

Celebrating
110
years
1911-2021



Parent Company of Heartland Bank
& TransCounty Title Agency

2021 ANNUAL REPORT

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Take stock in your community

HLAN

Heartland BancCorp is currently quoted on the OTCQX market under the symbol HLAN.

To learn more about Heartland BancCorp shares, please visit ir.Heartland.Bank or call (614) 337-4600.

You may also contact Heartland Planning Associates at (614) 392-5303 or consult your financial advisor.

Additional information, including analyst reports, can be found here:
OTCmarkets.com/Stock/HLAN/Research



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Dear Valued Shareholders,

I am pleased to report that 2021 was another banner year for your community bank. The COVID-19 pandemic remained center focus as helping any and all clients and businesses remained our priority. The emergence of vaccines and more education around the transmission of the virus and those most vulnerable allowed us to push the pendulum back toward a state of normalcy. In 2021, Heartland celebrated the 110th anniversary of our bank charter, further enhanced our senior staff and board of directors, ventured into the new and uncharted world of Name, Image and Likeness (NIL), and crafted a new strategic plan for the next three years.

I wonder what The Croton Bank's first president, Mr. Potter, would think if he could have known that the bank he started with the other farmers in Croton would still be around more than a century later? I'm quite certain that he would be as proud of our team as I am today. It is not by accident that these events occur, very much to the contrary. Hard work, dedication, risk management, pride, hustle and desire to be great all have to be perfectly aligned in order for an organization to persevere for such a long time. I'm proud to say that your Heartland Team has all of those qualities plus some. This is why we remain in the American Banker Top 200 Community Banks in 2021 at #82 and have been in this listing for almost a decade. Your support as shareholders is a vital component of this success, and we could not thank you more for your support, business, and introductions as we continue to reach for new heights. Congratulations to all of you on this monumental anniversary!

One of the most important disciplines of banking is credit quality and loan underwriting, and this past year we were able to advance quite nicely in this area of the bank with the addition of some new talent. Jeff Ciochetto joined Heartland as SVP, Director of Credit Administration reporting to the CEO. Jeff's 30 years of experience in banking and credit administration along with his can-do attitude and approachable communicative style has propelled this area of the bank forward. Speed to market is vital in today's competitive banking landscape, and the Credit Administration team has worked hard to wrap up the Paycheck Protection Program (PPP), but also execute strategies to streamline the credit function while preserving the bank's history of strong credit quality. Best of all, Jeff is a superior mentor and we believe that this combination with our up-and-coming credit team will be significant for the institution for years to come.

A bank is only as strong as its board of directors, and this past year we were able to add two very accomplished professionals to our board. Tom Campbell and Ron Stokes were voted onto the board in May and have already made an impact. Mr. Campbell is in the technology sector bringing decades of expertise in technology consulting and systems integration. Mr. Stokes is an entrepreneur in the marketing and contracting area, and also is a color analyst for The Ohio State University Men's Basketball broadcasts on WBNS Radio. We continually seek board candidates who exemplify our Heartland shared values in order to create shareholder value, and I am pleased to welcome both to our board ranks. In addition, the board streamlined its committee structure by narrowing the number and expanding the responsibilities of each committee. Director Jay B. Eggspuehler, ESQ, was named lead outside director and chair of the Nominating and Governance Committee. Your board continues to advance our structure as a public, non-SEC reporting institution and chooses to run the organization as a public company from a governance perspective.

NIL has been discussed for a great deal of time in college athletics and this past year became legal in the state of Ohio and the NCAA.

Heartland was the first community bank in the nation to enter into NIL agreements, and from there, the "Relationships Matter: Bank ON Community Banking" movement was born. We use the word movement because we hope it to be never-ending. We could not think of a better way to showcase the benefits of community banking or the importance of financial education to today's youth. E.J. Liddell, Ohio State Basketball star forward, and Haskell Garrett, Ohio State Football star defensive tackle, were chosen to be the first carriers of this message. We believe it has been received very well by the market, and we plan to continue to use this medium to reach younger consumers at the most impressionable time in their life to seek value from their financial institution.

Your board met in October to rewrite our three-year strategic plan. There was much discussion and deliberation regarding the future direction of your community bank starting with the fact that, due to our strong past performance, all options are available to us. To be able to steer the company in any direction is a gift of hard work, quality management, and is very unique in and of itself. Seeking a double-digit return to shareholders remains the standard for performance of the company. The board determined that if this standard can be achieved annually, the bank should continue to execute strategies and initiatives for growth and profitability into the future. Continued focus on growth of noninterest revenue, organic expansion to the Cincinnati market area along with continued Central Ohio expansion, obtaining operational leverage through human and technology systems, and seeking future acquisitions of like-minded organizations will further expand offerings and growth markets. We are excited to begin this next three-year journey, and I hope to write to you about our continued success each quarter through our shareholder newsletter and press releases.

Your management team didn't waste any time in beginning the execution of the new strategic plan. In December, we announced the addition of Brian Brockoff, market president Cincinnati region, to our ranks. A life-long resident of Cincinnati and career-long financial equity and banking executive, Brian has intimate knowledge of the market, and his longtime connections and community service should bode well for the bank's expansion moving forward. We hope to open three locations in Cincinnati proper over the next plan cycle to complement our already successful Northern Kentucky branch network.

Our continued positive financial results are a factor of several things but really rest on these three guiding principles: You win with people, and I would stack our team up with the best; independence in this space is earned through hard work, innovative banking principles and unquestionable integrity, and we have proven to our markets that these are true; seek those that treasure value, only then will your efforts be truly appreciated. I am extremely bullish on our future, and our board and associates are prepared to execute this next chapter of our Heartland story.



Thank you for your continued support and patronage.

Sincerely,

G. Scott McComb
Chairman, President & CEO

Your community bank in review - a condensed version of an outstanding 2021 for financial position and community impact.

2021 Highlights



11% Core Loan Growth
(excluding PPP balances)

\$1.145 billion in 2021
\$1.035 billion in 2020



7% Operating Revenue Growth
\$64.8M

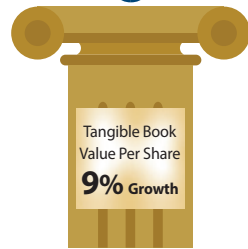
25% Diluted EPS Growth



61.5% Efficiency Ratio



14% ROATCE



33% HPA Revenue Growth
\$1,443

12% Demand Deposits Growth



Congratulations G. Scott McComb!

Most Admired Executives in Central Ohio
Columbus Business First C-Suite Awards

Power 100
Columbus Business First

Our People Portfolio

The Heartland Family

Heartland Bank realizes that its people are prized assets. With organically developed quarterly diversity roundtables, all associates are invited to participate where the focus is on education, talent acquisition and community involvement. Training is offered and centers on unconscious bias and learning about others' backgrounds through guest speakers and sharing of personal experiences. Heartland provides access to a variety of educational opportunities for the associates complementing the recruiting efforts that include connections and partnerships with a growing number of organizations in the communities served, in order to generate a diverse pipeline of candidates.

We leverage the diversity of knowledge, culture, and life experiences of our people portfolio to make community decisions that represent the diverse communities we serve. Volunteerism and involvement in the communities is encouraged. Heartland's 295 associates have volunteered over 800 hours in 2021. These opportunities to connect are not only beneficial to the recipients, but also to our organization and to the well-being of every associate that participates.

295 FTE Average

= \$220,000 revenue per FTE

HEARTLAND BANK embraces and values our diversity in race, ethnicity, cultural background, age, education, gender, sexual orientation, geography, demographics, language, ability, religious and spiritual beliefs, political belief or other ideologies, socio-economic status, experiences, etc. as we encourage everyone to bring their true self to work.

