Friendship BanCorp

Independent Auditor’s Report and Consolidated Financial Statements

December 31, 2021 and 2020

Friendship BanCorp

December 31, 2021 and 2020

Contents

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Independent Auditor's Report

Board of Directors
Friendship BanCorp
Friendship, Indiana

Opinion

We have audited the consolidated financial statements of Friendship BanCorp and subsidiaries (the Company), which comprise the consolidated balance sheets as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements.

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

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company'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.

BKD, LLP

Indianapolis, Indiana
April 26, 2022

Friendship BanCorp
Consolidated Balance Sheets
December 31, 2021 and 2020

Assets	December 31, 2021	December 31, 2020
Cash and due from banks	$ 14,316,662	$ 14,219,934
Federal funds sold	35,055,665	35,512,639
Cash and cash equivalents	49,372,327	49,732,573
Interest-bearing time deposits	4,561,171	5,308,776
Investment securities:		
Equity securities	1,632,775	1,250,125
Available-for-sale securities	160,111,437	55,492,508
Held to maturity securities (fair value $35,180,926 and $31,592,091, respectively)	34,349,416	30,386,241
Loans	271,568,799	299,203,134
Allowance for loan losses	(3,117,960)	(3,103,425)
Loans, net	268,450,839	296,099,709
Premises and equipment	9,823,109	10,095,110
Restricted equity investments	1,983,150	1,983,150
Cash surrender value of life insurance policies	7,233,927	7,052,673
Goodwill	1,873,203	1,873,203
Intangible assets	250,238	435,953
Other assets	4,310,816	3,197,405
Total assets	$ 543,952,408	$ 462,907,426

Liabilities and Shareholders' Equity

	2021	2020
Liabilities		
Deposits		
Noninterest-bearing	$ 76,779,741	$ 51,943,971
Interest-bearing	419,611,773	364,480,379
Total deposits	496,391,514	416,424,350
Accrued interest payable and other liabilities	2,625,386	2,524,599
Total liabilities	499,016,900	418,948,949
Shareholders' Equity		
Common stock, no par value 2,000,000 shares authorized; 1,759,089 shares issued and outstanding	2,982,574	2,982,574
Retained earnings	43,532,526	40,579,252
Accumulated other comprehensive income (loss)	(1,579,592)	396,651
Total shareholders' equity	44,935,508	43,958,477
Total liabilities and shareholders' equity	$ 543,952,408	$ 462,907,426

Friendship BanCorp

Consolidated Statements of Income

Years Ended December 31, 2021 and 2020

	2021	2020
Interest Income		
Loans	$ 15,616,494	$ 16,602,639
Securities		
Taxable	1,444,845	762,161
Nontaxable	24,503	57,429
Other	554,780	501,300
Total interest income	17,640,622	17,923,529
Interest Expense		
Deposits	1,740,847	2,282,539
Net Interest Income	15,899,775	15,640,990
Provision for Loan Losses	-	540,000
Net Interest Income After Provision for Loan Losses	15,899,775	15,100,990
Noninterest Income		
Service charges and fees	1,109,474	973,555
Insurance revenues	2,255,014	2,199,349
Net gain on sale of loans	1,394,922	1,143,134
Gain on equity securities	133,834	-
Trust and investment product fees	63,455	198,098
Interchange income	1,091,993	909,788
Other income	391,876	344,501
Total noninterest income	6,440,568	5,768,425
Noninterest Expense		
Salaries and employee benefits	9,556,675	9,265,697
Net occupancy and equipment	1,222,723	1,152,250
Data processing fees	1,749,307	1,412,969
Advertising	381,552	320,854
Professional services	294,615	223,344
Office operations	288,253	288,495
Loan services	602,564	652,262
FDIC insurance	187,500	78,500
Other	818,363	965,727
Total noninterest expense	15,101,552	14,360,098
Income before income taxes	7,238,791	6,509,317
Income tax expense	1,470,975	1,174,320
Net income	$ 5,767,816	$ 5,334,997
Earnings per share	$ 3.28	$ 3.03
Average shares outstanding	1,759,089	1,759,058

Friendship BanCorp

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2021 and 2020

	2021	2020
Net Income	$ 5,767,816	$ 5,334,997
Other comprehensive income (loss):		
Net unrealized gains (losses) on available-for-sale securities	(2,650,552)	327,745
Tax effect	674,309	(63,803)
Total other comprehensive income (loss)	(1,976,243)	263,942
Comprehensive income	$ 3,791,573	$ 5,598,939

Friendship BanCorp

Consolidated Statements of Changes in Shareholders' Equity

Years Ended December 31, 2021 and 2020

	Common Stock	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balance at January 1, 2020	$ 2,964,639	$ 38,058,797	$ 132,709	$ 41,156,145
Net income	-	5,334,997	-	5,334,997
Other comprehensive income	-	-	263,942	263,942
Stock options exercised	17,935	-	-	17,935
Cash dividend ($1.60 per share)	-	(2,814,542)	-	(2,814,542)
Balance at December 31, 2020	2,982,574	40,579,252	396,651	43,958,477
Net income	-	5,767,816	-	5,767,816
Other comprehensive loss	-	-	(1,976,243)	(1,976,243)
Cash dividend ($1.60 per share)	-	(2,814,542)	-	(2,814,542)
Balance at December 31, 2021	$ 2,982,574	$ 43,532,526	$ (1,579,592)	$ 44,935,508

