2021

Annual Report

TriCity Bankshares Corporation

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Dear Shareholders,

On behalf of the Board of Directors and Executive Management, I want to thank everyone throughout our Bank for their dedication, perseverance, and leadership during these challenging times. Our Bankers' continued efforts to strengthen our Bank have also added many benefits to our community.

At the onset of the pandemic more than two years ago, when most banks closed and limited their services, we remained open to remain accessible to our valued Customers. Unsurprisingly, our Bankers quickly adapted to the new environment, allowing our Bank to evolve and prosper. We are fortunate to have a very talented team across our entire Bank. We will continue to invest in them along with new technology to effectively compete in an ever-changing marketplace.

I would like to highlight some of our Bankers' accomplishments through the pandemic:

- Through the leadership of our Human Resources Department, we effectively implemented procedures to protect our Bankers and Customers while keeping our Bank lobbies open and all departments fully staffed.
- We refined and improved our mobile and online banking products so that our Customers had more (and more varied) opportunities to interact with our Bank.
- We continued to improve our full-service customer relationship banking, our generation of leads, and our cross selling of products and services for personal and business customers alike. This has proven to be very effective, as we are now the fastest growing bank in Southeastern Wisconsin.
- The Bank has continued its development of personal loan products to increase branch profitability.
- We have continued to renew our Administration and Operations Departments with new sales-focused initiatives.
- We have completely remodeled our West Allis Loan and Deposit Operations facilities for growth and efficiencies. We are currently in the process of remodeling our Oak Creek Administration headquarters.
- Our Data Science Department has been effectively analyzing our products and services for efficiencies and profitability.
- We have improved our Asset Liability Modeling with more loan pricing targets and guidelines.
- Our Loan Underwriting Department continues to evolve to enhance risk management and efficiency of our loan production Officers.
- We have introduced additional Mortgage and Business Loan Products and Services.
- Our Senior Loan Committee has added new members for succession planning.
- We have improved marketing strategies to enhance emotional branding (our "Lovemark") through social and traditional media.

- With departmental input on budgets and a collaborative strategic planning process, our whole-bank strategic plan was written with a focus on profitability, efficiency, and a vision for future growth and success.
- Pathways for Success for our Bankers have focused training opportunities for individual initiatives.
- We have continued to make significant progress with our succession planning for our Administration team. We now have depth of coverage for all key administrators, having taken into consideration employee longevity and successor leadership for the next generation. This focus on administration and leadership succession planning has the benefit of allowing us to accomplish many initiatives simultaneously and efficiently.

We are very optimistic about the future. Because of these efforts and many others, we have been able to adapt our Products and Services for marketplace strategic opportunities to increase profitability. Investments in our Bankers and leaders drive the prospects of our Bank and position us to grow and prosper for years to come.

As we did with Administration and our Senior Loan Committee, we also developed a succession plan for our Board of Directors. At present, our Board comprises primarily first-generation founding Directors and second-generation Directors. This strong team of Board members has been effective in passing on our wisdom and knowledge of unique and successful community banking to our newest generation of Directors. The new Board candidates are poised to strengthen our second-generation mentors and increase the ratio of third-generation Directors, which is needed for effective succession planning. I ask that you please review the qualifications of each candidate nominated for Board appointment. Every candidate has uniquely specific knowledge and skills alongside a proven record of success in benefitting our Bank. This Board of Directors will ensure that our Shareholders' investments are *Always and All Ways* managed for profitability, diversity, safety, and soundness.

I hope our Shareholders are as pleased as I am with our many successes. Competent, ethical, and strong leadership is always critical, but none of this would be possible without our dedicated Bankers, to whom we owe our sincere gratitude.

Thank you for your continued support.

Sincerely,

Brian T. McGarry

Brian T. McGarry
Chairman of the Board and Chief Executive Officer
Tri City Bankshares Corporation

2021 Management Discussion and Analysis

2021 was a year of progress for the Corporation. While the economy was recovering from a worldwide pandemic that resulted in steep job losses and economic slowdowns in key industries, the Corporation held steady and remained open and ready to serve its customers. It advanced several key initiatives that are discussed in this report. However, progress doesn't come without its challenges. Interest rates were low, the labor market for customer service employees was tight, and the fight for top-level talent was as intense as ever. Consumer expectations of retail services, including financial institutions, are continuing to evolve. The Corporation saw its customer base increase digital transactions and decrease in-branch transactions as competition from fintech-focused companies created a shift in consumer behavior.

In this report, Management provides a review of the financial statements as well as insight into what drove the Corporation's performance and plans. Management also provides context around its ongoing investments into the Corporation's future, ensuring a bright tomorrow for its shareholders, employees, customers, and communities.

Balance Sheet

The balance sheet grew significantly in 2021 after a year of substantial growth in 2020. The Corporation now holds more than $2 billion in assets, compared to $1.47 billion as of 12/31/2019. This growth was driven primarily by an increase in deposits. Of the $572 million in deposit increases over the last two years, 38% of the growth in balance came from new accounts opened during that time period. The remaining 62% of the balance growth came from legacy accounts opened before 2020. Of the new accounts opened in 2020 and 2021, 68% were personal accounts and 32% were business accounts. The growth in legacy account balances comprised 59% personal accounts and 41% business accounts. The Corporation also saw average balances in accounts increase. Average balances of personal accounts increased by 42% over the last two years and average balances of business accounts increased by 56%. Increased saving rates, stimulus payments, and Paycheck Protection Plan (PPP) loans funded into business accounts contributed to the increase in average balances per account. Continued effects of the pandemic recovery will influence these balances. However, Management believes that the broad composition of the increases in deposit balances across many different account types will result in a majority of these deposit increases remaining at the bank. In contrast to other local financial institutions, the Corporation also kept its locations open for the vast majority of the pandemic and continued to serve customers in person in its lobbies and grocery store locations. Management believes this was a strategy that paid off and resulted in many of the new accounts that were opened during the past two years.

The robust growth in deposits has led to a large increase in the Corporation's security investment portfolio and increased emphasis on loan growth. The Corporation has always focused on well-collateralized, local commercial real estate loans. Its commercial lending department has done an excellent job increasing net loans during the pandemic, surpassing $1 billion in total loans. After adjusting for PPP loan forgiveness, there was record net loan growth of $89 million in 2021 and there is a robust pipeline moving into 2022. Despite the record loan growth, deposits have grown faster, causing the loan-to-deposit ratio to decrease from 60% in 2020 to 54% in 2021. This has a dramatic and negative effect on overall net interest margin, return on assets, and other ratios. Management plans to execute a strategy to grow into this new asset size instead of shrinking for the betterment of said ratios. The Corporation has arguably the strongest commercial real estate lending department in Southeastern Wisconsin, and Management remains confident in its ability to organically grow its loan portfolio into a more advantageous loan-to-deposit ratio for the Corporation.

Maintaining loan asset quality remains a top priority of Management as it grows the Corporation's loan portfolio. The local economy remains strong, but with rising interest rates, it can tighten borrowers' cash flow and lower asset values. The Corporation has a history of underwriting loans to withstand stressed economic scenarios. Further, the Corporation had net recoveries to its allowance for loan losses for the fourth consecutive year in 2021. Loans greater than 30 days past due decreased to 0.45% in 2021 from 0.65% in 2020.

A strong capital base is important to the Corporation. The Corporation grew its Tier One Capital, the core regulatory measure of capital, by $10.7 million in 2021 and remains well capitalized pursuant to regulatory guidance. GAAP stockholder equity only increased by $0.5 million, due to the security investment portfolio flipping from an unrealized gain in 2020 to an unrealized loss position in 2021. Management expects the unrealized loss on security investments to increase substantially in 2022 as interest rates rise. The Corporation has classified its entire security investment portfolio as "available for sale" for GAAP accounting purposes to allow maximum flexibility in managing the portfolio. However, only one security was sold in 2021 and there are no plans to sell securities investments in 2022 that result in a realized loss. The increase in total assets was the primary driver behind the Tier 1 Capital Ratio declining from 10.19% in 2020 to 9.43% in 2021. As the Corporation continues to invest its new earning assets, the capital ratio is expected to rebound. It is of paramount importance to the Board of Directors to maintain a strong Tier 1 Capital Ratio now and into the future.

Income Statement

Management focuses on the core operating income of the Corporation when comparing year-over-year performance. There was a 16% increase of $2.6 million in core operating income in 2021 compared to 2020. The primary drivers of this increase were robust mortgage loan activity, increased security investment income, and PPP loan fees. The major driver of income for the Corporation has been commercial loan interest income, and 2021 was no different. The income from the net $89 million growth in commercial loans was largely offset by a reduction in loan yields. Commercial loans accounted for $35 million in interest income, not including PPP fee income. PPP fee income recognized in 2021 was $2.5 million compared to $0.83 million in 2020. There is another $0.28 million in net deferred PPP loan fees to be recognized. Management expects to recognize the remaining deferred PPP fees in 2022 as remaining PPP loans are forgiven through the SBA.

Core Operating Income
$ in thousands

	For the Year Ended December 31,				
	2017	**2018**	**2019**	**2020**	**2021**
Total Income Before Taxes	$18,186	$21,514	$22,453	$16,735	$18,242
Acquisition-related purchase accounting income	(907)	(1,667)	(1,066)	(979)	(529)
Banked owned life insurance death benefits income	-	-	(2,334)	(450)	(3)
New market tax credits investment amortization expense	-	728	1,069	1,620	1,869
Core Operating Income	$17,279	$20,575	$20,122	$16,926	$19,579

Due to the increase in earning assets in 2020 and 2021, the Corporation is in a good position to increase earnings as these assets are deployed into loans or security investments. The Corporation is asset-sensitive to shorter term interest rates, so an increase in short-term interest rates will benefit the bottom line. Due to uncertainty over surge deposit runoff and the interest rate environment, the Corporation held abundant funds at the Federal Reserve Bank during 2021, earning just 0.15%. This strategy negatively impacted the Corporation's overall net interest margin in the short term but provided liquidity assurances in unstable times. As the economy finds a post-pandemic normal, as additional data is collected on the surge of deposits, and as interest rates normalize, the Corporation will return to a more normal cash position.

The Corporation's funding base is 100% core deposits. When compared to its peers, the Corporation is best-in-class with its low cost of funds. This advantage over other financial institutions became less of an advantage during the pandemic when rates were at historically low levels, meaning every financial institution had access to inexpensive funding. When rates rise, it is expected the Corporation's low-cost core deposits will again become a competitive advantage due to their rate-insensitive nature (when compared to other forms of funding).

When interest rates are low, non-interest income is important for the stability of the Corporation, which has worked hard at developing strategies to increase this income stream and has seen improvements year over year. Core non-interest income in 2021 increased $0.5 million over 2020. The primary drivers of the increase were debit card interchange income, retail mortgage related activities, and business account service charges. Interchange income is a focus of Management leading into 2022 as the economy normalizes and consumers increase their usage of debit cards and digital wallets for purchases and use less cash. Management believes this trend will continue into the future. New initiatives revolving around increasing debit card activation and use are being evaluated. Management further believes that credit cards are an opportunity for the Corporation to earn increased income. Retail mortgage related activities increased through the efforts of our home loan lenders and low interest rates, which caused a residential mortgage refinance boom. With a strong base of core deposit customers, Management is focusing additional marketing efforts around deepening relationships with current customers into loan products, with the goal of growing the business line for the Corporation.

As noted at the beginning of this report, Management continues to invest back into the Corporation, which has resulted in non-interest expense increasing year over year. The main areas of increased investment include information technology, mobile and online products, marketing, and retaining/attracting talent. The Corporation has invested a significant amount over the last few years to update its computer systems to keep the Corporation safe from cyberattacks. This is a vulnerable area for all businesses and the Corporation has invested in strong systems and protection. Mobile and online products are becoming increasingly popular for our customers' transaction activity. The Corporation recognizes the trends of where its customers transact and is making investments accordingly. During 2021, the Corporation enabled online account opening through its website and saw immediate success from new and current customers opening additional accounts. Digital products are an area of focus and investment in 2022 and beyond. As customers repeatedly choose multiple channels for transacting and engaging with the brand, the Corporation's marketing department is focused on reaching customers through a multi-channel approach. A strong in-house marketing department is a driving force behind the growth the Corporation is recognizing and will continue to benefit from. Retaining and attracting talented individuals is the most important investment the Corporation has and can make. As with most retail businesses, the Corporation struggled with customer-service employee turnover. Recognizing pandemic-impacted transaction trends, the Corporation scaled back its hours in the branches and grocery store locations, closed its grocery store locations on Sundays, and created increased employee training and growth opportunities. This provided enhanced work-life balance for employees, which also allowed for an increased minimum wage across the whole organization. The financial impact of increased wages was offset by reduced hours. The Corporation also amended its vacation policies and invested in its facilities with a renovated deposit and loan operations facility for its staff. The Corporation's headquarters in Oak Creek is under a major renovation during 2022 to improve the work environment and communication between employees.

Management remains confident in the future of the Corporation. A strong community needs a strong community bank at its center. Tri City National Bank takes this responsibility to heart.