HEARTLAND BANK
Community Foundation

Our Communities
are **STRONGER** when we
invest in **EACH OTHER.**

Learn more at HeartlandBankCommunityFoundation.org

Another year of Achievement

Changes in Financial Condition:

Total assets at December 31, 2021, were \$1.47 billion, a decrease of 5% compared to \$1.55 billion at December 31, 2020. Net loans held for investment increased \$35.7 million or 3% to \$1.16 billion at December 31, 2021, compared to \$1.12 billion at December 31, 2020. The largest components of this increase were in commercial real estate, owner occupied loans, which increased \$48.4 million and non-owner occupied loans, which increased \$51.6 million. The 2021 results were impacted by Heartland's participation in round two of the Paycheck Protection Program (PPP) along with PPP forgiveness from rounds one and two, which decreased commercial loan balances by a net total of approximately \$74 million. A highlight for 2021 was core loan growth of \$109.4 million, or 11%, excluding PPP loans.

Nonperforming assets consisting of nonaccrual loans, loans past due 90 days and still accruing, and Other Real Estate Owned ("OREO") totaled \$1.6 million, or 0.11% of total assets at December 31, 2021, a decrease of \$1.3 million from 2020. Net charge offs increased during 2021 to \$1.10 million, which was a \$0.13 million increase compared to 2020. The allowance for loan loss at December 31, 2021, now covers nonaccrual loans by 924.9%, up from 476.5% at December 31, 2020.

Heartland BancCorp funds earning asset growth through its deposit relationships. Deposits decreased \$56.8 million or 4.3% to \$1.26 billion at December 31, 2021, due to high levels of excess liquidity at the start of the year. Deposit balances for the year included growth of \$52.1 million in demand deposits and \$60.1 million in savings and money market deposits.

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 clients throughout 2020 and the beginning of 2021. Heartland has no loans with deferred payments at December 31, 2021.

Total shareholders' equity increased \$12.3 million or 8.7% to \$153.2 million at December 31, 2021. Based upon total shares outstanding, the book value of shareholders' equity increased 8% to \$76.42 per share at December 31, 2021. Heartland Bank and Heartland BancCorp met all regulatory capital levels to be considered well-capitalized for 2021 and 2020 (see Note 13 to the Consolidated Financial Statements). In 2021, Heartland BancCorp paid dividends of \$2.51 per share, representing a yield of 2.76% on the closing stock price of \$91.00 per share on December 31, 2021.

Earnings Summary:

Heartland BancCorp has a 30+ year history of strong, consistent financial performance, and 2021 was no exception. Net income for 2021 increased 26% to \$18.6 million or \$9.17 per diluted share, compared to \$14.8 million or \$7.33 per diluted share in 2020. Return on average assets and equity were 1.23% and 12.68% respectively for 2021, compared to 1.08% and 11.10% for 2020.

Positive results for 2021 included net loan growth of \$35.7 million or 3%, with core loan growth excluding PPP loans of \$109.4 million or 11%. Deposit balances contracted by \$56.8 million or 4%. The mortgage banking segment contributed significant revenues, with residential real estate loan production of \$249.3 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 \$374.9 million, up from \$366.1 million at December 31, 2020. PPP loan originations in 2021 of \$70.0 million and PPP loans forgiven totaling \$143.5 million, added a total of \$4.4 million in pretax preprovision net revenue.

Operating revenue (net interest income plus noninterest income) was up compared to the prior year by \$4.4 million, or 7.2%. Sustained low long-term mortgage rates continued to attract mortgage refinance and produced strong gains on loan sales. Continued low market rates, combined with excess liquidity during the first half of the year, and PPP loans at 1.0% rates, contributed a 7 basis point decline in net interest margin to 3.56% for 2021.

Operating expense increased \$3.7 million or 10.1% in 2021, due to increased compensation cost resulting from mortgage and commercial lender commissions. Operating leverage (growth in revenue divided by growth in operating expense) was positive 1.2 times.

Net charge offs for 2021 were \$1.10 million compared to \$0.97 million in 2020. Loan loss provision was \$1.9 million for 2021, compared to \$6.4 million in 2020.

Results of Operation:

Net interest income increased 8.9% to \$50.5 million, compared to \$46.4 million in 2020. Average earning assets increased to \$1.42 billion in 2021 compared to \$1.27 billion in 2020, an increase of \$151.8 million or 12.0%, resulting from an \$86.0 million, or 8%, increase in average loan balances and a \$53 million, or 93% increase in average interest earning cash balances. The consolidated full year net interest margin decreased 7 basis points to

3.56% compared to 3.63% for the full year of 2020. Amortization of net deferred PPP fees and costs recognized in interest income during 2021 was \$2.9 million. At December 31, 2021, the balance of unamortized PPP fees, net of costs, were \$0.54 million.

Provision for loan loss expense was \$1.9 million in 2021 compared to \$6.4 million in 2020. For 2021, net charge offs totaled \$1.10 million or .10% of average loans compared to \$0.97 million or .09% of average loans in 2020. The allowance as a percent of loans, including PPP balances, was 1.28% at December 31, 2021, compared to 1.25% at December 31, 2020.

Total noninterest income was \$14.3 million for 2021 compared to \$14.1 million for 2020, representing an increase of \$0.2 million or 1.5% year-over-year. This increase was driven by increases of \$0.86 million or 173% in net loan servicing fees, \$0.54 million or 35% in card interchange, and \$0.36 million or 33% in income from Heartland's financial planning division, Heartland Planning Associates, offset by a reduction of \$2.1 million in gains on sales of residential real estate loans and OMSRs. TransCounty Title Agency contributed \$2.6 million in noninterest income for 2021, an increase of \$0.32 million or 14% compared to \$2.3 million in 2020.

Total noninterest expense was \$39.7 million for 2021 compared to \$36.1 million in 2020, representing a \$3.7 million, or 10.1%, increase year-over-year. Total full-time equivalent employees ended 2021 at 295, an increase of 16 from year end 2020, resulting from continued augmentation of the Northern Kentucky and mortgage banking teams, and expansion into the Cincinnati market.

Salaries and benefits were driven by higher compensation costs in the commercial and mortgage divisions due to strong loan originations and a reduction of \$1.5 million from deferred PPP loan origination costs. The reduction from deferred PPP origination costs was \$0.6 million lower than the \$2.1 million reduction for 2020. Professional fees were \$0.76 million, or 40% lower in 2021 due to acquisition related costs for legal, investment banking and accounting fees in 2020. Other noninterest expense for 2021 was higher due to \$0.41 million in debt extinguishment costs from a \$17.9 million prepayment of long-term fixed rate FHLB advances on March 29, 2021. TransCounty Title Agency contributed \$2.2 million in operating costs compared to \$1.8 million in 2020. \$1.2 million in merger related non-recurring expense is included in 2020 from the April 7, 2020, acquisition of Victory Community Bank.



Independent Auditor's Report and Consolidated Financial Statements

December 31, 2021 and 2020

Independent Auditor's Report

Board of Directors and Audit Committee
Heartland BancCorp
Whitehall, Ohio

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated financial statements of Heartland BancCorp, which comprise the consolidated balance sheets as December 31, 2021 and 2020, 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. In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of Heartland BancCorp as of December 31, 2021 and 2020, and the related consolidated statements of income, comprehensive income, shareholders' equity, and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

We also have audited Heartland BancCorp's internal control over financial reporting as of December 31, 2021 and 2020, based on criteria established in the *Internal Control – Integrated Framework* (2013), issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). In our opinion, Heartland BancCorp maintained, in all material respects, effective internal control over financial reporting as of December 31, 2021, based on COSO.