Friendship BanCorp

Consolidated Statements of Cash Flows

Years Ended December 31, 2021 and 2020

	2021	2020
Operating Activities		
Net income	$ 5,767,816	$ 5,334,997
Items not requiring (providing) cash:		
Provision for loan losses	-	540,000
Depreciation and amortization	631,131	627,744
Net amortization and accretion of securities	1,025,159	541,825
Net realized (gain) loss on sale of other real estate	(2,772)	1,045
Deferred income taxes	40,740	(79,355)
Earnings on life insurance policies	(181,254)	(143,029)
Net gain on sale of loans	(1,394,922)	(1,143,134)
(Gain) loss on sale of premises and equipment	50,358	(14,872)
Gain from equity securities	(133,834)	-
Amortization of intangible assets	185,715	185,714
Changes in:		
Accrued interest and other assets	(418,104)	(260,259)
Accrued expenses and other liabilities	100,787	(160,239)
Net cash provided by operating activities	5,670,820	5,430,437
Investing Activities		
Available-for-sale securities:		
Maturities, prepayments and calls	25,907,488	25,659,781
Purchases	(134,026,622)	(51,261,799)
Held-to-maturity securities:		
Maturities, prepayments and calls	1,555,000	1,705,000
Purchases	(5,693,682)	(14,355,891)
Loan originations and payments, net	28,937,592	(7,742,623)
Proceeds from sale of premises and equipment	163,429	177,371
Net change in interest-bearing deposits	747,605	691,772
Purchases of premises and equipment	(572,917)	(1,255,008)
Purchase of equity securities	(248,816)	(750,000)
Purchase of life insurance policies	-	(2,000,000)
Proceeds from sale of other real estate	47,235	109,355
Net cash used in investing activities	(83,183,688)	(49,022,042)
Financing Activities		
Net change in deposits	79,967,164	71,090,795
Cash dividends paid	(2,814,542)	(2,814,542)
Proceeds from exercise of stock options	-	17,935
Net cash provided by financing activities	77,152,622	68,294,188
Increase (Decrease) in Cash and Cash Equivalents	(360,246)	24,702,583
Cash and Cash Equivalents, Beginning of Year	49,732,573	25,029,990
Cash and Cash Equivalents, End of Year	$ 49,372,327	$ 49,732,573
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for:		
Interest on deposits	$ 1,768,230	$ 2,310,915
Income taxes	1,485,000	1,370,000
Supplemental Disclosure of Noncash Investing Activities		
Loans transferred to other real estate	$ 106,200	$ 154,863

Friendship BanCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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

Principles of Consolidation

The consolidated financial statements include Friendship BanCorp (Company) and its wholly owned subsidiary, The Friendship State Bank, with its wholly owned subsidiaries, Friendship Financial Services, LLC and Friendship Portfolio Management, Inc. and its wholly owned subsidiary, Friendship Real Estate Holdings, Inc., together referred to as "the Bank". Intercompany transactions and balances are eliminated upon consolidation.

Nature of Operations

The Bank is primarily engaged in providing a variety of deposit and lending services to individual customers in southeastern Indiana. Its primary deposit products are checking, savings, and term certificate accounts, and its primary lending products are residential mortgage, commercial and installment loans. Substantially all loans are secured by specific items of collateral including business assets, consumer assets and real estate. Commercial loans are expected to be repaid from cash flow from operations of businesses. Real estate loans are secured by both residential and commercial real estate. There are no significant concentrations of loans to any one industry or customer. However, the customers' ability to repay their loans is dependent on the real estate and general economic conditions in the area. Friendship Financial Services, LLC is a full service insurance agency and sells those products, as agent, to its customers.

Use of Estimates

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

Material estimates that are particularly susceptible to significant change relate to the determination of the allowance for loan losses. The uncertainties related to the COVID-19 pandemic could cause significant changes to these estimates compared to what was known at the time the financial statement was prepared.

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

Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand and in other institutions, federal funds sold and interest-bearing demand deposits.

Interest-bearing Time Deposits in Banks

Interest-bearing time deposits mature within five years and are carried at cost.

Investment Securities

Debt securities held by the Bank generally are classified and recorded in the financial statements as follows:

Classified as	Description	Recorded at
Held to maturity (HTM)	Certain debt securities that management has the positive intent and ability to hold to maturity	Amortized cost
Trading	Securities that are bought and held principally for the purpose of selling in the near term and, therefore, held for only a short period of time	Fair value, with changes in fair value included in earnings
Available for sale	Securities not classified as HTM or trading	Fair value, with urealized gains and losses excluded from earnings and reported in other comprehensive income

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities, identified as the call date as to premiums and maturity date as to discounts. Gains and losses on the sale of securities are recorded on the trade date and are determined using the specific identification method.

Equity securities (excluding restricted equity investments) are measured at fair value with changes in fair value recognized in net income.

When the fair value of securities is below amortized cost, the Company's accounting treatment for an other-than-temporary impairment (OTTI) is as follows:

	Accounting Treatment for OTTI Components	
Circumstances of Impairment Considerations	Credit Component	Remaining Portion
Not intended for sale and more likely than not that the Company will not have to sell before recovery of cost basis	Recognized in earnings	Recognized in other comprehensive income
Intended for sale or more likely than not that the Company will be required to sell before recovery of cost basis	Recognized in earnings	

For held-to-maturity debt securities, the amount of OTTI recorded in other comprehensive income for the noncredit portion of a previous OTTI, is amortized prospectively over the remaining life of the security on the basis of the timing of future estimated cash flows of the security.

When a credit loss component is separately recognized in earnings, the amount is identified as the total of principal cash flows not expected to be received over the remaining term of the security, as projected based on cash flow projections.

The Bank recognized no other-than-temporary impairments on debt securities in 2021 or 2020.

Loans Held for Sale

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

Loans

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

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

The accrual of interest on mortgage and commercial loans is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. Past-due status is based on contractual terms of the loan. In all cases, loans are placed on nonaccrual or charged off at an earlier date if collection of principal or interest is considered doubtful.

All interest accrued but not collected for loans that are placed on nonaccrual or charged off is reversed against interest income. The interest on these loans is accounted for on the cash-basis or cost-recovery method, until qualifying for return to accrual. Loans are returned to accrual status when all the principal and interest amounts contractually due are brought current and future payments are reasonably assured. Discounts and premiums on purchased residential real estate loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments. Discounts and premiums on purchased consumer loans are recognized over the expected lives of the loans using methods that approximate the interest method.

Concentration of Credit Risk

Most of the Company's business activity is with customers located within Ripley, Dearborn, Ohio, and Switzerland counties. Therefore, the Company's exposure to credit risk is significantly affected by changes in the economy in the area. The Company considers loans with credit scores below 660 to be subprime. Subprime loans make up approximately 19% and 20% of the loan portfolio for the years ended 2021 and 2020, respectively.

Allowance for Loan Losses

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

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

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

A loan is considered impaired when, based on current information and events, it is probable that the Bank will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due, based on the loan’s current payment status and the borrower’s financial condition, including available sources of cash flows. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Management determines the significance of payment delays and payment shortfalls on a case-by-case basis, taking into consideration all of the circumstances surrounding the loan and the borrower, including the length of the delay, the reasons for the delay, the borrower’s prior payment record and the amount of the shortfall in relation to the principal and interest owed. Impairment is measured on a loan-by-loan basis for commercial and construction loans by either the present value of expected future cash flows discounted at the loan’s effective interest rate, the loan’s obtainable market price or the fair value of the collateral if the loan is collateral dependent.

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

Premises and Equipment

Land is carried at cost. Depreciable assets are stated at cost, less accumulated depreciation. Depreciation is charged to expense using the straight-line method over the estimated useful lives of the assets.

The Bank evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimated future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2021 and 2020.