This report contains statements that may constitute forward-looking statements that speak of the Corporation's plans, goals, beliefs or expectations, refer to estimates or use similar terms. Forward-looking statements are subject to significant risks and uncertainties. The Corporation's actual results may differ materially from the results discussed in such forward-looking statements.

TriCity Bankshares Corporation

Selected Financial Data

	For the Year Ended December 31,				
	2017	2018	2019	2020	2021
Results of Operations					
Interest income	$ 47,094,056	$ 51,298,986	$ 53,452,565	$ 51,067,127	$ 52,878,074
Interest expense	1,562,534	1,878,617	2,296,014	1,446,834	943,952
Net interest income	45,531,522	49,420,369	51,156,551	49,620,293	51,934,122
Provision for loan losses ("PLL")	-	-	-	1,500,000	-
Net interest income after PLL	45,531,522	49,420,369	51,156,551	48,120,293	51,934,122
Core noninterest income	14,992,594	15,721,859	15,430,526	17,341,854	17,839,230
Non-core noninterest income	329,920	1,106,574	3,002,577	1,029,396	268,441
Core noninterest expense	42,668,461	44,006,958	46,067,993	48,136,600	49,930,269
Non-core noninterest expense	-	728,278	1,069,131	1,619,796	1,869,312
Income before income taxes	18,185,575	21,513,566	22,452,530	16,735,147	18,242,212
Deferred tax adjustment	1,500,190	-	-	-	-
Income taxes	6,005,916	4,552,500	3,729,500	2,518,795	2,883,643
Net income	$ 10,679,469	$ 16,961,066	$ 18,723,030	$ 14,216,352	$ 15,358,569
Balance Sheet Data					
Assets	$ 1,414,721,950	$1,406,431,804	$1,466,800,227	$1,796,413,636	$2,054,498,528
Security investments	444,488,998	371,017,618	383,295,527	558,509,399	820,639,129
Total loans	825,842,074	907,464,082	902,066,127	958,247,553	1,014,652,367
Allowance for loan losses	(10,732,652)	(10,994,385)	(11,072,956)	(13,106,919)	(13,572,773)
Total loans, net	815,109,422	896,469,697	890,993,171	945,140,634	1,001,079,594
Deposits	1,267,051,615	1,249,302,645	1,271,749,600	1,574,587,154	1,844,378,881
Borrowings	-	-	-	-	-
Total Tier One capital	146,655,541	159,342,248	173,434,722	183,020,518	193,748,531
Total stockholders' equity	143,865,498	153,014,924	174,466,438	191,103,531	191,631,640
Net loans to deposits	64.33%	71.76%	70.06%	60.02%	54.28%
Per Share Data					
Earnings per share	$ 1.20	$ 1.90	$ 2.10	$ 1.60	$ 1.72
Cash dividends paid	$ 0.48	$ 0.48	$ 0.52	$ 0.52	$ 0.52
Book value per share	$ 16.16	$ 17.18	$ 19.59	$ 21.46	$ 21.52
Shares outstanding	8,904,915	8,904,915	8,904,915	8,904,915	8,904,915
Performance Ratios					
Return on average assets	0.76%	1.22%	1.30%	0.87%	0.78%
Return on average equity	7.57%	11.43%	11.43%	7.78%	8.03%
Interest on earning assets	3.58%	3.91%	4.02%	3.39%	2.91%
Cost of funds	0.12%	0.14%	0.17%	0.10%	0.05%
Net interest margin	3.46%	3.77%	3.85%	3.30%	2.86%
Core noninterest income to average assets	1.07%	1.13%	1.07%	1.06%	0.91%
Core noninterest expense to average assets	3.05%	3.16%	3.20%	2.94%	2.55%
Efficiency Ratio	70.50%	67.56%	69.18%	71.89%	71.56%
Capital Ratios					
Total equity to total assets	10.17%	10.88%	11.89%	10.64%	9.33%
Tier One capital ratio	10.37%	11.33%	11.82%	10.19%	9.43%
Asset Quality Ratios					
Nonaccrual loans to total loans	0.56%	0.47%	0.54%	0.52%	0.31%
Past due loans > 30 days to total loans	0.80%	0.58%	0.52%	0.65%	0.45%
Net charge-offs to total loans	0.06%	- 0.03%	- 0.01%	- 0.06%	- 0.05%
Other real estate owned to total assets	0.01%	0.01%	0.00%	0.00%	0.00%
Allowance for loan losses to total loans	1.30%	1.21%	1.23%	1.37%	1.34%

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Independent Auditors' Report

To the Board of Directors and Stockholders of
Tri City Bankshares Corporation

Opinion

We have audited the consolidated financial statements of Tri City Bankshares Corporation and its subsidiaries (the Corporation), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, the related consolidated statements of income, comprehensive income, stockholders' equity and cash flows for the years then ended and the related notes to the consolidated financial statements (collectively, the financial statements).

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Corporation as of December 31, 2021 and 2020 and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with auditing standards generally accepted in the United States of America (GAAS), the Corporation's internal control over financial reporting as of December 31, 2021, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission in 2013 and our report dated March 23, 2022 expressed an unmodified opinion on the effectiveness of the Corporation's internal control over financial reporting.

Basis for Opinion

We conducted our audits in accordance with GAAS. Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Corporation and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a period of within one year after the date the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Corporation's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control–related matters that we identified during the audit.

Baker Tilly US, LLP

Milwaukee, Wisconsin
March 23, 2022

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED BALANCE SHEETS

As of December 31, 2021 and 2020

ASSETS

	2021	2020
Cash and due from banks	$ 134,568,580	$ 184,345,327
Federal funds sold	891,783	11,019,722
Total Cash and Cash Equivalents	135,460,363	195,365,049
Securities available for sale, at fair value	820,639,129	558,509,399
Loans, less allowance for loan losses of $13,572,773 and $13,106,919 as of 2021 and 2020, respectively	1,001,079,594	945,140,634
Premises and equipment - net	17,314,670	16,026,081
Right of use lease asset	14,567,534	15,659,597
Bank owned life insurance	44,300,870	43,312,658
Accrued interest receivable and other assets	21,136,368	22,400,218
TOTAL ASSETS	$ 2,054,498,528	$ 1,796,413,636

LIABILITIES AND STOCKHOLDERS' EQUITY

	2021	2020
LIABILITIES		
Deposits		
Demand	$ 498,794,405	$ 420,974,242
Interest bearing	1,289,460,638	1,096,230,547
Certificates of deposit	56,123,838	57,382,365
Total Deposits	1,844,378,881	1,574,587,154
Lease liability	14,567,534	15,659,597
Accrued interest payable and other liabilities	3,920,473	15,063,354
Total Liabilities	1,862,866,888	1,605,310,105
STOCKHOLDERS' EQUITY		
Cumulative preferred stock, $1 par value 200,000 shares authorized, no shares issued	-	-
Common stock, $1 par value, 15,000,000 shares authorized, 8,904,915 shares issued and outstanding in 2021 and 2020	8,904,915	8,904,915
Additional paid-in-capital	26,543,470	26,543,470
Accumulated other comprehensive (loss) income	(2,116,891)	8,083,013
Retained earnings	158,300,146	147,572,133
Total Stockholders' Equity	191,631,640	191,103,531
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	$ 2,054,498,528	$ 1,796,413,636

See accompanying notes to consolidated financial statements.

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF INCOME

For the Years Ended December 31, 2021 and 2020

	2021	2020
INTEREST INCOME		
Loans	$ 42,999,130	$ 42,721,792
Investment securities		
Taxable	7,550,556	6,499,710
Tax exempt	2,072,203	1,401,511
Federal funds sold and due from banks	236,859	424,789
Other	19,326	19,325
Total Interest Income	52,878,074	51,067,127
INTEREST EXPENSE		
Deposits	943,946	1,446,826
Other borrowings	6	8
Total Interest Expense	943,952	1,446,834
Net Interest Income before Provision for Loan Losses	51,934,122	49,620,293
Provision for loan losses	-	1,500,000
Net Interest Income after Provision for Loan Losses	51,934,122	48,120,293
NONINTEREST INCOME		
Service charges on deposits	3,649,467	3,572,842
Debit card interchange	5,580,096	5,108,086
ATM	744,807	911,465
Merchant services	818,178	771,158
Loan servicing income	1,287,103	790,051
Net gain on sale of loans	2,763,600	2,884,025
Increase in bank owned life insurance	988,212	1,050,659
Bank owned life insurance death benefits	2,715	450,000
Non-accretable loan discount	265,726	579,396
Other income	2,007,767	2,253,568
Total Noninterest Income	18,107,671	18,371,250
NONINTEREST EXPENSES		
Salaries and employee benefits	28,998,329	27,791,365
Net occupancy costs	4,220,419	4,229,818
Furniture and equipment expenses	2,799,693	2,896,063
Data processing and telecommunications expense	6,077,802	5,547,873
Professional fees	1,900,795	1,757,098
Advertising and promotional	1,084,450	911,740
FDIC and other regulatory assessments	836,855	527,222
New Markets Tax Credits investment amortization	1,869,312	1,619,796
Office supplies	741,891	891,900
Other expense	3,270,035	3,583,521
Total Noninterest Expense	51,799,581	49,756,396
Total Income before Taxes	18,242,212	16,735,147
Less: Income tax expense	2,883,643	2,518,795
NET INCOME	$ 15,358,569	$ 14,216,352

See accompanying notes to consolidated financial statements.

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2021 and 2020

	2021	2020
NET INCOME	$ 15,358,569	$ 14,216,352
Other comprehensive (loss) income, net of tax:		
Securities available for sale:		
Net unrealized holding (loss) gains arising during the period	(14,047,003)	9,691,323
Reclassification adjustment for (gains) loss in net income	28,248	-
Tax effect	3,818,851	(2,640,026)
Total Other Comprehensive (Loss) Income, net of tax:	(10,199,904)	7,051,297
COMPREHENSIVE INCOME	$ 5,158,665	$ 21,267,649

See accompanying notes to consolidated financial statements.

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

For the Years Ended December 31, 2021 and 2020

	Common Stock	Additional Paid-in Capital	Accumulated Other Comprehensive (Loss) Income	Retained Earnings	Total
BALANCES - January 1, 2020	$ 8,904,915	26,543,470	1,031,716	137,986,337	174,466,438
Net income	-	-	-	14,216,352	14,216,352
Total Other Comprehensive Income	-	-	7,051,297	-	7,051,297
Cash dividends - ($0.52 per share)	-	-	-	(4,630,556)	(4,630,556)
BALANCES - December 31, 2020	8,904,915	26,543,470	8,083,013	147,572,133	191,103,531
Net income	-	-	-	15,358,569	15,358,569
Total Other Comprehensive Loss	-	-	(10,199,904)	-	(10,199,904)
Cash dividends - ($0.52 per share)	-	-	-	(4,630,556)	(4,630,556)
BALANCES - December 31, 2021	$ 8,904,915	$ 26,543,470	$ (2,116,891)	$ 158,300,146	$ 191,631,640

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	$ 15,358,569	$ 14,216,352
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation	1,949,780	2,057,856
Amortization and accretion of servicing rights, premiums, discounts and PPP origination fees	2,755,762	2,174,314
Net gain on sale of loans	(2,763,600)	(2,884,025)
Provision for loan losses	-	1,500,000
Expense (Benefit) for deferred income taxes	373,951	(461,564)
Proceeds from sales of loans held for sale	102,934,914	103,198,112
Originations of loans held for sale	(100,451,181)	(100,787,232)
Loss on sale of securities available for sale	28,248	-
Increase in bank owned life insurance	(988,212)	(1,050,659)
Gain on bank owned life insurance death benefits	(2,715)	(450,000)
Net change in fair value of mortgage servicing rights	(180,000)	180,000
Gain on disposal of premises and equipment	(1,500)	(28,705)
Right of use lease asset amortization	731,009	704,530
Net change in:		
Accrued interest receivable and other assets	3,710,664	765,473
Lease liability	(731,009)	(704,530)
Accrued interest payable and other liabilities	(2,852,923)	844,969
Net cash flows from operating activities	19,871,757	19,274,891
CASH FLOWS FROM INVESTING ACTIVITIES		
Activity in available for sale securities:		
Maturities, prepayments and calls	156,338,677	118,942,703
Purchases	(448,663,245)	(280,424,393)
Proceeds from sale	3,269,215	-
Net increase in loans	(53,530,007)	(54,151,804)
Purchase of premises and equipment	(3,238,369)	(1,545,637)
Proceeds from sales of premises and equipment	1,500	45,500
Proceeds from bank owned life insurance death benefits	1,122,715	-
Investment in FHLB Chicago	(238,100)	(1,503,200)
Proceeds from sale of other real estate owned	-	-
Net cash used in provided by investing activities	(344,937,614)	(218,636,831)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net increase in deposits	269,791,727	302,837,554
Dividends paid	(4,630,556)	(4,630,556)
Net cash flows provided by financing activities	265,161,171	298,206,998
Net change in cash and cash equivalents	(59,904,686)	98,845,058
CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR	195,365,049	96,519,991
CASH AND CASH EQUIVALENTS - END OF YEAR	$ 135,460,363	$ 195,365,049

See accompanying notes to consolidated financial statements

TRI CITY BANKSHARES CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2021 and 2020

(continued)

	2021	2020
SUPPLEMENTAL CASH FLOW DISCLOSURES		
Cash paid for interest	$ 964,336	$ 1,462,710
Cash paid for income taxes	2,825,000	2,810,000
SUPPLEMENTAL NON-CASH DISCLOSURES		
Mortgage servicing rights resulting from sales of loans	881,917	788,095
Change in lease liability due to remeasurement or obtaining right of use lease assets	(361,054)	220,925
Security purchases settled in subsequent period	-	7,598,934
Proceeds of bank owned life insurance death benefits received in subsequent period	-	1,120,000

See accompanying notes to consolidated financial statements

NOTE 1 - Summary of Significant Accounting Policies

The consolidated financial statements of Tri City Bankshares Corporation (the "Corporation") include the accounts of its wholly owned subsidiary, Tri City National Bank (the "Bank") (collectively, the "Corporation"). The Bank includes the accounts of its wholly owned subsidiaries, Tri City Capital Corporation, a Nevada investment subsidiary, Title Service of Southeast Wisconsin, Inc., a title company subsidiary, TCNB Whole Health Investment Fund LLC, TCNB Aurora Investment Fund LLC, TCNB Fire Loan Pool IF LLC, TCNB FCI Loan Pool IF LLC and TCNB Notre Dame IF LLC, subsidiaries to facilitate tax credit investments. All significant intercompany accounts and transactions have been eliminated in consolidation.

The consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP") and conform to general practices within the banking industry.

The Corporation grants commercial, real estate and installment loans and accepts deposits primarily in Southeastern Wisconsin. The Corporation is subject to competition from other financial institutions and nonfinancial institutions providing financial products. Additionally, the Corporation is subject to the regulations of certain regulatory agencies and undergo periodic examination by those regulatory agencies.

Use of Estimates

In preparing consolidated financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities as of the date of the balance sheet and reported amounts of income 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 relate to the determination of the allowance for loan losses, deferred taxes, other than temporary impairment of securities and fair values of financial instruments.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and balances due from banks and federal funds sold, all of which mature within ninety days. The Corporation maintained amounts due from banks that exceeded federally insured limits as of December 31, 2021. The Corporation has not experienced any losses in such accounts.

Securities

Securities are classified as available for sale when the Corporation intends to hold them for an indefinite period of time but not necessarily to maturity. Securities available for sale are accounted for on a trade date basis and carried at fair value, with unrealized holding gains and losses excluded from net income and reported in accumulated other comprehensive income (loss), net of tax. Gains and losses on sales are recorded on the trade date and determined using the specific identification method.

Declines in the fair value of securities below their cost that are other-than-temporary due to credit issues are reflected as "Other than temporary impairment of securities" in the consolidated statements of income. In estimating other-than-temporary losses, management considers: (1) the length of time and extent that fair value has been less than cost, (2) the financial condition and near-term prospects of the issuer, and (3) the Corporation's ability and intent to hold the security for a period sufficient to allow for any anticipated recovery in fair value. The difference between the present values of the cash flows expected to be collected and the amortized cost basis is the credit loss. The credit loss is the portion of the other-than-temporary impairment that is recognized in earnings and is a reduction to the cost basis of the security. The portion of other-than-temporary impairment related to all other factors is included in other comprehensive loss, net of tax.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Loans Held for Investment

Loans that management has the intent and ability to hold for the foreseeable future or until maturity or payoff are reported at the amount of unpaid principal, reduced by an allowance for loan losses and any deferred fees or costs in originating loans. Interest income is accrued and credited to income on a daily basis based on the unpaid principal balance. Loan origination fees, net of certain direct loan origination costs, are deferred and recognized as an adjustment of the loan yield using an effective interest method. The accrual of interest income on impaired loans is discontinued when, in the opinion of management, there is reasonable doubt as to the borrower's ability to meet payment of interest or principal when they become due. When interest accrual is discontinued, all unpaid accrued interest is reversed. Cash collections on impaired loans are credited to the loan receivable balance and no interest income is recognized on those loans until the principal balance is current. Loans are returned to accrual status when the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Generally, a troubled debt restructuring (“TDR”) includes a loan modification where a borrower is experiencing financial difficulty and the Corporation grants a concession to that borrower that the Corporation would not otherwise consider except for the borrower’s financial difficulties. All TDRs are classified as impaired loans. TDRs may be on accrual or non-accrual status based upon the performance of the borrower and management’s assessment of collectability. TDRs deemed non-accrual may return to accrued status based on performance in accordance with terms of the restructuring, generally 6 months.

Consistent with regulatory guidance, charge-offs are taken when specific loans, or portions thereof, are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. The Corporation’s policy is to promptly charge these loans off in the period the uncollectible loss amount is reasonably determined. The Corporation promptly charges-off commercial and real estate loans, or portions thereof, when available information confirms that specific loans are uncollectible based on information that includes, but is not limited to, (1) the deteriorating financial condition of the borrower, (2) declining collateral values, and/or (3) legal action, including bankruptcy, that impairs the borrower’s ability to adequately meet its obligations. All consumer loans 120 days or more past due and all other loans with principal and interest 180 days or more past due will be reviewed for potential charge-off at least quarterly.

The COVID-19 pandemic has negatively impacted the global and United States economies. In response to the crisis, the Coronavirus Aid, Relief, and Economic Security (“CARES”) Act was passed by Congress and signed into law on March 27, 2020. The CARES Act includes provisions to fight the COVID-19 pandemic and stimulate the economy by supporting individuals and businesses through loans, grants, tax changes, and other types of relief. In addition, the Consolidated Appropriations Act (“CAA”) was signed into law on December 27, 2020 which in part addressed additional COVID-19 pandemic responses and relief. Some of the CARES Act and CAA provisions applicable to and implemented by the Corporation in 2021 and 2020 include, but are not limited to:

- Accounting for Loan Modifications – The CARES Act, along with regulatory guidance from federal banking agencies, provides that a financial institution may elect to suspend (1) the requirements under U.S. GAAP for certain loan modifications that would otherwise be categorized as a TDR and (2) any determination that such loan modifications would be considered a TDR, including the related impairment for accounting purposes. Modifications in the scope of the exemption include forbearance agreements, interest rate modifications, repayment plan changes and any other similar arrangements that would delay payments of principal or interest. This relief is allowable on modifications on loans which were not more than 30 days past due as of December 31, 2019, and that occur after March 1, 2020, and before the earlier of January 1, 2022. The suspension is not applicable to any adverse impact on the credit of a borrower that is not related to the pandemic (see Note 5 – Loans).
- Paycheck Protection Program – The CARES Act established the Paycheck Protection Program (“PPP”), an expansion of the Small Business Administration’s 7(a) loan program and the Economic Injury Disaster Loan Program (“EIDL”), administrated directly by the Small Business Administration (“SBA”) (see Note 5 – Loans).

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Loans Acquired Through Purchase

Loans acquired through the completion of a purchase, including loans that have evidence of deterioration of credit quality since origination and for which it is probable, at acquisition, that the Corporation will be unable to collect all contractually-required payments receivable, are initially recorded at fair value with no valuation allowance. Loans are evaluated individually at the date of acquisition to determine if there is evidence of deterioration of credit quality since origination. Loans where there is evidence of deterioration of credit quality since origination may be aggregated and accounted for as a pool of loans if the loans being aggregated have common risk characteristics. Contractually required payments for interest and principal that exceed the undiscounted cash flows expected at acquisition, or the “non-accretable difference,” are not recognized as a yield adjustment, a loss accrual or a valuation allowance. Non-accretable discount may be taken to non-interest income if a loan pays-off or if the non-accretable discount is greater than a charge-off taken. Subsequent decreases to the expected cash flows will generally result in a change in the allowance for loan losses. Subsequent increases in cash flows result in a change in the allowance for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable discount to accretable discount with a positive impact on interest income. The difference between the undiscounted cash flows expected at acquisition and the investment in the loan, or the “accretable yield,” is recognized as interest income on a level-yield method over the life of the loan. Increases in expected cash flows subsequent to the initial investment are recognized prospectively through adjustment of the yield on the loan over its remaining life. Decreases in expected cash flows are recognized as a change in the allowance for loan losses. If the Corporation does not have the information necessary to reasonably estimate expected cash flows, it may use the cost recovery method or cash basis method of income recognition. Valuation allowances on these impaired loans reflect only losses incurred after the acquisition (meaning the present value of all cash flows expected at acquisition that ultimately are not to be received).

Loans Held for Sale

Loans originated and intended for sale in the secondary market are carried at the lower of cost or estimated market value in the aggregate. Net unrealized gains or losses are recognized through a valuation allowance by charges to income. All sales are made without recourse. Loans held for sale were $478,600 and $1,080,650 as of December 31, 2021 and 2020, respectively.

Allowance for Loan Losses

The allowance for loan losses reflects management's best estimate of the probable and inherent losses on loans and is based on a risk model developed and implemented by management and approved by the Corporation's Board of Directors.

The allowance for loan losses is a valuation allowance for probable and inherent losses incurred in the loan portfolio. Management maintains allowances for loan losses at levels deemed adequate to absorb estimated probable credit losses inherent in the loan portfolio. The adequacy of the allowance is determined based on periodic evaluations of the loan portfolios and other relevant factors. The allowance is comprised of both a specific component and a general component. Even though the entire allowance is available to cover losses on any loan, specific allowances are provided on impaired loans pursuant to accounting standards. The general allowance is based on historical loss experience, adjusted for qualitative and environmental factors.

In determining the general allowance management has segregated the loan portfolio by loan class. For each class of loan, a historical loss factor is computed. In determining the appropriate period of activity to use in computing the historical loss factor management reviews trends in net charge-off ratios. It is management’s intention to utilize a period of activity that is most reflective of current experience. Changes in the historical period are made when there is a distinct change in the trend of net charge-off experience. Management adjusts the historical loss factors for the impact of the following qualitative factors: asset quality, changes in volume and terms, policy changes, ability of management, economic trends, industry conditions, changes in credit concentrations and competitive/legal factors. In determining the impact, if any, of an individual qualitative factor, management compares the current underlying facts and circumstances surrounding a particular factor with those in the historical periods, adjusting the historical loss factor in a directionally consistent manner with changes in the qualitative factor. Management separately evaluates both the Corporation’s historical portfolio as well as acquired loans that have renewed and are eligible to be considered as part of the general allowance. Management will continue to analyze the qualitative factors on a quarterly basis, adjusting the historical loss factor both up and down, to a factor deemed appropriate for the probable and inherent risk of loss in its portfolio.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Allowance for Loan Losses (continued)

Specific allowances are determined as a result of the impairment process. When a loan is identified as impaired it is evaluated for loss using either the fair value of collateral method or the present value of cash flows method. If the present value of expected cash flows or the fair value of collateral exceeds the Corporation's carrying value of the loan, no loss is anticipated, and no specific reserve is established. However, if the Corporation's carrying value of the loan is greater than the present value of expected cash flows or fair value of collateral, a specific reserve is established. In either situation, loans identified as impaired are excluded from the calculation of the general reserve.

The allowance for loan losses is increased by provisions charged to earnings and reduced by charge-offs, net of recoveries. The adequacy of the allowance for loan losses is reviewed and approved by the Corporation's Board of Directors on a quarterly basis. In addition, various regulatory agencies periodically review the allowance for loan losses. These agencies may suggest additions to the allowance for loan losses based on their judgments of collectability based on information available to them at the time of their examination.

Transfers of Financial Assets

Transfers of financial assets are accounted for as sales when control over the assets has been surrendered. Control over transferred assets is deemed to be surrendered when (1) the assets have been isolated from the Corporation, (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 Corporation does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity.

Mortgage Servicing Rights

The Corporation records a mortgage servicing right ("MSR") asset when it continues to service borrower payments and perform maintenance activities on loans sold to secondary market investors. In the period in which the loan is sold to the secondary market investors, loan servicing income is increased by the value of the initial MSR.

The Corporation initially records servicing rights at the time of the sale of the loans to the secondary market investors. The Corporation uses the amortization method for the subsequent measurement of its MSR assets. Under the amortization method, the Corporation amortizes the value of its MSR assets in proportion to and over the expected life of the loan on a per loan basis. An impairment analysis is prepared on a quarterly basis by estimating the fair value of the MSR assets and comparing that value to the carrying amount. A valuation allowance is established when the carrying amount exceeds fair value. The fair value of the MSR asset is determined by using a discounted cash flow model, which estimates the present value of the future net cash flows of the servicing portfolio based on various factors, such as servicing costs, expected prepayment speeds and discount rates.

As of December 31, 2021 and 2020, the Corporation services real estate loans for investors in the secondary market, which are not included in the accompanying consolidated balance sheets, of approximately $296 million and $262 million, respectively. The related MSR assets were $2,247,087 and $1,672,249 as of December 31, 2021 and 2020, respectively, and are included in accrued interest receivable and other assets on the consolidated balance sheets. MSR assets as of December 31, 2020 are reported net of a valuation allowance of $180,000. No valuation allowance was required as of December 31, 2021. During 2020, the Corporation complied with mortgage forbearance loan modifications in accordance with CARES Act and CAA provisions.

