HEARTLAND BancCorp

Parent Company of Heartland Bank
& TransCounty Title Agency

ANNUAL REPORT

2020

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April 5, 2021

Dear Valued Shareholders,

Amidst the happenings of 2020, I am pleased to report another successful year for your community bank. The COVID-19 response by your Heartland community bankers was simply amazing, and some of the steps taken in this time benefited shareholders. We upgraded our digital platform, closed on our first acquisition, and completed a conversion of that client base all while learning to work from home and socially distance. We're now in the residential mortgage and servicing business in a big way as our focus on noninterest income continues. We were also able to improve our team by adding some key roles and elevating our associates from within.

It was the start of 2020, and all through the industry capital was high, delinquency low, and the outlook was rosy. The first quarter was our best on record, and it seemed as if we were off to another banner growth year. We completed our digital banking conversion in February with most of our clients up to speed quickly. During the first quarter, the commercial group originated $141 million in total commitments, and we garnered many new relationships very early in the year. All systems were "go" until everything changed in a matter of days.

COVID-19 arrived on the scene, first with travel restrictions and then the shutdown of non-essential activities. We had to make important decisions on how to move forward. The health and safety of our associates and clients came first as we were able to establish a work-from-home stance and safe delivery of services within five days. Not knowing the future, we tapped the capital markets and raised additional capital to help ensure we were prepared for the unknown. Knowing that the banking system would be part of the delivery of aid to our communities, we started to prepare for the governor's plan on how to keep commerce closed, but not totally lose the economy in the process.

Unlike the Great Recession of 2008, the Federal Government, via the regulatory agencies, was the first to offer assistance with guidance for forbearance and payment deferment for loan clients of all sizes. The Cares Act was signed and the Payroll Protection Program would be the main vehicle to deliver aid through the banking system and the SBA. I'm proud to say that your Heartland community bankers, led by Laurie Pfeiffer and Donna Baskerville, worked 24-7 for over six weeks. We established a "put me in coach" system to recruit every able-bodied community banker. Our efforts were so successful that we were able to not only help our clients, but many other businesses in need. The fee income associated with this program enabled the bank to increase reserves and offset expenses attributed to aid delivery. Overall, your community bank originated 1,075 PPP loans for $129 million, helping 16,000+ employees. Community bankers across America outpaced their big bank and credit union competition making 60% of all PPP loans while only holding 20% of the US banking market share. Even Jim Cramer from CNBC was quoted as saying, "I should have been with a community bank."

We were also in the middle of an acquisition. On April 7, we closed on our acquisition of Victory Community Bank in Northern Kentucky and welcomed the Kenkel family to ours. John G. "Jack" Kenkel Jr. joined your board of directors and Jack's sons, John and Eric, also joined the Heartland team. There were three reasons why we were excited about this match-up. First, we could enter the vibrant Northern Kentucky market with locations in Boone, Kenton and Campbell counties. Second, we could diversify our balance sheet with the addition of a mortgage and servicing book to enhance noninterest income. Third and most important, we could obtain top talent in the mortgage area along with decades of experience from one of the best sources around, the Kenkel family. Our conversion team did a great job, and we were able to open as Heartland Bank in October!

The summer was a challenging time as social unrest and rioting were prevalent across the country. We have taken special care to look inside our organization and make sure that we are all fully aware of, and have respect for, the cultural, racial, and ethnic differences that make America the melting pot that it is. Diversity and inclusion activities, conversations and actions will continue so that we can all be aware of societal discrimination and justice for all.

In September, we made a strategic hire in Matt Booms to help us streamline and manage the mortgage business. His extensive experience and leadership have helped manage and grow the Victory asset. The rate environment also created a tsunami of mortgage refinance activity which has been a very successful source of revenue and growth. In 2020 alone, the on balance sheet mortgage portfolio grew by $92 million, or 40%, and the off balance sheet service mortgage portfolio grew by $341 million, or 1,366%. The mortgage team generated approximately $5.3 million in noninterest income, up $4.8 million or 963% from 2019.

In October, Ben Babcanec was promoted to SVP, Chief Operating Officer. With 19 years of experience in our bank starting as a teller and working his way up, Ben was the best choice for this position. He is a past board member of many local non-profit organizations and is currently a board member of the Community Bankers Association of Ohio. Most importantly, he is a creator and defender of the Heartland family culture. With this addition, we have weaponized our culture and will not let anything or anybody pose a threat to it. One of my most proud moments in banking was to promote Ben to this post.

At the onset of the pandemic, we didn't think we could have a banner year; however, the hard work and dedication of your Heartland community bankers held the day. Record revenue and bottom-line profits kept the bank in line with past years. Receiving the SBA 2019 Top 10 Lender of the Year Award for the Columbus District Region and Ranking #58 on the Top 200 Publicly Traded Community Banks and Thrifts were also honors we received from the industry. However, the largest and most heartfelt accolades came from our clients and communities as they sent many notes of thanks and appreciation for the bank's efforts during such a trying time in human history.

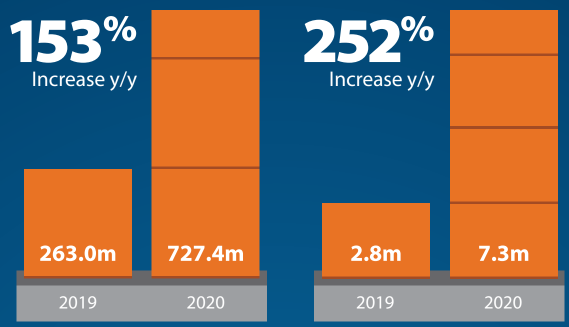
When life becomes uncertain, there's one thing understood: we're here for you at Heartland Bank, where banking feels good! Thank you for your continued support and patronage.

Sincerely,

G. Scott McComb
Chairman, President & CEO

OUR IMPACT:

A YEAR IN REVIEW



Total Serviced Residential RE Loans
$727.4 million

Loan Sales & Servicing Income
$7.3 million

67% Increase y/y
Demand Deposits
$426.8 million

22% Increase y/y
Commercial Loans
$763.3 million

88% Increase y/y
Revenue Growth Heartland Planning Associates
$1.04 million

25% Increase y/y
Operating Revenue
$60.5 million

59.9% Decrease of 3.6% in 2020
Efficiency Ratio

14% Increase y/y
Diluted EPS
$7.33

2% Increase y/y
Tangible Book Value
$63.85

261
FTE Average
$232,000
revenue per FTE

People Portfolio

Another year of ACHIEVEMENT

Changes in Financial Condition:

Total assets at December 31, 2020, were $1.55 billion, an increase of 39% compared to $1.11 billion at December 31, 2019. Loans held for investment increased $237.1 million or 26% to $1.14 billion at December 31, 2020, compared to $899.0 million at December 31, 2019. The largest components of this increase were in Commercial loans which increased $106.3 million and Residential 1-4 Family loans which increased $91.9 million. The 2020 results were impacted by Heartland's participation in the Paycheck Protection Program (PPP) which increased Commercial balances by approximately $101 million. In addition, Heartland acquired Victory Community Bank in April of 2020 which increased loan balances by $120.2 million.

Nonperforming assets consisting of nonaccrual loans, loans past due 90 days and still accruing, and Other Real Estate Owned ("OREO") totaled $3.0 million, or 0.19% of total assets at December 31, 2020, an increase of $0.6 million from 2019. Net charge offs increased during 2020 to $0.97 million, which was a $0.69 million increase compared to 2019. The allowance for loan loss at December 31, 2020, now covers nonaccrual loans at 476.5%, up from 471.9% at December 31, 2019.

Heartland BancCorp funds earning asset growth through its deposit relationships. Deposits increased $368.6 million or 39.0% to $1.31 billion at December 31, 2020. Deposit growth for the year included $170.8 million in demand deposits and $172.4 million in savings and money market deposits. The acquisition of Victory Community Bank added approximately $149.9 million in deposit balances in 2020.

The CARES Act provided for significant consumer and small business relief due to the impact of the COVID-19 pandemic. Heartland provided payment relief to a number of consumer and small business customers throughout 2020. Heartland has deferred payment on 29 loans totaling $51.9 million at December 31, 2020, which includes 13 loans totaling $28.0 million that had received a second deferral.

Total shareholders' equity increased $12.5 million or 9.7% to $140.9 million at December 31, 2020. Based upon total shares outstanding, the book value of shareholders' equity increased 11% to $70.70 per share at December 31, 2020. On March 13, 2020, Heartland announced the authorization to repurchase up to $5 million in common shares of stock. Following this announcement, 90,612 shares at an average price of $55.12 per share were repurchased and converted to treasury shares. Additionally, on May 15, 2020, Heartland completed its private placement of $25 million of 5.0% fixed-to-floating rate subordinated notes, due 2030, to certain qualified institutional buyers and accredited investors, including the exchange of $5.4 million of the Company's subordinated notes due 2025. The notes have been structured to qualify as Tier 2 capital for regulatory capital purposes. At December 31, 2020, Heartland Bank and Heartland BancCorp met all regulatory capital requirements to be considered well-capitalized (see Note 13 to the Consolidated Financial Statements). In 2020, Heartland BancCorp paid dividends of $2.29 per share, representing a yield of 2.76% on the closing stock price of $82.99 per share on December 31, 2020.

Earnings Summary:

2020 marked the 4th consecutive year of record net income with a 33-year history of strong, consistent growth and financial performance for Heartland BancCorp. Net income for 2020 increased 12% to $14.8 million, or $7.33, per diluted share compared to $13.2 million, or $6.45, per diluted share in 2019. Return on average assets and equity were 1.08% and 11.10% respectively for 2020, compared to 1.21% and 10.81% for 2019.

Positive results for 2020 included net loan growth of $231.7 million, or 26%, and deposit growth of $368.6 million, or 39%. The mortgage banking segment contributed significant revenues with residential real estate loan production of $244.7 million for the year, resulting in $5.8 million of revenue from gains on sales of mortgage loans and OMSRs. Heartland's portfolio of mortgage loans serviced for others ended the year at $366.1 million, up from $25.0 million at December 31, 2019. PPP loan originations totaled $129.0 million, adding $3.6 million in pretax preprovision net revenue.

Operating revenue (net interest income plus noninterest income) was up compared to the prior year by $12.2 million, or 25.3%. Sustained low, long-term mortgage rates continued to attract mortgage refinancing and produced higher gains on loan sales. Low market rates, combined with excess liquidity, and PPP loans at 1.0% rates contributed to a 31 basis point decline in net interest margin to 3.63% for 2020.

Operating expense increased $5.5 million or 17.8% in 2020 due to increased compensation cost resulting from higher mortgage commissions and increased costs from the acquisition of Victory Community Bank. Operating leverage (growth in revenue divided by growth in operating expense) was positive 1.4 times.

Net charge offs for 2020 were $0.97 million compared to $0.28 million in 2019. Economic impacts from the COVID-19 pandemic resulted in loan loss provision of $6.4 million for 2020 compared to $1.5 million in 2019.

Results of Operation:

Net interest income increased 14.8% to $46.4 million compared to $40.4 million in 2019. Average earning assets increased to $1.27 billion in 2020 compared to $1.02 billion in 2019, an increase of $242.4 million, or 23.6%, resulting from a $202.7 million, or 24%, increase in average loan balances. The consolidated full year net interest margin decreased 31 basis points to 3.63% compared to 3.94% for the full year of 2019. Amortization of net deferred PPP fees and costs recognized in interest income during 2020 was $1.4 million. At December 31, 2020, the balance of unamortized PPP fees, net of costs, was $1.3 million from Phase I of the PPP program.

