ALLENDALE BANCORP, INC.

ANNUAL REPORT 2021

“This annual report is dedicated to the generations of loyal customers who have trusted us to be their community bank for over 115 years.”

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LOCATIONS

301 East Main Street
Allendale, IL 62410
618.299.4411

1515 West Ninth Street
Mt. Carmel, IL 62836
618.263.6511

200 West Church Street
West Salem, IL 62476
618.456.8884

1500 West Main Street
Carmi, IL 62821
618.380.9500

“2021 came in the shadow of 2020 with its own set of challenges. The First National Bank stepped up, once again, and met these challenges with resilience, perseverance, and growth. Because of the strength in our management, we continue to offer unmatched service to our customers. The ability to tailor loan products to meet specific needs puts our clients, and the Bank, in the best position to succeed. I am thankful we were able to continue to meet the needs of the people in our community while learning to navigate another year of uncertainty. How fortunate we are to live and serve in rural America, where we see the fruits of our labor and the value of our work.”

-Alexis McFarland, Assistant Vice President , Commerical Ag Loan Specialist

BOARD OF DIRECTORS

Michael E. White
Director

Shane E. Gray
Vice Chairman

Philip G. Hipsher
Director

Donald W. Price
President

Michael A. Dunkel
Director

Robert J. Coleman
Chairman of the Board

Bryan K. Loeffler
Secretary/Treasurer

"*Corporate heritage and culture.* Over my years with the First National Bank of Allendale, it became apparent to me that these two notions, properly applied in a business environment, are extremely powerful and effective. Once an organization believes that honesty, trust, integrity, personal service, fair-dealing, competence, and caring are just as important as financial success, all good things will follow...growth, customer satisfaction, a dedicated staff, supportive stockholders, strong directors, and thankful communities. I am so proud of Allendale Bancorp, Inc. and the First National Bank of Allendale for creating an ideal and successful corporate culture and for continuing their heritage of strength and independence for over 115 years!"

-Robert J. Coleman, Chairman of the Board

EXECUTIVE MANAGEMENT GROUP

Executive Management Group Listed From Left To Right:
Front Row: Elizabeth Fiero, Donald Price, Dean Ackerman
Back Row: Rodney Loeffler, Tamara McFarland, Kristin Schrader, David Guinnip, Katherine Clark

COMPANY PROFILE

Corporate Profile

Allendale Bancorp, Inc. is a one-bank holding company whose wholly-owned subsidiary is The First National Bank of Allendale. The stock of Allendale Bancorp, Inc. is held by 268 shareholders, a high percentage of whom live in Wabash County, Illinois and the surrounding area. The holding company and the bank have no other corporate affiliations.

Corporate Direction Statement

Within the constraint of economic prudence, the bank will continue to 1) explore new market opportunities 2) expand services and products, and 3) improve its technology and market position, with the goal of becoming the dominant bank in its markets while remaining the friendly and responsive bank that people prefer.

Corporate Value Statement

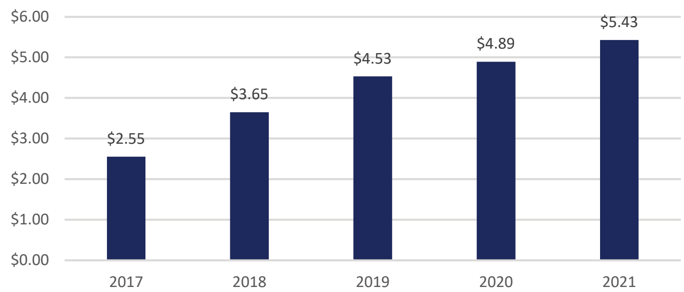
The Bank is commited to providing its customers with superior service, its shareholders with enhanced value, its communities with economic opportunity, and its staff with rewarding and enjoyable employment.

"I am very proud to be a part of The First National Bank where we have had continued success in providing excellent customer service, strong financial results and a positive work environment for our employees. I look forward to an even brighter 2022!"

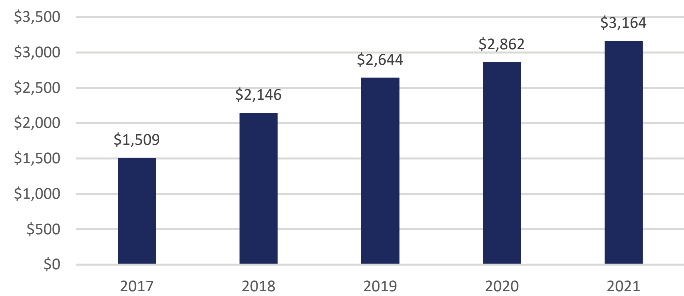
-Tamara McFarland, Senior Vice President, Chief Financial Officer

FINANCIAL HIGHLIGHTS

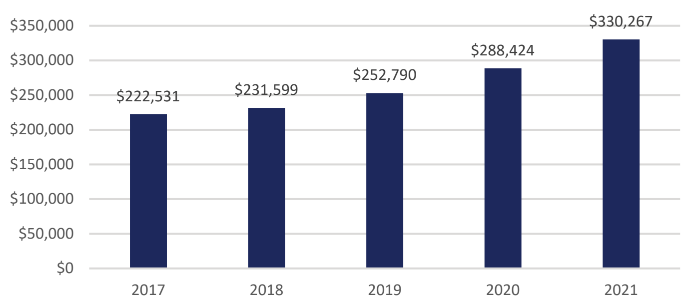
EARNINGS PER SHARE



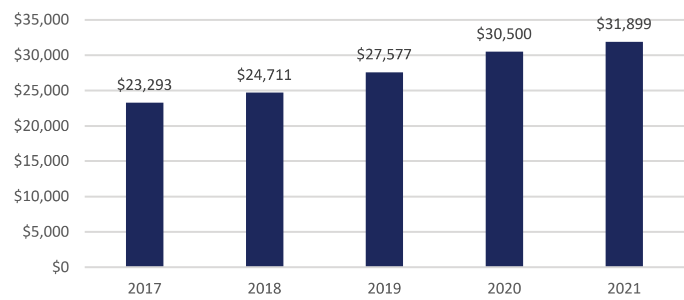
BANK LEVEL NET INCOME (THOUSANDS)



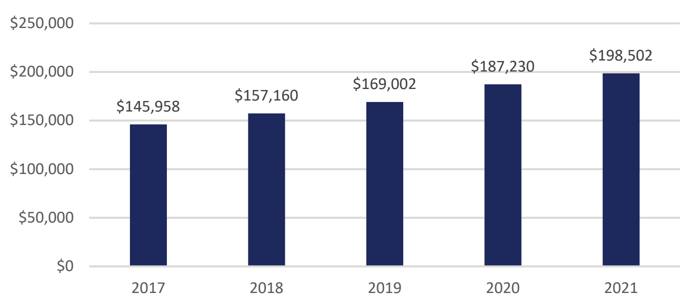
TOTAL ASSETS (THOUSANDS)



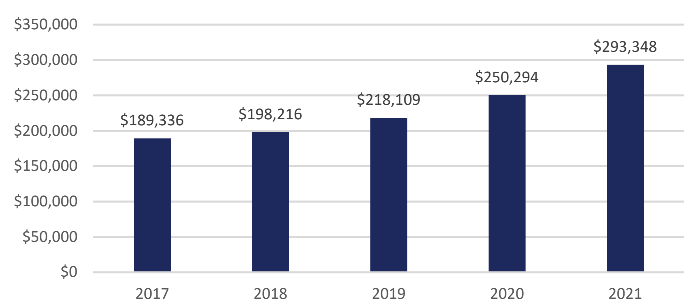
SHAREHOLDERS' EQUITY (THOUSANDS)



NET LOANS (THOUSANDS)

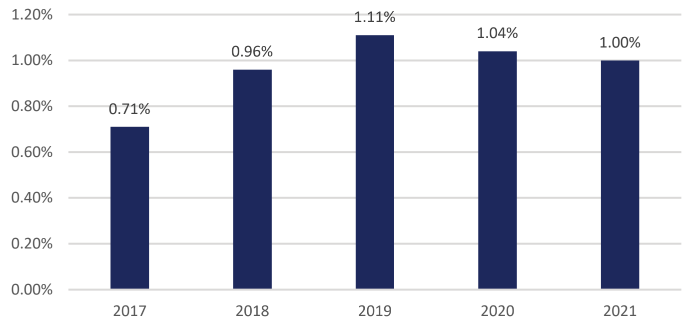


DEPOSITS (THOUSANDS)