Premises and Equipment - Net

Land is carried at cost. Depreciable assets are stated at cost less accumulated depreciation. Provisions for depreciation are computed on straight-line methods over the estimated useful lives of the assets, which range from 3 to 10 years for furniture and equipment and 15 to 40 years for buildings and lease-hold improvements. Repairs and maintenance costs are expensed as incurred.

New Markets Tax Credits

As part of its Community Reinvestment Act responsibilities and due to their favorable economics, the Corporation invests in tax credit-motivated projects primarily in the markets it serves. These projects are directed at tax credits issued under the federal New Markets Tax Credits program. As a result of the transactions, the Corporation has several Investment Fund subsidiaries. The Investment Fund subsidiaries are a limited partner in several community development entities ("CDEs"). The Corporation is not the general partner, does not have controlling ownership and is not the primary beneficiary in any of these limited partnerships and thus, the limited partnerships have not been consolidated. These investments are accounted for using the equity method of accounting and are evaluated for impairment at the end of each reporting period (see Note 7 – New Market Tax Credits - Variable Interest Entities).

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Federal Reserve Bank and FHLB Chicago Stocks

The Corporation is required to maintain Federal Reserve Bank ("FRB") and Federal Home Loan Bank of Chicago ("FHLB Chicago") stock as a member of both the FRB and FHLB Chicago, in amounts as required by these institutions. These equity securities are restricted in that they can only be sold back to the respective member institutions or another member institution at par. Therefore, they are less liquid than other investments and their fair value is equal to cost. The Corporation meets the minimum amount required by current regulations and the institutions.

Off-Balance Sheet Financial Instruments

In the ordinary course of business, the Corporation has entered into off-balance sheet financial instruments consisting of commitments to extend credit, commercial letters of credit and standby letters of credit. Such financial instruments are recorded in the consolidated financial statements when they are funded, or related fees are incurred or received.

Derivative Financial Instruments

The Corporation offers interest rate swap products directly to qualified commercial borrowers. The Corporation economically hedges client derivative transactions by entering into offsetting interest rate swap contracts executed with a third party. The derivative contracts have mirror-image terms, which results in the positions' changes in fair value primarily offsetting through earnings each period. The credit risk and risk of non-performance embedded in the fair value calculations is different between the dealer counterparties and the commercial borrowers which may result in a difference in the changes in the fair value of the mirror-image swaps. The Corporation incorporates credit valuation adjustments to appropriately reflect both its own non-performance risk and the counterparty's risk in the fair value measurements. When evaluating the fair value of its derivative contracts for the effects of non-performance and credit risk, the Corporation considered the impact of netting and any applicable credit enhancements such as collateral postings, thresholds and guarantees.

As of December 31, 2021 and 2020, the aggregate amortizing notional value of interest rate swaps with various commercial borrowers was $30.1 million and $30.5 million, respectively. The Corporation receives fixed rates and pays floating rates based upon LIBOR on the swaps with commercial borrowers. Commercial borrower swaps are completed independently with each borrower and are not subject to master netting arrangements. These commercial borrower swaps were reported on the consolidated balance sheets as a derivative asset and liability of $1,203,144 and $2,783,449 in accrued interest receivable and other assets and accrued interest payable and other liabilities as of December 31, 2021 and 2020, respectively. As of December 31, 2021 and 2020, no interest rate swaps were in default and therefore all values for the commercial borrower swaps are recorded on a gross basis on the consolidated balance sheets.

The offsetting interest rate swaps with a third party are collateralized by the pledge of security investments totaling $2,030,434 and $2,984,419 as of December 31, 2021 and 2020, respectively.

Advertising Costs

All advertising costs incurred by the Corporation are expensed in the period in which they are incurred and recorded in noninterest expense.

Income Taxes

The Corporation files a consolidated federal income tax return and combined state income tax returns. Income tax expense is recorded based on the liability method. Deferred income tax assets and liabilities are computed annually for differences between the financial statement and tax bases of assets and liabilities that will result in taxable or deductible amounts in the future based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. As changes in tax laws or rates are enacted, deferred tax assets and liabilities are adjusted through income tax expense. The differences relate principally to the allowance for loan losses, mortgage servicing rights, new markets tax credits investments, premises and equipment, and FICA payroll taxes. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. The Corporation also accounts for the uncertainty in income taxes related to the recognition and measurement of a tax position taken or expected to be taken in an income tax return. The Corporation follows the applicable accounting guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition related to the uncertainty in these income tax positions. It is the Corporation's policy to include interest and penalties in tax expense.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Earnings Per Share

Basic earnings per share is computed based upon the weighted average number of common shares outstanding during each year. The Corporation had no potentially dilutive shares outstanding during the periods ended December 31, 2021 and 2020.

Segment Reporting

The Corporation has determined that it has one reportable segment - community banking. The Corporation offers a range of financial products and services to external customers, including accepting deposits and originating residential, consumer and commercial loans. Revenues for each of these products and services are disclosed in the consolidated statements of income.

Employee Benefit Plan

The Corporation has established a defined contribution 401(k) profit-sharing plan for qualified employees. The Corporation's policy is to fund contributions as accrued.

Bank Owned Life Insurance

The Corporation is the owner and primary beneficiary of life insurance policies on certain employees. Bank owned life insurance is reported at the cash surrender value of the policies. The earnings on the policies are recognized as a component of noninterest income. The policies can be liquidated, if necessary, with tax costs associated. However, the Corporation intends to hold these policies and, accordingly, the Corporation has not provided for deferred income taxes on the earnings from the increase in cash surrender value.

Lease Reporting

The Corporation leases various banking facilities under operating lease agreements in accordance with Topic 842 - Leases. The Corporation has elected to apply the practical expedient to account for lease and non-lease components in contracts in which the Corporation is a lessee as a single lease component. The Corporation reports right of use lease assets representing our right to use an underlying asset for the lease term, and reports lease liabilities representing our obligation to make lease payments arising from the lease.

Lease assets and liabilities are determined based on the present value of remaining minimum lease payments, including all extension options, discounted using the Corporation's incremental borrowing rate as of the date of adoption, and any subsequent lease extensions or commencements. Since the rates inherent in the leases are generally not available, the Corporation uses the FHLB Chicago advance fixed rate for the appropriate lease term as the discount rate. Disclosures regarding the Corporation's leasing activity are presented in Note 14 – Leases.

Reclassifications

Certain 2020 amounts have been reclassified to conform to the 2021 presentation. The reclassifications have no effect on previously reported consolidated net income, basic earnings per share, and consolidated stockholders' equity.

Revenue Recognition

The Corporation generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; charged either on a periodic basis or based on activity. Because performance obligations are satisfied as services are rendered and the transaction prices are fixed, there is little judgment involved in applying Topic 606 that significantly affects the determination of the amount and timing of revenue from contracts with customers. The main types of revenue contracts included in non-interest income within the consolidated statements of operations are as follows:

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Revenue Recognition (continued)

- ***Service charges on deposits*** - Service charges on deposits consist of transaction-based fees, account maintenance fees, and overdraft services fees for various retail and business checking customers. Transaction-based fees, which includes services such as wire transfer fees and statement rendering fees are recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. All deposit liabilities are considered to have one-day terms and therefore related fees are recognized as non-interest income at the time when the services are provided to the customer. Account maintenance fees, which relate primarily to monthly maintenance, are earned over the course of a month, representing the period over which the Corporation satisfies the performance obligation. Overdraft fees are recognized at the point in time that the overdraft occurs. Service charges on deposits are withdrawn directly from the customer's account balance.

- ***Debit Card Interchange Income -*** The Corporation earns interchange fees from debit cardholder transactions conducted through VISA payment network. Interchange fees from cardholder transactions represent a percentage of the underlying transaction value and are recognized daily, concurrently with the transaction processing services provided to the cardholder.

- ***ATM Income -*** The Corporation earns income on automated teller machine ("ATM") transactions. This income includes fees when noncustomers use the Corporation's ATM network, when the Corporation's customers use other ATM networks and interchange income on transaction activity that occurs on the Corporation's ATM network. Income from these activities are recognized concurrently when the transactions occurs.

- ***Merchant Services Income*** - The Corporation earns merchant services income for selling and servicing merchant card processing to customers. The Corporation uses a third party to process the credit/debit cards at point of sale. The Corporation receives monthly payments for servicing the merchant terminals, which is earned over the course of the month, representing the period over which the Corporation satisfies the performance obligation. A per transaction fee and a percent of the overall transaction amount makes up the monthly merchant service fee collected from each customer. In addition, merchant services sell merchant terminal machines which is recognized at the time of sale.

- ***Gain/Losses on Sale of OREO –*** The Corporation records a gain or loss from the sale of OREO when control of the property transfers to the buyer, which generally occurs at the time of an executed deed. When the Corporation finances the sale of OREO to the buyer, the Corporation assesses whether the buyer is committed to perform their obligations under the contract and whether collectability of the transaction price is probable. Once these criteria are met, the OREO asset is derecognized and the gain or loss on sale is recorded upon the transfer of control of the property to the buyer. In determining the gain or loss on the sale, the Corporation adjusts the transaction prices and related gain (loss) on sale if a significant financing component is present. No gains or losses on sale of OREO were recorded in 2021 or 2020.

- ***Other Non-Interest Income*** – The main items in this revenue category are other loan closing related fees, prepayment fees and title fees which are all recognized at the time the transaction is executed as that is the point in time the Corporation fulfills the customer's request. Also included in other income are financial advisory fees which are contractually agreed with each customer and earned over time as the Corporation provides the contracted monthly or quarterly services.

Subsequent Events

Subsequent events were evaluated through March 23, 2022, the date the consolidated financial statements were available to be issued.

NOTE 1 - Summary of Significant Accounting Policies (cont.)

Accounting Pronouncements Effective in 2021

Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs

In October 2020, the Financial Accounting Standards Board ("FASB") issued ASU 2020-08, *Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs.* This amendment clarifies that an entity should re-evaluate whether a callable debt security is within the scope of paragraph 310-20-35-33 for each reporting period. The amendments are effective for fiscal years beginning after December 15, 2020. Management is evaluating the impact of the amendment, but believes it will not have a material impact on the operating results or financial position of the Corporation.

Accounting Pronouncements for Future Adoption

Reference Rate Reform

In March 2020, the FASB issued ASU 2020-04, *Reference Rate Reform (Topic 848).* The ASU provides temporary optional guidance to ease the potential burden in accounting for reference rate reform. The new guidance provides optional expedients and exceptions for applying U.S. GAAP principles to contract modifications and hedging relationships, subject to meeting certain criteria, that reference LIBOR or another reference rate expected to be discontinued. The ASU is intended to help stakeholders during the global market-wide reference rate transition period. Therefore, it will be in effect for a limited time through December 31, 2022. The Corporation has evaluated the impact of the ASU and it did not have a material impact on the operating results or financial position of the Corporation. The amendments in ASU 2020-04 are effective as of March 12, 2020 through December 31, 2022. The Corporation expects to apply the amendments prospectively for applicable loan and other contracts within the effective period of ASU 2020-04.

Financial Instruments – Credit Losses – Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326) Measurement of Credit Losses on Financial Instruments*. ASU 2016-13 requires credit losses on most financial assets measured at amortized cost and certain other instruments to be measured using an expected credit loss model (referred to as the current expected credit loss model). Under this model, entities will estimate credit losses over the entire contractual term of the instrument (considering estimated prepayments, but not expected extensions or modifications unless reasonable expectation of a troubled debt restructuring exists) from the date of initial recognition of that instrument. The ASU also replaces the current accounting model for purchased credit impaired loans and debt securities. The allowance for credit losses for purchased financial assets with a more-than insignificant amount of credit deterioration since origination ("PCD assets"), should be determined in a similar manner to other financial assets measured on an amortized cost basis. However, upon initial recognition, the allowance for credit losses is added to the purchase price ("gross up approach") to determine the initial amortized cost basis. The subsequent accounting for PCD financial assets is the same expected loss model described above. Further, the ASU made certain targeted amendments to the existing impairment model for available-for-sale (AFS) debt securities. For an AFS debt security for which there is neither the intent nor a more-likely-than-not requirement to sell, an entity will record credit losses as an allowance rather than a write-down of the amortized cost basis. In November 2019, the FASB issued ASU 2019-10 which amends the effective date of ASU 2016–13. The Corporation must adopt this guidance in 2023. Management has engaged a third-party vendor to assist in the implementation of the standard and is in the process of analyzing loan level data for modeling purposes. Management is currently evaluating the impact of adoption of the new standard on the consolidated operations, financial position and cash flows of the Corporation.

NOTE 2 - Fair Value of Financial Instruments

The accounting guidance for fair value measurements and disclosures establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy favors the transparency of inputs to the valuation of an asset or liability as of the measurement date and thereby favors use of Level 1 if appropriate information is available, otherwise Level 2, and finally Level 3 if a Level 2 input is not available. The three levels are defined as follows.

- Level 1 — Fair value is based upon quoted prices (unadjusted) for identical assets or liabilities in active markets in which the Corporation can participate.
- Level 2 — Fair value is based upon quoted prices for similar (i.e., not identical) assets and liabilities in active markets, and other inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 — Fair value is based upon financial models using primarily unobservable inputs.