Provision for loan loss expense was $6.4 million in 2020 compared to $1.5 million in 2019. For 2020, net charge offs totaled $0.97 million, or .09%, of average loans compared to $0.28 million, or .03%, of average loans in 2019. The allowance as a percent of loans, including PPP balances, was 1.25% at December 31, 2020, compared to .98% at December 31, 2019.

Total noninterest income was $14.1 million for 2020 compared to $7.8 million for 2019, representing an increase of $6.2 million, or 79.7% year-over-year. This increase was driven by an increase of $5.3 million in gains on sales of residential real estate loans and OMSRs and an increase of $0.49 million, or 88%, in income from Heartland's financial planning division, Heartland Planning Associates. Trans County Title Agency contributed $2.3 million in noninterest income for 2020 compared to $2.1 million in 2019.

Total noninterest expense was $36.1 million for 2020 compared to $30.6 million in 2019, representing a $5.5 million, or 17.8%, increase year-over-year. Total full-time equivalent employees ended 2020 at 279, an increase of 36 from year-end 2019, resulting from a larger footprint with the addition of three banking locations in Boone, Kenton, and Campbell counties in Kentucky from the acquisition of Victory Community Bank plus expansion of the mortgage team.

Salaries and benefits were driven by higher compensation costs in the mortgage division and a reduction of $2.1 million from deferred origination costs on PPP loans. Professional fees were higher due to increased legal, investment banking and accounting fees from the acquisition. TransCounty Title Agency contributed $2.0 million in operating costs compared to $1.9 million in 2019. On April 7, 2020, Heartland completed the acquisition of Victory Community Bank, which added $1.2 million in merger related non-recurring expense.

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2020 and 2019

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CPAs & Advisors

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Independent Auditor's Report

Board of Directors and Audit Committee
Heartland BancCorp
Whitehall, Ohio

We have audited the accompanying consolidated financial statements of Heartland BancCorp and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and 2019, and the related consolidated statements of income, comprehensive income, shareholders' equity and cash flows for the years then ended, and the related notes to the consolidated financial statements. We also have audited Heartland BancCorp's internal control over financial reporting as of December 31, 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Management's Responsibility for the Consolidated Financial Statements and Internal Control Over Financial Reporting

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

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements and an opinion on the entity's internal control over financial reporting based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement and whether effective internal control over financial reporting was maintained in all material respects.

An audit of consolidated financial statements involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances. An audit of consolidated financial statements also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

An audit of internal control over financial reporting involves performing procedures to obtain evidence about whether a material weakness exists. The procedures selected depend on the auditor's judgment, including the assessment of the risk that a material weakness exists. An audit of internal control over financial reporting also involves obtaining an understanding of internal control over financial reporting and testing and evaluating the design and operating effectiveness of internal control over financial reporting based on the assessed risk.

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

Definition and Inherent Limitations of Internal Control Over Financial Reporting

An entity's internal control over financial reporting is a process effected by those charged with governance, management and other personnel, designed to provide reasonable assurance regarding the preparation of reliable financial statements in accordance with accounting principles generally accepted in the United States of America. Because management's assessment and our audit were conducted to meet the reporting requirements of Section 112 of the Federal Deposit Insurance Corporation Improvement Act (FDICIA), our audit of Heartland BancCorp's internal control over financial reporting included controls over the preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and with the Preparation of Parent Company Only Financial Statements for Small Holding Companies (Form FR Y-9SP). An entity's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the entity; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the entity are being made only in accordance with authorizations of management and those charged with governance; and (3) provide reasonable assurance regarding prevention, or timely detection and correction of unauthorized acquisition, use or disposition of the entity's assets that could have a material effect on the consolidated financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent, or detect and correct, misstatements. Also, projections of any assessment of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Opinions

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Heartland BancCorp as of December 31, 2020 and 2019, 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. Also, in our opinion, Heartland BancCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2020 based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the COSO.

BKD, LLP

Indianapolis, Indiana
March 15, 2021

Heartland BancCorp

Consolidated Balance Sheets

December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

Assets		**2020**		**2019**
Cash and cash equivalents	$	189,874	$	19,475
Interest bearing time deposits		277		-
Available-for-sale securities		144,377		139,218
Held-to-maturity securities, fair value of $202 and $760 at December 31, 2020 and 2019, respectively		202		758
Loans held for sale		4,382		650
Loans, net of allowance for loan losses of $14,147 and $8,767 at December 31, 2020 and 2019, respectively		1,121,947		890,205
Premises and equipment		30,220		30,186
Nonmarketable equity securities		6,017		4,440
Mortgage servicing rights, net		2,662		226
Foreclosed assets held for sale		5		-
Goodwill		12,389		1,206
Intangible assets		1,253		935
Deferred income taxes		955		600
Life insurance assets		17,468		17,057
Accrued interest receivable and other assets		15,052		9,901
Total assets	$	1,547,080	$	1,114,857

Liabilities and Shareholders' Equity				
Liabilities				
Deposits				
Demand	$	426,795	$	255,971
Savings, NOW and money market		528,836		356,484
Time		357,203		331,768
Total deposits		1,312,834		944,223
Repurchase agreements		10,632		11,344
Federal Home Loan Bank advances		44,670		15,000
Subordinated debt		24,709		5,460
Interest payable and other liabilities		13,339		10,440
Total liabilities		1,406,184		986,467
Shareholders' Equity				
Common stock, without par value; authorized 5,000,000 shares; issued 2020 - 2,083,487 shares, 2019 - 2,020,273 shares		60,402		56,091
Retained earnings		81,061		70,853
Accumulated other comprehensive income		4,427		1,446
Treasury stock at cost, 2020 - 90,612 and 2019 - 0 shares held		(4,994)		-
Total shareholders' equity		140,896		128,390
Total liabilities and shareholders' equity	$	1,547,080	$	1,114,857

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Income

Years Ended December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

	2020	2019
Interest Income		
Loans	$ 51,882	$ 46,270
Securities		
Taxable	1,708	2,722
Tax-exempt	2,335	1,828
Other	129	605
Total interest income	56,054	51,425
Interest Expense		
Deposits	7,952	10,251
Borrowings	1,732	778
Total interest expense	9,684	11,029
Net Interest Income	46,370	40,396
Provision for Loan Losses	6,350	1,500
Net Interest Income After Provision for Loan Losses	40,020	38,896
Noninterest Income		
Service charges	2,168	2,151
Gains on sale of loans and originated mortgage servicing rights	6,838	1,135
Loan servicing fees, net	495	948
Title insurance income	1,311	1,109
Net realized gain on sales of available-for-sale securities	250	-
Net realized gain on sales of premises and equipment	5	-
Increase in cash value of life insurance	411	502
Other	2,604	1,991
Total noninterest income	14,082	7,836
Noninterest Expense		
Salaries and employee benefits	20,389	18,485
Net occupancy and equipment expense	4,856	3,939
Data processing fees	1,996	1,509
Professional fees	1,893	956
Marketing expense	954	951
Printing and office supplies	387	311
State financial institution tax	1,012	905
FDIC Insurance premiums	423	106
Other	4,165	3,458
Total noninterest expense	36,075	30,620
Income Before Income Tax	18,027	16,112
Provision for Income Taxes	3,260	2,916
Net Income	$ 14,767	$ 13,196
Basic Earnings Per Share	$ 7.39	$ 6.54
Diluted Earnings Per Share	$ 7.33	$ 6.45

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Comprehensive Income

Years Ended December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

	2020	2019
Net Income	$ 14,767	$ 13,196
Other Comprehensive Income:		
Unrealized gain on available-for-sale securities, net of taxes of $845 and $890 for 2020 and 2019, respectively	3,178	3,353
Less reclassification adjustment for realized gains included in net income, net of taxes of $53 for 2020	(197)	-
Other comprehensive income	2,981	3,353
Comprehensive Income	$ 17,748	$ 16,549

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Shareholders' Equity

Years Ended December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

	Common Stock Shares	Common Stock Amount	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
Balance, December 31, 2018	2,015,276	55,080	61,855	(1,907)	-	115,028
Net income			13,196			13,196
Other comprehensive income				3,353		3,353
Dividends on common stock, $2.08 per share			(4,198)			(4,198)
New stock issued, net of issuance costs	937	75				75
Stock option expense		661				661
Stock options exercised	4,060	275				275
Balance, December 31, 2019	2,020,273	$ 56,091	$ 70,853	$ 1,446	$ -	$ 128,390
Net income			14,767			14,767
Other comprehensive income				2,981		2,981
Dividends on common stock, $2.29 per share			(4,559)			(4,559)
New stock issued, net of issuance costs	58,934	3,418				3,418
Stock option expense		591				591
Stock options exercised	5,090	360				360
Repurchase of common stock	(810)	(58)				(58)
Purchase of treasury shares	(90,612)				(4,994)	(4,994)
Balance, December 31, 2020	1,992,875	$ 60,402	$ 81,061	$ 4,427	$ (4,994)	$ 140,896

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Cash Flows

Years Ended December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

	2020	2019
Operating Activities		
Net income	$ 14,767	$ 13,196
Items not requiring (providing) cash		
Depreciation and amortization	1,830	1,508
Provision for loan losses	6,350	1,500
Amortization of premiums and discounts on securities	948	577
Amortization of purchase accounting adjustments	(291)	83
Amortization of loan fees, net	(1,260)	287
Deferred income taxes	(1,148)	(55)
Net realized gain on sale of available-for-sale securities	(250)	-
Stock option expense	591	661
Tax benefit related to stock options exercised	10	8
Gain on sale of premises and equipment	(5)	-
Gain on sale of loans	(5,190)	(648)
Increase in cash surrender value	(411)	(502)
Changes in		
Receivables due from loan sales	(3,732)	(650)
Interest receivable	(1,280)	(666)
Other assets	(1,366)	(313)
Interest payable and other liabilities	2,180	984
Net cash provided by operating activities	11,743	15,970
Investing Activities		
Net change in interest bearing time deposits	(3)	-
Purchase of available-for-sale securities	(61,727)	(42,304)
Proceeds from maturities of available-for-sale securities	51,450	47,309
Proceeds from sales of available-for-sale securities	8,799	-
Proceeds from maturities of held-to-maturity securities	556	807
Purchase of nonmarketable equity securities	(450)	(914)
Net change in loans	(81,582)	(74,561)
Purchase of premises and equipment	(1,041)	(3,190)
Proceeds from sale of foreclosed assets	68	-
Cash received (paid) for acquisitions	31,755	(172)
Net cash used in investing activities	(52,175)	(73,025)

See Notes to Consolidated Financial Statements

Heartland BancCorp

Consolidated Statements of Cash Flows (Continued)

Years Ended December 31, 2020 and 2019

(Table dollar amounts in thousands, except share data)

	2020	2019
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	$ 237,563	$ 58,276
Net increase/(decrease) in certificates of deposit	(51,649)	5,507
Net decrease in repurchase agreements	(712)	(18,424)
Proceeds from Federal Home Loan Bank Advances	15,570	5,000
Proceeds from issuance of subordinated notes, net	19,225	-
Proceeds from stock options exercised	360	275
Proceeds from issuance of common stock	-	75
Purchase of common stock	(58)	-
Purchase of treasury stock	(4,994)	-
Dividends paid	(4,474)	(4,101)
Net cash provided by financing activities	210,831	46,608
Increase/(Decrease) in Cash and Cash Equivalents	170,399	(10,447)
Cash and Cash Equivalents, Beginning of Year	19,475	29,922
Cash and Cash Equivalents, End of Year	$ 189,874	$ 19,475
Supplemental Cash Flows Information		
Interest paid	$ 9,423	$ 11,125
Income taxes paid (net of refunds)	$ 2,435	$ 2,650
Supplemental disclosure of noncash investing and financing activities		
Right of use asset obtained in exchange for lease liability	$ 701	$ 2,722
In conjunction with Heartland's acquisition of Victory Community Bank in 2020 and an investment book in 2019, liabilities were assumed as follows:		
Fair Value of Assets acquired	$ 237,113	$ 572
Cash paid in acquisition	(35,500)	(172)
Less: Common stock issued	3,418	-
Liabilities assumed	$ 198,195	$ 400