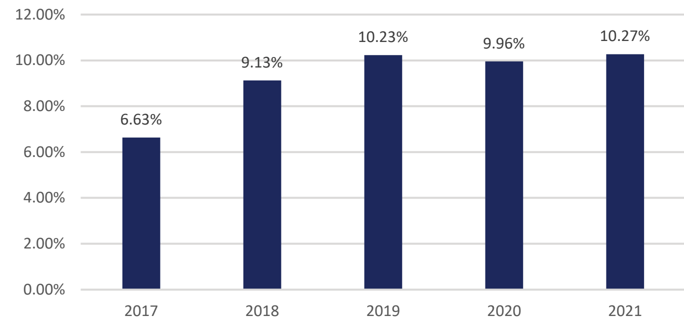


FINANCIAL HIGHLIGHTS

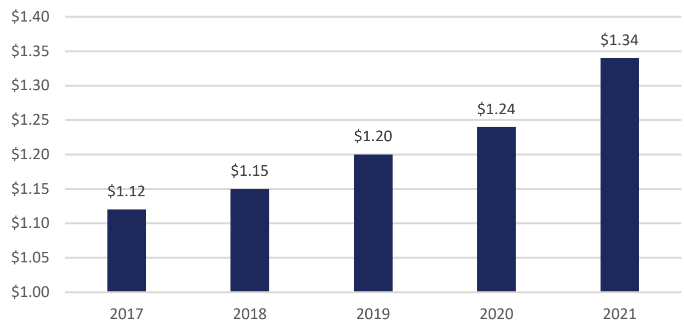
BANK LEVEL RETUN ON AVERAGE ASSETS



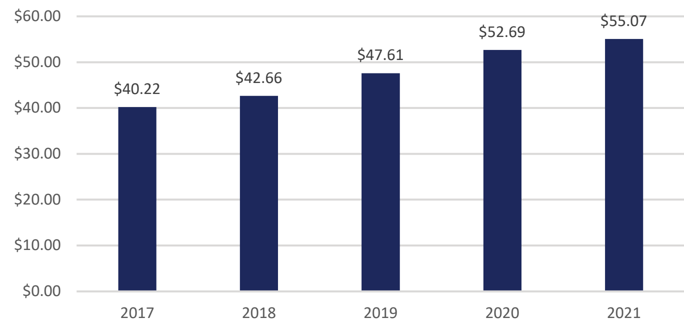
BANK LEVEL RETURN ON AVERAGE EQUITY



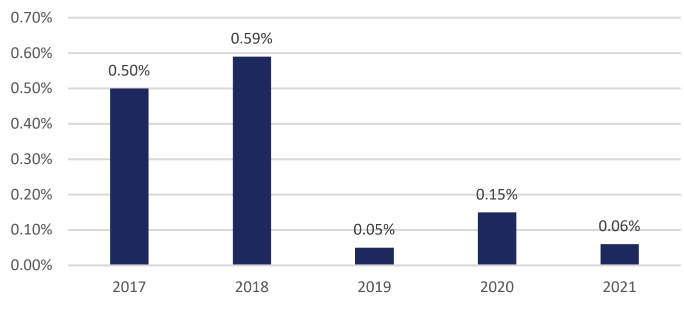
DIVIDENDS PER SHARE



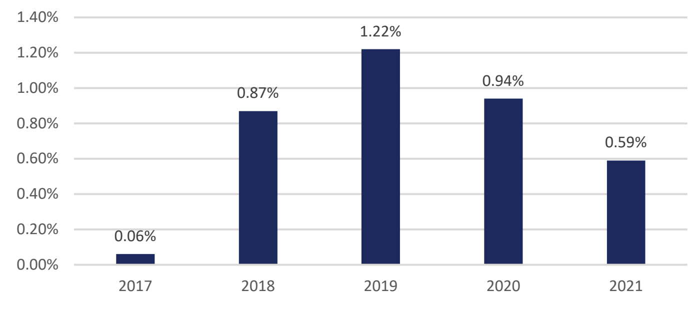
BOOK VALUE PER SHARE



NET LOAN LOSSES
% OF TOTAL LOANS



NON-PERFORMING LOANS
(% OF TOTAL LOANS)



PRESIDENT'S LETTER TO SHAREHOLDERS

Dear Fellow Shareholders and Friends:

On behalf of the Board of Directors and Management, I am pleased to share the financial results and successful performance of Allendale Bancorp, Inc., parent company of The First National Bank of Allendale, for the year ended December 31, 2021.

In 2021, we celebrated the 115th anniversary of our founding, a very proud milestone. During these years, the bank has built its reputation on being there for our customers and the communities we serve. Our ability to provide prompt, personalized service has been at the cornerstone of everything we do. That is what outstanding community banking is all about.

Despite the continuation of the COVID-19 pandemic, the bank had a favorable year and we are beginning to see light at the end of the tunnel as we begin to understand how to treat and prevent the virus. It has been amazing to see how healthcare organizations, businesses, schools, and our bank have adapted to the changing environment. I am especially proud of our staff and directors as they were diligent in their efforts to serve our customers and solidify confidence in The First National Bank.

Donald W. Price
President & CEO

The bank was fortunate to continue and expand our Paycheck Protection Program (PPP) lending efforts in 2021 and add new customers to the bank through this process. Through the outstanding efforts of our lending staff, 579 PPP loans were originated totaling just over $20 million through the two rounds of funding. It was extremely gratifying to be able to provide this assistance to our local small businesses and farm operations.

We continue to realize healthy growth from our expansion into the White County market. Since the opening of our Carmi production office in January of 2020, the location has generated loan growth in excess of $30 million and deposits in excess of $6 million. We have assembled a talented lending staff that is able to provide unmatched service to the borrowers in that region. This production office business model is proving to be an efficient way to grow our balance sheet and increase our footprint in nearby counties.

PRESIDENT'S LETTER TO SHAREHOLDERS

Financial Highlights

For the fiscal year ended December 31, 2021, Allendale Bancorp, Inc. reported another record year of earnings. 2021 earnings were $3,144,552, as compared to $2,832,042 in 2020, an increase of 11.0%. Net income per share increased to $5.43 in 2021 as compared to $4.89 in 2020. The increase in net income in 2021 was primarily the result of increased loan growth, $998,000 in SBA loan fees, and lower rates paid on liabilities.

As of December 31, 2021, total consolidated assets surpassed $300 million for the first time in the bank's history. Assets grew by $41,843,345 or 14.5% to $330,267,486. Deposit growth, which is discussed below, was the main driver behind this.

Interest income for 2021 was $10,824,038, a slight increase of $49,751 over 2020. At December 31, 2021 total loans, net of allowance, were $198,501,668, an increase of $11,270,465, or 6.0% over 2020. Loan growth was centered in commercial and agricultural lending. We have maintained strong asset quality as evidenced by our low levels of non-performing assets and net loan losses. The securities portfolio increased in 2021 to $101,096,083; this 59% increase over 2020 was a result of pandemic related deposit growth outpacing loan growth. Increases were primarily in mortgage backed instruments that will provide cashflow to fund expected loan growth in 2022.

Decreased interest rates and less reliance on borrowings due to increased deposit balances resulted in lower interest expense for the bank in 2021. Total deposits increased by $43,054,202, or 17.2% in 2021 as compared to 2020. Deposit increases resulted from continued government stimulus payments and PPP loan proceeds. Total interest expense of $1,275,253 was a $506,010 decrease, or 28.4% from interest expense of $1,781,263 in 2020.

Non-interest income for 2021 was $1,300,767. This decrease of $93,451, or 7.2% from 2020 resulted mainly from a slowing in 1-4 family refinancing activity. Gains on sale of loans for 2021 was $358,920. This was a 35% decrease from the $551,553 in fees generated the prior year. Increased ATM and debit card usage resulted in a 19.4% increase in interchange fee income - $420,100 in 2021, compared to $351,801 in 2020.

Non-interest expense amounted to $6,607,294, an increase of $557,366, or 9.2%, in 2021. Expenses associated with employees (salaries and employee benefits) continue to be the largest non-interest expenditure. The increase in 2021 was mainly due to increases in staffing to support future growth and information technology needs. Improvements in our electronic banking products, as well as an increase in customer transactions, resulted in data processing fees of $436,245, a 66% increase over 2021. We will continue to invest in the latest technology to remain competitive in offering the highest level of banking service for our valued customers.

Financial Highlights Continued

Continued strong performance enabled our Board of Directors to increase the cash dividend to $1.34 per share in 2021 from $1.24 per share in 2020, which represents an 8.1% increase year-over year and the 27th consecutive annual increase since the formation of our holding company. We are extremely proud of our sustained financial success and growth. Our focus of local ownership, local management, and most importantly, local decisions have contributed to these positive results.

Looking ahead into 2022, I remain positive about the bank's future and the relationships we continue to build throughout the communities we serve. Currently, we are completing a major remodel of our loan operations department in Mt. Carmel. The additional office space and expanded customer service area will increase our operational efficiency and support our increased lending volume. Other exciting changes are planned for the Mt. Carmel lobby that will provide a whole new look and feel for our customers.

The successful performance of the bank would not have been possible without the efforts of our dedicated employees. Their continued commitment through times of uncertainty over the past two years has been inspiring. Our people strive to meet the needs of our customers and communities every day, just as they have for over 115 years. I hope you are as proud of them as I am. I would also thank you, our shareholders and customers, for your continued support and confidence in Allendale Bancorp, Inc. If you have any questions or suggestions, please feel free to call me or a member of our management. We are optimistic about the future – ours and yours.

Sincerely,

Donald W. Price

Donald W. Price
President and Chief Executive Officer
dprice@fnb.bz

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Stockholders
Allendale Bancorp, Inc.
Allendale, Illinois

Opinion

We have audited the accompanying consolidated financial statements of Allendale Bancorp, Inc. (a corporation) and Subsidiaries (Bank), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Allendale Bancorp, Inc. and Subsidiaries as of December 31, 2021 and 2020, 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.

Basis for Opinion

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

Responsibility of Management 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Allendale Bancorp, Inc. and Subsidiaries' ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the 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 generally accepted auditing standards 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 financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the 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, but not for the purpose of expressing an opinion on the effectiveness of Allendale Bancorp, Inc. and Subsidiaries' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Allendale Bancorp, Inc. and Subsidiaries' 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.