Restricted Equity Investments

Restricted equity investments include Federal Home Loan Bank (FHLB) of Indianapolis stock, Federal Reserve Bank (FRB) stock and Independent Community Bancorp stock. Independent Community Bancorp stock is carried at cost. Restricted stock is periodically evaluated for impairment. Because this stock is viewed as a long-term investment, impairment is based on ultimate recovery of par value. Both cash and stock dividends are reported as income.

Cash Surrender Value of Life Insurance Policies

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

Goodwill and Other Intangible Assets

Goodwill is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquired business, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date. Goodwill and intangible assets acquired in a purchase business combination and determined to have an indefinite useful life are not amortized, but tested for impairment at least annually. If the implied fair value of goodwill is lower than its carrying amount, a goodwill impairment is indicated and goodwill is written down to its implied fair value. Subsequent increases in goodwill value are not recognized in the consolidated financial statements. Intangible assets with definite useful lives are amortized over their estimated useful lives to their estimate residual values. Goodwill is the only intangible asset with an indefinite life on the consolidated balance sheets. Intangible assets are amortized on an accelerated method over their estimated useful lives, which range from 1 to 6 years.

Other Real Estate Owned

Assets acquired through, or instead of, loan foreclosure are initially recorded at fair value, less costs to sell when acquired, establishing a new cost basis. If fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Stock-Based Compensation

Compensation cost is recognized for stock options issued to employees, based on the fair value of these awards at the date of grant. A Black-Scholes model is utilized to estimate the fair value of stock options. Compensation cost is recognized over the required service period, generally defined as the vesting period. For awards with graded vesting, compensation cost is recognized on a straight-line basis over the requisite service period for the entire award.

Income Taxes

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

Deferred income tax expense results from changes in deferred tax assets and liabilities between periods. Deferred tax assets are reduced by a valuation allowance if, based on the weight of evidence available, it is more likely than not that some portion or all of a deferred tax asset will not be realized.

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

The Company would recognize interest and penalties on income taxes as a component of income tax expense, if applicable.

Off-Balance Sheet Financial Instruments

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

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income. Other comprehensive income includes unrealized gains and losses on securities available-for-sale which is recognized as a separate component of equity.

Dividend Restriction

Banking regulations require maintaining certain capital levels and may limit the dividends paid by the Bank to the Company or by the Company to shareholders.

Revenue Recognition

A description of the Company's significant revenue streams accounted for under Topic 606 are as follows:

Service charges and fees. The Company generates revenues through fees charged to depositors related to deposit account maintenance fees, overdrafts, ATM fees, wire transfers and additional miscellaneous services provided at the request of the depositor. For deposit-related services, revenue is recognized when performance obligations are satisfied, which is, generally, at a point in time. Deposit services revenue is recorded in service charges on deposit accounts income statement line item.

Interchange income. The Company's debit and credit card revenue primarily consists of debit and credit card interchange income. Interchange income represents fees assessed within the payment card system for acceptance of card-based transactions. Interchange fees are assessed as the performance obligation is satisfied, which is at the point in time the card transaction is authorized. Revenue is collected and recognized daily through the payment network settlement process.

Insurance revenues. The Company earns its revenues for brokerage services through commissions and fees. Commission rates and fees vary in amount and depend on a number of factors, such as the type of insurance or reinsurance coverages provided, the particular insurer or reinsurer selected, the capacity in which the broker acts and negotiates with clients. For the majority of insurance and brokerage arrangements, advice and services provided, which culminate in the placement of an effective policy, are considered a single performance obligation. Revenues for the brokerage activities, such as installments on agency bill, direct bill and contingent revenue, are generally recognized at a point in time on the effective date of the associated policies when control of the policy transfers to the client.

Reclassifications

Certain reclassifications have been made to the 2020 consolidated financial statements to conform to the 2021 consolidated financial statement presentation. These reclassifications had no effect on net earnings.

Subsequent Events

Subsequent events have been evaluated through April 26, 2022, which is the date of the consolidated financial statements were available to be issued.

Note 2: Restriction on Cash and Due From Banks

Cash and cash equivalents consist of cash on hand and in other institutions and federal funds sold.

At December 31, 2021, the Company's cash accounts exceeded federally insured limits by approximately $39,599,000. Additionally, the Company has $3,731,000 on deposit with the Federal Reserve Bank and Federal Home Loan Bank of Indianapolis as of December 31, 2021, which are not federally insured.

The Company is required to maintain reserve funds in cash on deposit with the Federal Reserve Bank. The reserve required at December 31, 2021 was $0.

Note 3: Investment Securities

Equity securities are carried at fair value, with the changes in fair value recognized in noninterest income in the consolidated statements of income.

Information on equity securities was as follows at December 31, 2021 and 2020:

	2021	2020
Equity securities	$ 1,517,207	$ 1,149,630
Mutual funds	115,568	100,495
	$ 1,632,775	$ 1,250,125

	2021	2020
Unrealized gains recognized during the reporting period on equity securities still held at year end	$ 133,834	$ -

The following table summarizes the amortized cost and fair value of the available-for-sale securities portfolio at December 31, 2021 and 2020 and the corresponding amounts of gross unrealized gains and losses recognized in accumulated other comprehensive income were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2021				
U.S. Treasury and government agency	$ 112,413,033	$ -	$ (1,968,070)	$ 110,444,963
Mortgage-backed securities - residential	46,110,031	357,705	(548,508)	45,919,228
Corporate debt	3,741,926	28,029	(22,709)	3,747,246
	$ 162,264,990	$ 385,734	$ (2,539,287)	$ 160,111,437

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
December 31, 2020				
U.S. Treasury and government agency	$ 9,775,000	$ 3,791	$ (102,184)	$ 9,676,607
Mortgage-backed securities - residential	43,470,478	580,521	(60,581)	43,990,418
Corporate debt	1,750,031	75,452	-	1,825,483
	$ 54,995,509	$ 659,764	$ (162,765)	$ 55,492,508

The amortized cost, unrecognized gains and losses, and fair value of securities held to maturity were as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-Maturity Securities				
December 31, 2021				
State and political subdivisions	$ 34,349,416	$ 927,459	$ (95,949)	$ 35,180,926
December 31, 2020				
State and political subdivisions	$ 30,386,241	$ 1,210,007	$ (4,157)	$ 31,592,091

There were no sales of securities during the years ended December 31, 2021 and 2020.

Certain investments in debt securities at December 31, 2021 and 2020, were reported in the consolidated financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2021 and 2020, was $145,395,184 and $23,408,353, which is approximately 74 percent and 27 percent, respectively, of the fair value of the Company's total investment portfolio.