See Notes to Consolidated Financial Statements

Heartland BancCorp

Notes to Consolidated Financial Statements

December 31, 2020 and 2019

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

Nature of Operations

Heartland BancCorp ("Company") is a bank holding company whose principal activity is the ownership and management of its wholly-owned subsidiaries, Heartland Bank (the "Bank") and TransCounty Title Agency, LLC along with the Bank's wholly-owned subsidiaries, Heartland Mortgage Corporation (inactive), Heartland Investments, Inc. (inactive) and Heartland Insurance Services, LLC. The Bank is primarily engaged in providing a full range of banking and financial services to individual and corporate customers in central Ohio and northern Kentucky. The Bank is subject to competition from other financial institutions. The Bank is subject to the regulation of certain federal and state agencies and undergoes examinations by those regulatory authorities on an 18-month cycle.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, the Bank, TransCounty Title Agency, LLC and Heartland Insurance Services, LLC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Business Combinations

Business combinations are accounted for under the acquisition method of accounting. Under the acquisition method, assets and liabilities of the business acquired are recorded at their estimated fair values as of the date of acquisition with any excess of the cost of the acquisition over the fair value of the net tangible and intangible assets acquired recorded as goodwill. Results of operations of the acquired business are included in the income statement from the date of acquisition.

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 include the determination of the allowance for loan losses, valuation of real estate acquired in connection with foreclosures or in satisfaction of loans, valuation of deferred tax assets, and other-than-temporary impairments (OTTI) and fair values of financial instruments. The uncertainties related to the COVID-19 pandemic could cause significant changes to these estimates compared to what was known at the time these consolidated financial statements were prepared.

Cash Equivalents

At December 31, 2020, the Company's cash accounts exceeded federally insured limits by approximately $3,505,000.

Additionally, approximately $164,741,000 of cash is held by the Federal Reserve Bank of Cleveland and Federal Home Loan Bank of Cincinnati as of December 31, 2020, which is not federally insured.

Securities

Available-for-sale debt securities, which include any security for which the Company has no immediate plan to sell but which may be sold in the future, are carried at fair value. Unrealized gains and losses are recorded, net of related income tax effects, in other comprehensive income. Held-to-maturity debt securities, which include any security for which the Company has the positive intent and ability to hold until maturity, are carried at historical cost adjusted for amortization of premiums and accretion of discounts.

Purchase premiums and discounts are recognized in interest income using the interest method over the terms of the securities. Realized gains and losses are recorded as net security gains (losses). Gains and losses on sales of securities are determined on the specific-identification method.

Management evaluates securities for other-than-temporary impairment ("OTTI") on at least a quarterly basis, and more frequently when economic or market conditions warrant such an evaluation. For securities in an unrealized loss position, management considers the extent and duration of the unrealized loss, and the financial condition and near-term prospects of the issuer. Management also assesses whether it intends to sell, or it is more likely than not that it will be required to sell, a security in an unrealized loss position before recovery of its amortized cost basis. If either of the criteria regarding intent or requirement to sell is met, the entire difference between amortized cost and fair value is recognized as impairment through earnings. For debt securities that do not meet the aforementioned criteria, the amount of impairment is split into two components as follows 1) OTTI related to credit loss, which must be recognized in the income statement and 2) other-than-temporary impairment (OTTI) related to other factors, which is recognized in other comprehensive income. The credit loss is defined as the difference between the present value of the cash flows expected to be collected and the amortized cost basis. For equity securities, the entire amount of impairment is recognized through earnings. The Company recognized no other-than temporary impairment in 2020 and 2019.

Securities Sold Under Agreements to Repurchase

Securities sold under agreements to repurchase represent securities the Company routinely sells to certain treasury management customers and then repurchases these securities the next day. Securities sold under repurchase agreements are reflected as secured borrowings in the consolidated balance sheets at the amount of cash received in connection with each transaction.

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 any charge-offs, the allowance for loan losses, any 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.

For all loan classes, the accrual of interest is discontinued at the time the loan is 90 days past due unless the credit is well-secured and in process of collection. For all loan classes, 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.

For all loan classes, 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 the principal and interest amounts contractually due are brought current and future payments are reasonably assured. The Company requires a period of satisfactory performance of not less than six months before returning a nonaccrual loan to accrual status.

Discounts and premiums on purchased loans are amortized to income using the interest method over the remaining period to contractual maturity, adjusted for anticipated prepayments.

Loans Acquired in Business Combinations

Loans acquired in business combinations with evidence of credit deterioration since origination and for which it is probable that all contractually required payments will not be collected are considered to be purchased credit impaired. Evidence of credit quality deterioration as of purchase dates may include information such as past-due and nonaccrual status, borrower credit risk grade and recent loan to value percentages. Purchased credit-impaired loans are accounted for under the accounting guidance for loans and debt securities acquired with deteriorated credit quality (ASC 310-30).

These loans are initially measured at fair value based upon expected cash flows without anticipation of prepayments and includes estimated future credit losses expected to be incurred over the life of the loans. As a result, related discounts are recognized subsequently through accretion based on the expected cash flows of the acquired loans. For purposes of applying ASC 310-30, loans acquired in business combinations are individually evaluated for the initial fair value measurement. Accordingly, allowances for credit losses related to these loans are not carried over at the acquisition date.

The difference between contractually required payments and the cash flows expected to be collected at acquisition is referred to as the nonaccretable portion of the fair value discount or premium. The accretable portion of the fair value discount or premium is the difference between the expected cash flows and the net present value of expected cash flows, with such difference accreted into earnings over the term of the loans. Acquired loans not accounted for under ASC 310-30 are accounted for under ASC 310-20, which allows the fair value adjustment to be accreted into income over the remaining life of the loans.

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 un-collectability 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 if the discounted cash flows, underlying collateral value or observable market price of the impaired loan is lower than the carrying value of that loan. The general component covers non-impaired loans and is based on historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans.

A loan is considered impaired when, based on current information and events, it is probable that the Company will be unable to collect the scheduled payments of principal or interest when due according to the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value and the probability of collecting scheduled principal and interest payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. 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 observable market price or the fair value of the collateral if the loan is collateral dependent. Interest income on impaired loans is recognized on a cash basis after all past due and current principal payments have been made.

Groups of loans with similar risk characteristics are collectively evaluated for impairment based on the group’s historical loss experience adjusted for changes in trends, conditions and other relevant factors that affect repayment of the loans. Accordingly, the Company 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. In the course of working with borrowers, the Company may choose to restructure the contractual terms of certain loans. In this scenario, the Company attempts to work-out an alternative payment schedule with the borrower in order to optimize collectability of the loan. Any loans that are modified are reviewed by the Company to identify if a troubled debt restructuring (“TDR”) has occurred, which is when, for economic or legal reasons related to a borrower’s financial difficulties, the Company grants a concession to the borrower that it would not otherwise consider. Terms may be modified to fit the borrower’s ability to repay in line with the borrower’s current financial status, and the restructuring of the loan may include a transfer of assets from the borrower to satisfy the debt, a modification of loan terms or a combination of the two. If such efforts by the Company do not result in a satisfactory arrangement, the loan is referred to legal counsel, at which time foreclosure proceedings are initiated. At any time prior to a sale of the property at foreclosure, the Company may terminate foreclosure proceedings if the borrower is able to work-out a satisfactory payment plan.

It is the Company’s policy that any restructured loans on nonaccrual status prior to being restructured remain on nonaccrual status until six months of satisfactory borrower performance, at which time management would consider its return to accrual status. If a loan is accruing at the time of restructuring, the Company reviews the loan to determine if it is appropriate to continue the accrual of interest on the restructured loan.

With regard to determination of the amount of the allowance for credit losses, troubled debt restructured loans are considered to be impaired. As a result, the method for determining the amount of impaired loans for each portfolio segment of troubled debt restructurings is the same as detailed previously.

On March 22, 2020, a statement was issued by banking regulators and titled "Interagency Statement on Loan Modifications and Reporting for Financial Institutions Working with Customers Affected by the Coronavirus" (the "Interagency Statement") that encourages financial institutions to work prudently with borrowers who are or may be unable to meet their contractual payment obligations due to the effects of COVID-19. Additionally, Section 4013 of the CARES Act further provides that a qualified loan modification is exempt by law from classification as a troubled debt restructure as defined by GAAP, from the period beginning March 1, 2020 until the earlier of December 31, 2020 or the date that is 60 days after the date on which the national emergency concerning the COVID-19 outbreak under the National Emergencies Act (50 U.S.C. 1601 et seq.) terminates. The Interagency Statement was subsequently revised on April 7, 2020 to clarify the interaction of the original guidance with Section 4013 of the CARES Act, as well as setting forth the banking regulators' views on consumer protection considerations.

In accordance with such guidance, the Company has offered short-term modifications made in response to COVID-19 to borrowers who were current and otherwise not past due. These included short-term, 180 days or less, modifications in the form of payment deferrals, fee waivers, extensions of repayment terms, or other delays in payment that are insignificant. On December 27, 2020, a $900 billion COVID-19 relief package, as passed by the U.S. Congress, was signed into law as part of the 2021 Consolidated Appropriations Act ("CAA") that provides federal government funding through the end of its 2021 fiscal year. In addition to delivering direct stimulus payments to certain individuals, an increase in unemployment insurance benefits, an extension of the eviction moratorium, relief to the healthcare industry, and additional aid to various other businesses, the COVID-19-related provisions of the CAA provide for (i) an additional $284 billion in funding for the Paycheck Protection Program ("PPP"), through March 31, 2021, (ii) an extension of the temporary delay for implementation of the CECL accounting standard, and (iii) further suspension of the troubled debt restructure assessment and reporting requirements for financial institutions under GAAP.

Mortgage Servicing Rights

When mortgage loans are sold with servicing retained, servicing rights are initially recorded at fair value with the income statement effect recorded in gains on sales of loans. Fair value is based on market prices for comparable mortgage servicing contracts, when available or alternatively, is based on a valuation model that calculates the present value of estimated future net servicing income. All classes of servicing assets are subsequently measured using the amortization method which requires servicing rights to be amortized into non-interest income in proportion to, and over the period of, the estimated future net servicing income of the underlying loans.

Servicing rights are evaluated for impairment based upon the fair value of the rights as compared to carrying amount. Impairment is determined by stratifying rights into groupings based on predominant risk characteristics, such as interest rate, loan type and investor type. Impairment is recognized through a valuation allowance for an individual grouping, to the extent that fair value is less than the carrying amount. If the Company later determines that all or a portion of the impairment no longer exists for a particular grouping, a reduction of the allowance may be recorded as an increase to income. Changes in valuation allowances are reported with loan servicing fees on the income statement. The fair values of servicing rights are subject to significant fluctuations as a result of changes in estimated and actual prepayment speeds and default rates and losses.

Servicing fee income, which is reported on the income statement as loan servicing fees, is recorded for fees earned for servicing loans. The fees are based on a contractual percentage of the outstanding principal; or a fixed amount per loan and are recorded as income when earned. The amortization of mortgage servicing rights is netted against loan servicing fee income.

Premises and Equipment

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.