Basis for Opinions

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

Responsibilities of Management for the Consolidated Financial Statements and Internal Control Over Financial Reporting

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America and for the design, implementation, and maintenance of 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, included in the accompanying Management Report. In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland BancCorp's ability to continue as a going concern within one year after the date that these consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audits of the Consolidated Financial Statements and Internal Control Over Financial Reporting

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and about whether effective internal control over financial reporting was maintained in all material respects, and to issue an auditor's report that includes our opinions.

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit of consolidated financial statements or an audit of internal control over financial reporting conducted in accordance with GAAS will always detect a material misstatement or a material weakness when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered to be material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit of financial statements and an audit of internal control over financial reporting in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the consolidated financial statement audit in order to design audit procedures that are appropriate in the circumstances.
- Obtain an understanding of internal control over financial reporting relevant to the audit of internal control over financial reporting, assess the risks that a material weakness exists, and test and evaluate the design and operating effectiveness of internal control over financial reporting based on the assessed risk.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Heartland BancCorp's ability to continue as a going concern for a reasonable period of time.

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

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 financial statements in accordance with accounting principles generally accepted in the United States of America and with the 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.

BKD, LLP

Indianapolis, Indiana
March 9, 2022

Heartland BancCorp

Consolidated Balance Sheets

December 31, 2021 and 2020

(Table dollar amounts in thousands, except share data)

Assets	2021	2020
Cash and cash equivalents	\$ 64,884	\$ 189,874
Interest bearing time deposits	-	277
Available-for-sale securities	156,505	144,377
Held-to-maturity securities, fair value of \$49 and \$202 at December 31, 2021 and 2020, respectively	49	202
Loans held for sale	4,648	4,382
Loans, net of allowance for loan losses of \$14,965 and \$14,147 at December 31, 2021 and 2020, respectively	1,157,619	1,121,947
Premises and equipment	29,410	30,220
Nonmarketable equity securities	6,024	6,017
Mortgage servicing rights, net	3,096	2,662
Foreclosed assets held for sale	5	5
Goodwill	12,389	12,389
Intangible assets	990	1,253
Deferred income taxes	1,404	955
Life insurance assets	18,120	17,468
Accrued interest receivable and other assets	13,966	15,052
Total assets	<u>\$ 1,469,109</u>	<u>\$ 1,547,080</u>
Liabilities and Shareholders' Equity		
Liabilities		
Deposits		
Demand	\$ 478,893	\$ 426,795
Savings, NOW and money market	588,959	528,836
Time	188,193	357,203
Total deposits	<u>1,256,045</u>	<u>1,312,834</u>
Repurchase agreements	9,032	10,632
Federal Home Loan Bank advances	12,000	44,670
Subordinated debt	24,651	24,709
Interest payable and other liabilities	14,223	13,339
Total liabilities	<u>1,315,951</u>	<u>1,406,184</u>
Shareholders' Equity		
Common stock, without par value; authorized 5,000,000 shares; issued 2021 - 2,094,787 shares, 2020 - 2,083,487 shares	61,231	60,402
Retained earnings	94,638	81,061
Accumulated other comprehensive income	2,283	4,427
Treasury stock at cost, 2021 - 90,612 and 2020 - 90,612 shares held	(4,994)	(4,994)
Total shareholders' equity	<u>153,158</u>	<u>140,896</u>
Total liabilities and shareholders' equity	<u>\$ 1,469,109</u>	<u>\$ 1,547,080</u>

Heartland BancCorp
Consolidated Statements of Income
Years Ended December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

	2021	2020
Interest Income		
Loans	\$ 51,307	\$ 51,882
Securities		
Taxable	1,676	1,708
Tax-exempt	2,356	2,335
Other	169	129
Total interest income	<u>55,508</u>	<u>56,054</u>
Interest Expense		
Deposits	3,254	7,952
Borrowings	1,748	1,732
Total interest expense	<u>5,002</u>	<u>9,684</u>
Net Interest Income	50,506	46,370
Provision for Loan Losses	1,920	6,350
Net Interest Income After Provision for Loan Losses	<u>48,586</u>	<u>40,020</u>
Noninterest Income		
Service charges	2,911	2,168
Gains on sale of loans and originated mortgage servicing rights	4,743	6,838
Loan servicing fees, net	1,353	495
Title insurance income	1,434	1,311
Net realized gain on sales of available-for-sale securities	223	250
Net realized gain on sales of premises and equipment	-	5
Increase in cash value of life insurance	399	411
Other	3,235	2,604
Total noninterest income	<u>14,298</u>	<u>14,082</u>
Noninterest Expense		
Salaries and employee benefits	23,592	20,389
Net occupancy and equipment expense	3,916	3,776
Software and Data processing fees	3,363	3,077
Professional fees	1,132	1,893
Marketing expense	1,049	954
Printing and office supplies	329	387
State financial institution tax	1,104	1,012
FDIC Insurance premiums	400	423
Other	4,841	4,164
Total noninterest expense	<u>39,726</u>	<u>36,075</u>
Income Before Income Tax	23,158	18,027
Provision for Income Taxes	4,565	3,260
Net Income	<u>\$ 18,593</u>	<u>\$ 14,767</u>
Basic Earnings Per Share	<u>\$ 9.30</u>	<u>\$ 7.39</u>
Diluted Earnings Per Share	<u>\$ 9.17</u>	<u>\$ 7.33</u>

See Notes to Consolidated Financial Statements

Heartland BancCorp
Consolidated Statements of Comprehensive Income
Years Ended December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

	2021	2020
Net Income	<u>\$ 18,593</u>	<u>\$ 14,767</u>
Other Comprehensive Income/(Loss):		
Unrealized gain/(loss) on available-for-sale securities, net of taxes/(benefit) of (\$523) and \$845 for 2021 and 2020, respectively	(1,968)	3,178
Less reclassification adjustment for realized gains included in net income, net of taxes of \$47 and \$53 for 2021 and 2020, respectively	<u>(176)</u>	<u>(197)</u>
Other comprehensive income/(loss)	<u>(2,144)</u>	<u>2,981</u>
Comprehensive Income	<u>\$ 16,449</u>	<u>\$ 17,748</u>

See Notes to Consolidated Financial Statements

Heartland BancCorp
Consolidated Statements of Shareholders' Equity
Years Ended December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

	Common Stock		Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Treasury Stock	Total
	Shares	Amount				
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
Net income			18,593			18,593
Other comprehensive loss				(2,144)		(2,144)
Dividends on common stock, \$2.51 per share			(5,016)			(5,016)
Stock option expense		138				138
Stock options exercised	11,300	691				691
Balance, December 31, 2021	2,004,175	\$ 61,231	\$ 94,638	\$ 2,283	\$ (4,994)	\$ 153,158

See Notes to Consolidated Financial Statements

Heartland BancCorp
Consolidated Statements of Cash Flows
Years Ended December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