Based on evaluation of available evidence, including recent changes in market interest rates, credit rating information and information obtained from regulatory filings, management believes the declines in fair value for the Company's securities are temporary.

Should the impairment of any of these securities become other than temporary, the cost basis of the investment will be reduced and the resulting loss recognized in net income in the period the other-than-temporary impairment is identified.

The following tables show the Company's investments' gross unrealized losses and fair value, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2021 and 2020:

	December 31, 2021					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	$ 102,225,811	$ (1,687,222)	$ 8,219,152	$ (280,848)	$ 110,444,963	$ (1,968,070)
Mortgage-backed securities - residential	19,774,635	(342,131)	4,401,063	(206,377)	24,175,698	(548,508)
Corporate debt	2,468,830	(22,709)	-	-	2,468,830	(22,709)
Held-to-maturity						
State and political subdivisions	7,699,770	(87,553)	605,923	(8,396)	8,305,693	(95,949)
Total temporarily impaired securities	$ 132,169,046	$ (2,139,615)	$ 13,226,138	$ (495,621)	$ 145,395,184	$ (2,635,236)

	December 31, 2020					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Available-for sale						
U.S. Treasury and government agency	$ 8,397,816	$ (102,184)	$ -	$ -	$ 8,397,816	$ (102,184)
Mortgage-backed securities - residential	14,284,758	(60,581)	-	-	14,284,758	(60,581)
Held-to-maturity						
State and political subdivisions	399,184	(751)	326,595	(3,406)	725,779	(4,157)
Total temporarily impaired securities	$ 23,081,758	$ (163,516)	$ 326,595	$ (3,406)	$ 23,408,353	$ (166,922)

U.S. Treasury, Government Agencies and Mortgage-Backed Securities

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by interest rate changes and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

Corporate Debt Securities

The unrealized losses on the Company's investments in corporate debt securities were caused by interest rate changes and illiquidity. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by interest rate changes and illiquidity. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than the amortized cost basis of the investments. Because the Company does not intend to sell the investments and it is not more likely than not the Company will be required to sell the investments before recovery of their amortized cost basis, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2021.

The amortized cost and fair value of the investment securities portfolio at December 31, 2021, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities if borrowers have the right to call or prepay obligations with or without call or prepayment penalties: Securities not due at a single maturity date, primarily mortgage-backed securities, are shown separately.

	Available-for-sale	
	Amortized Cost	**Fair Value**
Within one year	$ 1,000,388	$ 1,012,296
One to five years	41,028,945	40,654,263
Five to ten years	74,125,626	72,525,650
	116,154,959	114,192,209
Mortgage-backed securities - residential	46,110,031	45,919,228
Totals	$ 162,264,990	$ 160,111,437

	Held-to-Maturity	
	Amortized Cost	Fair Value
Within one year	$ 110,000	$ 109,850
One to five years	5,117,742	5,160,574
Five to ten years	11,580,640	11,840,463
After ten years	17,541,034	18,070,039
Totals	$ 34,349,416	$ 35,180,926

Note 4: Loans and Allowance for Loan Losses

Categories of loans at December 31, 2021 and 2020 include:

	2021	2020
Commercial	$ 5,632,735	$ 9,464,044
Agricultural	31,749,260	34,800,258
Real estate	224,310,779	244,774,381
Consumer	9,876,025	10,164,451
Total loans	$ 271,568,799	$ 299,203,134

Certain directors and executive officers of the Company, including their families and companies in which they are the principal owners, were customers of and had other transactions with the Company. Total loans to these persons were $845,366 and $1,470,213 at December 31, 2021 and 2020, respectively.

Mortgage loans serviced for others are not included in the accompanying consolidated balance sheets. The unpaid principal balances of these loans at December 31, 2021 and 2020 were $96,384,470 and $65,265,650, respectively. At December 31, 2021 and 2020, the mortgage-servicing rights recorded are immaterial to the consolidated financial statements.

The following tables present the activity in the allowance for loan losses by portfolio segment for the years ended December 31, 2021 and 2020.

December 31, 2021	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 366,227	$ 282,976	$ 2,229,221	$ 225,001	$ 3,103,425
Provision (credit)	-	-	-	-	-
Loans charged-off	(2,918)	-	(56,857)	(53,712)	(113,487)
Recoveries	205	10	77,512	50,295	128,022
Ending Balance	$ 363,514	$ 282,986	$ 2,249,876	$ 221,584	$ 3,117,960

December 31, 2020	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance for loan losses:					
Beginning balance	$ 256,825	$ 326,540	$ 2,022,590	$ 215,750	$ 2,821,705
Provision (credit)	162,156	(42,590)	301,039	119,395	540,000
Loans charged-off	(58,634)	(974)	(104,363)	(200,628)	(364,599)
Recoveries	5,880	-	9,955	90,484	106,319
Ending Balance	$ 366,227	$ 282,976	$ 2,229,221	$ 225,001	$ 3,103,425

The following tables present the balance in the allowance for loan losses and the recorded investment in loans based on portfolio segment and impairment method as of December 31, 2021 and 2020:

	December 31, 2021				
	Commercial	Agricultural	Real Estate	Consumer	Total
Allowance Balances:					
Individually evaluated for impairment	$ -	$ -	$ 207,805	$ -	$ 207,805
Collectively evaluated for impairment	363,514	282,986	2,042,071	221,584	2,910,155
Total allowance for loan losses	$ 363,514	$ 282,986	$ 2,249,876	$ 221,584	$ 3,117,960
Loan Balances:					
Individually evaluated for impairment	$ 73,031	$ 630,606	$ 1,598,775	$ 12,283	$ 2,314,695
Collectively evaluated for impairment	5,559,704	31,118,654	222,712,004	9,863,742	269,254,104
Total loan balances	$ 5,632,735	$ 31,749,260	$ 224,310,779	$ 9,876,025	$ 271,568,799

	December 31, 2020				
	Commercial	Residential	Agricultural	Consumer	Total
Allowance Balances:					
Individually evaluated for impairment	$ -	$ -	$ 136,494	$ -	$ 136,494
Collectively evaluated for impairment	366,227	282,976	2,092,727	225,001	2,966,931
Total allowance for loan losses	$ 366,227	$ 282,976	$ 2,229,221	$ 225,001	$ 3,103,425
Loan Balances:					
Individually evaluated for impairment	$ 339,843	$ 1,152,337	$ 4,687,467	$ 3,805	$ 6,183,452
Collectively evaluated for impairment	9,124,201	33,647,921	240,086,914	10,160,646	293,019,682
Total loan balances	$ 9,464,044	$ 34,800,258	$ 244,774,381	$ 10,164,451	$ 299,203,134

Risk characteristics of each loan portfolio segment are described as follows:

Commercial

Commercial loans are primarily based on the identified cash flows of the borrower and secondarily on the underlying collateral provided by the borrower. Borrowers may be subject to adverse economic conditions that can lead to decreases in product demand; increasing material or other production costs; interest rate increases that could have an adverse impact on profitability; nonpayment of credit that has been extended under normal vendor terms for goods sold or services extended; interruption related to the importing or exporting of production materials or sold products.

