1,971,629)
	$ 170,771,260	$ 175,178,666

Included in the loan portfolio are loans made to officers, directors, principal shareholders, and their associates. At December 31, 2020 and 2019, such loans totaled $4,500,000 and $544,000, respectively.

Included in the commercial loan portfolio segment are loans originated as part of the Paycheck Protection Program (PPP), which are excluded from the allowance calculation as they are fully guaranteed loans. At December 31, 2020, such loans totaled $10,423,000. There were no such loans outstanding in 2019 as the program began during the year ended December 31, 2020.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the activity in the allowance for loan losses by portfolio segment for the years ending December 31, 2020, December 31, 2019 and 2018:

December 31, 2020	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,043,934	$ 698,305	$ 113,558	$ 67,097	$ 64,122	$ (15,387)	$ 1,971,629
Provision for loan losses	78,157	(77,761)	39,440	4,610	45,019	49,535	139,000
Loans charged-off	(12,528)	-	(24,761)	(15,123)	(19,575)	-	(71,987)
Recoveries	11,799	-	-	15,287	1,093	-	28,179
Total ending allowance balance	$ 1,121,362	$ 620,544	$ 128,237	$ 71,871	$ 90,659	$ 34,148	$ 2,066,821

December 31, 2019	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 818,684	$ 727,883	$ 126,182	$ 76,603	$ 64,659	$ 90,209	$ 1,904,220
Provision for loan losses	441,250	(29,578)	(12,624)	(4,981)	40,160	(105,596)	328,631
Loans charged-off	(224,000)	-	-	(12,124)	(40,897)	-	(277,021)
Recoveries	8,000	-	-	7,599	200	-	15,799
Total ending allowance balance	$ 1,043,934	$ 698,305	$ 113,558	$ 67,097	$ 64,122	$ (15,387)	$ 1,971,629

December 31, 2018	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Allowance for loan losses:							
Beginning balance	$ 1,195,460	$ 730,065	$ 200,759	$ 99,533	$ 50,861	$ 58,591	$ 2,335,269
Provision for loan losses	(251,202)	(2,182)	(48,616)	(4,520)	22,770	31,618	(252,132)
Loans charged-off	(125,574)	-	(27,561)	(30,548)	(10,075)	-	(193,758)
Recoveries	-	-	1,600	12,138	1,103	-	14,841
Total ending allowance balance	$ 818,684	$ 727,883	$ 126,182	$ 76,603	$ 64,659	$ 90,209	$ 1,904,220

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the balance in the allowance for loan losses and the recorded investment in loans by portfolio segment and based on impairment method as of December 31, 2020 and 2019:

2020	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ -	$ -	$ 2,500	$ 9,000	$ -	$ -	$ 11,500
Collectively evaluated for impairment	1,121,362	620,544	125,737	62,871	90,659	34,148	2,055,321
Total ending allowance balance	$ 1,121,362	$ 620,544	$ 128,237	$ 71,871	$ 90,659	$ 34,148	$ 2,066,821

	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Loans:							
Loans individually evaluated for impairment	$ 272,579	$ -	$ 244,980	$ 48,903	$ 10,548	$ -	$ 577,010
Loans collectively evaluated for impairment	97,389,687	54,119,666	7,895,443	4,340,713	8,515,562	-	172,261,071
Total ending loans balance	$ 97,662,266	$ 54,119,666	$ 8,140,423	$ 4,389,616	$ 8,526,110	$ -	$ 172,838,081

2019	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Allowance for loan losses:							
Ending allowance balance attributable to loans:							
Individually evaluated for impairment	$ 32,300	$ -	$ 2,500	$ 10,000	$ -	$ -	$ 44,800
Collectively evaluated for impairment	1,011,634	698,305	111,058	57,097	64,122	(15,387)	1,926,829
Total ending allowance balance	$ 1,043,934	$ 698,305	$ 113,558	$ 67,097	$ 64,122	$ (15,387)	$ 1,971,629