	2021	2020
Operating Activities		
Net income	\$ 18,593	\$ 14,767
Items not requiring (providing) cash		
Depreciation and amortization	1,955	1,830
Provision for loan losses	1,920	6,350
Amortization of premiums and discounts on securities	1,093	948
Amortization of purchase accounting adjustments	129	(291)
Amortization of loan fees, net	(2,751)	(1,260)
Deferred income taxes	121	(1,148)
Net realized gain on sale of available-for-sale securities	(223)	(250)
Stock option expense	138	591
Tax benefit related to stock options exercised	51	10
Gain on sale of premises and equipment	-	(5)
Gain on sale of loans	(3,868)	(5,190)
Increase in cash surrender value of life insurance	(399)	(411)
Changes in		
Receivables due from loan sales	(266)	(3,732)
Interest receivable	866	(1,280)
Other assets	(211)	(1,366)
Interest payable and other liabilities	712	2,180
Net cash provided by operating activities	17,860	11,743
Investing Activities		
Net change in interest bearing time deposits	277	(3)
Purchase of available-for-sale securities	(48,861)	(61,727)
Proceeds from maturities of available-for-sale securities	30,760	51,450
Proceeds from sales of available-for-sale securities	2,386	8,799
Proceeds from maturities of held-to-maturity securities	153	556
Purchase of nonmarketable equity securities	(7)	(450)
Net change in loans	(31,180)	(81,582)
Purchase of premises and equipment	(1,227)	(1,041)
Proceeds from sale of premises and equipment	124	68
Purchase of life insurance	(253)	-
Cash received for acquisitions	-	31,755
Net cash used in investing activities	(47,828)	(52,175)

See Notes to Consolidated Financial Statements

Heartland BancCorp
Consolidated Statements of Cash Flows (Continued)
Years Ended December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

	2021	2020
Financing Activities		
Net increase in demand deposits, money market, NOW and savings accounts	\$ 112,221	\$ 237,563
Net decrease in certificates of deposit	(168,786)	(51,649)
Net decrease in repurchase agreements	(1,600)	(712)
Proceeds from Federal Home Loan Bank Advances	-	15,570
Repayment of Federal Home Loan Bank Advances	(32,553)	-
Proceeds from issuance of subordinated notes, net	-	19,225
Repayment of subordinated notes, net	(100)	-
Proceeds from stock options exercised	691	360
Purchase of common stock	-	(58)
Purchase of treasury stock	-	(4,994)
Dividends paid	(4,895)	(4,474)
	<u>(95,022)</u>	<u>210,831</u>
Increase/(Decrease) in Cash and Cash Equivalents	(124,990)	170,399
Cash and Cash Equivalents, Beginning of Year	<u>189,874</u>	<u>19,475</u>
Cash and Cash Equivalents, End of Year	<u>\$ 64,884</u>	<u>\$ 189,874</u>
Supplemental Cash Flows Information		
Interest paid	\$ 5,212	\$ 9,423
Income taxes paid (net of refunds)	\$ 4,842	\$ 2,435
Supplemental disclosure of noncash investing and financing activities		
Right of use asset obtained in exchange for lease liability	\$ -	\$ 701
In conjunction with Heartland's acquisition of Victory Community Bank in 2020, liabilities were assumed as follows:		
Fair Value of Assets acquired	\$ -	\$ 237,113
Cash paid in acquisition	-	(35,500)
Less: Common stock issued	-	3,418
Liabilities assumed	<u>\$ -</u>	<u>\$ 198,195</u>

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Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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 (inactive). 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, 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.

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Cash Equivalents

At December 31, 2021, the Company's cash accounts exceeded federally insured limits by approximately \$1,254,000.

Additionally, approximately \$54,590,000 of cash is held by the Federal Reserve Bank of Cleveland and Federal Home Loan Bank of Cincinnati as of December 31, 2021, 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 2021 and 2020.

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

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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

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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. The interagency statement was subsequently modified on February 16, 2021 to extend the expiration date to January 1, 2022, or 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.

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

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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

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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, 2021 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, 2021, 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.

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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 2018. As of December 31, 2021, 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/(loss), net of applicable income taxes. Other comprehensive income includes unrealized gain/(loss) on available-for-sale securities.

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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

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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.

Reclassifications

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

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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, 2021:				
U.S. government agencies	\$ 16,452	\$ 48	\$ (470)	\$ 16,030
Mortgage-backed securities of U.S. Government sponsored enterprises	23,154	193	(305)	23,042
State and political subdivisions	99,578	3,624	(256)	102,946
Corporate bonds	14,431	344	(288)	14,487
Totals	<u>\$ 153,615</u>	<u>\$ 4,209</u>	<u>\$ (1,319)</u>	<u>\$ 156,505</u>
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	<u>\$ 138,770</u>	<u>\$ 5,760</u>	<u>\$ (153)</u>	<u>\$ 144,377</u>

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	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Approximate Fair Value
Held-to-maturity Securities:				
December 31, 2021:				
State and political subdivisions	\$ 49	\$ -	\$ -	\$ 49
December 31, 2020:				
State and political subdivisions	\$ 202	\$ -	\$ -	\$ 202

The amortized cost and fair value of available-for-sale securities and held-to-maturity securities at December 31, 2021, 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	\$ 3,147	\$ 3,188	\$ 39	\$ 39
One to five years	7,446	7,746	10	10
Five to ten years	25,219	25,687	-	-
After ten years	94,649	96,842	-	-
	<u>130,461</u>	<u>133,463</u>	<u>49</u>	<u>49</u>
Mortgage-backed securities of U.S. Government sponsored entities				
	<u>23,154</u>	<u>23,042</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 153,615</u>	<u>\$ 156,505</u>	<u>\$ 49</u>	<u>\$ 49</u>

The carrying value, which equals fair value, of securities pledged as collateral, to secure public deposits and for other purposes, was \$105,830,000 at December 31, 2021 and \$92,180,000 at December 31, 2020.

Gross gains of approximately \$223,000 and no losses resulting from sales of available-for-sale securities were realized for 2021. Gross gains of approximately \$311,000 and losses of \$61,000 resulting from sales of available-for-sale securities were realized for 2020. The \$223,000 and \$250,000 net gains from the sales of available-for-sale securities were a reclassification from accumulated other comprehensive income and are included in the net gains on available-for-sale securities in the income statement for 2021 and 2020, respectively. The related tax expense of approximately \$47,000 and \$53,000 was a reclassification from accumulated other comprehensive income and included in the provision for income tax in the income statement for 2021 and 2020, respectively.

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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, 2021 and 2020 was \$52,481,000 and \$17,017,000, which is approximately 34% and 12%, respectively, of the 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, 2021 and 2020:

Description of Securities	December 31, 2021					
	Less than 12 Months Unrealized		12 Months or More Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	Losses
U.S. Government agencies	\$ 6,897	\$ (93)	\$ 5,060	\$ (377)	\$ 11,957	\$ (470)
Mortgage-backed securities of U.S. Government sponsored enterprises	12,957	(259)	2,103	(46)	15,060	(305)
State and political subdivisions	16,558	(237)	2,263	(19)	18,821	(256)
Corporate Bonds	6,643	(288)	-	-	6,643	(288)
Total temporarily impaired securities	<u>\$ 43,055</u>	<u>\$ (877)</u>	<u>\$ 9,426</u>	<u>\$ (442)</u>	<u>\$ 52,481</u>	<u>\$ (1,319)</u>

Description of Securities	December 31, 2020					
	Less than 12 Months Unrealized		12 Months or More Unrealized		Total	
	Fair Value	Losses	Fair Value	Losses	Fair Value	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)
Corporate Bonds	-	-	-	-	-	-
Total temporarily impaired securities	<u>\$ 17,017</u>	<u>\$ (153)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 17,017</u>	<u>\$ (153)</u>

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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, 2021.

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, 2021.

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, 2021.

Corporate Bonds

The unrealized losses on the Company's investments in securities of corporations 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, 2021.