Kemper CPA Group, LLP

Certified Public Accountants and Consultants
Evansville, Indiana
March 2, 2022

CONSOLIDATED BALANCE SHEETS

ASSETS	December 31, 2021	December 31, 2020
Cash and Cash Equivalents		
Cash	$ 2,990,868	$ 2,850,858
Due from banks, non-interest bearing	1,225,353	1,248,143
Total Cash and Cash Equivalents	4,216,221	4,099,001
Due from banks, interest bearing	11,301,893	18,104,726
Debt Securities available-for-sale	101,096,083	63,373,279
Loans receivable, net of allowance for loan losses of $2,305,554 in 2021 and $2,335,550 in 2020	198,501,668	187,231,203
Accrued interest receivable	2,289,825	2,323,168
Premises and equipment, net	4,564,769	4,796,192
Federal Home Loan Bank stock, restricted, at cost	435,411	435,411
Other stock, restricted, at cost	157,850	157,850
Bank owned life insurance	6,574,497	6,588,384
Other assets	1,129,269	1,314,927
Total Assets	$ 330,267,486	$ 288,424,141
LIABILITIES AND STOCKHOLDERS' EQUITY		
Deposits		
Demand deposits	$ 106,900,693	$ 77,370,686
Savings and NOW deposits	132,519,904	110,896,583
Time deposits	53,927,836	62,026,962
Total deposits	293,348,433	250,294,231
Accrued expenses and other liabilities	2,297,060	3,052,652
Federal Home Loan Bank advances	2,723,139	4,561,515
Total Liabilities	298,368,632	257,908,398
Stockholders' Equity		
Common stock, $1 par value; 1,000,000 shares authorized and 579,198 issued and outstanding	579,198	579,198
Additional paid-in capital	1,668,119	1,668,119
Retained earnings	29,291,093	26,922,667
Accumulated other comprehensive income, net of income tax	360,444	1,345,759
Total Stockholders' Equity	31,898,854	30,515,743
Total Liabilities and Stockholders' Equity	$ 330,267,486	$ 288,424,141

CONSOLIDATED STATEMENTS OF INCOME

	Years Ended December 31, 2021	2020
Interest Income		
Loans, including fees	$ 9,411,259	$ 9,431,478
Investment securities	1,393,495	1,294,880
Federal funds sold	19,284	47,929
Total Interest Income	10,824,038	10,774,287
Interest Expense		
Deposits	1,202,451	1,662,738
Other borrowed funds	72,802	118,525
Total Interest Expense	1,275,253	1,781,263
Net Interest Income	9,548,785	8,993,024
Provision for Loan Losses	(75,000)	(539,050)
Net Interest Income after Provision for Loan Losses	9,473,785	8,453,974
Noninterest Income		
Service charges on deposit accounts	274,545	281,932
ATM interchange fees	420,100	351,801
Other income	0	4,782
Life insurance	247,202	188,489
Gain on sale of loans	358,920	551,553
Net realized gains/(losses) on sales of available-for-sale securities	0	15,661
Total Noninterest Income	1,300,767	1,394,218
Noninterest Expenses		
Salaries and employee benefits	3,728,425	3,367,716
Occupancy	677,735	704,449
FDIC deposit insurance fees	77,031	29,061
Director fees	181,300	175,700
Professional and consulting fees	342,401	320,912
Repairs and maintenance	182,180	164,890
Depreciation	341,586	364,090
Data processing fees	436,245	261,838
Other expense	640,391	661,272
Total Noninterest Expenses	6,607,294	6,049,928
Income before Income Taxes	4,167,258	3,798,264
Income Tax Expense	1,022,706	966,222
NET INCOME	$ 3,144,552	$ 2,832,042
Earnings per share	$ 5.43	$ 4.89
Weighted average shares outstanding	579,198	579,198

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31, 2021	2020
Net income	$ 3,144,552	$ 2,832,042
Other comprehensive income (loss), net of tax:		
Unrealized gains (losses) on debt securities available for sale:		
Unrealized holding losses arising during the period, net of deferred tax benefit (expense) of $158,182 in 2021 and $590,590 in 2020	(985,315)	812,066
Less: reclassification adjustment for gains realized in net income, net of deferred tax benefit (expense) of $0 in 2021 and $3,394 in 2020	0	12,769
Other comprehensive income (loss), net of income tax	(985,315)	824,835
Total comprehensive income	$ 2,159,237	$ 3,656,877

ALLENDALE BANCORP, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

For Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
Balance at December 31, 2019	$579,198	$1,668,119	$24,808,831	$ 520,924	$27,577,072
Comprehensive income:					
Net income			2,832,042		2,832,042
Other comprehensive income				824,835	824,835
Total comprehensive income					3,656,877
Cash dividends declared			(718,206)		(718,206)
Balance at December 31, 2020	$579,198	$1,668,119	$26,922,667	$ 1,345,759	$30,515,743
Comprehensive income:					
Net income			3,144,552		3,144,552
Other comprehensive income				(985,315)	(985,315)
Total comprehensive income					2,159,237
Cash dividends declared			(776,126)		(776,126)
Balance at December 31, 2021	$579,198	$1,668,119	$29,291,093	$ 360,444	$31,898,854

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOW

	Years Ended December 31, 2021	2020
Cash flows from operating activities:		
Net income	$ 3,144,552	$ 2,832,042
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for loan losses	75,000	539,050
Depreciation and amortization	345,939	368,443
Net amortization on securities available-for-sale	894,612	474,382
(Gain)Loss on sale of available for sale securities	0	(15,661)
Bank owned life insurance income	13,887	(139,638)
(Increase) decrease in		
Accrued interest receivable	33,343	(383,044)
Other assets	178,842	(423,601)
Increase (decrease) in		
Other liabilities	(323,143)	659,153
Total adjustments	1,218,480	1,079,084
Net cash provided by operating activities	4,363,032	3,911,126
Cash flows from investing activities:		
Net decrease in interest bearing deposits	6,802,833	(3,898,824)
Proceeds from sales and maturities of available-for-sale debt securities	13,217,458	15,326,064
Purchases of available-for-sale debt securities	(53,252,638)	(28,923,536)
Purchase of Federal Reserve Bank stock	0	(213,735)
Net (increase) decrease in loans receivable	(11,345,465)	(18,768,225)
Purchases of premises and equipment	(96,015)	(352,527)
Net cash used in investing activities	(44,673,827)	(36,830,783)
Cash flows from financing activities:		
Net increase (decrease) in demand, savings and NOW deposit accounts	51,141,643	35,376,333
Net increase (decrease) in other time deposits	(8,099,126)	(3,203,057)
Payments on Federal Home Loan Bank advances	(1,838,376)	(510,763)
Cash dividends	(776,126)	(718,206)
Net cash provided by financing activities	40,428,015	30,944,307
Net increase (decrease) in cash and cash equivalents	117,220	(1,975,350)
Cash and cash equivalents, beginning of year	4,099,001	6,074,351
Cash and cash equivalents, end of year	$ 4,216,221	$ 4,099,001
Interest paid	$ 1,347,146	$ 1,838,403
Income taxes paid	$ 875,000	$ 986,068

Note 1 – Nature of Operations and Significant Accounting Policies

Allendale Bancorp, Inc. (the "Bancorp") and its wholly-owned subsidiary, First National Bank of Allendale (the "Bank" and together with Bancorp) provide various banking and other financial services to their customers. The Bank's customers include individuals and commercial enterprises within its principal market area consisting of Wabash, Lawrence, White and Edwards Counties in Illinois. The Bank operates under a national bank charter and provides full banking services. As a national bank, the Bank is subject to regulation by the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation (FDIC).

Additionally, the Bank maintains correspondent banking relationships. Note 4 discusses the types of securities the Bank invests in. Note 5 discusses the types of lending that the Bank engages in. The Bank does not have any significant concentrations to any one industry or customer.

The accounting and reporting policies and practices of the Bank conform with accounting principles generally accepted in the United States of America. The following is a summary of the Bank's significant accounting policies.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of the Bancorp and the Bank as well Allendale Holdings, LLC. Allendale Holdings, LLC is a Limited Liability Company that the Bank wholly owns.

In consolidation, all significant intercompany balances and transactions have been eliminated.

Use of Estimates

The preparation of consolidated financial statements 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 consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The determination of the adequacy of the allowance for loan losses is based on estimates that are particularly susceptible to significant changes in the economic environment and market conditions. In connection with the determination of the estimated losses on loans, management obtains independent appraisals for significant collateral.

The Bank's loans are generally secured by specific items of collateral including real property, consumer assets, and business assets. Although the Bank has a diversified loan portfolio, a substantial portion of its debtors' ability to honor their contracts is dependent on local economic conditions in the agricultural industry.

While management uses available information to recognize losses on loans, further reductions in the carrying amounts of loans may be necessary based on changes in local economic conditions. In addition, regulatory agencies, as an integral part of their examination process, periodically review the estimated losses on loans. Such agencies may require the Bank to recognize additional losses based on their judgments about information available to them at the time of their examination. Because of these factors, it is reasonably possible that the estimated losses on loans may change materially in the near term. However, the amount of the change that is reasonably possible cannot be estimated.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Comprehensive Income

Accounting principles generally require that recognized revenue, expenses, gains, and losses be included in net income. Certain changes in assets and liabilities, such as unrealized gains and losses on available-for-sale securities, are reported as a separate component of the shareholders' equity section of the balance sheet. Such items along with net income are components of comprehensive income.

Presentation of Cash Flows

For purposes of reporting cash flows, cash and cash equivalents includes cash on hand, amounts due from banks, non-interest bearing (including cash items in process of clearing); interest-bearing deposits in banks with an original maturity of 90 days or less, and federal funds sold. Generally federal funds are sold for one-day periods.

The Bank considers all non-interest bearing deposits in other banks and federal funds sold to be cash and cash equivalents. The Bank has deposit accounts with several financial institutions. The accounts are insured by the FDIC up to $250,000 per bank at December 31, 2021 and 2020. At December 31, 2021 and 2020 the Bank had approximately $750,000 and $751,000 in excess of the FDIC insurance limit, respectively.

Investment Securities

Debt securities classified as available-for-sale are those debt securities that the Bank intends to hold for an indefinite period of time but not necessarily to maturity. Any decision to sell a security classified as available-for-sale would be based on various factors, including significant movement in interest rates, changes in the maturity mix of the Company's assets and liabilities, liquidity needs, regulatory capital considerations, and other similar factors. These securities are carried at estimated fair value based on information provided by a third party pricing service with any unrealized gains or losses excluded from net income and reported in accumulated other comprehensive income (loss), which is reported as a separate component of shareholders' equity, net of the related deferred tax effect.