Agricultural

Agricultural loans are typically secured by crops or other farm equipment. These loans are subject to risks which could cause poor operating performance of the borrower, such as adverse weather conditions; fluctuation of price of agricultural commodities; and the general economy.

Real Estate

Real estate loans are generally secured by 1-4 family residences, multifamily residences, or farm real estate, and are generally owner occupied. Home equity loans are typically secured by a subordinate interest in 1-4 family residences. Commercial real estate loans typically involve larger principal amounts, and repayment of these loans is generally dependent on the successful operations of the property securing the loan or the business conducted on the property securing the loan. Construction and land development real estate loans are usually based upon estimates of costs and estimated value of the completed project and include independent appraisal reviews and a financial analysis of the developers and property owners. These loans are subject to adverse employment conditions in the local economy leading to increased default rate; decreased market values from oversupply in a geographic area; impact to borrowers' ability to maintain payments in the event of incremental rate increases on adjustable-rate mortgages.

Consumer

Consumer loans generally consist of loans secured by personal property or unsecured loans such as credit cards. Repayment of these loans is primarily dependent on the personal income of the borrowers, who are subject to adverse employment conditions in the local economy, which may lead to higher unemployment.

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered satisfactory grades. The grade of 5, Special Mention, represents loans of lower quality and is considered criticized. The grades of 6, or Substandard, and 7, or Doubtful, refer to assets that are classified. The use and application of these grades by the Bank will be uniform and conform to the Bank's policy.

Pass (1-4) Loans of reasonable credit strength and repayment ability providing an average credit risk due to one or more underlying weaknesses.

Special Mention (5) A special mention asset 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 asset or in the Bank's credit position at some future date. Special mention assets are not adversely classified and do not expose the Bank to sufficient risk to warrant adverse classification. Ordinarily, special mention credits have characteristics which corrective management action would remedy.

Substandard (6) Loans in this category are inadequately protected by the current net worth and paying capacity of the obligor or of the collateral pledged, if any. Loans so classified must have a well-defined weakness, or weaknesses, that jeopardize the liquidation of the debt. They are characterized by the distinct possibility that the Company will sustain some loss if the deficiencies are not corrected. Substandard loans have a high probability of payment default, or they have other well-defined weaknesses. Such loans have a distinct potential for loss; however, an individual loan's potential for loss does not have to be distinct for the loan to be rated substandard.

The following are examples of situations that might cause a loan to be graded a "6":

.

Cash flow deficiencies (losses) jeopardize future loan payments.

Sale of noncollateral assets has become a primary source of loan repayment.

The relationship has deteriorated to the point that sale of collateral is now the Company's primary source of repayment, unless this was the original source of loan repayment.

The borrower is bankrupt or for any other reason future repayment is dependent on court action.

Doubtful (7) A loan classified as doubtful has all the weaknesses inherent in one classified substandard with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of current existing facts, conditions, and values, highly questionable and improbable.
A doubtful loan has a high probability of total or substantial loss. Doubtful borrowers are usually in default, lack adequate liquidity or capital, and lack the resources necessary to remain an operating entity. Because of high probability of loss, nonaccrual accounting treatment will be required for doubtful loans.

Loss (8) Loans classified loss are considered uncollectible and of such little value that their continuance as bankable assets is not warranted. This classification does not mean that the loan has absolutely no recovery or salvage value, but rather that it is not practical or desirable to defer writing off the loan even though partial recovery may be affected in the future.

The following tables present the credit risk profile of the Company's loan portfolio based on rating category and payment activity as of December 31, 2021 and 2020:

	December 31, 2021				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 4,947,106	$ 629,013	$ 56,616	$ -	$ 5,632,735
Agricultural	30,445,077	673,577	630,606	-	31,749,260
Real estate					
Construction	23,313,476	-	57,320	-	23,370,796
Commercial	36,472,770	680,025	476,152	-	37,628,947
Residential	161,951,746	681,925	677,365	-	163,311,036
Consumer	9,842,639	-	33,386	-	9,876,025
Total	$ 266,972,814	$ 2,664,540	$ 1,931,445	$ -	$ 271,568,799

	December 31, 2020				
	Pass	Special Mention	Substandard	Doubtful	Total
Commercial	$ 8,552,487	$ 624,367	$ 287,190	$ -	$ 9,464,044
Agricultural	33,597,921	-	1,202,337	-	34,800,258
Real estate					
Construction	22,489,084	-	64,935	-	22,554,019
Commercial	38,102,344	410,295	313,506	-	38,826,145
Residential	181,777,694	576,946	1,039,577	-	183,394,217
Consumer	10,160,646	-	-	3,805	10,164,451
Total	$ 294,680,176	$ 1,611,608	$ 2,907,545	$ 3,805	$ 299,203,134

The Company evaluates the loan risk grading system definitions and allowance for loan losses methodology on an ongoing basis. No significant changes were made to either during the past year.

The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2021 and 2020:

	December 31, 2021					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	$ 29,910	$ -	$ 38,317	$ 68,227	$ 5,564,508	$ 5,632,735
Agricultural	86,114	-	122,583	208,697	31,540,563	31,749,260
Real estate						
Construction	180,712	-	-	180,712	23,190,084	23,370,796
Commercial	55,550	78,038	-	133,588	37,495,359	37,628,947
Residential	2,112,629	613,764	592,737	3,319,130	159,991,906	163,311,036
Consumer	76,287	2,869	12,283	91,439	9,784,586	9,876,025
Total	$ 2,541,202	$ 694,671	$ 765,920	$ 4,001,793	$ 267,567,006	$ 271,568,799

	December 31, 2020					
	30-59 Days Past Due	60-89 Days Past Due	Greater Than 90 Days Past Due	Total Past Due	Current	Total Loans Receivable
Commercial	$ 373,970	$ -	$ -	$ 373,970	$ 9,090,074	$ 9,464,044
Agricultural	-	-	128,971	128,971	34,671,287	34,800,258
Real estate						
Construction	215,953	-	-	215,953	22,338,066	22,554,019
Commercial	-	-	-	-	38,826,145	38,826,145
Residential	1,800,615	926,494	1,110,397	3,837,506	179,556,711	183,394,217
Consumer	89,846	1,423	15,920	107,189	10,057,262	10,164,451
Total	$ 2,480,384	$ 927,917	$ 1,255,288	$ 4,663,589	$ 284,482,283	$ 299,203,134

There were no loans greater than 90 days past due and still accruing interest as of December 31, 2021 and 2020.