Note 3: Loans and Allowance for Loan Losses

Classes of loans at December 31, include:

	2021	2020
Commercial	\$ 154,046	\$ 216,108
Commercial Real Estate:		
Owner occupied	288,575	240,185
NonOwner occupied	358,674	307,054
Residential Real Estate:		
1-4 Family	322,396	323,174
Home Equity	36,261	38,232
Consumer	12,632	11,341
Total loans	<u>1,172,584</u>	<u>1,136,094</u>
Less		
Allowance for loan losses	<u>(14,965)</u>	<u>(14,147)</u>
Net loans	<u>\$ 1,157,619</u>	<u>\$ 1,121,947</u>

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, 2021, the Company has no outstanding loans that were modified under the CARES Act guidance, that remain on modified terms.

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

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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 \$70,000,000 and \$129,000,000 in PPP loans during 2021 and 2020, respectively, of which approximately \$27,626,000 are still outstanding at December 31, 2021.

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.

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

	2021						Total
	Commercial Real Estate		Residential Real Estate			Consumer	
	Commercial	Owner Occupied	NonOwner Occupied	1-4 Family	Home Equity		
December 31, 2021:							
Allowance for loan losses:							
Balance, beginning of year	\$ 3,399	\$ 4,069	\$ 3,844	\$ 2,423	\$ 249	\$ 163	\$ 14,147
Provision charged to expense	511	541	858	119	(42)	(67)	1,920
Losses charged off	(1,312)	-	-	-	(1)	(74)	(1,387)
Recoveries	172	51	-	12	8	42	285
Balance, end of year	<u>\$ 2,770</u>	<u>\$ 4,661</u>	<u>\$ 4,702</u>	<u>\$ 2,554</u>	<u>\$ 214</u>	<u>\$ 64</u>	<u>\$ 14,965</u>
Ending balance: individually evaluated for impairment	<u>\$ 78</u>	<u>\$ 538</u>	<u>\$ -</u>	<u>\$ 81</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 697</u>
Ending balance: collectively evaluated for impairment	<u>\$ 2,692</u>	<u>\$ 4,123</u>	<u>\$ 4,702</u>	<u>\$ 2,473</u>	<u>\$ 214</u>	<u>\$ 64</u>	<u>\$ 14,268</u>
Loans:							
Ending balance	<u>\$ 154,046</u>	<u>\$ 288,575</u>	<u>\$ 358,674</u>	<u>\$ 322,396</u>	<u>\$ 36,261</u>	<u>\$ 12,632</u>	<u>\$ 1,172,584</u>
Ending balance: individually evaluated for impairment	<u>\$ 723</u>	<u>\$ 1,565</u>	<u>\$ 4,796</u>	<u>\$ 725</u>	<u>\$ 178</u>	<u>\$ 16</u>	<u>\$ 8,003</u>
Ending balance: collectively evaluated for impairment	<u>\$ 153,323</u>	<u>\$ 287,010</u>	<u>\$ 353,878</u>	<u>\$ 321,671</u>	<u>\$ 36,083</u>	<u>\$ 12,616</u>	<u>\$ 1,164,581</u>
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	<u>\$ 3,399</u>	<u>\$ 4,069</u>	<u>\$ 3,844</u>	<u>\$ 2,423</u>	<u>\$ 249</u>	<u>\$ 163</u>	<u>\$ 14,147</u>
Ending balance: individually evaluated for impairment	<u>\$ 978</u>	<u>\$ 659</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 16</u>	<u>\$ 10</u>	<u>\$ 1,663</u>
Ending balance: collectively evaluated for impairment	<u>\$ 2,421</u>	<u>\$ 3,410</u>	<u>\$ 3,844</u>	<u>\$ 2,423</u>	<u>\$ 233</u>	<u>\$ 153</u>	<u>\$ 12,484</u>
Loans:							
Ending balance	<u>\$ 216,108</u>	<u>\$ 240,185</u>	<u>\$ 307,054</u>	<u>\$ 323,174</u>	<u>\$ 38,232</u>	<u>\$ 11,341</u>	<u>\$ 1,136,094</u>
Ending balance: individually evaluated for impairment	<u>\$ 3,255</u>	<u>\$ 2,920</u>	<u>\$ 286</u>	<u>\$ 2,863</u>	<u>\$ 343</u>	<u>\$ 33</u>	<u>\$ 9,700</u>
Ending balance: collectively evaluated for impairment	<u>\$ 212,853</u>	<u>\$ 237,265</u>	<u>\$ 306,768</u>	<u>\$ 320,311</u>	<u>\$ 37,889</u>	<u>\$ 11,308</u>	<u>\$ 1,126,394</u>

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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, 2021 and 2020:

	Commercial Real Estate		2021 Residential Real Estate				Total
	Commercial	Owner	NonOwner	1-4 Family	Home Equity	Consumer	
		Occupied	Occupied				
Pass	\$ 141,902	\$ 268,826	\$ 337,359	\$ 319,713	\$ 35,184	\$ 12,551	\$ 1,115,535
Special mention	11,287	12,891	6,398	1,132	899	65	32,672
Substandard	857	6,858	14,917	1,551	178	16	24,377
Doubtful	-	-	-	-	-	-	-
Loss	-	-	-	-	-	-	-
Total	<u>\$ 154,046</u>	<u>\$ 288,575</u>	<u>\$ 358,674</u>	<u>\$ 322,396</u>	<u>\$ 36,261</u>	<u>\$ 12,632</u>	<u>\$ 1,172,584</u>

	Commercial Real Estate		2020 Residential Real Estate				Total
	Commercial	Owner	NonOwner	1-4 Family	Home Equity	Consumer	
		Occupied	Occupied				
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	<u>\$ 216,108</u>	<u>\$ 240,185</u>	<u>\$ 307,054</u>	<u>\$ 323,174</u>	<u>\$ 38,232</u>	<u>\$ 11,341</u>	<u>\$ 1,136,094</u>

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, 2021 and 2020:

	2021						
	Past Due			Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
	30-59 Days	60-89 Days	90 or More Days				
Commercial	\$ 276	\$ -	\$ 452	\$ 728	\$ 153,318	\$ 154,046	\$ 16
Commercial Real Estate:							
Owner occupied	262	-	394	656	287,919	288,575	-
NonOwner occupied	1,695	-	-	1,695	356,979	358,674	-
Residential Real Estate:							
1-4 family	895	323	499	1,717	320,679	322,396	-
Home equity	-	-	54	54	36,207	36,261	-
Consumer	10	5	4	19	12,613	12,632	-
Total	\$ 3,138	\$ 328	\$ 1,403	\$ 4,869	\$ 1,167,715	\$ 1,172,584	\$ 16
	2020						
	Past Due			Total Past Due	Current	Total Loans Receivable	90 or More Days Past Due and Accruing
	30-59 Days	60-89 Days	90 or More Days				
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	\$ -

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.

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

	2021				
	Recorded Balance	Unpaid Principal Balance	Specific Allowance	Average Balance of Impaired Loans	Interest Income Recognized
Loans without a specific valuation allowance:					
Commercial	\$ 436	\$ 2,624	\$ -	\$ 2,787	\$ -
Commercial real estate:					
Owner occupied	675	675	-	688	41
NonOwner occupied	4,796	4,796	-	4,804	258
Residential real estate:					
1-4 family	364	364	-	373	3
Home equity	178	178	-	191	7
Consumer	16	16	-	22	1
Loans with a specific valuation allowance:					
Commercial	287	287	78	364	20
Commercial real estate:					
Owner occupied	890	890	538	922	39
NonOwner occupied	-	-	-	-	-
Residential real estate:					
1-4 family	361	361	81	361	1
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total:					
Commercial	723	2,911	78	3,151	20
Commercial real estate:					
Owner occupied	1,565	1,565	538	1,610	80
NonOwner occupied	4,796	4,796	-	4,804	258
Residential real estate:					
1-4 family	725	725	81	734	4
Home equity	178	178	-	191	7
Consumer	16	16	-	22	1
Totals	\$ 8,003	\$ 10,191	\$ 697	\$ 10,512	\$ 370

Loans acquired with deteriorating credit are included with impaired loans.