Nonmarketable Equity Securities

Nonmarketable equity securities consist of common stock in the Federal Reserve Bank (FRB) and Federal Home Loan Bank (FHLB). The FRB and FHLB stocks are required investments for institutions that are members of the FRB and FHLB systems. The required investment in the common stock is based on a predetermined formula, carried at cost and evaluated for impairment.

Foreclosed Assets Held for Sale

Foreclosed assets are initially recorded at fair value less costs to sell when acquired, establishing a new cost basis. Physical possession of residential real estate property collateralizing a consumer mortgage loan occurs when legal title is obtained upon completion of foreclosure or when the borrower conveys all interest in the property to satisfy the loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. These assets are subsequently accounted for at lower of cost or fair value less estimated costs to sell. If the fair value declines subsequent to foreclosure, a valuation allowance is recorded through expense. Operating costs after acquisition are expensed.

Goodwill

Goodwill arises from business combinations and is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any noncontrolling interests in the acquiree, 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 the carrying amount, a goodwill impairment is identified and recorded to expense. Subsequent increases in goodwill value are not recognized in the financial statements. The Company completed its most recent annual goodwill impairment test as of December 31, 2020 and concluded goodwill is not impaired. Changes in goodwill are further described in Note 6, Goodwill and Note 20, Business Combinations.

Company-owned Life Insurance

The Company has purchased life insurance policies on certain key executives. Company-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.

Stock Options

At December 31, 2020, the Company has a share-based employee compensation plan, which is described more fully in Note 16.

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 Company—put presumptively beyond the reach of the transferor and its creditors, even in bankruptcy or other receivership, (2) the transferee obtains the right (free of conditions that constrain it from taking advantage of that right) to pledge or exchange the transferred assets and (3) the Company does not maintain effective control over the transferred assets through an agreement to repurchase them before their maturity or the ability to unilaterally cause the holder to return specific assets.

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 bases 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. Tax positions 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. If necessary, the Company recognizes interest and penalties on income taxes as a component of income tax expense.

The Company files consolidated income tax returns with its subsidiaries in the U.S. federal jurisdiction. With a few exceptions, the Company is no longer subject to tax authorities for years before 2017. As of December 31, 2020, the Company had no uncertain income tax positions.

Earnings Per Share

Basic earnings per share represents income available to common stockholders divided by the weighted-average number of common shares outstanding during each period. Diluted earnings per share reflects additional potential common shares that would have been outstanding if dilutive potential common shares had been issued, as well as any adjustment to income that would result from the assumed issuance. Potential common shares that may be issued by the Company relate solely to outstanding stock options and are determined using the treasury stock method.

Comprehensive Income

Comprehensive income consists of net income and other comprehensive income, net of applicable income taxes. Other comprehensive income includes unrealized gain on available-for-sale securities.

Accumulated Other Comprehensive Income

Accumulated other comprehensive income consists of unrealized gain on available-for-sale securities, net of applicable income taxes.

Marketing Costs

Marketing costs are expensed as incurred.

Revenue From Contracts With Customers

The Company records revenue from contracts with customers in accordance with Accounting Standards Codification Topic 606, *Revenue from Contracts with Customers* (Topic 606). Under Topic 606, the Company must identify the contract with a customer, identify the performance obligations in the contract, determine the transaction price, allocate the transaction price to the performance obligations in the contract, and recognize revenue when (or as) the Company satisfies a performance obligation. Significant revenue has not been recognized in the current reporting period that results from performance obligations satisfied in previous periods.

The majority of the Company's revenues come from interest and dividend income on loans, investment securities, and other financial instruments that are outside the scope of ASC 606. The Company has evaluated the nature of its contracts with customers and determined that further disaggregation of revenue from contracts with customers into more granular categories beyond what is presented in the consolidated statements of income was not necessary. The Company generally fully satisfies its performance obligations on its contracts with customers as services are rendered and the transaction prices are typically fixed; and charged 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.

Service Charges on Deposit Accounts. 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. This revenue is included in service charges on the consolidated statements of income.

Financial Planning and Wealth Advisory. The Company offers financial planning, wealth management, insurance, and investment advisory services through LPL. Payments in connection with these services are governed by written agreements. Fees paid to The Company by LPL in accordance with the services provided are recognized when performance obligations are satisfied. This revenue is included in other income on the consolidated statements of income.

Title Insurance Services. The Company provides residential and commercial title insurance services through its subsidiary, Trans County Title Agency. The Company's primary relationships for title services are with real estate agents, lenders, attorneys and builders. Fees for title insurance and ancillary services such as closing services, title searches and lien searches are recognized when services are rendered, and performance obligations are satisfied. This revenue is included in title insurance income on the consolidated statements of income.

Interchange Income. The Company earns interchange fees from debit and credit cardholder transactions conducted through the 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. This revenue is included in service charges on the consolidated statements of income.

Fair Value of Financial Instruments

The Company has adopted ASU 2016-01 "Financial Instruments", which requires the use of an exit price to measure fair value for disclosure purposes and clarifies that entities should not make use of practicability exception in determining the fair value of loans. Accordingly, the Company modified the calculation used to determine the disclosed fair value of loans held for investments as part of adopting this standard.

Leases

On January 1, 2019, the Company adopted ASU No. 2016-02 "Leases (Topic 842)" and subsequent amendments thereto, which requires the Company to recognize most leases on the balance sheet. We adopted the standard under a modified retrospective approach as of the date of adoption and elected to apply several of the available practical expedients, including:

- Carry over of historical lease determination and lease classification conclusions
- Carry over of historical initial direct costs
- Accounting for lease and non-lease components in contracts where the Company is a lessee as a single lease component

- Exclusion of land easements that were not previously accounted for as leases by the Company

Adoption of the lease standard resulted in the recognition of operating right-of-use assets of $2,722,000, and operating lease liabilities of $2,722,000 as of January 1, 2019. These amounts were determined based on the present value of remaining lease payments, discounted using the Company's incremental borrowing rate as of the date of adoption. There was no material impact to the timing of expense or income recognition in the Company's Consolidated Statements of Income. Prior periods were not restated and continue to be presented under legacy GAAP. Disclosures about the Company's leasing activities are presented in Note 6 – Leases.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 financial statement presentation. These reclassifications had no effect on net income.

Note 2: Securities

The amortized cost and approximate fair values, together with gross unrealized gains and losses, of securities are as follows:

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Available-for-sale Securities:				
December 31, 2020:				
U.S. government agencies	$ 14,470	$ 278	$ (66)	$ 14,682
Mortgage-backed securities of U.S. Government sponsored enterprises	22,984	542	(46)	23,480
State and political subdivisions	92,816	4,743	(41)	97,518
Corporate bonds	8,500	197	-	8,697
Totals	$ 138,770	$ 5,760	$ (153)	$ 144,377
December 31, 2019:				
U.S. government agencies	$ 43,391	$ 132	$ (85)	$ 43,438
Mortgage-backed securities of U.S. Government sponsored enterprises	19,660	182	(125)	19,717
State and political subdivisions	71,337	1,809	(146)	73,000
Corporate bonds	3,000	63	-	3,063
Totals	$ 137,388	$ 2,186	$ (356)	$ 139,218

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2020 and 2019
(Table dollar amounts in thousands, except share data)

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-maturity Securities:				
December 31, 2020:				
State and political subdivisions	$ 202	$ -	$ -	$ 202
December 31, 2019:				
State and political subdivisions	$ 758	$ 2	$ -	$ 760

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2020, by contractual maturity, are shown below. Expected maturities will differ from contractual maturities because issuers may have the right to call or prepay obligations with or without call or prepayment penalties.

	Available-for-sale		Held-to-maturity	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Within one year	$ 605	$ 617	$ 110	$ 110
One to five years	7,438	7,694	92	92
Five to ten years	22,946	23,742	-	-
After ten years	84,797	88,844	-	-
	115,786	120,897	202	202
Mortgage-backed securities of U.S. Government sponsored entities	22,984	23,480	-	-
Totals	$ 138,770	$ 144,377	$ 202	$ 202

The carrying value, which equals fair value, of securities pledged as collateral, to secure public deposits and for other purposes, was $92,180,000 at December 31, 2020 and $58,449,000 at December 31, 2019.

Gross gains of approximately $311,000 and losses of approximately $61,000 resulting from sales of available-for-sale securities were realized for 2020. No gains or losses resulting from sales of available-for-sale securities were realized in 2019. The $250,000 net gains from the sales of available-for-sale securities were a reclassification from accumulated other comprehensive income (loss) and are included in the net gains on available-for-sale securities in the income statement for 2020. The related tax expense of approximately $53,000 was a reclassification from accumulated other comprehensive income and included in the provision for income tax in the income statement for 2020.

Certain investments in debt securities are reported in the financial statements at an amount less than their historical cost. Total fair value of these investments at December 31, 2020 and 2019 was $17,017,000 and $32,313,000, which is approximately 12% and 23%, respectively, of the

(Table dollar amounts in thousands, except share data)

Company's available-for-sale and held-to-maturity investment portfolio. These declines resulted from changes in market interest rates. Management believes the declines in fair value for these securities are temporary.

The following tables show the gross unrealized losses and fair value of the Company's investments with unrealized losses that are not deemed to be other-than-temporarily impaired, aggregated by investment category and length of time that individual securities have been in a continuous unrealized loss position at December 31, 2020 and 2019:

	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
U.S. Government agencies	$ 6,372	$ (66)	$ -	$ -	$ 6,372	$ (66)
Mortgage-backed securities of U.S. Government sponsored enterprises	5,214	(46)	-	-	5,214	(46)
State and political subdivisions	5,431	(41)	-	-	5,431	(41)
Total temporarily impaired securities	$ 17,017	$ (153)	$ -	$ -	$ 17,017	$ (153)

	December 31, 2019					
	Less than 12 Months		12 Months or More		Total	
Description of Securities	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
U.S. Government agencies	$ 5,963	$ (34)	$ 8,949	$ (51)	$ 14,912	$ (85)
Mortgage-backed securities of U.S. Government sponsored enterprises	777	(12)	6,773	(113)	7,550	(125)
State and political subdivisions	9,205	(143)	646	(3)	9,851	(146)
Total temporarily impaired securities	$ 15,945	$ (189)	$ 16,368	$ (167)	$ 32,313	$ (356)

U.S. Government Agencies

The unrealized losses on the Company's investments in direct obligations of U.S. government agencies were caused by changes in interest rates. The contractual terms of those investments do not permit the issuer to settle the securities at a price less than amortized cost bases 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 bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

Mortgage-backed Securities of U.S. Government Sponsored Enterprises

The unrealized losses on the Company's investment in mortgage-backed securities of U.S. Government sponsored enterprises were caused by changes in interest rates and illiquidity. The Company expects to recover the amortized cost bases over the term of the securities. Because the decline in market value is attributable to changes in interest rates and illiquidity, and not credit quality, and 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 bases, which may be maturity, the Company does not consider those investment to be other-than-temporarily impaired at December 31, 2020.

State and Political Subdivisions

The unrealized losses on the Company's investments in securities of state and political subdivisions were caused by changes in interest rates 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 bases 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 bases, which may be maturity, the Company does not consider those investments to be other-than-temporarily impaired at December 31, 2020.

(Table dollar amounts in thousands, except share data)

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2020	2019
Commercial	$ 216,108	$ 109,827
Commercial Real Estate:		
Owner occupied	240,185	238,129
NonOwner occupied	307,054	277,425
Residential Real Estate:		
1-4 Family	323,174	231,263
Home Equity	38,232	31,330
Consumer	11,341	10,998
Total loans	1,136,094	898,972
Less		
Allowance for loan losses	(14,147)	(8,767)
Net loans	$ 1,121,947	$ 890,205

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 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. As of December 31, 2020, the Company has approximately $52,000,000 of outstanding loans that were modified during 2020 under the CARES Act guidance, that remain on modified terms. The Company modified other loans during 2020 under the guidance that have since returned to normal repayment status as of December 31, 2020.