Gains and losses realized on sales of investment debt securities, determined using the adjusted cost basis of the specific securities sold, are included in noninterest income in the consolidated statements of income. Additionally, declines in the estimated fair value of individual investment securities below their cost that are other-than-temporary are reflected as realized losses in the statements of income. Factors affecting the determination of whether an other-than-temporary impairment has occurred include, among other things, (i) the length of time and the extent to which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities, and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery in fair value.

Dividend and interest income, including amortization of premium and accretion of discount arising at acquisition, from all categories of investment securities are included in interest income in the consolidated statements of income.

Restricted stock is stock from the Federal Home Loan Bank of St. Louis ("FHLB"), which is restricted as to its marketability. Because no ready market exists for these investments and they have no quoted market value, the Bank's investment in this stock is carried at cost. A determination as to whether there has been an impairment of restricted stock investments is performed on a quarterly basis and includes a review of the current financial condition of the issuer.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Paycheck Protection Program

In 2020, the Bank began participating in the Paycheck Protection Program (PPP), which is a loan program that originated from the Coronavirus Aid, Relief and Economic Security Act (CARES Act) and subsequently expanded by the Paycheck Protection Program and Health Care Enhancement Act. The PPP is administered by the Small Business Administration (SBA). The PPP is designed to provide U.S. small businesses with cash-flow assistance through immediate loans fully guaranteed by the federal government. If the borrower meets certain criteria and uses the proceeds towards certain eligible expenses, the borrower can apply with the SBA for forgiveness, and if approved, the borrower's obligation for the loan's repayment is cancelled. Upon the borrower's approval for forgiveness, the SBA pays the Bank for the principal and accrued interest owed on the loan. If, for whatever reason, the full principal of the loan is not forgiven by the SBA, the unforgiven portion of the loan will be re-amortized over the term of the loan and all remaining payments will be the responsibility of the customer. Nevertheless, if for any reason the customer defaults or fails to pay the loan in full, the SBA still guarantees payment of the any remaining portion of the loan.

During 2021 and 2020, the Bank made 255 and 266 PPP loans totaling $6,972,563 and $12,753,401. At December 31, 2021 and 2020, the Bank had 5 and 175 PPP loans totaling $37,270 and $9,276,361 that were still waiting for the SBA's approval for forgiveness. These PPP loans have been included with commercial loans in Note 4.

Loans and Allowances for Loan Losses

Loans are carried at the amount of unpaid principal, adjusted for deferred loan fees and origination costs. Interest on loans is accrued based on the principal amounts outstanding. Nonrefundable loan fees and related direct costs are deferred and the net amount is amortized to income as a yield adjustment over the life of the loan using the interest method. When principal or interest is delinquent for ninety days or more, the Bank evaluates the loan for nonaccrual status.

After a loan is placed on nonaccrual status, all interest previously accrued but not collected is reversed against current period interest income. Subsequent collections of interest payments on nonaccrual loans are recognized as interest income unless ultimate collectability of the loan is in doubt. Cash collections on loans where ultimate collectability remains in doubt are applied as reductions of the loan principal balance and no interest income is recognized until the principal balance has been collected.

The allowance for loan losses is established as losses are estimated to have occurred through a provision for loan losses charged to earnings. Loan losses are charged against the allowance when management believes the uncollectibility of a loan balance is confirmed. Subsequent recoveries, if any, are credited to the allowance. The allowance is based on two basic principles of accounting: (i) FASB ASC 450, *Contingencies*, which requires that losses be accrued when they are probable of occurring and estimable and (ii) FASB ASC 310, *Receivables*, which requires that losses or impaired loans be accrued based on the differences between the loan balance and either the value of collateral, if such loans are considered to be collateral dependent and in the process of collection, or the present value of future cash flows, or the loan's value as observable in the secondary market. A loan is considered impaired when, based on current information and events, the Bank has concerns about the ability 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. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Continued)

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 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.

The Bank's allowance for loan losses has three basic components: the specific allowance, the formula allowance and the pooled allowance. Each of these components is determined based upon estimates that can and do change when the actual events occur. As a result of the uncertainties inherent in the estimation process, management's estimate of loan losses and the related allowance could change in the near term.

The specific allowance component is used to individually establish an allowance for loans identified for impairment testing. When impairment is identified, a specific reserve may be established based on the Bank's calculation of the estimated loss embedded in the individual loan. Impairment testing includes consideration of the borrower's overall financial condition, resources and payment record, support available from financial guarantors and the fair market value of collateral. These factors are combined to estimate the probability and severity of inherent losses. Large groups of smaller balance, homogeneous loans are collectively evaluated for impairment.

Accordingly, the Bank does not separately evaluate individual consumer and residential loans for impairment.

The formula allowance component is used for estimating the loss on internally risk rated loans exclusive of those identified as impaired. The loans meeting the Bank's internal criteria for classification, such as special mention, substandard, doubtful and loss, as well as specifically identified impaired loans, are segregated from performing loans within the portfolio. These internally classified loans are then grouped by loan type (commercial, commercial real estate, commercial construction, residential real estate, residential construction or installment). Each loan type is assigned an allowance factor based on management's estimate of the associated risk, complexity and size of the individual loans within the particular loan category. Classified loans are assigned a higher allowance factor than non-classified loans due to management's concerns regarding collectability or management's knowledge of particular elements surrounding the borrower. Allowance factors increase with the worsening of the internal risk rating.

The pooled formula component is used to estimate the losses inherent in the pools of non-classified loans. These loans are then also segregated by loan type and allowance factors are assigned by management based on delinquencies, loss history, trends in volume and terms of loans, effects of changes in lending policy, the experience and depth of management, national and local economic trends, concentrations of credit, results of the loan review system and the effect of external factors (i.e. competition and regulatory requirements).

Current economic conditions take into account the average unemployment rate for Wabash County, Illinois and for the nation, with the most significance given to the Wabash County data. The allowance factors assigned differ by loan type.

Allowance factors and overall size of the allowance may change from period to period based on management's assessment of the above-described factors and the relative weights given to each factor. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may require the Bank to make additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Management considers loans impaired when, based on current information, it is probable that the Bank will not collect all principal and interest payments according to contractual terms.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Loans and Allowances for Loan Losses (Concluded)

Loans are evaluated for impairment in accordance with the Bank's portfolio monitoring and ongoing risk assessment procedures. Management considers the financial condition of the borrower, cash flow of the borrower, payment status of the loan, and the value of the collateral, if any, securing the loan. Generally, impaired loans do not include large groups of smaller balance homogenous loans such as residential real estate and consumer type loans which are evaluated collectively for impairment and are generally placed on nonaccrual when the loan becomes 90 days past due as to principal or interest. Loans specifically reviewed for impairment are not considered impaired during periods of "minimal delay" in payment (90 days or less) provided eventual collection of all amounts due is expected. The impairment of a loan is measured based on the present value of expected future cash flows, discounted at the loan's effective interest rate, or the fair value of the collateral if repayment is expected to be provided solely by the collateral. In appropriate circumstances, interest income on impaired loans may be recognized on a cash basis.

The Bank's charge-off policy states after all collection efforts have been exhausted and the loan is deemed to be a loss, it will be charged to the Bank's established allowance for loan losses. Consumer loans subject to the Uniform Retail Credit Classification are charged-off as follows: (a) closed end loans are charged-off no later than 120 days after becoming delinquent, (b) consumer loans to borrowers who subsequently declare bankruptcy, where the Company is an unsecured creditor, are charged-off within 60 days of receipt of the notification from the bankruptcy court, (c) fraudulent loans are charged-off within 90 days of discovery and (d) death of a borrower will cause a charge-off to be incurred at such time an actual loss is determined. All other types of loans are generally evaluated for loss potential at the 90th day past due threshold, and any loss is recognized no later than the 120th day past due threshold; each loss is evaluated on its specific facts regarding the appropriate timing to recognize the loss.

Valuation of long-lived assets

The Bank accounts for the valuation of long-lived assets under FASB ASC 360, *Property, Plant and Equipment*. This guidance requires that long-lived assets and certain identifiable intangible assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived asset is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reportable at the lower of the carrying amount or fair value, less costs to sell.

Premises and Equipment

Bank premises and equipment are stated at cost less accumulated depreciation and amortization. The provision for depreciation is computed using straight-line and accelerated methods based on the estimated useful lives of the assets, which range from 5 to 10 years for bank equipment and 39 years for bank buildings. Leasehold improvements are amortized over the shorter of the terms of the leases or their estimated useful lives. Expenditures for improvements, which extend the life of an asset, are capitalized and depreciated over the asset's remaining useful life. Gains or losses realized on the disposition of properties and equipment are reflected in the statements of income. Expenditures for repairs and maintenance are charged to operating expenses as incurred.

Bank Owned Life Insurance

The Bank purchased single-premium life insurance on certain employees of the Bank. Appreciation in value of the insurance policy is classified in noninterest income. These insurance policies can be surrendered subject to certain surrender penalties applied by the insurance carriers, as well as potential income taxes to be paid.

Note 1 – Nature of Operations and Significant Accounting Policies (Continued)

Foreclosed Properties

Foreclosed properties include properties that have been acquired in complete or partial satisfaction of a debt. These properties are initially recorded at fair value on the date of acquisition. Any write-downs at the time of acquisition are charged to the allowance for loan losses. Subsequent to acquisition, a valuation allowance is established, if necessary, to report these assets at the lower of (a) fair value minus estimated costs to sell or (b) cost. Gains and losses realized on the sale, and any adjustments resulting from periodic re-evaluation of this property are included in noninterest income or expense, as appropriate. Net costs of maintaining and operating the properties are expensed as incurred. There were no foreclosed properties at December 31, 2021 and 2020.