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	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

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

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The following table presents the Company's nonaccrual loans at 2021 and 2020.

	2021	2020
Commercial	\$ 436	\$ 574
Commercial Real Estate:		
Owner occupied	394	457
NonOwner occupied	-	-
Residential Real Estate:		
1-4 family	730	1,830
Home equity	54	98
Consumer	4	10
Total nonaccrual	\$ 1,618	\$ 2,969

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The following tables presents information regarding troubled debt restructurings by class for the years ended December 31, 2021 and 2020.

	2021		
	Number of Loans	Pre-Modification Recorded Balance	Post-Modification Recorded Balance
Commercial	-	\$ -	\$ -
Commercial Real Estate:			
Owner occupied	-	-	-
NonOwner occupied	1	4,521	4,521
Residential Real Estate:			
1-4 family	-	-	-
Home equity	-	-	-
Consumer	-	-	-
Total	<u>1</u>	<u>\$ 4,521</u>	<u>\$ 4,521</u>
	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	<u>2</u>	<u>\$ 3,082</u>	<u>\$ 3,082</u>

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The following table presents information regarding troubled debt restructuring by type of modification for the years ended December 31, 2021 and 2020:

	2021				
	Interest Only Terms	Extension of Maturity	Combination	Advance Funds	Total Modification
Commercial	\$ -	\$ -	\$ -	\$ -	\$ -
Commercial Real Estate:					
Owner occupied	-	-	-	-	-
NonOwner occupied	4,521	-	-	-	4,521
Residential Real Estate:					
1-4 family	-	-	-	-	-
Home equity	-	-	-	-	-
Consumer	-	-	-	-	-
Total	<u>\$ 4,521</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,521</u>
	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	<u>\$ 316</u>	<u>\$ -</u>	<u>\$ 2,766</u>	<u>\$ -</u>	<u>\$ 3,082</u>

During the years ended December 31, 2021 and 2020, there were no troubled debt restructurings that subsequently defaulted within twelve months of the restructuring. The troubled debt restructurings noted above did not increase the allowance for loan losses during the year ended December 31, 2021 and increased the allowance for loan losses during the year ended December 31, 2020 by approximately \$803,000.

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Note 4: Mortgage Servicing Rights

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

	2021	2020
Loan servicing rights:		
Carrying amount, beginning of year	\$ 2,662	\$ 226
Mortgage servicing rights capitalized during the year	1,060	1,662
Mortgage servicing rights amortization during the year	(822)	(859)
Acquisition of VCB	-	1,970
Net change in valuation allowance	196	(337)
Carrying amount, end of year	<u>3,096</u>	<u>2,662</u>
Valuation allowance:		
Beginning of year	\$ 337	\$ -
Increase (reduction)	(196)	337
End of year	<u>141</u>	<u>337</u>

The fair value of mortgage servicing rights as of December 31, 2021 and 2020 were approximately \$3,200,000 and \$2,662,000. The unpaid principal balance of mortgage loans serviced for others as of December 31, 2021 and 2020 were approximately \$374,863,000 and \$366,064,000.

Note 5: Premises and Equipment

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

	2021	2020
Land and improvements	\$ 6,031	\$ 6,024
Building and improvements	26,355	25,721
Equipment	15,281	14,822
Total	47,667	46,567
Less accumulated depreciation	(18,257)	(16,347)
Net premises and equipment	<u>\$ 29,410</u>	<u>\$ 30,220</u>

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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 20, Business Combinations. Goodwill at December 31, 2021 and 2020 was \$12,389,000.

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, 2021, June 30, 2021 and September 30, 2021 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, 2021 and 2020 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 are discussed in Note 20 – Business Combinations. The carrying basis and accumulated amortization of recognized core deposit and other intangibles are noted below.

	2021	2020
Gross carrying amount	\$ 1,570	\$ 1,018
Core deposit intangible acquired	-	552
Purchase Adjustment	(11)	-
Accumulated amortization	(569)	(317)
Total core deposit and other intangibles	<u>\$ 990</u>	<u>\$ 1,253</u>

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, 2021 and 2020 was \$252,000 and \$234,000 respectively.

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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 1.3 to 15.7 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 \$2,745,000 at December 31, 2021 and \$3,051,000 at December 31, 2020 are classified as operating leases.

Lease Expense

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

	December 31, 2021	December 31, 2020
Operating lease cost	\$ 492	\$ 400
Operating lease cost below capitalization threshold	6	3
Short-term lease cost	18	3
Variable lease cost	1	1
Less: Sublease income	(88)	(111)
Total lease cost, net	<u>\$ 429</u>	<u>\$ 296</u>

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Lease Obligations

Future undiscounted lease payments for finance and operating leases with initial terms of one year or more as of December 31, 2021 are as follows:

	Operating Leases
2022	\$ 345
2023	333
2024	274
2025	272
2026	282
Thereafter	1,859
Total undiscounted lease payments	<u>\$ 3,365</u>
Less: imputed interest	(620)
Net lease liabilities	<u>\$ 2,745</u>

Supplemental Lease Information

	December 31, 2021	December 31, 2020
Operating lease weighted average remaining lease term (years)	12.1	12.5
Operating lease weighted average discount rate	3.13%	3.02%
Cash paid for amounts included in the measurement of lease liabilities		
Operating cash flows from operating leases	\$ 492	\$ 400

Note 9: Interest-bearing Time Deposits

Interest-bearing time deposits in denominations of \$250,000 or more were \$29,252,000 on December 31, 2021 and \$76,568,000 on December 31, 2020.

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

2022	\$ 132,651
2023	36,991
2024	6,803
2025	7,148
2026 and thereafter	4,600
Total time deposits	<u>\$ 188,193</u>

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Note 10: Repurchase Agreements

The Company had repurchase agreements on December 31, 2021 and 2020 of \$9,032,000 and \$10,632,000 respectively. These agreements are secured by U. S. Government Agency, FHLB, FHLMC, FNMA, GNMA and Municipal securities and such collateral is held in safekeeping with a third party. The maximum amount of outstanding agreements at any month end during 2021 and 2020 totaled \$11,075,000 and \$13,912,000, respectively, and the daily average of such agreements totaled \$9,305,000 and \$9,588,000 for 2021 and 2020, 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.

	2021 Overnight & Continuous
December 31, 2021:	
U.S. government agencies	\$ 5,470
Mortgage-backed securities of U.S. Government sponsored enterprises	2,104
Municipals	1,458
Totals	<u>\$ 9,032</u>

Note 11: Borrowings

The Bank 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 Stock Secured Line Agreement with United Banker's Bank that allows the Company to borrow up to \$10,000,000.

The Bank 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, 2021, the Bank had \$190,713,000, respectively, available on its CMA line of credit. The Bank 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, 2021, term advances from the Federal Home Loan Bank were \$12,000,000 at fixed rates ranging from 1.08% to 2.73%, maturing between February 14, 2022 and March 3, 2022. 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 \$388,581,000 of residential mortgage assets under a blanket lien arrangement at year-end 2021.

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Based on this collateral the Company has additional borrowing capacity of \$190,713,000 at December 31, 2021.

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

2022	\$ 12,000
2023	-
2024	-
2025	-
2026	-
Thereafter	-
Total FHLB Advances	<u>\$ 12,000</u>

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.