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

Securities available for sale - The fair value of securities available for sale is determined by obtaining market price quotes from independent third parties wherever such quotes are available. Where such quotes are not available, management utilizes independent third-party valuation analysis to support these estimates and judgments in determining fair value. The subsequent table presents, for the periods noted, the Corporation's fair value of securities available for sale in accordance with the fair value hierarchy described above.

Impaired loans - The Corporation does not record loans held for investment at fair value on a recurring basis. However, from time to time, a particular loan may be considered impaired and an allowance for loan losses established. Loans for which it is probable that payment of interest and principal will not be made in accordance with the contractual terms of the loan agreement are considered impaired. Once a loan is identified as individually impaired, management measures impairment in accordance with relevant accounting guidance. The fair value of impaired loans is estimated using either the fair value of collateral method or the present value of cash flows method. Those impaired loans requiring an allowance represent loans for which the fair value of the expected repayments or collateral does not exceed the recorded investments in such loans. For individually evaluated impaired loans, the significant unobservable inputs include the present value of expected future cash flows discounted at the loans effective interest rate, the underlying collateral for collateral-dependent loans, or the estimated liquidity of the note, resulting in an average discount of approximately 22.9% as of December 31, 2021 and 22.5% as of December 31, 2020 for those impaired loans requiring an allowance. The Corporation records these impaired loans as nonrecurring level 3 in the fair value hierarchy. On December 31, 2021 and 2020, all of the impaired loans were evaluated based on the fair value of the collateral.

Mortgage servicing rights - The fair value of MSRs is estimated using third-party information for selected asset price tables for servicing cost and servicing fees applied to the Corporation's portfolio of serviced loans and is categorized as level 2 in the fair value hierarchy.

Interest rate swaps – Values of these instruments are obtained through an independent pricing source utilizing information which may include market observed quotations for swaps, LIBOR rates, forward rates and rate volatility and are categorized as level 2 in the fair value hierarchy.

The methods described above may produce a fair value estimate that may not be indicative of net realizable value or reflective of future fair values. Further, while the Corporation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in different estimates of fair values of the same financial instruments as of the reporting date.

NOTE 2 - Fair Value of Financial Instruments (cont.)

Financial instruments measured at fair value on a recurring basis for 2021 and 2020 are summarized below:

Assets	12/31/2021	Level 1	Level 2	Level 3
Securities available for sale				
Obligations of state and political subdivision	$ 179,710,031	$ -	$ 179,710,031	$ -
Collateralized mortgage obligations	204,484,542	-	204,484,542	-
Mortgage-backed securities	436,444,556	-	436,444,556	-
Total securities available for sale	$ 820,639,129	$ -	$ 820,639,129	$ -
Interest rate swaps - other assets	$ 1,203,144	$ -	$ 1,203,144	$ -
Liabilities				
Interest rate swaps - other liabilities	$ 1,203,144	$ -	$ 1,203,144	$ -

Assets	Balance at 12/31/2020	Level 1	Level 2	Level 3
Securities available for sale				
Obligations of state and political subdivision	$ 176,979,539	$ -	$ 176,979,539	$ -
Collateralized mortgage obligations	201,239,076	-	201,239,076	-
Mortgage-backed securities	180,290,784	-	180,290,784	-
Total securities available for sale	$ 558,509,399	$ -	$ 558,509,399	$ -
Interest rate swaps - other assets	$ 2,783,449	$ -	$ 2,783,449	$ -
Liabilities				
Interest rate swaps - other liabilities	$ 2,783,449	$ -	$ 2,783,449	$ -

Financial instruments measured at fair value on a non-recurring basis for 2021 and 2020 are summarized below:

	Balance at 12/31/2021	Level 1	Level 2	Level 3
Impaired loans with a related allowance, net	$ 3,276,800	$ -	$ -	$ 3,276,800
Mortgage servicing rights	-	-	-	-
Totals	$ 3,276,800	$ -	$ -	$ 3,276,800

	Balance at 12/31/2020	Level 1	Level 2	Level 3
Impaired loans with a related allowance, net	$ 5,717,400	$ -	$ -	$ 5,717,400
Mortgage servicing rights	1,628,633	-	1,628,633	-
Totals	$ 7,346,033	$ -	$ 1,628,633	$ 5,717,400

NOTE 2 - Fair Value of Financial Instruments (cont.)

The estimated fair values of financial instruments as of December 31,

		2021		2020	
	Fair Value Hierarchy	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
FINANCIAL ASSETS					
Cash and due from banks	1	$ 134,568,580	$ 134,568,580	$ 184,345,327	$ 184,345,327
Federal funds sold	2	891,783	891,783	11,019,722	11,019,722
Available for sale securities	2	820,639,129	820,639,129	558,509,399	558,509,399
Federal reserve stock	2	322,100	322,100	322,100	322,100
Loans held for investment	3	1,001,079,594	998,595,587	945,140,634	948,993,634
Bank owned life insurance	2	44,300,870	44,300,870	43,312,658	43,312,658
Mortgage servicing rights, net	2	2,247,087	2,404,054	1,672,249	1,628,633
Interest rate swaps	2	1,203,144	1,203,144	2,783,449	2,783,449
Accrued interest receivable	2	4,871,991	4,871,991	4,735,605	4,735,605
FINANCIAL LIABILITIES					
Deposits	2	$ 1,844,378,881	$ 1,843,911,881	$ 1,574,587,154	$ 1,574,758,154
Interest rate swaps	2	1,203,144	1,203,144	2,783,449	2,783,449
Accrued interest payable	2	37,741	37,741	58,125	58,125

The estimated fair value of fee income on letters of credit outstanding as of December 31, 2021 and December 31, 2020 is insignificant. Loan commitments on which the committed interest rate is less than the current market rate are also insignificant at December 31, 2021 and December 31, 2020.

NOTE 3 - Cash and Due from Banks

The Corporation is required to maintain vault cash and reserve balances with the FRB based upon a percentage of deposits. There was no reserve requirement as of December 31, 2021 and as of December 31, 2020.

NOTE 4 - Available for Sale Securities

The following table presents the amortized costs and fair values of available for sale securities as of December 31,

	2021			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 178,942,237	$ 2,304,791	$ (1,536,997)	$ 179,710,031
Collateralized mortgage obligations	206,296,330	1,339,364	(3,151,152)	204,484,542
Mortgage-backed securities	438,310,027	1,702,618	(3,568,089)	436,444,556
Totals	$ 823,548,594	$ 5,346,773	$ (8,256,238)	$ 820,639,129

	2020			
	Amortized Cost	Unrealized Gains	Unrealized Losses	Fair Value
Obligations of states and political subdivisions	$ 173,590,169	$ 3,732,228	$ (342,858)	$ 176,979,539
Collateralized mortgage obligations	197,291,097	4,137,130	(189,152)	201,239,075
Mortgage-backed securities	176,518,843	3,861,279	(89,337)	180,290,785
Totals	$ 547,400,109	$ 11,730,637	$ (621,347)	$ 558,509,399

The amortized cost and fair value of available for sale securities as of December 31, 2021, by contractual maturity are shown below. Expected maturities will differ from contractual maturities for collateralized mortgage obligations and mortgage backed securities because borrowers or issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	2021	
	Amortized Cost	Fair Value
Due within one year or less	$ 2,036,265	$ 2,040,821
Due after one year but less than 5 years	10,625,269	10,800,366
Due after 5 years but less than 10 years	70,797,874	71,388,076
Due over 10 years	95,482,829	95,480,768
	178,942,237	179,710,031
Collateralized mortgage obligations	206,296,330	204,484,542
Mortgage backed securities	438,310,027	436,444,556
Totals	$ 823,548,594	$ 820,639,129

NOTE 4 - Available for Sale Securities (cont.)

Available for sale securities with an amortized cost of $202,018,092 and $169,131,059 at December 31, 2021 and December 31, 2020, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

The following table presents the portion of the Corporation's available for sale securities portfolio which has gross unrealized losses, reflecting the length of time that individual securities have been in a continuous unrealized loss position as of December 31:

	losses existing for 12 months or less		losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	$ 55,206,115	$ (803,921)	$ 28,841,937	$ (733,076)	$ 84,048,052	$ (1,536,997)
Collateralized mortgage obligations	111,138,771	(2,422,942)	21,183,457	(728,210)	132,322,228	(3,151,152)
Mortgage-backed securities	323,758,472	(3,240,144)	13,728,236	(327,945)	337,486,708	(3,568,089)
Totals	$ 490,103,358	$ (6,467,007)	$ 63,753,630	$ (1,789,231)	$ 553,856,988	$ (8,256,238)

	2020					
	Continuous unrealized losses existing for 12 months or less		Continuous unrealized losses existing for greater than 12 months		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Obligations of states and political subdivisions	$ 21,879,571	$ (342,858)	$ -	$ -	$ 21,879,571	$ (342,858)
Collateralized mortgage obligations	37,551,255	(189,152)	-	-	37,551,255	(189,152)
Mortgage-backed securities	28,101,248	(89,337)	-	-	28,101,248	(89,337)
Totals	$ 87,532,074	$ (621,347)	$ -	$ -	$ 87,532,074	$ (621,347)

Management does not believe any individual unrealized loss as of December 31, 2021 represents other than temporary impairment. The Corporation held 51 investment securities as of December 31, 2021 that had unrealized losses existing for greater than 12 months. The Corporation held no investment securities as of December 31, 2020 that had unrealized losses existing for greater than 12 months. Management believes the temporary impairment in fair value was caused by market fluctuation in interest rates. Management does not believe that the Corporation will experience any losses on these investments.

NOTE 5 – Loans

Major classifications of loans are as follows as of December 31:

	2021	2020
Commercial	$ 39,187,713	$ 69,044,920
Real Estate		
Construction	48,259,758	61,488,562
Commercial	599,566,103	520,296,973
Residential	162,800,909	167,611,820
Multifamily	162,035,267	134,715,011
Installment and other	3,086,325	5,958,080
	1,014,936,075	959,115,366
Less:		
Deferred PPP loan fees	(283,708)	(867,813)
Allowance for loan losses	(13,572,773)	(13,106,919)
Net loans	$ 1,001,079,594	$ 945,140,634

The Corporation participated extensively in the CARES Act PPP loan program administered by the SBA. The Corporation originated 624 PPP loans to customers totaling $38.1 million in 2021, compared to 1,121 PPP loans totaling $62.2 million in 2020. The SBA will guarantee 100% of the PPP loans made to eligible borrowers. The entire principal amount of the borrower's PPP loan, including any accrued interest, is eligible to be reduced by loan forgiveness from the SBA so long as certain criteria are met. PPP loans have a two year or up to five year maturity and an interest rate of 1% throughout the term of the loan, with payments deferred until forgiveness proceeds are received from the SBA or ten months after the end of the covered period. During the year ended December 31, 2021, a total of 1,475 PPP loans totaling $71.5 million had been forgiven and repaid by the SBA. The remaining PPP customer loans outstanding of $6.7 million as of December 31, 2021, compared to the $40.1 million as of December 31, 2020, are classified as Commercial loans. No allowance for loan loss was allocated to the PPP loan portfolio due to the Corporation complying with the lender obligations that ensure SBA guarantee.

The Corporation received a processing fee from the SBA ranging from 1% to 5% depending on the size of the PPP loan. The Corporation generated $2,356,269 in gross processing fees from the SBA for the PPP loan originations during the year ended December 31, 2021, compared to $2,768,140 in 2020. These processing fees were deferred, net of PPP loan origination costs of $458,290 which are recognized as a reduction in salaries and employee benefits on the consolidated statements of income during the year ended December 31, 2021, compared to $1,069,501 in 2020. A total of $2,482,086 of the net deferred PPP origination fees were recognized in loan interest income on the consolidated statements of income during the year ended December 31, 2021, compared to $830,826 in 2020. The unamortized net deferred PPP origination fees were $283,708 as of December 31, 2021, compared to $867,813 in 2020, and will be recognized through loan interest income over the life of the related PPP loans or until the PPP loans are forgiven or repaid

NOTE 5 – Loans (cont.)

