



**Great American
Bancorp, Inc.**

Annual Report

2020

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Independent Auditor's Report

To the Board of Directors
Great American Bancorp, Inc. and Subsidiary

We have audited the accompanying consolidated financial statements of Great American Bancorp, Inc. and Subsidiary (the "Company"), which comprise the consolidated balance sheet as of December 31, 2020 and the related consolidated statements of income, comprehensive income, stockholders' equity, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Great American Bancorp, Inc. and Subsidiary as of December 31, 2020 and the results of their operations and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Prior Year Consolidated Financial Statements

The consolidated financial statements of Great American Bancorp, Inc. and Subsidiary as of December 31, 2019 were audited by other auditors, whose report dated March 4, 2020 expressed an unqualified opinion on those statements.

A handwritten signature in black ink that reads "Plante & Moran, PLLC".

March 2, 2021

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Consolidated Balance Sheets
December 31, 2020 and 2019

(in thousands, except share data)

	<u>2020</u>	<u>2019</u>
<i>Assets</i>		
Cash and due from banks	\$ 5,567	\$ 4,300
Interest-bearing demand deposits	97,570	65,596
Cash and cash equivalents	<u>103,137</u>	<u>69,896</u>
Securities available for sale	70	87
Securities held to maturity (fair value \$9 at 2020 and \$10 at 2019)	9	10
Federal Home Loan Bank stock, at cost	258	258
Loans held for sale	2,394	647
Loans, net of allowance for loan losses of \$990 at 2020 and \$944 at 2019	89,647	94,675
Premises and equipment, net	4,131	3,852
Goodwill	485	485
Other real estate owned	752	295
Other assets	2,776	2,473
Total assets	<u>\$ 203,659</u>	<u>\$ 172,678</u>
<i>Liabilities and Stockholders' Equity</i>		
<i>Liabilities</i>		
<i>Deposits</i>		
Noninterest-bearing	\$ 41,845	\$ 34,241
Interest-bearing	135,011	116,035
Total deposits	<u>176,856</u>	<u>150,276</u>
Federal Home Loan Bank advances	4,000	-
Advances from borrowers for taxes and insurance	185	253
Other liabilities	3,995	3,744
Total liabilities	<u>185,036</u>	<u>154,273</u>
<i>Stockholders' Equity</i>		
Preferred stock, \$0.01 par value; 1,000,000 shares authorized; none issued	-	-
Common stock, \$0.01 par value; 1,000,000 shares authorized and issued	10	10
Additional paid-in capital	3,310	3,310
Retained earnings	34,550	33,605
Accumulated other comprehensive (loss) income	(701)	(339)
Treasury stock, at cost (2020 -585,135 shares; 2019 - 572,963 shares)	(18,546)	(18,181)
Total stockholders' equity	<u>18,623</u>	<u>18,405</u>
Total liabilities and stockholders' equity	<u>\$ 203,659</u>	<u>\$ 172,678</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Income
Years Ended December 31, 2020 and 2019

(in thousands, except share data)

	<u>2020</u>	<u>2019</u>
Interest and Dividend Income		
Loans	\$ 4,638	\$ 4,830
Securities	3	5
Dividends on Federal Home Loan Bank stock	7	6
Deposits with financial institutions and other	283	1,316
Total interest and dividend income	<u>4,931</u>	<u>6,157</u>
Interest Expense		
Deposits	69	110
Other	4	5
Total interest expense	<u>73</u>	<u>115</u>
Net Interest Income	4,858	6,042
Provision for Loan Losses	50	-
Net Interest Income After Provision for Loan Losses	<u>4,808</u>	<u>6,042</u>
Noninterest Income		
Insurance sales commissions	1,604	1,666
Customer service fees	419	587
Other service charges and fees	356	363
Net gain on sales of loans	1,691	352
Loan servicing fees, net of amortization of mortgage servicing rights	(56)	122
Net gain (loss) on sales of other real estate owned	(8)	90
Other	168	195
Total noninterest income	<u>4,174</u>	<u>3,375</u>
Noninterest Expense		
Salaries and employee benefits	4,306	4,428
Occupancy expense	618	627
Equipment expense	812	803
Professional fees	299	245
Marketing expense	151	224
Printing and office supplies	110	115
Directors and committee fees	176	177
Other real estate owned expense, net	83	53
FDIC deposit insurance expense	52	1
Other	611	645
Total noninterest expense	<u>7,218</u>	<u>7,318</u>
Income Before Income Taxes	1,764	2,099
Income tax expense	533	631
Net Income	<u>\$ 1,231</u>	<u>\$ 1,468</u>
Earnings per share, basic and diluted	<u>\$ 2.93</u>	<u>\$ 3.43</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2020 and 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
Net income	\$ 1,231	\$ 1,468
Other comprehensive income (loss), before tax:		
Unrealized holding gain (loss) on securities available for sale arising during the period	-	-
Net change in postretirement obligation arising during the period	<u>(506)</u>	<u>(448)</u>
Other comprehensive income (loss), before tax	<u>(506)</u>	<u>(448)</u>
Income tax benefit (expense) related to items of other comprehensive loss:		
Unrealized holding gain (loss) on securities available for sale arising during the period	-	-
Net change in postretirement obligation arising during the period	<u>144</u>	<u>128</u>
Total income tax benefit (expense) related to items of other comprehensive income (loss)	<u>144</u>	<u>128</u>
Other comprehensive income (loss)	<u>(362)</u>	<u>(320)</u>
Comprehensive income	<u>\$ 869</u>	<u>\$ 1,148</u>

The accompanying notes are an integral part of these consolidated financial statements.

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY

Consolidated Statements of Stockholders' Equity

Years Ended December 31, 2020 and 2019

(in thousands, except share data)

	<i>Shares of Common Stock</i>	<i>Common Stock</i>	<i>Additional Paid-in Capital</i>	<i>Retained Earnings</i>	<i>Accumulated Other Comprehensive Income (Loss)</i>	<i>Treasury Stock</i>	<i>Total</i>
Balance, December 31, 2018	431,871	\$ 10	\$ 3,310	\$ 32,428	\$ (19)	\$ (18,022)	\$ 17,707
Net income	-	-	-	1,468	-	-	1,468
Other comprehensive loss	-	-	-	-	(320)	-	(320)
Cash dividends declared (\$0.68 per share)	-	-	-	(291)	-	-	(291)
Purchase of treasury stock	(4,834)	-	-	-	-	(159)	(159)
Balance, December 31, 2019	427,037	\$ 10	\$ 3,310	\$ 33,605	\$ (339)	\$ (18,181)	\$ 18,405
Net income	-	-	-	1,231	-	-	1,231
Other comprehensive loss	-	-	-	-	(362)	-	(362)
Cash dividends declared (\$0.68 per share)	-	-	-	(286)	-	-	(286)
Purchase of treasury stock	(12,172)	-	-	-	-	(365)	(365)
Balance, December 31, 2020	414,865	\$ 10	\$ 3,310	\$ 34,550	\$ (701)	\$ (18,546)	\$ 18,623

The accompanying notes are an integral part of these consolidated financial statements.

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows
Years Ended December 31, 2020 and 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from operating activities:		
Net income	\$ 1,231	\$ 1,468
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation	279	327
Amortization of deferred loan costs, net	114	(18)
Amortization of mortgage servicing rights	307	107
Deferred income taxes	46	9
Realized gain on sales of loans	(1,691)	(352)
Loans originated for sale	(53,582)	(17,903)
Proceeds from loan sales	53,132	17,465
Fair value adjustment of foreclosed assets at acquisition date	(27)	-
Decrease in fair value of foreclosed assets subsequent to acquisition date	-	15
Net (gain) loss on sales of real estate owned properties	8	(90)
Changes in:		
Other assets	(128)	(206)
Other liabilities	(269)	39
Net cash (used in) provided by operating activities	<u>(580)</u>	<u>861</u>
Cash flows from investing activities:		
Principal payments received on mortgage-backed securities available for sale	17	20
Principal payments received on mortgage-backed securities held to maturity	1	2
Federal Home Loan Bank stock redeemed	-	15
Loan originations and principal collections, net	4,024	4,867
Proceeds from sales of other real estate owned properties	478	314
Purchase of premises and equipment	(558)	(89)
Net cash provided by investing activities	<u>3,962</u>	<u>5,129</u>

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Consolidated Statements of Cash Flows (continued)
Years Ended December 31, 2020 and 2019

(in thousands)

	<u>2020</u>	<u>2019</u>
Cash flows from financing activities:		
Net increase in demand, money market, and savings accounts	27,422	6,312
Net decrease in certificates of deposit	(842)	(2,286)
Proceeds from Federal Home Loan Bank advances	4,000	-
Purchase of treasury stock	(365)	(159)
Dividends paid	(288)	(279)
Net increase (decrease) in advances from borrowers for taxes and insurance	(68)	13
Net cash provided by financing activities	<u>29,859</u>	<u>3,601</u>
Increase in Cash and Cash Equivalents	33,241	9,591
Cash and Cash equivalents, Beginning of Year	<u>69,896</u>	<u>60,305</u>
Cash and Cash equivalents, End of Year	<u>\$ 103,137</u>	<u>\$ 69,896</u>
Supplemental noncash and cash flows information		
Other real estate acquired in settlement of loans	\$ 1,062	\$ -
Loans originated to finance sale of real estate acquired in settlement of loan	\$ 172	\$ 48
Cash payments for:		
Interest paid on deposits and borrowed funds	\$ 73	\$ 115
Income taxes paid	\$ 472	\$ 609
Supplemental schedule of non-cash financing activities		
Dividends Payable	\$ 70	\$ 72

The accompanying notes are an integral part of these consolidated financial statements.