On January 4, 2021, the Company paid off \$100,000 of the remaining subordinated notes issued on November 12, 2015.

Note 12: Income Taxes

The provision for income taxes includes these components:

	2021	2020
Taxes currently payable	\$ 4,444	\$ 4,408
Deferred income taxes	121	(1,148)
Income tax expense	<u>\$ 4,565</u>	<u>\$ 3,260</u>

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

	2021	2020
Computed at the statutory rate of 21%	\$ 4,863	\$ 3,786
Increase (decrease) resulting from		
Tax exempt interest	(704)	(539)
Cash surrender value, net of premiums	(75)	(75)
Other	481	88
Actual tax expense	<u>\$ 4,565</u>	<u>\$ 3,260</u>

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

	2021	2020
Deferred tax assets		
Allowance for loan losses	\$ 3,262	\$ 2,971
Deferred compensation	678	624
Stock option expense	128	198
Right of use lease liability	598	641
Deferred loan fees	196	485
Other	85	151
Total deferred tax assets	4,947	5,070
Deferred tax liabilities		
Depreciation	(1,269)	(1,496)
Purchase accounting adjustments	(242)	(98)
FHLB stock dividends	(94)	(94)
Prepaid expenses	(58)	(50)
Unrealized gains on available-for-sale securities	(607)	(1,177)
Right of use lease asset	(598)	(641)
Other	(675)	(559)
Total deferred tax liabilities	<u>(3,543)</u>	<u>(4,115)</u>
Net deferred tax asset	<u>\$ 1,404</u>	<u>\$ 955</u>

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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, 2021, that the Company and the Bank meet all capital adequacy requirements to which they are subject.

As of December 31, 2021, 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.

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

	Actual		For Capital Adequacy Purposes		To Be Well Capitalized Under Prompt Corrective Action Provisions	
	Amount	Ratio	Amount	Ratio	Amount	Ratio
As of December 31, 2021						
Total Capital (to Risk-Weighted Assets)						
Consolidated	\$ 176,982	15.0%	N/A	N/A	N/A	N/A
Bank	167,397	14.2%	94,250	8.0%	\$ 117,813	10.0%
Tier I Capital (to Risk-Weighted Assets)						
Consolidated	137,493	11.7%	N/A	N/A	N/A	N/A
Bank	152,668	13.0%	70,688	6.0%	94,250	8.0%
Common Equity Tier I Capital (to Risk-Weighted Assets)						
Consolidated	137,493	11.7%	N/A	N/A	N/A	N/A
Bank	152,668	13.0%	53,016	4.5%	76,578	6.5%
Tier I Capital (to Average Assets)						
Consolidated	137,493	9.6%	N/A	N/A	N/A	N/A
Bank	152,668	10.6%	57,583	4.0%	71,979	5.0%
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%

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.

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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, 2021 and 2020, 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 \$25,973,000 and \$29,356,000, 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, 2021 and 2020, totaled \$30,153,000 and \$40,227,000, 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 100% of the first 2% of employee compensation contributed, and 50% matching of the next 4%, for a maximum match of 4% of employee 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 2021 and 2020, were approximately \$709,000 and \$425,000, 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 2021 and 2020 were \$495,000 and \$523,000, 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 2020 and 2021; 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, 2021 and 2020 was \$3,110,000 and \$2,973,000, respectively. The Company purchased life insurance on the participants.

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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 2021 and 2020 totaled \$138,000 and \$591,000, respectively. As of December 31, 2021, there was \$773,000 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, 2021 and changes during the year then ended is presented below:

	Shares	Weighted-Average Exercise Price	2021 Weighted-Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	163,500	\$ 72.16		
Granted	71,700	92.63		
Exercised	(11,300)	52.29		
Forfeited or expired	(19,250)	65.39		
Outstanding, end of year	<u>204,650</u>	\$ 81.06	<u>7.16</u>	<u>\$ 2,169</u>
Exercisable, end of year	<u>132,950</u>	\$ 74.83	<u>5.95</u>	<u>\$ 2,169</u>

The weighted-average grant-date fair value of options granted during 2021 was \$14.00. There were no options granted in 2020. The total intrinsic value of options exercised during the year ended December 31, 2021 and 2020 was \$437,000 and \$123,000, 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.

	2021	2020
Dividend yield	2.64%	N/A
Volatility factors of expected market price of common stock	21.84%	N/A
Risk-free interest rate	1.21%	N/A
Expected life (in years)	5.0 - 6.9	N/A
Weighted-average fair value of options granted during the year	\$14.00	N/A

Note 17: Earnings Per Share

Earnings per share (EPS) were computed as follows:

	Year Ended December 31, 2021		
	Income	Weighted-Average Shares	Per Share Amount
Basic earnings per share			
Income available to common stockholders	<u>\$ 18,593</u>	1,998,386	<u>\$ 9.30</u>
Effect of dilutive securities			
Stock options		<u>29,593</u>	
Diluted earnings per share			
assumed conversions			
stockholders and assumed conversions	<u>\$ 18,593</u>	<u>2,027,979</u>	<u>\$ 9.17</u>

Options to purchase 90,150 shares of common stock at a weighted-average exercise price of \$92.50 per share were outstanding at December 31, 2021 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.

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	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.

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, 2021 and 2020.

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	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021:				
U.S. government agencies	\$ 16,030	\$ -	\$ 16,030	\$ -
Mortgage-backed securities of U.S. government sponsored enterprises	23,042	-	23,042	-
State and political subdivisions	102,946	-	102,946	-
Corporate Bonds	14,487	-	14,487	-
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	-

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, 2021.

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.

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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, 2021 and 2020:

	Fair Value	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
December 31, 2021:				
Collateral-dependent impaired loans	\$ 418	\$ -	\$ -	\$ 418
Mortgage servicing rights	3,200	-	-	3,200
December 31, 2020:				
Collateral-dependent impaired loans	\$ 1,535	\$ -	\$ -	\$ 1,535
Mortgage servicing rights	2,662	-	-	2,662

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

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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 increased by \$196,000 in 2021 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, 2021 and 2020.

	Fair Value at 12/31/2021	Valuation Technique	Unobservable Inputs	(Weighted Average)
Collateral-dependent impaired loans	\$ 418	Market comparable properties	Marketability discounts	20-35% (30%)
Mortgage servicing rights	3,200	Discounted cash flow	Discount rate	9.5-9.5% (9.5%)
			Constant prepayment rate	10-29% (13%)
	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%)

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.

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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, 2021 and 2020.

	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, 2021				
Financial assets				
Cash and cash equivalents	\$ 64,884	\$ 64,884	\$ -	\$ -
Held-to-maturity securities	49	-	49	-
Loans held for sale	4,648	-	-	4,648
Loans, net of allowance for loan losses	1,157,619	-	-	1,173,003
Nonmarketable equity securities	6,024	-	6,024	-
Interest receivable	5,248	-	5,248	-
Financial liabilities				
Deposits	1,256,045	-	1,255,805	-
Repurchase agreements	9,032	-	9,032	-
FHLB Advances	12,000	-	12,000	-
Subordinated debt	24,651	-	22,954	-
Interest payable	483	-	483	-
December 31, 2020				
Financial assets				
Cash and cash equivalents	\$ 189,874	\$ 189,874	\$ -	\$ -
Interest-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	-

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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 \$625,000 and \$795,000 at December 31, 2021 and 2020, 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, 2021, the Bank had granted unused lines of credit to borrowers aggregating approximately \$102,737,000 and \$57,832,000 for commercial lines and open-end consumer lines, respectively. 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.