The following table presents the contractual aging of the recorded investment in loans as of December 31:

2021	Current Loans	Days Past Due 30-59	60-89	Over 90	Total	Total Loans
Commercial	$ 39,167,965	$ 10,518	$ 9,230	$ -	$ 19,748	$ 39,187,713
Real Estate						
Construction	48,259,758	-	-	-	-	48,259,758
Commercial	599,316,826	-	-	249,277	249,277	599,566,103
Residential	158,646,860	3,598,976	197,518	357,555	4,154,049	162,800,909
Multifamily	162,035,267	-	-	-	-	162,035,267
Installment and other	2,915,357	152,420	-	18,548	170,968	3,086,325
Total loans	1,010,342,033	3,761,914	206,748	625,380	4,594,042	1,014,936,075
Purchase credit-impaired loans	(2,394,849)	(38,240)	-	(86,611)	(124,851)	(2,519,700)
Total loans, excluding purchase credit-impaired Loans	$ 1,007,947,184	$ 3,723,674	$ 206,748	$ 538,769	$ 4,469,191	$ 1,012,416,375

2020	Current Loans	Days Past Due 30-59	60-89	Over 90	Total	Total Loans
Commercial	$ 69,044,920	$ -	$ -	$ -	$ -	$ 69,044,920
Real Estate						
Construction	61,479,178	9,384	-	-	9,384	61,488,562
Commercial	515,996,073	3,402,146	822,495	76,259	4,300,900	520,296,973
Residential	165,698,063	1,460,834	30,835	422,088	1,913,757	167,611,820
Multifamily	134,715,011	-	-	-	-	134,715,011
Installment and other	5,936,833	16,317	4,930	-	21,247	5,958,080
Total loans	952,870,078	4,888,681	858,260	498,347	6,245,288	959,115,366
Purchase credit-impaired loans	(3,213,711)	(50,991)	(30,835)	(1,215)	(83,041)	(3,296,752)
Total loans, excluding purchase credit-impaired Loans	$ 949,656,367	$ 4,837,690	$ 827,425	$ 497,132	$ 6,162,247	$ 955,818,614

Commercial loans deemed to be inadequately collateralized and past due 90 days or more for principal or interest are placed in a non-accrual status. Residential real estate loans are not subject to these guidelines if well-secured, as deemed by the Senior Loan Committee, and in the process of collection.

NOTE 5 – Loans (cont.)

The following table presents the recorded investment in nonaccrual loans and loans past due ninety days or more and still accruing by class of loans as of December 31:

	2021	
	Nonaccrual	Past due 90 days or More and accruing
Commercial	$ -	$ -
Real Estate		
Construction	-	-
Commercial	1,519,408	249,277
Residential	1,613,084	-
Multifamily	-	-
Installment and other	-	18,548
Total Loans	3,132,492	267,825
Purchase Credit Impaired Loans:		
Commercial	-	-
Real Estate		
Construction	-	-
Commercial	-	-
Residential	(78,262)	-
Multifamily	-	-
Installment and other	-	-
Total Purchased Credit-Impaired Loans	(78,262)	-
Total Loans, excluding Purchase Credit Impaired Loans	$ 3,054,230	$ 267,825

	2020	
	Nonaccrual	Past due 90 days or More and accruing
Commercial	$ -	$ -
Real Estate		
Construction	-	-
Commercial	2,811,189	-
Residential	2,127,459	-
Multifamily	-	-
Installment and other	6,109	-
Total Loans	4,944,757	-
Purchase Credit Impaired Loans:		
Commercial	-	-
Real Estate		
Construction	-	-
Commercial	-	-
Residential	(44,650)	-
Multifamily	-	-
Installment and other	-	-
Total Purchased Credit-Impaired Loans	(44,650)	-
Total Loans, excluding Purchase Credit Impaired Loans	$ 4,900,107	$ -

NOTE 5 – Loans (cont.)

Management uses an internal asset classification system as a means of identifying problem and potential problem assets. A Special Mention loan has potential weaknesses that deserve management's close attention. If left uncorrected, these potential weaknesses may result in deterioration of the repayment prospects for the loan at a future date. An asset is classified Substandard if it is inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Substandard assets include those characterized by the distinct possibility that the Corporation will sustain some loss if the deficiencies are not corrected. Assets classified as Doubtful have all the weaknesses inherent in those classified Substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. Assets that do not currently expose the Corporation to sufficient risk to warrant classification in one of the aforementioned categories but possess weaknesses that may or may not be within the control of the customer are classified as "Pass." Residential Real Estate and Installment and Other loans are not rated and are included in groups of homogeneous loans with similar risk and loss characteristics and are not included in the table below. The following tables present the risk category of loans by class of loans based on the most recent analysis performed and the contractual aging as of December 31:

	2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 39,114,015	$ -	$ 73,698	$ -	$ 39,187,713
Real Estate					
Construction	48,259,758	-	-	-	48,259,758
Commercial	561,733,453	4,961,748	32,870,902	-	599,566,103
Multifamily	162,035,267	-	-	-	162,035,267
Total	$ 811,142,493	$ 4,961,748	$ 32,944,600	$ -	$ 849,048,841
Current	$ 810,873,468	$ 4,961,748	$ 32,944,600	$ -	$ 848,779,816
30-59	10,518	-	-	-	10,518
60-89	9,230	-	-	-	9,230
Over 90	249,277	-	-	-	249,277
Total	$ 811,142,493	$ 4,961,748	$ 32,944,600	$ -	$ 849,048,841

	2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 68,914,767	$ -	$ 130,153	$ -	$ 69,044,920
Real Estate					
Construction	61,488,562	-	-	-	61,488,562
Commercial	494,687,135	295,771	25,314,067	-	520,296,973
Multifamily	134,577,015	-	137,996	-	134,715,011
Total	$ 759,667,479	$ 295,771	$ 25,582,216	$ -	$ 785,545,466
Current	$ 759,603,799	$ 295,771	$ 21,335,612	$ -	$ 781,235,182
30-59	63,680	-	3,347,850	-	3,411,530
60-89	-	-	822,495	-	822,495
Over 90	-	-	76,259	-	76,259
Total	$ 759,667,479	$ 295,771	$ 25,582,216	$ -	$ 785,545,466

NOTE 5 – Loans (cont.)

The following table presents the recorded investment in residential real estate and installment and other loan classes based on payment activity as of December 31:

	2021		
	Performing	Nonperforming	Total
Residential Real Estate	$ 161,187,825	$ 1,613,084	$ 162,800,909
Installment & Other	3,067,777	18,548	3,086,325
Totals	$ 164,255,602	$ 1,631,632	$ 165,887,234

	2020		
	Performing	Nonperforming	Total
Residential Real Estate	$ 165,545,260	$ 2,127,459	$ 167,672,719
Installment & Other	5,951,971	6,109	5,958,080
Totals	$ 171,497,231	$ 2,133,568	$ 173,630,799

As of December 31, 2021, the Corporation has identified $10.8 million of loans as impaired, including $7.6 million of performing TDRs. As of December 31, 2020, the Corporation has identified $15.4 million of loans as impaired, including $10.4 million of performing TDRs. The Corporation evaluates loans placed on the watch list for impairment. A loan is identified as impaired when, based on current information and events, it is probable that the Corporation will be unable to collect all amounts due according to the contractual terms of the loan agreement. A performing TDR consists of loans that have been modified and are performing in accordance with the modified terms for a sufficient length of time, generally six months, or loans that were modified on a proactive basis. A summary of the details regarding impaired loans as of December 31 follows:

	2021	2020
Loans for which there was a related allowance for loan loss	$ 4,251,403	$ 7,375,186
Impaired loans with no related allowance	6,541,135	8,005,054
Total Impaired Loans	$ 10,792,538	$ 15,380,240
Average quarterly balance of impaired loans	$ 12,054,344	$ 16,932,396
Related allowance for loan losses	974,602	1,657,786
Interest income recognized while impaired	369,543	492,865

As of December 31, 2021 and 2020, the Corporation had residential real estate loans in foreclosure with a carrying value of $104,969 and $209,440, respectively.

NOTE 5 – Loans (cont.)

The following table presents loans individually evaluated for impairment by class of loans as of December 31:

	2021			
	Unpaid Principal Balance	Partial Charge-offs	Recorded Investment	Allowance For Loan Losses Allocation
Loans with no related allowance recorded:				
Commercial	$ -	$ -	$ -	$ -
Real Estate				
Construction	6,853	-	6,853	-
Commercial	1,012,832	-	1,012,832	-
Residential	5,746,386	235,992	5,510,394	-
Multifamily	-	-	-	-
Installment and other	12,560	1,504	11,056	-
Total	6,778,631	237,496	6,541,135	-
Loans with a related allowance recorded:				
Commercial	-	-	-	-
Real Estate				
Construction	550,538	-	550,538	43,538
Commercial	2,383,907	200,087	2,183,821	838,021
Residential	1,577,243	60,199	1,517,044	93,044
Multifamily	-	-	-	-
Installment and other	-	-	-	-
Total	4,511,688	260,286	4,251,403	974,603
Total Impaired Loans	$ 11,290,319	$ 497,782	$ 10,792,538	$ 974,603

	2020			
	Unpaid Principal Balance	Partial Charge-offs	Recorded Investment	Allowance For Loan Losses Allocation
Loans with no related allowance recorded:				
Commercial	$ 8,808	$ -	$ 8,808	$ -
Real Estate				
Construction	9,484	-	9,484	-
Commercial	1,907,283	142,088	1,765,195	-
Residential	6,444,002	240,834	6,203,168	-
Multifamily	-	-	-	-
Installment and other	20,426	2,027	18,399	-
Total	8,390,003	384,949	8,005,054	-
Loans with a related allowance recorded:				
Commercial	-	-	-	-
Real Estate				
Construction	614,471	-	614,471	247,471
Commercial	3,079,196	128,223	2,950,973	1,133,773
Residential	3,882,036	73,472	3,808,563	275,363
Multifamily	-	-	-	-
Installment and other	4,501	3,323	1,179	1,179
Total	7,580,204	205,018	7,375,186	1,657,786
Total Impaired Loans	$ 15,970,207	$ 589,967	$ 15,380,240	$ 1,657,786

NOTE 5 – Loans (cont.)

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

2021	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for loan losses:							
Beginning Balance	$ 162,159	$ 860,713	$ 9,775,246	$ 1,515,138	$ 702,885	$ 90,778	$ 13,106,919
Charge-offs	-	-	(922)	(49,513)	-	(1,779)	(52,214)
Recoveries	44,735	-	28,912	402,203	5,038	37,180	518,068
Provision and re-allocations	(61,754)	(401,472)	1,691,686	(1,101,038)	(48,244)	(79,178)	-
Ending Balance	$ 145,140	$ 459,241	$ 11,494,922	$ 766,790	$ 659,679	$ 47,001	$ 13,572,773
Loans:							
Recorded Investment	$ 39,187,713	$ 48,259,758	$ 599,566,103	$ 162,800,909	$ 162,035,267	$ 3,086,325	$ 1,014,936,075
Allowance for loan losses:							
Individually evaluated for impairment	-	43,538	838,021	93,044	-	-	974,603
Collectively evaluated for impairment	145,140	415,703	10,656,901	673,746	659,679	47,001	12,598,170
Total allowance for loan losses	145,140	459,241	11,494,922	766,790	659,679	47,001	13,572,773
Ending Balance	$ 39,042,573	$ 47,800,517	$ 588,071,181	$ 162,034,119	$ 161,375,588	$ 3,039,324	$ 1,001,363,302
Ending Balance:							
Individually evaluated for impairment	$ -	$ 557,391	$ 3,196,653	$ 5,945,070	$ -	$ 11,056	$ 9,710,170
Collectively evaluated for impairment	39,187,713	47,694,972	596,106,612	154,606,372	162,035,267	3,075,269	1,002,706,205
Purchase credit-impaired:							
Individually evaluated for impairment	-	-	-	1,082,368	-	-	1,082,368
Collectively evaluated for impairment	-	7,395	262,838	1,167,099	-	-	1,437,332
Total ending balance	$ 39,187,713	$ 48,259,758	$ 599,566,103	$ 162,800,909	$ 162,035,267	$ 3,086,325	$ 1,014,936,075

2020	Commercial	Construction Real Estate	Commercial Real Estate	Residential Real Estate	Multifamily Real Estate	Installment & Other	Total
Allowance for loan losses:							
Beginning Balance	$ 246,512	$ 918,196	$ 7,685,735	$ 1,862,506	$ 274,764	$ 85,243	$ 11,072,956
Charge-offs	-	-	(5,021)	(169,900)	-	(47,472)	(222,393)
Recoveries	28,448	-	360,137	359,831	-	7,940	756,356
Provision and re-allocations	(112,801)	(57,483)	1,734,395	(537,299)	428,121	45,067	1,500,000
Ending Balance	$ 162,159	$ 860,713	$ 9,775,246	$ 1,515,138	$ 702,885	$ 90,778	$ 13,106,919
Loans:							
Recorded Investment	$ 69,044,920	$ 61,488,562	$ 520,296,973	$ 167,611,820	$ 134,715,011	$ 5,958,080	$ 959,115,366
Allowance for loan losses:							
Individually evaluated for impairment	-	247,471	1,133,773	275,363	-	1,179	1,657,786
Collectively evaluated for impairment	162,159	613,242	8,641,473	1,239,775	702,885	89,599	11,449,133
Total allowance for loan losses	162,159	860,713	9,775,246	1,515,138	702,885	90,778	13,106,919
Ending Balance	$ 68,882,761	$ 60,627,849	$ 510,521,727	$ 166,096,682	$ 134,012,126	$ 5,867,302	$ 946,008,447
Ending Balance:							
Individually evaluated for impairment	$ 8,808	$ 623,955	$ 4,716,168	$ 8,451,564	$ -	$ 19,578	$ 13,820,073
Collectively evaluated for impairment	69,036,112	60,855,223	515,271,773	156,181,920	134,715,011	5,938,502	941,998,541
Purchase credit-impaired:							
Individually evaluated for impairment	-	-	-	1,560,167	-	-	1,560,167
Collectively evaluated for impairment	-	9,384	309,032	1,418,169	-	-	1,736,585
Total ending balance	$ 69,044,920	$ 61,488,562	$ 520,296,973	$ 167,611,820	$ 134,715,011	$ 5,958,080	$ 959,115,366

NOTE 5 – Loans (cont.)