The following table presents the Company's nonaccrual loans at December 31, 2021 and 2020:

	December 31, 2021	December 31, 2020
Commercial	$ 38,317	$ -
Agricultural	122,583	128,971
Real estate		
Residential	592,737	1,110,397
Consumer	12,283	15,920
Total nonaccrual loans	$ 765,920	$ 1,255,288

The following tables present impaired loans as of and for the years ended December 31, 2021 and 2020:

As of and for the year ended December 31, 2021	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ 73,031	$ 73,031	$ -	$ 191,917	$ 5,676
Agricultural	630,606	630,606	-	746,508	36,691
Real estate					
Construction	-	-	-	-	-
Commercial	236,300	236,300	-	379,718	17,033
Residential	953,853	953,853	-	1,670,940	61,828
Consumer	12,283	12,283	-	14,995	2,028
Total	1,906,073	1,906,073	-	3,004,078	123,256
Impaired loans with a specific valuation allowance:					
Commercial	-	-	-	-	-
Agricultural	-	-	-	-	-
Real estate					
Construction	57,320	57,320	25,805	61,506	3,702
Commercial	289,496	289,496	162,000	288,347	10,777
Residential	61,806	61,806	20,000	62,580	4,729
Consumer	-	-	-	-	-
Total	408,622	408,622	207,805	412,433	19,208
Total impaired loans	$ 2,314,695	$ 2,314,695	$ 207,805	$ 3,416,511	$ 142,464

	As of and for the year ended December 31, 2020				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Investment in Impaired Loans	Interest Income Recognized
Impaired loans without a specific valuation allowance:					
Commercial	$ 339,843	$ 339,843	$ -	$ 398,528	$ 23,253
Agricultural	1,152,337	1,152,337		1,114,457	44,671
Real estate					
Construction	-	-	-	-	-
Commercial	706,816	706,816	-	651,823	39,037
Residential	3,505,991	3,505,991	-	3,748,360	228,623
Consumer	3,805	3,805	-	5,166	528
Total	5,708,792	5,708,792	-	5,918,334	336,112
Impaired loans with a specific valuation allowance:					
Commercial	-	-	-	56,616	-
Agricultural	-	-	-	17,882	-
Real estate					
Construction	65,617	65,617	16,494	69,555	4,183
Commercial	241,000	241,000	100,000	145,800	355
Residential	168,043	168,043	20,000	70,703	2,422
Consumer	-	-	-	-	-
Total	474,660	474,660	136,494	360,556	6,960
Total impaired loans	$ 6,183,452	$ 6,183,452	$ 136,494	$ 6,278,890	$ 343,072

There were no significant loans restructured in troubled debt restructurings during the years ended December 31, 2021 and 2020. The Company did not have any troubled debt restructurings that subsequently defaulted during the years ended December 31, 2021 and 2020.

Impact of COVID-19 on the Company

In March 2020, the COVID-19 coronavirus was identified as a global pandemic and began affecting the health of large populations around the world. As a result of the spread of COVID-19, economic uncertainties arose which can ultimately affect the financial position, results of operations and cash flows of the Company as well as the Company’s customers. In response to economic concerns over COVID-19, in March 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was passed into law by Congress. The CARES Act included relief for individual Americans, health care workers, small businesses and certain industries hit hard by the COVID-19 pandemic. The 2021 Consolidated Appropriations Act, passed by Congress in December 2020, extended certain provisions of the CARES Act affecting the Company into 2021.

The CARES Act included several provisions designed to help financial institutions like the Company in working with their customers. Section 4013 of the CARES Act, as extended, allows a financial institution to elect to suspend generally accepted accounting principles and regulatory determinations with respect to qualifying loan modifications related to COVID-19 that would otherwise be categorized as a troubled debt restructuring (TDR) until January 1, 2022. The Company has taken advantage of this provision to extend certain payment modifications to loan customers in need. The Company modified loans under Section 4013 of the CARES Act during 2021 and 2020 that have since returned to normal payment status.

The CARES Act also approved the Paycheck Protection Program (PPP), administered by the Small Business Administration (SBA) with funding provided by financial institutions. The 2021 Consolidated Appropriations Act approved a new round of PPP loans in 2021. The PPP provides loans to eligible businesses through financial institutions like the Company, with loans being eligible for forgiveness of some or all of the principal amount by the SBA if the borrower meets certain requirements. The SBA guarantees repayment of the loans to the Company if the borrower's loan is not forgiven and is then not repaid by the customer. The Company earns a 1% interest rate on PPP loans, plus a processing fee from the SBA for processing and originating a loan.

Note 5: Premises and Equipment

Major classifications of premises and equipment, stated at cost, are as follows:

	2021	2020
Land	$ 2,270,405	$ 2,270,405
Buildings and improvements	10,063,144	9,983,851
Furniture and equipment	4,216,875	4,558,246
Construction in process	30,624	16,394
	16,581,048	16,828,896
Less accumulated depreciation	(6,757,939)	(6,733,786)
Net premises and equipment	$ 9,823,109	$ 10,095,110

Note 6: Goodwill and Other Intangible Assets

The carrying amount of goodwill was $1,873,203 at December 31, 2021 and 2020. Goodwill is evaluated on an annual basis for impairment. No goodwill impairment loss was recorded during the years ended December 31, 2021 and 2020.

The carrying basis and accumulated amortization of recognized intangible assets at December 31, 2021 and 2020 were:

	2021		2020	
	Gross Carrying Value	Accumulated Amortization	Gross Carrying Value	Accumulated Amortization
Intangible assets	$ 1,300,000	$ 1,049,762	$ 1,625,000	$ 1,189,047

Amortization expense for the years ended December 31, 2021 and 2020 was $186,000 and $186,000, respectively. Estimated amortization expense for each of the following years is:

2022	$ 185,714
2023	51,667
2024	12,857

Note 7: Deposits

Categories of deposits at December 31, 2021 and 2020 include:

	2021	2020
Demand deposits	$ 271,536,774	$ 217,726,611
Savings and money market accounts	137,757,719	111,052,973
Certificates and other time deposits of $250,000 or more	25,999,054	28,264,687
Other certificates and time deposits	61,097,967	59,380,079
	$ 496,391,514	$ 416,424,350

At December 31, 2021, the scheduled maturities of time deposits were as follows:

Maturing year ending Decmber 31,	
2022	$ 56,559,190
2023	16,294,093
2024	3,128,881
2025	2,927,860
2026	8,186,997
Thereafter	-
	$ 87,097,021

Deposits from related parties totaled approximately $5,129,640 and $3,244,523 at December 31, 2021 and 2020, respectively.