GREAT AMERICAN BANCORP, INC. AND SUBSIDIARY
Notes to Consolidated Financial Statements
December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

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

Principles of Consolidation

The consolidated financial statements include the accounts of Great American Bancorp, Inc. (the “Company”) and First Federal Savings Bank of Champaign-Urbana, (the “Bank”), and the Bank’s wholly-owned subsidiary, Park Avenue Service Corporation (“PASC”). All significant intercompany balances and transactions have been eliminated in consolidation.

Nature of Operations

The Company is a thrift holding company whose principal activity is the ownership and management of its wholly-owned subsidiary, the Bank. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in Champaign County, Illinois. The Bank also provides full service brokerage activities through a third-party broker-dealer and engages in the sale of tax deferred annuities. The revenue generated from brokerage services is dependent upon maintaining relationships with the current brokerage providers. The Company and Bank are subject to competition from other financial institutions. The Company and Bank are subject to the regulation of certain federal agencies and undergo periodic examinations by those regulatory authorities.

The Bank’s subsidiary, PASC, offers insurance services to customers located primarily in Illinois. GTPS Insurance Agency, (the “Agency”) a division of PASC, sells a variety of insurance products to both individuals and businesses, including life, health, auto, property and casualty insurance. The revenue generated by PASC is dependent upon maintaining relationships with the current insurance providers.

Use of Estimates

In preparing consolidated financial statements in conformity with generally accepted accounting principles, management is required 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 balance sheet and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term include the determination of the allowance for loan losses, other real estate owned, postretirement benefits, and fair values of financial instruments.

Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, cash and cash equivalents include amounts due from correspondent banks, cash on hand, balances of interest bearing demand deposits, federal funds sold, and Federal Home Loan Bank term deposits that mature within three months or less from purchase.

Securities

Securities that management has the positive intent and ability to hold to maturity are classified as “held to maturity” and recorded at amortized cost. Securities not classified as held to maturity are classified as “available for sale” and recorded at fair value, with unrealized gains and losses excluded from earnings and reported in other comprehensive income (loss).

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. The amortization period for certain callable securities held at a premium are amortized to the earliest call date, while discounts on securities are amortized to maturity. Declines in the fair value of held to maturity and available for sale securities below their cost that are deemed to be other than temporary are reflected in earnings as realized losses. In estimating other than temporary impairment losses, management considers (1) the length of time and the extent to which the fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) whether management has the intent to sell the security and if it’s *not* “more likely than not” that management will have to sell the security before recovery of its amortized cost basis. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Federal Home Loan Bank Stock

Federal Home Loan Bank stock is a required investment for institutions that are members of the Federal Home Loan Bank of Chicago. The required investment in the common stock is based on a predetermined formula. This investment is accounted for at cost and is periodically assessed for impairment.

Loans Held for Sale

Mortgage loans originated and intended for sale in the secondary market are carried at the lower of aggregate cost or fair value, as determined by aggregate outstanding commitments from investors or current investor yield requirements. Net unrealized losses, if any, are recognized through a valuation allowance by charges to income.

Mortgage loans held for sale are generally sold with the mortgage servicing rights retained by the Company. The carrying value of mortgage loans sold is reduced by the cost allocated to the associated mortgage servicing rights. Gains or losses on sales of mortgage loans are recognized based on the difference between the selling price and the carrying value of the related mortgage loans sold.

Loans

The Company grants mortgage, commercial and consumer loans to customers. A substantial portion of the loan portfolio is represented by mortgage loans in Champaign County, Illinois. The ability of the Company's debtors to honor their contracts is dependent upon the real estate and general economic conditions in this area.

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff generally are reported at their outstanding unpaid principal balances adjusted for charge-offs, the allowance for loan losses, and any net deferred fees or costs on originated loans. Interest income is accrued on the unpaid principal balance. Loan origination fees, net of certain direct origination costs, are deferred and recognized in interest income using the level-yield method over the contractual life of the loan.

The accrual of interest on mortgage and commercial loans is discontinued, and the loan is placed on non-accrual status at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Consumer loans are typically charged off no later than 180 days past due. Past due status is based on contractual terms of the loan. In all cases, loans are placed on non-accrual or charged-off at an earlier date if collection of principal or interest is considered doubtful.

Loans for which the terms have been modified as a result of the borrower's financial difficulties are considered troubled debt restructurings ("TDRs") and are classified as impaired loans. TDRs are measured for impairment based upon the present value of estimated future cash flows using the loan's existing rate at inception of the loan or the appraised value if the loan is collateral dependent.

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

Allowance for Loan Losses

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

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

When establishing the allowance for loan losses, management categorizes loans into risk categories generally based on the nature of the collateral and the basis of repayment. These risk categories and the relevant risk characteristics are as follows:

First mortgage loans

- 1-4 family residential real estate loans include loans to borrowers where the underlying collateral is the borrower's primary residence ("owner-occupied loans") and loans to borrowers where the property securing the loan is normally leased to an unrelated third party ("non-owner-occupied loans"). Owner-occupied 1-4 family residential mortgage loans generally carry less risk than other loan types as they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Repayment depends on the individual borrower's capacity. Non-owner-occupied loans have a greater credit risk than owner-occupied loans because a borrower might have multiple non-owner-occupied loans outstanding. The repayment of non-owner-occupied loans is also dependent on the borrower's ability to lease the properties, collect sufficient rents, and provide adequate maintenance of the properties. A deterioration in the market value of residential real estate could result in a greater risk of loss if actions such as foreclosure become necessary to collect the loan.
- Secured by other properties are generally loans secured by multi-family residential real estate, commercial properties or land. Multi-family real estate loans generally involve a greater degree of credit risk than 1-4 family residential mortgage loans due to the dependence on the successful operation of the project. Commercial real estate loans also generally have greater credit risks compared to 1-4 family residential real estate loans, as they usually involve larger loan balances secured by non-homogeneous or specific use properties. Repayment of both multi-family and commercial real estate loans typically rely on the successful operation of a business or the generation of lease income by the property and is therefore more sensitive to adverse conditions in the economy and real estate market. Loans secured by land are at greater risk than residential 1-4 family home loans due to the lack of cash flow and the reliance on the borrower's capacity for repayment.
- Construction loans, including 1-4 family, multi-family and commercial construction loans, generally have a greater credit risk than traditional 1-4 family residential real estate loans. The repayment of these loans can be dependent on the sale of the property to third parties or the successful completion of the improvements by the builder for the end user. In the event a loan is made on property that is not yet approved for the planned development, there is the risk that approvals will not be granted or will be delayed. Construction loans also run the risk that improvements will not be completed on time or in accordance with specifications and projected costs.

Other loans

- Commercial loans are secured by business assets or may be unsecured and repayment is directly dependent on the successful operation of the borrower's business and the borrower's ability to convert the assets to operating revenue and possess greater risk than most other types of loans should the repayment capacity of the borrower not be adequate.
- Consumer loans include home equity loans, auto and mobile home loans, and other secured and unsecured loans and lines of credit. Home equity loans are similar to 1-4 family owner-occupied residential loans and carry less risk than other loan types as they tend to be smaller balance loans without concentrations to a single borrower or group of borrowers. Auto loans and mobile home loans tend to be secured by depreciating collateral. Consumer loan collections are dependent on the borrower's continuing financial stability, and are more likely to be adversely affected by job loss, divorce, illness or personal bankruptcy.

The allowance consists of specific and general components. The specific component relates to loans where, based on payment status, collateral value and other current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. These loans are classified as impaired loans and the Company establishes a specific allowance when the discounted cash flows (or collateral value or observable market price) of the impaired loan is lower than the carrying value of that loan. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower's prior payment record, and the amount of the shortfall in relation to the principal and interest owed.

Impairment is measured on a loan by loan basis for 1-4 family non-owner-occupied residential real estate loans, mortgage loans secured by other properties, construction loans and commercial loans by either the present value of expected future cash flows discounted at the loan's effective interest rate, the loan's obtainable market price, or the fair value of the collateral if the loan is collateral dependent. Large groups of smaller balance homogenous loans are collectively evaluated for impairment. Accordingly, the Company does not separately identify individual consumer and 1-4 family owner-occupied residential mortgage loans for impairment, unless such loans are the subject of a restructuring agreement.

The general component of the allowance covers unimpaired loans and is based on historical loss experience adjusted for qualitative factors. The loan portfolio is stratified into homogeneous groups of loans based on the risk categories as previously described and an appropriate loss ratio adjusted for other qualitative factors is applied to each group of loans to estimate the incurred losses in the portfolio.