	Commercial	Agricultural	Real Estate	Installment	Other	Unallocated	Total
Loans:							
Loans individually evaluated for impairment	$ 372,638	$ -	$ 238,567	$ 72,502	$ -	$ -	$ 683,707
Loans collectively evaluated for impairment	101,820,847	51,424,866	9,272,229	4,968,684	8,979,962	-	176,466,588
Total ending loans balance	$102,193,485	$ 51,424,866	$ 9,510,796	$ 5,041,186	$ 8,979,962	$ -	$ 177,150,295

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents information related to impaired loans by class of loans as of and for the years ended December 31, 2020 and 2019:

2020	Unpaid Principal Balance	Recorded Investment	Allowance for Loan Losses Allocated	Average Recorded Investment	Interest Income Recognized	Cash Basis Interest Recognized
With no related allowance recorded:						
Commercial	$ 147,849	$ 154,751	$ -	$ 148,849	$ 6,902	$ 16,600
Commercial real estate	117,586	117,828	-	132,751	243	8,480
Real estate	223,579	226,332	-	214,684	2,752	3,988
Installment	21,455	21,892	-	14,742	90	1,749
Lease receivables and other, net	10,548	10,548	-	4,130	-	401
Subtotal	521,017	531,351	-	515,156	9,987	31,218
With an allowance recorded:						
Commercial	-	-	-	-	-	-
Commercial real estate	-		-	-	-	-
Real estate	18,579	18,648	2,500	20,253	70	1,770
Installment	26,043	27,011	9,000	28,470	313	2,113
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	44,622	45,659	11,500	48,723	383	3,883
Total	$ 565,639	$ 577,010	$ 11,500	$ 563,879	$ 10,370	$ 35,101
2019						
With no related allowance recorded:						
Commercial	$ 152,319	$ 163,399	$ -	$ 156,356	$ 11,080	$ 7,040
Commercial real estate	127,865	128,632	-	132,751	264	9,089
Real estate	212,108	215,505	-	189,887	2,556	10,470
Installment	48,221	52,510	-	22,270	2,538	-
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	540,513	560,046	-	501,264	16,438	26,599
With an allowance recorded:						
Commercial	-	-	-	-	-	-
Commercial real estate	80,381	80,607	32,300	63,522	226	3,109
Real estate	21,943	23,062	2,500	23,666	219	2,216
Installment	19,424	19,992	10,000	25,991	19	423
Lease receivables and other, net	-	-	-	-	-	-
Subtotal	121,748	123,661	44,800	113,179	464	5,748
Total	$ 662,261	$ 683,707	$ 44,800	$ 614,443	$ 16,902	$ 32,347

For purposes of this disclosure, the unpaid principal balance is reduced for net charge-offs.

(Continued)

NOTE 3 - LOANS (Continued)

Nonaccrual loans and loans past due 90 days still on accrual include both smaller balance homogeneous loans that are collectively evaluated for impairment and individually classified impaired loans.

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2020:

December 31, 2020	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Commercial	$ -	$ 147,849
Commercial real estate	17,400	41,852
Agriculture	-	-
Residential real estate	167,277	56,302
Installment	18,108	25,047
Lease Receivable and other, net	10,548	22,309
Total	$ 213,333	$ 293,359

The following table presents the recorded investment in nonaccrual and loans past due over 90 days still on accrual by class of loans as of December 31, 2019:

December 31, 2019	Nonaccrual	Loans Past Due 90 Days or More Still Accruing
Commercial	$ 34,581	$ 297,167
Commercial real estate	65,528	-
Agriculture	-	-
Residential real estate	127,453	44,319
Installment	18,397	20,106
Lease Receivable and other, net	-	10,425
Total	$ 245,959	$ 372,017

Nonperforming loans and impaired loans are defined differently. Some loans may be included in both categories, whereas other loans may only be included in one category.