Note 8: Income Taxes

The provision for income taxes for the years ended December 31, 2021 and 2020, includes these components:

	2021	2020
Taxes currently payable	$ 1,430,235	$ 1,253,675
Deferred income taxes	40,740	(79,355)
Income tax expense	$ 1,470,975	$ 1,174,320

A reconciliation of the federal income tax expense at the statutory rate to the Company's actual income tax expense is shown below:

	2021	2020
Computed at statutory rate (21%)	$ 1,520,146	$ 1,366,957
Increase (decrease) resulting from:		
Tax exempt interest	(102,742)	(83,212)
State income taxes, net	97,857	79,663
Income tax credits	(16,748)	(24,009)
Bank-owned life insurance	(38,395)	(30,036)
Other	10,857	(135,043)
Actual income tax expense	$ 1,470,975	$ 1,174,320

The tax effects of temporary differences related to deferred taxes were as follows:

	2021	2020
Deferred tax assets		
Allowance for loan losses	$ 738,426	$ 740,079
Deferred compensation	296,209	297,622
Unrealized losses on available-for-sale securities	573,961	-
Other	186,794	184,664
Deferred tax assets	1,795,390	1,222,365
Deferred tax liabilities		
Depreciation	(179,795)	(134,957)
Goodwill	(418,302)	(416,464)
Unrealized gains on available-for-sale securities	-	(120,650)
Mortgage servicing rights	(81,560)	(81,202)
Prepaid expenses	(55,217)	(54,974)
Cash basis adjustments	(24,509)	(31,431)
Federal Home Loan Bank stock dividends	(20,753)	(20,661)
Other	(27,420)	(28,063)
Deferred tax liabilities	(807,556)	(888,402)
Net deferred tax asset	$ 987,834	$ 333,963

The Company and its subsidiaries are subject to U.S. federal income tax as well as income tax of the state of Indiana. The Company does not expect the total amount of unrecognized tax benefits to significantly change in the next 12 months.

The Company recognizes interest and/or penalties related to income tax matters in income tax expense. The Company did not have any amounts accrued for interest and penalties at December 31, 2021.

Note 9: Commitments and Contingencies

The Bank is a party to financial instruments with off-balance-sheet risk in the normal course of business to meet financing needs of its customers. These financial instruments include commitments to extend loans and unused credit lines to customers. The Bank's exposure to credit loss in the event of nonperformance by the other party to the financial instrument is represented by the contractual amount of those instruments. The Bank uses the same credit policy to make such commitments as it uses for on-balance-sheet items.

Off-balance-sheet commitments are as follows at December 31, 2021 and 2020:

	2021	2020
Commitments to extend credit	$ 7,029,000	$ 7,210,000
Unused lines of credit	24,441,000	23,056,000
Standby letters of credit	315,000	309,000
Total	$ 31,785,000	$ 30,575,000

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. The Bank evaluates each customer's credit worthiness on a case-by-case basis. The amount of collateral obtained, if deemed necessary by the Bank upon extension of credit, is based on management's credit evaluation. Collateral held varies but may include accounts receivable, inventory, property and equipment, and income-producing commercial properties.

Standby letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party.

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

As of December 31, 2021, the Bank had a line of credit agreement with the Federal Home Loan Bank, which allows the Bank to borrow up to $6,000,000. The line of credit is collateralized by a blanket pledge of one-to-four family residential mortgage loans totaling $76,300,000 at December 31, 2021. There was no outstanding balance on this line of credit as of December 31, 2021.

As of December 31, 2021, the Bank had a line of credit agreement with the Bankers' Bank of Wisconsin, which allows the Bank to borrow up to $10,000,000. There was no outstanding balance on this line of credit as of December 31, 2021.

Note 10: Benefit Plans

The Company sponsors a defined-contribution 401(k) plan with ESOP provisions, which covers substantially all employees. Eligible employees can elect to defer up to 15 percent of their salary, not to exceed IRS limitations. The Company matches one half of employee contributions, up to six percent of their salaries. Employer's contributions are 100% vested after five years of service. The Plan includes an employee stock ownership option. The Company's total 401(k) contributions charged to expense in 2021 and 2020 were $136,431 and $135,668, respectively.

The Company's Board of Directors elected to terminate the ESOP portion of the Friendship BanCorp Employee Stock Ownership and 401(k) Plan effective June 30, 2020. All ESOP amounts will be distributed to eligible participants once approval of termination has been received from the Internal Revenue Service. All participants became 100% vested in their benefits as of Plan termination date.

Participants receive distributions from the plan of their vested shares of Company common stock subsequent to the end of their employment. The Company is required to redeem the shares of Company common stock that have been distributed from the plan at current market value, upon request of the participants receiving such distributions. An independent appraisal is obtained annually to determine the market value of Company stock.

The ESOP shares as of December 31, 2021 and 2020 were as follows:

	2021	2020
Allocated shares, beginning of year	282,831	299,726
Shares released during the year for allocation	-	-
Shares distributed during the year	(146,455)	(16,895)
Unreleased shares, end of year	-	-
Shares repurchased during the year	-	-
	136,376	282,831

The Company is obligated at the option of each beneficiary to repurchase shares of the ESOP upon the beneficiary's termination or after retirement. At December 31, 2021, the fair value, as estimated by an independent third party, of the 136,376 allocated shares held by the ESOP is $5,114,100. As of December 31, 2021 and 2020, there were 64,982 and 129,214 allocated shares with a fair value of $2,436,822 and $4,647,686 subject to repurchase obligation.

In addition, the Company has entered into deferred compensation, salary continuation agreements that provide benefits to certain directors and officers or their beneficiaries. The benefits expected to be paid are being accrued to date of full eligibility. Benefit payments under the agreements may be accelerated upon death, disability or termination by the Company prior to full eligibility. The salary continuation plan was frozen in 2007. During 2021 the Company implemented a SERP plan for certain employees. The expense incurred for the deferred compensation plan in 2021 and 2020 was $131,319 and $47,871, respectively.

Note 11: Stock Options

Options to buy stock are granted to directors, officers and employees under the Employee Stock Option Plan, which provides for issue of up to 200,000 options. The maximum option term is ten years. At December 31, 2021, options to purchase 171,006 shares of stock remain for future grants under this plan.