The other qualitative factors considered by management include, but are not limited to, the following:

- Changes in loan policy or procedures
- Economic trends, both local and national
- Volume trends
- Management and staff of the Bank
- Non-performing and problem loan asset levels and trends
- Concentrations of credit
- External factors such as local competition and banking regulations
- Potential unidentified factors

Loans are charged off against the allowance for loan loss account when the following conditions are met:

- 1-4 family residential owner-occupied real estate loans are charged down by the expected loss amount at the time they become non-performing, which is generally 90 days past due.
- Loans secured by 1-4 family non-owner-occupied real estate loans, mortgage loans secured by other properties, and construction loans typically have reserves established once a loan is classified as substandard unless the collateral is adequate to cover the balance of the loan plus selling costs. Generally, the specific reserve on a loan will be charged off once the property has been foreclosed and title to the property has been transferred to the Bank.
- Commercial loans secured by business assets, including inventory and receivables will typically have specific reserves established once a loan is classified as substandard. The specific reserve will be charged off once the outcomes of attempts to legally collect the collateral are known and have been exhausted.
- Consumer loans are charged-off, net of expected recovery, when the loan becomes significantly past due over a range of up to 180 days, depending on the type of loan. Loans with non-real estate collateral are written down to the value of the collateral, less costs to sell, when repossession of the collateral has occurred.

Servicing

Servicing assets are recognized as separate assets when rights are acquired through the sale of financial assets. For sales of mortgage loans, a portion of the cost of originating the loan is allocated to the servicing right based on relative fair value. Fair value is based on market prices for comparable mortgage servicing contracts, when available, or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. The valuation model incorporates assumptions that market participants would use in estimating future net servicing income, such as the cost to service, the discount rate, the custodial earnings rate, an inflation rate, ancillary income, prepayment speeds and default rates and losses. Capitalized servicing rights are reported in other assets and are amortized into noninterest income in proportion to, and over the period of, the estimated future net servicing income of the underlying financial assets.

Servicing assets are evaluated for impairment based upon the fair value of the rights as compared to amortized cost. Impairment is determined by stratifying rights into tranches based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual tranche, to the extent that fair value is less than the capitalized amount for the tranche. If the Company later determines that all or a portion of the impairment no longer exists for a particular tranche, a reduction of the allowance may be recorded as an increase to income.

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

Off-Balance Sheet Credit Related Financial Instruments

In the ordinary course of business, the Company has entered into commitments to extend credit, including commitments under credit card arrangements, commercial letters of credit, and standby letters of credit. Such financial instruments are recorded when they are funded.

Premises and Equipment

Land is carried at cost. Buildings and equipment are stated at cost less accumulated depreciation computed on the straight-line method over the estimated useful lives of the assets. Leasehold improvements are capitalized and depreciated using the straight-line method over the terms of the respective leases or the estimated useful lives of the improvements, whichever is shorter. Estimated lives are thirty-nine years for building and improvements, fifteen years to twenty-five years for leasehold improvements, and three years to seven years for furniture and equipment.

Impairment of Long-Lived Assets

The Company tests long-lived assets for impairment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an 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 fair value of the assets. Assets to be disposed of are reported at the lower of carrying amount or fair value less estimated costs to sell.

Goodwill

The excess of cost over the fair value of assets acquired for transactions accounted for as a purchase is recorded as an asset by the Company. On a periodic basis, the Company reviews the goodwill for events or circumstances that may indicate a change in recoverability of the underlying basis. Management performs the annual impairment test on June 30th. The results of management's goodwill impairment test on June 30, 2020 and 2019 indicated no impairment.

Other Real Estate Owned

Real estate properties and other loan collateral acquired through, or in lieu of, loan foreclosure are initially recorded at fair value, less costs to sell at the date of foreclosure, establishing a new cost basis. After acquisition, valuations are periodically performed by management and the real estate and other loan collateral is carried at the lower of carrying amount or fair value less cost to sell. Costs relating to the improvement of the property are capitalized. Subsequent write-downs estimated on the later valuations, gains or losses on sales, and revenue and expenses from operations are included in other real estate expenses on the income statement. The amount of residential real estate included in other real estate owned totaled \$752,000 at December 31, 2020 and \$295,000 at December 31, 2019. Loans secured by residential properties that were in the process of foreclosure totaled 2,035,000 and \$3,200,000 at December 31, 2020 and 2019, respectfully.

Income Taxes

Deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

These calculations are based on many complex factors including estimates of the timing of reversals of temporary differences, the interpretation of federal and state income tax laws, and a determination of the differences between the tax and the financial reporting basis of assets and liabilities. Actual results could differ significantly from the estimates and interpretations used in determining the current and deferred income tax assets and liabilities.

Under generally accepted accounting principles, a valuation allowance is required to be recognized if it is “more likely than not” that the deferred tax asset will not be realized. The determination of the realizability of the deferred tax assets is highly subjective and dependent upon judgment concerning management’s evaluation of both positive and negative evidence, the forecasts of future income, applicable tax planning strategies, and assessments of the current and future economic and business conditions.

The Company follows the provisions of Accounting for Uncertainty in Income Taxes. These rules establish a standard for tax benefits to meet before they can be recognized in a company’s financial statements. The Company can recognize in financial statements the impact of a tax position taken, or expected to be taken, if it is more likely than not that the position will be sustained on audit based on the technical merit of the position. See Note 9, Income Taxes, for additional disclosures. The Company recognizes both interest and penalties as components of other operating expenses.

The amount of the uncertain tax position was not determined to be material. It is not expected that the unrecognized tax benefit will be material within the next 12 months. The Company did not recognize any interest or penalties in 2020 or 2019.

The Company files consolidated federal and state income tax returns and it is not subject to federal or state income tax examinations for taxable years prior to December 31, 2017.

Insurance Sales Commissions

Insurance sales commissions are recognized at the time payment is received from customers billed directly by the Agency, net of an allowance for estimated policy cancellations. Contingent commissions and commissions on premiums billed directly by insurance companies are recorded at the time these commissions are received by the Agency. A contingent commission is a commission paid by an insurance company that is based on the overall profit and/or volume of business placed with that insurance company. Commissions on premiums billed by insurance companies primarily relate to a large number of small premium transactions, whereby the billing and policy insurance process is controlled entirely by the insurance company. The income effects of subsequent premium adjustments are recorded when the adjustments become known.

Customer service fees

Customer service fees represent fees from deposit customers for transaction based, account maintenance, and overdraft services. Transaction based fees, which included services such as statement rendering, are recognized at the time the transaction is executed. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Company satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs as this corresponds with the Company’s performance obligation. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Other service charges and fees

Other service charges and fees represent ATM use fees, wire transfer fees, debit card income, and safe deposit rental income. Revenue is recognized at the point in time when the transaction occurs. Payment for such performance obligations are generally received at the time the performance obligations are satisfied.

Treasury Stock

Treasury stock is stated at cost. Cost of treasury shares sold is determined by the first-in, first-out method.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during the period. The Company had no dilutive shares.

Earnings per common share have been computed based on the following:

	December 31,	
	<u>2020</u>	<u>2019</u>
Net income applicable to common stock	<u>\$ 1,231</u>	<u>\$ 1,468</u>
Average number of common shares outstanding	<u>419,838</u>	<u>428,468</u>

Transfers of Financial Assets and Participating Interests

Transfers of an entire financial asset or a participating interest in an entire financial asset are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Company, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets, and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

The transfer of a participating interest in an entire financial asset must also meet the definition of a participating interest. A participating interest in a financial asset has all of the following characteristics: (1) from the date of transfer, it must represent a proportionate (pro rata) ownership interest in the financial asset, (2) from the date of transfer, all cash flows received, except any cash flows allocated as any compensation for servicing or other services performed, must be divided proportionately among participating interest holders in the amount equal to their share ownership, (3) the rights of each participating interest holder must have the same priority, (4) no party has the

right to pledge or exchange the entire financial asset unless all participating interest holders agree to do so.

Advertising Costs

Advertising costs are expensed as incurred.

Comprehensive Income

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

Subsequent Events

The Company has evaluated subsequent events through March 2, 2021, the date on which the consolidated financial statements were available to be issued.

Adoption of New Accounting Standards

In August 2018, the Financial Accounting Standards Board (“FASB”) approved ASU 2018-13, Fair Value Measurement: Disclosure Framework – Changes to Requirements for Fair Value Measurements. This guidance removes, modifies, and adds certain disclosure requirements on fair value measurements. The adoption of this guidance had no impact on the Company’s Consolidated Financial Statements and the Company made all applicable updates to the disclosures within the Notes to the Consolidated Financial Statements.