(Continued)

NOTE 3 - LOANS (Continued)

The following table presents the aging of the recorded investment in past due loans as of December 31, 2020 and 2019 by class of loans:

	30 - 59 Days Past Due	60 - 89 Days Past Due	Greater than 89 Days Past Due	Total Past Due	Loans Not Past Due	Total
December 31, 2020						
Commercial	$ 323,883	$ -	$ 207,101	$ 530,984	$ 97,131,282	$ 97,662,266
Agriculture	-	-	-	-	54,119,666	54,119,666
Real estate	33,931	-	223,579	257,510	7,882,913	8,140,423
Installment	24,511	4,855	43,155	72,521	4,317,095	4,389,616
Lease Receivable and other, net	-	-	32,857	32,857	8,493,253	8,526,110
Total	$ 382,325	$ 4,855	$ 506,692	$ 893,872	$ 171,944,209	$ 172,838,081
December 31, 2019						
Commercial	$ 142,410	$ -	$ 397,276	$ 539,686	$ 101,653,799	$ 102,193,485
Agriculture	296,892	-	-	296,892	51,127,974	51,424,866
Real estate	334,014	40,336	44,319	418,669	9,092,127	9,510,796
Installment	37,410	29,143	26,867	93,420	4,947,766	5,041,186
Lease Receivable and other, net	-	15,430	10,425	25,855	8,954,107	8,979,962
Total	$ 810,726	$ 84,909	$ 478,887	$1,374,522	$ 175,775,773	$ 177,150,295

There were no new modifications that were classified as troubled debt restructurings in 2020 nor 2019.

The Company has allocated $0 of specific reserves to customers whose loan terms have been modified in troubled debt restructurings with total balances of $290,153 and $391,310, respectively, as of December 31, 2020 and 2019. The Company has not committed to lend any additional amounts to customers with outstanding loans that are classified as troubled debt restructurings.

The troubled debt restructurings described above decreased the allowance for loan losses by $0 as of December 31, 2020, 2019, and 2018 and resulted in no additional provision in 2020, 2019 or 2018. There were not any loans modified as troubled debt restructurings for which there was a payment default within twelve months following the modification during the year ending December 31, 2020, 2019, and 2018. A loan is considered to be in payment default once it is 90 days contractually past due under the modified terms.

NOTE 3 - LOANS (Continued)

Credit Quality Indicators:

The Company categorizes loans into risk categories based on relevant information about the ability of borrowers to service their debt such as: current financial information, historical payment experience, credit documentation, public information, and current economic trends, among other factors. The Company analyzes loans individually by classifying the loans as to credit risk. This analysis includes all loans in the Company's portfolio and is performed on a quarterly basis. The Company uses the following definitions for risk ratings:

Special Mention. Loans classified as special mention have a potential weakness that deserves management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan or of the institution's credit position at some future date.

Substandard. Loans classified as substandard are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified have a well-defined weakness or weaknesses that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the institution will sustain some loss if the deficiencies are not corrected.

Doubtful. Loans classified as doubtful are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged and are likely to have a loss.

Loans not meeting the criteria above that are analyzed individually as part of the above described process are considered to be pass rated loans.

Based on the most recent analysis performed, the risk category of loans by class is as follows:

December 31, 2020	Pass	Special Mention	Substandard	Doubtful
Commercial	$ 94,942,886	$ 908,180	$ 1,811,200	$ -
Agriculture	52,993,887	-	1,125,779	-
Real estate	7,883,987	-	256,436	-
Installment	4,341,606	4,855	43,155	-
Lease receivables and other, net	8,526,110	-	-	-
Total	$168,688,476	$ 913,035	$ 3,236,570	$ -

December 31, 2019	Pass	Special Mention	Substandard	Doubtful
Commercial	$ 97,371,223	$ 2,794,463	$ 2,027,799	$ -
Agriculture	50,058,396	448,345	918,125	-
Real estate	9,426,141	40,336	44,319	-
Installment	4,985,176	29,143	26,867	-
Lease receivables and other, net	8,979,962	-	-	-
Total	$170,820,898	$ 3,312,287	$ 3,017,110	$ -