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, 2021, and 2020, the Bank had outstanding commitments to originate variable rate loans aggregating approximately \$16,586,000 and \$20,962,000, respectively.

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020

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.

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
(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:

	<u>2020</u>
Consideration	
Cash	\$ 35,500
Equity Instruments	3,418
	<u>\$ 38,918</u>
Fair value of total consideration transferred	
	<u>\$ 38,918</u>
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
	<u>225,931</u>
Total assets acquired	
	<u>225,931</u>
Deposits	183,436
Federal Home Loan Bank advances	14,135
Other liabilities	624
	<u>198,195</u>
Total liabilities assumed	
	<u>198,195</u>
Net identifiable assets	27,736
	<u>27,736</u>
Goodwill	<u>\$ 11,183</u>

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.

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
(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,	
	2021	2020
Assets		
Cash and cash equivalents	\$ 9,746	\$ 8,134
Investment in common stock of subsidiaries	168,725	157,057
Other assets	958	1,917
	<u> </u>	<u> </u>
Total assets	<u>\$ 179,429</u>	<u>\$ 167,108</u>
Liabilities		
Subordinated debt	24,651	24,709
Other liabilities	1,620	1,503
	<u> </u>	<u> </u>
Total liabilities	26,271	26,212
Shareholders' Equity		
	<u>153,158</u>	<u>140,896</u>
	<u> </u>	<u> </u>
Total liabilities and shareholders' equity	<u>\$ 179,429</u>	<u>\$ 167,108</u>

Heartland BancCorp
Notes to Consolidated Financial Statements
December 31, 2021 and 2020
(Table dollar amounts in thousands, except share data)

Condensed Statements of Income and Comprehensive Income

	Year Ending December 31,	
	2021	2020
Income		
Dividends from the Bank	\$ 6,262	\$ 6,189
Interest income	23	27
	<u> </u>	<u> </u>
Total income	6,285	6,216
Expenses		
Interest expense	1,290	957
Other expenses	432	404
	<u> </u>	<u> </u>
Total expenses	1,722	1,361
	<u> </u>	<u> </u>
Income Before Income Tax and Equity in Undistributed Income of the Bank	4,563	4,855
	<u> </u>	<u> </u>
Income Tax Benefit	(356)	(325)
	<u> </u>	<u> </u>
Income Before Equity in Undistributed Income of the Bank	4,919	5,180
	<u> </u>	<u> </u>
Equity in Undistributed Income of subsidiaries	13,674	9,587
	<u> </u>	<u> </u>
Net Income	\$ 18,593	\$ 14,767
	<u> </u>	<u> </u>
Comprehensive Income	\$ 16,449	\$ 17,748
	<u> </u>	<u> </u>

Heartland BancCorp

Schedule of the Status of Prior Audit Findings, Questioned Costs and Recommendations Year Ended December 31, 2021

Condensed Statements of Cash Flows

	Year Ending December 31,	
	2021	2020
Operating Activities		
Net income	\$ 18,593	\$ 14,767
Stock option expense	138	591
Tax benefit related to stock options exercised	51	10
Items not providing cash	(12,866)	(11,102)
Net cash provided by operating activities	5,916	4,266
Investing Activities		
Investment in Common Stock of the Bank	-	(13,500)
Net cash used in investing activities	-	(13,500)
Financing Activities		
Proceeds/(repayment) of subordinated debt, net	(100)	19,225
Dividends paid	(4,895)	(4,474)
Proceeds from stock options exercised	691	360
Repurchase of common stock	-	(58)
Issuance of common stock	-	-
Repurchase of treasury stock	-	(4,994)
Net cash provided (used) in financing activities	(4,304)	10,059
Net Change in Cash and Cash Equivalents	1,612	8,134
Cash and Cash Equivalents at Beginning of Year	8,134	-
Cash and Cash Equivalents at End of Year	\$ 9,746	\$ 8,134

Note 22: Subsequent Events

Subsequent events have been evaluated through March 9, 2022 which is the date the financial statements were available to be issued.



Heartland BancCorp Directors

Thomas L. Campbell	Partner	Fusion Alliance, LLC
Jay B. Eggspuehler, Esq.	Partner	Isaac, Wiles & Burkholder, LLC
Jodi L. Garrison	CPA, Partner	Hirth, Norris & Garrison, LLP
James R. Heimerl	Owner	Heimerl Farms Ltd.
John G. Kenkel, Jr.	Retired, President & CEO	Victory Community Bank & Victory Bancorp
Cheryl L. Krueger	President & CEO	C. Krueger's
G. Scott McComb	Chairman, President & CEO	Heartland Bank
Robert C. Overs	CEO/Executive Director	Creative Living
Gary D. Paine	President & CEO	Accurate Companies
William J. Schottenstein	Principal	Arshot Investment Corporation
Ronnie R. Stokes	President & CEO	Three Leaf Productions
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 & Lead Director
Jennifer L. Eckert	Secretary
Carrie L. Almendinger	Treasurer

Senior Management Team



G. Scott McComb
Chairman, President & CEO



Carrie L. Almendinger
EVP, Chief Financial Officer



Benjamin J. Babcanec
EVP, Chief Operating Officer



Matthew H. Booms
SVP, Director of
Mortgage Banking



Jeff S. Ciochetto
SVP, Director of
Credit Administration



Jennifer L. Eckert
SVP, Chief Risk Officer &
Corporate Secretary



Pamela D. Goetting
SVP, Director of
Northern Kentucky Region



Sarah M. Ketty
SVP, Director of
People Portfolio



Nancy M. Matney
SVP, Director of Treasury
Management & Client Services



Laurie A. Pfeiffer
SVP, Director of
Commercial Banking



Tarne Tassniyom
SVP, Director of Technology &
Information Security



Ashley A. Trout
SVP, Director of Strategy



T. Brian Brockhoff
Market President
Cincinnati Region



Patrick T. John
President of
TransCounty Title Agency



Ryan P. Arras
VP, Finance Manager



Alyssa L. Booms
VP, Director of
Branch Banking



Aaron A. Cooke
VP, Controller



James W. Duckro
VP, Operations Manager



Jessica H. McNamee
VP, Director of
Financial Planning



Stuart J. Schloss
VP, Director of
Loan Syndication



Jill L. Taylor
VP, Accounting Manager

Our NIL Partners

Heartland Bank was proud to announce two Name, Image and Likeness (NIL) partnerships in August of 2021. Haskell Garrett, Ohio State University Football team, and E.J. Liddell, Ohio State University Men's basketball team, were commissioned to represent Heartland Bank at visits and events in the Central Ohio area.

Using two campaigns, #RelationshipsMatter and Bank On Community Banking, these players' bank-coordinated activities were designed to give purpose to their NIL partnerships with Heartland. Financial education with messaging for underbanked Central Ohio young adults was the objective in order to reach a generation that may not view banking and financial awareness as a priority in life.

#92 Haskell Garrett
Defensive Tackle

#32 E.J. Liddell
Forward

PROUD SPONSOR OF OHIO STATE ATHLETICS





About Heartland BancCorp

Heartland BancCorp is a registered Ohio bank holding company and the parent of Heartland Bank, which operates 18 full-service banking offices and TransCounty Title Agency, LLC. Heartland Bank, founded in 1911, provides full-service commercial, small business, and consumer banking services; professional financial planning 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. Learn more about Heartland Bank at Heartland.Bank.



In May of 2021, Heartland was ranked #82 on the American Banker Magazine's list of Top 200 Publicly Traded Community Banks and Thrifts based on three-year average return on equity as of December 31, 2020.

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