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. The Company originated approximately $129,000,000 in PPP loans during 2020, of which approximately $101,000,000 are still outstanding at December 31, 2020.

The risk characteristics of each loan portfolio segment are as follows:

Commercial (Non-Real Estate)

Commercial loans are based on the identified cash flows of the borrower and on the underlying collateral provided by the borrower. The cash flows of borrowers, however, may not be as expected and the collateral securing these loans may fluctuate in value. Most commercial loans are secured by the assets being financed or other business assets such as accounts receivable or inventory and may incorporate a personal guarantee. In the case of loans secured by accounts receivable, the availability of funds for the repayment of these loans may be substantially dependent on the ability of the borrower to collect amounts due from its customers.

Commercial Real Estate

These loans are viewed as cash flow loans with a significant emphasis on the value of real estate securing the loan. Commercial real estate lending typically involves higher loan principal amounts and the repayment of these loans is generally dependent on the successful operation of the property securing the loan or the business conducted on the property securing the loan. Commercial real estate loans may be more adversely affected by conditions in the real estate markets or in the general economy. The properties securing the Company's commercial real estate portfolio are diverse in terms of type within the Company's market area. Management monitors and evaluates commercial real estate loans based on collateral, market area, risk grade criteria, and concentrations. As a general rule, the Company avoids financing single purpose projects unless other underwriting factors are present to help mitigate risk. In addition, management tracks the level of owner-occupied commercial real estate loans versus higher risk non-owner-occupied loans.

Residential Real Estate and Consumer

With respect to residential loans that are secured by one- to-four family residences and are generally owner occupied, the Company generally establishes a maximum loan-to-value ratio and generally requires private mortgage insurance if that maximum is exceeded. Home equity loans are typically secured by a subordinate interest in one- to-four family residences, and other consumer loans are secured by consumer assets such as automobiles or recreational vehicles. Some consumer loans are unsecured such as small installment loans and certain lines of credit. Repayment of these loans is primarily dependent on the personal income of the borrowers, which can be impacted by economic conditions in their market areas such as unemployment levels. The security value can also be impacted by changes in property values on residential properties. Risk is mitigated by the fact that the loans are of smaller individual amounts and spread over a large number of borrowers.

(Table dollar amounts in thousands, except share data)

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, 2020 and 2019.

2020

		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 family	Home Equity	Consumer	Total
December 31, 2020:							
Allowance for loan losses:							
Balance, beginning of year	$ 1,643	$ 3,181	$ 1,876	$ 1,828	$ 178	$ 61	$ 8,767
Provision charged to expense	2,800	745	1,968	590	66	181	6,350
Losses charged off	(1,106)	-	-	-	(10)	(129)	(1,245)
Recoveries	62	143	-	5	15	50	275
Balance, end of year	$ 3,399	$ 4,069	$ 3,844	$ 2,423	$ 249	$ 163	$ 14,147
Ending balance: individually evaluated for impairment	$ 978	$ 659	$ -	$ -	$ 16	$ 10	$ 1,663
Ending balance: collectively evaluated for impairment	$ 2,421	$ 3,410	$ 3,844	$ 2,423	$ 233	$ 153	$ 12,484
Loans:							
Ending balance	$ 216,108	$ 240,185	$ 307,054	$ 323,174	$ 38,232	$ 11,341	$ 1,136,094
Ending balance: individually evaluated for impairment	$ 3,255	$ 2,920	$ 286	$ 2,863	$ 343	$ 33	$ 9,700
Ending balance: collectively evaluated for impairment	$ 212,853	$ 237,265	$ 306,768	$ 320,311	$ 37,889	$ 11,308	$ 1,126,394

2019

		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 family	Home Equity	Consumer	Total
December 31, 2019:							
Allowance for loan losses:							
Balance, beginning of year	$ 1,514	$ 2,131	$ 1,878	$ 1,875	$ 107	$ 42	$ 7,547
Provision charged to expense (credit)	113	1,041	(4)	124	163	63	1,500
Losses charged off	(42)	-	-	(350)	(100)	(72)	(564)
Recoveries	58	9	2	179	8	28	284
Balance, end of year	$ 1,643	$ 3,181	$ 1,876	$ 1,828	$ 178	$ 61	$ 8,767
Ending balance: individually evaluated for impairment	$ 363	$ 915	$ -	$ 172	$ 18	$ 13	$ 1,481
Ending balance: collectively evaluated for impairment	$ 1,279	$ 2,266	$ 1,876	$ 1,656	$ 160	$ 49	$ 7,286
Loans:							
Ending balance	$ 109,827	$ 238,129	$ 277,425	$ 231,263	$ 31,330	$ 10,998	$ 898,972
Ending balance: individually evaluated for impairment	$ 4,693	$ 3,075	$ 302	$ 1,185	$ 356	$ 54	$ 9,665
Ending balance: collectively evaluated for impairment	$ 105,134	$ 235,054	$ 277,123	$ 230,078	$ 30,974	$ 10,944	$ 889,307

Internal Risk Categories

Loan grades are numbered 1 through 8. Grades 1 through 4 are considered pass grades. The grade of 5, or Special Mention, represents loans of lower quality and signs of potential weakness. 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 Company will be uniform and shall conform to the Company's policy.

Excellent (1) loans are of superior quality with excellent credit strength and repayment ability proving a nominal credit risk.

Good (2) loans are of above average credit strength and repayment ability proving only a minimal credit risk.

Satisfactory (3) loans are of reasonable credit strength and repayment ability proving an average credit risk due to one or more underlying weaknesses.

Watch (4) borrowers in this grade are still considered acceptable from quality standpoint but have risk factors more substantial than for the typical satisfactory graded loan. Although identified weaknesses are present, performance on loans is acceptable with only moderate delinquency.

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

Substandard (6) loans are inadequately protected by the current sound 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.

Doubtful (7) loans 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 current known facts, conditions and values, highly questionable and improbable.

Loss (8) loans classified as 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 it is not practical or desirable to defer writing off 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 the Company's internal rating categories as of December 31, 2020 and 2019:

2020

		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
Pass	$ 208,301	$ 222,082	$ 290,808	$ 318,546	$ 37,188	$ 11,300	$ 1,088,225
Special mention	4,551	10,155	541	703	704	8	16,662
Substandard	3,256	7,948	15,705	3,925	340	33	31,207
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 216,108	$ 240,185	$ 307,054	$ 323,174	$ 38,232	$ 11,341	$ 1,136,094

2019

		Commercial Real Estate		Residential Real Estate			
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity	Consumer	Total
Pass	$ 103,341	$ 224,114	$ 268,256	$ 227,083	$ 30,680	$ 10,924	$ 864,398
Special mention	1,793	3,956	1,774	1,512	294	20	9,349
Substandard	4,693	10,059	7,395	2,668	356	54	25,225
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	$ 109,827	$ 238,129	$ 277,425	$ 231,263	$ 31,330	$ 10,998	$ 898,972

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

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The following tables present the Company's loan portfolio aging analysis of the recorded investment in loans as of December 31, 2020 and 2019:

2020

	Past Due						
	30-59 Days	60-89 Days	90 or More Days	Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
Commercial	$ 161	$ 14	$ 574	$ 749	$ 215,359	$ 216,108	$ -
Commercial Real Estate:							
Owner occupied	67	-	457	524	239,661	240,185	-
NonOwner occupied	-	-	-	-	307,054	307,054	-
Residential Real Estate:							
1-4 family	672	310	1,186	2,168	321,006	323,174	-
Home equity	269	89	69	427	37,805	38,232	-
Consumer	51	5	6	62	11,279	11,341	-
Total	$ 1,220	$ 418	$ 2,292	$ 3,930	$ 1,132,164	$ 1,136,094	$ -

2019

	Past Due						
	30-59 Days	60-89 Days	90 or More Days	Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
Commercial	$ 54	$ 500	$ 707	$ 1,261	$ 108,566	$ 109,827	$ 491
Commercial Real Estate:							
Owner occupied	1,617	-	418	2,035	236,094	238,129	-
NonOwner occupied	-	-	-	-	277,425	277,425	-
Residential Real Estate:							
1-4 family	127	-	794	921	230,342	231,263	-
Home equity	125	-	26	151	31,179	31,330	-
Consumer	39	5	-	44	10,954	10,998	-
Total	$ 1,962	$ 505	$ 1,945	$ 4,412	$ 894,560	$ 898,972	$ 491

A loan is considered impaired, in accordance with the impairment accounting guidance (ASC 310-10-35-16), when based on current information and events, it is probable the Company will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Impaired loans include nonperforming commercial loans but also include loans modified in troubled debt restructurings.

The following tables present impaired loans for the years ended December 31, 2020 and 2019:

2020	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 668	$ 920	$ -	$ 929	$ 2
Commercial real estate:					
Owner occupied	1,911	1,911	-	1,950	117
NonOwner occupied	286	286	-	294	13
Residential real estate:					
1-4 family	2,863	2,863	-	2,903	82
Home equity	319	319	-	227	23
Consumer	5	5	-	5	1
Loans with a specific valuation allowance:					
Commercial	2,587	2,587	978	3,099	156
Commercial real estate:					
Owner occupied	1,009	1,093	659	1,131	45
NonOwner occupied	-	-	-	-	-
Residential real estate:					
1-4 family	-	-	-	-	-
Home equity	24	24	16	25	-
Consumer	28	28	10	32	2
Total:					
Commercial	3,255	3,507	978	4,028	158
Commercial real estate:					
Owner occupied	2,920	3,004	659	3,081	162
NonOwner occupied	286	286	-	294	13
Residential real estate:					
1-4 family	2,863	2,863	-	2,903	82
Home equity	343	343	16	252	23
Consumer	33	33	10	37	3
Totals	$ 9,700	$ 10,036	$ 1,663	$ 10,595	$ 441

Loans acquired with deteriorating credit are included with impaired loans.

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2019	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	$ 4,092	$ 4,324	$ -	$ 4,343	$ 267
Commercial real estate:					
Owner occupied	1,266	1,266	-	1,266	87
NonOwner occupied	302	302	-	315	26
Residential real estate:					
1-4 family	615	615	-	622	14
Home equity	330	330	-	340	24
Consumer	25	25	-	29	1
Loans with a specific valuation allowance:					
Commercial	601	601	363	696	43
Commercial real estate:					
Owner occupied	1,809	1,893	915	1,920	120
NonOwner occupied	-	-	-	-	-
Residential real estate:					
1-4 family	570	570	172	631	28
Home equity	26	26	18	26	1
Consumer	29	29	13	29	2
Total:					
Commercial	4,693	4,925	363	5,039	310
Commercial real estate:					
Owner occupied	3,075	3,159	915	3,186	207
NonOwner occupied	302	302	-	315	26
Residential real estate:					
1-4 family	1,185	1,185	172	1,253	42
Home equity	356	356	18	366	25
Consumer	54	54	13	58	3
Totals	$ 9,665	$ 9,981	$ 1,481	$ 10,217	$ 613

Interest income recognized is not materially different than interest income that would have been recognized on a cash basis.

The following table presents the Company's nonaccrual loans at December 31, 2020 and 2019.

	2020	2019
Commercial	$ 574	$ 563
Commercial Real Estate:		
Owner occupied	457	418
NonOwner occupied	-	-
Residential Real Estate:		
1-4 family	1,830	794
Home equity	98	83
Consumer	10	-
Total nonaccrual	$ 2,969	$ 1,858

The following table presents information regarding troubled debt restructurings by class for the year ended December 31, 2020.