(Continued)

NOTE 4 - PREMISES AND EQUIPMENT

Premises and equipment consist of the following:

	2020	2019
Land	$ 482,987	$ 382,987
Buildings and improvements	4,864,069	4,202,125
Furniture and equipment	3,550,744	3,494,189
Total	8,897,800	8,079,301
Accumulated depreciation	(4,648,552)	(4,566,276)
Net	$ 4,249,248	$ 3,513,025

The Company leases certain branch properties and some equipment. Rent expense was $59,000 for 2020, $88,000 for 2019, and $84,000 for 2018.

NOTE 5 - DEPOSITS

Time deposits of $250,000 or more were $17,710,000 and $24,987,000 at year-end 2020 and 2019. Contractual maturities of time deposit accounts for the next five years:

2021	45,417,792
2022	8,274,770
2023	4,470,570
2024	4,594,486
2025	3,675,706
Total	$ 66,433,324

Deposits held for officers, directors, principal shareholders, and their associated totaled $7,765,000 and $5,402,000 at December 31, 2020 and 2019, respectively.

NOTE 6 - BORROWINGS

FHLB advances are secured by a blanket pledge of eligible securities and mortgage loans and require monthly interest payments. The following fixed rate advance is outstanding at December 31, 2020 and 2019:

Maturity Date	Interest Rate	2020 Balance	2019 Balance
March 12, 2025	1.08%	$ 5,000,000	$ -
February 23, 2026	1.05%	5,000,000	5,000,000
		$ 10,000,000	$ 5,000,000

The advances are payable at their maturity, with a prepayment penalty for early payments.

The following schedule outlines required annual principal payments:

Due in 2025	$ 5,000,000
Due in 2026	5,000,000
Total	$ 10,000,000

In 2016, the Company obtained a $7.8 million unsecured line of credit at Banker's Bank with an interest rate of 0.25% and a balance of $0 as of December 31, 2020 and an interest rate of 2.00%, which had a $0 balance as of December 31, 2019.

NOTE 7 - BENEFIT PLANS

The Bank maintains a 401(k) plan which covers substantially all employees and allows employee contributions. The Bank may elect to make annual contributions on behalf of the participants, as determined by the Board of Directors, and is required to match subject to certain limitations, elective employee contributions. Total annual expense for the plan was $192,000 for 2020, 2019 and 2018. Participants are able to direct all, or a portion of their contributions to be invested in company stock. Shares are purchased from the Company at the current support price. During 2020, 2019 and 2018, the Plan acquired 909 shares for $480,357, 1,075 shares for $563,190 and 961 shares for $491,747, respectively.

The Director Stock Purchase Plan allows each director to annually acquire up to 50 shares of Company stock at the current market price. During 2020, 2019 and 2018, directors acquired 374, 151, and 123 shares per year, respectively, for an aggregate price of $198,166, $78,218 and $62,524, respectively.

(Continued)

NOTE 8 - INCOME TAXES

Income tax expense was as follows:

	2020	2019	2018
Income tax/(benefit):			
Current	$ 801,675	$ 1,029,798	$ 635,407
Deferred	(152,455)	(57,970)	440,969
Change in valuation allowance	(34,921)	(55,880)	(40,372)
Total	$ 614,299	$ 915,948	$ 1,036,004

The difference between the financial statement tax provision and the amount computed by applying the federal income tax rate of 21% to pretax income is reconciled as follows:

	2020	2019	2018
Income tax computed at statutory rate	$ 1,017,150	$ 1,282,966	$ 1,368,862
Effect of:			
Tax exempt income	(270,736)	(244,232)	(225,103)
State tax (net of Federal benefit)	24,676	32,500	35,102
Bank owned life insurance	(42,484)	(45,594)	(46,403)
Captive insurance	(114,636)	(110,028)	(96,716)
Other	329	336	262
Income tax expense	$ 614,299	$ 915,948	$ 1,036,004