Pending New Accounting Standards

In June 2016, the FASB approved ASU 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of the ASU is to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments to extend credit held by a reporting entity at each reporting date. To achieve this objective, the amendments in the ASU replace the incurred loss impairment methodology in current GAAP with a methodology that reflects expected credit losses and requires consideration of a broader range of reasonable and supportable information to inform credit loss estimates. In November 2019, the FASB approved ASU 2019-10 which delayed the effective date for ASU 2016-13 for smaller public business entities. The ASU is effective for the Company for the fiscal year beginning after December 15, 2022, and including interim periods within this fiscal year. Early adoption is permitted for the fiscal year beginning after December 15, 2018, including interim periods within this fiscal year. The Company is currently evaluating the impact of ASU 2016-13 on the consolidated financial statements.

Note 2: Restriction on Cash and Amounts Due from Banks

The Bank is required to maintain average balances on hand or with the Federal Reserve Bank. However, effective March 26, 2020, the Federal Reserve Bank reduced the reserve requirement ratios to zero percent. At December 31, 2019, the reserve balance amounted to \$1,697,000.

Note 3: Securities

The amortized cost and fair value of securities, with gross unrealized gains and losses, follows:

	December 31, 2020			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	<u>\$ 70</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 70</u>
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	<u>\$ 9</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9</u>
	December 31, 2019			
	Amortized	Gross	Gross	Fair
	Cost	Unrealized	Unrealized	Value
		Gains	Losses	
Securities available for sale:				
Debt securities:				
Residential mortgage-backed - agency	<u>\$ 87</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 87</u>
Securities held to maturity:				
Debt securities:				
Residential mortgage-backed - agency	<u>\$ 10</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 10</u>

The Company did not hold any securities of a single issuer, payable from and secured by the same source of revenue or taxing authority, the book value of which exceeded 10% of stockholders' equity at December 31, 2020.

Expected maturities may differ from contractual maturities in mortgage-backed securities because the mortgages underlying the securities may be prepaid without any penalties, therefore, a presentation of these securities into maturity categories is not presented.

At December 31, 2020 and 2019, there were no securities with a gross unrealized loss. During 2020 and 2019, no securities were purchased or sold.

Note 4: Loans

The following table presents a comparative composition of net loans as of December 31, 2020 and 2019:

	December 31, 2020	% of Total Loans	December 31, 2019	% of Total Loans
First mortgage loans				
Residential 1-4 family				
Owner-occupied	\$ 14,789	16.3%	\$ 17,989	18.8%
Non-owner-occupied	19,056	21.0%	21,481	22.5%
Secured by other properties	31,988	35.3%	35,242	36.9%
Construction loans	1,003	1.1%	1,155	1.2%
Total first mortgage loans	<u>66,836</u>	<u>73.7%</u>	<u>75,867</u>	<u>79.4%</u>
Commercial	16,828	18.6%	10,589	11.1%
Consumer	6,982	7.7%	9,058	9.5%
Total loans	<u>90,646</u>	<u>100.0%</u>	<u>95,514</u>	<u>100.0%</u>
Less:				
Allowance for loan losses	(990)		(944)	
Net deferred loan costs	(9)		105	
Net loans	<u>\$ 89,647</u>		<u>\$ 94,675</u>	

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

		December 31, 2020				
		30-59	60-89	> 90	Total	
		Days	Days	Days	Past Due	Total
		Current	Past Due	Past Due	Past Due	Past Due
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 14,691	\$ -	\$ 98	\$ -	\$ 98	\$ 14,789
Non-owner-occupied	17,021	-	-	2,035	2,035	19,056
Secured by other properties	31,614	-	-	374	374	31,988
Construction loans	1,003	-	-	-	-	1,003
Total first mortgage loans	64,329	-	98	2,409	2,507	66,836
Commercial	16,805	-	-	23	23	16,828
Consumer	6,962	-	-	20	20	6,982
Total loans	\$ 88,096	\$ -	\$ 98	\$ 2,452	\$ 2,550	\$ 90,646

		December 31, 2019				
		30-59	60-89	> 90	Total	
		Days	Days	Days	Past Due	Total
		Current	Past Due	Past Due	Past Due	Past Due
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 17,787	\$ 45	\$ -	\$ 157	\$ 202	\$ 17,989
Non-owner-occupied	18,090	235	172	2,984	3,391	21,481
Secured by other properties	34,638	230	-	374	604	35,242
Construction loans	1,155	-	-	-	-	1,155
Total first mortgage loans	71,670	510	172	3,515	4,197	75,867
Commercial	10,481	84	-	24	108	10,589
Consumer	8,920	82	36	20	138	9,058
Total loans	\$ 91,071	\$ 676	\$ 208	\$ 3,559	\$ 4,443	\$ 95,514

The Company considers non-performing loans to be the total of loans on non-accrual and loans past due 90 days or more and still accruing. The following tables present performing and non-performing loans by class of loans as of December 31, 2020 and 2019:

	December 31, 2020		
	Performing	Non-Performing	Total
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 14,789	\$ -	\$ 14,789
Non-owner-occupied	17,021	2,035	19,056
Secured by other properties	31,614	374	31,988
Construction loans	1,003	-	1,003
Total first mortgage loans	64,427	2,409	66,836
Commercial	16,805	23	16,828
Consumer	6,930	52	6,982
Total loans	<u>\$ 88,162</u>	<u>\$ 2,484</u>	<u>\$ 90,646</u>

	December 31, 2019		
	Performing	Non-Performing	Total
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 17,832	\$ 157	\$ 17,989
Non-owner-occupied	18,497	2,984	21,481
Secured by other properties	34,868	374	35,242
Construction loans	1,155	-	1,155
Total first mortgage loans	72,352	3,515	75,867
Commercial	10,565	24	10,589
Consumer	9,003	55	9,058
Total loans	<u>\$ 91,920</u>	<u>\$ 3,594</u>	<u>\$ 95,514</u>

The following tables present the recorded investment in non-accrual loans by class of loans as of December 31, 2020 and 2019:

	<u>December 31, 2020</u>	
	<u>Non-accrual</u>	<u>Loans past due 90 days or more and still accruing</u>
First mortgage loans		
Residential 1-4 family		
Owner-occupied	\$ -	\$ -
Non-owner-occupied	2,035	-
Secured by other properties	374	-
Construction loans	-	-
Total first mortgage loans	<u>2,409</u>	<u>-</u>
Commercial	23	-
Consumer	52	-
Total loans	<u>\$ 2,484</u>	<u>\$ -</u>
	<u>December 31, 2019</u>	
	<u>Non-accrual</u>	<u>Loans past due 90 days or more and still accruing</u>
First mortgage loans		
Residential 1-4 family		
Owner-occupied	\$ -	\$ 157
Non-owner-occupied	2,984	-
Secured by other properties	374	-
Construction loans	-	-
Total first mortgage loans	<u>3,358</u>	<u>157</u>
Commercial	24	-
Consumer	55	-
Total loans	<u>\$ 3,437</u>	<u>\$ 157</u>

The Company utilizes an internal asset classification system in order to identify problem and potential problem loans. The loans selected for review under this rating system include 1-4 family non-owner-occupied residential loans, mortgage loans secured by other properties, construction loans and commercial loans where the loan balance was \$100,000 or greater when the loan was originated and 1-4 family owner-occupied residential loans and consumer loans where the loan balance was \$510,400 or greater for 2020 and \$484,350 or greater for 2019 determined when the loan was originated. Under the risk rating system, the Company classifies problem and potential problem loans as “special mention”, “substandard”, and “doubtful” which correspond to risk ratings five, six and seven, respectively. Substandard loans that have a risk rating of six include those characterized by the distinct possibility the Company may sustain some loss if the deficiencies are not corrected. Loans classified as doubtful, or risk rated seven, have all the weaknesses inherent in those classified substandard with the added characteristic the weaknesses present make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Loans that do not expose the Company to sufficient risk to warrant classification in one of the aforementioned categories, but possess weaknesses that deserve management’s close attention are deemed to be special mention, having a risk rating of five. Loans reviewed under the internal asset classification system which are not considered a problem or potential problem loan are classified as “pass” and are those loans with a risk rating of one, two, three or four. Risk ratings are updated any time the facts and circumstances warrant.

Loans with an original loan balance under the thresholds for selection for review under the internal asset classification system are also evaluated on a case-by-case basis and assigned to a classification (special mention, substandard or doubtful) when they become non-performing, which is generally 90 days past due.