	2020		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial	1	$ 2,766	$ 2,766
Commercial Real Estate:			
Owner occupied	1	316	316
NonOwner occupied	-	-	-
Residential Real Estate:			
1-4 family	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total	2	$ 3,082	$ 3,082

There were no loans modified as troubled debt restructurings for the year ended December 31, 2019.

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The following table presents information regarding troubled debt restructuring by type of modification for the year ended December 31, 2020.

	2020				
	Interest Only Terms	Extension of Maturity	Combination	Advance Funds	Total Modification
Commercial	$ -	$ -	$ 2,766	$ -	$ 2,766
Commercial Real Estate:					
Owner occupied	316	-	-	-	316
NonOwner occupied	-	-	-	-	-
Residential Real Estate:					
1-4 family	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	$ 316	$ -	$ 2,766	$ -	$ 3,082

During the years ended December 31, 2020 and 2019, there were no troubled debt restructurings that subsequently defaulted within twelve months of the restructuring. The troubled debt restructurings noted above increased the allowance for loan losses during the year ended December 31, 2020 by approximately $803,000.

(Table dollar amounts in thousands, except share data)

Note 4: Mortgage Servicing Rights

The following table summarizes mortgage servicing rights capitalized and related amortization, along with activity in the related valuation allowance:

	2020	2019
Loan servicing rights:		
Carrying amount, beginning of year	$ 226	$ 147
Mortgage servicing rights capitalized during the year	1,662	101
Mortgage servicing rights amortization during the year	(859)	(22)
Acquisition of VCB	1,970	-
Net change in valuation allowance	(337)	-
Carrying amount, end of year	2,662	$ 226

	2020	2019
Valuation allowance:		
Beginning of year	$ -	$ -
Increase (reduction)	337	-
End of year	337	$ -

The fair value of mortgage servicing rights as of December 31, 2020 and 2019 were approximately $2,662,000 and $226,000. The unpaid principal balance of mortgage loans serviced for others as of December 31, 2020 and 2019 were approximately $366,064,000 and $24,973,000.

Note 5: Premises and Equipment

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

	2020	2019
Land and improvements	$ 6,024	$ 6,005
Building and improvements	25,721	25,036
Equipment	14,822	13,749
Total	46,567	44,790
Less accumulated depreciation	(16,347)	(14,604)
Net premises and equipment	$ 30,220	$ 30,186

Note 6: Goodwill

Goodwill is recorded on the acquisition date of an entity. During the one-year measurement period, the Company may record subsequent adjustments to goodwill for provisional amounts recorded at the acquisition date. The Victory Community Bank acquisition on April 7, 2020 resulted in $11,183,000 of goodwill. Details regarding the Victory Community Bank acquisition are discussed in Note 18, Business Combinations. Goodwill at December 31, 2020 and 2019 was $12,389,000 and $1,206,000 respectively.

The Company reviews goodwill annually for impairment in accordance with ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill, or more frequently if events or circumstances warrant. The impairment analysis compares the estimated fair value of the Company with the Company's net book value, and may include various valuation considerations including comparable peer data, precedent transaction comparables, discounted cash flow analysis, overall financial performance, share price of the Company's common stock and other factors. At March 31, 2020, June 30, 2020 and September 30, 2020 the Company assessed the economic impact and market conditions from the COVID-19 pandemic. Additionally, the Company assessed the general uncertainty as to the full extent of the COVID-19 pandemic and its effect on economic recovery and concluded goodwill was not impaired in either period.

At December 31, 2020 and 2019 the fair value exceeded the Company's carrying value; therefore, it was concluded that goodwill was not impaired.

Note 7: Other Intangible Assets

Core deposit intangibles and other intangibles are recorded on the acquisition date of an entity. During the one-year measurement period, the Company may record subsequent adjustments to these intangibles for provisional amounts recorded at the acquisition date. The Victory Community Bank acquisition on April 7, 2020 resulted in a core deposit intangible of $552,000. Details regarding the Victory Community Bank acquisition or discussed in Note 20 – Business Combinations. The carrying basis and accumulated amortization of recognized core deposit and other intangibles are noted below.

	2020	2019
Gross carrying amount	$ 1,018	$ 446
Core deposit intangible acquired	$ 552	$ 572
Accumulated amortization	$ (317)	$ (83)
Total core deposit and other intangibles	$ 1,253	$ 935

The core deposit intangibles and other intangibles are being amortized primarily on an accelerated basis over their estimated useful lives, generally over a period of five to ten years. Amortization expense for the years ended December 31, 2020 and 2019 was $234,000 and $68,000 respectively.

(Table dollar amounts in thousands, except share data)

Note 8: Lease Arrangements

The Company enters into leases in the normal course of business primarily for financial centers, business development offices, and information technology equipment. The Company's leases have remaining terms ranging from .8 to 16.7 years, some of which include renewal or termination options to extend the lease for up to 10 years. In addition, the Company has entered into subleases for space in certain vacated locations, the terms of which range from 3 to 5 years. The Company's leases do not include residual value guarantees or covenants. The Company includes lease extension and termination options in the lease term if, after considering relevant economic factors, it is reasonably certain the Company will exercise the option. In addition, the Company has elected to account for any non-lease components in its real estate leases as part of the associated lease component. The Company has also elected not to recognize leases with original lease terms of less than 12 months (short-term leases) on the balance sheet.

Leases are classified as operating or finance leases at the lease commencement date. Lease expense for operating leases and short-term leases is recognized on a straight-line basis over the lease term. Right-of-use assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make these lease payments arising from the lease. Right-of-use assets and lease liabilities are recognized at the lease commencement date based on the estimated present value of lease payments over the lease term.

The Company uses its incremental borrowing rate at lease commencement to calculate the present value of lease payments when the rate implicit in a lease is not known. The Company's incremental borrowing rate is based on the FHLB rate, adjusted for the lease term.

All of the Company's right-of-use assets and lease liabilities totaling $3,051,000 at December 31, 2020 and $2,569,000 at December 31, 2019 are classified as operating leases.

Lease Expense

The components of total lease cost were as follows for the period ending:

	December 31, 2020	December 31, 2019
Operating lease cost	$ 400	$ 295
Operating lease cost below capitalization threshold	3	3
Short-term lease cost	3	7
Variable lease cost	1	1
Less: Sublease income	(111)	(81)
Total lease cost, net	$ 296	$ 225

Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2020 are as follows:

	Operating Leases
2021	$ 395
2022	345
2023	333
2024	274
2025	272
Thereafter	2,141
Total undiscounted lease payments	$ 3,760
Less: imputed interest	(709)
Net lease liabilities	$ 3,051

Supplemental Lease Information

	December 31, 2020	December 31, 2019
Operating lease weighted average remaining lease term (years)	12.5	14.7
Operating lease weighted average discount rate	3.02%	3.53%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	$ 400	$ 231

Note 9: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of $250,000 or more were $76,568,000 on December 31, 2020 and $65,817,000 on December 31, 2019.

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

2021	$ 265,539
2022	61,048
2023	18,121
2024	5,533
2025 and thereafter	6,962
Total time deposits	$ 357,203

Note 10: Repurchase Agreements

The Company had repurchase agreements on December 31, 2020 and 2019 of $10,632,000 and $11,344,000 respectively. These agreements are secured by U. S. Government Agency, FHLB, FHLMC, FNMA, and GNMA securities and such collateral is held in safekeeping with a third party. The maximum amount of outstanding agreements at any month end during 2020 and 2019 totaled $13,912,000 and $16,861,000 , respectively, and the daily average of such agreements totaled $9,588,000 and $10,327,000 for 2020 and 2019, respectively. These agreements mature daily. The following table represents the remaining contractual maturity of repurchase agreements disaggregated by the class of securities pledged as of December 31.

	2020 Overnight & Continuous
December 31, 2020:	
U.S. government agencies	$ 8,735
Mortgage-backed securities of U.S. Government sponsored enterprises	$ 1,897
Totals	$ 10,632

Note 11: Borrowings

The Company has Federal Funds Borrowing Line Agreements with US Bank and PNC Bank that allow the Company to borrow up to $20,000,000 and $5,000,000 in Federal Funds, respectively.

The Company has a cash management advance (CMA) line of credit with the Federal Home Loan Bank (FHLB) of Cincinnati. FHLB borrowings are collateralized by all shares of FHLB stock owned by the Bank and by the Bank's residential mortgage loans. At December 31, 2019, the Company had $68,741,000, respectively, available on its CMA line of credit. The CMA application expired on November 6, 2020. The line of credit was subsequently renewed on January 7, 2021. The Company has the option of selecting a variable interest rate set daily for 90 days or a fixed interest rate for a maximum of thirty days. Variable interest rates are set daily based upon the FHLB's published interest rates. Variable interest rate advances are prepayable with no fee. The fixed rate is not prepayable prior to maturity.

At December 31, 2020, term advances from the Federal Home Loan Bank were $44,670,000 at fixed rates ranging from .95% to 3.06%, maturing between March 2, 2021 and August 1, 2037. Each advance is payable either at its maturity date or amortizing over the life of the advance, with a prepayment penalty for fixed rate advances. The advances were collateralized by approximately $421,167,000 of residential mortgage assets under a blanket lien arrangement at year-end 2020. Based on this collateral the Company has additional borrowing capacity of $159,233,000 at December 31, 2020.

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Payments over the next five years and thereafter are as follows:

2021	$ 1,916
2022	20,153
2023	3,907
2024	985
2025	805
Thereafter	16,904
Total FHLB Advances	$ 44,670

On May 15, 2020, the Company completed a private issuance and sale, of subordinated notes at a 5.00% fixed to floating rate, to 21 accredited investors for an aggregate gross amount of $25,000,000 proceeds, net of related issuance costs of $415,000. The notes are fixed at 5.00% until June 15, 2025, when they will convert to the three-month term SOFR plus 490.0 basis points, repricing quarterly. Interest is payable in March and September of each year. The Subordinated notes will mature on May 15, 2030, and the Company cannot redeem the notes prior to May 15, 2025, subject to approval of the Board of Governors of the Federal Reserve System, as required by law or regulation. This private placement included $5,360,000 of notes that were issued in exchange for the Company's existing subordinated notes, issued on November 12, 2015, for net cash proceeds of $19,225,000.

Note 12: Income Taxes

The provision for income taxes includes these components:

	2020	2019
Taxes currently payable	$ 4,408	$ 2,971
Deferred income taxes	(1,148)	(55)
Income tax expense	$ 3,260	$ 2,916

(Table dollar amounts in thousands, except share data)

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

	2020	2019
Computed at the statutory rate of 21%	$ 3,786	$ 3,384
Increase (decrease) resulting from		
Tax exempt interest	(539)	(437)
Cash surrender value, net of premiums	(75)	(92)
Other	88	61
Actual tax expense	$ 3,260	$ 2,916

The tax effects of temporary differences related to deferred taxes shown on the balance sheets were:

	2020	2019
Deferred tax assets		
Allowance for loan losses	$ 2,971	$ 1,841
Deferred compensation	624	572
Stock option expense	198	159
Right of use lease liability	641	-
Deferred loan fees	485	-
Other	151	54
Total deferred tax assets	5,070	2,626
Deferred tax liabilities		
Depreciation	(1,496)	(1,432)
Purchase accounting adjustments	(98)	-
FHLB stock dividends	(94)	(94)
Prepaid expenses	(50)	(69)
Unrealized gains on available-for-sale securities	(1,177)	(384)
Right of use lease asset	(641)	-
Other	(559)	(47)
Total deferred tax liabilities	(4,115)	(2,026)
Net deferred tax asset	$ 955	$ 600

Note 13: Regulatory Matters

The Company and the Bank are 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 Company's financial statements. Under capital adequacy guidelines and the regulatory framework for prompt corrective action, the Company and the Bank must meet specific capital guidelines that involve quantitative measures of assets, liabilities and certain off-balance-sheet items as calculated under regulatory accounting guidelines. The capital amounts and classification are also subject to qualitative judgments by the regulators about components, risk weightings and other factors. Furthermore, the Company's regulators could require adjustments to regulatory capital not reflected in these financial statements.