Year-end deferred tax assets/(liabilities) are comprised of the following components:

	2020	2019
Deferred tax assets from:		
Allowance for loan losses	$ 372,644	$ 339,153
State net operating loss	59,081	94,002
Other real estate owned write-downs	36,331	52,753
Deferred loan fees	70,836	-
	538,892	485,908
Deferred tax liabilities for:		
Net unrealized gain on securities	(858,561)	(364,133)
Depreciation	(120,766)	(128,358)
FHLB stock dividends	(17,075)	(17,076)
Leases	(117,524)	(251,595)
REIT spillover dividend	(49,204)	(3,499)
Prepaid Expenses	(98,075)	(100,427)
Other	(3,557)	(4,717)
	(1,264,762)	(869,805)
Valuation allowance	(59,081)	(94,002)
	$ (784,951)	$ (477,899)

(Continued)

NOTE 8 - INCOME TAXES (Continued)

The Company has an Indiana state tax operating loss carryforward of $1,526,166 which begins to expire in 2027. The Company maintains a valuation allowance as it does not anticipate generating taxable income in Indiana to utilize this carryforward prior to its expiration.

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the states of Indiana and Illinois. The Company is no longer subject to examination by taxing authorities for years before 2017. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company did not have any amounts accrued for interest and penalties at December 31, 2020 and 2019.

NOTE 9 - OFF-BALANCE-SHEET ACTIVITIES

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

Financial instruments with off-balance-sheet risk were as follows at year end:

	2020		2019	
	Fixed Rate	Variable Rate	Fixed Rate	Variable Rate
Unused lines of credit	$ -	$ 54,002,419	$ -	$ 53,836,152
Letters of Credit	-	57,562	-	107,612

Commitments to make loans are generally made for periods of 90 days or less. The Bank had $0 and $7,595,000 commitments to make loans at December 31, 2020 and 2019, respectively.

The Bank was not required to maintain a reserve at year-end 2020 and 2019 in the form of cash on hand or as a deposit with the Federal Reserve Bank to meet regulatory reserve and clearing requirements.

(Continued)

NOTE 10 - CAPITAL REQUIREMENTS AND DIVIDEND RESTRICTIONS

Banks are subject to regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and, additionally for banks, prompt corrective action regulations, involve quantitative measures of assets, liabilities, and certain off-balance-sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet capital requirements can initiate regulatory action. The final rules implementing Basel Committee on Banking Supervision's capital guidelines for U.S. banks (Basel III rules) became effective for the Bank on January 1, 2015 with full compliance with all of the requirements being phased in over a multi-year schedule, and fully phased in by January 1, 2019. Under the Basel III rules, the Company must hold a capital conservation buffer above the adequately capitalized risk-based capital ratios. The capital conservation buffer was fully phased in at 2.50% in 2020 and 2019. The net unrealized gain or loss on available for sale securities is not included in computing regulatory capital. Management believes as of December 31, 2020, the Bank meets all capital adequacy requirements to which they are subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. If adequately capitalized, regulatory approval is required to accept brokered deposits. If undercapitalized, capital distributions are limited, as is asset growth and expansion, and capital restoration plans are required. At year-end 2020 and 2019, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that management believes have changed the institution's category.

Actual and required capital amounts and ratios are presented below at year-end.

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2020						
Total Capital (to Risk Weighted Assets)	$ 45,890,000	18.48%	$ 19,861,000	8.0%	$ 24,826,000	10.0%
Common Tier 1 (CET1)	43,823,000	17.65	11,172,000	4.5	16,137,000	6.5
Tier 1 Capital (to Risk Weighted Assets)	43,823,000	17.65	14,896,000	6.0	19,861,000	8.0
Tier 1 Capital (to Average Assets)	43,823,000	13.33	14,789,000	4.0	16,433,000	5.0