The following tables include total loans, by class of loans, presented by the risk category of those loans evaluated by internal asset classification based on the most recent analysis performed and the contractual aging, and those not rated as of December 31, 2020 and 2019:

	December 31, 2020					Total
	Pass	Special Mention	Sub- Standard	Doubtful	Not Rated	
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 1,627	\$ -	\$ -	\$ -	\$ 13,162	\$ 14,789
Non-owner-occupied	15,092	-	1,883	152	1,929	19,056
Secured by other properties	30,973	229	342	32	412	31,988
Construction loans	1,003	-	-	-	-	1,003
Total first mortgage loans	48,695	229	2,225	184	15,503	66,836
Commercial	8,909	883	-	23	7,013	16,828
Consumer	334	-	109	20	6,519	6,982
Total loans	\$ 57,938	\$ 1,112	\$ 2,334	\$ 227	\$ 29,035	\$ 90,646

	December 31, 2019					Total
	Pass	Special Mention	Sub- Standard	Doubtful	Not Rated	
First mortgage loans						
Residential 1-4 family						
Owner-occupied	\$ 3,244	\$ -	\$ 157	\$ -	\$ 14,588	\$ 17,989
Non-owner-occupied	16,366	-	2,910	74	2,131	21,481
Secured by other properties	33,635	230	361	13	1,003	35,242
Construction loans	1,155	-	-	-	-	1,155
Total first mortgage loans	54,400	230	3,428	87	17,722	75,867
Commercial	9,892	13	23	1	660	10,589
Consumer	880	-	55	-	8,123	9,058
Total loans	\$ 65,172	\$ 243	\$ 3,506	\$ 88	\$ 26,505	\$ 95,514

Activity in the allowance for loan losses for the years ended December 31, 2020 and 2019 was as follows:

	December 31, 2020				Ending Balance
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	
First mortgage loans					
Residential 1-4 family					
Owner-occupied	\$ 163	\$ -	\$ -	\$ (20)	\$ 143
Non-owner-occupied	245	-	-	61	306
Secured by other properties	311	-	-	(1)	310
Construction loans	9	-	-	2	11
Total first mortgage loans	728	-	-	42	770
Commercial	129	-	2	4	135
Consumer	87	(14)	8	4	85
Total loans	<u>\$ 944</u>	<u>\$ (14)</u>	<u>\$ 10</u>	<u>\$ 50</u>	<u>\$ 990</u>

	December 31, 2019				Ending Balance
	Beginning Balance	Charge-offs	Recoveries	Provisions (Credit)	
First mortgage loans					
Residential 1-4 family					
Owner-occupied	\$ 184	\$ -	\$ -	\$ (21)	\$ 163
Non-owner-occupied	215	-	-	30	245
Secured by other properties	311	-	-	-	311
Construction loans	24	-	-	(15)	9
Total first mortgage loans	734	-	-	(6)	728
Commercial	123	-	7	(1)	129
Consumer	88	(15)	7	7	87
Total loans	<u>\$ 945</u>	<u>\$ (15)</u>	<u>\$ 14</u>	<u>\$ -</u>	<u>\$ 944</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2020:

	December 31, 2020		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
Allowance for loan losses:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ 143	\$ 143
Non-owner-occupied	152	154	306
Secured by other properties	32	278	310
Construction loans	-	11	11
Total first mortgage loans	<u>184</u>	<u>586</u>	<u>770</u>
Commercial	23	112	135
Consumer	20	65	85
Total allowance for loan losses	<u>\$ 227</u>	<u>\$ 763</u>	<u>\$ 990</u>
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ 14,789	\$ 14,789
Non-owner-occupied	2,035	17,021	19,056
Secured by other properties	374	31,614	31,988
Construction loans	-	1,003	1,003
Total first mortgage loans	<u>2,409</u>	<u>64,427</u>	<u>66,836</u>
Commercial	23	16,805	16,828
Consumer	153	6,829	6,982
Total loans	<u>\$ 2,585</u>	<u>\$ 88,061</u>	<u>\$ 90,646</u>

The following table presents ending balances for the allowance for loan losses and loans based on impairment method as of December 31, 2019:

	December 31, 2019		
	Individually Evaluated for Impairment	Collectively Evaluated for Impairment	Total Ending Balance
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ 163	\$ 163
Non-owner-occupied	74	171	245
Secured by other properties	13	298	311
Construction loans	-	9	9
Total first mortgage loans	87	641	728
Commercial	1	128	129
Consumer	-	87	87
Total allowance for loan losses	\$ 88	\$ 856	\$ 944
Loans:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 157	\$ 17,832	\$ 17,989
Non-owner-occupied	2,984	18,497	21,481
Secured by other properties	374	34,868	35,242
Construction loans	-	1,155	1,155
Total first mortgage loans	3,515	72,352	75,867
Commercial	24	10,565	10,589
Consumer	162	8,896	9,058
Total loans	\$ 3,701	\$ 91,813	\$ 95,514

The following table presents information about loans individually evaluated for impairment as of December 31, 2020:

	December 31, 2020		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ -	\$ -
Non-owner-occupied	-	-	-
Secured by other properties	-	-	-
Construction loans	-	-	-
Total first mortgage loans	-	-	-
Commercial	-	-	-
Consumer	133	133	-
Total loans	<u>\$ 133</u>	<u>\$ 133</u>	<u>\$ -</u>
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ -	\$ -
Non-owner-occupied	2,035	2,035	152
Secured by other properties	374	374	32
Construction loans	-	-	-
Total first mortgage loans	2,409	2,409	184
Commercial	23	23	23
Consumer	20	20	20
Total loans	<u>\$ 2,452</u>	<u>\$ 2,452</u>	<u>\$ 227</u>

The following table presents information about loans individually evaluated for impairment as of December 31, 2019:

	December 31, 2019		
	Recorded Investment	Unpaid Principal Balance	Related Allowance
With no related allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 157	\$ 157	\$ -
Non-owner-occupied	888	888	-
Secured by other properties	-	-	-
Construction loans	-	-	-
Total first mortgage loans	<u>1,045</u>	<u>1,045</u>	<u>-</u>
Commercial	1	1	-
Consumer	162	162	-
Total loans	<u>\$ 1,208</u>	<u>\$ 1,208</u>	<u>\$ -</u>
With an allowance recorded:			
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ -	\$ -	\$ -
Non-owner-occupied	2,096	2,096	74
Secured by other properties	374	374	13
Construction loans	-	-	-
Total first mortgage loans	<u>2,470</u>	<u>2,470</u>	<u>87</u>
Commercial	23	23	1
Consumer	-	-	-
Total loans	<u>\$ 2,493</u>	<u>\$ 2,493</u>	<u>\$ 88</u>

The following is a summary of additional information pertaining to loans individually evaluated for impairment during the years ended December 31, 2020 and 2019:

	December 31, 2020		
	Average Balance During the Period	Interest Income Recognized During the Period	Cash- basis Interest Income Recognized
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 27	\$ 1	\$ -
Non-owner-occupied	2,600	27	-
Secured by other properties	368	-	-
Construction loans	-	-	-
Total first mortgage loans	<u>2,995</u>	<u>28</u>	<u>-</u>
Commercial	23	-	-
Consumer	158	5	-
Total loans	<u>\$ 3,176</u>	<u>\$ 33</u>	<u>\$ -</u>
	December 31, 2019		
	Average Balance During the Period	Interest Income Recognized During the Period	Cash- basis Interest Income Recognized
First mortgage loans			
Residential 1-4 family			
Owner-occupied	\$ 158	\$ 8	\$ -
Non-owner-occupied	1,521	-	-
Secured by other properties	109	-	-
Construction loans	-	-	-
Total first mortgage loans	<u>1,788</u>	<u>8</u>	<u>-</u>
Commercial	7	-	-
Consumer	130	5	-
Total loans	<u>\$ 1,925</u>	<u>\$ 13</u>	<u>\$ -</u>

Impaired loans as of December 31, 2020 and 2019 included one consumer secured loan totaling \$58,000 and \$61,000, respectively, that was modified as a troubled debt restructuring (“TDR”) during 2010. The loan was renewed during 2010 at a below market interest rate. This loan was not in default of the modified terms as of December 31, 2020 or December 31, 2019. Impaired loans at December 31, 2020 and December 31, 2019 also included one consumer loan totaling \$43,000 and \$45,000, respectively, that was modified as a TDR in November 2013. The loan was renewed at a below market interest rate. This loan was not in default of the modified terms at December 31, 2020 or December 31, 2019.

Note 5: Servicing

Loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of mortgage loans serviced for others were approximately \$113,360,000 and \$94,212,000 at December 31, 2020 and 2019, respectively.

The aggregate carrying value of capitalized mortgage servicing rights at December 31, 2020 and 2019 totaled approximately \$885,000 and \$797,000, respectively.

Custodial escrow balances maintained in connection with the foregoing loan servicing, and included in demand deposits, were approximately \$175,000 and \$119,000 at December 31, 2020 and 2019, respectively.

Activity for mortgage servicing rights and the related valuation allowance follows:

	<u>2020</u>	<u>2019</u>
Loan servicing rights:		
Balance at beginning of year	\$ 797	\$ 761
Additions	395	143
Amortized to expense	(198)	(107)
Change in valuation allowance	(109)	-
Balance at end of year	<u>\$ 885</u>	<u>\$ 797</u>
Valuation allowance:		
Balance at beginning of year	\$ -	\$ -
Additions expensed	(109)	-
Balance at end of year	<u>\$ (109)</u>	<u>\$ -</u>

The fair value of mortgage servicing rights was approximately \$885,000 and \$797,000 at December 31, 2020 and 2019, respectively. Fair value at December 31, 2020 was determined using the Libor swap rates of 1-Month Libor: 0.155, 12-Month Libor: 0.330%, 2-Year Libor: 0.231%, 5-Year Libor: 0.419%, 10-Year Libor: 0.834%, discount rates ranging from 10.25% to 13.06%, and prepayment speeds ranging from 7.43% to 11.54%. Fair value at December 31, 2019 was determined using the Libor swap rates of 1-Month Libor: 1.697%, 12-Month Libor: 1.952%, 2-Year Libor: 1.06%, 5-Year Libor: .566%, 10-Year Libor: .683%, discount rates ranging from 10.25% to 13.07% and prepayment speeds ranging from 7.20% to 18.07%.