The Corporation continues to evaluate purchased loans for impairment in accordance with U.S. GAAP. The purchased loans were considered impaired at the acquisition date if there was evidence of deterioration since origination and if it was probable that not all contractually required principal and interest payments would be collected. The following table reflects the carrying value of all purchased loans as of December 31:

	2021		
	Contractually Required Payments Receivable		
	Credit Impaired	Non-Credit Impaired	Carrying Value of Purchased Loans
Loans with no related allowance recorded:			
Commercial	$ -	$ -	$ -
Real Estate			
Construction	37,825	-	7,395
Commercial	646,222	-	262,838
Residential	5,080,051	9,946,819	11,127,435
Multifamily	-	-	-
Installment and other	-	-	-
Total	$ 5,764,098	$ 9,946,819	$ 11,397,668

	2020		
	Contractually Required Payments Receivable		
	Credit Impaired	Non-Credit Impaired	Carrying Value of Purchased Loans
Loans with no related allowance recorded:			
Commercial	$ -	$ -	$ -
Real Estate			
Construction	39,814	-	9,384
Commercial	746,908	116,193	405,367
Residential	6,223,394	12,126,615	13,996,006
Multifamily	-	-	-
Installment and other	-	-	-
Total	$ 7,010,116	$ 12,242,808	$ 14,410,757

As of December 31, 2021, the estimated contractually required payments receivable on credit impaired and non-credit impaired loans was \$5.8 million and \$9.9 million, respectively. The cash flows expected to be collected related to principal as of December 31, 2021 on all purchased loans is \$11.4 million. As a result, there is \$4.3 million of remaining discount on the purchased loans. These amounts are based upon the estimated fair values of the underlying collateral or discounted cash flows as of December 31, 2021. The difference between the contractually required payments at acquisition and the cash flow expected to be collected at acquisition is referred to as the non-accretable difference. Subsequent decreases to the expected cash flows will generally result in a change to the allowance for loan losses. Subsequent increases in cash flows will result in a change in the allowance for loan losses to the extent of prior charges or a reclassification of the difference from non-accretable discount to accretable discount, with a positive impact on interest income. Further, any excess of cash flows expected over the estimated fair value is referred to as the accretable yield and is recognized in interest income over the remaining life of the loan when there is a reasonable expectation about the amount and timing of such cash flows.

NOTE 5 – Loans (cont.)

The change in the carrying amount of accretable yield for purchased loans was as follows for the years ended December 31:

	For the Year Ended December 31, 2021	2020
Beginning Balance	$ 1,128,803	$ 1,432,330
Additions	203,237	96,860
Accretion(1)	(263,187)	(400,387)
Ending Balance	$ 1,068,853	$ 1,128,803

(1) Accretable yield is recognized in interest income as the purchased loans pay down, mature, renew or pay off.

Contractual maturities of loans with accretable yield range from 1 year to 30 years. Actual maturities may differ from contractual maturities because borrowers have the right to prepay or renew their loan prior to maturity or the loan may be charged off.

Certain directors and executive officers of the Corporation, and their related interests, had loans outstanding in the aggregate amounts of $4.0 million and $5.9 million as of December 31, 2021 and 2020, respectively. During 2021 repayments totaled $1.9 million. Certain affiliated parties of the Corporation are investors in loan participations of the Corporation. The outstanding balance of loan participations with affiliated parties totaled $1.4 million and $1.5 million as of December 31, 2021 and 2020, respectively. The participations represent investments by the affiliated parties in a portion of the affiliated party loans aggregate amounts described above.

Residential and commercial real estate loans approximating $2.2 million and $2.8 million as of December 31, 2021 and 2020, respectively, were pledged as collateral on public deposits and for other purposes as required or permitted by law.

NOTE 5 – Loans (cont.)

A TDR includes a loan modification where a borrower is experiencing financial difficulty and the Corporation grants a concession to that borrower that it would not otherwise consider except for the borrower's financial difficulties. Modifications include below market interest rates, interest-only terms, forgiveness of principal, or an exceptionally long amortization period. Most of the Corporation's modifications are below market interest rate concessions. A TDR may be either on accrual or nonaccrual status based upon the performance of the borrower and management's assessment of collectability. If a TDR is placed on nonaccrual status, it remains there until it performs under the restructured terms for a sufficient period of time, generally six consecutive months at which time it is returned to accrual status.

In 2020, the CARES Act, along with regulatory guidance from federal banking agencies, provided that a financial institution may elect to exempt loan modifications related to the COVID-19 pandemic that would otherwise be categorized as a TDR from consideration for TDR treatment. The Corporation elected this treatment for qualifying loan modifications in 2020. In December of 2020, the TDR moratorium was extended until January 2022. In 2021, The Corporation provided loan modifications to 2 residential real estate loans totaling $260,000 and 4 commercial real estate loans totaling $12.0 million that would have been reviewed for TDR consideration, compared to 2020 where the Corporation provided loan modifications to 55 residential real estate loans totaling $6.2 million, 173 commercial real estate loans totaling $125.9 million, 9 multifamily real estate loans totaling $18.9 million, and $2.0 million in commercial loan modifications to 5 customers. In 2020, the commercial real estate loan modifications included 25 non-owner occupied retail properties totaling $25.3 million, 11 non-owner occupied office properties totaling $14.7 million, 21 mixed or special use loans totaling $19.5 million, 17 hotel and motel loans totaling $37.9 million and 36 restaurant and bar loans totaling $12.4 million. As of December 31, 2021, zero residential real estate loans and four commercial real estate loans remained in a modified status, totaling $12.0 million, compared to 2020 when there was one residential real estate loan and eight commercial real estate loans remaining, totaling $13.6 million. All loans under a modification period are considered current for payment status. Management continues to carefully monitor those borrowers that remain on payment modifications for additional signs of distress that would result in a downgrade of loan classification.

The following is a summary of loans classified as TDRs as of December 31:

	2021		
	Number of Modifications	Total Trouble Debt Restructurings	Allowance For Loan Losses Allocation
Commercial	-	$ -	$ -
Real Estate			
Construction	3	557,391	43,538
Commercial	3	1,677,244	333,412
Residential	87	6,487,578	93,044
Multifamily	-	-	-
Installment & Other	2	11,056	-
Total Loans	95	$ 8,733,269	$ 469,994

	2020		
	Number of Modifications	Total Trouble Debt Restructurings	Allowance For Loan Losses Allocation
Commercial	1	$ 8,808	$ -
Real Estate			
Construction	3	623,955	247,471
Commercial	7	2,276,381	382,428
Residential	109	9,195,687	273,367
Multifamily	-	-	-
Installment & Other	3	18,399	-
Total Loans	123	$ 12,123,230	$ 903,266

NOTE 5 - Loans (cont.)

There were two TDR's as of December 31, 2021 and none as of December 31, 2020 that defaulted during the period and were modified within the previous 12 months. TDR's in default are past due 90 days or more at the end of the period.

A summary of the type of modifications made on TDR's that occurred during 2021 and 2020 are noted in the table below.

For the Year Ended December 31, 2021						
	Modification of Terms Balance	Reduction of Interest Rate Balance	Modification to Interest-only Payments Balance	Forgiveness of Debt Balance	Bankruptcy Balance	Total Balance
Commercial	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	115,727	115,727
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	$ -	$ -	$ -	$ -	$ 115,727	$ 115,727
	Count	Count	Count	Count	Count	Count
Commercial	-	-	-	-	-	-
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	2	2
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	-	-
Total Loans	-	-	-	-	2	2

For the Year Ended December 31, 2020						
	Modification of Terms Balance	Reduction of Interest Rate Balance	Modification to Interest-only Payments Balance	Forgiveness of Debt Balance	Bankruptcy Balance	Total Balance
Commercial	$ -	$ -	$ -	$ -	$ -	$ -
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	199,986	199,986
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	4,930	4,930
Total Loans	$ -	$ -	$ -	$ -	$ 204,916	$ 204,916
	Count	Count	Count	Count	Count	Count
Commercial	-	-	-	-	-	-
Real Estate						
Construction	-	-	-	-	-	-
Commercial	-	-	-	-	-	-
Residential	-	-	-	-	1	1
Multifamily	-	-	-	-	-	-
Installment & Other	-	-	-	-	1	1
Total Loans	-	-	-	-	2	2

NOTE 6 - Premises and Equipment

Premises and equipment are stated at cost less accumulated depreciation as of December 31 and are summarized as follows:

	2021	2020
Land	$ 6,353,056	$ 6,718,092
Buildings and leasehold improvements	34,879,872	32,359,743
Furniture and equipment	18,816,595	17,758,521
Total	60,049,523	56,836,356
Less: Accumulated depreciation	(42,734,853)	(40,810,275)
Net Premises and Equipment	$ 17,314,670	$ 16,026,081

NOTE 7 – New Markets Tax Credits - Variable Interest Entities

The Corporation invests in CDEs that are designed to generate a return primarily through the realization of New Markets Tax Credits. The CDEs are formed as limited partnerships and limited liability companies in which the Corporation invests as a limited partner/investor member through equity contributions. The economic performance of the CDEs, which are variable interest entities ("VIEs"), is subject to the performance of their underlying loans. The Corporation has determined that it is not the primary beneficiary of any CDE as it lacks the power to direct the activities that most significantly impact the economic performance of the underlying loans or to affect their ability to operate in compliance with the rules and regulations necessary for the qualification of tax credits generated by equity investments. This power is held by the general partners and managing members who exercise full and exclusive control of the operations of the VIEs.

As of December 31, 2021 and 2020, the carrying amounts of these investments in CDEs that generate the tax credits, included in accrued interest receivable and other assets in the consolidated balance sheets, totaled $5.3 million and $7.2 million, respectively. The risk of loss in these investments is tied to the ability of the CDE to operate in compliance with the rules and regulations necessary for the qualification of the tax credits generated by equity investments. As of December 31, 2021 and 2020 there are no compliance issues associated with these entities.

NOTE 8 – Accrued Interest Receivable and Other Assets

A summary of accrued interest receivable and other assets as of December 31 is as follows:

	2021	2020
Accrued interest receivable	$ 4,871,991	$ 4,735,605
Federal Reserve Bank stock	322,100	322,100
Mortgage servicing rights	2,247,087	1,672,249
Interest rate swaps	1,203,144	2,783,449
Investment in New Markets Tax Credit CDEs	5,345,342	7,214,654
Investment in FHLB Chicago stock	1,741,300	1,503,200
Receivable for proceeds from bank owned life insurance death benefit	-	1,120,000
Security investment maturity receivable	371,051	345,201
Current income taxes	505,103	189,795
Deferred income taxes	2,753,876	-
Prepaid expenses and other assets	1,775,374	2,513,965
Total	$ 21,136,368	$ 22,400,218

NOTE 9 - Deposits

The distribution of deposits as of December 31 is as follows:

	2021	2020
Noninterest bearing demand accounts	$ 498,794,405	$ 420,974,242
Interest bearing demand accounts	658,139,580	553,052,844
Money Market accounts	297,059,387	262,300,620
Savings accounts	334,261,671	280,877,083
Certificates of Deposit	56,123,838	57,382,365
Total	$ 1,844,378,881	$ 1,574,587,154

The aggregate amount of time deposits, each with a minimum denomination of $250,000, was $7,565,941 and $6,534,856 as of December 31, 2021 and 2020, respectively.

Scheduled maturities of time deposits as of December 31 are:

	2021	2020
Due within one year	$ 34,060,555	$ 35,890,695
After one year but within two years	12,106,602	12,988,056
After two years but within three years	3,780,243	4,894,512
After three years but within four years	2,300,604	1,746,291
After four years but within five years	3,875,834	1,862,811
Total	$ 56,123,838	$ 57,382,365

Deposits from the Corporation's directors and related parties as of December 31, 2021 and December 31, 2020 amounted to $19.6 million and $12.5 million, respectively.

NOTE 10 – Accrued Interest Payable and Other Liabilities

A summary of accrued interest payable and other liabilities as of December 31 is as follows:

	2021	2020
Accrued interest payable	$ 37,741	$ 58,125
FICA taxes payable	-	911,411
Real estate and personal property taxes payable	795,331	796,738
Medical and dental self insurance reserves	443,108	960,592
Interest rate swaps	1,203,144	2,783,449
Security investment purchases payable	-	7,598,934
Deferred income taxes	-	691,024
Other liabilities	1,441,149	1,263,081
Total	$ 3,920,473	$ 15,063,354

NOTE 11 - Other Borrowings

The Corporation has the ability to borrow (purchase) federal funds of up to $70,000,000 under revolving lines-of-credit. Such borrowings bear interest at the lender bank's announced daily federal funds rate and mature daily. There were no federal funds purchased outstanding as of December 31, 2021 or 2020.