Revenue Recognition:

In the ordinary course of business, the Bank recognizes income from various revenue generating activities. Certain revenues are generated from contracts with customers where such revenues are recognized when, or as, services or products are transferred to customers for amounts to which the Company expects to be entitled. Certain specific policies related to revenue recognition from contracts with customers include:

Service Fees
Service fees include charges related to depository accounts under standard service agreements. Fees are generally recognized as services are delivered to or consumed by the customer or as penalties are assessed.

ATM Interchange Fees
ATM interchange fees revenue includes interchange fees from ATM cards processed through card association networks, and other transaction fees. The Bank records interchange fees as services are provided.

Income Taxes

Provisions for income taxes are based on taxes payable or refundable for the current year and deferred taxes on temporary differences between the amount of taxable income and pretax financial income and between the tax bases of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets and liabilities are included in the consolidated financial statements at currently enacted income tax rates applicable to the period in which the deferred tax assets and liabilities are expected to be realized or settled. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through the provision for income taxes.

In addition, deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

The Bank does not have uncertain tax positions that are deemed material, and did not recognize any adjustments for unrecognized tax benefits. The Bank's policy is to recognize interest and penalties on income taxes in other noninterest expenses. The Bank remains subject to examination for income tax returns for the years ending after December 31, 2018.

Note 1 – Nature of Operations and Significant Accounting Policies (Concluded)

Fair Value Measurements

The Company follows the guidance of FASB ASC 825, *Financial Instruments*, and FASB ASC 820, *Fair Value Measurement*. This guidance permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. This guidance clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Date of Management's Review

The Bank has evaluated the accompanying consolidated financial statements for subsequent events and transactions through March 2, 2022, the date these financial statements were available for issue, based on FASB ASC 855, *Subsequent Events*, and have determined that no material subsequent events have occurred that would affect the information presented in the accompanying consolidated financial statements or require additional disclosure.

Note 2 – Compensating Balances

Compensating balance arrangements exist with various corresponding banks. These noninterest-bearing deposits are maintained in lieu of cash payments for standard bank services. The required balances amounted to $0 and $639,000 at December 31, 2021 and 2020, respectively.

Note 3 – Certificates of Deposit

The Bank had certificates of deposits totaling $3,500,000 and $2,750,000 at December 31, 2021 and 2020, in the accompanying financial statements. The certificates bear interest at rates ranging from 0.50% to 3.10% and have maturities ranging from September 2022 to August 2026, with penalties for early withdrawal. Any penalties for early withdrawal would not have material effect on the financial statements.

Note 4 – Debt Securities Available-for-Sale

The amortized cost and fair value of debt securities classified as available-for-sale at December 31, 2021 and 2020 are as follows:

December 31, 2021	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$51,601,710	$ 1,040,055	$ 268,610	$ 52,373,155
U.S. government and agency securities	12,340,039	121,825	59,065	12,402,799
Mortgage backed securities	36,635,708	166,262	481,841	36,320,129
Total available-for-sale securities	$100,577,457	$ 1,328,142	$ 809,516	$101,096,083

December 31, 2020	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Available-for-sale securities				
State and municipal securities	$29,219,450	$ 1,280,601	$ 9,215	$ 30,490,836
U.S. government and agency securities	6,816,792	275,862	0	7,092,654
Mortgage backed securities	25,400,677	430,377	41,265	25,789,789
Total available-for-sale securities	$61,436,919	$ 1,986,840	$ 50,480	$ 63,373,279

	December 31, 2021		December 31, 2020	
Available-for-Sale	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Due in one year or less	$ 4,010,984	$ 4,060,683	$ 1,025,916	$ 1,028,398
Due from one to five years	14,769,277	14,986,616	1,321,655	1,339,935
Due in more than five to ten years	14,600,720	15,084,622	23,415,282	24,533,732
Due after ten years	30,560,768	30,644,033	10,273,390	10,681,426
Subtotal	63,941,749	64,775,954	36,036,243	37,583,491
Mortgage backed securities	36,635,708	36,320,129	25,400,676	25,789,788
Total	$100,577,457	$101,096,083	$61,436,919	$ 63,373,279

Note 4 – Debt Securities Available-for-Sale (Concluded)

Information pertaining to securities with gross unrealized losses, aggregated by investment category and length of time that individual securities have been in a continuous loss position, are as follows:

	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
December 31, 2021						
Available-for-sale securities	$ 0	$ 0	$ 60,100,169	$ (809,516)	$ 60,100,169	$ (809,516)
December 31, 2020						
Available-for-sale securities	$ 0	$ 0	$ 7,647,505	$ (50,048)	$ 7,647,505	$ (50,048)

The bonds in an unrealized loss position at December 31, 2021 and 2020 were temporarily impaired due to the current interest rate environment and not increased credit risk. In estimating other-than-temporary impairment losses, the Bank considers, among other things (i) the length of time and the extent of which the fair value has been less than cost, (ii) the financial condition and near term prospects of the issuer, (iii) that the Bank does not intend to sell these securities and (iv) it is more likely than not that the Bank will not be required to sell before a period of time sufficient to allow for any anticipated recovery of fair value. All securities owned by the Bank are payable at par at maturity. At December 31, 2021, the 152 debt securities with unrealized losses have depreciated 1.37% from the Bank’s amortized cost basis. At December 31, 2020 there were 17 debt securities with unrealized losses that had depreciated 0.66% from the Bank’s amortized cost basis.

Included in the investment portfolio at December 31, 2021 and 2020 are securities valued at approximately $57,900,000 and $38,300,000, respectively, which are pledged to secure public deposits, and for other purposes required or permitted by law.

Note 5 – Loans and Allowance for Loan Losses

Loans consist of the following at December 31, 2021 and 2020:

	2021	2020
Construction Real Estate	$ 3,377,388	$ 773,899
Commercial Real Estate	62,784,337	61,922,411
Other Real Estate		
Residential Real Estate	53,757,386	51,812,409
Commercial and Industrial	62,556,140	57,040,149
Consumer and Installment	17,827,286	17,421,161
Leases	504,685	596,724
Total Loans	200,807,222	189,566,753
Less: Allowance for Loan Loss	(2,305,554)	(2,335,550)
Net Loans	$ 198,501,668	$ 187,231,203

The Bank's goal is to mitigate risks from an unforeseen threat to the loan portfolio as a result of an economic downturn or other negative influences. Plans that aid in mitigating these potential risks in managing the loan portfolio include: enforcing loan policies and procedures, evaluating the borrower's business plan through the loan term, identifying and monitoring primary and alternative sources of repayment, and obtaining adequate collateral to mitigate loss in the event of liquidation. Specific reserves are established based upon credit and/or collateral risks on an individual loan basis. A risk rating system is used to estimate potential loss exposure and to provide a measuring system for setting general and specific reserve allocations.

As of December 31, 2021 and 2020, the real estate loan portfolio constituted 60% and 60%, respectively of the total loan portfolio. This can be broken down further into the following categories: 2% and .4% construction, 34% and 33% commercial real estate and 24% and 27% residential real estate loans, as a percent of total loans.

The Bank's construction loans are secured by real property where the loan funds will be used to acquire land and to construct or to improve existing residential or commercial properties. Borrowers are generally required to put equity into the project at levels determined by the loan committee and usually are underwritten with a maximum term of 12 months.

Commercial real estate loans are secured by improved real property which is generating income in the normal course of business. Debt service coverage, assuming stabilized occupancy, must be satisfied to support a permanent loan. The debt service coverage ratio is ordinarily at 1.25 to 1.00. These loans are generally underwritten with a term not greater than 10 years or the remaining useful life of the property, whichever is lower. The preferred term is between 3 to 5 years, with amortization to a maximum of 25 years.

Residential real estate loans are secured by the improved real property of the borrower and are usually underwritten with a term of 1 to 5 years, but may be underwritten with terms up to 30 years.

The Bank also makes commercial and industrial loans for a variety of purposes, which include working capital, equipment and accounts receivable financing. This category represents about 31% and 30% of the loan portfolio at December 31, 2021 and 2020. Loans in this category generally carry a variable interest rate. Commercial loans meet reasonable underwriting standards, including appropriate collateral and cash flow necessary to support debt service. Personal guarantees are generally required, but may be limited.

Note 5 – Loans and Allowance for Loan Losses (Continued)

The following tables show the allowance for loan losses and the recorded investment in loans for the years ended December 31, 2021 and 2020:

Loans by Segment as of December 31, 2021	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 3,872	$ 801,421	$ 849,084	$ 422,602	$ 0	$ 258,571	$ 2,335,550
Charge-offs	0	(113,525)	(295)	(96,979)	0	0	(210,799)
Recoveries	0	2,100	35,949	67,753	0	0	105,802
Provision	(151)	148,600	176,821	(9,468)	0	(240,801)	75,001
Ending Balance	$ 3,721	$ 838,596	$ 1,061,559	$ 383,908	$ 0	$ 17,770	$ 2,305,554
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 19,933	$ 250,000	$ 15,397	$ 0	$ 0	$ 285,330
Ending Balance, Collectively Evaluated for Impairment	$ 3,721	$ 818,663	$ 811,559	$ 368,511	$ 0	$ 17,770	$ 2,020,224
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 3,377,388	$ 116,541,723	$ 62,556,140	$ 17,827,286	$ 504,685		$ 200,807,222
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 290,596	$ 593,319	$ 66,263	$ 0		$ 950,178
Ending Balance, Collectively Evaluated for Impairment	$ 3,377,388	$ 116,251,127	$ 61,962,821	$ 17,761,023	$ 504,685		$ 199,857,044
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Loans by Segment as of December 31, 2020	Construction Real Estate	Other Real Estate	Commercial and Industrial	Consumer and Installment	Leases	Unallocated	Total
Allowance for Loan Losses:							
Beginning Balance	$ 749	$ 750,917	$ 893,690	$ 292,854	$ 0	$ 135,986	$ 2,074,196
Charge-offs	0	(43,769)	(185,000)	(111,867)	0	0	(340,636)
Recoveries	0	3,300	4,200	55,851	0	0	63,351
Provision	3,123	90,973	136,194	185,764	0	122,585	538,639
Ending Balance	$ 3,872	$ 801,421	$ 849,084	$ 422,602	$ 0	$ 258,571	$ 2,335,550
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 78,662	$ 250,000	$ 6,000	$ 0	$ 0	$ 334,662
Ending Balance, Collectively Evaluated for Impairment	$ 3,872	$ 722,759	$ 599,084	$ 416,602	$ 0	$ 258,571	$ 2,000,888
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Loans:							
Ending Balance	$ 773,899	$ 113,734,820	$ 57,040,149	$ 17,421,161	$ 596,724		$ 189,566,753
Ending Balance, Individually Evaluated for Impairment	$ 0	$ 781,396	$ 709,614	$ 66,947	$ 0		$ 1,557,957
Ending Balance, Collectively Evaluated for Impairment	$ 773,899	$ 112,953,424	$ 56,330,535	$ 17,354,214	$ 596,724		$ 188,008,796
Ending Balance, Loans Acquired with Deteriorated Credit Quality	$ 0	$ 0	$ 0	$ 0	$ 0		$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit quality indicators as of December 31, 2021 and 2020 are as follows:

The Bank's internally assigned grade:

Pass – Credits will range from minimal risk to average risk to acceptable risk. At a minimum, these borrowers will have satisfactory asset quality and liquidity, adequate debt capacity and coverage, and good management. A year of losses or fluctuating earnings may be reflected but borrowers have sufficient strength and financial flexibility to offset these events. Performance is generally in accordance with company projections.

Watch – Credits have specific weaknesses which can be corrected and are not seriously harmful to the Bank's overall position in the credit. These borrowers have limited additional debt capacity, modest coverage and average or below average asset quality, margins, and market share. Some management weaknesses or a lack of depth exists. A lack of current financial statement/information may limit the Bank's ability to assess repayment. Insufficient support in the credit file or other technical exceptions which may impair the credit file or other technical exceptions which may impair the credit-worthiness of the borrower may exist. Inconsistent or declining trends, strained cash flow, and/or high leverage may be evident and indicate an above-average risk. Adverse outside events or a management change may also indicate above-average risk. Also, the borrower may be performing as agreed but may be adversely affected by developing problems. Additional monitoring may be required.

Note 5 – Loans and Allowance for Loan Losses (Continued)

Special Mention – Credits to borrowers who exhibit potential weaknesses or downward trends deserving Bank management's close attention. Loans in this category are currently protected but may impair the Bank's credit position if not corrected in a timely manner. A weak or speculative market or economic conditions exist which may, in the future, adversely affect the obligor. No loss of principal or interest is expected but these borrowers are potentially weak and maintain a marginal position. Adverse trends in operating results and/or financial ratios are of a magnitude and degree that warrant this rating. Improper control over collateral, lack of proper documentation, and/or a notable deviation from Bank policy or prudent lending practices may be present. The borrower could be in a turnaround situation. Any credit categorized as Special Mention by regulatory authorities would be classified by the Bank as special mention.

Substandard – Credits have well-defined weaknesses which jeopardize repayment. These credits are inadequately protected by the current net worth and paying capacity of the obligor or the collateral pledged. Although loss does not have to exist in any one asset, there is a possibility of a partial loss of interest and/or principal which will occur if deficiencies are not corrected. It is not necessary for a loan to have an identifiable loss in order to be rated Substandard. A credit may be current and supported by collateral or a contingent obligor but the rating may still be warranted. Characteristics of this type of credit would include: reliance on a secondary source of repayment, significant deterioration in financial condition or cash flow, questionable repayment capacity based on delinquency status, and/or poor performance. Any credit classified as substandard by the regulatory authorities and any consumer loan 90 days or more past due would be classified by the Bank as substandard.

Doubtful – Credits have the traits mentioned in the Substandard category in addition to weaknesses which make collection or liquidation in full highly questionable or improbable. If serious problems exist and the potential for loss of principal is likely, the Bank would classify the credit as doubtful. The possibility of loss is extremely likely, but is not identified at this point because of pending factors. These factors could include: merger and/or acquisition, liquidation procedures, a capital injection, perfecting liens on additional collateral, and/or refinancing plans. Management has demonstrated a history of failing to meet agreements. Any credit classified as doubtful by the regulatory authorities would also be classified by the Bank as doubtful.

Loss – Credits are generally uncollectible and are no longer considered a bankable asset. This rating does not mean a loan has no recovery or salvage value. However, it is not practicable or desirable to defer writing off the loss credit even though partial recovery may occur. Loans do not remain as booked assets while long-term recoveries are attempted. Credits in this category should be accompanied with a recommendation for charge-off. In order to affect timely recognition of loan losses, credits with this rating should normally be charged off when identified. As such, the Loss rating is a one-time designation. This category should include consumer credits 120 days or more past due. As of December 31, 2021 and 2020, the Bank had no loans with a loss rating that had not been charged off. As such, this category has not been included in the table below.

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2021

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$ 1,350,237	$ 2,027,151	$ 45,448,734	$ 47,433,810	$ 23,659,179
Watch	0	0	0	0	0
Special Mention	0	0	0	0	0
Substandard	0	0	0	0	0
Doubtful	0	0	0	0	0
Total	$ 1,350,237	$ 2,027,151	$ 45,448,734	$ 47,433,810	$ 23,659,179

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2021 (Concluded)

	Commercial and Industrial	Consumer and Installment		Financing Leases
		Automobile	Other	
Grade:				
Pass	$ 62,556,140	$ 6,971,427	$ 10,855,859	$ 504,685
Watch	0	0	0	0
Special Mention	0	0	0	0
Substandard	0	0	0	0
Doubtful	0	0	0	0
Total	$ 62,556,140	$ 6,971,427	$ 10,855,859	$ 504,685

Note 5 – Loans and Allowance for Loan Losses (Continued)

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2020

	Construction Real Estate		Other Real Estate		
	Residential	Other	Farmland	Residential	Other
Grade:					
Pass	$ 353,107	$ 248,688	$ 46,426,904	$ 51,026,146	$12,723,091
Watch	172,104	0	323,714	132,213	17,108
Special Mention	0	0	1,915,979	0	0
Substandard	0	0	131,572	651,660	384,043
Doubtful	0	0	0	2,390	0
Total	$ 525,211	$ 248,688	$ 48,798,169	$ 51,812,409	$13,124,242

Credit Exposure
Credit Risk Profile by Internally Assigned Grade
As of December 31, 2020 (Concluded)

		Consumer and Installment		
	Commercial and Industrial	Automobile	Other	Financing Leases
Grade:				
Pass	$ 55,690,662	$ 6,493,363	$ 10,849,010	$ 596,724
Watch	561,063	0	0	0
Special Mention	44,110	0	0	0
Substandard	744,314	53,994	24,794	0
Doubtful	0	0	0	0
Total	$ 57,040,149	$ 6,547,357	$ 10,873,804	$ 596,724

Note 5 – Loans and Allowance for Loan Losses (Continued)

Information on impaired loans for the years ended December 31, 2021 and 2020 are as follows:

Impaired loans as of December 31, 2021	Recorded Investment	Unpaid Principal Balance	Related Allowance	Average Recorded Investment	Interest Income Recognized
With No Related Allowance:					
Other real estate:					
Commercial	$ 176,819	$ 176,819	$ 0	$ 188,069	$ 0
Residential	68,844	68,844	0	130,629	0
Commercial and Industrial	0	0	0	0	0
Consumer and Installment:					
Automobile	1,095	1,095	0	25,632	0
Other	39,771	39,771	0	9,943	0
With an Allowance:					
Other real estate:					
Residential	44,933	44,933	19,933	143,749	0
Commercial	0	0	0	0	0
Commercial and Industrial	593,319	593,319	250,000	618,069	0
Consumer and Installment:					
Automobile	0	0	0	0	0
Other	25,397	25,397	15,397	25,397	0
Total:					
Construction real estate	$ 0	$ 0	$ 0	$ 0	$ 0
Other real estate	$ 290,596	$ 290,596	$ 19,933	$ 462,447	$ 0
Commercial and Industrial	$ 593,319	$ 593,319	$ 250,000	$ 618,069	$ 0
Consumer and Installment	$ 66,263	$ 66,263	$ 15,397	$ 60,972	$ 0
Financing leases	$ 0	$ 0	$ 0	$ 0	$ 0

Note 5 – Loans and Allowance for Loan Losses (Continued)

Age analysis tables of past due loans as of December 31, 2021 and 2020 are as follows:

December 31, 2021	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	$ 0	$ 1,350,237	$ 1,350,237
Other	0	0	0	0	2,027,151	2,027,151
Other real estate:						
Farmland	0	0	0	0	45,448,734	45,448,734
Residential	163,316	69,584	166,590	399,490	47,034,320	47,433,810
Other	0	0	0	0	23,659,179	23,659,179
Commercial	62,304	0	93,113	155,417	62,400,723	62,556,140
Consumer:						
Automobile	36,530	0	56,060	92,590	6,878,837	6,971,427
Other	46,012	171	102,666	148,849	10,707,010	10,855,859
Leases	0	0	0	0	504,685	504,685
Total	$ 308,162	$ 69,755	$ 418,429	$ 796,346	$ 200,010,876	$ 200,807,222

December 31, 2020	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days	Total Past Due	Current	Total Loans
Construction real estate:						
Residential	$ 0	$ 0	$ 0	$ 0	$ 525,211	$ 525,211
Other	0	0	0	0	248,688	248,688
Other real estate:						
Farmland	0	0	131,572	131,572	48,666,597	48,798,169
Residential	73,841	30,549	518,882	623,272	51,189,137	51,812,409
Other	0	0	0	0	13,124,242	13,124,242
Commercial	51,205	15,258	182,846	249,309	56,790,840	57,040,149
Consumer:						
Automobile	46,675	0	61,115	107,790	6,439,566	6,547,356
Other	133,966	12,774	27,020	173,760	10,700,045	10,873,805
Leases	0	0	0	0	596,724	596,724
Total	$ 305,687	$ 58,581	$ 921,435	$ 1,285,703	$ 188,281,050	$ 189,566,753

Note 5 – Loans and Allowance for Loan Losses (Concluded)

Nonaccrual Loans

The following table represents the total recorded investment in loans on nonaccrual at December 31, 2021 and 2020. The balances are presented by class of loan.