The fair value of each option award is estimated on the date of grant using a closed form option valuation (Black-Scholes) model. Expected volatilities are based on historical volatilities of the Company's common stock. The Company uses historical data to estimate option exercise and post-vesting termination behavior. The expected term of options granted is based on historical data and represents the period of time that options granted are expected to be outstanding. The risk-free rate of interest for the expected life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant. There were no grants in 2021 or 2020.

During the year ended December 31, 2021, there were no options granted or exercised, and options for 3,870 shares were forfeited. There were no option grants outstanding in the plan at December 31, 2021.

The total intrinsic value of options exercised during the year ended December 31, 2020 was $20,045. Cash received from option exercises for the year ended December 31, 2020 was $17,935.

Note 12: Regulatory Matters

The Bank is subject to various regulatory capital requirements administered by the federal banking agencies. Failure to meet minimum capital requirements can initiate certain mandatory and possibly additional discretionary actions by regulators that, if undertaken, could have a direct material effect on the Bank's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Bank must meet specific capital guidelines that involve quantitative measures of the Bank's assets, liabilities and certain off-balance-sheet items as calculated under U.S. GAAP reporting requirements and regulatory capital standards. The Bank's capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Bank's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulatory reporting standards to ensure capital adequacy require the Bank to maintain minimum amounts and ratios (set forth in the table below) of total and Tier I capital (as defined) to risk-weighted assets (as defined), common equity Tier I capital (as defined) to total risk-weighted assets (as defined) and of Tier I capital (as defined) to average assets (as defined). Management believes, as of December 31, 2021 and 2020, that the Bank meets all capital adequacy requirements to which it is subject.

As of December 31, 2021, the most recent notification from the regulators categorized the Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well capitalized, the Bank must maintain minimum total risk-based capital, Tier I risk-based capital, common equity Tier I risk-based capital and Tier I leverage ratios as set forth in the table. There are no conditions or events since that notification that management believes have changed the Bank's category.

The Bank's actual and required capital amounts and ratios are as follows (table amounts in thousands):

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
			(Dollars in thousands)			
As of December 31, 2021						
Total Capital (to Risk-Weighted Assets)	$ 46,851	17.2%	$ 21,804	8.0%	$ 27,256	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 43,733	16.0%	$ 16,353	6.0%	$ 21,804	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 43,733	16.0%	$ 12,265	4.5%	$ 17,716	6.5%
Tier I Leverage Capital (to Average Total Assets)	$ 43,733	8.2%	$ 21,474	4.0%	$ 26,842	5.0%
As of December 31, 2020						
Total Capital (to Risk-Weighted Assets)	$ 43,957	16.7%	$ 21,003	8.0%	$ 26,254	10.0%
Tier 1 Capital (to Risk-Weighted Assets)	$ 40,854	15.6%	$ 15,752	6.0%	$ 21,003	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)	$ 40,854	15.6%	$ 11,814	4.5%	$ 17,065	6.5%
Tier I Leverage Capital (to Average Total Assets)	$ 40,854	8.9%	$ 18,330	4.0%	$ 22,913	5.0%

Without prior approval, current regulations allow the Bank to pay dividends not exceeding net profits (as defined) for the current year, plus those for the previous two years. The Bank normally restricts dividends to a lesser amount because of the need to maintain an adequate capital structure.

The above minimum capital requirements exclude the capital conservation buffer required to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers. The capital conservation buffer was 2.50% at December 31, 2021. The net unrealized gain or loss on available-for-sale securities is not included in computing regulatory capital.

Note 13: Disclosures about Fair Value of Assets and Liabilities

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets of liabilities.

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

Following is a description of the valuation methodologies and inputs used for instruments measured at fair value on a recurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Available-for-sale and Equity Securities

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using pricing models, quoted prices of securities with similar characteristics or discounted cash flows. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities relationship to other benchmark quoted investment securities.

Level 2 securities include U.S. Government-sponsored agencies, mortgage-backed securities and corporate debt. Matrix pricing is a mathematical technique widely used in the banking industry to value investment securities without relying exclusively on quoted prices for specific investment securities but rather relying on the investment securities’ relationship to other benchmark quoted investment securities.

In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying consolidated balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Equity securities	$ 1,517,207	$ 1,517,207	$ -	$ -
Mutual funds	115,568	115,568	-	-
Total equity securities	$ 1,632,775	$ 1,632,775	$ -	$ -
Avaliable-for-sale securities				
U.S. Treasury and government agency	$ 110,444,963	$ -	$ 110,444,963	$ -
Mortgage-backed - residential	45,919,228	-	45,919,228	-
Corporate debt	3,747,246	-	3,747,246	-
Total investment securities available-for-sale	$ 160,111,437	$ -	$ 160,111,437	$ -
December 31, 2020				
Equity securities	$ 1,149,630	$ 1,149,630	$ -	$ -
Mutual funds	100,495	100,495	-	-
Total equity securities	$ 1,250,125	$ 1,250,125	$ -	$ -
Avaliable-for-sale securities				
U.S. Treasury and government agency	$ 9,676,607	$ -	$ 9,676,607	$ -
Mortgage-backed - residential	43,990,418	-	43,990,418	-
Corporate debt	1,825,483	-	1,825,483	-
Total investment securities available-for-sale	$ 55,492,508	$ -	$ 55,492,508	$ -

Following is a description of the valuation methodologies and inputs used for assets and liabilities measured at fair value on a nonrecurring basis and recognized in the accompanying consolidated balance sheets, as well as the general classification of such assets and liabilities pursuant to the valuation hierarchy.

Impaired Loans (Collateral Dependent)

The estimated fair value of collateral-dependent impaired loans is based on the appraised fair value of the collateral, less estimated cost to sell. Collateral-dependent impaired loans are classified within Level 3 of the fair value hierarchy.

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

Nonrecurring Measurements

The following table presents the fair value measurement of assets measured at fair value on a nonrecurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2021 and 2020:

		Fair Value Measurements Using		
	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021				
Impaired loans	$ 169,821	$ -	$ -	$ 169,821
December 31, 2020				
Impaired loans	$ 338,167	$ -	$ -	$ 338,167

Unobservable (Level 3) Inputs

The following tables present quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements.

	Fair Value	Valuation Technique	Unobservable Inputs	Range (Weighted-Range)
December 31, 2021				
Impaired loans	$ 169,821	Sales comparison approach	Marketability discount	0 - 61% (48%)
December 31, 2020				
Impaired loans	$ 338,167	Sales comparison approach	Marketability discount	0 - 40% (24%)