	Actual		Minimum Required For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
2019						
Total Capital (to Risk Weighted Assets)	$ 44,835,000	19.06%	$ 18,816,000	8.0%	$ 23,520,000	10.0%
Common Tier 1 (CET1)	42,863,000	18.22	10,584,000	4.5	15,288,000	6.5
Tier 1 Capital (to Risk Weighted Assets)	42,863,000	18.22	14,112,000	6.0	18,816,000	8.0
Tier 1 Capital (to Average Assets)	42,863,000	14.20	13,582,000	4.0	15,091,000	5.0

(Continued)

NOTE 11 - FAIR VALUE

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

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

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

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

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

Investment Securities: The fair values for investment securities are determined by quoted market prices, if available (Level 1). For securities where quoted prices are not available, fair values are calculated based on market prices of similar securities (Level 2). For securities where quoted prices or market prices of similar securities are not available, fair values are calculated using discounted cash flows or other market indicators (Level 3).

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

Other Real Estate Owned: Nonrecurring adjustments to certain land development and residential real estate properties classified as other real estate owned (OREO) are measured at fair value, less costs to sell. Fair values are based on recent real estate appraisals. These appraisals may use a single valuation approach or a combination of approaches including comparable sales and the income approach. Adjustments are routinely made in the appraisal process by the independent appraisers to adjust for differences between the comparable sales and income data available. Such adjustments are usually significant and typically result in a Level 3 classification of the inputs for determining fair value.

(Continued)

NOTE 11 - FAIR VALUE (Continued)

Assets and liabilities measured at fair value on a recurring basis, including financial assets and liabilities for which the Company has elected the fair value option, are summarized below:

	Fair Value Measurements at December 31, 2020 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	$ -	$ 3,003,280	$ -	$ 3,003,280
Municipal bonds	-	593,693	-	593,693
States and political subdivisions	-	62,970,084	-	62,970,084
Mortgage-backed securities - residential	-	28,550,819	-	28,550,819
Total investment securities available-for-sale	$ -	$ 95,117,876	$ -	$ 95,117,876

	Fair Value Measurements at December 31, 2019 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Financial Assets				
Investment securities available-for-sale				
U.S. Treasury and agency	$ -	$ 994,166	$ -	$ 994,166
Municipal bonds	-	593,219	-	593,219
States and political subdivisions	-	40,849,990	-	40,849,990
Mortgage-backed securities - residential	-	46,562,998	-	46,562,998
Total investment securities available-for-sale	$ -	$ 89,000,373	$ -	$ 89,000,373

(Continued)

NOTE 11 - FAIR VALUE (Continued)

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

	Fair Value Measurements at December 31, 2020 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	-	-
Residential real estate	-	-	16,148	16,148
Installment	-	-	18,011	18,011

	Fair Value Measurements at December 31, 2019 Using:			
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
(Dollars in thousands)				
Impaired loans:				
Commercial	$ -	$ -	$ -	$ -
Commercial real estate	-	-	48,307	48,307
Residential real estate	-	-	20,562	20,562
Installment	-	-	9,992	9,992

Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $44,351 with a valuation allowance of $11,500 at December 31, 2020, resulting in a reduced provision for loan losses of $33,300 for the year ended December 31, 2020. Impaired loans that are measured for impairment using the fair value of the collateral for collateral dependent loans, had a principal balance of $123,661 with a valuation allowance of $44,800 at December 31, 2019, resulting in a reduced provision for loan losses of $5,742 for the year ended December 31, 2019.

(Continued)

NOTE 11 - FAIR VALUE (Continued)

The following tables present quantitative information about Level 3 fair value measurements for financial instruments measured at fair value on a non-recurring basis at December 31, 2020 and 2019:

2020	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – commercial real estate, installment and residential real estate	$ 32,851	Sales comparison approach	Adjustment for differences between the comparable sales and age of valuations	10-20%

2019	Fair value	Valuation Technique(s)	Unobservable Input(s)	Range
Impaired loans – commercial real estate, installment and residential real estate	$ 78,861	Sales comparison approach	Adjustment for differences between the comparable sales and age of valuations	10-20%

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[1]promoted January 2021

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