	12/31/2021	12/31/2020
Other real estate:		
Residential	$ 113,777	$ 443,004
Farmland	0	131,573
Other	176,819	206,819
Commercial	593,319	709,614
Consumer:		
Automobile	1,095	42,152
Other	65,168	24,795
	$ 950,178	$ 1,557,957

At December 31, 2021 and 2020, there were no commitments to lend additional funds to borrowers whose loans have been modified.

Note 6 – Bank Premises and Equipment

Bank premises and equipment consisted of the following at December 31, 2021 and 2020:

	2021	**2020**
Cost:		
Land	$ 66,000	$ 66,000
Bank premises	6,640,019	6,649,203
Equipment	4,293,398	4,188,199
Total cost	10,999,417	10,903,402
Less accumulated depreciation	(6,434,648)	(6,107,210)
Net book value	$ 4,564,769	$ 4,796,192

Depreciation and amortization charged to operations amounts to $341,586 in 2021 and $364,090 in 2020.

Note 7 – Federal Home Loan Bank Stock

As a member of the Federal Home Loan Bank of Chicago (FHLBC), the Bank is required to purchase a statutory amount of stock which is used to collateralize borrowings or advances from the FHLBC. All members must maintain a minimum amount of capital stock equal to the greater of 5% of borrowings from the FHLBC or the member's "floor" as established by the FHLBC. The floor represents the amount of capital stock held by each member at the close of business on July 23, 2008.

Beginning July 24, 2008, and to the extent that a member's required stock purchases to support advances exceed this floor, the member is able to redeem the incremental capital stock back to the FHLBC if the amount of borrowings no longer require it. At December 31, 2021 and 2020 advances from the FHLBC totaled $2,723,139 and $4,561,515, respectively. This stock is recorded at cost and does not have a readily determinable market value.

It is classified as a restricted investment because it can be sold back only to the FHLBC or to another member institution at its par value of $100 per share. None of this stock is pledged as collateral for FHLBC advances. For December 31, 2021 and 2020, the recorded investment in FHLBC capital stock totaled $435,411 and $435,411, respectively.

Note 8 – Deposits

Certificates of deposit and other time deposits issued in denominations that meet or exceed the FDIC insurance limit of $250,000 or more are totaled approximately $10,910,000 and $15,508,000 at December 31, 2021 and 2020, respectively, and are included in interest-bearing deposits in the consolidated balance sheet.

At December 31, 2021, the maturity distribution of certificates of deposits are as follows:

2022	$ 36,200,596
2023	6,515,889
2024	5,020,771
2025	2,714,774
2026	3,475,806
Total	$ 53,927,836

Note 9 – Borrowings

FHLB Advances

Federal Home Loan Bank (FHLB) advances consisted of the following at December 31,

	2021	2020
7 advances payable at maturity, interest ranging from 1.76% to 3.02% is due monthly for the years ended December 31, 2021 and 2020. Notes are collateralized by 1-4 family residential real estate loans and certain agriculture real estate loans. Due dates range from 2022 through 2025.		
	$2,723,139	$4,561,515

The advances are collateralized by certain loans receivable. The carrying amount of the loans pledged to the FHLB as of December 31, 2021 and 2020 was $93,593,000 and $93,247,000, respectively. At December 31, 2021 and 2020, the bank has FHLB Letters of Credit securing State of Illinois, Wabash General Hospital, City of Mount Carmel Police Pension Fund, City of Mount Carmel Firemen Pension Fund and City of Mount Carmel deposits in the amount of $16,500,000 and $23,250,000, respectively.

At December 31, 2021 maturities of FHLB advances are as follows for the years ending:

2022	$ 2,041,533
2023	0
2024	390,311
2025	291,295
2026	0
Thereafter	0
	$ 2,723,139

Note 10 – Employee Benefit

The Bank provides a trustee profit-sharing plan to all full-time employees who have completed one year of service. Employees may participate by contributing a percentage of income as a savings supplement to the plan through payroll deductions. The Directors may change the amount provided at any time. Bank contributions to the plan for 2021 and 2020 were $167,128 and $139,021, respectively.

The Bank provides a supplemental executive retirement plan (SERP) for certain bank executives. The bank is using a cash value life insurance policy to finance the SERP agreement. Expenses under this plan were $131,482 and $140,412, respectively. Benefits paid from this plan as of December 31, 2021 and 2020 were $76,000.

Note 11 – Line of Credit

The Bank has a secure line of credit with the Federal Reserve Bank. The amount available for borrowing fluctuates monthly. The amount available at December 31, 2021 was $11,111,447. Under the agreement the Bank is required to pledge collateral to the Federal Reserve Bank. At December 31, 2021, the Bank has pledged consumer loans in the amount of $13,800,243 to secure this loan. There were no borrowings under this credit facility at December 31, 2021 and 2020. This line of credit can be used for overnight purchases and carries an interest rate of 3%.

Note 12 – Income Taxes

Significant components of the Bank's deferred tax assets and liabilities at December 31, 2021 and 2020 were as follows:

	2021	2020
Deferred tax assets:		
Allowance for loan losses	$ 554,212	$ 559,588
Director benefits payable	477,034	440,946
Other	33,413	0
	1,064,659	1,000,534
Deferred tax liabilities:		
Net unrealized gain on securities available-for-sale	(158,181)	(590,589)
Accumulated depreciation	(288,251)	(286,792)
Prepaid expenses	(134,948)	(106,527)
	(581,380)	(983,908)
Net deferred tax asset (liability)	$ 483,279	$ 16,626

Note 12 – Income Taxes (Concluded)

The deferred tax asset is included in consolidated balance sheet in the other assets line.

Significant components of the provision for income taxes for the years ended December 31, 2021 and 2020 are as follows:

	2021	2020
Current tax provision		
Federal	$ 630,036	$ 551,761
State	375,326	315,279
	1,005,362	867,040
Deferred expense (benefit)	17,344	99,182
Total tax expense	$ 1,022,706	$ 966,222

The provision for income taxes differs from that computed by applying statutory rates to income before income tax expense, as indicated in the following analysis:

	2021	2020
Federal statutory income tax at statutory rates	$ 638,244	$ 797,257
State income tax expense at statutory rates	379,429	360,664
Adjustments related to:		
Tax exempt interest	(163,691)	(125,085)
Nondeductible expense	49,358	40,603
Other tax exempt income	(59,508)	(42,590)
Other differences	178,874	(64,627)
Total income tax expense	$ 1,022,706	$ 966,222

Note 13 – Stockholders' Equity

Restrictions on dividends:

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. The bank had $6,408,141 available for dividends at December 31, 2021 without prior regulatory approval. The Bank paid approximately $776,000 and $718,000 in dividends in 2021 and 2020.

The Federal Reserve Board has established guidelines with respect to the maintenance of appropriate levels of capital by registered bank holding companies. Compliance with such standards, as presently in effect, or as they may be amended from time to time, could possibly limit the amount of dividends that the Bank may pay in the future. In 1985, the Federal Reserve Board issued a policy statement on the payment of cash dividends by bank holding companies. In the statement, the Federal Reserve Board expressed its view that a holding company experiencing earnings weaknesses should not pay cash dividends exceeding its net income, or which could only be funded in ways that weaken the holding company's financial health, such as by borrowing.

Note 13 – Stockholders' Equity (Concluded)

Capital:

The Bank is subject to various regulatory capital requirements administered by 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 Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities, and certain off-balance-sheet items as calculated under regulatory accounting practices. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings, and other factors. Prompt correctible action provisions are not applicable to bank holding companies.

Quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined in the regulations) to average assets (as defined). Management believes, as of December 31, 2021, that the Bank meets all capital adequacy requirements to which it is subject.

As of February 22, 2021, the most recent notification from the Office of the Comptroller of the Currency categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized the Bank must maintain total risk-based, Tier I risk-based, and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the institution's category.

The Bank's actual capital amounts and ratios at December 31, 2021 and 2020 are presented in the following table.

REGULATORY CAPITAL RATIOS

	Actual		For Capital Adequacy Purposes:		To Be Well Capitalized Under Prompt Corrective Action Provisions:	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021:						
Total Capital						
Tier I Capital						
(to Average Assets)	$30,778,000	9.48%	≥$14,606,640	≥4.5%	≥$19,475,520	≥6.0%
As of December 31, 2020:						
Total Capital						
Tier I Capital						
(to Average Assets)	$28,403,000	10.04%	≥$11,321,000	≥4.0%	≥$14,151,250	≥5.0%

Note 14 – Fair Value Financial Instruments

FASB ASC 825, *Financial Instruments*, permits entities to measure many financial instruments and certain other items at fair value. The objective is to improve financial reporting by providing entities with the opportunity to mitigate volatility in reported earnings caused by measuring related assets and liabilities differently without having to apply complex hedge accounting provisions. The election to use the fair value option is available when an entity first recognizes a financial asset or financial liability or upon entering into a Bank commitment. Subsequent changes must be recorded in earnings.