Quantitative measures established by regulation to ensure capital adequacy require the Company and 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 1 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, 2020, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2020, the most recent notification from the Federal Reserve categorized the Company and Bank as well capitalized under the regulatory framework for prompt corrective action. To be categorized as well-capitalized, the Company and Bank must maintain capital ratios as set forth in the table that follows. There are no conditions or events since that notification that management believes have changed the Company or Bank's category.

(Table dollar amounts in thousands, except share data)

The Company's and Bank's actual capital amounts and ratios are presented in the following table.

	Actual Amount	Actual Ratio	For Capital Adequacy Purposes Amount	For Capital Adequacy Purposes Ratio	To Be Well Capitalized Under Prompt Corrective Action Provisions Amount	To Be Well Capitalized Under Prompt Corrective Action Provisions Ratio
As of December 31, 2020						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 160,926	15.1%	N/A	N/A	N/A	N/A
Bank	152,070	14.3%	85,202	8.0%	$ 106,503	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	122,822	11.5%	N/A	N/A	N/A	N/A
Bank	138,747	13.0%	63,902	6.0%	85,202	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	122,822	11.5%	N/A	N/A	N/A	N/A
Bank	138,747	13.0%	47,926	4.5%	69,227	6.5%
Tier I Capital (to Average Assets)						
Consolidated	122,822	8.3%	N/A	N/A	N/A	N/A
Bank	138,747	9.3%	59,389	4.0%	74,236	5.0%
As of December 31, 2019						
Total Capital (to Risk-Weighted Assets)						
Consolidated	$ 139,411	15.3%	N/A	N/A	N/A	N/A
Bank	132,203	14.5%	72,806	8.0%	$ 91,008	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	125,184	13.7%	N/A	N/A	N/A	N/A
Bank	123,436	13.6%	54,605	6.0%	72,806	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	125,184	13.7%	N/A	N/A	N/A	N/A
Bank	123,436	13.6%	40,954	4.5%	59,155	6.5%
Tier I Capital (to Average Assets)						
Consolidated	125,184	11.0%	N/A	N/A	N/A	N/A
Bank	123,436	10.9%	45,312	4.0%	56,641	5.0%

The Bank is subject to certain restrictions on the amount of dividends that it may declare without prior regulatory approval. Generally, the Bank's payment of dividends is limited to net income for the current year plus the two preceding calendar years, less capital distributions paid over the comparable time period.

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

Note 14: Related Party Transactions

At December 31, 2020 and 2019, the Bank had loans outstanding and lines of credit available to executive officers, directors, significant shareholders and their affiliates (related parties), in the amount of approximately $29,356,000 and $41,071,000, respectively.

In management's opinion, such loans and other extensions of credit and deposits were made in the ordinary course of business and were made on substantially the same terms (including interest rates and collateral) as those prevailing at the time for comparable transactions with other persons.

Further, in management's opinion, these loans did not involve more than normal risk of collectability or present other unfavorable features.

Deposits from related parties held by the Bank at December 31, 2020 and 2019, totaled $40,227,000 and $13,153,000, respectively.

Note 15: Employee Benefits

The Company has a retirement savings 401(k) plan covering substantially all employees. Employees may contribute up to the maximum amount allowable by the Internal Revenue Service with the Company matching 50% of the employee's contribution not to exceed 3% of the employee's compensation. In addition, the Company may make additional discretionary contributions allocated to all eligible participants based on compensation. Employee contributions are always 100% vested. Employer contributions vest annually until the employee becomes fully vested after six years of participation in the plan. Employer contributions charged to expense for 2020 and 2019, were approximately $425,000 and $326,000, respectively.

The Company has supplemental retirement plans for certain former and current Senior Officers. Officers in the plans, upon retirement, will receive annually for ten or fifteen years a percentage of their final annual payroll amount exclusive of incentive and bonus amounts and may be partially offset by 401(k) or 401(k) and social security retirement benefits. The plans are uniquely designed for each participant. The charges to expense for 2020 and 2019 were $523,000 and $477,000, respectively. Such charges reflect the straight-line accrual over the period until full eligibility of the present value of benefits due each participant on the full eligibility date. For plans executed before 2016, a 6% discount factor is used. For plans executed after January 1, 2016, the accumulation period crediting rate was 43% of the prior year Return on Equity of the Company for 2019 and 2020; and the distribution period crediting rate is equal to the 10-Year U.S. Treasury note on the first day of each year plus 1%. The resulting liability at December 31, 2020 and 2019 was $2,973,000 and $2,722,000, respectively. The Company purchased life insurance on the participants.

The Bank has employment agreements with certain officers of the Bank. Under these agreements, the officers are employed for rolling one to three-year periods. Unless the Bank serves a termination notice to the officers before December 31 of each year, the agreements are automatically extended for one additional year. The Bank's Board of Directors approve the officers' base salaries annually. The agreements prohibit the officers from soliciting banking business from customers of the Bank for a period of one to three years following the termination of the employment agreements.

Note 16: Stock Option Plan

The Company has a fixed option plan under which the Company may grant options to selected directors, Advisory Board Members and employees for up to 249,738 shares of common stock that vest over two years or immediately if the recipient is 65 years old or older. The Company believes that such awards align the interests of its employees with those of its shareholders. The exercise price of each option is intended to equal the fair value of the Company's stock on the date of grant. An option's maximum term is ten years. The compensation cost for the stock option expense recognized in 2020 and 2019 totaled $591,000 and $661,000, respectively. As of December 31, 2020, there was $145,383 of total unrecognized compensation cost related to non-vested share-based compensation arrangements granted under the Plan.

A summary of the status of the plan at December 31, 2020 and changes during the year then ended is presented below:

	2020			
	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Term (Years)	Aggregate Instrinsic Value
Outstanding, beginning of year	188,890	$ 72.06		
Granted	-	-		
Exercised	(5,090)	45.93		
Forfeited or expired	(20,500)	77.83		
Outstanding, end of year	163,300	$ 72.15	6.68	$ 1,965
Exercisable, end of year	136,000	$ 70.53	6.33	$ 1,880

There were no options granted in 2020. The weighted-average grant-date fair value of options granted during 2019 was $15.31. The total intrinsic value of options exercised during the year ended December 31, 2020 and 2019 was $123,000 and $936,000, respectively.

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The fair value of each option award granted is estimated on the date of the grant using a Black-Scholes valuation model that uses the assumptions noted in the following table. Expected volatility is based on historical volatility of the Company's stock and other factors. The Company uses the simplified method to estimate option exercise and employee termination within the valuation model due to lack of historical data. The expected term of options granted represents the period of time that options are expected to be outstanding. The risk-free rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

	2020	2019
Dividend yield	N/A	2.58%
Volatility factors of expected market price of common stock	N/A	20.79%
Risk-free interest rate	N/A	2.42%
Expected life (in years)	N/A	7.30
Weighted-average fair value of options granted during the year	N/A	$15.31

Note 17: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2020		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common stockholders	$ 14,767	1,999,434	$ 7.39
Effect of dilutive securities			
Stock options		15,800	
Diluted earnings per share assumed conversions stockholders and assumed conversions	$ 14,767	2,015,234	$ 7.33

Options to purchase 129,550 shares of common stock at a weighted-average exercise price of $80.41 per share were outstanding at December 31, 2020 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

	Year Ended December 31, 2019		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common stockholders	$ 13,196	2,017,476	$ 6.54
Effect of dilutive securities			
Stock options		27,032	
Diluted earnings per share assumed conversions stockholders and assumed conversions	$ 13,196	2,044,508	$ 6.45

Options to purchase 89,550 shares of common stock at a weighted-average exercise price of $83.32 per share were outstanding at December 31, 2019 but were not included in the computation of diluted EPS because the options' exercise price was greater than the average market price of the common shares.

Note 18: Disclosures about Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability 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 or liabilities

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

Recurring Measurements

The following tables present the fair value measurements of assets recognized in the accompanying 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, 2020 and 2019.

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		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, 2020:				
U.S. government agencies	$ 14,682	$ -	$ 14,682	$ -
Mortgage-backed securities of U.S. government sponsored enterprises	23,480	-	23,480	-
State and political subdivisions	97,518	-	97,518	-
Corporate Bonds	8,697	-	8,697	-
December 31, 2019:				
U.S. government agencies	$ 43,438	$ -	$ 43,438	$ -
Mortgage-backed securities of U.S. government sponsored enterprises	19,717	-	19,717	-
State and political subdivisions	73,000	-	73,000	-
Corporate Bonds	3,063	-	3,063	-

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets. There have been no significant changes in the valuation techniques during the year-ended December 31, 2020.

Available-for-Sale 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 quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Level 2 securities include U.S. government agencies, Mortgage-backed securities of U.S. government sponsored enterprises, State and political subdivisions and corporate bonds. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

(Table dollar amounts in thousands, except share data)

Nonrecurring Measurements

The following tables present 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, 2020 and 2019:

		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, 2020:				
Collateral-dependent impaired loans	$ 1,535	$ -	$ -	$ 1,535
Mortgage servicing rights	2,662	$ -	$ -	$ 2,662
December 31, 2019:				
Collateral-dependent impaired loans	$ 394	$ -	$ -	$ 394

Following is a description of the valuation methodologies used for assets measured at fair value on a nonrecurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy. For assets classified within Level 3 of the fair value hierarchy, the process used to develop the reported fair value is described below.

Collateral-dependent Impaired Loans, Net of ALLL

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. 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 comparison to historical results.

Mortgage servicing rights

MSRs do not trade in an active market with readily observable prices. Accordingly, the fair value of these assets is classified as Level 3. The Company determines the fair value of MSRs using an income approach model based upon the Company's month–end interest rate curve and prepayment assumptions. The model utilizes assumptions to estimate future net servicing income cash flows,

including estimates of time decay, payoffs and changes in valuation inputs and assumptions. The Company reviews the valuation assumptions against this market data for reasonableness and adjusts the assumptions if deemed appropriate. The carrying amount of the MSRs were reduced by $337,000 in 2020 for the fair value.

Unobservable (Level 3) Inputs

The following table presents quantitative information about unobservable inputs used in nonrecurring Level 3 fair value measurements at December 31, 2020 and 2019.

	Fair Value at 12/31/2020	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 1,535	Market comparable properties	Marketability discounts	10-25% (20%)
Mortgage servicing rights	2,662	Discounted cash flow	Discount rate	9.5-10.5% (10%)
			Constant prepayment rate	8-44% (14%)

	Fair Value at 12/31/2019	Valuation Technique	Unobservable Inputs	Range (Weighted Average)
Collateral-dependent impaired loans	$ 394	Market comparable properties	Marketability discounts	10-25% (24%)

Sensitivity of Significant Unobservable Inputs

The following is a discussion of the sensitivity of significant unobservable inputs, the interrelationships between those inputs and other unobservable inputs used in recurring fair value measurement and of how those inputs might magnify or mitigate the effect of changes in the unobservable inputs on the fair value measurement.