Note 6: Premises and Equipment

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

	December 31,	
	2020	2019
Land	\$ 1,545	\$ 1,545
Building and improvements	6,528	6,088
Furniture and equipment	4,481	4,660
	<u>12,554</u>	<u>12,293</u>
Accumulated depreciation	(8,423)	(8,441)
Net premises and equipment	<u>\$ 4,131</u>	<u>\$ 3,852</u>

Depreciation expense for the years ended December 31, 2020 and 2019 amounted to \$279,000 and \$327,000, respectively.

Note 7: Deposits

Time deposits in denominations of \$250,000 or more were \$888,000 on December 31, 2020 and \$635,000 on December 31, 2019.

At December 31, 2020, the scheduled maturities of time deposits are as follows:

2021	\$ 9,379
2022	1,653
2023	896
2024	536
2025	11
Thereafter	-
Total	<u>\$ 12,475</u>

Note 8: Federal Home Loan Bank Advances

Federal Home Loan Bank advances at December 31, 2020 were comprised of one \$4,000,000 advance at a fixed rate of 0.00% maturing in May 2021. The \$4,000,000 advance outstanding was part of the Federal Home Loan Bank's COVID-19 relief program which provided Federal Home Loan Bank of Chicago members a zero-rate advance for a one year term. There were no Federal Home Loan Bank advances outstanding at December 31, 2019. Mortgage loans totaling \$33,380,000 at December 31, 2020 were available to secure Federal Home Loan Bank advances. Advances are subject to restrictions or penalties in the event of prepayment.

Note 9: Income Taxes

The allocation of federal and state income taxes between current and deferred portions is as follows:

	Years Ended December 31,	
	2020	2019
Current tax provision:		
Federal	\$ 329	\$ 417
State	158	205
	<u>487</u>	<u>622</u>
Deferred tax expense (benefit):		
Federal	31	6
State	15	3
	<u>46</u>	<u>9</u>
Income tax expense	<u>\$ 533</u>	<u>\$ 631</u>

The reasons for the differences between the statutory federal income tax rate and the effective tax rates are summarized as follows:

	Years Ended December 31,	
	2020	2019
Computed at the statutory rate (21%)	\$ 370	\$ 441
Increase resulting from:		
State income taxes	137	164
Other	26	26
Income tax expense	<u>\$ 533</u>	<u>\$ 631</u>

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

	December 31,	
	<u>2020</u>	<u>2019</u>
Deferred tax assets		
Allowance for loan losses	\$ 282	\$ 269
Deferred compensation	273	281
Postretirement benefit obligations	714	597
Reductions in recorded balance of other real estate owned properties due to decline in estimated values	-	4
Reserve for loss on unfunded commitments	11	11
Reserve for losses on debit card transactions	2	5
Interest on nonaccrual loans	53	37
Deferred insurance agency commissions	1	2
Other	29	-
	<u>1,365</u>	<u>1,206</u>
Deferred tax liabilities		
Federal Home Loan Bank Stock	(16)	(16)
Depreciation	(222)	(162)
Mortgage servicing rights	(252)	(227)
Prepaid expenses	(63)	(51)
Deferred loan costs	2	(30)
Other	-	(4)
	<u>(551)</u>	<u>(490)</u>
Net deferred tax asset	<u>\$ 814</u>	<u>\$ 716</u>

Retained earnings include approximately \$4,300,000 for which no deferred income tax liability has been recognized. This amount represents an allocation of income to bad debt deductions as of December 31, 1987 for tax purposes only. Reduction of amounts so allocated for purposes other than tax bad debt losses or adjustments arising from carryback of net operating losses would create income for tax purposes only, which income would be subject to the then-current corporate income tax rate. The unrecorded deferred income tax liability on the above amount was approximately \$1,226,000.

Note 10: Off-Balance Sheet Activities

Credit-Related Financial Instruments

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

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

At December 31, 2020 and 2019, the following financial instruments were outstanding whose contract amounts represent credit risk:

	Contract Amount	
	2020	2019
Commitments to grant loans	\$ 5,521	\$ 2,700
Unfunded commitments under lines of credit	11,599	13,209
Standby letters of credit	10	10

Commitments to grant loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer. Mortgage loans in the process of origination are included in commitments to grant loans and represent amounts that the Bank plans to fund within a normal period of 60 to 90 days, and which are intended for sale to investors in the secondary market.

Unfunded commitments under lines of credit are commitments for possible future extensions of credit to existing customers. The commitments for lines of credit may expire without being drawn upon. Therefore, the total commitment amounts do not necessarily represent future cash requirements. The amount of collateral obtained, if it is deemed necessary by the Company, is based on management's credit evaluation of the customer.

Standby letters of credit are conditional lending commitments issued by the Company to guarantee performance of a customer to a third party. Those letters of credit are primarily issued to support public and private borrowing arrangements. Essentially all letters of credit issued have expiration dates within one year. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Company generally holds collateral supporting those commitments. The Company had no deferred revenue under standby letters of credit at December 31, 2020 or December 31, 2019.

Other Credit Risks

The Company has a concentration of funds on deposit with the Federal Reserve Bank totaling \$91,880,000 and \$59,979,000 at December 31, 2020 and 2019, respectively. The Company also has a concentration of funds on deposit with the Federal Home Loan Bank totaling \$5,686,000 and \$6,667,000 at December 31, 2020 and 2019, respectively.

Note 11: Legal Contingencies

Various legal claims also arise from time to time in the normal course of business which, in the opinion of management, will have no material effect on the Company's consolidated financial statements.

Note 12: Minimum Regulatory Capital Requirements

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the 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.

The federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework, for qualifying community banking organizations, consistent with Section 201 of the *Economic Growth, Regulatory Relief, and Consumer Protection Act*. The final rule became effective on January 1, 2020 and was elected by the Bank. This final rule is applicable to all non-advanced approaches FDIC-supervised institutions with less than \$10 billion in total consolidated assets. The community bank leverage ratio removes the requirement to calculate and report risk-based capital but rather only requires a Tier 1 to average assets (leverage) ratio. The community bank leverage ratio will be 8% for 2020, 8.5% for calendar year 2021, and 9% for calendar year 2022 and beyond. If the minimum ratio is met, banks adopting the framework are considered well capitalized for prompt corrective action purposes. The rule allows for a two-quarter grace period to correct a ratio that falls below the required amount and allows for the reversion back to the risk-weighting framework without restriction.

Prior to the adoption of the community bank leverage ratio in 2020, quantitative measures established by regulation to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the following table as of December 31, 2019) of common equity Tier 1 capital, total and Tier 1 capital (as defined in the regulations) to risk-weighted assets (as defined) and of Tier 1 capital (as defined) to average assets (as defined). Management believes, as of December 31, 2020 and 2019, that the Bank meets all capital adequacy requirements to which it is subject.

The Bank's actual capital amounts and ratios as of December 31, 2020 and 2019 is as follows:

	December 31, 2020					
	Actual		To Be Well Capitalized Under Prompt Corrective Action Provisions			
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Tier 1 Capital to Average Assets	17,823	8.9%	15,977	8.0%		
	December 31, 2019					
	Actual		Minimum Capital Requirement		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
Common Equity Tier 1 Capital to Risk Weighted Assets (CET1)	\$ 17,424	21.1%	\$ 3,725	4.5%	\$ 5,380	6.5%
Tier 1 Capital to Risk Weighted Assets	17,424	21.1%	4,966	6.0%	6,622	8.0%
Total Capital to Risk Weighted Assets	18,406	22.2%	6,622	8.0%	8,277	10.0%
Tier 1 Capital to Average Assets	17,424	10.3%	6,795	4.0%	8,493	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. At December 31, 2020, the Bank had \$1,487,000 in retained earnings available for dividend declaration without prior regulatory approval.

Note 13: Employee Benefit Plans

401(k) Plan

The Company adopted a 401(k) Plan, effective January 1, 2016 which covers substantially all Company employees. The plan qualifies under Section 401(a) of the Internal Revenue Code and allows employees to contribute up to 75% of their salary on a pretax or after tax basis. The Company contributes an amount equal to 3% of each eligible participant's salary, even if an employee elects not to defer any of their own salary into the plan ("safe harbor contribution"). The Company can also elect to contribute discretionary amounts at any time. Each participant may direct the investment of their own contributions and the Company's contributions to a variety of funds offered and maintained by the trustee of the plan. The Company's expense for the plan was \$107,000 and \$100,000 for the years ended December 31, 2020 and 2019, respectively.

Deferred Compensation Plan

The Company also sponsors an unfunded deferred compensation plan for participating directors for the deferral of director fees. The interest accrued on the deferred compensation liability was \$5,000 and \$5,000 for the years ended December 31, 2020 and 2019, respectively. The unsecured deferred compensation liability, which is included in other liabilities, was \$958,000 and \$984,000 at December 31, 2020 and 2019, respectively.