FASB ASC 820, *Fair Value Measurement*, clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Under this guidance, fair value measurements are not adjusted for transaction costs. This guidance establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value.

The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy under this guidance are described below.

> Level 1 - Valuations for assets and liabilities traded in active exchange markets. Valuations are obtained from readily available pricing sources for market transactions involving identical assets or liabilities.
>
> Level 2 - Valuations for assets and liabilities traded in less active dealer or broker markets. Valuations are obtained from third party pricing services for identical or comparable assets or liabilities which use observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in active 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 that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

A financial instrument's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The types of instruments valued based on quoted market prices in active markets include most U.S. government and agency securities, liquid mortgage products, active listed equities and most money market securities. Such instruments are generally classified within Level 1 or Level 2 of the fair value hierarchy. As required by this guidance, the Bank does not adjust the quoted price for such instruments.

The types of instruments valued based on quoted prices in markets that are not active, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency include most investment-grade and high-yield corporate bonds, less liquid mortgage products, less liquid equities, state, municipal and provincial obligations, and certain physical commodities. Such instruments are generally classified within Level 2 of the fair value hierarchy.

Note 14 – Fair Value Financial Instruments (Continued)

Level 3 is for positions that are not traded in active markets or are subject to transfer restrictions, valuations are adjusted to reflect illiquidity and/or non-transferability, and such adjustments are generally based on available market evidence. In the absence of such evidence, management's best estimate is used.

Cash and Due From Banks

The carrying amounts reported on the Consolidated Balance Sheets for cash and due from banks approximate those assets' fair values.

Federal Funds Sold

The carrying amounts reported on the Consolidated Balance Sheets for federal funds sold approximate those assets' fair values.

Available-for-sale-securities and Restricted Stock

Fair values for available-for-sale securities are based on quoted market prices, except for certain restricted stocks where fair value equals par value because of certain redemption restrictions.

Loans

For variable-rate loans that reprice frequently and with no significant change in credit risk, fair values are based on carrying amounts. The fair values for other loans (for example, fixed rate commercial real estate and commercial and industrial loans) are estimated using discounted cash flow analysis, based on interest rates currently being offered for loans with similar credit quality. Loan fair value estimates include judgments regarding future expected loss experience and risk characteristics. Fair value for impaired loans are estimated using discounted cash flow analysis or underlying collateral values, where applicable. The carrying amount of accrued interest receivable approximates its fair value.

Deposits

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

Federal Home Loan Bank Advances

The fair value of Federal Home Loan Bank Advances are estimated using a discounted cash flow analysis.

Accrued Interest

The carrying amounts of accrued interest approximate fair values.

Note 14 – Fair Value Financial Instruments (Continued)

The following tables set forth the Bank's assets and liabilities that were accounted for at fair value on a recurring basis as of December 31, 2021 and 2020.

2021	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 4,216,221	$ 4,216,221	$ 4,216,221	$ 0	$ 0
Investment securities	101,096,083	101,096,083	0	101,096,083	0
Loans	198,501,668	201,197,520	0	0	201,197,520
Federal Home Loan Bank stock, restricted	435,411	435,411	0	435,411	0
Other stock, restricted	157,850	157,850	0	157,850	0
Financial Liabilities:					
Deposits	293,348,433	293,444,381	0	0	293,444,381
Federal Home Loan Bank Advances	2,723,139	2,722,959	0	2,722,959	0

2020	Carrying Amount	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Financial Assets:					
Cash and cash equivalents	$ 4,099,001	$ 4,099,001	$ 4,099,001	$ 0	$ 0
Investment securities	63,373,279	63,373,279	0	63,373,279	0
Loans	187,231,203	188,028,169	0	0	188,028,169
Federal Home Loan Bank stock, restricted	435,411	435,411	0	435,411	0
Other stock, restricted	157,850	157,850	0	157,850	0
Financial Liabilities:					
Deposits	250,294,231	205,298,482	0	0	205,298,482
Federal Home Loan Bank Advances	4,561,515	4,560,799	0	4,560,799	0

Note 14 – Fair Value Financial Instruments (Concluded)

Impaired Loans

Impaired loans are evaluated and valued at the time the loan is identified as impaired, using the present value of expected cash flows (if used, such amounts are not included in the following tables), the loan's observable market price or the fair value of the collateral (less cost to sell) if the loans are collateral dependent. Market value is measured based on the value of the collateral securing these loans and is classified at a Level 2 in the fair value hierarchy. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. The value of real estate collateral is determined based on appraisal by qualified licensed appraisers hired by the Bank. The value of business equipment, inventory and accounts receivable collateral is based on the net book value on the business' financial statements and, if necessary, discounted based on management's review and analysis. Discounts applied to appraisals have been in the range of 0% to 50%. Impaired loans are reviewed and evaluated on at least a quarterly basis for additional impairment and adjusted accordingly, based on the same factors identified above.

The following tables set forth the Bank's financial assets that were accounted for at fair value on a nonrecurring basis as of December 31, 2021 and 2020:

December 31, 2021	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 290,596	$ 0	$ 290,596	$ 0
Commercial and industrial	593,319	0	593,319	0
Consumer and installment	66,263	0	66,263	0
Total impaired loans	$ 950,178	$ 0	$ 950,178	$ 0

December 31, 2020	Fair Value	Quoted Prices in Active Markets for Identical Assets/Liabilities (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Impaired loans				
Other real estate	$ 781,396	$ 0	$ 781,396	$ 0
Commercial and industrial	709,614	0	709,614	0
Consumer and installment	66,947	0	66,947	0
Total impaired loans	$ 1,557,957	$ 0	$ 1,557,957	$ 0

Note 15 – Transactions with Related Parties

Loans:

In the normal course of banking business, loans are made to officers and directors of the Bank, as well as to their affiliates. Such loans are made in the ordinary course of business with substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. They do not involve more than normal risk of collectability or present other unfavorable features. An analysis of the activity during 2021 and 2020 is as follows:

	2021	2020
Balance, January 1,	$ 4,400,539	$ 3,965,524
New loans	3,542,520	2,074,548
Less loan repayments	(1,773,852)	(1,639,533)
Balance, December 31	$ 6,169,207	$ 4,400,539

Deposits:

The deposits from related parties totaled $10,502,452 and $7,138,048 at December 31, 2021 and 2020, respectively.

Note 16 – Commitments and Contingencies

In the normal course of business, there are outstanding commitments, contingent liabilties and other financial instruments that are not reflected in the accompanying consolidated financial statements. These commitments to extend credit and standby letters of credit, which are some of the instruments used by the Bank to meet the financing needs of its customers. These instruments involve, to varying degrees, elements of credit and interest rate risk in excess of the amounts recongized in the balance sheet.

Outstanding standby letters of credit which are not reflected in the balance sheets were $3,551,051 on December 31, 2021 and $1,808,339 on December 31, 2020. The Bank evaluates each customer's creditworthiness on a case-by-case basis. As of December 31, 2021 and 2020, standby letters of credit of $3,113,246 and $1,393,533, respectively, were unsecured. The Bank has not had any standby letters of credit drawn upon as of December 31, 2021 and 2020. The Bank does not anticipate any material losses as a result of these transactions.

DIRECTORS, OFFICERS & EMPLOYEES

Directors and Officers
Allendale Bancorp, Inc. and
The First National Bank of Allendale

Robert J. Coleman
Chairman of the Board

Michael A. Dunkel
Director

Shane E. Gray
Vice Chairman of the Board

Philip G. Hipsher
Director

Bryan K. Loeffler
Secretary/Treasurer

Donald W. Price
President

Michael E. White
Director

Officers of
The First National Bank of Allendale

Donald W. Price
President & CEO

David R. Guinnip
Senior Vice President &
Senior Loan Officer

Tamara J. McFarland
Senior Vice President
Chief Financial Officer & Cashier

Kristinn S. Schrader
Senior Vice President
Assistant Financial Officer &
Human Resources Manager

Dean H. Ackerman
Senior Vice President
White County Production Region

Katherine M. Clark
BSA Officer & Audit Manager

Mark S. Epperson
Vice President Commercial Lending

Officers of
The First National Bank of Allendale
(Concluded)

Rodney D. Loeffler
Vice President & Loan Officer

Gary A. Ritz
Vice President & Loan Officer

Christopher J. Myers
Vice President & Loan Officer

Sean J. Oglesby
IT Manager &
System Administrator

Elizabeth E. Fiero
Assistant Cashier &
Executive Assistant

Elizabeth A. Dunn
Assistant Vice President

Morganna P. Thread
Assistant Vice President
Credit Operations

Julia A. Tennes
Assistant Vice President &
Mortgage Loan Originator

Sarah E. Ile
Assistant Vice President &
Mortgage Loan Officer

Ian P. Hipsher
Assistant Vice President &
Loan Officer

Alexis N. McFarland
Assistant Vice President &
Loan Officer

Gloria R. Schnell
Assistant Cashier &
Branch Manager

Kimberly K. Reilly
Assistant Cashier

Laura J. Polston
Assistant Cashier

Heather N. McFarland
Assistant Cashier & Universal Banker

Employees of
The First National Bank of Allendale

Robin Anderson
Mark Bader
Rae Lynn Barbre
Amy Bell
Lauren Berberich
Shelby Bozarth
Dee Breen
Phil Coleman
Cami Golden
Mary Harness
Tara Hayes
Debbie Hipsher
Marcerie Hocking
Kirby Hunt
Missy Judge
Zane Kemper
Halley Kocher
Chelsea Lee
Cortney Madden
Kaylen Miller
Zach Parkhurst
Samantha Powell
Amy Quillen
Megan Raber
Brooke Sanders
Daisy Schrader
Hunter Shaw
Bethany Smith
Christina Smith
Charles Stoltz
Ronald Tinsley
Jillian Wall
Brandy Wayland
Michelle Wyatt

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