The Corporation may also borrow through the Federal Reserve Bank Discount Window short term funds up to the amount of $5,147,373 and $1,942,150 as of December 31, 2021 and 2020, respectively. These funds are secured by U.S. government sponsored entity securities or qualified municipal securities totaling $5,719,304 and $2,157,944 as of December 31, 2021 and 2020, respectively.

The Bank became a member of the FHLB Chicago in April, 2020. As a member, the Bank has the ability to borrow funds from FHLB Chicago pursuant to a variety of advance programs and the terms of an Advances, Collateral Pledge and Security Agreement between the parties. Any advance would be collateralized by first mortgage loans pledged by the Bank, FHLB Chicago capital stock held by the Bank, and all deposit accounts held by the Bank at the FHLB Chicago. As of December 31, 2021, the Bank had mortgage-backed securities of $2,045,308 pledged as collateral to FHLB Chicago, with no amounts pledged as of December 31, 2020.

NOTE 12 - Income Taxes

Income tax expense (benefit) consists of the following components for the year ending December 31:

	2021	2020
Current income taxes		
Federal	$ 978,701	$ 1,512,325
State	1,530,991	1,468,034
Total current income taxes	2,509,692	2,980,359
Deferred income taxes		
Federal	469,651	(275,075)
State	(95,700)	(186,489)
Total deferred income taxes	373,951	(461,564)
Total income taxes	$ 2,883,643	$ 2,518,795

NOTE 12 - Income Taxes (cont.)

The net deferred income tax assets in the accompanying consolidated balance sheets include the following amounts of deferred income tax assets and liabilities as of December 31:

	2021	2020
Deferred income tax assets:		
Allowance for loan losses	$ 3,814,967	$ 3,669,469
Reserve for health plan	113,610	204,074
Non-accrual interest	4,646	7,255
Lease liability	3,968,342	4,265,831
Loss carryforwards	26,310	28,941
Unrealized loss on securities available for sale	792,570	-
Accrued FICA payroll tax	-	131,132
Other	30,430	6,810
Total deferred income tax assets	8,750,875	8,313,512
Deferred income tax liabilities:		
Loan acquisition fair market valuation	(261,544)	(330,507)
Depreciation	(756,218)	(442,933)
Right of use lease asset	(3,968,342)	(4,265,831)
Mortgage servicing rights	(612,129)	(455,538)
New Markets Tax Credit Investments	(316,652)	(383,289)
Unrealized gains on securities available for sale	-	(3,026,281)
Other	(82,114)	(100,157)
Total deferred income tax liabilities	(5,996,999)	(9,004,536)
Net deferred income tax asset (liability)	$ 2,753,876	$ (691,024)

The Corporation has state net operating loss carryforwards of approximately $422,000 and $464,000 as of December 31, 2021 and 2020, respectively. The net operating loss carryforwards expire in 2031.

Realization of the deferred income tax asset over time is dependent upon the Corporation generating sufficient taxable income in future periods. In determining that realization of the deferred income tax asset recorded was more likely than not, the Corporation gave consideration to a number of factors including its recent earnings history, its expectations for earnings in the future, and where applicable, the expiration dates associated with tax carryforwards.

A reconciliation of statutory federal income taxes based upon income before taxes to the provision for federal and state income taxes is as follows:

	2021		2020	
	Amount	% of Pretax Income	Amount	% of Pretax Income
Federal incomet taxes at statutory rate	$ 3,830,864	21.00%	$ 3,514,381	21.00%
Adjustments for:				
Tax exempt interest on municipal obligations	(435,163)	-2.39%	(294,317)	-1.76%
Increase in taxes resulting from state income taxes, net of federal tax benefit	1,111,604	6.09%	969,276	5.79%
Increase in cash surrender value of life insurance	(208,095)	-1.14%	(220,638)	-1.32%
Gain from life insurance death benefits	-	0.00%	(94,500)	-0.56%
New markets tax credits	(1,476,647)	-8.09%	(1,415,219)	-8.46%
Other - net	61,080	0.33%	59,812	0.36%
Income tax expense	$ 2,883,643	15.80%	$ 2,518,795	15.05%

As of December 31, 2021 and 2020, the Corporation had no uncertain tax positions. The Corporation’s policy is to record interest and penalties related to income tax liabilities in income tax expense. The Corporation, along with its subsidiaries, files U.S. federal and Wisconsin income tax returns. The Corporation’s federal tax returns for 2017 and prior and its 2016 and prior year Wisconsin tax returns are no longer subject to examination by tax authorities.

NOTE 13 - Employee Benefit Plan

The Corporation has a contributory defined-contribution 401(k) retirement plan. This plan covers substantially all employees who have attained the age of 21. Participants may contribute a portion of their compensation (up to IRS limits) to the plan. The Corporation may make regular and matching contributions to the plan each year. In 2021 and 2020, the Corporation provided a dollar-for-dollar match of employee contributions up to 5% of their compensation. The Corporation recorded contribution expense of $852,836 and $854,877 in 2021 and 2020, respectively.

NOTE 14 - Leases

The Corporation leases various banking facilities under operating lease agreements from various companies. The majority of the agreements include renewal options. The Corporation includes lease renewal options in the lease term and determination of right of use lease assets and lease liabilities, given it is reasonably certain the Corporation will exercise the options. The discount rate used to capitalize the operating leases is the FHLB Chicago advance fixed rate as of commencement, or the date of any subsequent lease extension, considering the remaining lease term including all renewal options. The right of use lease asset and lease liability amount as of December 31, 2021 and 2020 is $14,567,534 and $15,659,597, respectively. The Corporation had one lease extension remeasurement and three lease termination remeasurements in 2021, and three lease extension remeasurements in 2020 resulting in a change of ($361,054) and $220,925, respectively to the right of use lease asset and lease liability. Right of use lease amortization in 2021 and 2020 was $731,009 and $704,530 respectively. As of December 31, 2021, the weighted-average remaining lease term is 21.1 years and the weighted average discount rate used in the determination of lease liabilities is 3.63%. As of December 31, 2020, the weighted-average remaining lease term is 21.4 years and the weighted average discount rate used in the determination of lease liabilities is 3.69%.

Rental amounts under the operating lease agreements are subject to annual escalation based upon increases in the Consumer Price Index. Aggregate rental expense under all leases amounted to $1,306,048 and $1,302,972 in 2021 and 2020 respectively, with no significant amounts associated with variable escalation adjustments. The rental expense amounts include $830,855 and $824,992 respectively, for four of the facilities leased from a company held by a major shareholder of the Corporation.

Contractual lease payment obligations, including all unexecuted options, for each of the next five years and thereafter, in addition to a reconciliation to the Corporation's lease liability are as follows as of December 31, 2021:

2022	$	1,225,261
2023		1,180,501
2024		1,180,501
2025		1,104,427
2026		1,038,186
Thereafter		15,492,352
Total lease payments	$	21,221,228
Less interest		(6,653,694)
Present value of lease payments	$	14,567,534

Contractual lease payments do not reflect annual escalation increases based on the Consumer Price Index.

Office space at certain facilities is leased to unrelated third parties under operating lease agreements. The terms of the agreements vary, with some being month to month arrangements, some including lessee renewal options, and some having fixed or variable Consumer Price Index escalation provisions. Rental income included in net occupancy costs was $900,558 and $900,890 for the years ended December 31, 2021 and 2020, respectively.

NOTE 14 – Leases (cont.)

Contractual third party lessee payment obligations to the Corporation, excluding all unexecuted options, for each of the next five years and thereafter are as follows as of December 31, 2021:

2022	$ 637,006
2023	497,044
2024	307,103
2025	266,166
2026	120,938
Thereafter	215,067
Total lessee payments	$ 2,043,324

NOTE 15 - Commitments and Contingencies

The Corporation is a party to 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, financial guarantees and standby letters of credit. They involve, to varying degrees, elements of credit and interest rate risk in excess of amounts recognized on the consolidated balance sheets.

The Corporation's exposure to credit loss in the event of nonperformance by the other party to the financial instrument for commitments to extend credit and standby letters of credit is represented by the contractual notional amount of those instruments. The Corporation uses the same credit policies in making commitments and issuing letters of credit as they do for on-balance-sheet instruments.

A summary of the contract or notional amount of the Corporation's exposure to off-balance sheet risk as of December 31, are as follows:

	2021	2020
Financial instruments whose contract amounts represent credit risk:		
Commitments to extend credit	$ 152,604,914	$ 141,434,849
Standby letters of credit	2,145,249	6,956,442
	$ 154,750,163	$ 148,391,291

Commitments to extend credit 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. Since many of the commitments are expected to expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Standby letters of credit are conditional commitments issued to guarantee the performance of a customer to a third party. Those guarantees are primarily issued to support public and private borrowing arrangements. The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loan facilities to customers. The Corporation evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Corporation upon extension of credit, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

NOTE 16 - Stockholders' Equity

Dividends declared by the Bank that exceed the retained net income for the most current year plus retained net income for the preceding two years must be approved by federal regulatory agencies.

Under Federal Reserve regulations, the Bank is limited as to the amount it may lend to its affiliates, including the Corporation. Such loans are required to be collateralized by investments defined in the regulations. In addition, the maximum amount available for transfer from the Bank to the Corporation in the form of loans is limited to 10% of the Bank's stockholders' equity in the case of any one affiliate or 20% in the case of all affiliates.

NOTE 17 - Regulatory Capital Requirements

Banks and bank holding companies are subject to regulatory requirements administered by federal banking agencies. The Corporation is a small bank holding company pursuant to Federal Reserve Bank regulations. Management believes the Corporation has complied with all other reporting requirements.

The Bank is subject to various regulatory capital requirements administered by federal banking agencies. Capital adequacy guidelines and prompt correction action regulations involve quantitative measures of assets, liabilities and certain off balance sheet items calculated under regulatory accounting practices. Capital amounts and classifications are also subject to qualitative judgments by regulators. Failure to meet minimum capital requirements can initiate certain mandatory and additional discretionary regulatory action, that if undertaken, could have a direct material effect on the Corporation’s financial statements. Management believes as of December 31, 2021 the Bank meets all capital adequacy requirements to which it is subject.

Prompt corrective action regulations provide five classifications: well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, and critically undercapitalized, although these terms are not used to represent overall financial condition. As of December 31, 2021 and 2020, the most recent regulatory notifications categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. There are no conditions or events since that notification that Management believes have changed the Bank’s classification.

In 2019, the federal banking agencies jointly issued a final rule that provides for an optional, simplified measure of capital adequacy, the community bank leverage ratio framework (the “CBLR framework”), for qualifying community banking organizations, consistent with Section 201 of the Economic Growth, Regulatory Relief, and Consumer Protection Act. The final rule became effective on January 1, 2020 and was elected by the Bank as of June 30, 2020. In April 2020, the federal banking agencies issued an interim final rule that makes temporary changes to the CBLR framework, pursuant to Section 4012 of the CARES Act, and a second interim final rule that provides a graduated increase in the community bank leverage ratio requirement after the expiration of the temporary changes implemented pursuant to Section 4012 of the CARES Act.

The community bank leverage ratio removes the requirement for qualifying banking organizations to calculate and report risk-based capital, but rather, only requires a Tier 1 capital to quarterly average assets (“leverage”) ratio. The net unrealized gain or loss on securities available for sale is not included in computing the leverage ratio. Qualifying banking organizations that elect to use the CBLR framework and that maintain a leverage ratio of greater than the required minimums will be considered to have satisfied the generally applicable risk-based and leverage capital requirements in the agencies’ capital rules and will be considered to have met the well capitalized ratio requirements for purposes of Section 38 of the Federal Deposit Insurance Act. Under the interim final rules the community bank leverage ratio minimum requirement is 8.5% as of December 31, 2021, and 9% for calendar year 2022 and beyond. The interim rule allows for a two-quarter grace period to correct a ratio that falls below the required amount, provided that the Bank maintains a leverage ratio of greater than 7.5% as of December 31,2021 and greater than 8% for calendar year 2022 and beyond.

Under the final rule, an eligible banking organization can opt out of the CBLR framework and revert back to the risk-weighting framework without restriction. As of December 31, 2021 and December 31, 2020 the Bank was a qualifying community banking organization as defined by the federal banking agencies and elected to measure capital adequacy under the CBLR framework.

NOTE 17 - Regulatory Capital Requirements (cont.)

Actual and required capital amounts and ratios as of December 31, 2021 and December 31, 2020 under the CBLR framework are presented below.

	Actual		To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio
As of December 31, 2021				
Tier 1 capital (to quarterly average assets)	$ 192,839,776	9.4%	$ 175,046,110	8.5%

	Actual		To Be Well Capitalized Under CBLR Framework Prompt Corrective Action Regulations	
	Amount	Ratio	Amount	Ratio
As of December 31, 2020				
Tier 1 capital (to quarterly average assets)	$ 180,887,751	10.2%	$ 142,112,080	8.0%

NOTE 18 - Concentration of Credit Risk

Practically all of the Corporation's loans, commitments, and commercial and standby letters of credit have been granted to customers in the Bank's market area of Southeastern Wisconsin. Although the Corporation has a diversified loan portfolio, the ability of its debtors to honor its contracts is dependent on the economic conditions of this market area. The concentration of credit by type of loan is set forth in Note 5.