Note 14: Postretirement Plan

The Company has an unfunded noncontributory defined benefit postretirement health and dental care plan covering all employees who meet the eligibility requirements. The Company's funding policy is to make the minimum annual contribution that is required by applicable regulations, plus such amounts as the Company may determine to be appropriate from time to time.

The Company uses a December 31 measurement date for the plan. Information about the plan's funded status and health and dental care cost follows:

	<u>2020</u>	<u>2019</u>
Change in projected benefit obligation		
Beginning of year	\$ 2,094	\$ 1,765
Service cost	61	44
Interest cost	64	74
Actuarial (gain) loss	350	276
Benefits paid	(66)	(65)
	<u>\$ 2,503</u>	<u>\$ 2,094</u>
		December 31,
	<u>2020</u>	<u>2019</u>
Fair value of plan assets	\$ -	\$ -
Benefit obligation	(2,503)	(2,094)
Funded status at end of year	<u>\$ (2,503)</u>	<u>\$ (2,094)</u>
		December 31,
	<u>2020</u>	<u>2019</u>
Amounts recognized on balance sheet consist of:		
Accrued liability (included in other liabilities)	\$ (2,503)	\$ (2,094)
Unrecognized net actuarial gain (loss) and prior service cost, net of tax (included in accumulated other comprehensive income (loss))	(701)	(339)

	Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
Components of net periodic benefit cost		
Service cost	\$ 61	\$ 44
Interest cost	64	74
Amortization of prior service cost	(211)	(211)
Amortization of net loss	55	40
	<u>\$ (31)</u>	<u>\$ (53)</u>

Service cost is included in Salaries and employee benefits on the Consolidated Statement of Income. All other components of net periodic benefit cost are included in Other noninterest expense on the Consolidated Statement of Income.

The Company's assumptions used to determine the benefit obligation and benefit cost were:

	<u>2020</u>	<u>2019</u>
Discount rate used to determine benefit obligation	2.50%	3.10%
Discount rate used to determine benefit cost	3.10%	4.25%
Health care trend rates:		
Medical trend rate used to determine benefit obligation	8.00%	8.00%
Medical trend rate used to determine benefit cost	8.00%	9.00%
Ultimate medical trend rate used to determine benefit obligation	4.50%	4.50%
Ultimate medical trend rate used to determine benefit cost	4.50%	5.00%
Year rate reaches ultimate trend rate	2028	2027
Dental care trend rates:		
Medical trend rate	4.00%	4.00%
Ultimate medical trend rate	3.00%	3.00%
Year rate reaches ultimate trend rate	2024	2023

The discount rate decreased from 3.10% to 2.50% to reflect the current market conditions as of the measurement date. This change resulted in an increase in accumulated projected benefit obligation.

At December 31, 2020, the projected benefits to be paid are as follows:

2021	\$	71
2022		72
2023		81
2024		68
2025		75
2026-2030		478

For the year ended December 31, 2021, the projected net periodic benefit income is \$7,000.

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (the "Act") was signed into law. The Act introduces a prescription drug benefit under Medicare Part D, as well as a federal subsidy to sponsors of retiree health care benefit plans that provide benefits at least actuarially equivalent to Medicare Part D.

In accordance with ASC 715, *Employers' Accounting for Postretirement Benefits Other Than Pensions*, the Company has not reflected the effects of the Act on the measurements of plan benefit obligations and periodic benefit costs and accompanying notes because the Company is unable to conclude whether the benefits provided by the plan are actuarially equivalent to Medicare Part D under the Act.

Note 15: Related Party Transactions

In the ordinary course of business, the Company has granted loans to executive officers, directors, and their affiliates (related parties). Activity associated with loans made to related parties for the years ended December 31, 2020 and December 31, 2019 is as follows:

	Years Ended December 31,	
	<u>2020</u>	<u>2019</u>
Balance at beginning of year	\$ 771	\$ 889
Changes in composition of related parties	(316)	-
New loans and advances	1,255	933
Repayments, including loans sold	(1,702)	(1,051)
Balance at end of year	<u>\$ 8</u>	<u>\$ 771</u>

In management's opinion, such loans and other extensions of credit were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons. Further, in management's opinion, these loans did not involve more than normal risk of collectibility or present other unfavorable features.

Deposits from related parties held by the Company at December 31, 2020 and 2019 totaled \$2,106,000 and \$1,610,000, respectively.

Note 16: Fair Value Measurements

The fair value standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. The standard requires the use of valuation techniques that are consistent with the market approach, the income approach and/or the cost approach. Inputs to valuation techniques refer to the assumptions that market participants would use in pricing the asset or liability. Inputs may be observable, meaning those that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from independent sources, or unobservable, meaning those that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available in the circumstances. In that regard, the standard establishes a fair value hierarchy for valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The fair value hierarchy is as follows:

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

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

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

A description of the valuation methodologies used for assets and liabilities measured at fair value, as well as the general classification of such instruments pursuant to the valuation hierarchy, is set forth below.

Securities available for sale (recurring): The fair value of the Company's securities available for sale are determined using Level 2 inputs, which are derived from readily available pricing sources and third-party pricing services for identical or comparable instruments, respectively. There were no transfers between Level 1 and Level 2.

Impaired loans (non-recurring): Impaired loans are evaluated and valued at the time the loan is identified as impaired, at the lower of cost or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. Collateral may be real estate and/or business assets including equipment, inventory and/or accounts receivable. Appraised and reported values may be discounted based on management's historical knowledge, changes in market conditions from the time of valuation, and/or management's expertise and knowledge of the customer and customer's business. When the fair value of the collateral is based on an observable market price, the Company records the impaired loan as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral

is further impaired below the appraised value and there is no observable market price, the Company records the impaired loan as nonrecurring Level 3.

Other real estate owned (non-recurring): Other real estate owned properties are adjusted to fair value upon transfer of the loans to foreclosed assets. Subsequently, foreclosed assets are carried at the lower of carrying value or fair value. Fair value is based upon independent market prices, appraised values of the collateral or management's estimation of the value of the collateral. When the fair value of the collateral is based on an observable market price, the Company records the foreclosed asset as nonrecurring Level 2. When an appraised value is not available or management determines the fair value of the collateral is further impaired below the appraised value and there is no observable market price, the Company records the foreclosed asset as nonrecurring Level 3.

Mortgage servicing rights (non-recurring): Mortgage servicing rights are carried at the lower of cost or market and are, therefore, carried at fair value only when fair value is less than amortized cost. The fair value of mortgage servicing rights is performed using a pooling methodology. Similar loans are pooled together and a discounted cash flow model, which takes into consideration discount rates and prepayment rates, is used to determine the fair value.

Assets at Fair Value on a Recurring Basis

The following table summarizes assets and liabilities measured at fair value on a recurring basis as of December 31, 2020 and 2019, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

	December 31, 2020			
	Balance	Quoted Prices in Active Market for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities - agency, available for sale	\$ 70	\$ -	\$ 70	\$ -
	December 31, 2019			
	Balance	Quoted Prices in Active Market for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets:				
Residential mortgage-backed securities - agency, available for sale	\$ 87	\$ -	\$ 87	\$ -

Assets Recorded at Fair Value on a Nonrecurring Basis

The Company may be required, from time to time, to measure certain assets and liabilities at fair value on a nonrecurring basis in accordance with U.S. generally accepted accounting principles. These include assets that are measured at the lower of cost or market that were recognized at fair value below cost at the end of the period.

Collateral-Dependent Impaired Loans and Foreclosed Assets: The estimated fair value of collateral-dependent impaired loans and foreclosed assets is based on the appraised fair value of the collateral, less estimated costs to sell. Collateral-dependent impaired loans and foreclosed assets are classified within Level 3 of the fair value hierarchy.

The Company considers the appraisal or a similar evaluation as the starting point for determining fair value and then considers other factors and events in the environment that may affect the fair value. Appraisals or a similar evaluation of the collateral underlying collateral-dependent loans and foreclosed assets are obtained when the loan is determined to be collateral-dependent for impaired loans and at the time a loan is transferred to foreclosed assets. Appraisals or similar evaluations are obtained subsequently as deemed necessary by management but at least annually on foreclosed assets. Appraisals are reviewed for accuracy and consistency by management. Appraisals are performed by individuals selected from the list of approved appraisers maintained by management. The appraised values are reduced by discounts to consider lack of marketability and estimated costs to sell. These discounts and estimates are developed by management by comparison to historical results.

Mortgage servicing rights: The estimated fair value of mortgage servicing rights is performed using a pooling methodology. Similar loans are pooled together and a discounted cash flow model, which takes into consideration discount rates and prepayment rates, is used to determine the fair value. Mortgage servicing rights are classified within Level 3 of the fair value hierarchy.

Assets measured at fair value on a nonrecurring basis and related impairment losses are included in the table below.