Collateral-dependent impaired loans

The significant unobservable input used in the fair value measurement of the Company's collateral-dependent impaired loans is the marketability discount. Significant increases in this input in isolation would result in a significantly lower fair value measurement.

(Table dollar amounts in thousands, except share data)

Fair Value of Financial Instruments

The following table presents estimated fair values of the Company's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2020 and 2019.

		Fair Value Measurements Using		
	Carrying Amount	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2020				
Financial assets				
Cash and cash equivalents	$ 189,874	$ 189,874	$ -	$ -
Interst-bearing time deposits	277	277	-	-
Held-to-maturity securities	202	-	202	-
Loans held for sale	4,382			4,382
Loans, net of allowance for loan losses	1,121,947	-	-	1,168,052
Nonmarketable equity securities	6,017	-	6,017	-
Interest receivable	6,115	-	6,115	-
Financial liabilities				
Deposits	1,312,834	-	1,316,124	-
Repurchase agreements	10,632	-	10,632	-
FHLB Advances	44,670	- -	45,466	-
Subordinated debt	24,709	-	23,945	-
Interest payable	693	-	693	-
December 31, 2019				
Financial assets				
Cash and cash equivalents	$ 19,475	$ 19,475	$ -	$ -
Interst-bearing time deposits	-	-	-	-
Held-to-maturity securities	758	-	760	-
Loans, net of allowance for loan losses	890,855	-	-	905,588
Nonmarketable equity securities	4,440	-	4,440	-
Interest receivable	4,835	-	4,835	-
Financial liabilities				
Deposits	944,223	-	947,215	-
Repurchase agreements	11,344	-	11,330	-
FHLB Advances	15,000		15,202	
Subordinated debt	5,460	-	5,514	-
Interest payable	432	-	432	-

Note 19: Commitments and Credit Risk

Letters of Credit

Letters of credit are conditional commitments issued by the Bank to guarantee the performance of a customer to a third party. These guarantees are primarily issued to support public and private borrowing arrangements, including commercial paper, bond financing and similar transactions.

The credit risk involved in issuing letters of credit is essentially the same as that involved in extending loans to customers.

The Bank had total outstanding letters of credit amounting to $795,000 and $510,000 at December 31, 2020 and 2019, respectively, with maturities within the next 12 months.

Lines of Credit

Lines of credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Lines of credit generally have fixed expiration dates. Since a portion of the line may expire without being drawn upon, the total unused lines do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. Management uses the same credit policies in granting lines of credit as it does for on-balance-sheet instruments.

At December 31, 2020, the Bank had granted unused lines of credit to borrowers aggregating approximately $116,631,000 and $51,612,000 for commercial lines and open-end consumer lines, respectively. At December 31, 2019, the Bank had granted unused lines of credit to borrowers aggregating approximately $69,241,000 and $40,693,000 for commercial lines and open-end consumer lines, respectively.

Commitments to Originate Loans

Commitments to originate loans are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Commitments generally have fixed expiration dates or other termination clauses and may require payment of a fee. Since a portion of the commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. Each customer's creditworthiness is evaluated on a case-by-case basis. The amount of collateral obtained, if deemed necessary, is based on management's credit evaluation of the counterparty. Collateral held varies, but may include accounts receivable, inventory, property, plant and equipment, commercial real estate and residential real estate. At December 31, 2020, and 2019, the Bank had outstanding commitments to originate variable rate loans aggregating approximately $20,962,000 and $25,101,000, respectively. The commitments extended over varying periods of time with the majority being disbursed within a one-year period.

Note 20: Business Combinations

On April 7, 2020, the Company acquired 100% of the outstanding common shares of Victory Community Bank from Victory Bancorp, Inc. As the sole shareholder of Victory Community Bank, Victory Bancorp received purchase consideration consisting of 58,934 shares of Heartland BancCorp common stock, valued at $3,418,000 and $35,500,000 in cash, for total consideration of $38,918,000. The fair value of the common shares issued as part of the consideration paid for Victory Community Bank was determined on the basis of the closing price of the Company's common shares on acquisition date.

The acquisition is expected to provide additional revenue growth with enhanced mortgage banking along with growth in commercial banking services through geographic expansion to Northern Kentucky. Victory Community Bank results of operations were included in the Company's income statement from April 7, 2020 through December 31, 2020. The Company recorded merger-related expenses of $1,245,000 in 2020 related to the Victory Community Bank acquisition, and are substantially included in professional fees, data processing, marketing expenses on the income statement.

Goodwill of $11,183,000 arising from the acquisition consisted largely of synergies and the cost savings resulting from combining operations of the companies. The goodwill is tax deductible as the transaction was accounted for as an asset acquisition for tax purposes. The fair value of intangible assets related to core deposits is $552,000.

(Table dollar amounts in thousands, except share data)

The following table summarizes the consideration paid for Victory Community Bank and the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

	2020
Consideration	
Cash	$ 35,500
Equity Instruments	3,418
Fair value of total consideration transferred	$ 38,918
Recognized amounts of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	$ 67,255
Interest bearing time deposits	$ 274
Securities	605
Federal Home Loan Bank stock	1,128
Loans held for sale	14,581
Loans	135,704
Premises and equipment	886
Core deposit intangibles	552
Real estate owned	5
Other assets	4,941
Total assets acquired	225,931
Deposits	183,436
Federal Home Loan Bank advances	14,135
Other liabilities	624
Total liabilities assumed	198,195
Net identifiable assets	27,736
Goodwill	$ 11,183

The fair value of net assets acquired includes fair value of adjustments to certain receivables that were not considered impaired as of the acquisition date. The fair value adjustments were determined using discounted contractual cash flows. However, the Company believes that all contractual cash flows related to these financial instruments will be collected. As such, these receivables were not considered impaired at the acquisition date and were not subject to the guidance relating to purchased credit impaired loans, which have shown evidence of credit deterioration since origination. Receivables acquired that were not subject to these requirements include non-impaired loans and customer receivables with a fair value and gross contractual amounts receivable of $135,066,000 and $134,399,000 on the date of acquisition.

The fair value of purchased financial assets with credit deterioration was $881,000 on the date of acquisition. The gross contractual amounts receivable relating to the purchased financial assets with credit deterioration was $966,000. The Company estimates, on the date of acquisition, that $85,000 of the contractual cash flows specific to the purchased financial assets with credit deterioration will not be collected.

(Table dollar amounts in thousands, except share data)

Note 21: Condensed Financial Information (Parent Company Only)

Presented below is condensed financial information as to the financial position, results of operations and cash flows of the Company:

Condensed Balance Sheets

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 8,134	$ 7,309
Investment in common stock of subsidiaries	157,057	126,978
Other assets	1,917	682
Total assets	$ 167,108	$ 134,969
Liabilities		
Subordinated debt	24,709	5,460
Other liabilities	1,503	1,119
Total liabilities	26,212	6,579
Shareholders' Equity	140,896	128,390
Total liabilities and shareholders' equity	$ 167,108	$ 134,969

Condensed Statements of Income and Comprehensive Income

	Year Ending December 31, 2020	Year Ending December 31, 2019
Income		
Dividends from the Bank	$ 6,189	$ 4,474
Interest income	27	36
Total income	6,216	4,510
Expenses		
Interest expense	957	282
Other expenses	404	353
Total expenses	1,361	635
Income Before Income Tax and Equity in Undistributed Income of the Bank	4,855	3,875
Income Tax Benefit	(325)	(133)
Income Before Equity in Undistributed Income of the Bank	5,180	4,008
Equity in Undistributed Income of subsidiaries	9,587	9,188
Net Income	$ 14,767	$ 13,196
Comprehensive Income	$ 17,748	$ 16,549

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(Table dollar amounts in thousands, except share data)

Condensed Statements of Cash Flows

	Year Ending December 31, 2020	2019
Operating Activities		
Net income	$ 14,767	$ 13,196
Stock option expense	591	661
Tax benefit related to stock options excercised	10	8
Items not providing cash	(11,102)	(10,201)
Net cash provided by operating activities	4,266	3,664
Investing Activities		
Investment in Common Stock of the Bank	(13,500)	-
Net cash used in investing activities	(13,500)	-
Financing Activities		
Proceeds from subordinated debt, net	19,225	-
Dividends paid	(4,474)	(4,101)
Proceeds from stock options exercised	360	275
Repurchase of common stock	(58)	-
Issuance of common stock	-	75
Repurchase of treasury stock	(4,994)	-
Net cash provided (used) in financing activities	10,059	(3,751)
Net Change in Cash and Cash Equivalents	825	(87)
Cash and Cash Equivalents at Beginning of Year	7,309	7,396
Cash and Cash Equivalents at End of Year	$ 8,134	$ 7,309

Note 22: Subsequent Events

Subsequent events have been evaluated through March 15, 2021 which is the date the financial statements were available to be issued.

Board of DIRECTORS

Heartland BancCorp Directors

Beverly J. Donaldson	President	Inns Management Group
Jay B. Eggspuehler, Esq.	Partner	Isaac, Wiles & Burkholder, LLC
Jodi L. Garrison	CPA, Partner	Hirth, Norris & Garrsion, LLP
James R. Heimerl	Owner	Heimerl Farms LTD.
John G. Kenkel, Jr.	Retired, President & CEO	Victory Community Bank & Victory Bancorp
Cheryl L. Krueger	CEO	C. Krueger's
G. Scott McComb	Chairman, President & CEO	Heartland Bank
Robert C. Overs	Executive Director	Creative Living
Gary D. Paine	CEO	Accurate Companies
William J. Schottenstein	Principal	Arshot Investment Corporation
George R. Smith	Retired, EVP & CFO	Heartland Bank
Gregory M. Ubert	Founder, President & CEO	Crimson Cup Coffee & Tea
Richard A. Vincent	Chief Executive Emeritus, Retired	Osteopathic Heritage Foundation

Heartland BancCorp Directors Emeriti

I. Robert Amerine	American Apex Corporation
Arthur G.H. Bing, M.D.	Plastic & Reconstructive Surgeon
William A. Dodson Jr.	Rhema Christian Center
Jack J. Eggspuehler	Aerosafe, Inc.
John R. Haines	John R. Haines Insurance Agency
Gerald K. McClain	The Jerry McClain Company, Inc.
Tiney M. McComb	Heartland BancCorp
Cheryl C. Poulton	Tech International

Heartland BancCorp Officers

G. Scott McComb	Chairman, President & CEO
Jay B. Eggspuehler, Esq.	Vice Chairman
Jennifer L. Eckert	Secretary
Carrie L. Almendinger	Treasurer

Senior TEAM

G. Scott McComb	Chairman, President & CEO
Carrie L. Almendinger	EVP, Chief Financial Officer
Benjamin J. Babcanec	SVP, Chief Operating Officer
Jennifer L. Eckert	SVP, Risk Management & Corporate Secretary
Pamela D. Goetting	SVP, Director of Northern Kentucky Region
Nancy M. Matney	SVP, Director of Treasury Management & Client Services
Laurie A. Pfeiffer	SVP, Director of Commercial Banking
Tarne Tassniyom	SVP, Director of Information Technology
Ashley A. Trout	SVP, Director of Strategy
Patrick T. John	President of TransCounty Title Agency
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Matthew H. Booms	VP, Director of Mortgage Banking
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About Heartland BancCorp

Heartland BancCorp is a registered Ohio bank holding company and the parent of Heartland Bank, which operates eighteen full-service banking offices. Heartland Bank, founded in 1911, provides full-service commercial, small business, and consumer banking services; alternative investment services; and other financial products and services. Heartland Bank is a member of the Federal Reserve, a member of the FDIC and an Equal Housing Lender. Heartland BancCorp is currently quoted on the OTC markets (OTCQX) under the symbol HLAN.

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