	December 31, 2020				
	Balance	Quoted Prices in Active Market for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Assets:					
Impaired loans	\$ 2,225	\$ -	\$ -	\$ 2,225	\$ 227
Other real estate owned	752	-	-	752	-
Mortgage servicing rights	885	-	-	885	109

	December 31, 2019				
	Balance	Quoted Prices in Active Market for identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Impairment Losses
Assets:					
Impaired loans	\$ 2,405	\$ -	\$ -	\$ 2,405	\$ 88
Other real estate owned	295	-	-	295	15
Mortgage servicing rights	797	-	-	797	-

Unobservable (Level 3) Inputs

The following table presents quantitative information about observable inputs used in nonrecurring Level 3 fair value measurements.

December 31, 2020				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 2,225	Market comparable properties	Marketability discount	7 - 100% (9%)
Other real estate owned	\$ 752	Market comparable properties	Marketability discount	6 - 9% (7%)
Mortgage servicing rights	\$ 885	Discount cash flow	Discount rate Prepayment rates	10.25-13.06% (11.25%) 7.43 – 11.54% (9.63%)
December 31, 2019				
	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Assets:				
Collateral-dependent impaired loans	\$ 2,405	Market comparable properties	Marketability discount	4% (4%)
Other real estate owned	\$ 295	Market comparable properties	Marketability discount	0 – 3% (1.2%)
Mortgage servicing rights	\$ 797	Discount cash flow	Discount rate Prepayment rates	10.25-13.07% (11.25%) 7.20 – 18.07% (9.22%)

Note 17: Disclosures about Fair Values of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments. Fair value is determined under the framework discussed in note 16. The fair values of certain of these instruments were calculated by discounting expected cash flows, which involves significant judgments by management and uncertainties. Fair value is the estimated amount at which financial assets or liabilities could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. Because no market exists for certain of these financial instruments and because management does not intend to sell these financial instruments, the Company does not know whether the fair values shown below represent values at which the respective financial instruments could be sold individually or in the aggregate.

	December 31, 2020		December 31, 2019	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Level 1:				
Cash and cash equivalents	\$ 103,137	\$ 103,137	\$ 69,896	\$ 69,896
Level 2:				
Securities available for sale	70	70	87	87
Securities held to maturity	9	9	10	10
Loans held for sale	2,394	2,493	647	657
Interest receivable	315	315	387	387
Level 3:				
Loans, net	89,647	95,273	94,675	97,368
Financial liabilities				
Level 2:				
Advances from borrowers for taxes and insurance	185	185	253	253
Interest payable	-	-	1	1
Level 3:				
Time deposits	12,475	12,482	13,317	13,321

Note 18: Accumulated Other Comprehensive Income (Loss)

The following table presents the activity and accumulated balances for components of other comprehensive income (loss):

	2020		
	Unrealized Losses on Available For Sale Securities	Unrecognized Post- Retirement Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balances, beginning of the year	\$ -	\$ (339)	\$ (339)
Current year other comprehensive income (loss), before tax	-	(295)	(295)
Amortization of prior service cost	-	(211)	(211)
Income tax (expense) benefit	-	144	144
Current year other comprehensive income (loss), net of tax	-	(362)	(362)
Balances, end of year	<u>\$ -</u>	<u>\$ (701)</u>	<u>\$ (701)</u>
	2019		
	Unrealized Losses on Available For Sale Securities	Unrecognized Post- Retirement Benefit Obligation	Total Accumulated Other Comprehensive Income (Loss)
Balances, beginning of the year	\$ -	\$ (19)	\$ (19)
Current year other comprehensive income (loss), before tax	-	(237)	(237)
Amortization of prior service cost	-	(211)	(211)
Income tax (expense) benefit	-	128	128
Current year other comprehensive income (loss), net of tax	-	(320)	(320)
Balances, end of year	<u>\$ -</u>	<u>\$ (339)</u>	<u>\$ (339)</u>

GREAT AMERICAN BANCORP, INC.
SHAREHOLDER INFORMATION (UNAUDITED)

Stock Listing and Price Information

The Company's common stock is traded on OTC Pink[®], under the symbol, "GTPS." At December 31, 2020, 414,865 shares of the Company's common stock were held of record by 136 persons or entities, not including the number of persons or entities holding stock in nominee or street name through various brokers or banks.

The following schedule shows the high and low bid prices for each of the quarters in the years ended December 31, 2020 and 2019:

<u>Quarter Ended:</u>	<u>High</u>	<u>Low</u>
March 31, 2019	34.00	28.62
June 30, 2019	34.00	31.06
September 30, 2019	33.20	31.50
December 31, 2019	33.00	32.54
March 31, 2020	33.95	21.00
June 30, 2020	30.85	21.00
September 30, 2020	30.85	27.34
December 31, 2020	32.00	28.51

At December 31, 2020 the closing price of a common share was \$30.25. This information was provided by the OTC Markets Group, Inc. Such prices do not necessarily reflect retail markups, markdowns, or commissions. During the years ended December 31, 2020 and 2019, the Company declared dividends as follows:

<u>Date Declared</u>	<u>Record Date</u>	<u>Payable Date</u>	<u>Amount</u>
February 11, 2019	March 15, 2019	April 1, 2019	.17
May 13, 2019	June 14, 2019	July 1, 2019	.17
August 12, 2019	September 13, 2019	October 1, 2019	.17
November 18, 2019	December 13, 2019	January 2, 2020	.17
February 10, 2020	March 13, 2020	April 1, 2020	.17
May 11, 2020	June 15, 2020	July 1, 2020	.17
August 10, 2020	September 15, 2020	October 1, 2020	.17
November 9, 2020	December 15, 2020	January 4, 2021	.17
			<u>\$ 1.36</u>

Investor Information

Stockholders, investors and analysts interested in additional information may contact:

Patrick J. McWilliams
Chief Financial Officer
Great American Bancorp, Inc.
1311 S. Neil Street
Champaign, IL 61820

Company website: www.greatamericanbancorp.com

Corporate Counsel

Locke Lord LLP
701 8th Street, N.W. - Suite 700
Washington, DC 20001

Independent Auditors

Plante & Moran, PLLC
10 South Riverside Plaza, 9th Floor
Chicago, IL 60606

Annual Meeting of Stockholders

The Annual Meeting of Stockholders of Great American Bancorp, Inc. will be held at 9:30 a.m., Tuesday, April 20, 2021 at:

First Federal Savings Bank of Champaign-Urbana
1311 S. Neil Street
Champaign IL 61820

Shareholders are welcome to attend.

Stock Transfer Agent and Registrar

Inquiries regarding stock transfer, registration, lost certificates or changes in name and address should be directed to the transfer agent and registrar:

Computershare
P.O. Box 30170
College Station, TX 77842-3170
(800) 962-4284
<http://www.Computershare.com/investor>

**GREAT AMERICAN BANCORP, INC.
DIRECTORS AND EXECUTIVE OFFICERS (UNAUDITED)**

Great American Bancorp, Inc. Directors and Executive Officers

Ronald E. Guenther, Chairman of the Board of the Company
Consultant, Big 10 Conference

John Z. Hecker, Director
Partner, Stipes Publishing, LLC, book publishing

Ronald L. Kiddoo, Director
Chairman of the Board and Chief Investment Officer, Cozad Asset
Management, Inc., an investment advisory concern

Melinda K. Piper, Director
Retired SVP of Deposit Acquisitions for First Federal Savings Bank of Champaign-Urbana

George R. Rouse, Director
President and Chief Executive Officer of the Company

Patrick J. McWilliams
Chief Financial Officer, Secretary and Treasurer of the Company

First Federal Savings Bank Directors and Executive Officers

Ronald L. Kiddoo, Director and Chairman of the Board of the Bank*
Chairman of the Board and Chief Investment Officer, Cozad Asset
Management, Inc., an investment advisory concern

Ronald E. Guenther, Director*
Consultant, Big 10 Conference

John Z. Hecker, Director*
Partner, Stipes Publishing, LLC, book publishing

Michael J. Martin, Director
Partner, Mike Martin Builders, LLC, a builder/developer

Melinda K. Piper, Director
Retired SVP of Deposit Acquisitions for First Federal Savings Bank of Champaign-Urbana

George R. Rouse, Director*
President and Chief Executive Officer of the Bank

First Federal Savings Bank Directors and Executive Officers, Continued

Tyler R. Rouse, Director
Executive Vice President - Administration of the Bank

Patrick J. McWilliams
Chief Financial Officer, Secretary-Treasurer of the Bank

Ata M. Durukan
Senior Vice President - Human Resources and Marketing of the Bank

Jason C. Eyman
Senior Vice President - Lending of the Bank

Julie E. Little
Senior Vice President - Lending of the Bank

James R. McMurry
Senior Vice President - Lending of the Bank

Mark D. Piper
Senior Vice President - Operations of the Bank

Elizabeth M. Reed
Senior Vice President - Deposit Acquisitions of the Bank

Larry Grill
Registered Representative, LaSalle St. Securities, LLC
Member FINRA/SIPC

Park Avenue Service Corporation Officers

George R. Rouse
President

Patrick J. McWilliams
Secretary and Treasurer

GTPS Insurance Agency Officers

Patrick L. Rouse*
President

* Also Director of Park Avenue Service Corporation.